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**„Not the market has failed, but the state” – The hegemony of urban  
neoliberalism in the case of Frankfurt am Main during the crisis  
2008-2010**

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## **Abstract**

*In view of debates among critical urban scholars regarding the relation between the current economic crisis and the stability of neoliberal hegemony on the urban scale, this article analyzes, first, the impact of the economic recession on the city of Frankfurt am Main and, second, if urban politics in the German financial center will witness a new phase of post-, after- or counter-neoliberalization. A study based on a statistical analysis of the local labor- and property market and of the development of the municipal budget reveals that the implications of the current crisis are relatively limited, especially when compared to the dot.com crisis in the early 2000s. Furthermore, a discourse analysis of the debates in City Council between 2008 and 2010, extended by interviews with local political elites, shows that neoliberal hegemony remains stable and powerful; regardless of the deep economic decline and an at least short period of uncertainty and intensive hegemonic struggles. The analysis tries to explain the continuity of the general consensus among the elites by demonstrating that a broad majority of actors from different political parties construes the crisis within a neoliberal rationality. Therefore, this paper argues that we will not witness “a new era of urban restructuring” (Soureli/Youn, 2009: 35), but, rather, a further entrenchment of worldwide interurban competition.*

## **Introduction: Urban neoliberalism as a governmentality**

In the light of the current crisis of capitalism, debates among critical scholars have occurred in this journal as elsewhere, first, to understand the impacts of the crisis on different urban regions and, second, to analyze if the processes of neoliberalization in general and on the urban scale in particular have actually come to an end and if we will witness a new post- or after-neoliberal period (f. e. Altvater, 2009; Brenner et al, 2010; Candeias and Billing, 2009; Demirovic, 2009; Kantor, 2010; Lovering, 2010; Peck et al, 2010; Soureli and Youn, 2009).

As the “answer depends on what is meant by that word neoliberalism” (Harvey, 2010: 10), it is necessary to clarify the term. As used here, it is not understood as just an update or a relaunch of nineteenth-century *laissez-faire* liberalism, but as a qualitative alteration of liberal governmentality along two different, but interrelated movements: Market and competition are, first, no longer represented as natural and self-sustaining outcomes, but as mechanisms, which have to be protected and cared-for by the state. Furthermore, market and competition mentalities are no more limited to what traditionally appeared to be the economy, but that all social relations should be subjected and reorganized in a way that makes markets and competition work. As this kind of economic imperialism requires constant vigilance and sophisticated interventionist policies, neoliberalism implies a transformation of statehood and cannot be grasped as a weakening or a withdrawal of the state (Foucault, 2004 [1978]; Gertenbach, 2008; Lemke, 2000; Marti, 2008; Rose, 1996). According to that, the manifestation of the neoliberal or entrepreneurial city can be interpreted as a political rationality, which is based on a double inscription of economic thinking into urban politics: First, the city is represented outward as a competitive entity in a global space of competition and, second, market and competitive mentalities are also implemented inward by the use of New-Public-Management practices. In doing so, neoliberal rationalities and related governmental technologies have constituted a field of possibility, which increases the probability that subjects in politics and administration understand themselves as managers of the entrepreneurial city. Since the 1980s and along with the formation of a Post-Fordist “rescaled competition state regime” (Brenner, 2004: 260), this neoliberal kind of political rationality has become the dominant and

hegemonic form of urban development in Germany. Whereas, under Fordist conditions, the urban scale acted mainly as the institutional administration of the Keynesian welfare state, cities are now increasingly responsible for capital accumulation inside their territorial jurisdictions and act predominantly to improve their business climate in competition with other cities on the regional, national and global scales (Heeg and Rosol, 2007). Against this background, urban politics have become more and more post-democratic (Crouch, 2004), because politics mean, in this sense, merely the technocratic adjustment to external economic forces, whereby local democracy is reduced to a competition for ways how to make the city more competitive. Hence, serious political conflicts or even class-politics seem to be not only inefficient, but also meaningless, since the global competition dictates the best possible solution (Uitermark, 2002).

