

# Left in Berlin Government 2002-2011: Economic Strategy

Harald Wolf, Deputy Mayor and Senator for Economics, Technology and  
Women's Issues 2002-2011, Member of Berlin Parliament

# Economic and financial crisis after reunification

- Economy in West-Berlin was highly dependend on subsidies – after reunification federal government stopped subsidasion
- With monetary-union in 1990 – what was like an 1:4 revaluation of the east-german currency – industry in East-Berlin lost competitiveness
- The result: loss auf nearly 300.000 jobs in industry in the in the first years of the 1990s, continuous decline in GDP until 2004
- Stop of subsidisation of Berlin's budget by federal government, economic crisis and low tax revenue led to financial crisis

# Economic strategy of socialdemocratic/conservative coalition-government 1990-2001

- Expecting rapid growth to become a „global city“ after the removal of the limitations of a divided city in a divided Europe
- Focussing on service sector, decline of industry misinterpreting as modernization und necessary „structural change“
- Implementing „entrepreneurial urban politics" – urban redevelopment to provide incentives for international investors, huge public investments in the (failed) application of Berlin for the Olympic Games 2000
- Privatisation of public companies: gas- und electricity utility, water company, municipal housing companies...
- Creating a „hybrid“-Bank (Bankgesellschaft Berlin) – using a Holding model to bind together private and public banks granted with state guarantees in order to attract speculative capital to Berlin

# The results of the strategy of the CDU/SPD-government

- Speculative bubble ending in a property crisis of low demand, empty spaces and declining rents
- No relevant national or international investments – but still declining industry and GNP
- Continual rise of unemployment rate to about 20%
- First declining than stagnation of tax revenue, growing public debt – from 1991 to 2001 from about 10 billion to 50 billion
- Crash of the Bankgesellschaft Berlin in 2001 – necessity of bail-out because of existing state-guarantees and thus further increase of public debt
- In 2001 the government collapsed and in 2002 a coalition government of Socialdemocrats und Party of Democratic Socialism (predecessor of Left Party) came to power

# The economic strategy of left in government 2002-2011

## 1. Solving the banking crisis

- Bail-out was inevitable, because of previously granted state guarantees, but we squeezed out private-shareholders and refused to privatize the bank (as was demanded by conservatives, greens and liberals and Chamber of Commerce).
- Restructuring of the bank – focusing on the central task of collecting savings and financing the real economy.
- As result of a state aid investigation by the EU Berlin was obliged to give up ownership of the bank – but we succeeded in selling the bank to the association of the public owned saving banks, so it is still a public bank. The price of the shares was used to cover the bail-out burden.

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## 2. Stopping privatization

- The former government had intended to privatize public hospitals, the bank, one university, the exhibition company, further housing companies... The new government stopped that strategy of filling the gap in the budget by privatizing public companies. (To be fair, we made *one* grave mistake: Under the pressure of the constitutional court that declared our budget 2004 unconstitutional we privatized one housing company. We should have resisted).
- Often inefficient and deficient public companies were reorganized – 2001 the deficit of the Berlin owned companies was about 500 Mio. €, now the surplus of public companies is about 500 Mio. €.
- In 2006 we enforced an agreement with the Socialdemocrats to remunicipalize the water-company. After a long and complicated process the Berlin water company is now again 100% public.

# The economic strategy of left in government 2002-2011

## 3. Focusing on endogenous potential

- Not looking for international investors as „white knight“, instead development of the existing endogenous potential i.e. mainly small und medium sized enterprises (SMEs) and the huge potential existing in Berlin of universities, universities of applied sciences and research institutions
- Creating networks of SMEs and universities and R&D-institutions to encourage knowledge- transfer and cooperation to deepen value creation chains
- Establishment of a public Investment and Development bank supporting SMEs and the networks in accordance to the economic strategy of the government
- Focusing the European structural funds on priority sectors of the economic strategy

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## 4. Developing industrial policy

- Without solid industrial development will be no sustainable economic growth therefore paradigm shift: deindustrialisation is not a sign of modernisation and the structural change to a „post-industrial society“ (so the mistaken idea of the former government) , but a sign of economic weakness
- We developed a industrial strategy together with the trade unions, the industrial associations and reached an agreement on a „Masterplan for industry“ containing 34 specific measures for joint action and the establishment of a joint steering committee



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## 5. Measures against wage dumping

- Competitiveness cannot be ensured by low-wage strategy, central is innovation and quality of products and services
- Therefore we took initiatives against the low-wage strategy of the federal government (against the so-called labour market reforms, demanding a nation-wide minimum wage, abolition of mini-jobs and equal pay for temporary work)
- At the local level we excluded companies that did not pay a minimum wage from public calls for tender (volume of public contracts in Berlin p.a. 4-5 bn. €)
- Exclusion of companies from subsidies that did not pay their workers at least 25.000 € p.a. and of companies that employed an excessive amount of temporary work



# What we have achieved

- Change of social awareness – privatisation is no longer socially accepted, strong movement in favor of remunicipalization (for instance energy); reinforcement of the importance of industry
- Industry recovered, loss of industrial jobs is stopped, now there is a (still modest) job growth in industry
- After more than ten years of economic decline Berlin shows since 2004 economic growth rates - now above the nationwide average
- Unemployment rate has gone down from about 20% to now about 11%