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Book — Published Version

Capturing the British and German Zeitgeist. Impressions and lessons from the first years of the new century

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published by Frank Eich

Published by Dr Frank Eich, London, England
First published in 2009

ISBN 978-0-9562951-1-8

www.frankeich.com

I would like to thank many people for helping me write this book, whether it is friends in Germany or in the United Kingdom, or colleagues in the office, many of whom lead similar lives to me living between Germany and the UK. Over the years I exchanged many ideas with them, learnt from their views and experiences, and tested some of my own thinking on them. However, special thanks must go to four people. First, my parents, who opened up my world by moving from Hamburg to London for a few years in the early 1980s. I was hooked. Second, my sister for being my sister and with whom I have shared many wonderful experiences. And last but not least my then girlfriend/now wife, Catherine, who encouraged me to write this book in the first place, partly so that I could keep myself occupied with something constructive while wasting my time commuting on London's dysfunctional public transport but also so that she could gain a reference manual on everything I had to say about Britons and Germans, which could hopefully – in her view - replace my endless commentary on these issues. I hope I have succeeded.

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Foreword

This book was written between late 2006 and early 2008 with the intention of capturing the *Zeitgeist* in the United Kingdom and Germany in the first few years of the new millennium.

In retrospect it turns out that the period was rather special in the sense that it was the calm before the big global economic storm, which unfolded in 2007.

Britain's *Zeitgeist* during the first few years of the decade was carefree, with most people having a great time. House price increases made everyone feel richer, money and jobs were easy to come by and economically the sky seemed the limit. But what seems to be too good to be true generally turns out to be just that and the carefree spirit of previous years had laid the foundations for the eventual downfall. The mood worsened during 2007 and by early 2008 the *Zeitgeist* had changed fundamentally. House prices, which had seemed to defy the law of physics by going up forever at dizzying speed, started to fall and fear of negative equity reared again its ugly head for the first time since the deep housing slump of the early 1990s. A government that had presided over one of the longest periods of economic growth suddenly also presided over the first bank run in a century and half, and the invincible financial services sector – on which so much of Britain's economic success had depended – suddenly was in meltdown. By autumn 2008, the world had witnessed the biggest financial crisis in living memory and Britain was expected to enter the deepest recession of all large economies. As they say: the past is a foreign country. Quite a change!

At least Britons had enjoyed a great time before the global economic crisis hit. Lucky them! Over the same period Germans did not have too much to celebrate. The German *Zeitgeist* in the first few years of the decade had been fundamentally different to Britain's, with high unemployment undermining the social fabric and Germans suffering an identity crisis. Bringing western and eastern Germany together had also proved to be much more stressful than previously thought. It was all work and no fun. By mid decade though, Germans were starting to reap the fruits of all their previous hard work. The timing of the 2006 Football World Cup in Germany could not have been better. Time to relax and modestly enjoy life again! Unfortunately this period did not last very long.

If one thing can be taken away from this book, it is that the *Zeitgeist* can change very quickly and is in fact changing all the time. It is merely that one does not always realise it while it happens. What is clear is that the British *Zeitgeist* in the closing years of the decade will be much darker than that experienced a few years earlier, while Germans can at least claim that they are not suffering on their own this time round. With their more diversified economy, Germans might even get through the current economic crisis in better shape than their British neighbours. After all, Germans normally win on penalties.

Frank Eich, Autumn/winter 2008/09

To capture

cap ture | Pronunciation: kăpˈchər | Function: verb | Etymology: Middle French, from capture | Meaning among other things: to reproduce convincingly

Zeitgeist

zeit·geist | Pronunciation: tsītˈgīstˌ | Function: noun | Etymology: German, from Zeit (time) + Geist (spirit) | Date: 1884 | Meaning: the general intellectual, moral, and cultural climate of an era

Als ***Zeitgeist*** *wird das allgemeine intellektuelle und kulturelle Klima einer Zeit oder Epoche bezeichnet.*

Prelude

While the *WAGs* (wives and girlfriends) of the official favourite to win the 2006 Football World Cup, led by cheerleader Victoria Beckham nee Posh Spice, were single-handedly helping Germany to get out of its long recession by buying up everything within 100km of their luxury hotel in Baden-Baden, their hubbies were struggling on the German football pitches – too hot.[1]

Why hadn't anyone told them that summers could be warm in Germany? Had they known, they could have prepared and lifted deservedly the trophy – this way though they dropped out of the tournament after a very disappointing performance.

England had done it again: under-achieved! Who would pay for all the luxury items such as Mercedes convertibles and Porsche Turbos, and *über*-villas their wives and girlfriends so desperately needed back home in the future if they continued to play like *that*?

As the English nation came to terms with the fact that their highly paid, individualistic superstars had once again failed to gel into a winning team, another nation not far away, in fact just over the border to the north, could not hide its *Schadenfreude* and celebrated. At last the pain was over! The Scots had been cheesed off by all this hype for a while and had been very angry about the *English* flag waving, *English* patriotic *British* media. Some Scots even decided to beat up English people who happened to cross the border to the north. So much about the *United* Kingdom...

Germans had been sceptical about hosting the Football World Cup in 2006. Not much had gone well in Germany in the years prior to the cup. Unemployment was high, the national team had underperformed prior to the tournament and their coach, Jürgen Klinsmann, commuted from California to teach them US-style fitness lessons. What an embarrassment it would be!

The rest is – as they say – history. The 2006 Football World Cup entered the history books as the best organised (not surprisingly) but also most fun (very surprisingly) football event ever. Led by two Polish-born youngsters, the German team played as if they had come straight from Rio de Janeiro.

Four weeks of sunshine, and millions of football fans and other tourists from all over the world helped to create one of the biggest street parties the world had ever seen. Germany had used the event to create a new, modern image, which reflected reality, not only for the many foreigners who came to visit but also for Germans themselves.[2] Many foreigners – including Britons - had to revisit the stereotypes and prejudices they had before the cup. Were they still valid? Was it all just a dream?

I. Capturing two very distinct Zeitgeists

"Wer den Zeitgeist heiratet, ist morgen Witwer." (Who marries the Zeitgeist, will be a widower tomorrow – Reinhard Marx, Archbishop of Munich)

The idea for this book came a few days after the end of the 2006 Football World Cup in Germany when the author read an article by the former Labour Party "spin doctor" Alastair Campbell in the Times. Mr Campbell argued that the competition had been a great success and that England should now go ahead and try to host the cup in 2014 itself.[3] But he also argued that: *"…a number of myths have to be revised. The idea of Germans as insular, humourless…"*[4]

That Germans had no sense of humour to speak of was common knowledge but that they were "insular" came as some kind of news. Could a country neighbouring nine other countries and at the crossroads of Europe really be insular? In fact, what right did Mr Campbell have to make these statements, coming himself from the biggest island in Europe?

The author became intrigued. How much did the British really know about Germany at the beginning of the 21st century? Over the previous ten years or so German bashing had obviously receded and even the sensationalist tabloid press no longer claimed that every German was deep at heart still a Nazi. But what had replaced these views – if anything?

From this it was only a small step to ask the opposite question: how much did the Germans really know about the United Kingdom? Or indeed, how much did Britons and Germans know about themselves? After all, Mr Campbell's comments revealed more about his own state of mind and Britain than about Germany.

While many Germans liked Britain, with Scotland, Cornwall and London favourite tourist destinations and British drama a highlight on German television, how much did they really understand what was going on? While all of them would have said that Britain had become a prohibitively expensive place to visit and would have found "Mr Bean" quintessentially British, it seemed that Germans could be split into two distinct groups regarding British relations. The first group thought that the UK was a satellite state of the United States, as could be seen by the wild-west neo-liberal capitalist economy and its involvement in the Iraq war. In addition, mad cow disease was still raging the country. The second group thought that the British lived in cosy country cottages, walked their dogs in Barbour jackets on beautiful cliff tops in Cornwall and generally lived in an enviable Rosamunde Pilcher picture-perfect world. Both views seem a bit extreme and never mind that Rosamunde Pilcher was a literary superstar in Germany on which much of German primetime television appeared to have been based on but hardly known back home in Britain.

While most Germans at least had **a** view on the UK; Britons generally would not have gone that far. If pushed, they remembered that England won the Football World Cup against Germany in 1966, complained that Germany always won on penalties and that they had some kind of *Vorsprung durch Technik,* allowing them to drive with limitless speed on their *autobahns*. And, yes, Germany did lose the 2nd World War and because of that it was still best to “not mention the war” when meeting a German. It seemed that Britons still took their cue from the 1970s TV comedy show Fawlty Towers starring Monty Python’s John Cleese, who famously started the “don’t mention the war” phenomenon. Funny that Monty Python, if anything, had an even bigger cult status in Germany than in Britain. Except for this, Germany produced a big “blank” in most British minds; a country that was more exotic than most.

The author became even more intrigued when, visiting Germany, one of the many myths about the country – that of the academic taxi driver - was confirmed to be very true. The first one was in Frankfurt, standing in a traffic jam created by students who were demonstrating against the introduction of tuition fees in the State’s universities. The driver started sympathising; then told his life story, which included a full IT degree but then unemployment because – apparently – the degree had been rubbish and he had had no chance to compete against the better trained IT specialists coming from India and working in Frankfurt’s financial centre. But clearly the UK was no better either – after all it was just like the US there. When asked whether he had actually ever been to the UK, he said “no”. Never mind.

That this was not a one off became clear when a few weeks later another taxi driver on Lake Constance revealed an amazing level of detailed knowledge about the government's economic policies and the causes of Germany's economic malaise. While the driver relaxed into the black leather seats of his brand new *Mercedes Benz 320CDI* taxi and gently pushed the accelerator to rev his turbine-like engine to glide ever faster over velvet-like roads overlooking beautiful Lake Constance and the Austrian and Swiss Alps in the background, he reflected on his life so far. Yes, he would consider emigrating, maybe to Canada or New Zealand. He enjoyed watching a new genre of TV programmes, which followed Germans who had emigrated and started a new life somewhere else. After all there was no life left in Germany. What made it even more interesting was that the driver turned out to have studied at the same time for the same degree at the same university as the author. Both academic taxi drivers hardly looked hard done by – perhaps it was more a lifestyle choice? Could Germans be just world-class moaners?

The first few years of the new century saw a wave of new publications on Germany, the Germans, Germany and the world etc. Most of these books seemed apocalyptic, predicting the end of Germany's prosperity,[5] while only a few took a more positive stance.[6] This bias to a large extent reflects the spirit of the times and unlike in the past when Germans had lectured the rest of the world, they suddenly lectured themselves – everybody had a *Plädoyer* (a plea) for something. Rather than doing what the British liked doing – muddling through - masterplans were (and continue to be) created in a very Germanic manner, discussed, torn to pieces and then resurrected.

Far less was written by Britons about Great Britain and what was produced was generally of a light-hearted nature along the lines of “walking backwards around the British coastline” or something like this, reflecting the generally easy-going atmosphere in Britain during those years. Things were just going smoothly – thank you very much – and the world was my oyster. No need to write serious books then. A few books provided reflections on British (or English) quirky character traits (Kate Fox’s *Watching the English* comes to mind) but unlike their German contemporaries, these books did not try to convince that everything had to change to survive in the future.[7] Hundreds of books though – again mainly of a humours nature - were published by Britons living abroad, say in Spain, France or Italy. It seemed that there was an insatiable appetite for stories involving backward Spanish or French farmers who, however, were so delightful and welcoming to the new (and generally much richer) British arrivals.

But things moved on too: as a sign of a changing *Zeitgeist*, the first humorous book on Germany was published in mid 2007[8] and a few books were published on the state of play in the UK. *Fantasy Island* by two economic journalists made it into the book charts in early 2007 by arguing that Britons were living well beyond their means and that a reality-check was in order.[9] A few months after publication, there were the first signs that they might have been correct.

This book is not a *Plädoyer* for anything but instead sheds some light on the two countries by touching on issues that played their part in shaping the spirit of the times. It might even help to understand a little bit better the origins of the economic crisis, which erupted in late 2007 and which brought the big party (in particularly in the UK) that was taking place to an abrupt end. While a particular *Zeitgeist* comes and goes, underlying character traits or behaviours do not change that quickly as they are often rooted deeply in the history of a society. The book therefore also tries to develop some of the key similarities and differences between British and German character traits and how they in interaction with some trends and events shaped the spirit of the times. For example, why did globalisation make such a different impact on the psyche of Germans than on Britons? After all, the forces at work were the same.

Up to the early 1990s, at least British economists and government officials would have been interested to find out what was going on in Germany. It was **the** benchmark against which all other western economies would have to be judged. British politicians looked in envy and tried to understand how Germany, so thoroughly beaten in the 2nd World War, could emerge so strongly again while the United Kingdom itself failed to take off economically and even had to be bailed out by the International Monetary Fund in the 1970s. What was the secret?

Once Germany ran into its own set of problems in the 1990s and cool Britannia had found its unique key to economic success, British observers could not hide their *Schadenfreude* and started looking at Germany only to find out how *not* to do things. Inspiration and ideas had to be found elsewhere though and the obvious place for most Britons had to be the United States. Germany's painful and slow progress towards a better future was followed in Britain with bewilderment and pity. Why could Germans not be as cool and flexible as the British, move into services and reap the financial benefits to be had from globalisation? Why did the Germans have to do everything the hard way? The answer is obviously that societies have to deal with their own problems in their own particular ways. More or less unnoticed by British observers, Germany gradually returned to form again by the mid "noughties", doing it the hard way and sticking to what they understood best – high quality industrial production – appeared to be paying dividends after all.

Meanwhile, Britons surfed the big wave that was the financial services boom and had a pretty easy ride. For the government making "tough" decisions meant to decide on what to spend all that money on. In the end, it couldn't make up its mind and just spent more on everything. While the economy was cruising along on auto pilot, no real questions were asked. Most outsiders looked with envy towards Britain, trying to understand how it had managed to find the holy grail of solid economic growth and low unemployment. In hindsight it appears that Britain basically just had a lucky ride and happened to do the right things at the right time.

The book also tries to draw out some lessons for the future. Should Britons look misty-eyed back to the "best period since the industrial revolution", as then Chancellor of the Exchequer, Gordon Brown, called it? Was it a good idea to let go of the manufacturing sector and put all your eggs into the one basket that was financial services? What can Germans learn from their collective period of depression? Was it really necessary to do everything the hard way? Will the global economic crisis, which hit the UK and Germany with full force in 2008, make any difference in the longer term?

It should be obvious that Britons and Germans overwhelmingly continued to do during that period what they did before – regardless of the prevailing *Zeitgeist* – whether it was walking or rambling in the Lake District or in the Alps; enjoying a pint of beer in a country pub in the English countryside (most likely owned by a national chain) or a *Schoppen* of *Weißwein;* supporting their local football clubs; visiting the national heritage as members of the National Trust (the largest organisation of its type in the world) in the case of Britons or cycling upright on strangely *un*-aerodynamic bikes against the headwind in the case of Germans.

But the *Zeitgeist* made a difference to what people did and talked about, and how they felt while doing it. While there is more to life than the economy, actual or perceived economic well-being disproportionately shapes the *Zeitgeist*. Going out for dinner or a play? Looking for a new home? Money always matters. During the first few years of the 21st century Great Britain enjoyed a real economic bonanza, which had already started in the mid to late 1990s. Large parts of society became substantially better off – at least in materialistic terms – than they had been in the mid or even late 1990s and a strong "I can" mentality shaped the environment. But where there was light, there was also shade. Sometimes it seemed that after ten years of growth a cooling down period would do some parts of the country some good – and get rid of some of the excesses that had established themselves (though nobody was obviously looking forward to the biggest economic crisis since the second world war). Then again there were still parts of the UK which felt like they had been by-passed by the rise in materialistic prosperity and that would probably require another 20 or more years of steady economic growth before they can be considered to be reasonably successful – reflecting just how unequal economic growth had been in the past.

Over the same period, Germany went through one of its deeper and longer phases of soul-searching. Western and Eastern Germany continued to grow together – albeit very slowly - but economic dynamism came to a near standstill, fear of unemployment reached the well-educated middle classes and a blanket of "can't do" lay over the country. Since

2006 though there were signs of a recovery, not only in economic terms but also in mentality.[10] The 2006 Football World Cup gave Germans the opportunity to present a new image to the world – and the world was happy to see it. This recovery was fragile though and it often seemed as if events could push Germany back down again. It will be interesting to see what the long-term effects of the crisis will be on Germany. Germans should be under no illusion: the potential threat to Germany's future prosperity cannot be found in China or in India but only in German minds.

That these different behaviours were not necessarily only due to national character traits should be clear: Britain in the early 1990s felt similar to Germany between 2000 and 2005 and Germany was on a high in the late 1980s and early 1990s. The table turned and it will most likely turn again. So the *Zeitgeist* that shaped the first few years of this century will be replaced by another *Zeitgeist* sooner or later; this is after all what the *Zeitgeist* is all about. At the time of writing, there were strong signs that the table was already turning.

The book has to be selective and does not touch, for example, on important issues such as the rise of religious extremism and religiously-motivated terrorism in Britain or continued right-wing aggression by *Neonazis* in Germany, especially in the east. Indeed the day-to-day politics of the day are not covered at all. For example, what can explain the rise of the *Linkspartei* (Left Party) in Germany during those years or the British Conservative Party's failure to establish some constructive and urgently needed opposition to the governing Labour Party? Historians will surely write authoritative books on these issues in 20 or 30 years' time.

Instead it focuses on a number of issues that shaped the *Zeitgeist* as much as politics (and sometimes were of a political nature). For example, why was Britain going down the road to devolution when at the same time Germans were struggling to bring more power to the federal government to tackle their famous *Reformstau* (reform backlog)? Or why was it that house prices were so much higher in the UK than in Germany? Or why is it that Britons enjoyed shopping so much more than the Germans? Or why was that, as the author found out himself, more than ten years after the creation of the European Single Market the same kitchen would have cost twice as much in the UK than in Germany; the difference comfortably financing the purchase of a medium-sized car?

II. So close but still so far: land and people

"We have all felt over the last few weeks that our country is facing major changes ahead....Many people look to the future with worries. Many ask themselves: is the long period coming to an end during which things more or less always went up? Do we have to prepare ourselves for some tough times ahead? Alongside some serious voices and appropriate warnings we also hear lately some silly talk as if the downfall of Germany was nigh. While arguing, we must not lose perspective. It is not as if we in Germany lost over night all our virtues and strengths, which have helped us again and again to overcome challenges: diligence, a readiness to engage and help, solidarity and a sense for community, courage and a readiness to venture new paths." (Johannes Rau, German President in his Christmas speech to the nation 2002[11])

"This is a country today that for all its faults, for all the myriad of unresolved problems and fresh challenges, is comfortable in the 21st Century. At home in its own skin, able not just to be proud of its past but confident of its future." (Tony Blair, Prime Minister in his resignation speech in May 2007[12])

"Britain has been tested and not found wanting. This is who we are. And there is no weakness in Britain today that cannot be overcome by the strengths of the British people. So don't let anyone tell us Britain is not equal to every challenge. We all know that in our society we do have real problems to solve, real needs to meet, but don't let anyone tell us – the British people – that this country of ours, which has over centuries given so much to the world, has ever

been broken by anyone or anything. I am proud to be British. I believe in British values." (Gordon Brown in his first speech as Prime Minister to the Labour Party conference, September 2007)[13]

Some very basic facts

The **Federal Republic of Germany** …*Land der Dichter und Denker*, at the crossroads of Europe, neighbouring nine other countries, birth place of Beethoven, Goethe, Michael Schumacher, "Wir sind Papst Ratzinger" (PappaRazzi), Albert Einstein, Mr Daimler, Karl Marx, Mr Benz and Mr Diesel, Claudia Schiffer, Steffi Graf, Luther, Heidi Klum, Gutenberg, Boris Becker and many other famous and influential people. At the beginning of the 21st century there were around 82½ million individuals of this inventive tribe, occupying a land that stretches nearly 1000 km from north to south and roughly 600 km from west to east, sharing borders with Denmark, Poland, the Czech Republic, Austria, Switzerland, France, Luxembourg, Belgium and the Netherlands. Of its land mass of 357,000 square kilometres, around two thirds[14] make up what used to be the "original" *Bundesrepublik Deutschland* (FRG, West Germany without West Berlin), with the remainder the former *Deutsche Demokratische Republik* (GDR, East Germany). Around 65½ million of them (80 per cent) lived in western Germany. This means that the population density in western and eastern Germany was 264 and 157 inhabitants per square kilometre respectively.

The **United Kingdom of Great Britain and Northern Ireland** occupies a number of islands in the north Atlantic off the north-western coast of continental Europe and comprises four countries: England, Wales, Scotland (making up Great Britain) and Northern Ireland. Perhaps surprisingly the catch all word though is "Britain". Birthplace of Shakespeare, Kate Moss, Newton, Adam Smith, David Beckham, Tim Berners-Lee, J.K. Rowling, Francis Crick, Naomi Campbell, Stephenson, The Beatles (okay that was a group) and many other famous, creative and influential people.[15] Of the roughly 60½ million citizens of the UK, around 50 million lived in England, 4 million in Wales, 4 million in Scotland and 2½ million in Northern Ireland.[16]

Interestingly enough, the United Kingdom is nearly the same size as the old Federal Republic[17] and had a marginally lower population density at 248 inhabitants per square kilometre. This might surprise British readers who think that their island was vastly overcrowded and that high population density was the key reason why house prices were so high. What is true is that the UK had a higher population density than today's Federal Republic but the perception of high density in the UK was more a reflection of the uneven distribution of population across the country than anything else. For example, around 85 per cent of the total population lived in England,[18] which only represents around 55 per cent of the UK's total landmass. Population density was particularly high in the south east of England and very low in Scotland and other peripheral areas.

A centralised kingdom versus a network of equal cities

The uneven population distribution is a reflection of the fact that the UK is one of the most centralised countries in Europe, with London dominating in nearly all areas. London is the financial, commercial, retailing, political and cultural capital of the UK. According to some, at the beginning of the new century, London had even become the "capital of the world", having taken the title from New York.[19] While it can be debated what makes a city the "capital of the world", on a number of important criteria, London was indeed a world leader. For example, according to the Washington-based Brookings Institution, London was the most connected city in the world, followed by New York and Hong Kong,[20] while according to the European Cities Monitor (ECM) it was by far the best place in Europe to locate a business – London took the pole position in seven out of their 12 indicators. The flip side to London's national and even global dominance was that there was a huge gap between London and any other British city. According to the Brookings Institution, the second most connected city in the UK was Manchester – coming in at 101st globally – followed by Birmingham at 106th. According to the ECM Birmingham was the 19th most attractive place to locate a business in Europe, followed by Manchester at 21st.

Because of its history, Germany does not have a centralised nature even though its capital, Berlin, obviously has a dominant role within Germany. However, it only clearly dominated in population size and in political terms, and to a lesser extent in culture. Other cities such as Hamburg, München, Frankfurt, Köln, Düsseldorf or Stuttgart dominated Berlin in other areas such as business, finance, retailing (per capita purchasing power) and even partly culture. For a German to imagine the importance of London (and how it dominated the UK) one has to imagine rolling Berlin, München, Frankfurt, Köln and Hamburg into one big city. This comparison is even valid in terms of overall population, with Greater London home to nearly 8 million people, while Berlin had 3½, Hamburg 1¾, München 1½, Cologne 1 and Frankfurt ¾ million inhabitants. When one looks at the metropolitan area of London (which can roughly be defined as everything within its ring motorway), then its population of nearly 12 million was close to that of Bayern. Amazingly, Berlin even had the title *Armutsmetropole* (*poverty metropolis*). There cannot be many developed countries around the world in which the capital city also happened to be one of the poorest urban areas.

This more even national distribution was also reflected in international statistics. According to the Brookings Institution, Frankfurt was the world's 14th most connected city, followed by Hamburg, München, Düsseldorf and Berlin, which occupied places 48th to 51st globally. The ECM provided a similar list, with Frankfurt apparently the third most attractive place in Europe to locate a business, Berlin 8th and München 9th, Düsseldorf 14th and Hamburg 16th.

Tyler Brule, founder and editor of lifestyle magazine Monocle, came up with a less scientific ranking in mid 2007. Mr Brule should know a thing or two about lifestyle and quality of life issues, as he is the founder of *Wallpaper*, the international style magazine, which came to prominence in the late 1990s/early 2000s and reported on and even shaped the *Zeitgeist* around the urban world. Mr Brule also cared about connectivity but equally cared about lifestyle aspects of city life such as high quality local transport or good restaurants. His global ranking did seem a little bit euro-centric but - surprise surprise - München made it to the top, followed by Zürich and Copenhagen. Hamburg was the other German city in the top 20 worldwide, while no British city was to be seen. Instead Mr Brule presented his reasons why London did not make it into the top group: bad infrastructure and transport, and a lack in ambition were some of his reasons.[21]

London's dominant role within the UK was further accentuated by the country's island status. If you are, say, 700 km away from London, then you are also 700 km away from where anything happens. There is nowhere to go. The situation is very different in Germany. Someone living in Freiburg, for example, will not feel remote just because it happens to be around 700 km away from the capital city Berlin. If anything, the opposite will be true: within an hour, one could reach Strassbourg or Basel, twice that and one could be skiing in the Swiss Alps and within four hours one could be in northern Italy by car – this makes Berlin seem like a very lonely place in the flat and sandy plains of northern Germany.

One should not forget though that for some activities one has to be in the global top tier to play any role as a city – Frankfurt might came third in Europe, but the global financial markets were split between New York, London and to a lesser extent Hong Kong/Tokyo – being third was just not good enough.

The people

At the beginning of the new century Germany's population was around a fifth bigger than the UK's but official projections suggested that the two countries would have much more similar population sizes in the future, with Germany's population set to fall from around 82½ million to 70 million by 2050, while Britain's could rise from 60½ million to 72 million.[22] This long-term convergence of population sizes started already in the mid 1990s, with Germany's population hardly rising at all over the next ten years or so, while Britain's population grew solidly pretty much every year.[23] In fact, Germany's population peaked around the turn of the century and, importantly, its working-age population had been declining too. These long-term trends made a difference to the day-to-day life of Germans and Britons, for example in terms of economic growth, and hence also shaped the *Zeitgeist*.

These national trends could be found on the capital level too: when Berlin was unified in the early 1990s, many experts expected that its population size would explode from nearly 4 million then to 5 or even more million inhabitants within 10-20 years. Reality turned out to be different, with Berlin actually losing population (it stood at around 3½ million in 2005), leading experts to predict a further decline over the coming decades (what does that tell us about "experts"?).[24] By contrast, London expanded strongly between 1995 and 2005, becoming a magnet for migrants from across the world and making it one of the few leading global cities (some say it was *the* global city, having overtaken New York[25]). The authorities expected London to continue growing strongly over the next few decades.

The diverging long-term trends can to a large part be explained by the hugely different fertility rates, that is the number of children an average female bears over her lifetime. While this number was around 1.3 in Germany – putting the country alongside Spain, Italy and Japan at the bottom internationally – the number was closer to 1.8 in the UK. This was below the rate, which is required to stabilise a population size in the absence of migration, and lower than in, say, France or Sweden, but still around 50 per cent higher than Germany's. It should be obvious that this must lead to very different population dynamics. It also arguably created a society, which thought differently about children and the future more generally.

The childless society

Much has been said about why Germany's fertility rate was so low and what could be done to raise it. Earlier studies concluded that younger females expected and wished to have more children than they eventually turned out to have and that there had to be something which prevented these females from having the number of children they wanted. Later studies, however, concluded that expectations had been on a downward trend too and that the outcome was much closer to expectations than previously.[26]

Germans identified the lack of childcare facilities as one possible problem. To encourage females to participate in the labour market and have children (in other words to balance family and career), the German government was keen to establish more childcare facilities. But there were potentially other issues. An obvious one to consider was the average age with which Germans left school, started studying and then entered the labour market: by the time they established themselves in the labour market, university-educated Germans were generally in their late 20s and often even in their early 30s – not much time left to start a family. But perhaps even more important were the substantial financial penalties females faced when they had children. Possibly reflecting a macho-element in German culture, females who left the labour market to bring up a child generally had to accept a serious pay-cut on their return to work and these penalties became more severe the more children a woman had. Hardly the best incentive to bring up a family!

Coming and going: bloody foreigners

With more babies being born than old people dying, Britain's population would have increased during that period even in the absence of migration. But migration was the other big driver of population growth over those years, with substantially more people entering and settling in the UK than people leaving. In 2004 and 2005 around 225,000 and 185,000 more people respectively moved to the UK than moved away, with the sharp increase over previous years (the figure was around 150,000 in 2002 or 2003) mainly due to legal migrants from the new EU Member States that joined the EU in 2004. Alongside Sweden and Ireland, the UK was the only country to open its labour market completely to these people when they joined. With the economy doing well and jobs easily available, these new EU citizens did not require much convincing to move to the UK. Almost all of these immigrants were of working age (remarkably, nearly all were in their 20s) and made a substantial contribution to the British economy.[27]

Germany recorded substantial net migration in the first half of the 1990s (peaking at nearly 800,000 in 1992), partly as a result of the war in the Balkans, but quickly after that the inflow receded. For example, in 2003 around 145,000 more people moved to Germany than left – by 2005 that figure had dropped to below 80,000. Germany, like the UK, could have benefited from Eastern European labour but in the light of a tight labour market decided to keep its labour market closed until at least 2009. Some people started to regret this decision: especially the farming sector relied on Eastern European seasonal labour and with so many Poles and other nationalities moving to the UK, not enough cheap labour could be found to bring in the harvest. And Germans could not be bothered to do the work.

