

# Impacts of the Global Financial Crisis on Cities in Europe

## An Introduction to Urban Austerity

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*In the period since the Wall Street crash, the refurbished rationale for austerity measures is that the imposition of strict fiscal discipline and government spending cuts is the (only) way to restore budgetary integrity – thereby securing the confidence of the investor class, appeasing the jittery markets and paving the way to growth. The critical test case that is Europe, of course, shows no signs of working. (Peck, 2012: 626)*

### 1. Introduction

Since 2010, the global financial and economic crisis – which began, in 2008, as a result of the mortgage crisis of 2007 – has transformed into a sovereign debt crisis (Altvater, 2011; Blyth, 2013; Whitfield, 2014). Throughout each of these interconnected phases, cities have been at the center of the turmoil (Gotham, 2009; Hadjimichalis, 2011; Harvey, 2011; Martin, 2011; Blazek & Netrdova, 2012; Donald et al., 2014; Tabb, 2014; Eckardt & Sanchez, 2015). The economic crisis and the “fiscal dictatorship” (Lehndorff, 2012: 8ff) imposed by German and European elites in the years that followed (Bieling, 2011; Hadjimichalis, 2011; Demirovic & Sablowski, 2012) have dramatically affected urban regions: indebted homeowners have been evicted, masses impoverished, public budgets squeezed, municipal infrastructures privatized, public services downsized, and, above all, austerity measures implemented.

In December 2014, more than 80 urban scholars, politicians and social movement activists from ten different countries came together at the Institute for European Urban Studies (IfEU) at Bauhaus-Universität Weimar to share their research on the impacts of the global financial crisis on European cities as well as the experiences these cities have made with urban austerity policies. As a result, the conference has placed an issue that affects most people living in urban regions across Europe into the center of attention: the idea that fiscal austerity is an unavoidable political necessity in spite of its harsh consequences. The seemingly unavoidable hegemonic paradigm driving European politics is the idea that public budgets must be balanced and that this can only be achieved by way of frugal policies and an even leaner state than that which already exists: whether school buildings or bridges are nearly in ruins, public housing, waste management and/or health care are being privatized and reorganized according to profitability, participation in planning processes is being sacrificed on the altar of inter-urban competition, or the masses proclaim their resistance.

The impact of this strategy is felt most in urban regions. It is in the cities, as Jamie Peck (2012: 629) puts it, “where austerity bites.” The immense effects of austerity are most obvious in cities, which are sites of collective consumption dependent on public infrastructures, such as schools, social housing, hospitals, and public transportation. Increasing social polarization can immediately be observed where most of the poor and working class people live (Tonkiss, 2013; Donald et al., 2014; Meegan et al., 2014; Peck, 2014; Vaiou, 2014): “Austerity is especially [urbanized] with cities predominantly on the receiving end of fiscal retrenchment because they remain disproportionately reliant on public services and public employment with large municipal bureaucracies and [organized] workforces with pay and pensions that are targets for reform. They also house the [marginalized] individuals and groups that are the target of austerity-driven welfare reform [programs]” (Meegan et al., 2014: 141).

None of this is new: neither budget deficits nor the hegemonic idea that austerity is an appropriate reaction originated in the financial crisis of 2007–08 (Blyth, 2013; Tabb, 2014; Whitfield, 2014; see also Patti & Polyak, Chapter 9 in this book): “Austerity measures, selectively applied, have long been part of the neoliberal repertoire. Fiscal purges of the state (especially the social state) derive from the most elemental of neoliberal motives-to ‘roll back the frontiers of the state’” (Peck, 2012: 629). However, political support for austerity policies has clearly increased significantly as a result of the European and global crisis. Austerity policies are now the leading principle of public budgetary planning in Europe.