To contextualize the impacts of the recent economic crisis and the related hegemonic struggles in the case of Frankfurt am Main, a brief overview about the place-specific genealogy of the entrepreneurial city is necessary. A long-term discourse analysis of the political debates in City Council shows that the entrepreneurial city reached, after a longstanding, crisis-driven and contested process, a hegemonic position during the 1990s. The first shift towards a neoliberal regulation of urban space occurred, however, in the mid-1980s, as the conservative Wallmann regime restructured the field of urban politics in the course of the crisis of Fordism (Keil and Lieser, 1992; Prigge, 1988). During that time and in line with the formation of Frankfurt as a global-city (Grote, 2002; Hoyler, 2005; Keil and Ronneberger, 2000; Schamp, 2002), *Standortpolitik* [urban locational policy]<sup>1</sup> had been invented as a form of governmentality. In its wake, interurban competition appeared for the first time as a new order of knowledge and fundamental threat. However, the idea that cities have to compete against each other became never hegemonic at this stage because it was strongly criticized by, among others, the newly founded Green Party. This changed significantly at the beginning of the 1990s as Frankfurt entered a second phase of “roll-out neoliberalism” (Peck and Tickell, 2002: 389). After a constant deindustrialization process and a major economic crisis in the early 1990s, the newly established progressive coalition government of Social Democrats and Greens (Ronneberger and Keil, 1993) started to implement New-Public-Management concepts in an attempt to overcome the budget crisis of the local state. As of 1995, this process continued under a conservative-led multi-party coalition, which privatized public-sector companies and restructured the local state administration in line with market and competitive mechanisms. Considered as technologies of power (Lebuhn, 2010; Pelizzari, 2001), these techniques have reinforced a field of possibility in which local subjects conduct themselves after the model of the enterprise. Moreover, also city rankings, which are cited almost inflationary by local politicians since 1998 to illustrate the permanent threat of losing competitiveness compared to other cities on the national and global scales, represent the city as a competitive unit, reinforce entrepreneurial subject positions and naturalize interurban competition (McCann, 2010). By the end of the 1990s, the discursively ritualized repetition of interurban competition as the key challenge for urban politics has finally established the image of the global space of competition as the only true and hardly questioned representation of reality. The discourse on interurban competition has since become the driving force behind a process that has led to a generalization of competitive mentalities and an

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<sup>1</sup> The German term *Standortpolitik* characterizes a policy whose central aim is “to promote territorial competitiveness by maintaining and continually expanding the capacities for profit-making and economic growth that are embedded within specific political jurisdictions” (Brenner, 2004: 207).

universalization of urban locational policy. Currently, *Standortpolitik* appears to be an endless process, which is permanently necessary and rational, even without reference to economic decline, rising unemployment or budget deficits. The neoliberal rationality of the entrepreneurial city has been intensified in such a way that local politics in general (including e.g. culture, educational, security, social, immigration policy) became subordinated to the overarching goal of improving the local competitiveness and to strengthen the local business climate. In this context, urban politics in Frankfurt underwent a post-democratic transformation (Crouch, 2004) and entered a third phase of “roll-with-it neoliberalization” (Keil, 2009), which is characterized by an unquestioned normalization and naturalization of neoliberal practices and mindsets. At least up until the recent crisis, politicians from all major parties have accepted neoliberal governmentality and are united in their central concern to improve the competitiveness of Frankfurt am Main; except for the socialist Left (*Die Linke*), which is part of the City Council since 2006.

Against this background the article analyses, first, the implications of the world economic crisis on the city of Frankfurt regarding the labor market, the financial sector, the office real estate market, as well as the city budget. Following that, the focus is put on the relation between the crisis and the stability of neoliberal hegemony on the urban scale. In regard to the questions whether or not neoliberalism has actually come to an end and whether or not we will witness a new post- or after-neoliberal period, I argue that the hegemonic order in the case of Frankfurt remains intact; regardless of the deep economic decline. Therefore, what needs to be explained is the continuity of the general consensus among the elites, and why we are not witnessing a new era of urban restructuring, but, rather, a further entrenchment of worldwide interurban competition.

