Berlin Debt Crisis Worse Than Third World

by Rainer Apel

On Aug. 28, German media reported the dismissal of Poland's Finance Minister Jaroslaw Bauc, because of his incompetence and failure to "discover in time" an acute government fiscal deficit of 92 billion zlotys ($21 billion). Against the background of a foreign debt that is more than twice as high, the situation in Poland was portrayed as "highly dramatic," and there can be no doubt that this is the case.

But even more dramatic is the situation in Berlin, which has run up a public debt of $36 billion. Berlin's population is less than 10% of that of Poland—3.5 million versus 39 million. Yet, the per-capita debt of Berlin is $10,000; that of Poland $1,270. Even the per-capita debt of Turkey, the next biggest financial problem case in Europe, is "only" $1,500. And in Argentina, the number-one financial concern in Ibero-America, debt exposure is much lower than in Berlin: $3,900.

Apparently, Berliners are sitting on a powderkeg, and most of them may not even recognize that danger. As a matter of fact, Berlin is being "Argentinized": At the time of German reunification in October 1990, when the city was reunified, Berlin had a public debt of 18 billion deutschemarks (about $8.2 billion, according to the current exchange rate). At the end of 1995, the debt had risen to DM 43 billion; at the end of 1998, to DM 58 billion; in May 2001, to DM 66 billion. After the city-state government was voted out on June 16, the revised debt figure all of a sudden was DM 72 billion, and with extra, emergency borrowings to "consolidate" the budget, the debt rose to DM 78 billion at the end of July.

Granted, after World War II Berlin was cut off from the surrounding industry and farming that belonged to the German capital before 1945. The partition of Germany, and the partition of Berlin, forced the city's Western sectors to survive as an enclave, with a chronic tax revenue deficit, such that Berlin depended on several billions of marks annually in support payments from the West German government.

These payments were halted in 1992, but at the same time, a process was put into motion that eliminated close to 200,000 industrial jobs in Berlin, under the influence of theories that the future lay in the service sector, not in industrial production. Huge investments were made in constructing office buildings and entertainment centers; had the need to restore public transportation and the energy infrastucture of the old and new German capital not been pressing, the real economy would have disappeared from Berlin entirely.

But now, Berlin has a giant overhang of vacant office space—an estimated 2 million square meters—and its tax revenue base has shrunk so much that it covers only 40% of the annual budget.

The Crisis Becomes Visible

In the Spring of 1994, the catastrophe which Berlin was running into, became visible, when the Schneider Group, at that time Germany's biggest in real estate development, defaulted over unsecured loans of DM 5 billion. The bank holding, Berlin Bankgesellschaft, in which the Berlin city-state administration controls a 56.6% share, was the Schneider Group's third-largest creditor, after Deutsche Bank and Dresdner Bank.

That would have been time to walk out of the highly speculative real estate market, but Berlin stayed in that market. During the 1990s, Berlin privatized public-sector property in the range of DM 20 billion—but, privatization revenues never, ever surpassed the regular debt repayments, hence no money was available for the real economy. Today, 25% of Berlin's tax revenue goes for debt payments, which means that only 30% of the DM 16 billion collected in taxes remains for the regular budget, which is now DM 38 billion. One might say, that crisis-stricken Argentines would feel at home in Berlin, under such conditions,

One thing is clear: Without substantial debt relief and investment into new productive jobs—the sound and calculable tax revenue base of tomorrow—Berlin has no more of a financial and economic future than any of the heavily indebted developing nations.

In 1990, when Berlin was reunited, there still was the realistic vision of turning the city, within one decade, into a heavily industrialized center with 5 million population, its size before the outbreak of World War II. A revitalized Berlin, which would have also become a center of science and technology development, would have become a pillar of economic recovery along the Eurasian Land-Bridge, by the start of the new millennium.

Instead, Berlin has fallen into the ownership of the creditor banks. Instead of becoming a center for revival of great Classical culture, the city has been driven into a host of such shameless entertainment events as the annual "Love Parade," which is being promoted because the 1.5 million crazed participants bring DM 250 million to the Berlin "economy."

Berlin can still realize that vision of 1990, if it gets a second chance. The LaRouche movement in Germany is launching a campaign, through its BüSo (Civil Rights Movement Solidarity) party, to give it that chance in the city-state elections of Oct. 21. An orderly bankruptcy procedure, sound reorganization of the debt, reindustrialization, and development of Berlin into a productive German capital under a New Bretton Woods system, are what the BüSo is calling for.