In Germany, for example, the Federal Government and state (or Länder) governments initiated early austerity measures decades before the 2008 financial crisis. These led to job cuts in the municipal sector (Keller, 2014) and a somewhat permanent fiscal crisis on local state level, especially after the early 1990s (Jungfer, 2005; Häußermann, 1991; Eicker-Wolf, 2010; Troost & Schuster, 2010; Müller & Sträter, 2011; Schipper, 2013: 268; see also Thiele, Chapter 7 in this book). However, despite the comparatively favorable economic situation and the fact that the German export-oriented growth model is surviving the current crisis rather well (Belina, 2013a), austerity measures have even increased in recent years. Most importantly, in

Germany, austerity has been established as a constitutional principle. In 2009, a measure was introduced under the label “debt brake” (or *Schuldenbremse*). It will become effective at the Federal level, in 2016, and at the state level in 2020 (Eicker-Wolf & Himpele, 2011; Keller, 2014: 400). Consequences of the “debt brake” can already be observed today. Many German cities suffer from a drastic lack of financial resources. Due to constitutional restrictions and the threat of being subjected to budgetary monitoring by the states, local decision-makers are eager to put high priority on achieving a balanced budget.

However, up until now, there has been little public awareness of the dire costs of austerity policies in cities. Only a few urban scholars have emphasized the negative outcomes of austerity measures and the power structures that sustain them (Jungfer, 2005; Eicker-Wolf, 2010; Troost & Schuster, 2010; Keller, 2014; Klein & Rumpfhuber, 2014; Heinz, 2015). This is slightly different within the English-speaking academic community. While more scholars contribute to the debate on urban austerity (Peck, 2012; Mayer, 2013; Oosterlynck & González, 2013; Tonkiss, 2013; Donald et al., 2014; Meegan et al., 2014; Panayotakis, 2014; Peck, 2014; Tabb, 2014; Eckardt & Sanchez, 2015), the research is also just in an early stage of development.

From our perspective, one of the most important tasks for urban scholars is to fill this gap and shed light on the effects of austerity policies through research. A counter-hegemonic understanding of austerity’s ideological foundations, its urban impacts and the social power relations sustaining it is crucial to successfully combating austerity in Europe and elsewhere. Accordingly, the conference “Urban Austerity: Impacts of the global financial crisis on cities in Europe,” which was sponsored by the Hermann Henselmann Stiftung and the Rosa Luxemburg Foundation, has promoted an interdisciplinary debate that exposed actual urban problems and their spatiotemporal dimensions, discussed regulatory restructuring under a new regime of austerity urbanism, and reflected on the role of urban social movements struggling for progressive alternatives. The decisive questions that guided both the conference and this resulting publication are: How are different urban regions affected by the financial crisis and the resulting austerity strategies? How do cities, urban planning approaches, and urban governance structures change and evolve under the circumstances of crisis and austerity? Which new regulatory restructuring approaches are emerging? What does it actually mean to live in, plan, or design cities under these circumstances? How is the right to housing neglected due to forced evictions and crisis-induced gentrification processes? What is the role of urban social movements in fostering resistance to the depredations of crisis? How do urban governments drive, manage, or subvert austerity policies? An interdisciplinary approach, which includes contributions from urban planners, architects, sociologists, geographers, political scientists, and social movement activists, must answer these questions. Finally, all of these issues must be addressed from a European, international, and transnational perspective.

## **2. From austerity as a dangerous idea to “austerity urbanism” (Peck, 2012: 650)**

For proponents and critics alike, *austerity* has become the new buzzword for describing the neoliberal crisis management designed and implemented despite heavy resistance in the form of mass protests in the aftermath of the 2008 global financial crisis. Politicians and decision-makers from many European countries and North America have introduced austerity measures to quickly reduce public debt, which increased enormously as a result of the global financial crisis and the gargantuan state-funded bank bailouts that followed. The vague promise of austerity, supported by dubious economic research (Herndon et al., 2014), represents a combination of state budget cuts, wage reduction, the privatization of public services, and further dismantling of the welfare state as a strategy that would, in turn, allow the private sector to rekindle growth and escape economic recession. Critical scholars have emphasized the negative consequences and economic failures of this recent turn towards extreme austerity measures. For Clarke and Newman (2012), the “alchemy of austerity” is based on two simple, but false, assumptions: (1) that the government budget deficits experienced today by many developed countries are unsustainable and (2) that fiscal consolidation measures are invariably expansionary, resulting in positive output and employment effects. Concerning the latter, Blyth (2013) and Whitfield (2014) have demonstrated that this flawed theory of growth-oriented fiscal consolidation has been empirically discredited on a massive scale as austerity policies “have fuelled the fire of recession in Europe and the [United States] rather than stimulating growth” (Whitfield, 2014: 6). Austerity has failed despite its promises: government debt has continued to increase and weak economic performance has prevailed in most countries due to reduced effective demand as a result of significant public expenditure cuts.