Much of the migration debate focussed on the number of people entering a country – and both Britons and Germans were very frightened of them. *Do they speak the language? Are they coming merely to exploit generous welfare systems? How to integrate them when we already have enough on our plates dealing with all these other immigrants? How are they supposed to fit into this small country?* A little discussed aspect of migration was that large numbers of people also moved away. So while nearly 600,000 people moved to the UK in 2005, close to 400,000 also left it – the highest since records began. This group was more or less evenly split between previous immigrants that had decided to return home and British citizens that moved away (another record), say to other European countries such as France and Spain (for the quality of life) or the US or Australia (for work experience or a better life). Germans were equally keen to leave their own country as illustrated by the taxi driver mentioned previously. In 2005 around 700,000 people moved to Germany, while nearly 630,000 people moved away. As a result of these developments, an estimated 5½ million Britons lived outside the UK, with the top three countries being Australia, Spain and the United States.[28] Apparently 115,000 Britons also lived in Germany.[29] This was less than half the estimated number of Germans living in the UK (the number stood at around 260,000), though these figures were apparently distorted by the number of children born to British army personnel in Germany.[30]

It is revealing to read what Britons and Germans thought about some of their compatriots moving away. While the former had absolutely no problems with anyone leaving the country for better job opportunities, a better house, a higher quality of life or just better weather elsewhere (and most just envied those who left), Germans had a much more ambivalent attitude, with envy mixing with feelings of treason: *how can anyone turn the back on the home country and try his/her luck elsewhere?*[31]

Not that Germans necessarily welcomed their fellow countrymen with open arms should the "traitors" eventually have decided to return to the *Vaterland*. Statements such as "We worked here too in Germany while you were away!" reflect that work experience abroad was often considered to be some kind of extended holiday rather than a real asset. At least there was suspicion and envy that the one who moved abroad got the much sweeter deal rather than the one who stayed, worked and paid taxes in Germany.

What is true is that while Great Britain had always been an attractive destination for educated and skilled people, Germany had not been. So while the former could "afford" to lose some of its brighter and more dynamic citizens to try their luck in the US, Australia or elsewhere, Germany felt it could not. Whether it was the language barrier, the fact that even talented people liked to go where they already had family and friends (so history matters), unattractive working conditions in German universities or elsewhere, it was true that Germany failed to compete successfully for the brightest talent in the global labour market pool. These individuals went to the US (including many Germans) or within Europe often to the UK. This also meant that the migration issues were very different in Britain and Germany. Over the period January 2004 to December 2005 an estimated 6,000 Britons moved to Germany. This averages out as around 3,000 per year. By contrast, 36,000 Germans moved to Britain during 2005 and 2006.[32]

Despite the fact that migration – both in and out - has been an integral part of Britain's and Germany's history,[33] every new wave of migration seems to frighten the native population from new and seems to be leading to major integration issues. Not least due to the media coverage, migration was made out to be a much bigger issue than it really was. At the beginning of the new century Britons especially feared the flood of immigrants – and especially illegal immigrants – who apparently tried everything to reach the glorious shores of the British Isles. Not a day passed without the evening news showing shifty illegal immigrants hanging around the Sangatte refugee camp on the other side of the Channel in Calais just waiting to jump on a Eurostar train entering the Channel Tunnel to take them to the land of milk and honey.[34]

Competing giants - literally

Germany and the UK were not only the two most populous countries in Western Europe; their respective citizens were also…how shall one put it…rather big. Interestingly enough, both countries competed in the "fatso" stakes, with the British and German governments and media reporting independently that their respective countrymen were the most obese in Europe.[35] Never to be outdone, the British media claimed that Britons were the "fatsos" of Europe,[36] with the Department of Health warning of an obesity epidemic generally and among children in particular. All those crisps (*Chips* in German) and chips (*Fritten* in German) in combination with being the couch potatoes of Europe were doing a lot of harm. New evidence also shocked the German Government into action in 2007 though, announcing a *Fit statt Fett* (fit instead of fat) initiative – whatever that meant. Clearly, only one of the countries could be the proud winner in this competition, so who was it? According to the World Health Organisation[37] 14 per cent of adult males and 13 per cent of females were obese in Germany in 2003, while another 44 per cent and 28 per cent were overweight respectively. For the same year no WHO data are available for the UK but data for England show that 23 per cent of males and 24 per cent of females were obese, with another 43 per cent 23 per cent overweight. According to the Department of Health this made the English not only a lot more obese than the Germans but also the most obese people in the European Union.[38] So the winner on these measures was…GREAT Britain.

It would be interesting to break down these statistics by age groups. Anecdotal evidence would suggest that Germany lead the UK in obesity in the older age groups – German pensioners munched themselves through the *Fresswelle* (post-war wave of guzzling) in the 1950s and thereafter seemingly never stopped eating German *Sahnetorten* (creamcakes). By contrast, British pensioners grew up on food rationing after the war and on average never had the financial means to eat as many *Sahnetorten* as their German counterparts. But young and middle-aged Britons had more than done their fair share to overtake the Germans on a diet of crisps, fish and chips and beer.

III. True to character…

Statements such as "there are 60 million people in the United Kingdom and 80 million in Germany" seem indisputable (unless one shared the worries of parts of society and wondered how many "illegal immigrants" were hiding in the UK) but what about statements on national character traits? Is it worth rolling out stereotypes to capture characteristics of two populous and diverse nations? Can one really say anything general about the people of Great Britain from Land's End in Cornwall to John O'Groats in Scotland? Can it really be true that no German had a sense of humour whereas all Britons were just hilariously funny?

It is risky to make broad generalisations but how can one resist? One has to be careful though to distinguish between character traits and relatively short-lived behavioural patterns. The former, in combination with external developments, will create the latter and it is the latter than characterises the *Zeitgeist* of a period. For example, individuals generally behave more positively when the economy is doing well and this in turn is a reason why the economy will continue to do well, at least for a while. Germans have gone through these phases and so have the British. Good phases will be followed by less good phases and these will again be replaced by good phases.

Das Glas ist halbleer versus the glass is half full

There can be no doubt that for Germans the glass is generally half empty when for Britons it is generally half full. As a result Germans have the tendency to make everything sound worse, while the British generally make everything sound better than it really is. While being the biggest exporter in the world, it was Germany and not Britain that believed that it was on the losing side of globalisation. And while repeat failure should have lectured them by now, it was England and not Germany, which in the run up to every international football competition reckoned that they were the favourites – and if not sole favourites, then at least joint favourites with Brazil and the like.

As a result of this character trait, Germans and Britons also deal quite differently with uncertainty and - as the future is uncertain – the future. Saving for retirement? Germans had sleepless nights over this issue and started saving frantically the second the German government announced changes to the German pension system. By contrast, most Britons were just confident that the issue would sort itself out…somehow. The biggest unorganised group in Germany were apparently the *Bedenkenträger*, people who walked around full of concerns and scruples. After all there was always something that could go wrong any minute. This outlook on life might also partly explain why fertility rates were so low in Germany: the future might have been too bleak for the next generation!

Overall it is probably fair to say that the British are on average more optimistic than the Germans, which shows itself in being a little bit less concerned about the uncertainties of the future. But does being more optimistic mean that the British are happier?[39]

Happiness

Much analysis has been conducted by psychologists and economists to compare the level of happiness across countries,[40] for example by sending out questionnaires to random groups of people. But how reliable is the information they have collected? Researchers worry that the subjective nature of the answers (to questions such as "are you happy?") makes an objective comparison difficult. Similarly, they are worried that the same question translates differently into different languages and could be understood differently depending on social context.

Given these concerns, researchers had been on the look out for an objective measure of happiness. David Blanchflower and Andrew Oswald, two economists, thought they have found one: blood pressure (hypertension).[41]

According to the two, there is a strong relationship between subjective statements on happiness and objective results on blood pressure levels. Happier individuals generally enjoy better health, including lower blood pressure. Blanchflower and Oswald found that Britons were markedly happier than Germans. Out of 16 European countries, Ireland, Denmark, the

Netherlands and Sweden seemed to have the happiest (and healthiest) citizens, followed by a group comprising Spain, France, Luxembourg and the UK. Germany (split into western and eastern) found itself in the bottom group, with eastern Germans markedly less happy still than western Germans. At least the last bit was not surprising to the authors – they pointed out that citizens in post-communist societies generally report much lower levels of happiness than citizens in Western Europe.

A very different question though is whether Germans were happy being German. This question can still be generally answered with "no" - Germany's unified history was not that old and Germans still lacked national pride after the horrors of the Nazi period – but things were changing too, with a new generation growing up that only learnt about the fall of the Berlin Wall in 1989 through history classes at school and for whom the 2006 football world cup was a defining moment. Perhaps the older generations were also starting to develop a more relaxed attitude to their nationality and identity. Perhaps Germany was becoming a normal country again, which must have been good news for Germans and the rest of the world. At least by 2008 it seemed that Germans felt quite comfortable again "in their own skin" as one says in German.

Were the British happy to be British? The answer must have generally been "yes". Blessed by its island status and its long, relatively untroubled history, Britons were and continue to be very proud to be British. Having run a global empire on which the sun never set helps too. No wonder that Gordon Brown, Chancellor of the Exchequer between 1997 and 2007 and then Prime Minister, was luring the electorate by proclaiming all his British virtues – how many German politicians would have gone out of their way to stress how German they were? None? What would the British media have said, had any German politician actually tried to do so? *The Nazis are back?*

This is one of the more fundamental differences between Germans and Britons. Until very recently, Germans mainly aspired to being "good Europeans", a concept completely alien to Britons. In return, Germans have always felt alienated by the British drive to defend national interests. 30 odd kilometres of water between Calais (France) and Dover (England) can make a world of difference.

The tyranny of "that'll do"

Germans have the reputation for being tidy and orderly and anecdotal evidence would suggest this is right: British high streets and houses look much more chaotic and messy than their German counterparts – surely reflecting the character traits of the people who frequent them or live in them. But could tidiness and orderliness merely be sub-characteristics of something bigger: being *gründlich* – thorough?

Germans go about their lives in a *thorough* way. When they build houses, they don't use double glazing anymore, they use triple glazing. When they design and build things such as cars, they design and build them with precision and thoroughness.

A not insubstantial number of German cars could easily cruise with total stability at close to 200mph (300km/h) – but for moral and environmental reasons German engineers limit them to 250km/h. Audi calls it *Vorsprung durch Technik*. There is a passion for doing things well and with precision – maybe this is still a reflection of Germany's engineering heritage. Put differently, Germans like to do things 100 per cent – or not at all. This black and white mentality was still a characteristic of Germans, though there were signs that they were becoming a little bit less extreme now too.

That being *gründlich* is not necessarily a good thing should be obvious too. Spain and Italy had their fascist dictators but none of them could compete in ambition and thoroughness with Adolf Hitler who unfortunately is one of the most well known Germans ever (even though everybody seems to know that he was born in Austria). With an unprecedented thoroughness he led Germany and the rest of the world into the abyss. When Germans go for it, they *really* go for it!

For some tasks and in some circumstances going all the way is desirable but there are other circumstances when it is not. It has been said that getting from 90 per cent to 100 per cent involves as much effort as getting to the first 90 per cent. So, is it necessarily worth it? Would 50 per cent in particular circumstances really not do the trick – especially if the alternative for many Germans would be zero per cent?

If Germans can be tediously *thorough*, then Britons can be annoyingly *sloppy*. While there are plenty of exceptions to this rule, many Britons are either unable to go or don't see the point going the extra mile: a job done is a job done, "that'll do" is the standard bearer and they are often thoroughly good at being mediocre. With expectations generally set quite low (the only exception seemingly being the English football team, which is always expected to win…) and equipped with a "can do" mentality (of which more later) no task is ever deemed to be too big. And because everybody behaves in this middling (muddling through) type of way, people generally seem to be content with this outcome.

As a result for most Britons the concept of home insulation goes about as far as painting vigorously their old-fashioned sash-windows until they become air tight – the fact that the windows can no longer be opened as a result due to all that sticky paint is a small price to pay. Luckily, Britons also invented "Blu tack", a rubbery adhesive with a million uses.[42] Originally probably invented to put posters and pictures on the wall without using nails, Britons use it to fix gutters, car panels or hold wallpaper up. There will probably be some Britons who will have built their whole house with Blu Tack.

This behaviour can go too far though, even for the generally stoic Britons: when in November 2007 the British tax authorities lost the personal and highly confidential details of nearly half the population (!), there was a national outcry. How could something like that happen? Surely the authorities could do better? The opposition parties wasted no time to call the government incompetent. But perhaps the problem was not limited to the government? Thomas Kielinger, UK correspondent for the German daily newspaper Die Welt, hit the nail when he argued: "Like every society, the British do pay a price for their best virtues. The flipside of their tolerance is negligence, sometimes pure sloppiness. Up to now society took the burden with their sense of humour, sometimes as sinner, sometimes as victim…"[43]

In fairness, being flexible and prepared to "muddle through" when necessary can be a real strength. Britons' generally more flexible approach to doing things might actually be an appropriate behaviour in many instances in a rapidly changing world, where new skills are always required and where old skills might become obsolete. The fact that Germans like certainty while spontaneity or improvisation is not their thing is probably one reason why they felt the strain of globalisation more than the British during that period.

As in most walks of life though, everything is best in moderation. It often feels as if demonstrating flexibility is the only approach available to Britons and whole strategies are based on the notion of flexibility, while meticulous planning is frowned upon. That such an attitude can backfire spectacularly can be seen by the debacle that was the opening of Heathrow Terminal 5 in March 2008, which in the eye of the media and the parliamentary transport select committee was a "national embarrassment".[44] Quite clearly both British

Airways and British Airport Authority (the airport's operator) thought that they could organise the move without too much effort – creativity and flexibility would see them through on the day and could be seen as perfect substitutes for planning and staff training. And as always in Britain those responsible for creating the mess more or less got away with it: nobody of any importance paid a price for the complete chaos that followed (e.g. BA's chairman Willy Walsh remained in office and proudly proclaimed that the opening had been a success), except obviously the paying customer who ended up sleeping on the terminal's floor and waiting for days without baggage. But the customer rarely mattered during those days in Britain.

Perhaps it is about time now to point to a major difference between Britons and Germans (and one which can help to explain why it is easier in Britain to get away with muddling through than in Germany): Britons quite obviously have an extremely high pain threshold before they start moaning; Germans, like the French or even US Americans, complain straight away. Regardless how crappy a service or how pathetic the excuse; Britons stoically smile and just swallow their pride. To quote "Ania": "I'm English and I wouldn't ask someone to turn their headphones down. We're not scared, just well-mannered".[45] How pathetic is that? Britons pay a high price for their inability to complain: they generally have to make do with lousy quality or excessive prices. Excessive prices AND lousy quality is a British tradition; we come to that later. By contrast, Germans miss no opportunity to complain, putting immense pressure on the suppliers of goods and services (be it in the private or public sector) to deliver. Complaining is a national pastime in Germany. But Germans pay a price for that too: perhaps it is not worth complaining about everything all the time – isn't life just too short for this?

It is fascinating to speculate why Britons still could not complain. Admittedly they were better at it in the mid 2000s than in the mid 1990s, but they still rather preferred to bite their lips or tongues in a restaurant, shop or anywhere else really than to say what they might have wanted to say, for example complain about lousy service or products. What was it? Was it that despite all the increases in materialistic well-being and tendencies towards hedonism Britons remained ultimately a reserved bunch of people, which found it difficult to engage with others or worse still confront others? Was it the same reason why Britons appeared to have a problem with binge drinking? Could they not enjoy themselves and the company of others (god forbid: of the opposite sex) without being drunk?

If for Britons keeping dignity required shutting up in adverse circumstances and/or when being challenged; then Germans kept their dignity by standing up for their own rights and – if necessary – by shouting.

Being intellectual is not funny

Britons are probably on average as intelligent and educated as the Germans, but intellectual they are not. Far from it! Britain has a long tradition of anti-intellectualism,[46] with highly-educated academics more likely to talk about football in a pub than about the future of renewable energies in a coffee house. Perhaps it is still a sign of the class system not to talk about intellectual or academic achievements and for many people to look down on others who have advanced themselves through education. Whatever, it is generally seen as un-cool when someone behaves in an intellectual way in public – it is just too boring and too offensive for those who have to listen to it.

That this anti-intellectualism can take on the most bizarre forms can be vouched for by Graeme Le Saux, a successful if haunted England football player. Le Saux's error of judgement was to read the Guardian – a slightly centre-left quality newspaper, which had no specialisation in showing naked women. As he states: "*…for much of my career, reading The Guardian was used as one of the most powerful symbols of how I was supposed to be weirdly different. Pathetic, really. It gave substance to the gossip that I was homosexual: Guardian reader equals gay boy. Some people really thought that added up…*"[47]

By contrast, Germans enjoy behaving intellectually (they might even be it) discussing important issues. The pros and cons of the EU constitution? Not too big a topic for a small talk at a dinner party. Not for nothing did Mike Myers impersonate a German intellectual, Dieter, in the US comedy show Saturday Night Live in the 1980s. Talk shows make this point nicely: while the vast majority of German shows discusses "important" issues ranging from the threat to world peace from US/Russian aggressions to saving whales in the

South Pacific, their British counterparts are mainly purely for entertainment. Rather than having "serious" "experts" and politicians as guests, British talk shows have Hollywood stars, girlfriends of English footballers and anyone else who has made it on the front cover of a celebrity magazine. Chit chat is what follows. For Germans the British therefore often appear rather shallow (but also eccentric and entertaining), while for Britons Germans often are tediously boring (and nothing else).

So, if intelligent and educated Germans show off by being intellectual, what do Britons do to impress? With Britons having no desire being seen as intellectual themselves, they must find another way; and they have. Britons show off their intelligence and often even their educational background by being quick witted - the foundation for their famous British sense of humour. It should come as no surprise that many famous comedians have public-school (in other words private school…) backgrounds and many of them have also gone to Oxford or Cambridge to university (for example, much of Monty Python met first at Cambridge). Sharpened by their participation in university debating societies, parts of British society is incredibly quick witted; delivery and timing is key. Some of them make it into comedy; others using the same talent become members of the mother of all parliaments: Westminster. Watching Prime Minister's Question time – the weekly question and answer show (sorry session) in parliament – is like following a cross between a university debating club and a stand-up comedy competition. Even the former German chancellor Gerhard Schröder, who was loved for his eloquent and smooth style in the German Bundestag and who was relatively quick witted for German standards, would have had no chance in Westminster. So if for Germans content matters, it is the delivery and packaging for Britons. See Box 1 for more on humour around the world.

Box 1: Humour around the world

Who is the odd one out? Britons or Germans? Britons are world famous for their sense of humour and Germans, at least in Britain, are perceived to be humourless. But then again, Britons wouldn't say that the French, Italians, Swedes or Spaniards or anyone else really are any funnier than the Germans. Britons even look down on their own former colonies such as the United States, Australia or New Zealand. It seems as if the British sense of humour, just like a good wine or whiskey, does not travel well. Perhaps Britons are right: plenty of Germans settled in the United States too, making it impossible for Americans to have a sense of irony now, while too many Italians and Greeks moved to Australia (not that the first wave of Britons "settling" in Australia would have had a great sense of humour or much to laugh about: they were after all criminals and other convicts). And it is difficult to imagine that many Oxbridge-educated upper class Britons were among the first wave of settlers in New Zealand, removing the biggest source of potentially "funny" people.

Thoroughness and a tendency towards intellectualism lend themselves to over-analysis, reflection and ideology. No issue is small enough to be analysed *ad infinitum* – no wonder that most Germans are *Bedenkenträger*. Germany is also home to some of the greatest ideologists the world has ever seen – Karl Marx being one of them, though he spent most of his professional career in fact in London in the library of the British museum. It is perhaps unfortunate that Germans tend to focus on the negatives so much more than on the positives (the glass is half empty…) because in principle being able to analyse and reflect on oneself is a real strength. If only Germans could reflect as well on their strong points as on their weaknesses! They might overall be a much happier and perhaps even more successful society…

Where do Germans have this ability from? Is it because Germany really is the *Land der Dichter und Denker*, is it because Sigmund Freud, founder of the psychoanalytic school of psychology, was if not from Germany but at least from a German-speaking country or is it perhaps because Germans could do little else but reflect on themselves after the horrors of the 2nd World War? Whatever the answer, what is clear is that Britons seem to be less able to reflect on themselves and as a result cannot benefit from useful reality checks from time to time. For example, Britons would probably do well to realise that the fabled "special relationship" with the United States is perhaps not that special after all – as is demonstrated on a day to day basis.

Soziale Gerechtigkeit for all: keeping up with the Joneses

A glance at a German newspaper or watching German news revealed just how strongly Germans continued to believe in ideology. Political debates were still held in dramatic ideological terms, with the political left and right throwing concepts such as *Neoliberalismus* or *Soziale Gerechtigkeit* at each other. While Germans have always considered themselves to be egalitarian, Germany's *Zeitgeist* over the period in question was particularly strongly shaped by a longing for *soziale Gerechtigkeit* – perhaps reflecting the fact that their way of life had come under increasing strain.

It is not that Britons did not want social justice but they seemed to mean something quite different by it. While *soziale Gerechtigkeit* appeared to be all about levelling social differences by bringing everybody *down* to the lowest common denominator, Britons were much more driven by a "keeping up with the Joneses" attitude. Keeping up with the Joneses is about matching or even exceeding what others have achieved or accumulated. If your neighbours had a brand new car, then it was your turn to buy a similar car or preferably something even fancier and more expensive still. After all, you were worth it. Keeping up with the Joneses can be seen as one of the driving forces of consumerism – there is always more to be had materially.[48] Trying to outdo the Joneses, especially in the housing market (of that later) very much shaped the British *Zeitgeist* in the first few years of the new century.

But one can think about it in more positive terms as well: at least in trying to match or exceed someone else there was the aspiration to do better yourself – it was at least on paper a drive *upwards*. Britain's "I can" mentality around the turn of the century was very much reflected in this. Germans also wanted to be as well off as their richer neighbours but rather than aspiring to get to their levels, they tried hard to bring their neighbours, let us call them the Schmidts, down to their own lower standards. If I can't, why should anybody else can? This attitude reflects a nastier aspect of the German character: envy. With the exception of sport stars, TV celebrities or lottery winners, wealth is generally looked down on and sometimes even despised. While envy is one of the seven deadly sins and as such exists in every culture, it is still surprising how strong the *Neidkultur* (culture of envy) is in a country as rich and wealthy as Germany.[49]

The reality in Britain was obviously that for large parts of society their aspiration to do better would remain just that: an aspiration. Without substantial government redistribution over that period (and before), income inequalities would have steadily increased.[50] Even with government transfers, inequalities were some of the highest in the developed world and a sizeable minority had been left behind and had grown increasingly detached from normal society. They were definitely not keeping up with the Joneses. Many others tried to keep up with the neighbours by borrowing ever more, either unsecured or against the seemingly ever increasing value of their property, ignoring the very real possibility that the Joneses financed their own lavish lifestyle with debt too.

One cannot sometimes get away from the impression that Germany was the last country remaining on earth (with the possible exception of France) where the general public still discussed the pros and cons of communism or socialism. People in Cuba or North Korea might had to endure dictatorships attached to these concepts but only in Germany (and perhaps France) people seriously still talked about these concepts as feasible or even desirable social models. Even communist China had stopped dreaming this particular dream. The German black and white mentality still shone through. Unfortunately for Germans, all this talk of *soziale Gerechtigkeit* was not delivering results either, with social divisions and inequality also on the increase (though probably by less than in Britain and the west/east divide was a special case anyway), leading to the so-called *Eindrittel/Zweidrittelgesellschaft*. For example, in Germany the family background was particularly important for educational attainment – hardly a socially mobile society.[51] At this very moment Germans are working hard developing new ideologies to change this in the future.

Wouldn't it be refreshing if Germans shifted some of their political attention away from ideological mud slinging to pragmatic problem solving; something they are pretty good at otherwise? Wouldn't this make everybody better off?

By contrast, Britain moved to a post-ideological world many years ago. Margaret Thatcher is long gone. Governments were no longer judged on their ideologies but whether they were competent to run the country: what matters were not big visions but day-to-day pragmatism to deal with the problems[52] of the day. Under Tony Blair as Prime Minister, New Labour pursued a "third way" of politics, with *left* and *right* ideologies both replaced by *what works;* pragmatism itself was lifted to an ideology. Critical commentators argued that New Labour was hardly pragmatic, they merely muddled through. When Gordon Brown replaced Tony Blair as Prime Minister in 2007 he desperately looked for a long-term vision, which would rise above the "muddling through". Unfortunately he failed to find one. Fortunately though for him the global economic crisis erupted in 2008 and he could throw all his energy and "vision" at solving the world's problems.

When Blair and Schröder came to power in the late 1990s, they were initially close buddies. They had new joint ideas for social democracy and Germany had its own *Dritter Weg*.[53] But it didn't take long for Germans to lose interest in the "new" approach and within a few years the "third way" was thoroughly discredited. Maybe merely running a country competently wasn't enough for Germans? After all trains ran on times, hospitals were clean and safe to enter without risking your life, and the water companies delivered their precious water to households without losing most of it along the way through leaking pipes – basics, which could not be guaranteed in Britain.

I can versus I can't

In his resignation speech in May 2007 the then prime minister, Tony Blair, argued that Britain in 2007 was much more at ease with itself than it had been ten years earlier, when he started his premiership. Rather than looking backwards all the time, people also looked forward now.[54] That Britain was *more at ease* was probably not a bad assessment. The Financial Times emphasised something slightly different: "In a nutshell, if Margaret Thatcher encouraged Britons to be more individualistic, consumerist and aspirational, Mr Blair has allowed us to feel less ashamed about it."[55] This was another good assessment. One could go further than that and argue that many Britons had become positively hedonistic in their outlook on life and that their understated *feine britische Art* had been replaced by a *nouveau riche*, rather in-your-face behaviour at the beginning of the 21st century.

What had happened? It seemed as if the labour market had empowered a previously unheard of number of people to make their own career decisions and had given them the feeling that they were in charge of their own destiny, giving many people a self confidence they just did not have in the past. Related, huge house price increases must also have played their part, making many people – at least on paper - wealthy without actually having worked too hard for it. The UK definitely left behind its status of the "sick man of Europe", which the UK had to endure during the 1970s and 1980s, handing it over to Germany for the first few years of this century (at least as perceived by the British media), which then apparently handed over the baton to France and Italy. A strong economy and an even stronger housing market also moved Britons to the top of the international pecking order too, allowing them to buy properties in Spain, France, Greece, Florida and elsewhere too. And while some pockets continued to exist in society, which were ashamed of the fact that the whole world spoke English while the English spoke nothing but English, the majority considered this to be a godsend. Why bother dealing with the French in France in French when you can equally SHOUT at them in English? Enrolment in foreign language classes in schools was at an all-time low, which is a shame, not only because being able to speak a foreign language is so life enriching that its benefits cannot even be measured in monetary terms.

This self-confidence also manifested itself in an "I can" attitude, which New Labour politician, David Miliband, correctly pointed out as a feature of the British *Zeitgeist* at the beginning of the 21st century.[56] Was the "I can" mentality the result of the strong economy or was it the other way round? What came first? The chicken or the egg? But where there was light, there was also shade. Britons are arguably more individualistic than Germans, and their way of life is often described as "live and let live". Starting already in the late 1990s, this live and let live mentality entrenched itself increasingly. What in the past might have been tolerance came suddenly across as arrogance and brash self-centredness. And with everything now within reach of everyone, why bother making much of an effort? British comedian, Catherine Tate, captured this *Zeitgeist* with her fictional teenager character Lauren well who constantly asked "*Am I bovvered*?" The compilers of the Oxford English Dictionary (OED) included the phrase in their dictionary and made it phrase of the year in

2006, arguing that it captured a generation of teenagers and their style.[57] Perhaps the significance of this phrase goes beyond that identified by the OED though as it captured not only a generation of teenagers but also arguably a general attitude in Britain at the beginning of this century. Chapter V alludes to this particular strand of attitude by putting it into the economic context.

Some doubted that this can go on forever. Larry Elliott and Dan Atkinson, two economic journalists working for the Guardian and the Mail on Sunday respectively, argued in a successful book called *Fantasy Island* that the UK was living well beyond its means, and that its excesses were financed by unsustainable debt burdens.[58]

While David Miliband was in tune with the British "I can" generation, German politicians were arguably for much of the time fully in tune with the German "I can't" generation. Germans went through their own phases of *nouveau riche* in the past - the term *Ellenbogengesellschaft* (elbow society) does not come from nowhere, though it better characterises the consumerist 1980s and first half of the 1990s - but the first few years of the new millennium were very austere, with Germans practising a *Neue Bescheidenheit* (new modesty) and many Germans even appearing *gedemütigt* (humiliated). What came first: the economic slow down or the "I can't" mentality? What came first: the chicken or the egg?

With Germans already naturally inclined towards doom and gloom, the disappointing economic news in the first few years of the new century created a *Weltuntergangsstimmung* - a sentiment that the end of the world was nigh. And as if ever increasing unemployment rates were not enough to lead Germans to have more and more *Selbstzweifel* (doubt of yourself), news that the country's education system was at most average really did the rest. How could the country of philosophers and thinkers fail to educate its own children?! For five or more long years the national media basically only reported new economic horror stories – thereby exasperating the downbeat economic climate - and it became very *uncool* to say anything positive about Germany.