### **Implications of the crisis on the city of Frankfurt am Main**

In contrast to the long-standing structural under-funding of German cities (Jungfer, 2005; Sander, 2009), municipal budgets were unusually stable during the two pre-crisis years. This changed, however, dramatically in the course of the economic recession as the local tax revenues decreased by 9% between 2008 and the end of 2010; which was, in turn, mainly caused by a collapse of business tax revenues: the main local source of income fell by 21% or in absolute numbers from € 37.5 billion (2008) to € 29.6 billion (2009) (German Association of Cities and Towns, 2010). The sharp decline has resulted in one of the largest deficits of municipal budgets since the early 1990s. After a budget shortfall of € 7.2 billion in 2009, the situation has certainly gotten even worse in 2010, as a record deficit of about € 9.8 billion is expected. According to a study conducted by the ‘German Institute of Urban Affairs’ (Difu, 2010: 11) based on a survey of 552 cities around Germany shows that “many municipalities have lost almost any financial power to act.” However, German cities are by no means equally affected by increasing budget deficits. Rather, the current economic crisis intensifies the already growing spatial polarization between affluent urban regions like Frankfurt on the one side and declining cities, for example in the old industrial regions or in eastern Germany (Bern and Rink, 2010), on the other side.

Similar to the situation in Greater Manchester (Harding et al, 2010), Frankfurt, as one of the most affluent and prosperous cities in Germany, was not much affected by the financial crisis thus far. Despite of the sharp decline of the gross domestic product in Germany by almost 5% (2009) and contrary to initial fears that Germany’s financial center could be hit hard by the economic downturn due to its heavy dependence on the financial sector and its global-city position, the impacts are quite limited. First, the urban labor market is not affected at all. After a small increase from 9.6% to 10% by April 2009, the

unemployment rate has, in fact, fallen to 8.9% in July 2010 (see Figure 1). Likewise, the total number of employees increased slightly from 487,600 to 489,800 between 2008 and 2009 (City of Frankfurt, 2010: 170). In sharp contrast to the situation in the aftermath of the dot.com crisis, when the total number of employees in the financial services declined in just a few years from 80,000 (2002) to slightly under 63,000 (2004), employment in the financial industries remains currently stable around 65,000 (ibid.: 125; Figure 2). Although the number of welfare recipients went up by 4% to a total amount of more than 85,000 in 2009 (ibid.), the increase is in no way unusual, because it follows merely a long-standing trend. In the aftermath of the dot.com crisis by contrast, the same number grew annually between 8% and 15% (City of Frankfurt, 2009: 168, own calculations) and the unemployment rate shot up from 6.4% to 8.8% (Figure 2). The reasons for these limited impacts seem to be, first, that the German economy has recovered relatively quickly compared to most other Western industrialized countries and, second, that the federal state has considerably extended state subsidization of short-time work, which acts as a buffer between the economic recession and the labor market. Thus, an at least short-term rise of the unemployment rate in Frankfurt could be averted as up to 14,000 workers were reduced to short-time work in May 2009 (Figure 1).

As opposed to the labor market, the situation on the local property market for office space is somewhat different. Judging from an analysis conducted by the market research and consulting company 'BulwienGesa AG', the vacancy rate will even top the previous peak of 18.7% (2004) in the course of the New Economy crisis and reach a new record of 19.1% by the end of 2010 (Schwaldt, 2010). Although this negative forecast may not have come true because of the unexpected fast recovery of the German economy, it has been already proven that the vacancy rate rose from 14.8% in 2007 up to 17.4% at the end of 2009 (Dörry, 2009: 36, 60; Schwaldt, 2010).

Most affected by the crisis is indeed the city budget. Total tax revenues dropped between 2008 and 2009 by over 22% from € 2.13 billion to € 1.65 billion (City of Frankfurt, 2010: 218), largely because Frankfurt's main income source, business tax revenues (*Gewerbesteuer*), collapsed by over 30% or in absolute figures by almost € 520 million (Figure 3). A forecast by the city treasurer at the end of 2010 suggests that the tax receipts will, despite of the economic upturn, recover only slowly and that they will not again reach the pre-crisis level in the foreseeable future (City treasurer Frankfurt, 2010a; Figure 3). Nevertheless, at least until 2011, the municipal government of Frankfurt has no intention to cut expenditures or to reduce the existing social services on a larger scale, because the anticipated budget deficits can be compensated with hidden financial reserves. During the two boom years before the crisis, the city has unintendedly accumulated a surplus of approximately € 1 billion. At the beginning of the financial two-year budget 2010/11, € 800 million were still available; enough to balance the annual deficits until the end of that term (City treasurer Frankfurt, 2010b).