In addition to economic failure, the socioeconomic effects of austerity are catastrophic. Worldwide, austerity has led to increased unemployment rates, reduced wealth, increased social inequality, and increased cuts to wages, benefits, and pensions (for the housing situation in Greece and Spain, see Siatitsa, Chapter 10, Karagianni & Kapsali, Chapter 11, and Muñoz, Chapter 14, in this book). Austerity, as such, entails a “gigantic wealth transfer from taxpayers to the corporate sector and wealthy individuals” (Whitfield, 2014: 7). Based on the intellectual history of austerity since the seventeenth century and a comparison of different austerity policies since the Great Depression of the 1920s, Blyth (2013: 184) concludes that austerity is a dangerous idea as it “simply doesn’t work, no matter how many times you do it” and “relies on the poor paying for the

mistakes of the rich” (ibid.: 10).<sup>1</sup>

Concerning the current situation, Blyth argues that the 2008 financial crisis has been transformed into a sovereign debt crisis by means of a concerted ideological offensive or “the greatest bait and switch in human history” (ibid.: 73). Fundamental misrepresentations of the facts and intensive ideological work have “turned the politics of debt into a morality play, one that has shifted the blame from the banks to the state. Austerity is the penance – the virtuous pain after the immoral party – except it’s not going to be a diet of pain that we shall all share. Few of us were invited to the party, but we are all being asked to pay the bill” (ibid.: 13). As the public debt level was declining on OECD-average before the crisis and only increased dramatically after 2008 (Stützle, 2013: 318), Blyth concludes that “any narrative that locates wasteful spending by governments prior to the crisis in 2007 as the cause of the crisis is more than just simply wrong; it is disingenuous and partisan” (Blyth, 2013: 47).

Due to this successful neoliberal re-narration of the crisis (Clarke & Newman, 2012; Peck, 2014; Schipper, 2014) and shifting of responsibility from creditors to debtors (Belina, 2013b; Tabb, 2014), states are now becoming, in the end, more amendable to creditors and the interests of financial institutions, while access to state power by certain social forces, such as trade unions, public housing advocates, and other welfare organizations, is delegitimized. As a result, “the costs, risks and burdens of economic failure” are redistributed “onto subordinate classes, social groups and branches of government” (Peck, 2014: 20).

From a scalar perspective on urban governance, Jamie Peck has argued that austerity measures frequently operate downwards as they dump risks, responsibilities, and deficits onto the local scale and function as “a new operational matrix for urban politics” (Peck, 2012: 632): “They offload social and environmental externalities on cities and communities, while at the same time enforcing unflinching fiscal restraint by way of extra local disciplines; they further incapacitate the state and the public sphere through the outsourcing, marketization and privatization of governmental services and social supports” (ibid.: 650). Since austerity operates as a “permanent fiscal tribunal” (ibid.: 652), municipal governments have become both victims and instigators of new neoliberal restructuring. Within local state apparatuses, “the cadre of fiscal disciplinarians, restructuring advocates, change-managers, consulting auditors and local state entrepreneurs” (ibid.: 649) gain more strength, legitimacy, and power over those defending the interests of economically-marginalized citizens, welfare recipients, or public sector employees (see Besussi, Chapter 6 in this book). Despite its disastrous social impacts, urban austerity is often able to renew its own legitimacy as the highest priority of local state governments on the basis of a vicious circle of public spending cuts and declining state capacity to act. While municipal spending is being cut across all sectors, the ability and flexibility of cities to design policy and react to social problems is declining. The resulting lack of capacity to act delegitimizes state action; as a result, society’s willingness to enable local governments to take action by, for example, paying higher taxes, decreases (Streeck & Mertens, 2010).