The *Zeitgeist* was well captured by the *Geiz ist geil* advertising campaign, which lifted meanness to a cult status, and Sabine Christiansen. Having made a career as the anchorwoman for the nightly flagship news programme on German state TV channel ARD, she moved on to present her own political talk show called, not very creatively, Sabine Christiansen. According to her own webpage back then her show was during its time Germany's most influential and watched discussion forum on television. This means a lot in a country that is obsessed with (political) talk shows. Dressed beautifully and with golden blond hair, sitting in an elegant and modern studio, Sabine Christiansen took every opportunity to promote herself, interviewing Germany's "elite" across the professions and providing with her show an endless analysis by so-called "experts" and politicians of what was wrong with Germany.

When she announced in 2006 to step down from her television throne, Der Spiegel called her "Queen Blabla" who was a *Kassandra der Jammerkultur* (cassandra of the misery/wretchedness culture).[59] For millions of Germans though, her show was the main source of political information and opinion on Germany's state of mind and affairs for close to ten years. No wonder that people got depressed and considered emigrating.

Anyone from abroad following the national media would have thought that it was covering some failed state in sub-Saharan Africa rather than one of the most modern, well-functioning countries in the world. Yes, employment rates were too low and unemployment too high but for the majority of people the quality of life remained high - no doubt. With the German media reporting so negatively about the country, it was no wonder that most international news agencies started reporting similar things. It took the 2006 Football World Cup for a more representative image to emerge, with the international media reporting overwhelmingly positively about Germany, how Germans lived and how friendly and exciting their cities were. Granted, Germany has many problems they argued - but doesn't every country have its own problems and challenges? It is not as if the United States, for example, had all its short-, medium- and long-term challenges licked, had it? It felt as if all these *Selbstzweifel* paralysed a whole society – "it is not possible" became the mantra of the times.

I am not a celebrity: get me out of here!!!

How far could an "I can" attitude take you in modern Britain? For many children and youngsters there was only one answer: all the way to stardom and the lifestyle of a celebrity. Becoming a celebrity became one of the main aspirations young Britons had; and why not? Day after day new "celebrities" were being created by having participated in some "reality" show or by having had sex (or claiming to have had sex) with someone actually famous or just about nearly famous.

While Germany was struggling over the first few years of the new millennium to create or even maintain employment opportunities for those with skills, over the same period career opportunities for those without any skills seemed to increase by more than for any other part of society in Britain. Young, stupid, uneducated and brash? No reason to be pulled down by this; why not turn this into your own unique (or maybe not so unique) selling point and make a career as a celebrity? Helped by an apparently insatiable demand, the celebrity culture boomed and boomed.

One of the more bizarre examples in an already bizarre world must have been Chantelle Preston who joined a Celebrity Big Brother house in 2006 as the only non-celebrity. The programme's organisers had a cunning plan: if Chantelle could convince the other real "celebrities" that she was also a "celebrity", then she could stay on in the house. Chantelle was so desperate to become a "celebrity" herself that she did an excellent job – and eventually even won the programme, becoming a "celebrity". Jordan, a.k.a. Katie Price, was an equally famous case of "celebrity" culture gone mad – and was known in Germany too. That there were no limits to the absurdity of the British celebrity culture should be clear to anyone. How could it otherwise be explained that not only "celebrity" chef Gordon Ramsey published recipe books (which, given his profession, might even make sense) but also his wife? Or what was the point of soap star Adele Silva of Emmerdale fame producing "celebrity" wine, to be sold by Asda, one of the biggest supermarket chains in the UK? Who bought this stuff? How long would it take until Gordon Ramsey's neighbour from across the road to publish his/her first recipe book, perhaps called "Neighbourhood cooking"? It was mind boggling.[60]

For every German national *Schlagerstar* there was a British world star, mixing it with the Hollywood A list. British actors and actresses such as Hugh Grant, Catherine Zeta-Jones and Sean Connery, and musicians such as Elton John, the Rolling Stones or Take That (with or without Robbie Williams) were right up there globally and most of them are very well known in Germany too. By contrast, the number of German contemporary musicians and actors known in the UK (and indeed the wider world) was very limited. The same went for football players: for every German Ballack (playing in London) there was one English Beckham (playing in Los Angeles), earning a multiple in salary and advertising income. German readers of this book might disagree with this but just open a

German lifestyle magazine or watch a German high-society programme on TV from that period and see who got covered. Franz Beckenbauer and Boris Becker made it into the limelight from time to time and there was still the odd mention of Claudia Schiffer but the rest were either US American or British imports. Germans knew as much about the love-life of Kate Moss, David Beckham or Jude Law as any Briton did. And the Diana, Princess of hearts, cult appeared to be as much alive in Germany as it was in Britain – and this ten years after she died. Germany really didn't have any world-beating *promis*.

It is unlikely that the British were intrinsically better actors and very clearly not the case that they were better footballers, so what was going on? Greater marketability and language will have played a major role in that: while British actors and other celebrities could easily mix with their American counterparts, Germans could not. What would the film *Notting Hill* have been without Julia Roberts? Can anyone imagine Julia Roberts playing in a popular German film, perhaps based in Berlin?

Language must have also been a major reason why so many American and other stars lived in London. While Berlin could claim to be home to a handful of German "stars", London could claim to be home (at least part of the year) to such mega stars as Madonna, Gwyneth Paltrow or Kylie Minogue among many others. It was no surprise then that London newspapers were full of celebrity news involving global mega stars on a daily basis, reporting on the “A-list events” of the previous night.

Football was big business in Germany and the UK but while the former played arguably better football (at least they got further in international competitions), the money was in the English premier league, partly as a result of substantial international involvement (Chelsea FC’s Russian billionaire owner Roman Abramovich comes to mind). So, for example, while Bayern had its loyal fan base in Germany and perhaps some other European countries, Man U or other English clubs such as Liverpool or Chelsea had become global brands, with merchandise being sold as far away as China. This customer base propelled English players in the financial super league and projected their image globally.

Interestingly, some observers suggested that the unstoppable rise of the celebrity culture was not a sign that society overall was becoming more stupid but rather the opposite: apparently we were becoming more and more sophisticated and celebrities were merely highly-paid modern-day village idiots.[61] If this was indeed true, then Britons must have loved their village idiots very dearly.

It is remarkable how influential celebrities were in Britain during those years: while in Germany people read about them in the magazines and thought some of their behaviours funny, in Britain plenty of people really took a cue from celebrities on how to live their lives: any product endorsed by a celebrity would see a surge in demand – including the humble woollen cardigan, which shot to fashion status because David Beckham was seen wearing it[62] or the bizarrely ugly UGG boot made out of sheepskin, which received Kate Moss's seal of approval and hence inevitably had to become a major fashion item. It felt as if Britons were too insecure about their own tastes and needed the comforting endorsement from a celebrity: *if a star uses it, then it must be good*. Germans, by contrast, were careful not to put anyone on the super status pedestal – history probably taught them that this was not a good idea.

But perhaps the unstoppable rise of celebrity culture was merely a manifestation of a wider trend towards marketing, packaging and hype – often at the cost of content (function follows form). When fashion retailer H&M launched a Stella McCartney fashion range in 2006, wild hordes of British shoppers starting queuing up the night before to fight it out. Not surprisingly, the whole stock was sold out within a few hours. The same range was still hanging on the rails in German H&M shops weeks later. Perhaps Tony Blair managed to hang on to his job of prime minister for ten years because he understood this *Zeitgeist* too. While the general public complained that New Labour was "all spin", in many ways it merely did what everybody else did too: packaging. And Alastair Campbell – who can take the credit for initiating this book in the first place – was the grand spin*meister* who will go down in history for "sexing up" crucial dossiers on Iraq's (non-existing) arsenal of weapons of mass destruction.

The celebrity culture (*Promi Kultur*) went so far that it even affected international relations: when in early 2007 a former Big Brother winner, Jane Goody, made racist remarks in a Celebrity Big Brother Series to an Indian *Bollywood* star, Gordon Brown, then the Chancellor of the Exchequer and by mid 2007 the British Prime Minister, was not impressed by any of that. The race scandal broke while he was on a state visit to India and rather than talking about his then two favourite topics (poverty reduction in developing countries and climate change), he was forced to comment on Big Brother live on Indian TV, apologising for his countrymen back home and making the point that Britain *was* generally a fair and non-racial society.

Back home, the general public was outraged (or at least claimed to be outraged) about Goody's comments. Some, however, pointed to a much bigger problem: that someone like Jane Goody – dim and loud by any standards, could have become a national hero in the first place, worshipped by millions of people. Jane Goody demonstrated that by being loud and by being shamelessly proud of one's complete ignorance of most things, one can become rich and famous. Why get an education when you can make millions this quick by being stupid?

For all his faults, Gordon Brown was not a celebrity. Making his pitch for the top job of prime minister in government, it was perhaps not surprising that in April 2007 he claimed that Britain was getting tired of the celebrity culture and instead wanted serious people to make serious decisions on serious topics.[63] Unfortunately for Mr Brown with his serious and austere personality, this was wishful thinking.

Smile: you are on camera or: 1984 finally arrived

"Reality" television and an increasingly hedonistic lifestyle characterised Britain in the first few years of the new millennium. However, one did not have to enter the Big Brother house or any other "reality" television programme to be caught on camera – just walking down your average high street would have sufficed.

The more or less unchallenged explosion in the number of closed-circuit television (CCTV) cameras across the UK was a remarkable but little commented-on development over those years. According to some sources, London – and not Pyongyang or any other capital of a totalitarian state – had become the most monitored and controlled space in the world. This fact appeared to be difficult to reconcile with the famous "live and let live" mentality that had so characterised the UK in the past. One explanation brought forward was that large parts of society actually did not feel the need for privacy anymore as they used to. Millions of people watched Big Brother and other reality shows, discussed their most intimate moments on the mobile telephone in packed public spaces and actively presented themselves on the web on youtube, facebook etc.[64] Why worry about CCTV then?

Coming from practically zero in the mid to late 1990s, the number of CCTV cameras reached around 1 million by 2001 and then exploded to 4 million by mid decade – meaning that there was one camera for every 16 people living in the UK. According to Liberty, a British human rights group, if you happened to live in London, you were likely to get caught around 300 times a day.[65] Assuming (perhaps unrealistically by now) that one does not get filmed while sleeping your average 7 hours in your own bed, this meant that the average person got caught on camera around 18 times per hour in the remaining 17 hours in your day – or about every three minutes.

These cameras were used by government to monitor public spaces such as roads, by private operators of shopping centres and other businesses to look after their premises, and by households to frighten off potential burglars. They were everywhere. Any remaining doubts regarding the usefulness of CCTV were swept away in 2005 when the police was able to paste together a picture of who committed the terrorist bombings in London using CCTV footage. The end did seem to justify the means.[66]

But questions remain: if the usefulness of CCTV were so obvious, why were they not as aggressively promoted in other countries as in Britain? And why did every street corner, including in some sleepy suburb, need to have them now? It appeared as if new technologies needed to fill in where society no longer worked in Britain and ever more fancy technology was being developed: one development was apparently to introduce inter-active cameras, which responded to individual behaviours. If the camera detected someone throwing some rubbish on the street, the loudspeakers would shout “Oi you!”.[67]

It seemed that technology was increasingly doing what humans used to do. See some young guy vandalising a bus shelter? There used to be a time when other people would have told that guy to stop but these times were long over. According to IPPR, most Britons would no longer challenge inappropriate behaviour (especially of younger people), with the majority of people arguing that this would be far too dangerous to do.[68] There were far too many stories in the newspapers of men (and women) being shot, knifed or beaten to death for politely asking others to, for example, stop smoking. Either the actual or perceived risk was just too high.

The same research showed that Germans were more likely to challenge inappropriate behaviour – perhaps reflecting the fact that they generally did not subscribe to the same notion of “live and let live” as the British – though obviously there were limits to that too. Random individuals had no problem telling off others if they thought that their behaviour was unacceptable, whether this was in a public space, on the train or just crossing the road when the traffic light was on red (which is illegal in Germany). It seemed that to a certain degree society still managed to impose social order onto individuals.

If CCTV were not enough, the British government also pushed for the longest detention period without charge seen in the western world and started to build the world's largest DNA database, at least if measured relative to the population size, to keep an ever closer eye on its citizens.[69] The European Court of Human Rights argued that this was breaching human rights, forcing the government to at least partly back down from its ambitious plans. It all seemed as if the British government had written itself a massive blank cheque to push back civil liberties on the back of a real or perceived terrorist threat.

It was not that German authorities were not keen to keep a closer eye on its citizens – both British and German authorities for example started using remote-controlled drones in 2007 to monitor crowds at music festivals or football matches[70] - but it did appear as if the German general public was more alive to these issues and vigorously fought – perhaps as a reflection of the country's Stasi and Nazi past - the onslaught of the *Überwachungsstaat* (surveillance state). The 2007 film *Das Leben der Anderen* (The lives of others) powerfully illustrated life in a totalitarian regime and was a major hit in Germany and in Britain – it is unlikely that a similar film could have originated from Britain. By contrast, Britons either didn't realise what was going on or – complacently – just shrugged their shoulders over that period and sleep-walked into a surveillance state.[71]

IV. Of Scotsmen and Bavarians

"[I] believe[s] firmly that the Scottish Parliament will grow in power and that Scotland will be independent within [my] lifetime" Sir Sean Connery

"…18 years after the fall of the wall, many Germans still wish that the "turning" [unification] had never happened. 21 per cent wish that the wall and border controls could come back…The response to the survey shows that there are no significant differences between the citizens of Western and Eastern Germany…"(Forsa Institut, November 2007)[72]

Revolution: devolution!

They might be small islands in the stormy and cold North Atlantic, but quite obviously this does not mean that the citizens of the British Isles feel the need to cuddle up together. In fact, the opposite is true: the Welsh and the Scots thoroughly dislike their bigger and bullying neighbour England, and didn't really feel like entering a union with England all those centuries ago in the first place.

At the beginning of the new decade, it seemed as if the century-old centralising forces had weakened sufficiently and that the time was ripe for the Scots to challenge this *status quo* and follow in the footsteps of the Irish people who fought for independence from England at the beginning of the last century. In 1922 the majority of Irish counties seceded from the United Kingdom to create their own independent state, with only six counties in the north of the island – Northern Ireland - remaining part of the United Kingdom. The ensuing conflict in Northern Ireland cost thousands of lives and the IRA (Irish Republican Army) became a synonym for terror. However, after all those decades, republicans and unionists stopped killing each other and there was hope that a lasting peace settlement had been found for the "province". Some people say that the so-called "Good Friday agreement", which led to this settlement, was one of the few really positive legacies of the "Blair years".

The Scots might not be as violent as the Irish but this did not mean that they were much happier about the state of affairs. In fact they were in no mood in 2007 to celebrate in any way the bicentenary of the union between Scotland and England – if anything the anniversary was a further catalyst to pursue devolution vigorously and aim for full independence from London eventually. They took the first step in this direction in 1998 with the Scotland Act 1998, which established a Scottish parliament (executive) in Edinburgh.

The *Zeitgeist* south of the border in England was not much better: for quite different reasons the English became increasingly resentful of the Scottish people in general and a ruling class of Scottish Labour politicians in London, headed by Gordon Brown, in particular: while representing only around five out of 60 million citizens in the UK, for most of New Labour's reign generally three or four members of a cabinet of around 20 represented Scottish constituencies.

A poll in November 2006[73] showed that of those asked in England, nearly 60 per cent approved to the question "Should Scotland become an independent state?", while nearly half approved to the question "Should England become independent of Scotland, Wales and Northern Ireland?". The picture was similar in Scotland, where the approval ratings were 52 and 45 per cent respectively. This sentiment also shaped people's views regarding the future of the British Parliament, with around two-thirds of those in England in favour of an English parliament rather than the *status quo*, in other words a parliament in which Scottish Members of Parliament can vote on English law.

In early May 2007 Scotland voted for a new parliament. With the slightest of majorities, the Scottish National Party (SNP) ended up fielding the First Minister; Scotland's equivalent to the British Prime Minister. Alex Salmond, the new first minister, is a ferocious independent who wanted to see an end to the long union with England and replace it with an independent and strong Scotland. While not everybody who voted for Mr Salmond and his party was automatically in favour of independence, Mr Salmond believed he had enough of a mandate to push the issue and prepare the Scottish electorate for a referendum in the future.

It is not that Mr Salmond was the only Scot who was campaigning for independence: a number of leading businessmen came out in favour of independence but perhaps the most famous supporter was Sean Connery alias James Bond. As he states on his own website: "*Throughout his life, Sir Sean Connery has been an ardent supporter of Scotland. While it is generally accepted that his support of Scotland's independence and the Scottish National Party delayed his knighthood for many years, his commitment to Scotland has never wavered. Politics in the United Kingdom often has more intrigue than a James Bond plot. While Scotland is not yet independent, she does have a new parliament. Sir Sean campaigned hard for the yes vote during the Scottish Referendum that created the new Scottish Parliament. He believes firmly that the Scottish Parliament will grow in power and that Scotland will be independent within his lifetime.*"[74]

The Scots were rather clever: while Britons collectively looked suspiciously towards Brussels to spot any European policy development, which could lead or at least be perceived to lead to more devolution of political powers to Brussels (and which therefore would have to be fought trench line by trench line to the bitter end), the Scottish Executive quietly went on with its business of wrangling power from London. When the then newly-elected prime-minister Tony Blair championed for devolution in 1997, arguing that it would "*show the whole of the United Kingdom that there is a better way that Britain can be governed, that we can bring power closer to the people, closer to the people's priorities and that we can give Scotland the ability to be a proud nation within the United Kingdom*"[75] he probably did not have in mind that Scotland, once given the opportunity, might want to go all the way and leave the union (neither did he expect that a grumpy Scot, Gordon Brown, would breath down his neck for the next ten years). What English politicians and the general public were not realising at that stage was that the Scots were perhaps winning by stealth: step by step, the Scottish Executive ensured that new British legislation reflected its own views, something that was surprisingly easy to do as it had previously gained a veto right on many policy developments. Gradually British politicians were realising just how much more difficult it was to negotiate and pass legislation under these circumstances. Maybe they should have consulted their German counterparts and asked them how they were (not) getting on in a devolved political structure? Over time this strategy might lead Scotland to become *de facto* if not officially independent. How difficult will it then be to make the final step? Only time will tell whether the forces that made the UK one of the most centralised countries in the developed world can eventually be overcome.[76]

As is so often the case when there are relationship problems, one major reason was money. Less than a third of the people asked in England thought that higher per-capita public spending in Scotland could be justified (not surprisingly the majority of Scots thought the opposite). Public-sector spending was on some measure around 20 per cent higher per person in Scotland than in England.[77] Perhaps the Scots are not as stingy as their reputation would suggest? This additional spending was financed mainly by a transfer from the south to the north of the Scottish-English border, leaving the English rather unimpressed. They were also not impressed when the new

Scottish parliament building in Edinburgh became famous not only for its spectacular architecture but also for its equally spectacular cost overrun: what started with a £40m estimate in 1997, ended up costing nearly £450m. Ouch.

This controversy has a long history: in the 1970s the Scots argued that the English were using *their* oil revenues, which flowed as a result of the oil finds off the Scottish East Coast. Over the following two decades the story turned around, with London arguing that it paid substantially more taxes than it got back from government. The regions, in turn, did not accept that view, arguing that London could only have been as successful as it was by exploiting the rest of the country.

Perhaps the rich but exploited Londoners should put their blight into some context. Since 1995 Germans (west and east) have had the pleasure to pay an additional 5½ per cent of their income tax and capital gains tax in the form of the *Solidaritätszuschlag* (solidarity top up) to finance the reconstruction of the eastern states.[78] In the euphoria of German unification in the early 1990s then chancellor Helmut Kohl promised that within a few years, eastern Germany would be full of *blühende Landschaften* (blossoming landscapes). Helmut Kohl probably was carried away by the events unfolding around him when he made this promise, but Germans stuck to his vision and tried to make it reality. It has been an expensive experience to this day and many Westerners feel that they have never really been asked or at least thanked for all the financial sacrifices that they have made over the years. Many Westerners have also never been to the east to find out what their money has been spent on.

While it is clear that the eastern states required substantial transfers from the western states to get going, it has since then been argued that much of the money had been wasted. Even more severe is probably the criticism that the transfer had made the eastern states reliant on western support and that this dependence had actually been bad for eastern development. There is clearly a parallel to the *mezzogiorno* in Italy. What was meant as a temporary arrangement to deal with a particular problem seemed to have become a permanent arrangement, which had become part of the problem.[79] It is interesting to note that a similar argument has been made about the Scottish dependence on financial transfers from central government based in London.[80]

The infamous West Lothian question

Whitehall has given the Scottish parliament significantly more power than its Welsh or Northern Irish counterparts. Scottish members of parliament have substantial say on issues such as education, health and long-term care. For money, they still relied on Whitehall though. This posed the *small* problem in the sense that the Scottish Executive promised far more generous education, health and long-term care policies than offered south of the border. Again, the English were not impressed. Maybe the Scots were merely trying to annoy the English so much that they would just be happy to let them go eventually?

With there being Northern Irish, Welsh and Scottish parliaments, surely the 50 million English – representing around 85 per cent of the total UK population - will have an English parliament? Not so, the English are only represented in the UK parliament in Whitehall. This was not a major issue in the past but devolution has kicked started a process with an unpredictable outcome. The problem is the following: How come that the Scottish parliament can vote on Scottish issues, in which the English have absolutely no say, while Scottish members of the UK parliament can happily vote on British issues, which by their nature (50 million of the 60 million Britons are English) are generally English issues? David Cameron, who became leader of the opposition Conservative Party in 2005, started to push this issue, hinting that a Conservative government might create an English parliament.

This asymmetry is so interesting, it even has a name. It is called the "West Lothian question", named after the then Labour MP for the Scottish West Lothian constituency, Tam Dalyell, who asked in 1977 during a House of Commons debate: "*For how long will English constituencies and English Honourable members tolerate... at least 119 Honourable Members from Scotland, Wales and Northern Ireland exercising an important, and probably often decisive, effect on British politics while they themselves have no say in the same matters in Scotland, Wales and Northern Ireland?*". To make his point Mr Dalyell asked how it was possible for the Member of the UK Parliament for West Lothian being able to vote on matters affecting West

Bromwich (a town in the Midlands) but not his own constituency of West Lothian?

During Labour's reign, this issue became more prominent. For example, John Reid used to head the Department of Health and then the Home Office until Tony Blair's resignation as prime minister in June 2007. Both of these departments only had power in England, Wales and Northern Ireland but not Scotland. However, John Reid was at this stage a Scottish member of the UK Parliament, so his constituents were in Scotland. So Mr Reid was accountable to Scottish citizens on policies that covered only England, Wales and Northern Ireland. The Scottish Executive was responsible for health and home affairs issues for Scotland. Very confusing, not very democratic and it is easily imaginable that it could lead to resentment.

What appears clear is that the British government did not think through the implications when it embarked on its process of devolution. To address the issues, a number of suggestions have been made. First, and perhaps most obvious, it has been suggested that England should have its own parliament. Going one step further, maybe the English regions (such as the North East) should have parliaments too? More people live in any of these regions than in Scotland or Wales, so this could perhaps be justified. And as the figures quoted above show, there seems to be some popular support for such an idea (obviously this might change quickly should there be a massive cost overrun in constructing such a building). If this were indeed to happen, the UK would suddenly look much more like Germany. But what would the point of the UK parliament in Whitehall be then? The UK is not a federal state – what would members of the UK parliament decide on? Alternatively, it has been suggested, that there should be no English parliament but instead Scottish members of the UK parliament would not be allowed to vote on anything, which is deemed to be an English issue only. This in effect would establish a club within a club and, could potentially hollow out the UK parliament. It will be interesting to see how things will evolve. What is clear is that this will not be a smooth process.

ACHTUNG!!! Reformstau!

While the British were learning and demonstrating that sliding down the slippery slope of devolution was an easy-enough thing to do, doing the opposite – climbing up that slope and centralise political power – certainly was not. But this is exactly what Germany tried to do in the first few years of the "noughties".

The history of the *Bundesrepublik Deutschland* is very different to Britain's and it still shows. Unlike Britain (which can trace its history back to at least 1066 when William the Conqueror invaded the country from his native France and which has been a nation state for centuries), Germany only became a nation state relatively recently, in 1871 to be precise. Prior to that what is now Germany was a patchwork of small kingdoms, duchies and independent trading cities held together by a more or less shared culture and language. This history still shows, with pre-unification West Germany comprising 11 *Länder* ("states"). Since 1991 Germany consists of 16 *Länder* though there was an opportunity in 1996 to reduce this to 15. However, the citizens of the capital, Berlin, and of the surrounding state Brandenburg guarded enviously their independence and rejected a merger in a referendum. A future referendum is planned.[81] Not underestimating Britain's regional diversity (Cornwall *really* is very different from Yorkshire) but compared to the UK, Germany is a patchwork of different places. It also continues to give Germany a slightly provincial and *spießig* feel compared to Britain.

Germany's federal structure is, however, not only the outcome of its fragmented history but also of the deliberate desire by the allies after the Second World War to establish as many checks and balances in the political system as possible so that it would become impossible in the future for Germans to concentrate too much power in one place.

The allies have clearly succeeded: while Germany's structure lends itself to rich cultural and political diversity, as politicians have learnt again and again, it also makes it very difficult to govern nationally. Each of the 16 *Länder* has its own fully-fledged parliament and is represented on the national level in the *Bundesrat*, the upper house. The *Bundesrat* has substantial political power. Depending on the political landscape on the *Länderebene* (state level), the *Bundesrat* can oppose policies suggested by the *Bundestag* – the lower house of representatives. The power of the *Bundesrat* is derived from the role it is given in the *Grundgesetz* but is also clearly a reflection of the actual power of some of the *Bundesländer*. Nordrhein-Westfalen, the most populous German state, is with its 18.1 million citizens larger than many European states including the Netherlands and Belgium. And even Bayern and Baden Würtemberg, with their respective 12.4 million and 10.7 million citizens, are still larger than Austria, Portugal or Sweden. Being a state prime minister is a powerful job by any standards.

With that many stakeholders and decision makers, it is difficult (some would say impossible) to make any tough policy decisions on the national level. However well intentioned; a system of checks and balances can lead to paralysis. It is this paralysis or perception of paralysis, which partly shaped the political *Zeitgeist* at the beginning of the 21st century in Germany. And paralysis led to what many observers perceived to be a *Reformstau* (literally pile up of reforms). Whatever ideas the former SPD-led federal government (1997 to 2005) under Gerhard Schröder might have had, the then CDU-dominated *Bundesrat* (reflecting the party-political landscape on the *Länder* level at that time) would ensure that none of it would see the light of day. Maybe Britons want to study all of this very carefully when designing a new political structure.

To many it became increasingly clear that Germany's political institutions would have to change first before politicians on the federal level could be expected to jump into action. The only problem to that was that changes to these institutions would require changes to the *Grundgesetz*, which could only be achieved by a two-thirds majority in the *Bundestag*. When the grand coalition comprising the two biggest parties, the CDU and SPD, came into federal office in November 2005, many commentators pinned their hopes on it making these structural changes. They might not come up with any useful policies, but perhaps they could at least leave better political institutions to future governments?

Building on a previously failed initiative, the grand coalition launched the so-called *Föderalismusreform I* in mid 2006, with the objective of clarifying responsibilities between federal and state governments, in turn with the objective of simplifying and streamlining decision making. For example, the reforms gave the federal government more say in environmental issues and in issues related to terrorism, while the *Länder* were now in charge of shop opening hours and prisons. According to the German federal parliament, it was the most significant change to the German *Grundgesetz* since 1949. Hot on the heels of *Föderalismusreform I* came *Föderalismusreform II*, launched to bring some structure into Germany's complicated financing arrangements between the federal and state governments. One objective was to ask local governments to take greater responsibility for looking after their own finances.[82]

First past the post

When Angela Merkel became German chancellor in 2005, many international commentators immediately compared her to Margaret Thatcher, Britain's first and up to now also only female Prime Minister, and argued that Germany now had its own iron lady who would push through unpopular reforms. Admittedly, both Merkel and Thatcher are female, both have their political roots on the political right and both had natural science (physics and chemistry respectively) backgrounds before entering politics.

But even if Angela Merkel shared Thatcher's reform zeal (which can be doubted), it is impossible for a German chancellor to wield the same amount of political power as a British Prime Minister. The complex federal structure with all its checks and balances, and its powerful political fiefdoms is one reason, the electoral system another. Unlike the UK, which uses a first-past-the post system, Germany has proportional representation. On the surface the British system seems less democratic and less fair. How can it be that in a tight election outcome the winner moves on to represent the constituency and the loser goes home with nothing? At least in theory it is possible that a party wins all seats in the House of Commons with the slightest majority in terms of popular voting.

Many advocates of the British system argue that it produces strong governments with solid majorities in the House of Commons and a strong mandate to govern. And this is needed to run the country. It also means that British politics does not generally rely on coalition governments but instead is characterised by single-party governments.