### **Neoliberal hegemony in crisis? – 'Not the market has failed, but the state'**

Despite of the limited implications so far, the question remains whether neoliberal rationality will, in the face of the greatest crisis of capitalism since the 1970s, lose its hegemonic power as the dominant order of knowledge. Or in terms of regulation theory (following Hirsch, 2005: 96ff), are there any indications that the worldwide economic slump leads also to a major political and organic crisis of hegemony at least on the urban scale? Will Frankfurt – as a former German pioneer of neoliberalization – also become a forerunner in a multiscale process of "counter-neoliberalization" (Brenner et al, 2010: 341)?

An analysis of the debates in May 2009 around the annual meeting of the *Deutsche Städtetag* [German Association of Cities and Towns] – which consists of more than 4,300 associated municipalities and is the main lobby organization for the interest of cities against the national and regional states – reveals a few indications for such a shift: mainly a demand for a re-socialization instead of a further privatization of public infrastructure (Schipper and Belina, 2009; see also Engartner, 2010). However, the at least small erosion of hegemonic consensus among local elites is faced by a crisis induced further entrenchment of structural constraints. The evolvement of progressive alternatives on the urban scale becomes even more difficult given increasing municipal budget deficits, a further growth of uneven spatial development as well as fiscal austerity measures recently implemented or currently in preparation by the regional and national governments (for example the reduction of financial revenues or the introduction of a public debt brake as a constitutional law by the government of *Hesse*<sup>2</sup>). Furthermore, an evaluation of policy papers concerned with the implications of the current crisis on future development of regional planning and land development policies – published by the ‘Federal Office for Building and Regional Planning’ (BBR, 2009) and by semi-public think tanks like the ‘Academy for Spatial Research and Planning’ (ARL, 2010) – shows that these influential policy advisors clearly recommend a further strengthening of the ‘rescaled competition state regime’ to improve the competitiveness of the German economy. Considering urban governance as a multiscalar process, these papers can be interpreted, therefore, as indications for a future entrenchment of interurban competition, spatial inequality and a deepening of neoliberal rationality.

Similar to the situation during the annual meeting of the *Deutsche Städtetag*, intensive hegemonic struggles occurred also in Frankfurt, namely between the end of 2008 and the summer of 2009. However, despite of this short period of uncertainty and some minor discursive shifts (for example a broad discrediting of Cross-Border-Leasing transactions<sup>3</sup> and an at least slightly growing skepticism regarding the privatization of public infrastructure) the entrepreneurial city still dominates the political order today. In fact, it could be argued that the crisis has even led to a deepening of neoliberal rationality, because both the ruling government coalition (Christian-conservatives, free-market Liberals and Greens) and the opposition Social Democrats claim that interurban competition will become tougher and, therefore, still greater efforts are needed to guarantee the economic survival of the city.

The stability of the post-democratic neoliberal consent among the political elites in Frankfurt even in the face of a world economic crisis is, indeed, not so much the result of fiscal constraints, but, rather, the powerful effect of neoliberal rationality as an order of knowledge. A discourse analysis of the debates in City Council between 2008 and 2010 supplemented by twelve interviews with local politicians in the summer of 2009 reveals that a large majority of actors from different political parties is able to construe the crisis within a neoliberal rationality, which means that the crisis has not even a disturbing or irritating effect (Schipper, 2010). Among the actors of the dominant parties, which include the ruling coalition of the Christian-conservatives (CDU), free-market Liberals (FDP) and Greens (*Die Grünen*) as well as the Social Democrats (SPD) as the main opposition, three different causal stories circulate to explain the

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<sup>2</sup> After a positive referendum in March 2011, the government of *Hesse* introduced a debt brake (*Schuldenbremse*) as a constitutional law which will prohibit any public net borrowing as of 2020. Critics expect that this will lead, first, to further cuts in social services and, second, to a shifting of fiscal burdens from the regional state down to the municipal budgets.

