



Japan Local Government Centre, London

Monthly Report January 2010 (Germany) - Local government representative associations criticise 'Economic growth acceleration act' for reducing local government tax income

The German Association of Cities and all its Länder-based affiliates are criticising the federal government for the hurried enactment of the 'Economic growth acceleration law', which came into effect on the 1st of January 2010. The national association is warning that the financial situation of cities is so critical that without help from the federal and the various Länder level they will not be able to rectify the situation. Indeed the chief executive of the association called the situation 'unprecedented in the history of German cities after the Second World War'. The economic crisis of the past two years has brought about a huge fall in income, while on the other hand there is mounting pressure for social welfare expenditure, and the ever increasing gap is threatening to paralyse the cities.

Reasons for the precarious financial situation are apart from the economic crisis mainly the continuous transfer of new tasks or increased standards for existing tasks onto local government as well as historical debt burdens which have never been resolved. In this situation it is unrealistic to expect cities to be able to fulfil all the demands for more public child care – despite already huge efforts by the cities to offer more child care places. From 2013 onwards, parents will have a legal right to a child care place – and demand for such places is in all likelihood going to surpass the federal estimate of 35% of children under three years. Although in many East German cities the degree of provision is high, many West Germany cities still have a long way to go. This immense task is impossible without further financial assistance, in particular from the Länder, as they are the source of legislation which puts new duties on local authorities. Although most Länder have officially adopted the 'connectivity principle' under which every new or augmented task has to be accompanied by appropriate funding, in practice however all Länder refuse to follow this principle.

For the last tax year, the tax income of local authorities has fallen by approximately 7 billion Euros. Most of the fall is due to the trade tax, which is the main local tax municipalities rely on, and which is why the German Association of Cities is calling for a reduction in the share which the federal government and the Länder take from this tax.

Furthermore, the 'Economic growth acceleration law' will widen the hole in local finances. For Bavaria alone, the Bavarian Association of Cities estimates

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that 130 million Euros will be lost for the local authorities. To give tangible examples: Munich estimates that through the law, it will have to content with an extra reduction by 22 million Euros, while Augsburg calculates the loss as 5.6 million Euros, and even a smaller city like Günzburg (at the Western border of Bavaria, ca. 17.000 inhabitants) estimates that it will cost the city 1 million Euros.

When the law was finally passed in the Bundesrat, Chancellor Merkel promised the Länder which were not sure about the law, without doubt also due to pressure from the municipalities, some extra assistance, and the cities are pressing for such assistance to be passed on to them. However at this stage there are no clear indications as to what form the assistance will take and how much money will be available.

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