However, the flipside of strong governments are weak oppositions and it could be also argued that strong opposition parties are as important in a well-functioning democracy as strong governments. Since 1979 there has only been one change of government in Britain, with the Conservative Party governing between 1979 and 1997, and the Labour Party since then. During periods of opposition, the main opposition party generally disappears into the political wilderness rather than providing important constructive political opposition. In the first few years of the decade, for example, the Conservative Party ended up with four leaders: William Hague, Iain Duncan Smith, Michael Howard and David Cameron, with only the latter making any meaningful inroads into the governing Labour Party's dominance. The others bet their political careers on issues such as the imminent creation of a "European super state", with William Hague for example arguing that: "*What they are pushing for is a European Union with its own government, its own army, its own taxes, its own foreign policy, its own criminal justice system, its own constitution, as well as its own currency - in other words, a single European state…The national veto would be abolished in areas such as aspects of social security, social policy, industrial and transport policy, financial regulation and the spending of the multi-million pound structural and cohesion funds….the great majority of the people of Europe and the mainstream majority of the British people do not want to be part of a European state*."[83] Even the generally euro-sceptic British public were not inspired by any of this and kept the Labour Party in office. The lack of regional parliaments (the German *Länderparlamente*) also means that opposition politicians have no opportunity to practice day-to-day politics or policy making and have no platform to promote their own ideas. As a result they are then unprepared when the big day comes and they really move into office.

By contrast, the German system is based on relative outcomes, which generally leads to weak governments with often tiny (if that) majorities in the Bundestag (or *Länderparlamenten*). In order to get to even a tiny majority, the two big political parties (the *Volksparteien*) CDU and SPD have generally relied on the federal level on a junior coalition partner. In the past this used to be the *Freie Demokratische Partei* (FDP, Free Democrats) but between 1998 and 2005 it was the Green Party. But even this well-tested arrangement was not enough to deliver a government in the 2005 general election, when the two big *Volksparteien* failed to win enough votes to form a majority – even with a small coalition partner. The CDU and FDP alliance did not make it to 50 per cent, and neither did the SPD-Green axis. The only way to form a government on the federal level was to set up the grand coalition, comprising the CDU and SPD. Much more complicated arrangements had to be found on the state level to form governments, including the so-called *Ampel* (traffic light) coalition comprising the Social Democrats (red), Liberals (amber) and the Greens (green) or the Jamaica coalition comprising the CDU (black), Liberals and Greens.

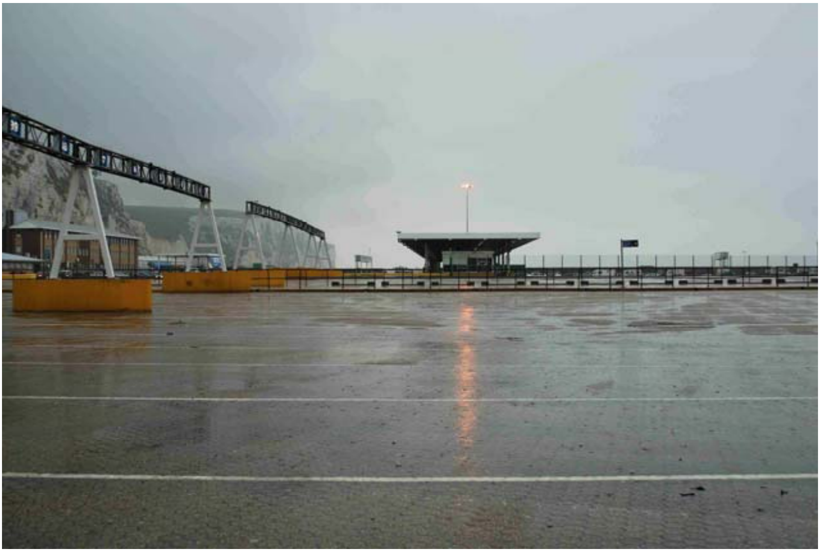
For Britons, who are used to the simple black and white world of Labour versus Tories in which even the third largest party, the Liberal Democrats, are already mildly exotic and sitting next to the fire exit in parliament, this must all seem bewildering and too much. Critics of the German system could also point out that it is hardly more democratic than the British arrangements, with the small coalition partners ("kingmakers") often having an influence on policy making disproportionate to their electoral success.[84]

The main criticism brought forward though is that Germany's governments are weaker, and hence less effective and efficient than their British counterparts. Especially when leadership and action is required – so the argument goes – all the checks and balances hold back those in power, leading to paralysis. While this argument sounds reasonable enough, acting for the sake of being seen to be doing something (a policy pursued by Tony Blair and Gordon Brown over those years) is not necessarily more effective and efficient either to deliver the desired outcomes in the end. The world is just too complicated and societies too complex for that.

One final point: having a more diverse range of political parties in parliament and even in government might slow down the parliamentary process of political decision making but equally ensures that a wider range of views can be expressed. With the Labour and Conservative parties monopolising British political life the way they do, only ideas that have been embraced by one or the other will have any chance of graduating to parliament. As a result, for example, it took British politics well into the 1990s and realistically into the 2000s before environmental issues gained any political ground in Britain. In Germany, the Green Party entered the federal parliament in 1983 on these issues and forced the bigger parties to take an interest too. It is not clear why the Conservative and Labour parties should have this stranglehold on politics; indeed a German could judge the British system as falling somewhat short of what representative democracy ought to be all about.

Is this Rosamunde Pilcher over there?

The Land of Milk and Honey



Funny HaHa – Berlin style

In Germany this would be called a "bakery"

Nazi architecture on a human scale

Some light-hearted fun

Young revolutionaries…looking for a better past

Not quite meeting the Bauhaus design criteria

Difficult to say: is the glass half full or half empty?

Form follows function (British variant)

Gordon Brown:
"Meeting the aspirations of the British people"

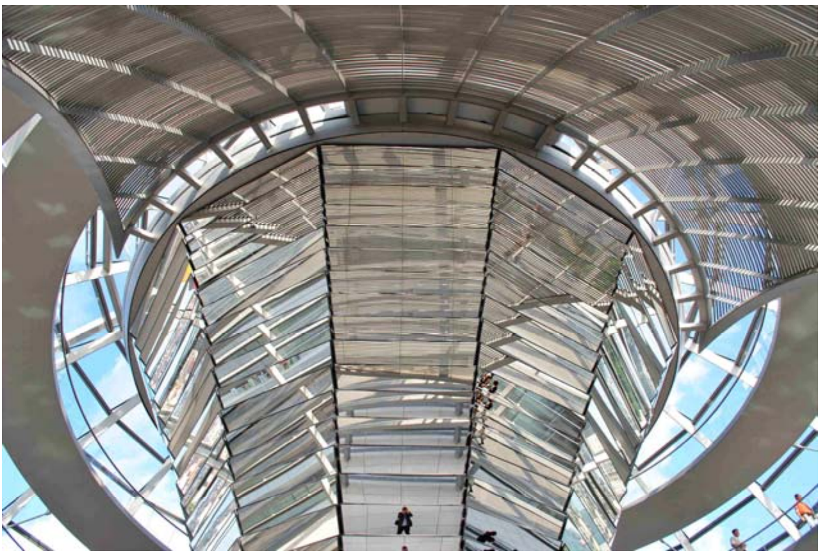
The Smart way to snoop on your citizens

Not to be confused with the lesser green asparagus…

It's stressful back in the office…(Lake Constance)

New is not the same as modern. Did Queen Victoria really die in 1901 and not in 2001? (House completed 2008)

British architecture at its best…in Berlin



The tyranny of Marx and Lenin: Die Platte

The tyranny of Taylor Wimpey and Barratt: British suburbia

Phoenix out of ashes - Dresden's Frauenkirche

Picture perfect Britain

Retail therapy…German style

That'll be a bargain then…

V. Cool Britannia 1- Dour Germany 0: the economy

"The purpose of this Budget is to lock in, for Great Britain, an economic stability that can and will endure…For decades after 1945, Britain repeatedly relapsed into recession, moving from boom to bust…But I can report that since 1997 Britain has sustained growth… – with overall growth since 2000 almost twice that of Europe and higher even than that of the United States. Indeed in the Pre Budget Report I told the House that Britain was enjoying the longest period of sustained economic growth for more than one hundred years…Mr Deputy Speaker, I have to apologise to the House…Having asked the Treasury to investigate in greater historical detail, I can now report that Britain is enjoying its longest period of sustained economic growth for more than 200 years…the longest period of sustained growth since the beginning of the industrial revolution." (Gordon Brown, Chancellor of the Exchequer, March 2004[85])

"The [German] economy has stagnated for the past three years…Underlying the poor economic performance are structural rigidities, which have prolonged the adjustment to reunification-related imbalances. Recent developments have added a cyclical dimension to output weakness…With no upturn in sight, and inflation down to about 1 percent, it appeared possible that the price level could begin falling, generating debate about the risk of deflation." (International Monetary Fund, November 2003[86])

The best period since the Industrial Revolution

While Germany was quickly becoming, at least according to some observers, the *lantern rouge* of the developed world, Britain propelled forward economically on a wave of good luck and judgement but also hard work. The then Chancellor Gordon Brown missed not a single opportunity to trumpet his achievements, with Britain's economy breaking every conceivable record ever recorded – and that annually![87] Some Germans might still remember Geier Sturzflug's 1980s hit *Jetzt wird wieder in die Hände gespuckt, wir steigern das Bruttosozialprodukt* (Let us spit into our hands and raise Gross Domestic Product) – it could have been written for then Chancellor Gordon Brown. Actually, given how dreadful the song is, it probably was written by Gordon Brown.

The chancellor's claims of the best period since the industrial revolution or the question *"Ist Deutschland noch zu retten?"* (Can Germany still be saved?)[88] by German economist Hans-Werner Sinn – more of him later – make for excellent headlines but what was really going on?

Indeed, Britain's economy did better than Germany's during the first few years of the new century, at least when taking growth of Gross Domestic Product (GDP), a common measure for the size of the economy, as a yardstick. GDP expanded by 16 per cent between 2000 and 2006 in Britain compared with only 6 per cent in Germany.[89] More importantly still, Britain's growth was solid and steady, averaging between 2½ and 3 per cent per year – no more boom and bust in the words of the

Chancellor, giving a sense of predictability and leading to a feel good *Zeitgeist* - while Germany even entered a small recession, which is generally defined as a period during which output falls for two consecutive quarters. Nobody feels good about recessions and for Germans the episode developed into some kind of existentialist experience. In other words the *Zeitgeist* was rather miserable…

What happened? Was life in Germany really that miserable? Was it really the *lantern rouge* while Britain was the shining beacon of the developed world?

The Polish plumber versus the Ukrainian Spargelstecher

Flexibility was the name of the game in Britain and the flexible labour market was the backbone to much of Britain's growth story. Between 2000 and 2006 the employment rate remained stable and - if anything - increased marginally.[90] *So what?* one might say but one should not forget that during that time hundreds of thousands of migrants entered the country, most of them in search for a better job. When Poland and the other Eastern European countries joined the European Union in 2004, most of them made their way straight to Britain. Jobs were plentiful, pay was good and in any case nobody else wanted to have them. Germany, for example, had slammed its doors shut. If ever there was a better real world illustration that the demand for labour in an economy is not fixed, this was it. During the same time, unfortunately, most Germans continued to believe that there was only a certain amount of work to go round and that every new migrant would have to crowd out a German in the labour market. Better to keep them out then and believe in what economists call the lump sum fallacy of labour.

Initially worried by the flood of Eastern European, especially Polish, workers arriving in the UK in 2004, most British citizens quickly learnt to love them. Some even argued that rather than prevent them from coming into the country, they should be prevented from leaving the country! Polish and other Eastern European workers worked hard, arrived on time, asked for relatively little money and on top of all that offered quality work – exposing many British plumbers and builders for what they really were: so-called cowboys offering shoddy quality at rip off prices. The Polish plumber did more than just plumbing though: he (rarely she) also built extensions, rebuilt gardens, plastered whole row of houses and drove the local buses, while she (and sometimes he) also ironed the laundry, and worked in cafes and supermarkets. They did this with a smile and without them wage inflation would have been far more significant as they filled rapidly emerging shortages in the labour market. Within a few years Polish and other Eastern European workers became a firm part of British society and were starting to climb the social ladder by occupying ever more demanding jobs.

The "Polish plumber" shows how much the British economy depended on foreign blood. What the Polish plumber was to the construction or general services sectors, Americans, continental Europeans, Asians and Antipodeans (Australians and New Zealanders) were to the financial services sector, especially in London.

For most of that time Germans felt quite smug about their decision to keep their Eastern neighbours out of their own labour market. But in 2006 they started to regret it. Especially the German farming sector depended heavily on Eastern European labour, which was a lot cheaper than German labour and equally importantly was prepared to do the often backbreaking work. While even unemployed Germans could not generally be bothered to cut white asparagus during the season, Poles and other Eastern Europeans generally could. German farmers had a major shock then in 2006 and 2007 when the normally reliable Poles no longer showed up to do the work. With half the country seemingly decamped to the UK, not many able and willing workers were left in Poland. So the Ukrainian asparagus cutter was born. What is remarkable is that, if newspaper articles can be trusted, farmers left white asparagus to rot in the fields rather than pay more to get them harvested on time – German buyers were not prepared to cough up the extra. It is remarkable because white asparagus was to Germans what the honey pot is to Winnie the Pooh: an absolute delicatessen. How stingy was that?

It is interesting to compare Britain's and Germany's growth rates during those years once the contribution from migration is taken into account. When eastern Europeans decided to move to the UK in 2004, they were just the latest group of migrants to do so: before them many southern Europeans, including Spaniards and Italians, had done exactly the same. They came to learn or practice their English, to earn some good money and have a good time in the UK generally and in London in particular. Apparently nearly 700,000 foreigners moved to London between 1997 and 2007, pushing the share of the foreign-born population in the total population up to nearly a third.[91]

Young and often highly qualified foreigners very much shaped the picture of the British labour market and society. If their contribution to the British economy were to be deducted, then Britain's growth rate would still have been markedly faster than Germany's but the gap would have been less remarkable. According to some estimates around a quarter of growth could be attributed to migrants, so in the absence of migration growth would have averaged between 2 and 2¼ per cent per year rather than the actually recorded 2¾ per cent.[92] And the difference shrinks further once other demographic factors are taken into account. For example, even in the absence of migration, Britain's working-age population grew slightly between 2000 and 2006, while Germany's was flat and even declined between 2004 and 2006. Different growth rates in the working-age population can explain roughly half of the growth differential between Germany and Britain between 2000 and 2006.

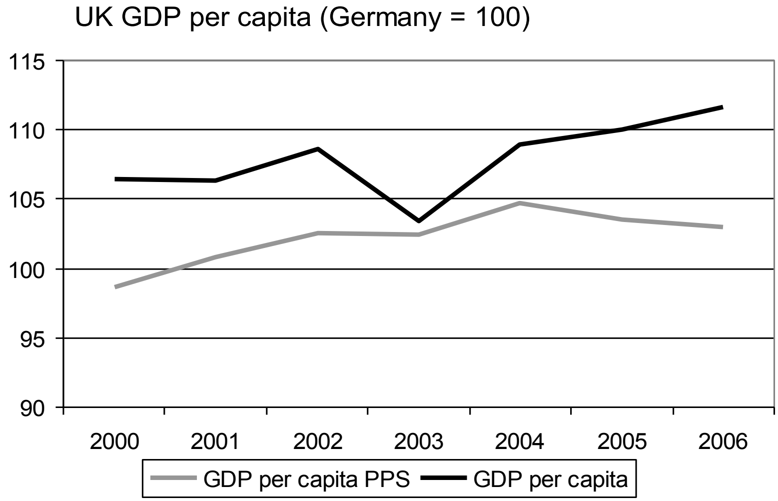
Hard-working Britons versus lazy Germans

Not only did a greater proportion of people of working age work in Britain than in Germany, they also worked harder, at least in terms of the hours they put in. On average, British employees worked nearly 1675 hours per year – more than most in the developed world and around 15 per cent more than Germans who, in contrast, had some of the shortest working hours in the developed world with around 1450 hours.[93]

The difference would have been even more marked if Britain did not have a larger proportion of employees working part time. Average annual working hours for full-time employees stood at around 1940 hours and 1660 hours respectively for the UK and for Germany. This was partly due to the fact that a large number of Britons work very long hours, with more than a quarter of all Britons working more than 48 hours a week, a substantially larger share than even in the United States and only beaten by developing countries such as Tanzania, Pakistan or Peru.[94] No wonder that the British government was so keen to keep its opt out from the European Union's Working Hour directive.[95]

Assuming a working week of 40 hours, this translates into German full-time employees having a cool seven weeks more leisure time than their British counterparts. Put another way, everything else equal, German full-time workers could have signed off from work at the beginning of November while Britons had to work until the end of December to finish their annual work.

So, was Germany really the “lantern rouge” of the developed world and the UK the leader of the pack? It should be clear that what matters for the standard of living is – if anything - GDP per person rather than total GDP. Otherwise China would already be one of the countries with the best quality of life in the world, which it clearly isn’t. GDP per capita in the UK was indeed higher than Germany’s between 2000 and 2006, with the UK even edging ahead over that time: by 2006, Britons were around 10 per cent better off on that measure than Germans. This is shown in the following chart by the black line. This is also what the British government would have made you believe and quite a few German politicians would have been happy to paint such a picture too. For many, Britain had become the role model to copy. What a change from the previous decade.



Source: Eurostat January 2008.

As always though, the picture was a little bit more complicated. Not only can it be debated whether GDP per person can fundamentally be a useful measure of the quality of life in a country (missing important aspects of life such as the quality of the environment, work-life balance, or law and order), GDP per person also ignores the price level in a country. As the quality of life will not only depend on how much you earn but also on how much everything costs, GDP per person adjusted for price differences should therefore be a more useful measure. Think about it this way: if your income doubled but you would also have to pay twice as much for everything, you would hardly be better off, would you?

The chart therefore also shows GDP per person adjusted for the different price levels in the UK and in Germany (grey line). Suddenly the UK's advantage does not look quite that convincing any more: on that measure Britons were merely three per cent better off than Germans in 2006.[96] Assuming around 2 per cent economic growth per year, this means that Britons were around 18 months ahead of Germans in terms of standard of living; a gap that could easily be wiped out by some rather modest exchange rate movements. Indeed, the gap narrowed to an estimated 1½ percent in 2008. On that basis claims that Germany was the "lantern rouge" of the western world were thus perhaps slightly exaggerated, especially when one factors in that Germans worked far fewer hours than Britons. What the chart shows too though is that the UK overtook Germany in 2001 – quite an achievement when one thinks that only in 1995 UK GDP per capita in purchasing power standards stood at only 87 per cent of Germany's.[97]

One final observation: GDP per person (adjusted for prices or not) is an average measure and as with every average, it can hide interesting and important information. For instance, GDP per person says nothing about the distribution of incomes, whether it is across regions (with London towering over the rest of the UK and western Germany continuing to outdo the east by a solid margin) or across income groups. Income inequalities in the UK were substantially more pronounced than in many other developed countries so the fact that *average*

GDP per person was high might not have meant that much to the normal person in the street.

Perhaps the most remarkable fact though about the British economy in those years was not that it outdid every other country in terms of GDP per person (which it didn't, especially not once price levels are taken into account) but that unemployment was *not* an issue that shaped the *Zeitgeist*. Obviously there were big pockets of joblessless too and there were signs that the headline labour market figures might not tell the whole story: how, for example, should one have interpreted the steady increase in the number of people seeking incapacity benefit? Were they really all sick or was it just another form of hidden unemployment? In any case, in contrast to pretty much any other European country, unemployment hardly made it into the headlines and government policy did not prioritise job creation over everything else.

The price Britons potentially paid for being as flexible and hard working as they were was that they were some of the most stressed people in the developed world. According to Cary Cooper, a leading psychologist at the University of Lancaster, British workers suffered more from work-related stress than their counterparts in other countries and stress became the single most important reason why people ended up on incapacity benefit. Other studies suggested that Britain did relatively poorly in terms of work-life-balance, with long working hours and commutes leaving little time and energy to do much else. Perhaps it was not surprising then that for most people relaxation could mainly be found in front of the television, that Britons apparently consumed half of all ready-made meals in the EU,[98] and that British parents seemed to spend less time with their children than any other western European nation, making those children some of the unhappiest in the western world (though there will plenty of other reasons for this too).[99] No time and too tired to exercise and cook properly could also have been a factor behind the unstoppable rise of obesity as a health problem. Some commentators coined the expression "social recession" to describe what was going on over those years.

London: the financial capital of the world

Britain's economic success story at the beginning of the new century was very much a London success story. While most of the regions experienced economic growth, the engine of growth was the south east of England in general and London in particular. This seems like an obvious point to make today but not much earlier - at the end of the 1990s and early 2000s - there were genuine fears that Frankfurt could trump London as *the* financial centre in Europe as a result of the location of the European Central Bank (ECB).

It turned out to be very different. Despite the ECB, Frankfurt remained a relative financial backwater, mainly serving the German market. Rather than London banks decamping to Frankfurt, the trend turned out to be exactly the other way round, with London gaining on Frankfurt by a considerable margin. People in London, Frankfurt and other financial centres only smile when being reminded that Frankfurt really thought it could challenge London. But it didn't stop there: London challenged – and many observers would say challenged successfully – New York as the pre-eminent financial centre in the world.[100] It achieved this through hard work but was also helped by the events of "nine-eleven" 2001, which turned the US, including New York, into a less open-minded place and made it much harder and less attractive for non-US investors to do business in the US. The fallout of the Enrol accounting scandal, which led to the creation of the Sarbanes-Oxley financial reporting standards in the US, also played a major role. Why bother using Wall Street with all its restrictions when you can equally well do business in London without the hassle? In the first few years of the new century London played in a completely different league to Frankfurt, matched probably only by New York.

The rise and rise of London to become the world's leading financial centre attracted and was partly fuelled by an inflow of highly-skilled and highly-motivated foreigners from across the globe, many of them working for foreign banks.[101] They came for the excitement of the jobs on offer but also for the money: the amount of wealth managed but also siphoned off was astronomical and the tax treatment for (non-domiciled resident) foreigners very favourable. It should come as no surprise that many parts of London became immensely wealthy. Huge salaries and bonuses in the City of London, the historical financial centre, and Docklands, its more recent rival, fuelled house price inflation across London and beyond and supported a huge services industry, from home-delivery supermarket services to eating out to nannies to save time. Time was money. City salaries also kept high street sales buoyant, especially at the luxury end of the market. A trip around some of the more wealthy areas revealed where all the expensive Porsches produced in Stuttgart eventually ended up.

It also made the financial sector the biggest corporate tax payer in Britain, followed by the oil industry, while income tax receipts depended crucially on the City's salaries and bonuses too: high income earners (those who face a marginal tax rate of 40 per cent) coughed up around half of all income tax, even though they represented only around five per cent of all income tax payers. With total income tax making up around a quarter of all government receipts, this just illustrates how dependent the UK government was on the success of the financial sector in the country.

Perhaps Napoleon was correct all along when he called the English a nation of shopkeepers?[102] Shopkeepers make a living from trading and the lower they buy and the higher they sell, the more successful they are. Buying low and selling high was very much what the *City of London* was all about.

Germans could only look in amazement at the pockets of extreme wealth in London – which made even the richest parts of posh Hamburg or München look positively modest – but were equally amazed to find pockets of extreme poverty just around the corner.

Many people thought that income disparities were huge in the UK and highly unfair; often the finger was pointed towards City bankers and hedge fund managers who earned millions in salaries and in bonuses. Germans, with their notion of *soziale Gerechtigkeit*, found these salaries particularly obscene. What did these incomes and bonuses have to do with the underlying performance or work effort put in? A good question but one that equally applied to many sectors, not only banking: in a global market, what *is* the difference between a star banker earning millions for managing a global investment fund and Michael Schumacher (now retired) earning millions for driving a car around a race circuit, David Beckham for kicking a ball around, Thomas Gottschalk (the German Jonathan Ross) earning millions for hosting a show on Saturday prime time TV, a hip hop star or even a German *Schlagerstar* performing live or even not live on stage and earning millions for that? Economically they are all pretty much the same: they are using technology that has allowed them to increase the size of their market, thus reaching more customers. And if they are good (or perceived to be good) at what they are doing, then more and more people will take their money to them. As ABBA put it: the winner takes it all.[103]

That Germans might have had a point after all became obvious in 2007 when the global financial system hit the rocks. Unlike David Beckham who became rich by entertaining people, bankers appeared to have become rich by gambling away other people's money. It seemed that there were no limits to how greedy bankers could be. And most of the most powerful bankers in the world lived and worked in New York and London. It is likely that the meltdown of the financial markets will shape London and the wider UK economy for years to come.

Within a five-minute stroll one could hence walk from some of the richest parts of the world (the City or Docklands) to some of the poorest areas in Western Europe. Admittedly, this had little to do with the *Zeitgeist* of the period; in fact, this had been the case for hundreds of years, with new waves of migrants generally first settling in the London East End. Today it is the Bangladeshi community, which has made the area around Brick Lane its home, in the past it was Eastern European Jews and Germans among others. Even today the catholic and protestant German churches in London are located in the heart of the East End; reminders of the fact that most Germans arriving in England in the 19th century were poor and sought to find work in the London docks. History continues to be very much at work here.

The success of London enabled the British government to splash out generously on the other regions, allowing those regions to "share in the rising prosperity of the country" (to use some more of Gordon Brown's favourite words). London's boom allowed Tony Blair's and then Gordon Brown's governments to provide generous financial sweeteners to

Scotland but also to other economically lagging regions such as the north east of England, for example in the shape of massive financial injections into the National Health Service (NHS). The Centre for Economic and Business Research (Cebr), an independent think tank, calculated that the share of the public sector in regional GDP was over 70 per cent in Northern Ireland, close to 65 per cent in Wales and the North East and around 55 per cent in Scotland and the North West. By contrast the share was less than a third in the South East and London- the national share was around 44 per cent. Many commentators argued that this was hardly a sustainable situation. The figures also suggest that the dependence of many regions on government handouts in the UK could not have been much lower than in former communist eastern Germany – if that. Take London and its outlying regions out of the UK economy, and not much would have been left.[104] But if London and in particular the City fuelled the UK economy, what fuelled the City? There was plenty of evidence that high-flying careerists in the City, whether in the banking, insurance or legal services, were not only driven by adrenaline and the greed to earn more and more money but also excessive alcohol or even drug consumption. According to some, these excesses had become worse than ever.[105]

While crucial to the London and even UK economy, the London economy obviously had more to offer than just financial services. London was home to the headquarters of some of the largest companies in the world, was arguably the media, advertising, design and shopping capital of Western

Europe, and by a long distance the arts capital of the United Kingdom. It also had one of the highest concentrations of higher education institutions in the world. What it did not have was much of a manufacturing base: all in all more than 90 per cent of people worked in the services sector, producing around 90 per cent of gross value added.

Services, services, services: is anybody actually doing something?

The picture was similar across the whole country: the industrial revolution started in the UK and until the beginning of the 20th century the UK was the leading industrial country in the world. The UK can also take the title for being the first country to de-industrialise again and could best be described as a post-industrial society. Across the UK close to 80 per cent of people were employed in services.

Business services and creative industries were two of the rising stars of the British services sector, with the former expected to increase substantially over the coming years. But some sections of society were proudest of the country's creative industries, which in their view embodied the country's ingenuity, wit and, hmmm, for a better word creativity. Already in 2005 the government announced proudly that the UK could become the creative hub of the world – something it enthusiastically repeated in 2008.[106] Some commentators argued that Britain was strong in the bullshit industries.[107]

Germans were arguably not as good as Britons at bullshitting. They felt much more comfortable doing *real* things such as making ball-bearings, screws, cranes and fuel-injection systems for cars. In the eyes of many Germans the British economy looked a bit dodgy: a few rich bankers, loads of shop assistants and estate agents and a small but perhaps growing army of “creatives”. How could this add up to a world-class economy and how could this compare to the world-dominating German industrial sector? How could anyone make money this way? The answer was very easily indeed: some of the most famous figures in the British creative industry were as well known in Germany as they were back home, including Harry Potter (or more precisely his creator J.K. Rowling), David Beckham, Robbie Williams, Elton John and Jamie Oliver.[108] These were just as popular in Germany than in the UK – and there were no German equivalents to export back to the UK or anywhere else. All these were part of the creative industries and are global players and brands.

Given the choice between spending €20 or so on a German piece of engineering or a Robbie Williams DVD, at least as many Germans as Britons would have chosen the latter. The success of the British creative industries probably also explains at least partly why the British were so fascinated by celebrities. After all, if the whole world loves Robbie Williams… Putting all together, the UK came only second to the United States in terms of services exports.

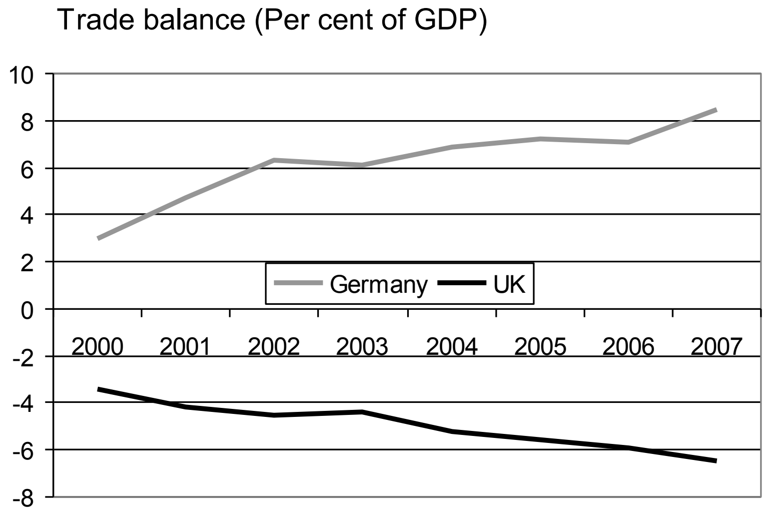
Exportweltmeister!!!...or…

Germans countered by exporting loads of heavy metal, not of the musical type but of the steel and aluminium type, preferably shaped into luxury cars such as Mercedes Benz or BMW. And they sold loads of it: in the first few years of the new millennium Germany exported more goods than any other country in the world, making it the *Exportweltmeister*.