<sup>3</sup> For Cross-border leasing transactions as a tax avoidance and privatization strategy in German cities see Rügemer (2005).

current crisis. Remarkably, all of them remain within a neoliberal rationality. What all have in common is that capitalism appears to be the natural and only possible form of socio-economic reproduction as it represents the direct and unavoidable outcome of the human trait of being greedy by nature. Thus, greed is not understood as a historic specific product of an economy based on competitive relations, but as an essentialist and reified expression of human nature. As Neil Smith (2008 [1984]: 29) once indicated, the overriding function of this kind of universal conception is “to invest certain social behaviors with the status of natural events by which is meant that these behaviors and characteristics are normal, God-given, unchangeable. [...] Nature, not human history, is made responsible; capitalism is treated not as historically contingent but as an inevitable and universal product of nature [...]. Capitalism is natural; to fight it is to fight human nature.” Moreover, capitalism, as it is represented in the discourse among the political elites in Frankfurt, seems to be a possibly stable system of social reproduction without any inherent or necessary contradictions. This assumption is based on an astonishing strict separation between the market on the one side and the state on the other one. In other words, capitalism is not understood as a social formation, which is characterized by a relative unity of economical and political power (Hirsch 2005), but as divided into two distinct poles. As part of this dualism, the market represents always everything positive and appears to be an infallible, efficient steering mechanism that has indeed to be protected and cared-for by a potentially fallible state through indirect interventions at the level of the economic order (*Wirtschaftsordnung*). As this includes a reasonable regulation of the financial markets, only the state has failed and, therefore, carries the sole responsibility for the crisis. While this is the consensus among the main political actors, the difference lies in the question, why the state has failed. To explain the state failure, three different causal stories (an ‘aggressive neoliberal’, a ‘pragmatic neoliberal’ and a ‘critical neoliberal’) can be identified.

Following the ‘aggressive neoliberal’ causal story, self-interested politicians are made solely responsible for the crisis, because they manipulated the interest rates or intervened directly in the economy, for example in the US housing market or, in Germany, by controlling state-owned banks, and, in doing so, created wrong economic incentives and generated speculative bubbles. This kind of causal story is dominant within the free-market Liberal Party, but was also adopted by conservative and green politicians.

What I have called the ‘pragmatic neoliberal’ story, which is mostly told by the popular mayor Petra Roth and her conservative party as well as by the Greens, claims that the state has failed as well, but also argues that nobody can be blamed for that, because missing information made it impossible for the state to enforce a priori the necessary regulatory requirements. The crisis appears to be a quasi-natural disaster or fate that requires pragmatic and technocratic responses. However, subjects who position themselves in line with this causal story are quite optimistic that the state has learned from the crisis and will soon adjust the financial regulation so that the markets and capitalism in general can work smoothly again. Nevertheless, they are also afraid that the state could now go too far by implementing too much regulation or that governments will intervene directly into the markets.

Most remarkable is perhaps the ‘critical neoliberal’ causal story, which is mainly represented by the Social Democrats. They also agree that the state has failed, but they blame a neoliberal ideology that has led to a weakening of the state during the last decades:

“They [the neoliberal ideologists] have always pleaded for the withdrawal of the state. They have propagated the free market; here at the City Council as well as at their [conservative] CDU-party

conventions. What has become of it? The state – nothing against the market economy or capitalism – has to rescue capitalism of bankruptcy. [...] This lack of control could only have happened, because of the free market ideology. The market is necessary, but it needs a risk limitation by the state. We have to put in place framework conditions for the market. This is our challenge” (SPD-politician at the City Council on 25.09.2008: 46).

Following that story, capitalism without crises is in principle achievable, if it would be possible to implement better framework conditions for financial markets and to overcome the excessive trend towards deregulation during the last decades. However, what is criticized by the Social Democrats as ‘neoliberal ideology’ is not neoliberalism, but just a completely unregulated market or laissez-faire liberalism. Criticized is neither the finance-dominated accumulation regime (Demirovic, 2009) and the rising social inequality nor neoliberal rationality, which would mean at least a dissociation from market and competition mentalities. According to ‘critical neoliberalism’, market- and competition mechanisms should, indeed, still play a major role in managing and coordinating socioeconomic relations and should still function as the primary and legitimate technologies of power. For this purpose, the state has to put in place and adjust the correct framework conditions equally to “emission standards” (SPD-politician), so that markets and competition can unfold their beneficial qualities. What becomes clear is, therefore, that even a neoliberal causal story, which also glorifies markets, can appear as a critical standpoint against neoliberalism. This remarkable flexibility is possible because of the simple and problematic representation of the relation between the state and the economy. Constructed as separated and opposed entities, ‘deregulation’ of the financial markets appears as a weakening of the state, instead of a specific regulation regime of a strong and powerful state (Gotham, 2009).