The social, political, and economic impacts of austerity strategies on the urban scale are manifold. The long-term downsizing of local government through budget cuts, outsourcing, the squeezing of labor costs, and the restructuring of public services enables more intensive commodification of the public sphere (Meegan et al., 2014). At the same time, income inequality is increasing within cities across Europe and the United States (Donald et al., 2014: 7ff). Furthermore, the “landscape of austerity urbanism will be a variegated one” (Peck, 2012: 647) due to the unequal impact of austerity measures on declining cities and failing local states and on those with stronger growth (see Animento, Chapter 13 in this book). Meegan et al. (2014), in their comparative study of public expenditure and service cuts in Liverpool and Bristol, demonstrate that Liverpool and other disadvantaged cities are being disproportionately affected by austerity measures. As a result, austerity advances a tendency of spatial polarization, which increases the uneven development between “winner regions” and “loser regions.” Moreover, austerity promotes the decline of democratic decision-making (see Penny, Chapter 3 in this book). While the shift towards the “entrepreneurial city” has already undermined local democracy for more than two decades and has led to a post-democratic situation in cities worldwide (Crouch, 2004; Swyngedouw, 2011; Mullis & Schipper, 2013), the rise of new austerity regimes has displaced democratic processes even further by empowering unelected urban technocrats on multiple scales, ranging from the local to the EU-level (Donald et al., 2014: 6ff; see also Poullos & Andritsos, Chapter 5 in this book).<sup>2</sup>

### **3. Contradictions and contestations**

A number of scholars analyzing austerity policies have come to the convincing conclusion that austerity does not equate to a sustainable destination or comprise a stable regime of regulation as it leads to political instability and “metastasizing state failure” (Peck, 2014: 22). In accordance with Karl Polanyi’s work on the contradictory double-movement of self-regulating markets (Polanyi, 1944 [2005]), an orderly transition to lean local government seems unlikely. The deficiencies of commodification tend to create a counter-movement rooted in the contradictory character of market rule: “Inescapably, austerity urbanism is politically controversial, and the animation of resistance politics might be considered one of its double-movement

contradictions. Since sustainable small-state solutions are likely to remain elusive, austerity manifestly does not anticipate a stable regime or new political-economic equilibrium. Instability and uncertainty beckon. New terrains (and stakes) of struggle will be shaped in the process” (Peck, 2012: 649).

At least three reasons that support the claim that austerity has no viable future can be identified: First, massive budget cuts and a lack of investments in maintaining and improving vital public infrastructure also have dysfunctional effects on private capital, which is dependent on “general preconditions of production” (Marx, 1857 [1983]: 432) provided mostly by local states. Long-term consequences of “starve the beast” strategies may lead to “various forms of low tax/low service disequilibrium” (Peck, 2012: 630) and a cumulative incapacity of cities to invest in public infrastructure indispensable to advancing capital accumulation. Up until now, new financial tools, which are implemented as auspicious compensations, such as *Social Impact Bonds* (see Ogmann, Chapter 4 in this book), also do not seem to have kept their promises. While shifting the balance of power towards a rising class of financial technocrats (see Peck & Whiteside, Chapter 2 in this book), financial innovations often lead to increasing, rather than declining costs in the public sector. Therefore, the deterioration of bridges, streets, school buildings, and public transport infrastructure may also result in a growing opposition by business interest groups against a (too) lean local government.

Second, current and future waves of austerity collide with an already deeply neoliberalized terrain: “The current round of austerity measures is qualitatively different, however, to the welfare state retrenchments of the 1980s, in that it operates on, and targets anew, an already neoliberalized institutional landscape. It cuts deeper into the remnants of the socially redistributive and welfare state (the target for 1980s rollbacks), while also curtailing many of the institutional accretions and adaptations associated with rollout neoliberalism” (Peck, 2012: 631). Hence, austerity policies lead to “rollout neoliberalism’s very own roll back moment,” since budget cuts nowadays also affect the institutions and practices of the entrepreneurial city that have been established and/or enhanced during the last decades. These include economic development departments, city marketing agencies, and repressive state apparatuses, such as local police forces, cleanliness and anti-graffiti campaigns, and the prison system.

Third, mass protests, especially in Southern Europe (Abellán et al., 2012; Arampatzi & Nicholls, 2012; Kastner & Lorey, 2012; Candeias & Völpel, 2013; Douzinas, 2013; Hadjimichalis, 2013; Taibo, 2013; Brekke et al., 2014; López & San Juan, 2014; Sitrin & Azzellini, 2014; Huke et al., 2015; Sevilla-Buitrago, 2015), riots in many European cities (Dzudzek & Müller, 2013; Mayer et al., 2016), the electoral success of SYRIZA, in Greece, and Podemos, in Spain, but also nationalistic, neo-fascist, racist, and anti-European mobilizations (Buckel et al., 2012; Belina, 2013a) reveal that the austerity regime cannot secure a hegemonic consensus: “To date, the European (and North American) reaction to austerity has been uneven, though there have certainly been enough strikes, demonstrations and riots to suggest that austerity is not entirely popular” (Clarke & Newman, 2012: 309). In the British context, austerity, according to Clarke and Newman (2012: 309), may “enable a degree of acquiescence to ‘economic necessity.’” However, this form of “passive consent” is unable to secure popular mobilization similar to that of the post-war austerity period, which, contrary to the current situation, was supported by an aura of hope and a degree of public confidence in the political class.