Around the world, Germany is famous for its high-quality products, with wealthy citizens from Alaska to Australia aspiring to own engineering marvels offered by the likes of Porsche, Audi, Mercedes Benz and BMW.[109] High-quality engineering and production is not limited to the automotive sector though, with German producers world leaders in many other sectors, including machine tools, chemicals or electricity generation.

As a consequence, the manufacturing sector's share in employment at around 31 per cent in 2004 was higher than in most other developed economies, including in the UK where the share was less than 20 per cent (and correspondingly the services' share in employment at 67 per cent was lower than in many other developed countries).[110]

As a result of this specialisation, Germany was the world's biggest exporter of goods. Only the United States was a bigger exporter overall once the exports of services are included; and the United States are around 3½ times as many people as Germany. This fact should have made Germans proud and happy – after all, being the world's biggest goods exporter must be a sign of economic strength and success. It should have also convinced them that they were on the winning side of globalisation.



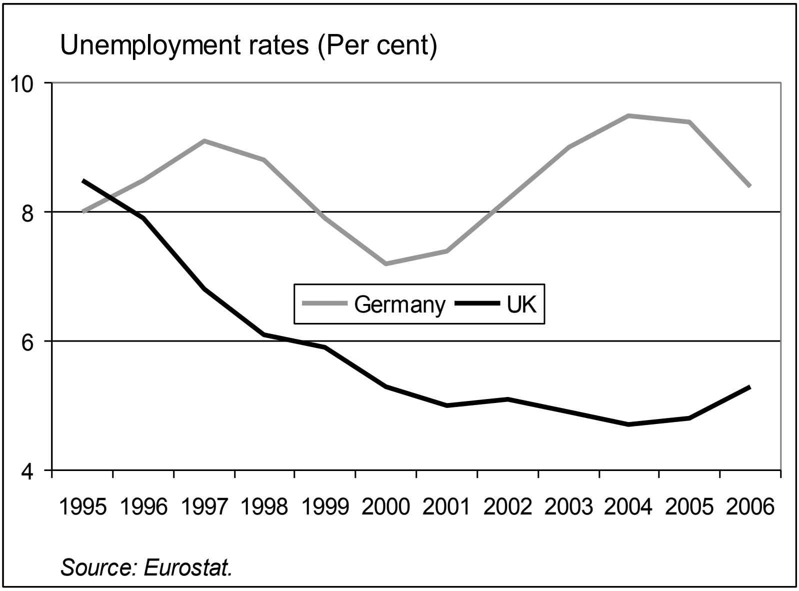
Source: Eurostat.

…a hopeless case...

But the *Zeitgeist* in Germany at the beginning of the new millennium was not characterised by pride and happiness but by deep misery. The problem was persistent and high unemployment, not only in the *Neuen Bundesländern* (new federal states in the east) but also in many western regions. And because the problem affected all parts of the country – admittedly to a varying degree – and because it started to affect even those with skills and not only the unskilled, the phenomenon of unemployment felt like a cancer, which was starting to destroy the foundations of German society. High unemployment was one of the strongest forces shaping the *Zeitgeist* in Germany in the opening years of this century.

It is not as if unemployment became a problem over night though: since unification in the early 1990s eastern Germany struggled with high unemployment, with the young, dynamic and educated moving to the west as soon as they could. They left behind those who were less dynamic and flexible, whether it was because of age, education or just personality. And once the unification boom was over, the labour market also started to deteriorate in the west. By 1997 there were – depending on whether you pick the international definition or the tougher (what else would you expect?) German definition – 2.9 million or 3.6 million people unemployed in unified Germany. When Gerhard Schröder became German Chancellor in 1998 he optimistically proclaimed that he wanted to be judged on his record to reduce unemployment. Germans *did* judge him on his record – and threw him out of office. Based on the tougher German definition of unemployment, unemployment reached 4.9 million in 2005 - a level last seen during the deep depression of the 1930s - equivalent to 11.7 per cent of the workforce.[111]

Germans could probably have been a little bit more relaxed had they used the internationally-accepted definition of unemployment. According to Eurostat, the unemployment rate peaked at 9.2 per cent in 2004, meaning that 3.9 million people were unemployed. The following chart shows the unemployment rate in the UK and in Germany since the mid 1990s based on the internationally-accepted definition.



While Germans hated the high unemployment crippling the country, they despised at least as much Gerhard Schröder's attempts to do something about it. His reform agenda, called *Agenda 2010*, was deeply unpopular and Germans disdained the *Hartz* labour market reforms, named after then Volkswagen manager Peter Hartz (who embarrassingly eventually ended up with a conviction for corruption), as they made unemployment benefits less generous and encouraged the creation of so-called *minijobs*. The reforms were so unpopular they lost Gerhard Schröder his job. By 2005, when

Germans had to vote for a new government, they were *reformmüde* and voted for a "no change" government.

With Germans generally pessimistic and uncomfortable with uncertainty and hence anything to do with the future, it is no surprise that they did not like these reforms. Reforms might lead to a better future but then again this is the future and who can guarantee that this will actually happen? As bad as today might be, at least it is here and there and actually exists.

Many commentators have argued that the reforms were actually sensible but that their timing was politically dreadful: governments should introduce tough but necessary labour market reforms during an economic upswing (when people care less) and not when things are already at a low. Have the reforms achieved what they were meant to achieve? Many commentators and politicians have argued that they played a major part in the economic upswing of 2006 and 2007 and that employment would not have risen as markedly had they not been implemented. One should also not forget that the fruits of Margaret Thatcher's tough labour market reforms in the late 1970s and early 1980s took a long time to materialise – Britain was still benefiting from them at the beginning of this century.

It appears that German politicians were faced with a challenge on the grandest scale: anyone who suggested that *something could be changed* invited being branded a *neo-liberal*, who was in bed with evil capitalists in general and the blood-sucking *Heuschrecken* (locusts), also known as hedgefunds, in particular. And anyone who might have argued for a more flexible labour market should have better run for cover to avoid being stoned by the angry masses. It is unfortunate that the thought of "flexibility" generated so much anxiety as flexibility must be a good thing, allowing individuals and society generally to adapt to changing circumstances and be better off as a result – hardly a revolutionary concept.

Perhaps it is not surprising though that German society despised flexibility so much: not only had the whole of society just gone through the traumatic experience of unification, which had pushed people's flexibility to the limit, German businesses had arguably been very flexible adapting to the changing economic circumstances arising from globalisation and as a result they were calling the shots during those years. With representations around the world and equipped with statistics showing that Germany had some of the highest labour costs in the world, it was very easy for German businesses to argue something along the lines of: "*if you don't accept what we offer, then we just go somewhere else*". Except for concerted action such as strikes, German workers felt that their bargaining position was very weak and with unemployment remaining high, individuals were made to feel privileged to be offered a job at all, whatever the conditions attached to it.[112]

That globalisation and the need for increased flexibility should not only be perceived as an unacceptable challenge but also as an opportunity can be seen by looking at Britain. In the 1980s and still perhaps in the early 1990s the term "labour market flexibility" had a very negative connotation in Britain as well, with people visualising nasty employers exploiting defenceless workers. Perceptions changed completely. By the beginning of the century, most people considered labour-market flexibility to be a good thing as it meant that they could move between jobs when they felt like it, take time out when they wanted to go travelling or chose to work part time or from home, perhaps to bring up a young child. In modern Britain at the beginning of the new century most people would have agreed that labour-market flexibility was good for business but had equally empowered the people to live the lives they want.

While this must generally be a good thing – and Germans could have taken some inspiration from that – it once again appears that nothing comes for free. Box 2 discusses one of the downsides.

Box 2: The economics of *Am I bovvered*?

Chapter III argued that Britain at the beginning of this century was very much characterised by an "*Am I bovvered*" attitude.

A strong judgement and how could this have happened? As was argued, Britons are generally more individualistic than Germans. Put them into an economic context, in which this character trait is allowed to flourish and the outcome is not necessarily a happy picture.

Why indeed bother when the labour market was doing well, money was flushing around the system and you intended to only stay a short time at your current employer because you had already lined up something else? In that case, why care about customer service, learning the basics about your job and investing time to do things better? Someone else, who was on the same carousel of moving jobs, would surely pick up the pieces. But this someone else would also not really bother, and so it went round and round.

The situation was not helped by the fact that nobody was really ever accountable for anything. Sub-contractors sub-contracted to sub-sub contractors who in the case of failure would have argued that none of it had been their fault. The buck never stopped anywhere.

Why bother when you will only stay in a job for a short time? Why invest in human capital when you know that your staff will leave again soon?

cont...

…cont.

Why bother if through a network of subcontractors nobody is ever accountable for things going wrong?
Why bother as a chairman to do things well when you know that if you fail you get a nice golden parachute and probably a well-paid job somewhere else later?
The situation was not helped either by the fact that time and time again it was clearly demonstrated that not only success would be rewarded but also failure.
Just messed up a company? No problem, just accept the generous payment that your employer is offering to never see you again and yes, the pension top up might come in handy later as well. In any case, another lucrative job was already waiting around the corner, where the talents of destruction could be applied yet again. *Ist die Reputation erst ruiinert, lebt es sich ganz ungeniert* (Once your reputation has been ruined, life becomes care-free).
Perhaps the *Am I bovvered* attitude was the negative side of a society and economy that valued flexibility more than knowledge and a long-term commitment to your job?
With the labour market doing badly, Germans had little opportunity to develop this mentality over the same period.

One final thought though: perhaps the German labour market was never as bad as people claimed it to be. After all, if it really had been as terrible as people made it out to be, then surely more people would have pushed for change? In the final analysis, perhaps Germans were happy to trade in potentially better outcomes through greater flexibility for more certainty – something Germans appreciate. Perhaps Germans actually didn't like being too flexible as being flexible required being able to make compromises – something Germans were not too good at. Instead it could be that Germans merely engaged in something they like doing as a pastime: have a big moan…

…in need of major reform?

One of the spoil sports who thought Germany was more a basket case of an economy than an admirable world record holder was Hans-Werner Sinn, then one of the country's leading economists and head of the prestigious IFO Institut, an economics think tank based in Munich. Professor Sinn believed that Germany's export strength was actually the result of weaknesses elsewhere in the economy and that Germans would overall have been much better off if the economy had been more balanced. Somewhat rhetorically he repeatedly asked *Ist Deutschland noch zu retten?* (Can Germany be saved?)

What was his line of argument? According to Sinn (*Die Basarökonomie*), downward wage rigidities in the labour-intensive sector forced businesses to specialise too much in capital-intensive activities, many of which had a strong export element. While many German businesses were doing superbly and could rightly claim to be on the winning side of globalisation, many of the low-skilled workers failed to make the transition and were left behind as a result. They either became unemployed or withdrew completely from the labour market.

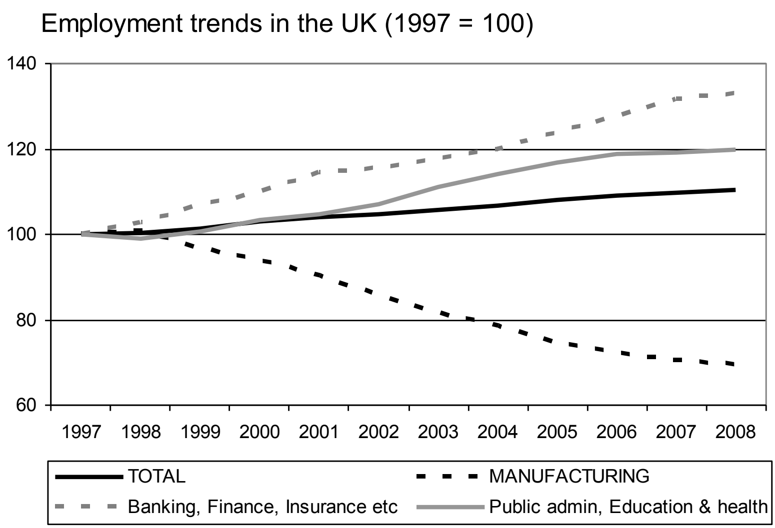
Sinn put a lot of blame on the German trade unions for this failure and argued that Germany would have been better off overall if low-skilled workers could have been priced back into the labour market, encouraging German firms (especially in the manufacturing sector) to create employment at home rather than abroad.

This sounds like a reasonable interpretation of some of the bigger economic forces at work over that period but Sinn's view was not necessarily shared by everyone. A strong lobby of more "left-wing" economists argued exactly the opposite: that the main problem was too much wage restraint. Higher pay settlements would have boosted domestic demand, solving the problems that way.[113] Maybe the embarrassing *Geiz ist geil* episode would never have existed?

The latter group had a point: while the wage share in the total economy remained more or less stable in the UK over the period 1970 to 2003 (fluctuating between 70 and 73 per cent), the share was declining over the same period in Germany. Starting at a very similar level of 70 per cent in 1970, the share dropped to 65 per cent in the early 1990s and to around 63 per cent by 2003. While this share says nothing about the distribution of incomes in the UK and Germany (perhaps the higher share in Britain is only due to some fat-cat managers earning ever more?), the trend suggests that German labour –

despite their higher degree of unionisation – failed to defend their slice of the cake that is GDP. This is bad enough but in addition the German government tried to keep tax revenue from labour, as a share of GDP, stable, with the result that the relative tax burden on labour increased. Over the same period this relative tax burden on labour remained more or less the same in the UK.[114]

It is fascinating to follow this heated debate between supply and demand siders – a discussion, which was just not held anymore in the UK and which often ended in ideological (dogmatic) mud slinging. What is also fascinating is that Sinn, at least implicitly and as so many fellow Germans, believed that the manufacturing sector had a special status in the economy. This notion must seem very odd to the British who waved 'good bye' to their own once world class manufacturing sector many years ago and who seemed to be quite happy with this. Nobody seemed to mind when the last volume car producer, Rover, shut its doors forever in 2005. The world was not a worse place without Rover but it was still surprising how little people seemed to care either economically or even emotionally. More than most Britons seemed to embrace the idea of "somehow designed over here but made in China" and as long as they could make money in some other way, they seemed happy. The following chart shows UK employment trends since 1997, when the Labour government entered office. It shows that employment in manufacturing dropped by around a third within a ten year period, while banking, finance and insurance expanded by a similar proportion, followed closely by employment in the public sector, which went up by a fifth. Much of the latter was in education and health services, reflecting the government's overarching policy objectives of improving the quality of public services.



Source: Office for National Statistics.

In reality, Germany's relative economic "failure" is not that it lost employment in the manufacturing industry but that it failed to create enough new jobs in the services sector to compensate. In fairness, Germany already had a strong services sector and some of its companies were world leaders in their field. For example, SAP was one of the world's largest business software provider, Lufthansa Europe's largest and on some measures most successful airline and the leading player in the global Star Alliance group (competing head-to-head with Britain's British Airways, which leads the One World group), while Germans also managed some of the best hotels in the world. Germany was also very strong in logistics, with Deutsche Post the largest logistics company globally (owning, for example, DHL), while Schenker was the continent's biggest transport haulage group. And given the country's desire for certainty, obviously Germany's insurance companies also played in the global big league.

Despite these successes, Germany's services sector remained relatively small for a highly developed country though. It was not that Germans did not consume services. In fact, in one area they were the world leaders in consumption. Unfortunately this did not benefit the domestic labour market as this particular area was tourism abroad. In economic and accounting terms, spending a holiday abroad is the same as importing a service. With Germans the biggest travellers in the world, Germany imported a huge amount of services from abroad. Unfortunately, in return, relatively few foreign visitors came to Germany either on business or on holiday, even though the trend was on the up. This was unfortunate for Germany's economy and labour market because tourism around the world is an engine of employment growth and a major creator of wealth. It is also one of the fastest growing industries overall. Box 3 presents a few more facts about British and German tourism.[115]

Box 3: Two travel-mad societies

In 2005 around 30 million foreign residents visited the UK, spent around €25bn there and made it the sixth most popular foreign destination in the world. Of the 30 million visitors (many of them presumably coming more than once), around 8 million came on business, 10 million on holiday, while a further 9 million came to visit friends or family. Over the same period twice as many UK residents (to be precise 66½ million) travelled abroad (again, many of them more than once), spending €48bn. Overall then the UK had a deficit of €23bn on its tourism services balance in 2005 – equivalent to 1.2 per cent of GDP.

These statistics show that Britons were the second most travel mad people in Europe – after the Germans. While only 21 million foreign residents came to Germany in 2005 - leaving €23½bn behind and making it the 8th most popular destination worldwide – German residents made more than 75 million foreign trips, spending €60½bn while abroad. No other nation spent more abroad than the Germans – making them the Reiseweltmeister. It also left a big hole in their external balance: Germans spent €37bn more abroad than they earned from foreign residents in Germany, equivalent to 1.7 per cent of GDP.

While more foreign trips were made by German residents than British residents, there were also more of the former than of the latter, so perhaps this is not such a big deal. But while Germany is a much bigger and more populous country than the UK, it actually made less money from foreigners travelling to Germany than the UK.

cont...

…cont.

This cannot be good for the economy, not least because tourism is a major creator of employment, especially in the services sector. What was going on? Business travel obviously follows its own rules but why was it that only 14 per cent of all overnight stays in Germany could be attributed to foreign residents, while that figure was close to a third in the UK and around 40 per cent for the EU overall?

Germany is neither a more expensive travel destination than the UK nor did it suffer from worse weather. It offers pleasant landscapes, lovely towns and is rich in culture, history and the arts. The problem must be partly one of image. Germany is famous for its cars, its engineering generally and its efficiency (the latter whether justified or not). It is not known for its "Germanic way of life" (unlike the British way of life, whatever that might be) or any other "soft" characteristics.

Yes, outside Germany people knew of German beer gardens, Goethe and Beethoven but none of this seemed to be interesting enough to go and have a look. The German tourist board was partly aware of these shortcomings and hoped to utilise the overwhelmingly positive response to the football World Cup to give Germany a new brand image abroad. One has to see how this will turn out.

Shock: the world is round - dealing with globalisation

During the first years of the new century both countries had to come to terms with globalisation, in other words the integration of China, India and other developing countries into the world economy. The rise of Eastern Europe also made a huge difference, with German firms either moving production and jobs to the east to benefit from the lower labour costs or – as in the case of the UK – eastern European migrants moving west. Both countries benefited from cheap imported goods, which kept consumer prices down.

It is fascinating to see how both countries responded to this new challenge: while Britons were pretty nonchalant about this and seemed quite on top of things – their flexibility and inventiveness would see them through these huge changes – Germans broke out in a sweat and started to panic: though it was Germany that was exporting more goods than anyone else in the world at the moment, it was the Germans that had sleepless nights and worried about the economic consequences of globalisation. The Chinese dragon was breathing down Germany's neck. It is perhaps ironic then that many commentators have pointed to the fall of the Berlin Wall in 1989 as the pivotal moment in recent history, which made the process of globalisation as we know it today possible.

What is true is that Britain was home to a number of world-class industries, in particular financial services and pharmaceuticals. Many Britons thought that these positions could not be challenged. As has been argued though most jobs were in the services industry and an often overlooked feature of many services jobs is that they cannot be traded at all: want a haircut? Despite the fact that a haircut only costs a fraction in India or China than in Germany or in the UK, chances are you will get it in Germany or UK. The same logic applies to going out to restaurants, shopping in a supermarket, having your car fixed in the local garage, having your rubbish picked up or for going for a workout with a personal coach and many other examples. While many services jobs were outsourced too – many call centres operated from Bangalore in India - this alone made the UK on some measures more resilient to the forces of globalisation than Germany and it was this domestic services sector, which provided at least part of the answer why unemployment had been lower in Britain than in Germany over those years.[116]

Labour market flexibility comes in many shapes and sizes. An interesting feature of the UK labour market during that period, for example, was that people were valued for their employability generally and less so for their particular skills acquired in university or elsewhere. This was even true in the financial services industry, in which, it could be imagined, numerical and maths skills might be particularly useful. However, a study sponsored by the City of London and the Financial Services Skills Council found that: "…employers in the City still target a majority of graduates who are not specialised in any particular subject – many with little practical training in finance…Recruiters are ultimately more interested in *how* graduates do things, rather than *what* they do; and ultimately select candidates on the basis of behavioural skills and attributes believed to contribute to future success."[117]

It was this flexibility – demonstrated by employers and employees, and also manifested in the existing institutions – which was often seen as the key competitive advantage of the British economy. And some feared that this flexibility was gradually being threatened. According to Willem Buiter, a distinguished Dutch economist at the London School of Economics and former chief economist of the European Bank of Reconstruction and Development (EBRD), the then British government policy to raise the minimum wage and to shut the borders for Bulgarians and Romanians (unlike to Poles and the other Central and Eastern Europeans who joined the EU in 2004) would eventually reduce labour market flexibility. And this would not be good. As Buiter puts it: "*The UK, with clapped-out infrastructure and a human capital stock of low average quality (the product of an educational system consisting of a few small islands of excellence in a sea of mediocrity), needs flexible markets, including labour markets, if it is to prosper in spite of these handicaps.*"[118] To illustrate what Professor Buiter *might* be referring to when he talked about clapped-out infrastructure, Box 4 provides a few reasons/excuses why trains were still not running on time in Britain.

Box 4: The wrong type of snow

The British railways system is not necessarily known around the world for its reliability and punctuality. Despite major investments in the network following the Hatfield accident in 2000 and despite substantial subsidies from central government to the private train operators (which exceed the funding the nationalised British Rail received in the past), trains are still struggling to get from A to B.

But there are good reasons, most of them time honoured. So here is a brief list of what can go wrong:

- Trains might struggle with the *wrong* kind of snow. According to Wikipedia, this has been a problem since 1991. Snow can be too soft and powdery and winter can therefore be a particularly bad season for the British railway system. A close relative is slippery rain.
- Trains might struggle with leaves on the line. Autumn is therefore a particularly bad season for the British railway system. Apparently leaves create a "Teflon-like" coating on the tracks – and trains find progress hard.
- Excessive heat as a result of the tropical summers in Britain and hence summer is a particularly bad season for the British railway system. Some readers might think that steel melts only above 600 or so degrees but no – some steels bend at around 35 degrees Celsius. As regularly happens. In Britain.
- This only leaves spring. However, signals can fail at any point in time and so can points. These are probably the two most often quoted reasons. And they are quoted a lot.

Germans felt much more vulnerable from globalisation than the British as their manufacturing sector came under increasing pressure from China but also cheaper Eastern European countries. In the first few years of this new century, not a single day passed without a large German company proudly announcing that it would move production and jobs to cheaper locations abroad. Bye-bye Germany![119]

To recap, Professor Sinn's idea of getting the low skilled back into work was to drive down their wage costs so that they could – once again – compete internationally in the traditional manufacturing sector. Wage restraint was one of the overarching policy and business objectives during that period and as a result Germany regained a lot of its international cost competitiveness, which it had partly lost when it joined the single currency, the euro, arguably at a too high exchange rate.

The flipside of this positive development had been very weak domestic consumption growth and a wage level, which was merely average for European standards rather than high. Germans travelling abroad did notice that they were no longer the relatively rich Germans they used to be – many destinations were now much more expensive to visit than Germany itself! In other words, in the first few years of the new century, Germany sacrificed domestic demand growth for an increase in international cost competitiveness. Looking back, it was perhaps the right thing to do.

Wage restraint over a number of years to regain lost ground seems like a sensible thing to do but is hardly a desirable or even feasible long-term strategy for a developed country such as Germany to boost employment. Put differently, could or should Germany really compete even in the low-skilled sectors on price against developing countries – foremost China? This strategy seems like entering a competition, which just could not be won. That lower wages in the industrial sector were not necessarily the way forward can again be seen by looking to the UK. Sinn argued that Germany had some of the highest wages in the world in the industrial sector, substantially higher than for example Japan and the UK. But even in the UK industrial workers could no longer compete on price against workers in China and other developing countries. As argued above, in fact the UK gave up competing on price in these sectors decades ago. So something did not seem quite right with Sinn's argument.

What Sinn did not really mention – and neither did any of the other German commentators – was that the need to become more competitive again was partly the result of a previous major policy error: when Germany joined the single European currency, the euro, German politicians and officials demonstrated that they were good and reliable Europeans by locking in the treasured Deutschmark at an exchange rate (1.96DM=€1) that was not competitive. Great for neighbouring countries, which at least for a while got rid of highly efficient German competitors; not so great for German firms and workers. With the currency locked in at one exchange rate forever, Germany could only regain its competitive edge by having lower price increases at home than the other countries. It is a real achievement that Germany managed to do just that and it is questionable that other countries would have been willing to take that pain in equal measures. However, it is as if this issue was a taboo in Germany, with neither politicians nor the media mentioning it. In Britain plenty of commentators discussed the issue in all its detail and compared Germany's woes with Britain's own enlightened decision in 2003 to remain outside the euro zone.

In any case, could Germans really survive in the future by doing ever better the things they are good at, much of which has to do with manufacturing? A cautious tale is told by two very German companies: Leica and Loewe. Admittedly both companies have always been niche players in much bigger industries but, still, their story is illustrative. Both were world leaders in their respective sectors, with Leica inventing the type of film camera everybody over, say, 30 years is familiar with, while Loewe was a leader in television technology and both could charge premium prices based on premium quality. But what is the point of offering premium products when the product group becomes irrelevant? Leica went into serious financial difficulties in 2004 and 2005, having missed (*verschlafen*) the digital revolution. Consumers wanted small, stylish cameras that looked like mobile telephones and provided convenience such as file and picture sharing around the world and seemed to care less and less about the last ounce of picture quality and longevity – the exact aspects Leica excelled in. Most Leicas became re-badged Panasonics, with German engineers tweaking the software – if that.

The story was similar for Loewe, which shared the high-end TV market with Bang & Olufsen of Denmark, perfecting conventional technology. Again though, technology moved on and the world leaders in television technology could now be found in Japan or South Korea. With consumer preferences switching to flat-screen technology, Loewe ran into deep financial problems and nearly went bankrupt in 2004. Loewe made major efforts to return to the luxury end of the television market but to do so it had to buy in most of the technology from abroad. One does not even want to contemplate the thought, but what if something similar happened in the automotive sector? What if German car manufacturers, many of whom specialise in premium products, fail to rise to the challenge to reduce emissions to meet ever tougher environmental legislation, either in the European Union or in the United States? Having said that, who can guarantee London's dominance as a financial centre in the future, especially after the global financial crisis that unfolded in 2007? It is not as if the Chinese or Arabs (Dubai comes to mind) or Indians or anyone else are intrinsically unable to do financial services…

Given that the future is uncertain; more flexibility must surely be a good thing. It is in this area in which Germans seemed to struggle more than Britons, not least because in the German labour market particular skills were generally more appreciated than in Britain. Some might argue that this was due to the fact that Germany was a much more engineering-led economy in which particular skills were absolutely crucial to doing a job – but how many people were actually affected by this? What is true though is that Germany had academics and non academics with a high level of particular skills. And as a result Germans were often very competent in their particular area of work.

The problem arises when a particular skill is no longer demanded, normally as a result of the particular area of work disappearing as often is the case – at least it is argued – due to globalisation. What then to do with all these highly-specialised skills? Retraining was poor relative to that offered in other countries. Another shortcoming was that the German system was geared towards protecting jobs rather than people. The basic idea must have been that by protecting jobs the people were protected too. But a quick look at the unemployment statistics shows that this idea did not work in real life. In any case what was so special about a particular job in a particular industry? Wasn’t it much more important that people could earn a living on their own, taking their skills and experience from one company/industry to another if circumstances demand this?

Unlike Britain, Germany was also not very successful at attracting highly-qualified and –skilled foreigners. These had made a very valuable contribution to the British economy and Germany would have benefited too. As long as it fails to compete successfully for the best talent in the world, Germany will have to rely on its own people to compete internationally. Having world-class universities and research centres will be paramount to making the most of what is available – Germany's so-called *Exzellenzinitative*, meant to raise the quality of research and teaching in universities must therefore be a good start but it cannot be the end of such a process. If attracting top academics from abroad is too much of a challenge, maybe Germany could at least try to convince the huge number of highly successful German academics who live abroad – mainly in the US but also partly in the UK – to return home? This would at least be a start.

Despite these and other similar drawbacks, there were some people who believed that Germany was and will be one of the winners of globalisation. Maybe Germany has no chance competing with China in the consumer goods markets but who would actually design and build the production lines on which these goods will be produced in China? And by the time the Chinese could design and build their own production lines, they will be rich enough to no longer pose a threat to other developed countries at that stage. Instead they will themselves represent huge markets of middle-class families, perhaps desiring to own and drive their own Audi or Mercedes. Or indeed Leica or Loewe.

But the German educational *Zeitgeist* over those years was not shaped by a considered discussion of the potential benefits of the *Exzellenzinitative* but by a bombshell of bad news from the Organisation for Economic Co-operation and Development (OECD) in 2001, a Paris-based think tank for the 30 odd richest industrial nations in the world.

Even many years later, Germany was still coming to terms with the devastating performance it achieved in the original so-called *Pisa* study conducted by the OECD. This study became notoriously famous in Germany and shattered Germans' belief that their education system was not only very good but probably the envy of the world. Just to illustrate how insular national media are, the original study hardly received any media coverage in the UK.