It should not be ignored that alternative causal stories of the crisis exist as part of the discourse as well. Among these non-neoliberal explanations a ‘socialist Keynesianism’ and a ‘rightwing conservative idealism’ emerge as the still most prevalent ones. Nevertheless, both explanations are relatively marginalized and unable to challenge the neoliberal hegemony or to formulate a powerful political alternative. According to the socialist Keynesian story, which is almost exclusively represented by the socialist Left Party (*Die Linke*), the current crisis is caused, first, by a lack of domestic demand and an excessive and single-minded export-centered economic policy. While the unsustainable growth of the financial sector compared to the ‘real economy’ is identified as the trigger of the crisis, this development is in turn interpreted as the longstanding effect of an increasing uneven distribution of social wealth; induced by an economic policy that focuses on the strengthening of the international competitiveness of the German economy and that has promoted the expansion of the low-wage sector as well as deep cuts in social services. In addition to the social polarization argument, second, a permanent drive towards the maximization of profits – indeed understood as a social relation inherent to capitalism and not as a part of human nature – has led to high-risk financial innovations. According to the Keynesian causal story, therefore, redistributive policies and a global regulation of financial markets could possibly mitigate the impact of future crises on the working class, but crises as the results of the existing capitalist logic cannot be prevented.

In contrast, the common feature and central argument of all right-wing conservative causal stories, which are represented by the right-wing populist ‘*Freie Wähler*’ and by the single representative of the far right ‘*Republikaner*’, is the idealistic reference to a social decline of moral values. For instance, an intellectual poverty among the political elites, a lack of national pride, the political idea of global-city



formation and a removal of the Christian spirit of moderation are assumed to be the underlying causes for the current economic slump.

### Conclusion and outlook

I have shown in this article that the implications of the current economic crisis for the city of Frankfurt are, in contrast to the situation elsewhere, rather limited. Furthermore, the economic downturn in itself did not lead to a significant crack in the neoliberal hegemony, but, rather, to a further entrenchment and a continuous promotion of worldwide interurban competition. The continuity of the entrepreneurial city and the absence of a major crisis of neoliberal regulation are indeed not just the results of structural constraints in the face of a deepened 'rescaled competition state regime' and shrinking municipal budgets, but also the discursive effects of neoliberal political rationality as an order of knowledge. Obviously, neoliberalism still remains powerful enough among the local political elites in Frankfurt to make sense of social reality – regardless of the deep economic decline.

Even though the crisis has stabilized urban neoliberalism, its contradictions have, of course, not disappeared. Therefore, political struggles beyond the City Council and official politics are perhaps more capable to challenge the hegemonic order in the near future. During the last two years, increasing rents, a lack of affordable housing and major urban development projects have led to rising protests against the absolute predominance of economic interests in general as well as against gentrification processes in a number of neighborhoods across the city center of Frankfurt in particular. To bring these different oppositional forces together, there are attempts of building a broad, citywide, non-parliamentary coalition movement – similar to 'right to the city' alliances. Promising a more successful contestation of urban neoliberalism, they raise again the long neglected, but nevertheless crucial question "Wem gehört die Stadt [Whose city is it?]<sup>4</sup>". In doing so, this network is maybe able to put progressive alternatives back on the agenda. If this endeavor will be successful remains to be seen.

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<sup>4</sup> See <http://www.wemgehoerdiestadt.net/>