In terms of securing hegemonic consensus, Germany is perhaps the most obvious exception. A brief window of opportunity for social movements opened, in 2008–09, when the German economy was suffering severely as a result of the banking crisis. An increasing number of people were no longer convinced that market rule and the dismantling of the welfare state were good ideas (Altvater, 2009; Brie, 2009). After the collapse of Lehman Brothers, in 2008, many, including some eminent conservative intellectuals, began raising doubts about neoliberalism and even capitalism in public debates.<sup>3</sup> However, neoliberal hegemony was reestablished quickly and popular support for austerity increased as soon as the German export-oriented accumulation model recovered and as the financial crisis was successfully re-narrated into a sovereign debt crisis. In 2010, media and political elites started aggressively blaming the non-German “others” on the European periphery, especially “the broke Greeks” (Belina, 2013a: 281). Today, forced austerity measures are accepted by a clear majority of German voters – except for the small, socialist Left Party (*Die Linke*) and the Blockupy alliance, consisting of radical and civic groups, which organized anti-austerity protests to block and shut down the European Central Bank (ECB) in Frankfurt, in 2012, 2013, and 2015 (Mullis et al., 2015) – as good governance without alternatives, at least when implemented elsewhere (Belina, 2013b). Contributions by Margit Mayer (Chapter 15), Daniel Mullis (Chapter 16), Julia Tulke (Chapter 17), and Silvia Aru & Matteo Puttilli (Chapter 18) demonstrate that this is definitely not the case with anti-austerity struggles and social movements in Southern Europe. Especially in Southern Europe, contradictions inherent to austerity offer a context for radical contestations, alternative spaces, and the emergence of strong social movements. These provide the foundation for non-neoliberal forms of urbanization (Künkel & Mayer, 2011; Mayer, 2013), which at least maintain the hope for a different Europe based on principles of social justice and democracy.

However, Jamie Peck is correct in stating that it would be naive to conclude that austerity “will somehow automatically call forth its own gravediggers, in the singular service of progressive renewal” (Peck, 2014: 23).

While anti-austerity struggles often, for practical reasons, emerge within urban centers, progressive social movements must extend beyond the local scale by building transnational alliances, which are able to challenge the “heart of the European crisis regime” (Mullis et al., 2015) and institutionalized centers of power, such as the European Central Bank, the European Commission, International Monetary Fund, and the German government. We hope that this collection of articles on the impacts of the global financial crisis on cities and counter-hegemonic narratives to neoliberal policies can make a small contribution by inspiring critical urban scholars, political activists, and social movements to continue their struggle for progressive social change in Europe.

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**1** According to Blyth (2013), austerity policies have failed historically in the United States (1921–1937), Great Britain (1921–1939), Sweden (1921–1938), Germany (1923–1933), Japan (1921–1937), and France (1919–1939). Recently, in the aftermath of the 2008 global financial crisis, similar policies have failed in Spain, Portugal, Greece, Italy, Ireland, Romania, Estonia, Bulgaria, Lithuania, and Latvia.

**2** All these tendencies are often coupled with a “racialization of the people living in the European periphery” (Panayotakis, 2014: 10), nationalistic defamations stating that the southern “others” have been living beyond their means (especially in Germany, see Belina, 2013a), and a new wave of rightwing populism in many European contexts.

**3** For example, Frank Schirrmacher, the former editor of the *Frankfurter Allgemeine Zeitung*, argued, in August 2011, that conservatives should free themselves from the failing and devastating free-market ideology, which has held them hostage throughout the last decades (<http://www.faz.net/aktuell/feuilleton/buergerliche-wert>)

Quelle: [https://www.theaterderzeit.de/index.php/buch/urban\\_austerity/33777/komplett/](https://www.theaterderzeit.de/index.php/buch/urban_austerity/33777/komplett/)

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