According to the OECD, the quality of Germany's primary and secondary teaching was at best average and easily surpassed by many countries including the UK – a real shock for a country that had always prided itself for its excellent education standards and which shocked the system into some kind of action. In a panic Germany looked at the leading countries in this international comparison such as Finland, South Korea and New Zealand and tried to learn quickly the lessons that could be taken away. Despite all the well-established shortcomings of the OECD study, this example demonstrates how useful it can be to get a reality check from time to time from outside. In German this would be called "*über den Tellerrand schauen*" (looking beyond your own plate), something Germans, despite all their international travels, don't seem to be too good at. Admittedly, despite having run a global empire, Britons don't seem much better at it.

VI. My home is my castle – or why British homes cost as much as German castles

"The…£100 million One Hyde Park penthouse, the most expensive flat in the world, upon completion in 2010…Russian oligarchs, oil barons, Saudi princes and A-list stars are among those said to be buying the…apartments…The most expensive penthouse apartments will feature bullet proof windows, purified air systems and "panic rooms"…Half of the units have already been sold at an average of more than £20 million each…"
(Daily Mail, 18 February 2008)[120]

"Potential purchasers looked not only at the initial financial burden, but also whether they could support the financing over the long term. The deteriorating labour market outlook in Germany over the last few years acted as a factor of uncertainty in this area. The particularly strong longing for certainty and security in this country apparently led people to postpone their purchasing decisions. Offering deals with lower deposit rates…would not have helped."
(LBS Research, January 2007)[121]

One of the first things that one would have noticed coming from the UK to Germany was just how modern and recent the German housing stock was relative to Britain's. The brick and mortar manifestation of the British *Zeitgeist* looked pretty traditional! The obvious reason for this is the Second World War, which left much of Germany's housing stock – especially in the urban areas - either completely destroyed or at least uninhabitable. In West and East Germany much of the residential housing stock was therefore built in the 1950s and later. This was in stark contrast to the UK, where especially the urban landscapes were still dominated by Victorian properties, in other words residential buildings built under the reign of (more or less) German Queen Victoria (1831 to 1901).

A glance out of the window of a plane coming into London or any other major city would have shown endless rows of Victorian terraced houses, many with their small back gardens or at least patios. In the more affluent parts of the country, and especially in London, many of these terraced houses had been brought screaming into the 21st century by knocking down interior walls or by adding open-plan kitchen areas. A glance out of a plane coming into most German cities would not only have revealed a more modern housing stock but also far fewer terraced houses and hence fewer small gardens. Germans predominantly lived in flats – a concept that had never appealed to Britons for whom "my house is my castle" remained of character-forming importance.

Unfortunately the dingy studio or one- or two bedroom flats that mushroomed all over the country in the first few years of this century hardly made a convincing case for "flat living" just as badly-converted Victorian terraced houses had failed to make the case previously. Devoid of any storage facilities – German flats generally came with secure cellars or loft sections - , equipped with tiny "lifestyle" open-plan kitchenettes to disguise the fact that the flats were too small to have real kitchens and lacking generally any outdoor space such as a balcony, regardless of price they generally felt more like student accommodation than real places for real people with real lifes to live.

Getting on the property ladder

While these differences could be observed from a plane, one of the key differences between the German and housing market could not: the proportion of people living in their own property. While around two-thirds of Britons owned their own property at the beginning of the new century (and rising), in Germany that share was well below half (to be precise 43 per cent in 2003).[122] Remarkably, that share stood at only 12 per cent in Berlin and was not that much higher in other big cities such as Hamburg or München at just over 20 per cent.[123] To compensate, many Germans enjoyed their *Schrebergarten* (allotment) instead. In a European context, this put the UK close to the top in the home-ownership league table, while Germany lingered close to the bottom. For Britons, owning your own home was one of the greatest ambitions in life, something Germans generally could not understand. And there were good reasons why owning your own property made good sense in the UK, while renting was a fine option in Germany.

The straightforward statement that two thirds of Britons owned their own property is, however, not quite correct: in England and Wales there was and still is the bizarre concept of leasehold, which has its roots in the land law created by

William the Conquer about a thousand years ago.[124] The concept ensures that the landlord retains forever the property rights, with the "owner" merely living in the property for a long period. With new builds this period might be 999 years but in central London, one could also end up with a 25 year or so leasehold for some flash mews cottage in a fashionable area. Especially in central London the concept was still prominent, with its defenders, many of whom big landlords such as the Duke of Westminster owning whole estates, claiming that this was the only way to ensure a consistent look across their estates. This might have been so in the past but it is difficult to imagine that planning legislation should not have been able to achieve this and there really was no reason in the 21st century why properties in the suburbs or elsewhere should be leasehold. Over the years legislation weakened the position of the landlord, giving the tenant the right to extend the leasehold or even in some cases buy a freehold outright. Despite these changes, the whole idea of a leasehold system appears anachronistic and medieval.

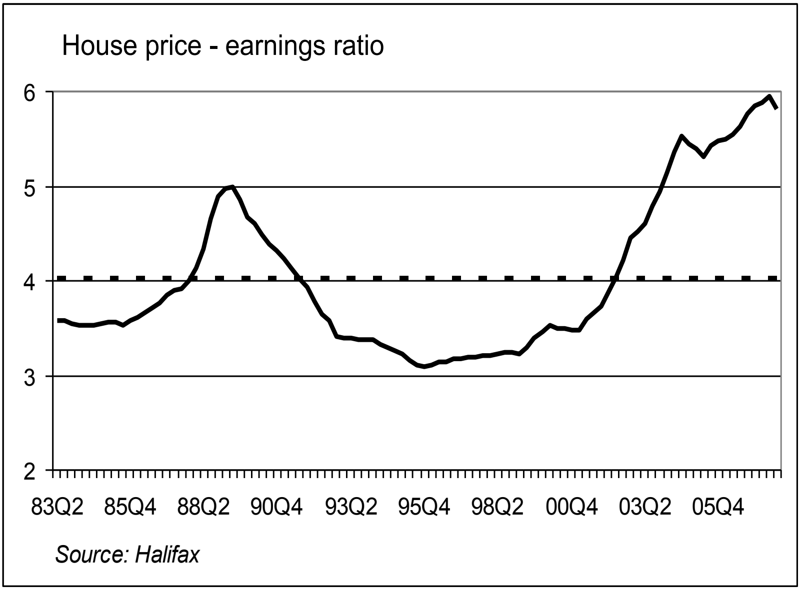
The only way is up…

One would have had to fly very low and had to use some pretty big binoculars to have spotted the third major difference between the UK and German housing markets during that period in the display window of an estate agent: the average price level of property. A quick glance into an estate agent's display showed just how expensive property was in the UK. In late 2006 the average property (this covers houses and flats) sold for £220,000 – the equivalent of 330,000 euros at that stage. While it is easy to see why upmarket property in prime locations of central London should have fetched millions – with wealthy Russians oligarchs competing against wealthy Americans, Europeans, Asians and petrol-rich Arabs – and while with a bit of imagination it could possibly be justified that average property in London would have sold for around £350,000, it is much more difficult to understand why, for example, an average terraced houses in the North East of England (which remained economically depressed in many areas) should have sold for something like £175,000.

These property prices made German property look cheap in comparison, with property prices in western and eastern Germany averaging €190,000 and €140,000 respectively in 2006 (equivalent to £125,000 and £95,000 respectively at 2006 exchange rate).[125] In Berlin prices were not any higher, with an average (80sqm) newly-built flat selling for around €200,000 (£133,000 then), while older properties were substantially cheaper still.[126] Perhaps Berlin is not a good example though as the capital remained economically depressed too and failed to meet the expectations people had in the early 1990s, when people dreamt of a capital city with a population of nearly five million within a few decades after unification (from around four million back then).[127] Property prices were higher in the more affluent and economically successful cities such as München, Frankfurt, Hamburg or Stuttgart to name just a few. But even prices in these cities were no match for UK property prices. In München, Germany's most expensive city, a new flat would have sold for around €3,250 per square metre in 2005.

This means that a 125sqm flat (around 1500sft, something most Londoners only dreamt about) would have sold for the equivalent back then of around £270,000. And again, older – but not necessarily less attractive - properties would have sold for far less.[128] This was in stark contrast to Britain, where the "olde worlde charm" of a Victorian house came with a premium.

The huge discrepancy in property prices had been the result of widely divergent property price trends since the early 1990s. While UK property prices more than doubled between 2000 and 2006 (putting the UK alongside many other developed countries such as the US but also the Netherlands, Denmark, Ireland or Spain), prices remained flat in most German regions between the mid 1990s and the mid "noughties". Taking into account increases in incomes and falling mortgage rates, on some measures property was never more affordable in Germany than during the first few years of the new millennium.[129] The only other developed country where anything similar happened was Japan, which was at that point only gradually emerging from more than a decade of stagnation. It sounds incredible but the odd one out was Germany and not Britain.



With house prices so high in the UK and price increases so marked (hardly a year passed in which the house price increase had not been in the double digit figures and indeed it happened that prices jumped markedly over a sunny bank holiday weekend…), it was not surprising that the housing market was one of the most popular topics at dinner parties, with friends exchanging the latest amazing house price stories. And amazingly, everyone had become a millionaire!

Never mind that similar house price increases in the late 1980s led to a slump in the early 1990s and millions of home owners were confronted with negative equity, never mind that international[130] commentators rang the alarm bells, never mind that estate agents told prospective buyers in the more affluent areas that they really shouldn't expect to find anything at all for a measly £400,000 or so, the general public convinced itself that this time it *really* was different. Britons more than most like to make a quick buck: what better then than to move house a few times on the upwardly-mobile property ladder and become a property millionaire – or better still property tycoon - along the way?

Over all those years the property market was a sellers' market and it could be argued that Britons lived in a world of rationing. Prospective buyers were too scared to miss out on the "dream home" or more generally anything with four walls and a roof, that they did not dare to tell pushy estate agents that they needed more than 30 minutes or so to make up their mind whether to put in an offer on the property or not. They were told that if they waited until tomorrow morning, they would lose out for sure because an orderly queue of desperate buyers had already formed behind them, all of whom prepared to pay above the asking price. It is little wonder that many irrational decisions were made – many people spent more time choosing between a new pair of shoes than making an offer on a house. Perhaps East Germans felt the same when put on the spot by the East German authorities whether they wanted that *Trabi* in 15 years' time? Consumer power it was most certainly not.

But in some sense, who could blame them? House prices were increasing much faster than real incomes – so procrastination would be costly – and in any case, few assets had seen such rapid price increases in the past and had proved so resilient over the longer term than property. A property that sold for £50,000 in 1970 probably sold for £750,000 by 2005 and a whole generation of pensioners or near pensioners benefited from these price increases when they sold their property and downsized or released equity through some clever financing scheme. And even for someone who had bought a property in 1990 or even 2000, the decision would up to at least 2008 have turned out to be an excellent investment.

If any other justification was needed, the average Briton would have argued that it did not make sense to pay rent for ever when one could take out a mortgage for the same amount and eventually own the property. This sounds convincing but the situation is a little bit more complicated than that. In theory at least there should be no difference – at least financially - between renting a property and buying it. This is called the concept of rental equivalence. Consider someone who rents a property and someone who buys, with the help of a mortgage, an identical property. The former merely pays the rent but does not acquire the property, whereas the latter's mortgage covers the interest (which is equivalent to the rent) and the capital transfer. If the rental and ownership markets worked perfectly, then the rent would be lower by the amount of the capital transfer. This means that the tenant should in principle have more disposable income to invest in other assets such as bonds or equity. If these assets were to do as well as the housing market over the lifetime of the mortgage, then the person who rents would be equally well off in the end because he/she could sell off the assets and buy the property without a mortgage.

So in theory it should really not matter whether one buys or rents. In a perfect capital market none of this should matter as different asset types should perform the same as investors seek to maximise returns and take advantage of arbitrage opportunities, and hence there should be no difference between renting and owner occupation. However, markets are not perfect, assets perform differently and governments play a major role in distorting investment decisions too. For example, in the UK there was no capital gains tax on the first property, regardless how quickly the property was sold on, making it more attractive than other types of investment.[131]

An investment it might have been from an individual's point of view but from an aggregate economic perspective, buying property was not an investment. Rather than creating new productive capital, which could raise wealth, buying property merely shifted around the ownership rights of existing bricks and mortar, which from a macroeconomic perspective was not a very productive activity.[132]

While the average person considered himself lucky if his property had gone up in value (ignoring the fact that the next property he might have wanted to own had probably also gone up in price),[133] some commentators were far more critical of these developments. For example, Martin Wolf of the Financial Times argued that: "*For the British, houses are as much* *gold mines as mere dwellings. Over the past 10 years, real house prices have doubled, while real disposable incomes have risen only 29 per cent…The big point is that higher house prices cannot make society as a whole better off. They merely redistribute income from the young to the old, which is socially destructive. If, in addition, there is an element of overshooting, that will prove particularly costly to those who turn out, retrospectively, to have bought at the peak. For those hapless people, it would be far better if price overshooting had never happened*."[134]

Redistribution from the young to the old? This very much sounds like a type of pay-as-you-go pension system. Could the British housing market in fact have been a hidden pension system? The results were quite similar: young people had to give up substantial amounts of their disposable income to buy a property, normally handing over the money to older people, many of them close to or already in retirement. While the cohort of people entering retirement in the early 2000s had done incredibly well out of the housing market, it is difficult to imagine how future cohorts of pensioners could benefit from the housing market to the same extent. For this to happen, someone who bought a property at the already high prices of the 1990s would have to sell at a substantial profit in, say, 2020, in other words house prices would have to continue to rise well above inflation and well above nominal earnings. Given that the house price to earnings ratio is already at a record high, how could this be feasible? The UK housing market therefore seemed to be unsustainable - just as much as an unreformed German pay-as-you-go pension system – and many commentators expected the housing market to slow down. What they did not know though was when this slowdown would happen and whether the slowdown would be gradual or could lead to a sharp downward adjustment.[135] In the event the date was 2008 and the downward adjustment turned out to be BIG – to compensate for the BIG increases previously. For anyone with common sense, and the British pride themselves to have loads of that, this should not have come as too much of a surprise after all. Welcome back to reality.

The German pension system might indeed provide one answer why the German housing market was so different: despite previous reforms, most Germans expected to draw a reasonably generous state pension in the future and therefore had some planning horizon on the income side in old age. In the UK the state pension system was aimed at providing a very basic income for all (a safety net to avoid pensioner poverty) and modest top ups for those who don't have any other sources of income. With the middle classes left to their own devices to provide for their own retirement, it is perhaps not surprising that many invested in property alongside the stock market to build up a portfolio of assets for the future (and moved out of stocks and into housing after the dotcom bubble burst).[136]

The biggest pyramid game in history

The British housing market could not only be interpreted as a indirect pension system distributing money from the young to the old, an even better interpretation is that it represented a massive pyramid game or chain letter. In a traditional pyramid game/chain letter individuals are promised fantastic returns for little outlay, all they have to do is to pay someone ahead in the game some money and put themselves down on the list to receive some money too. The individual who initiates the game normally makes a tidy return and so do those close to the start. This game works as long as more and more people can be found to pay something in the expectation that even more and more people can be found to pay them. It does not take long for such a game to break down and the losers are those at the end who could not find the next generation of players. Tough luck!

The main differences between the British housing market and a traditional chain letter were a) the amounts of money involved in the former and b) that for most players – even further up the chain – the profit had not been realised yet and therefore everybody had a vested interest to keep the game going. As long as one more "idiot" could be found who was desperate enough to get on the property ladder and was prepared to pay even more for your home than you did just a little while before, your "investment" was sound. And given that most people were in a chain to sell and buy and move on, everybody would be happy.

Whether it was the young or new migrants who had moved to the UK and settled there, demand would hopefully remain buoyant. And given that the housing market had been a backbone to the British economy for many years; the Government obviously also had no interest – not least because of the stamp duty which had turned out to be a nice little revenue earner for the public purse - in calling an end to this game. Keeping houses in short supply was part of the strategy. For example, while the Government announced the construction of millions of new homes over the coming decades, even if these were actually to materialise (which could be doubted), the numbers would hardly even have kept up with the likely demand arising from the expected inflow of migrants (which might not materialise either…) and new household formation as the trend towards smaller household sizes continued. As if this was not enough, the Government was also keen to keep up demand, for example by promising interest-free loans to "key workers" such as nurses, teachers and policemen so that they too could afford to get on the first rung of the property ladder. Never mind that subsidies generally just lead to an increase in the market price to absorb the additional ability to pay by those looking; all that mattered was to keep the housing market afloat. What normally happens in such a situation is that the artificially propped up structure eventually hits a mighty iceberg, and then sinks just like the Titanic. Or to put it differently: the second demand at the bottom of the ladder withers away; the whole structure comes down like a house of cards. Welcome to the property *slide!* Welcome to the realities of 2008.

It could be argued then – perhaps controversially – that the British housing market showed similar characteristics to the

German labour market. In both markets a group of insiders (either those already owning a property or those who have a job and have campaigned hard to have it protected) did well at the costs of outsiders (those who wanted to get on the housing ladder or were looking for employment). While the German labour market felt like a cancer though in German society during the first few years of the new millennium, the British housing market felt like champagne on which large fractions of society got intoxicated. And those who could on their own not afford to join in the fun were given cheap money to participate too, not only so that they could also have some fun but so that the party could keep on going for everybody else too.

The party was definitely over by 2008 and society woke up with a bad hangover. But will this lead to a change in attitude towards the housing market over the longer term? Will British society feel that their housing market was also like a cancer, which actually lowered rather than raised the quality of life, or at least feel that it did not get drunk on champagne but some cheap and spiked wine? Looking forward, will Britons wean themselves of this drug and find other hobbies to replace the predictable "let us become a "property millionaire" game? Or will they just fondly look back to those happy days in the early 2000s and try to replicate the same conditions to make it all happen again in the future?

But money was not the only reason why Britons were keen to own their own property. Unlike in Germany, renting was an unattractive long-term option, with tenants enjoying far fewer rights than in Germany. While German tenants had the luxury of installing their own kitchen and of decorating to their own taste, enjoyed in many cities rent control (with the local council dictating by how much rent could go up at any point in time) and had a long planning horizon due to long-term contracts, British tenants had little say over how their property was decorated and generally lived on 6-month fixed-term contracts. If you wanted to have certainty regarding where you would live in six months' time, you needed to live in your own property.

All this though does not answer one fundamental question: given that Germans own their own cars, clothes and everything else, why on earth did they not own the place they lived in? Was home ownership really such an uninspiring idea? Indeed, research suggested that more Germans would have liked to own their own property – some estimates put that figure at 80 per cent[137] - but were unable to do so.

With house prices rising that quickly in the UK, even solid income growth could not keep up. But to the rescue came – entirely benevolently obviously – the big banks, offering generous mortgage deals. You need 95 per cent of the value of the house as a mortgage? No problem; in fact take some more to have some extra spending money, perhaps for a holiday to recover from the stress of moving or dealing with estate agents or mortgage lenders. Can't prove that you are earning any money? Not to worry: just hand in a "self-certified" mortgage application form and we will promise not to ask any awkward questions. Cheap and easily-accessible money was a major contributing factor that helped house prices to increase to the dizzying heights they eventually reached. All this would have been impossible in Germany, where the average house buyer could call himself lucky to raise three quarters of the house price, in other words the typical German would have had to save up around a quarter of the property value before being listened to by a bank. And this could take ages. Lucky then that house prices did not explode during that time, leaving more and more people behind. Germans did that with the help of a *Bausparkasse* (building society).

In fairness, British mortgage lenders were not only happy to hand out money, they also offered genuinely innovative and more flexible products, which gave customers a much wider choice. Don't know about your month-to-month cash flow situation because you are self employed? No problem, take out a mortgage that allows you to pay down more when you have more cash and less when you have less cash. This type of financial innovation was rare in Germany where mortgage lenders generally merely competed on price as so many other service providers during that period in Germany. Price competition in markets with more or less interchangeable products and services meant very low prices and very low margins – one wonders why enterprises complained – but rather less choice for consumers. In fairness also, the minute the financial markets entered turbulences, British mortgage lenders quickly dropped their innovative products – financial markets innovation all seemed like a dream.

Another reason was obviously history. In both countries the *status quo* was a very important force; if your parents aspired to own their own property, then you were probably more likely to do the same once you moved out – the British case. With many Germans growing up in rented accommodation, the urge to then move on and buy your own property was just not that great. But this obviously does not explain why the parents owned/rented in the first place. While owner occupation has always been higher in the UK than in Germany, the period since the 1980s saw an increase in owner occupation (from less than 50 per cent in the early 1980s to, as already stated, more than two thirds at the beginning of the new century), with the former Prime Minister Margaret Thatcher (the iron lady with the handbag) encouraging individuals and families to get on the housing ladder.

She partly achieved that by selling off millions of council properties, offering them to the tenants at well below market prices, in an effort to develop a more capitalist mentality in society. The argument went along the following lines: someone who has a stake in the economy in the form of a property will be more interested in seeing the economy do well (as if your job in the labour market was not a sufficient reason) than someone who just rents. Homeowners are capitalists! Obviously this strategy also required that potential homebuyers had access to the financial markets. With the same logic wide-scale equity ownership was also encouraged, with British Telecom (BT) one of the first major state-owned enterprises in the 1980s to be privatised and society encouraged to get engaged. Germany followed a similar route in the late 1990s when Deutsche Telekom was declared the *Volksaktie* everybody had to own. But the idea didn't get as far as the housing market and the Deutsche Telekom Aktie was hardly the stock, which convinced Germans of the benefits of stock market exposure – it crashed soon after being launched when the internet bubble burst.

Most local-council tenants could not refuse such an offer and a new generation of property owners was thus born (which proves that the *status quo* might be an important force but can still be overridden as long as the incentives are right). And, as has been argued above, since then house prices had been on a long-term upward trajectory ever since, only interrupted by a sharp downward correction in the early 1990s following the boom and then bust of the British economy overall in late 1980s/early 1990s.

Declining populations

With Germans not used to widespread home ownership, why start now? The concept of rental equivalence mentioned above provides one good reason why they should not have started in the early parts of the new century. Unlike the UK, Germany's population was declining and was projected to fall from nearly 80 millions to 70 millions by the mid 2050s. Who then wants to buy property in the future, especially in the more rural and less attractive areas? Yes, the affluent areas of the bigger cities will remain attractive and will act as magnets in the future too but what about the *Speckgürtel* (the "bacon" belt) around the bigger cities, in which people live and from where they commute to work in the centres of the agglomerations? The answer to this rhetoric question must be no one – unless the demographic projections turn out to be wrong, perhaps because Germans suddenly decide to have more children again.

Indeed, house prices in many parts of Germany were already sliding and whole swaths of eastern Germany were becoming depopulated. Many commentators argued that these were the things to come in western Germany too, with whole areas of Germany becoming deserted as the population congregates more and more in the bigger cities and turn their backs to the rural areas. Some visionaries already saw wolfs and bears roaming Germany's countryside again in the next few decades – not an unattractive thought actually.

All this could not make property the hot investment it appeared to be in the UK. With many people expecting house prices to continue to fall – and the decline probably to accelerate – why buy? Would it not be better to rent and invest in something else instead? With expected price movements reflected in actual prices as buyers and sellers started to anticipate the market, prices were sliding…

So, did property in Germany represent a bargain? With many Britons taking advantage of the high property prices back home and using capital to buy property in Spain, Portugal and France, and even in the Baltic states or Morocco or – obviously – Monte Carlo (creating localised property booms there too), some daredevils were considering buying in Germany too.[138] With property prices in Berlin a fraction of those in London, many saw this as an opportunity not to be missed, especially for buy to let properties. What they forgot in their calculations was that rent control kept a cap on rental income growth in many German cities and that demographic change might make these properties cheaper still. Buying cheap and selling even cheaper does not sound like good investment strategy but maybe the future will look very different to that expected and the purchases might turn out to be good investments after all.

Obviously by 2008 Britons had lost their appetite – and financial means – to pursue such extravagances. And the dramatic collapse of the Spanish property market – in which so much British money had flown - genuinely hurt. Ouch.

New is not the same as modern

But enough about ownership structures, mortgages and future price trends! What did German and British properties actually look like? Who built them? How much space did they offer? Were people nice and warm in winter? Did they like living in cities or in rural areas?

By now the reader should have left the virtual airplane over the UK or Germany. What else was different? For example the market structure of residential house building: in the UK this was dominated by a few, national developers such as Barratt or Wimpey that pumped out the same type of house up and down the country, leading to a drearily monotonous built environment. In Germany residential property developers were generally of a smaller scale (often co-operatives) and more regional; many people also built their own house. This probably led to more varied outcomes across the country.

But having most of the national housing supply controlled by a few national house builders led to more than just a monotonous built environment: it also arguably meant that housing supply was never raised sufficiently to catch up with demand. Driven by their own profit motives rather than national needs, the big builders arguably did not build as much as they could during the economic upswing – not least because sitting on landbanks often seemed like a more profitable activity than actually building new homes on the land – and vigorously cut output at the first sign of an economic downturn. With output controlled by a few mass producers, there was never a chance of new housing supply rising sufficiently to make a notable dent on house prices overall – why would these producers aim for that?

It is not that Britons did not want to build their own houses – many did. However, it appeared to be more difficult to do this than in Germany, especially in the densely-populated South

East of the country. Building your own property required a plot to build on and these were rare as gold dust. As a result most people just accepted what was already there and did a few changes – if that. More ambitious (and definitely also on average wealthier) individuals pursued a different approach: rather than buying a plot to build on which often did not exist anyway, they bought a house in a nice location, pulled it down and then started again.

Not that this was only a question of ambition and money though: local councils fiercely controlled what was built in their neighbourhoods and were often reluctant to grant planning permission for anything which might have looked only marginally different to what could be found already. Traditional looks counted a lot in a country, which had had no exposure to Bauhaus, Art Deco and other influential architectural trends that have influenced Germany's and most other continental European countries' build environments. In fact it has to be asked how the building stock would now look like in the UK had the same mentality and attitude towards new forms of living already existed during the Stonehenge period.

A lick of paint or let us talk about quality

One could argue that high property prices in the UK could have been justified if at least the properties had been relatively spacious and had been of a high quality. Unfortunately, nothing was further from the truth. Kevin McCloud, TV presenter of the "Grand Design" architectural programme (of which later), was highly critical of British building standards and design and made a strong case for following Swedish building practices. He argued that: "*…If other countries can do it, so can we…The problem here is the reason other countries can do it so well is the same reason we can't. Land in Sweden and Finland is cheap…Meanwhile, in the UK, we suffer from both a restrictive planning system that can't release enough land and an attitude that our home is an inalienable investment…So by the time they've finally found and bought a site, the developer doesn't have much left in the kitty to build the damned houses.*

No wonder our homes are so cheap and nasty compared to our European friends. Don't believe me?...Lord Roger's Urban Task Force produced a report showing that German houses were up to 50% larger than ours: EU housing statistics put the floor space of new British homes at the bottom of the list…And yet we take our pokey, low-ceiling homes and divide them into smaller, unmanageable spaces…There are other "design quality indicators", too, such as light, view, layout and facilities…You want to see exciting, responsive, sustainable contemporary domestic architecture? Go abroad. Even the government's own statistics bear out the story…6.3m homes were deemed "non-decent" – that's 29% of our housing stock. But there's an even worse figure, and that reflects our streetscape: 3.2m homes are in 'poor-quality environments', where shoddy public space, traffic and lack of maintenance blight people's lives."

McCloud also mentioned energy efficiency of British houses. Apparently this was not too good either, with the Financial

Times reporting that: "…Tudor buildings [note: these were built in the 16th century] wasted less heat than buildings constructed since the 1960s." [139] Apparently modern builders cut corners in areas that the normal (British) customer could not see.

What had gone wrong? Unlike the market for goods (but not for services) there was still no single European market for housing. Intrinsically property is immobile (and this is why they are called *Immobilien* in German) so they cannot be moved around like other goods such as cars (*Automobil* in German – self moving) or washing machines. While the markets for most consumer goods had converged across the European Union since the creation of the Single Market in 1992, property markets had remained highly national and even local, with building practices and building regulations reflecting different histories and different consumer preferences. The British thought in terms of number of bedrooms, Germans in square meters. The British could visualise (though it is probably correct to say that they had no choice and *had* to visualise) what an estate agent meant by "a deceptively spacious house full of character with two good-sized bedrooms", while in Germany tough rules dictated exactly how to measure square meters. After all a square meter was not necessarily a square meter… And while demand for housing consistently exceeded supply in the UK for many years partly as a result of an increasing population and a failure of the planning system to facilitate and/or encourage the construction of new property in areas of high demand (leading to a "sellers' market), the opposite was true in many parts of Germany, leading to a buyers' market.

Germans had generally not been exposed to British properties and building practices in Germany, and the same was also true the other way round.

However, a house might be immobile once it has been built but who is stopping anyone, as long as local requirements are met, from building the components in a factory somewhere and then transport them to the final location somewhere else? The answer is no one. In the first few years of the new century a few German builders entered the British housing market, attracted by high prices and latent demand for quality. Houses were produced in factories back in Germany and then shipped by lorry to the required site in the UK. One of the more prominent examples was *Huf Haus.* The company created a phenomenon in Britain in 2004, when the aforementioned Kevin McCloud presented a *Huf Haus* in his Grand Design programme. In the programme Mr McCloud followed ambitious people who were determined to build their dream homes. Normally this turned into a battle against all kinds of problems, from failures in the planning stages, to shoddy craftsmanship, to late delivery of key components to disappearing architects and project planners ("hello, I am calling from Australia…").