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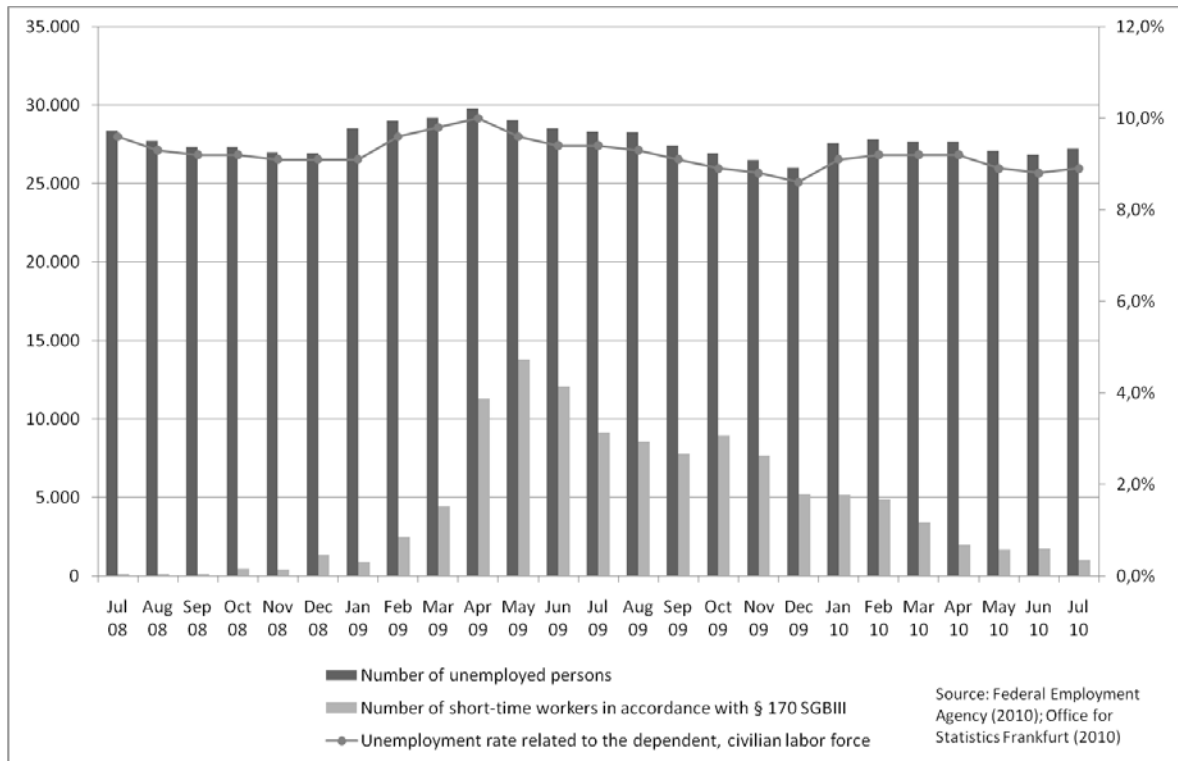


Figure 1: The labor market in the city of Frankfurt am Main between July 2008 and July 2010