In one of his series Kevin McCloud presented a couple who had decided to build a *Huf Haus* and that way led to a culture shock when the British viewing public was for the first time exposed to German construction quality and efficiency.

But let a webblog[140] speak for us instead: *"I'm reluctant to perpetuate National stereotypes, but sometimes the empirical data works against me. I was watching Grand Designs the other day, and became fascinated by an older couple who were replacing their old…house…with a Huf Haus…The post-and-beam house is completely pre-fabricated in an immense warehouse in Germany, then shipped and assembled on site…The whole house is up and watertight within seven days, which seems an incredible feat until you see the German Huf team working.*

What happened during the process of the build seemed to completely reinforce the stereotype of German workers as ruthlessly efficient, and British workers as slack and lazy. On the first build day, the German builders turned up at 7 am sharp, already in their natty [sic] matching waistcoats and shorts that looked like a funky modern interpretation of the lederhosen, to lay the concrete plinth on which the house would rest. They didn't want to be late. They got cracking and reached the last load of concrete, but the final (British) concrete mixer truck was nowhere to be seen…Finally, the concrete turned up just as it was getting dark. The driver had got lost. When the house itself was due to be assembled, several trucks containing the parts of the house arrived at 7.30 am. All they needed now was the crane driver, who was also due to arrive at 7.30am–and was British. Oh dear. Five hours later, the rather red-faced driver appeared, claiming to have got lost. Do you see a pattern appearing here? It's suburban Surrey, for crying out loud, not the Outer Hebrides! You'd think *that if the German crew could cross a fair proportion of mainland Europe and find it, it surely couldn't be that hard for a local.*

No matter, the Huf team immediately made arrangements to get two more team members in for a couple of days so that they would still complete on time…Anyone who has ever seen a British builder will find the following phrase unbelievable; the Huf builders were cleaning out their tool boxes, and even polishing the dashboard of their van with furniture polish. British builders never see their dashboards from the first day they acquire the van. From that day on, the area below the windscreen develops geological layers of discarded Sun newspapers, crisp bags and drinks cans. In older vans, I suspect that the lower strata are transformed by the heat and temperature of the upper layers into some hitherto unknown material.

The inside of the house (tiling, wiring, plumbing etc.) was also completed by the Huf team, and was finished to incredibly exacting standards. The new owner marvelled at the reaction of the supervisor to the work of his tilers in the kitchen. The supervisor said that it was absolute rubbish, and would have to be taken down and done again. The owner couldn't see anything wrong with it, and asked him what the problem was. It seems that the grouting on the tiles at one side of the area was 1 mm wider than that at the other…"

This is pretty devastating stuff. This is not to say that Britain did not have excellent architects or quality builders. But this was mainly for industrial, commercial or public buildings. BMW's and VW's flagship buildings in Leipzig and Wolfsburg respectively had been designed by Iraqi-born British architect

Zaha Hadid, the famous *Staatsgalerie* in Stuttgart was designed by the late Sir James Sterling and the *Centre Pompidou* in Paris – the world's most visited museum – was designed by (now Lord) Richard Rogers in partnership with Renzo Piano. David Chipperfield was a highly regarded architect who had taught in Stuttgart and in 2007 won Britain's most prestigious architecture award, the Stirling Prize awarded by the Royal Institute of British Architecture, for the Museum of Modern Literature close to Stuttgart. David Chipperfield is also the brain behind the masterplan for the prestigious redevelopment of Berlin's Museumsinsel, a world heritage site.

At least from a German perspective though the most famous contemporary British architect at that time was Lord Norman Foster, who was the mastermind behind the rebuilding of the German parliament building Reichstag in Berlin in the 1990s. Sir Foster's list of landmark buildings is long, stretching from the Chek Lap Kok airport in Hong Kong via the Commerzbank headquarter building in Frankfurt from the mid 1990s, the highest bridge in the world in France, the London Assembly building (a tour de force in glass) to 30 St Mary Axe in London, more famously known as Swiss Re's Gherkin. And with Ove Arup the UK also had one of the leading construction companies globally, which was the only one in the world that dared to build the Sydney Opera House in the 1970s. And there might even be a glimmer of hope for British residential housing, with Lord Rogers involved in a project with Wimpey, the mass producer, to build modern homes in Milton Keynes, a town not too far away from London.[141]

Given this excellence in design and construction, it was remarkable and sad to see that residential house building was dominated by a few deeply conservative and mediocre national players who made more money from sitting on land banks and from developing a plot of land than from good and innovative design. The sorry state of residential building led Jonathan Glancey, the Guardian's architecture critic, to argue: *"How can the country - how can London, which once boasted some of the best respected low-cost and middle-class housing in the world - have stooped so very low? Architectural students from around the world now come to gawp at and video the staggeringly inept new world we are creating with which to punish our citizens…There is a tremendously strong vein of snobbery running through planning departments the length and breadth of Britain. Conventional housing schemes designed in garish, pseudo-vernacular styles - meaning they look the same wherever you go - are given the go-ahead pretty much willy nilly, because they look like the proper homes depicted in children's drawings, even if they undermine the character of the villages they desecrate and make a mockery of centuries of local architectural styles, and run counter to an area's building character and materials. Yet when people try to build truly local homes that would blend in to their surroundings, or add to the character of a locale, they are usually told by their local planning departments that they cannot do so…There is no reason to doubt that in 2020 we will still be building this kind of poorly planned, pokey, two-fingers-up-at-local-character housing, and it will still be marketed in the* *property pages as some sort of domestic dream….The trouble is that there is no grown-up - much less joined-up - thinking in local or national government, much less in planning offices, to prevent the destruction of the distinctive nature of our high streets and suburban centres. Policy in general is aimed at undermining local character, and small family businesses; it encourages powerful national and global business interests better able to pay high taxes. Property is simply too expensive for anyone's long-term good or happiness in Britain…By 2020, then, more and more people will live in execrably dull new homes, in increasingly characterless extended suburbs lined with chain stores…"*[142] The topic of chain stores will be picked up again in the next chapter.

Plattenbauten and all that

Not that ever German building was an architectural marvel. Not surprisingly, the 1950s and 1960s witnessed an unprecedented building boom, at least in then West Germany, leaving many German city and town centres as dull and boring as dishwasher. The 1970s and 1980s rage of turning every high street in the country into a pedestrianised zone unfortunately did not made things much better. At least by the new decade the shops were now open until early evening on Saturdays.

Things moved more slowly in the then GDR. Lacking the financial means to rebuild comprehensively, the political elite focused on pushing a few prestige projects (for example in East Berlin), partly with the help of large numbers of coerced "volunteers" from across the *Arbeiter- und Bauernstaat* (workers and farmers state). *The Arbeiter- und Bauernstaat* also built millions of cheap *Plattenbauten* (concrete slab high risers) to accommodate its socialist population, following a similar architectural design to that used across the entire eastern bloc all the way to Vladivostok. Housing shortages always remained a way of life in the east, with long waiting lists to qualify for an apartment. Being a member of the *Sozialistische Einheitspartei Deutschlands* (SED) obviously helped to jump the queue more quickly. Queuing was probably the main economic activity in the GDR.

Much of the older building stock was just left in ruins and left to rot as *Mahnmale* – symbols of an old imperialist, fascist past. Dresden's Frauenkirche is perhaps the most famous symbol of them all. Even more symbolic is that the church was completely rebuilt, thanks to generous donations from across the world, including from Britain.

Germany's deconstruction sector

Housing shortages in the east turned into a residential housing surplus after the *Wende* (the Turning) in the early 1990s. The emphasis in eastern Germany then shifted more to demolishing and upgrading than on new constructions. To put some structure to all this, the federal German government launched the so-called *Stadtumbau Ost* initiative (city transformation East) in 2001.[143] Aim of the initiative was to demolish around 350,000 of a total of roughly 1 million empty residential properties (accounting for nearly 15 per cent of the total stock) in the east by 2009. As a consequence whole estates or even suburbs consisting of the above-mentioned *Plattenbauten* had to go. Another aim, supported by substantial government funding, was to upgrade potentially attractive neighbourhoods, most of which were in city or town centres, to make them desirable areas again.

The bigger objective though was to stabilise whole cities and towns, which, it was otherwise feared, could fragment and become economically and socially unsustainable. Since unification, millions of people have moved from the east to the west, while many others have moved from the declining urban areas to new residential developments in the countryside. One consequence of these major demographic trends was that the elderly represented a very high proportion of the remaining population. Making these currently declining cities and towns attractive again to a younger and more dynamic population was therefore paramount for their survival in the future. Raising population density would also mean that public services such as schools and local hospitals could continue to be provided on an economically sustainable basis.

The thought that cities, towns or whole counties could shrink in population was shocking at first. Policy makers and the population at large generally thought of change only in the context of economic and population growth. Dealing with a declining population represented a completely new challenge for policy makers who were more used to providing more services for more people. Now this thinking had to be reversed, with shrinking cities a new option. Not since the 30-

year war in the middle ages and the “black death” had society been faced with such a prospect. It was suggested that this could be the blueprint for what will happen in western Germany too over the coming decades. A new initiative, called *Stadtumbau West*, was launched soon afterwards…

These challenges were in complete contrast to the challenges in the UK, where the total population had increased substantially (partly due to inward migration) and was projected to continue to grow over the coming decades. The central government came up with some development plans but local councils dragged their feet. While everybody would have agreed that more houses should have been built, everybody would also have agreed that this should have happened somewhere else. NIMBYism (not in my backyard) was alive and kicking. Councils feared that more people would require more public services, which were costly to provide, and that new houses could put downward price pressure on existing homes. Clearly existing residents would not be too impressed by that. Fearing a backlash from the powerful homeowners in local elections, councils were often reluctant to make new land available for development.

Construction needs were strongest in the south east of the country. Responding to this need, central government identified areas in the south east for development and tried to force local government to play along. Not surprisingly there were many critics to these plans. Some of them pointed out that some of the identified areas were in fact in flood planes and that there were good reasons why nobody had built a house there in the past. Others argued that these developments would further destroy what was left of the English countryside.

According to a German economist working in the UK, Oliver Marc Hartwich, NIMBYism was indeed one of the key differences between the British and German housing markets and a key reason why price developed so differently. Mr Hartwich argued that demand for housing had gone up in both countries, not least because of the trend towards smaller family units, but while supply kept up with demand in Germany it did not in the UK. For him the key difference was that German local councils were in competition with each other to attract residents as this would make a difference to the financial transfers they received from the federal government – and as a result they were happy to provide building land. Not so in the UK. As argued, local council were worried about the cost associated with opening up land for building and new residents (e.g. new schools) but hardly saw any financial benefits as transfers from Whitehall did not take into account building activity.[144]

When a man is tired of London he is tired of life: the joys of living in the countryside

It is a while since Samuel Johnson, one of Britain's most famous literary figures, proclaimed that: "*when a man is tired of London he is tired of life*". In fact it was 1777 when he made this statement discussing the issue of London as a place to live and enjoy with his friend and biographer James Boswell. Obviously Johnson rather liked it.

Not everybody seems to agree with Mr Johnson nowadays: despite having what was considered to be the world's top city, London, many Britons dreamt of little else but to live in the countryside. TV programme after programme tracked the attempts of city dwellers to find their dream home in the countryside, where life was peaceful and – importantly – homes were still relatively affordable. Relative that was only to prime locations in central London though as the more attractive rural locations, especially those with good transport connections to London or the other big urban centres, had seen similarly spectacular price increases, on a par with those registered in prime central London locations. Despite this, it was not uncommon for people to commute from rural Wiltshire or the Cotswolds daily to London – a trip of 2 to 3 hours each way.

What was going on? One explanation is that urbanites eventually felt like moving away from the urban centres. This normally happened in the 30s, often once the first child was born. There was an idyllic vision of how life in the countryside could look like. And indeed enough pockets of the country remained that gave the idea that one lives "away from it all", with city dwellers dreaming of a local pub providing the centre of social life and the local school offering all their children could ever need – unlike their urban counterparts, with their reputation for crime, drugs and racial issues (whether this was true is another matter).

The tendency to eventually move away was most extreme in London. While London continued to grow in population size, this was in fact due to international inward migration, with a large share of foreigners flocking to the capital city. Job opportunities seemed brightest in London; friends already lived in the London area and whatever language one might speak, surely someone else was already speaking it in London. Without these international migrants, London would actually have lost population to the rest of the UK.

This means that London was not only by far the most international city or region in the UK but also had a relatively young population. Migrants were generally young, often in their 20s, while those leaving were mainly in their 30s and 40s. What is equally fascinating is that this had been going on for hundred of years. Since Roman times, London has attracted the young, who come and have a go at establishing a career and then eventually – either having succeeded or failed – move on. Some commentators have described this as the "London chimney effect".

In addition to being pulled to the countryside, people are also being driven away. Cramped housing conditions don't seem that bad when single and in the 20s but become increasingly intolerable later on in life. A seemingly endless stream of young, dynamic and ambitious people also made the rat race feel relentless. At some point many people just decide that they no longer want to compete in that race.

Then again, perhaps British cities just do not offer the same quality of life as continental European cities. In fact it could be argued that Britons had the worst of both worlds with their suburbs of endless terraced houses. These suburbs cannot create a continental European lifestyle as can be enjoyed in Paris, Madrid, Milan or Berlin and whereas these Europeans actually live in their cities, Britons mainly only commute to the centres for work or shopping. Endless suburbs mean endless commutes on inefficient public transport. And after all this commuting, it still didn't look like the countryside at home.

Perhaps it is also telling that the chic central and high-density areas of central London such as Knightsbridge, Kensington or Notting Hill were full of foreigners. Wealthy Britons appeared to be heading for their picturesque thatched cottages in some sleepy hamlet in the countryside.

Moving to the English countryside appeared to be not enough for a growing number of people in search of a better life though. As the Financial Times claimed: "Britons leave in record numbers for quieter life…the reasons…given…are that people are fed up with government, taxes, creaking infrastructure in the southeast, problems with schools and the weather".[145] In 2006 a record number of Britons hence set sail for a new life abroad.

VII. Shop 'till you drop versus *Geiz ist geil*

"Crush chaos at Ikea store opening - Several people were hurt in the crush as thousands flocked to the midnight opening of Ikea's newest store [at London Edmonton]… Bargain-hunters even abandoned their cars…causing severe traffic problems, police said…when the doors opened one woman "pushed her way forward screaming with excitement" then the crowd rushed in through the doors..."[146] (10 February 2005)

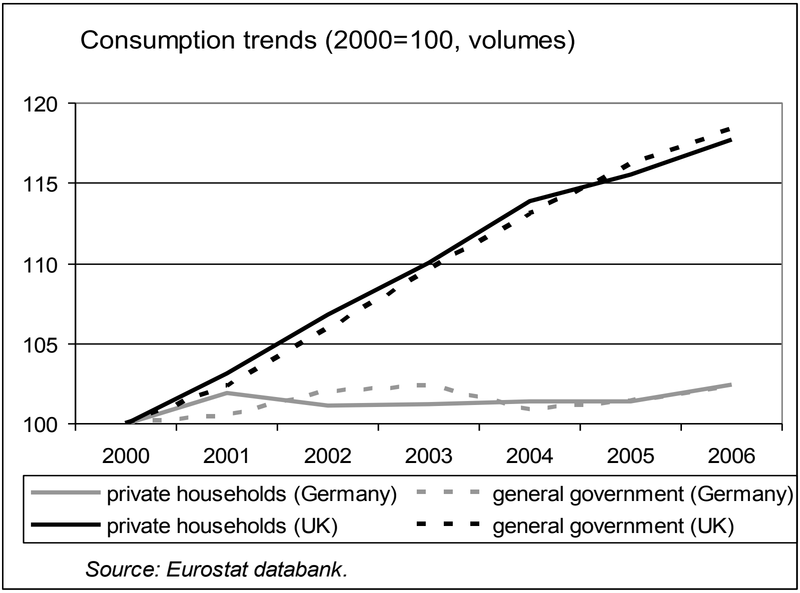
"The disappointing run-up to Christmas has widened the gap in the retail sector between the winners and losers of the crisis…The industry body representing the German retail trade expects turnover to fall across the sector by around 1 per cent in 2003…For…Christmas trade turned out to be even worse than last year…"We were expecting weak results but the figures for 2004 turned out to be worse than I expected"…"Consumers are insecure…"[147]

Shopping – the new religion

The beginning of the new millennium saw diverging labour market trends and house price movements in the UK and in Germany, but perhaps the most striking difference between these two countries in the first half of the "noughties" was that one country shopped while the other didn't. It is astonishing what difference this made to the *Zeitgeist* in the two countries.

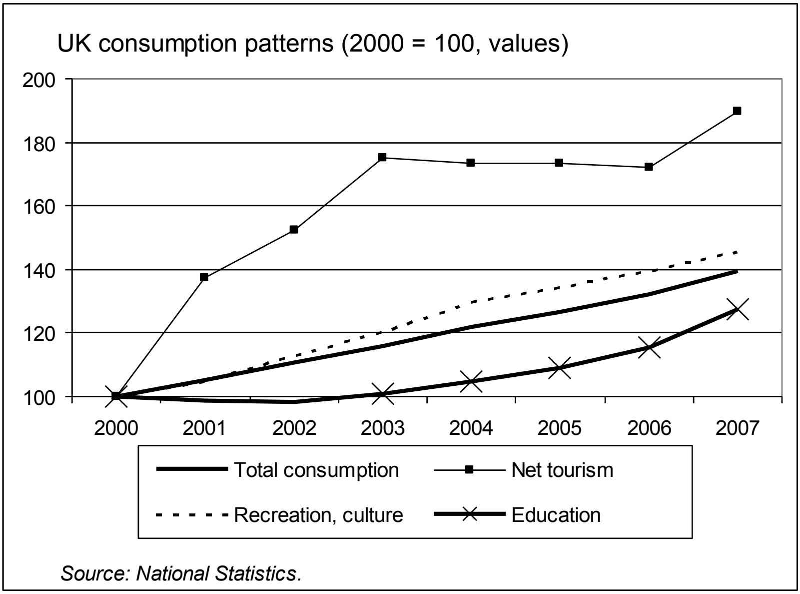
Starting already in the late 1990s, the first few years of the new century appear as if Britons were on some collective and never-ending retail therapy. Shop ‘till you drop became the mantra of the times; some observers even called it “binge shopping”. You are worth it! If shopping is indeed the new religion,[148] then Britain became a society of religious fanatics. Between 2000 and 2006, the volume of private consumption increased by 17 per cent.[149] Government also went on a spending spree and actually *outshopped* private consumers: after a few years of “austerity” in the late 1990s when Gordon Brown, the then chancellor of the exchequer, tried to build up an image of the “iron chancellor” guided only by “prudence for a purpose”, the Labour government opened the taps: between 2000 and 2006, the volume of public consumption increased by 18 per cent.[150] Britain’s economic success story over those years was therefore to a large degree the result of strong consumption growth, with a strong labour market and rising house prices fuelling private consumption, which in turn helped to create new jobs and hence further helped to strengthen the labour market. And strong tax revenue meant that the government could spend freely on things like the National Health Service or to prop up lagging regions. And round and round the upward spiral went.

The picture could not have been more different in Germany. Even on a sunny day, town and city centres up and down the country felt eerily quiet as Germans decided that they could no longer afford to go shopping. No money! It felt as if they had gone on a shopping strike or had become – to continue to use the religious analogy – hard-line atheists. Household consumption grew by a paltry 2½ per cent in volume terms between 2000 and 2006, partly as a reflection of the weak labour market and – related – disappointing disposable income growth. And with German house prices remaining flat even in nominal terms (the only other developed country in which this happened was Japan), there were also no wealth effects, which could have made Germans feel richer and hence encourage them to go shopping (in any case it would not have mattered much as home ownership remained relatively low in Germany). The public sector didn't help much either, struggling with its own fiscal challenges as the government tried to keep the wedge between spending and income as small as possible. German general government consumption also increased by 2½ per cent (in volume) over that period. And round and round the downward spiral went. Had it not been for the strong demand for German products from abroad, one could easily imagine that Germany would have stopped functioning as a normal economy at some point. These differences look dramatic in words but – as they say – a picture says a thousands words.



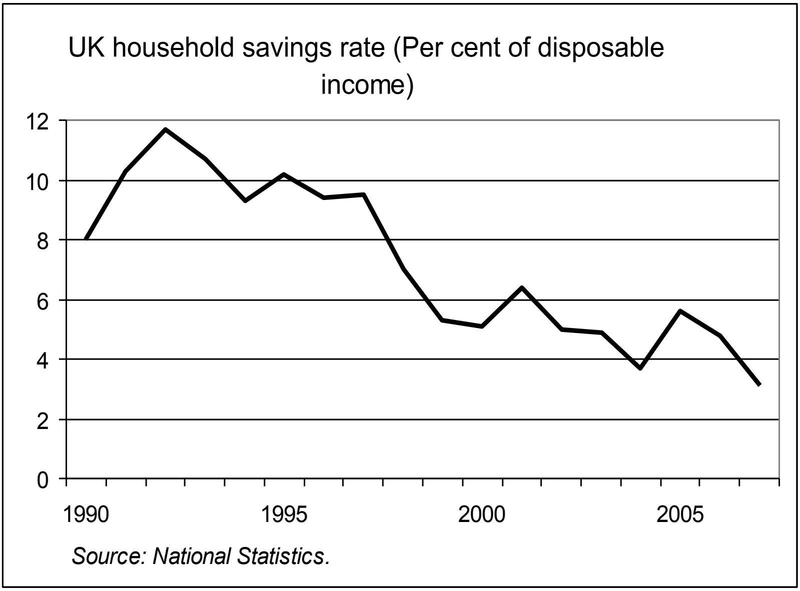
It is as if Britons spent as if there were no tomorrow, while Germans spent as if there were no today.

The following chart shows what Britons considered to be the most worthy reason to spend some money on: going on holiday. While the value of private consumption increased by 40 per cent overall over the period 2000 to 2007, spending on net tourism actually nearly doubled. Education appeared to be less inspirational though, with spending rising by less than a third. The priorities were clear.



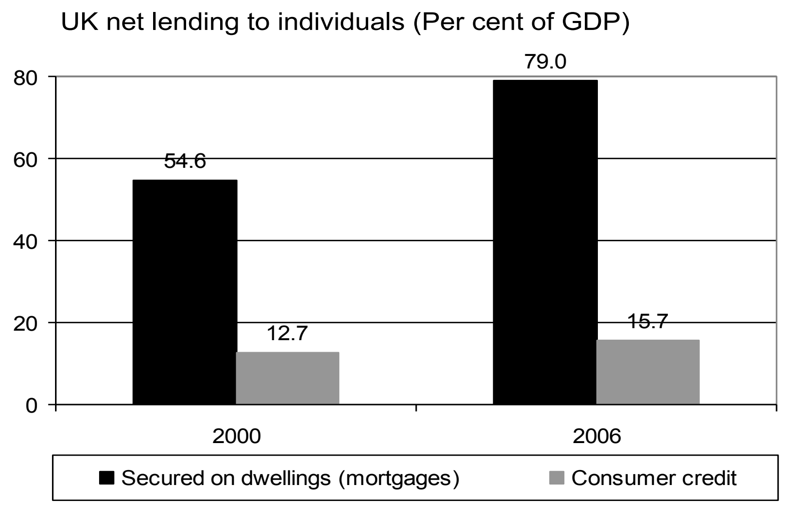
Spend spend spend and why Geiz was in fact ungeil

As if a strong labour market and rapidly increasing house prices were not enough to convince Britons to go shopping, British consumers were also faced with historically low real interest rates (which made taking out credit cheaper) and easy access to credit in the first few years of the new century. Not a day passed without the Joneses and their envious neighbours receiving "generous" invitations from banks to borrow more and exploit newly-created, ever more generous credit lines. With money that freely available, why save? Saving rates not surprisingly dropped already in the late 1990s and in the following years obviously did not pick up again. In the same vein, credit card companies tried to attract customers by offering zero interest rates for up to a year on all outstanding debt to anyone who could be bothered to switch providers. Not surprisingly, many people could very well be bothered and switching credit card providers to exploit the interest-free sweetener became a national pastime. The difference to Germany could not have been more remarkable, where even in 2006 it was difficult to use a credit card in the majority of shops. Cash remained firmly king.



How painless accumulating debt could be! Why not enjoy the fruits of future hard work today? The buy now, pay later generation was born. At the end of 2006 household debt was the equivalent of 170 per cent of normal disposable income – up from around 110 per cent in 2000.[151] Admittedly, these figures include mortgage debt – which rose dramatically to keep pace with the increases in house prices – but unsecured household debt, for example on credit cards, also increased substantially.[152] Long gone were the days when going to church was the undisputed number one activity on a Sunday; by the beginning of the new millennium it seemed that shopping had taken that place. And as with all things that lead to addiction, one has to consume more and more of it to get a kick. So it seemed in Britain.

The following chart shows net lending to individuals in the UK in 2000 and 2006, broken down by mortgage lending and consumer credit, as a share of GDP. While the share of net lending secured on dwellings stood at around 55 per cent in 2000, it had reached nearly 80 per cent by 2006. Consumer credit, measured as a share of GDP, had also increased during that period, from around 12½ per cent to nearly 16 per cent, around a quarter more.[153]



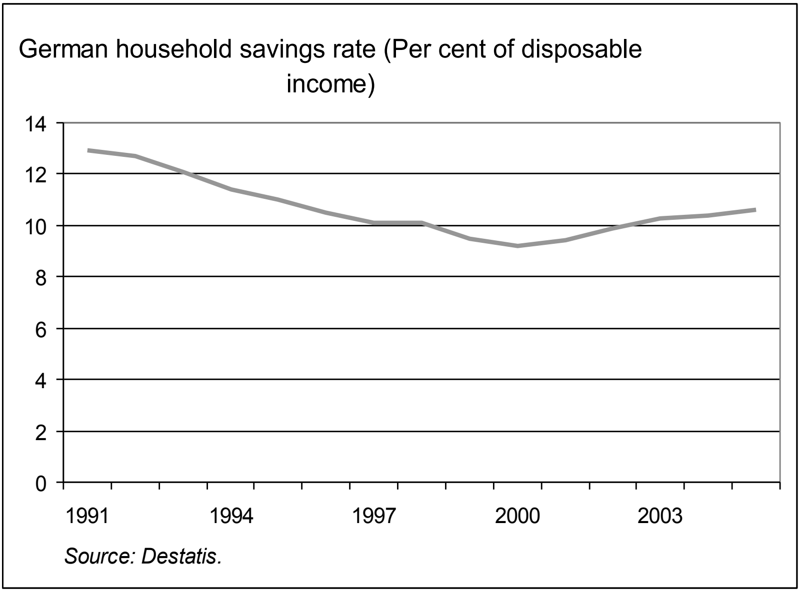
Sources: www.bankofengland.co.uk/statistics/statistics.htm and www.statistics.gov.uk/STATBASE/tsdataset.asp?vlnk=208&More=N&All=Y

That this could not go on forever should have been obvious to most – but clearly it was not. The downturn began in September 2007 with the collapse of "Northern Rock", a regional mortgage lender, which had pursued a rather dodgy business model. When the global financial crisis just refused to go away during 2008 and the downturn started to become rather nasty in September 2008, the Guardian greeted its readers with the headline "Austerity Britain: crunch forces consumers to change behaviours".[154]

Austerity? A better assessment surely would have been "Reality Britain". As if the previous consumption boom had been a sustainable reality…

The picture was completely different in Germany. As the economic landscape continued to darken, Germans tightened their belts and basically stopped spending at home. Perhaps a new car should replace the rusting old one? That can wait another year! Eating out tonight? A luxury – not necessary, home cooking is fun too! Going to the movies? No, we have a DVD player at home! Buying new clothes? The cheapest will do! Getting a haircut? Yes, but I wash and blow-dry my hair myself as I can't afford to pay the hairdresser to do so (this is not a joke…)! Over that period German household debt remained roughly stable at around 110 per cent of disposable income. The one area of consumption in which Germans were apparently reluctant to cut down was on holidays abroad. Perhaps to escape the gloom and doom at home, Germans continued to travel abroad in record numbers. Okay, flights and hotels were cheap and cheerful, but as long as there was a beach and sunshine it didn't really matter…

The following chart shows that German saving rates declined gradually during the 1990s but started to pick up again around the turn of the century. In other words as the economic woes deepened, rather than reducing saving rates to keep on consuming, Germans in fact started to save relatively more. Even during the deepest points of the downturn - around 2002 - German household saving rates were around twice as high as those in Britain, which was just *enjoying its best period since the industrial revolution*. A very telling statistic!



If one only had two numbers to compare British and German society, these could be the ones. The saving rates sum up what Britons and Germans think about today and tomorrow.

As far as one can remember back, Germans have always been price conscious people (of which more later) but in the first few years of the new century they arguably went overboard on this: the maxim was that cheap was best and the slogan *Geiz ist geil* (stinginess is cool), created by electronic retail chain Saturn, sums up a major part of the German *Zeitgeist* during that time.

While *Geiz ist geil* might seem a cool concept for an individual, it didn't really occur to too many Germans that it might have catastrophic consequences for the German economy more widely and hence through the backdoor again for the individual. In their defence, most Germans' understanding of general equilibrium macroeconomics was perhaps a little bit patchy but following the principle of *Geiz ist geil* was the surest way to ensure that things got even worse, which in turn encouraged even more people to become money pinchers. Germany's *Geiz ist geil* episode has all the hallmark of a classic vicious cycle.