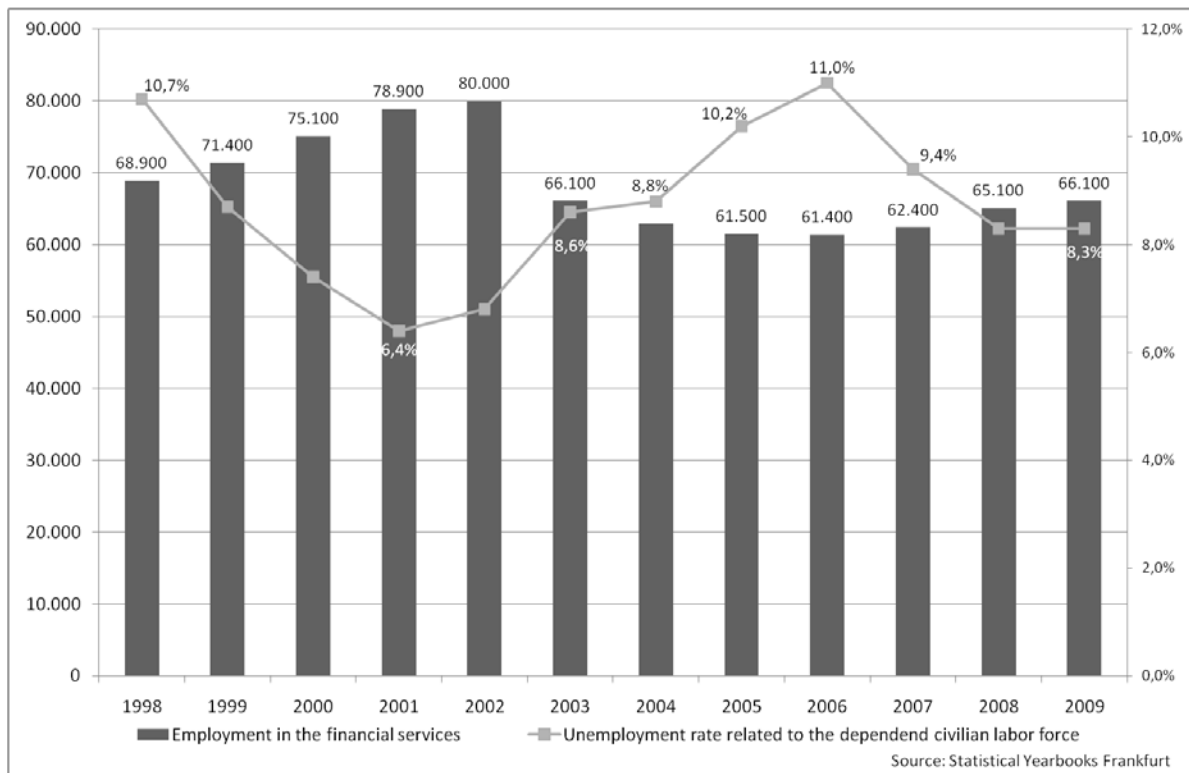


Figure 2: Employment in the financial services and unemployment rate in Frankfurt am Main between 1998 and 2009

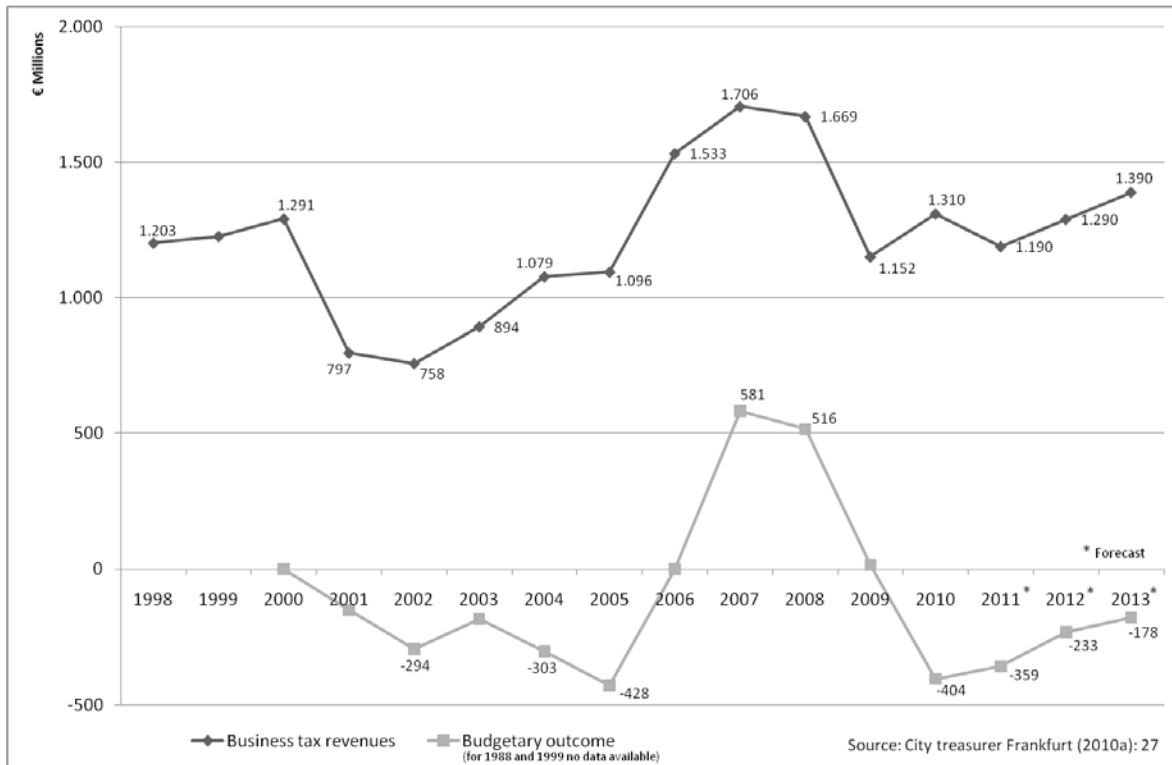


Figure 3: Business tax revenues and budgetary outcomes in the city of Frankfurt am Main between 1998 and 2013