It is as if Germans wanted to test whether the economic concept of the "paradox of thrift" worked in real life. The paradox, proposed by British economist John Maynard Keynes, states that if everybody started saving (which might make some sense from an individual's point of view), then this would lead to lower total demand eventually, which in turn would reduce savings on an aggregate level. So while everybody tried to do the right thing, on aggregate they all ended up being worse off. Not spending any money at all or only looking for the lowest price (which drove down business margins) was a sure way to encourage businesses to lay off workers or at least not hire new ones. More people out of employment meant more government transfers, financed by higher taxation and social security contributions imposed on those that continued to have jobs. This in turn meant that those with jobs experienced declines in disposable income – encouraging them to spend even less. And so it can go round and round and round.

The above illustrates how important expectations are. It is not only the current state of the labour market; it is also what individuals expect to happen to the labour market and hence their incomes in the future. British consumers not only enjoyed the benefits of a strong labour market, they also expected it to continue in the at least foreseeable future – giving them the confidence to make major purchasing decisions and take out credit. Britons found themselves in a virtuous cycle during the first half of this decade. The situation was exactly the opposite in Germany, with Germans suffering from a weak labour market and expecting things to get worse still – no wonder that German consumers lost all confidence and decided to postpone any major purchases and avoid any unnecessary extravagances.

While the British were – in line with their national stereotypes – perhaps overtly optimistic, Germans were – in line with their own national stereotypes – perhaps overtly pessimistic. How else could it be explained that Britons hardly flickered an eye as occupational pension schemes went into a meltdown while Germans started to panic when the German government announced that state pensions would have to become a little bit less generous in the future than had previously been planned? Unlike in Germany, being a *Bedenkenträger* – a carrier of concerns – was definitely a minority profession in Britain.

But it is not that Germans did not consume at all. For a start, they continued to consume a lot of leisure, much of it voluntarily. As a result Germans should have been, everything else being equal, correspondingly poorer than Britons in materialistic terms. After all one could not have it all. What is often forgotten is that individuals have to make consumption choices, starting with the choice between working and enjoying leisure. Most people go to work to earn money so that they can afford to buy the things they want. What if you wanted to consume *time* though? Going to work would not be such a clever idea then. For some people sunbathing in a park is a most pleasurable activity, while hunting for a bargain in a department store is certainly not.

As discussed earlier, Germans consume much more leisure than Britons in the sense that they have much shorter working hours per year. Obviously Germans do not go home at the end of November as suggested earlier but what many do is to disappear into the weekend around Friday lunchtime. At that point Britons still have another four or five hours of work ahead of them. Ever tried getting in touch with anyone in a German office on a Friday afternoon? Consuming leisure only becomes a problem when it is not voluntary, say, because of unemployment.

Rip-off Britain versus cut-throat Germany

While Britons happily consumed, there was just one nagging feeling that never quite went away: could it be that they paid just too much for all their goods and services? Anecdotal evidence would suggest they did. Everything seemed just that little bit cheaper (or often a lot cheaper) on the European holiday and obviously in the US in any case – but this is another story. The term "rip off Britain" was coined, the government's official competition authority investigated and indeed prices were found to be higher in the UK than in many other countries, including Germany. In the early 2000s, car manufacturers even called the UK "Treasure island", referring to the huge margins that could be made there. This is one reason why, despite the higher per capita GDP, Britons could not afford that much more than Germans during all those years.

What was going on? The first point to note was the all pervading importance of the property market. Residential property prices were sky high compared to Germany but so were the prices for commercial properties – either bought or rented. As rent is a major part of cost in any business, this had to be reflected in higher retail prices. But even taking account of this, high street retail prices still appeared higher in Britain than in Germany.

Much has been written in the economics and business literature about the importance of domestic consumers in making domestic businesses competitive.[155] Often countries become world leaders in sectors which face particularly strong scrutiny at home – the German car industry is one such example. The second point to make then is that British consumers might not have been *that* demanding. How else it was otherwise possible that the quality of products and services provided – both in the private and public sectors - was generally so mediocre? Faced with continuously overcrowded trains, German and French commuters, for example, would have gone on strike a long time ago – Britons by contrast stoically sat it out and stared out of the window in silence.

This lack of consumer awareness or expectation could also explain why quality goods and services appeared to be so much more expensive in Britain than in Germany. While British prices for standard-quality goods were often similar to those in Germany, the wedge appeared to widen markedly for more up-market offerings. It appeared as if some British customers were prepared to pay a substantial mark up to get quality and get away from the sloppiness so often encountered. And companies took advantage of that.

However, there might be another reason why many goods and services were much more expensive in Britain than in Germany: it sometimes felt as if Britons took price as a strong indicator for quality and hence were prepared to pay more. Could it be that they struggled more than Germans to tell the difference between quality and marketing hype? Could it be that they needed price and the endorsement by celebrities to give them the comfort to buy something? If yes, why could this have been the case? Could it in fact reflect the fact that widespread wealth and prosperity was a relatively more recent phenomenon in the UK than in Germany? Equally, it sometimes felt that Britons were keen to pay more rather than less merely to show off to their neighbours, the Joneses, that they could afford to pay more; a rather snobbish attitude.

Whatever the arguments, despite the huge increase in private consumption, spending money in Britain always felt like being in a society just recovering from or still under rationing. Potential customers generally had the pleasure to queue for everything and often were even made to show gratitude to be served at all. It was definitely a seller's market. Did Britons just like being reminded of the austere post-war years of rationing? Where was the *quality* in all that?

For whatever reason, one of the more insightful commentary on this issue by British consumers could be found in November 2007 on an obscure internet forum called pink fish media, on which an international community of hi-fi and music nuts exchange their latest ideas: To quote someone called "d m butcher: "*I won't climb completely on my soapbox about property prices but us citizens of the UK are partly to blame for our absurd consumer prices. First we have to be, collectively, some of the most stupid consumers in the world, and the world of business knows it. Offer us a new gizzmo at a silly price and we queue up to buy it. Secondly, excessive property costs, which us Brits seem to love (!?), be it purchase price or rent/leasing cost is a factor that every business has to pay twice. First they pay for their premises and then a significant chunk of their employees salary (the second cost) goes towards property cost. If you could strip out the cost of property, our prices are 'reasonable' and so are our wages*." To which "eden" replies: "*The madness that us Brits seem to revel in, is in one word GREED. All of us suffer from from [sic] it, All off [sic] us have our role to play in it, I don't [sic] know if…its [sic] been* *thrust upon us from the likes of Tony anf [sic] Magg, but one thing is for sure its [sic] in our blood like it or not. I personally hate our "culture" but its [sic] here and to stay, so I guess its [sic] join the masses, buy that biggest noisey [sic] exhaust and enjoy, sod the rest*."[156]

At the beginning of the century then it appeared as if Britons had created an ideology-free society and political landscape, replaced by the drive to accumulate more and more status symbols, including by those who really could not afford them. Whether it was houses abroad, expensive private schools for the kids, the latest 4x4 sports utility vehicle or the biggest ever plasma flat-screen – people had to have it.

Germany was very different, with Germans zealously price conscious. Germans were driven by price – but in a downward fashion and unfortunately too much of this was not good for them either. To pay a low price, Germans were prepared to sacrifice a lot: queuing was fine (even though there is an implicit cost to that too in the sense that people waste leisure time but then again, perhaps Germans have too much of it?) and many were prepared to accept lower quality too just to pay less. With German customers determined to pay the lowest possible prices, profit margins were driven down to the lowest possible levels, perhaps the lowest in the developed world.

But Germans wanted lower prices still. German retailers responded to this challenge in a number of ways. First, they aggressively eliminated any "superfluous" costs, whether it was employing additional staff, presenting goods attractively or even accepting credit cards as a form of payment. Back to basics was the motto and cash was king. It felt as if anything not actually physically attached to the product had to go. It is remarkable to read how badly some major retail chains apparently treated their staff. In chains such as Lidl or Schlecker (but not limited to these two companies), employees were offered a pittance for pay and faced what could only be described as unacceptable working conditions. What should be even more remarkable for German readers is that similar stories of "exploitation" did not surface once in Britain at the beginning of this century – indicating that the *angel-sächsischer Turbokapitalismus* with all its excesses of exploitation so despised by Germans probably existed more in Germany than in Britain during that time. Food for thought perhaps?

Talking of food, many German retailers reduced costs further by reducing quality. While Germans could enjoy farmer markets that were the envy of the world, the German food retail market was dominated by very serious discounters, the most famous being Aldi and Lidl (but the list was near endless). In a race to the bottom, it seemed acceptable that scandals of *Gammelfleisch* (rotten meat) broke on a near weekly basis. In their defence, Aldi diehards argued that the quality of products sold was actually of a high quality and to prove this point, a whole industry emerged publishing books, which explained exactly who made which Aldi product. If true, many respected producers of famous branded products

(*Markenprodukte*) also supplied Aldi. They did that to utilise production capacity just in the same way as airlines sell the same seat for £20 or £200 but the margins were tiny.

This downward spiral was accentuated by the introduction of the single European currency, the euro, in Germany in 2002. While the statistical office denied that the introduction had led to a sharp increase in prices, nobody believed them. While officially the exchange rate should have been around 2 beloved DM (Deutsche Mark) for 1 unloved euro, was it not that the prices had remained the same but merely the labels had been changed from "DM" to "euro"? The slogan "euro ist teuro" was born ("euro is expensive"). Not a good start.

What is remarkable is that the whole of German society – lemming like – followed the mantra of *Geiz ist geil* at the beginning of this century. Germans had once again become the victims of *kollektiver Wahnsinn* (collective madness) – something they unfortunately do from time to time. While there may be a justification for the unemployed and others in dire straits to be money pinchers, why did the solid middle classes join in? It is not that they had genuinely run out of money. The middle classes – buying Champagne at Aldi and hunting for the ultimate bargain – must probably take partial responsibility for the bleak domestic economic circumstances. Had they continued to consume more or less normally, at least some jobs in the services or catering industries could have been sustained and the downward spiral might not have gone on as long as it did.

Over the same period the aspiring British middle classes would not be seen dead in an Aldi or other discounter. Obviously, parts of society needed to go bargain hunting as a necessity for survival so discount retailers did exist but they were nowhere near as prevalent as in Germany or in fact most other developed countries. But for the middle classes – and anyone aspiring to the middle classes – there was never the question of shopping at a discounter. With jobs coming easily and house prices rising, why be a money pincher? And in any case, shopping at Aldi or Lidl (or Asda) would hardly have been the best way to demonstrate that one was keeping up or even overtaking the Joneses next door, was it? Better then to shop at Waitrose or Marks & Spencer and look down on those poor folks who had to do their shopping at more downmarket Asda or Morrison's.

But nothing is set in stone: by 2008 Aldi and Lidl had become the fastest growing retailers in the UK, with the middle classes driving their Range Rovers to the discounters for some serious bargain hunting. House prices were falling and everything was becoming rapidly more expensive, time to swallow the pride and join the lower classes in the lengthening queues at the discounters. How ironic! Box 5 discusses the need for off-road vehicles in London.

Box 5: The high mountains of London

Based on the type of cars driving around central London and the surrounding wealthy home counties, anyone could be excused for believing that London was located on the Tibetan plateau. Taking their cue from their American cousins from "across the pond", Britons embraced the concept of the 4x4 off-road vehicle full-heartedly. Never mind that roads were too small and the garages too narrow, in the first half of the decade 4x4s became the car of choice for an every growing section of society. Poor? Buy a Toyota Landcruiser. Rich? Buy a Porsche Cayenne or Range Rover V8. Soon the derogatory term "Chelsea tractor" was coined. If this was not enough demonstration of conspicuous consumption to drive your precious young children to primary school, perhaps a Hummer would do? After all what served the American army well in Iraq would have to do well on the school run…

Clone towns: the rise and rise of the British chain store

For Britons unimaginable but in Germany shops were still not generally allowed to open on Sundays and bank holidays. How could anyone deny oneself your best hobby and source of greatest pleasure? What masochists! What was wrong with the Germans? Not being able to shop on a Sunday was as if being denied to watch football on a Saturday afternoon or to go to church on Sunday morning: a basic human right. Shopping was the number one Sunday activity in Britain.[157]

In fact until 2003 things were even more draconian in Germany, with shops generally having to close at 6pm during weekdays and 2pm on Saturdays, except during the run-up towards Christmas when they were generously allowed to remain open until 4pm.[158] It could be argued that the *Ladenschlußgesetz* was a relic of a time gone by, when German women played the role of *Hausfrauen* while the husband was holding down a job, winning some tasty German bread along the way. It was those *Hausfrauen* who could look after the children and do the essential shopping during the week, with the "luxury" shopping (e.g. for a television set) squeezed in on a Saturday. However, this division of labour between the sexes was increasingly breaking down, with German women entering the labour market just as likely as their British counterparts, leaving fewer traditional *Hausfrauen*.

The German *Ladenschlußgesetz* led to a lot of silly behaviour over the years. Faced with an empty fridge on Sunday, Britons had the choice between starving, eating out, buying a take away or indeed shopping and cooking at home. Officially Germans only had the first three options. However, even Germans had the option to do some shopping on a Sunday…as long as they disguised themselves as travellers. German law allowed train stations or petrol stations to sell food and other goods to people on the move. This led German railway stations to become a popular destination for a Sunday trip as "normal people" mingled with real travellers. It also posed a real dilemma for sales assistants in petrol stations: how to distinguish between a real long-distance traveller in a car and someone from the neighbourhood who just happened to drive around the corner to do some shopping? That the system was not bullet proof was always obvious: why, for example, would a long-distance traveller need to buy BBQ charcoal or six packs of beer at the petrol station? Where would he keep the frozen vegetables on the move? Not surprisingly, petrol stations were some of the biggest losers from the liberalisation of the shop opening hours in Germany in the early years of this century.

The fact that these opening hours stayed in place for so long suggests that up to then Germany had remained at its heart a conservative society, especially with respect to the role of women, more in line with southern rather than northern European countries. But even in Germany things moved on: the increase in female labour market participation rates and the trend – as elsewhere – towards smaller household sizes[159] made short shopping hours impracticable for millions of working people on normal "nine-to-five jobs" and must have been a key reason why the previously draconian stance was softened.

The UK went down the same path much earlier, with traditional gender roles weakening already in the 1980s and 1990s. Females want to be mothers *and* successful career women, and restrictive shopping hours are not going to stop them from achieving that. Hence the late-opening super markets, the rapidly expanding on-line home delivery services and the packed supermarkets on a Sunday afternoon.

Limited time to go shopping is also likely to explain to a large extent the meteoric rise of the "one stop shop" and the corresponding disappearance of the small, independent high street butcher, baker, fishmonger or greengrocer since the 1980s or 1990s. While in Germany discount supermarkets such as Aldi or Lidl were still generally complemented by a range of independent shops, in the UK supermarkets covered the whole range from cheap essentials such as washing powder to expensive luxury items such as champagne. British supermarkets even sold a whole range of pharmaceutical products such as painkillers and vitamins, which would only be available from a specialised *Apotheke* (pharmacy) in Germany. Having everything under one roof saved a substantial amount of time, if only for the fact that one had to queue only once at the checkout.

The idea that pharmaceutical products could be purchased in a super market was unimaginable in Germany. Germans took their health very seriously and spent a substantial share of their income on health services. If the defining retailers in the UK were mobile telephone shops and estate agents, then it must have been *Apotheken* in Germany. Their red A illuminated every second street corner. And where there was an *Apotheke*, an *Ärztehaus* (medical centre) would not have been far away. In some smaller towns these were in fact the biggest buildings, full of specialist doctors, catering for a hypochondriac population.

The absence of the small, independent butcher or baker became one of the key characteristics of the typical British high street. Their places had been taken by a very predictable mix of shops and retailers. Out of 50 shops or so, there would have been ten estate agents (some local, some national chains), ten mobile telephone shops, ten charity shops (by now selling clothes that were more expensive than the cheap imports from Asia), three Starbucks or Café Neros, with the remainder split between national off license chains selling wines and beers such as threshers or oddbins, supermarkets and hairdressers (most likely again part of a chain).

What a strange mix of shops! Did the prevailing mix really meet the demands of the average shopper? How many mobile telephones and houses did the average shopper buy on a weekly basis? Clearly more was going on then just meeting demand…But something else was striking: every British high street up and down the country was dominated by chains and looked the same. Obviously chain stores also played a major role in German retailing and as a result also shaped the look of the average *Hauptstraße* or *Bahnhofsstraße*. Every German city had its Karstadt, Saturn or Media Markt, and every town had its Fielmann optician, its Schlecker Drogeriemarkt (drugstore), a Tchibo coffee retailer and a Douglas perfumery. And every town and village also had its Aldi and/or Lidl discount supermarkets, preferably in an out-of-town shopping development.

Despite this, one cannot get away from the feeling that chains mattered a lot more in Britain though. Chains had such a strong dominance in the UK that towns and cities were increasingly looking the same. The British media coined a phrase for that: "clone towns". Up and down the country, the same shops could be found in every high street, with Exeter apparently the ultimate clone town. The only surprise really for a visitor was therefore the exact location of these chains: did the WH Smith newsagent happen to be to the left or right of Boots, the chemist?

Just as in Germany, the rise of chains in the UK had been due to many factors, including the fact that businesses could exploit economies of scale by commoditising services that used to be much more individualistic. Chains could harmonise décor across outlets, enjoy substantial bargaining power with producers by buying in bulk and could share the cost of advertising. Chains were also useful in the role out of franchises, allowing small, often family-run businesses, to benefit from the marketing skills and purchasing power of bigger groups in the background. And finally, chains in the UK were much more likely to cough up the monthly rent – independent retailers just could not compete.

The rise of the chain could not have happened without demand for them though. While it is reasonably intuitive to explain why every town might have had its own Boots or WH Smith, it is a bit more puzzling why every British town also had the same restaurant, coffee and pub chains. Why were there hundreds of Pizza Express and Zizzi pizza restaurant outlets? Why were there over 2000 *All bar one* bars, all of them providing a bland and mediocre but predictable experience?[160] Could independent restaurants not make pizza or independent bars sell beer too?

Part of the answer might be found in the quality of food in Britain in the past. Eating out is an experience good/service, people are generally risk averse and their gain from having something excellent rather than average is not as big as their potential loss from having something truly awful. But the standard was awful up to the 1980s and even perhaps into the 1990s. Only since the mid 1990s did the quality of food in restaurants improve, sometimes matching and occasionally even surpassing what was on offer in other countries.[161]

With the quality of restaurants generally at least acceptable in Italy, France, Germany and other countries, the probability of ending up with something awful was relatively small. Not back then in the UK. With customers naturally risk averse, being part of a bigger chain with the reputation for at least acceptable quality must have been a major plus. How else can one explain the continued success of deeply mediocre but ultimately reliable and predictable chains such as Beefeater, Harvester's or Nando's? Britons' inability or at least unwillingness to complain about shoddy quality must have also played into the hands of these predictable chains: the quality offered might not be great but the average Briton sitting down in one of these restaurants could relax in the knowledge that it would also most likely not be that bad either: so no reason to complain then. With Britons desperate to avoid any situation where he or she might actually have to complain, this knowledge was worth a lot.

While the supply side arguments will probably continue to hold in the future, it will be interesting to see how the demand side will evolve. Quality has been going up, expectations have risen and the probability of getting something truly awful has fallen too. With less to lose by going to an independent restaurant, maybe they will have a brighter future than in past?

Local councils became aware of the continued rise of the chain store, and their potentially destructive effect on the high street and community but generally felt powerless to intervene. In April 2007 though the Royal Borough of Kensington and Chelsea (one of the most expensive areas in London and home to the world-famous King's Road) decided to take the first steps towards protecting its own high streets from being completely dominated by chains and help smaller, independent retailers. This could make good sense. Not only would this help local residents getting the localised services they might require, it would also make shopping areas in the borough relatively more attractive again, attracting shoppers from further away. During that period, a trip down King's Road was hardly an inspiring experience, with shop after shop part of a chain, which could be found up and down the country. It is unimaginable how the King's Road could once have been – with Carnaby Street in central London – one of the hippest, coolest places in Europe. Obviously chains also dominated Carnaby Street.

VIII. The past is a distant country but what about the future?

So what? Indeed, so what? The first few years of the new century have happened and things have moved on. As stated in the introduction, the past is a distant country. Is there then anything that can be taken away from this episode, which remains valid even during and after the economic and financial crisis that erupted in 2007?

Obviously, the first thing to take away is that the world moves on and that the *Zeitgeist* that shaped the first few years of this century has been replaced by something else. That something else will sooner or later be replaced by something different yet again. Britain's "best period since the industrial revolution" came down with a bump in 2007, taking down with it the feel good factor that had dominated in the United Kingdom for so long. The final curtain on the "cool Britannia" period, which had started in 1997, had come down. Following the post-unification euphoria of the 1990s and the bursting of the internet bubble around the turn of the century, Germany went through one of the most severe "doom and gloom" periods in recent history. By mid decade though Germany seemed to come to life again and by 2006 some kind of normality had more or less returned.

Having said all that, Britain and in Germany belong to a privileged, small group of wealthy states, where strong, democratic governments are the guardians of law and order, and property rights and individual freedoms are defended. In the bigger scheme of things the fact that Britain's economy grew a little bit faster than Germany's at the beginning of the 21st century is therefore pretty much irrelevant.

Nonetheless, there can be no doubt that the *Zeitgeist* was much more upbeat and positive in the UK than in Germany. Admittedly, the Iraq war was a dark cloud – as many Britons opposed it as Germans – but domestically things generally looked positive. The labour market proved to be strong and continued to benefit from the reforms of the 1980s, house price increases made many people feel richer and Britain even enjoyed the odd sporting success such as winning the 2003 Rugby World Cup in Australia. Economic success at home also moved Britons up the international pecking order, with multiple trips abroad – helped by cheap flights - becoming the norm for many. Britons felt on top of things, an *I can* mentality prevailed.

But something never felt quite right: week after week, hospitals hit the headlines for incompetence, filth or so-called "*superbugs*" killing patients who probably would have survived had they not gone into hospital in the first place. Trains still did not run on time and major question marks hung over the quality of the education system. Could it really be possible that year after year exam grades could improve? Were British children really becoming more and more intelligent by the year? Something seemed a bit fishy. And could it really be irrelevant that nearly all of Britain's wealth creation was concentrated in London, with banks absorbing nearly all the brains to come up with ever more elaborate financial products at the cost of the other regions and most other industries?

As was argued throughout this book, one of the greatest virtues of the British people is their tolerance and flexibility. It is this tolerance and flexibility, which allowed them to be relatively relaxed about the consequences of globalisation – somehow things will sort themselves out and if compromises have to be made along the way, then so be it. No need for elaborate long-term strategies or even visions! But as in individuals, specific strengths are also often the main weaknesses. The flipside of this tolerance is indifference. As Germans say: *Nach mir die Sintflut! (After me: Noah's flood!)* Tolerance also lends itself to carelessness and sloppiness. After a decade in office, the Labour government still struggled to improve the quality of the public services it provided and often it seemed that this was an uphill struggle that it would not win. It could not have been the money – enough had been spent – and it could not be the expertise because that, if necessary, could have been and had been bought in. By process of elimination the finger must therefore be pointed towards *attitudes*. "*Am I bovvered?*" comes back to mind.

There can be no doubt that German unification has been a tremendous success. Admittedly, judged against Helmut Kohl's promise that eastern Germany would enjoy *blühende Landschaften* (blossoming landscapes) within a few years, reality turned out to be more sobering. But then this promise was arguably not to be taken too seriously in the first place: surely former Chancellor Kohl was overwhelmed by the events unfolding in front of his eyes to say things like that. In any case, Germans in the rich west moaned that all their money was being wasted somewhere in the east. It is unfortunate that many westerners never bothered to drive to the east and have a good look where their money had ended up. What had been achieved was truly amazing – put simply, while Britons spent most of their money on having a good time, Germans built a whole new country. One does not need to be a rocket scientist to guess what will have the longer-lasting legacy.

Why all that misery then? Do Germans just have too high expectations? Things might not have been fantastic in the east but many parts of the UK did not look much wealthier. Despite persistently high unemployment, an objective outsider would have had to conclude that quality of life remained high in western Germany even during the years of "austerity" at the beginning of this century. It is easy to forget that eastern Germany was and continues to be a special case – how many totalitarian communist countries have been turned around within a generation? One has to ask how good life has to be before Germans stop moaning about all the chores and pains experienced on a daily basis. Are they longing for something that does not exist (yet)? Would it be helpful for them to see the glass as half full from time to time rather than only as half empty?

Are Germans merely the world's best moaners? Perhaps – but equally Germany had and still has serious problems, and Germans will need to continue to change if they want to continue to be successful in the future. As in the case of Britain, Germany's greatest strengths are also its greatest weaknesses. Thoroughness and a reluctance to accept compromises can lead to fantastic outcomes but equally can lead to paralysis when the path becomes bumpy. What to do next in a rapidly changing world? In search for answers Germans cling to ideologies, which cannot provide any answers. And Germans are just too aloof to try the reasonably successful British approach of *muddling through*. Sometimes it just makes sense to be a little bit more flexible and agile. And why do Germans find it so difficult to celebrate success?

What is perhaps surprising is that – while it happened – Britons believed that their good run would go on forever and that Germans believed that they would never find a way out of their misery. Why do societies have such short collective memories? Is it the media? Is the political classes? What goes up must come down and what goes down probably comes up again. With a slightly longer collective memory, Britons could have prepared themselves better for the eventual downturn (they stood there with empty pockets when the crisis hit), while Germans could have found some inner strength, knowing that there would eventually be a light at the end of the tunnel.

Then again, these behaviours were perhaps not entirely accidental. As was argued several times, it does appear that Britons have a generally more positive outlook on life and seem to be less worried about what the future might bring than their German counterparts. With a bit of flexibility, creativity and good luck, things *will* sort themselves out – this is what history has taught them. By contrast, plenty of Germans are *Bedenkenträger*, always looking for something that can go wrong. Even on a sunny day they will walk out of their homes with an umbrella. The German way to deal with the uncertainties of life is to plan and organise everything in advance.

So what lessons can be learnt from each other for the longer term, in other words the distant future when the economic crisis will be history? Possibly not that many - each country will have to find its own way to happiness. To reap all the benefits of their flexibility, Britons should also have an idea in which direction they would like to travel as a society so that their actions add up to something meaningful. In this context, Britons should reflect for a minute whether the pursuit of happiness can be achieved solely by aspiring to climb the property ladder, working long hours and consuming more and more, partly to show off to your neighbours. Is this what life is all about? Gordon Brown, Chancellor of the Exchequer during the first few years of the new millennium, certainly seemed to think so. Most Britons will not ask themselves these deeper questions - being intellectual is after all not funny - but then again a sizeable and growing number of Britons are voting by their feet and are moving abroad to get out of the rat race and find happiness elsewhere.

Could the *Zeitgeist* in Britain in the future be shaped by a pursuit for quality (of life) rather than just quantity (of life), where the focus shifts from image to substance? Could the economic crisis in fact help to open up Britons' eyes to the pleasures, which can be had away from shopping? Would it help if the generally positive *I can* mentality were more often be backed up by a genuine *I can* ability? Too often these are worlds apart. Despite all the economic successes in the UK, it often feels that a larger section of society – and not only the super rich – has found a way to achieve this quality of life in Germany than in Britain.

Should Germans adopt *angelsächischen, neoliberalen Turbokapitalismus* as a route to happiness? Not at all, not least because anglo-saxon, neo-liberal turbo capitalism mainly exists in German minds but not in reality in Britain or even possibly the US. Even if it existed and even if Germans were actually able to make it work for them, it would not make Germans any happier. Instead Germans will have to find their own holy grail to happiness. Will they achieve this by working more or by enjoying more leisure - something they already do more than most other societies? If they decided to go for the latter, they should at least not envy those who go for the former.

What they could copy from the British though is to embrace more of the *I can – if they can do it, so can I* – mentality to replace their more prevalent *I can't – if I can't do it, then nobody else must do it* – attitude. After all, there is nothing wrong with demonstrating some flexibility – at least from time to time. Perhaps flexibility could even replace ideology from time to time? The 2006 Football World Cup showed the direction to take: good organisation and an easy-going attitude is a world-beating combination. Good organisation and moaning is not.

What seems clear though is that Germans generally take a long-term view on things; they are "in it for the long run". No quick and easy fixes for them. As such Germans should not moan if quick returns do not materialise; instead they should focus on the longer-term rewards of their efforts. All the hard work will eventually pay dividends, as the regained international competitiveness of German industry so clearly demonstrates. Even though the global recession of 2008 also highlighted the inherent economic dangers from being too dependent on external demand, these strengths put Germany in a good position to face the future. Perhaps Germans should just give themselves a few more treats along the way to make the long and often painful road to the future more fun? Work hard, party hard?

IX. Glossary of German words and expressions

Achtung	Attention
Apotheke	Pharmacy
Angelsächischer (Turbo)kapitalismus	Anglo-saxon (turbo) capitalism
Arbeiter- und Bauernstaat	Worker and farmers state
Armutsmetropole	Poverty metropolis
Ärztehaus	Medical centre
Bahnhofsstraße	Main road
Basarökonomie	Basar economy
Bausparkassen	Mortgage banks
Bedenkenträger	A „carrier of concerns“
Blühende Landschaften	Blossoming landscapes
Bundesrat	Federal council, upper house
Bundesrepublik Deutschland	Federal Republic of Germany
Bundesverfassungsgericht	Federal constitutional court
Chips	Crisps
Deutsche Demokratische Republik	German Democratic Republic
Eindrittel/Zweidrittelgesellschaft	One-third/two-thirds society
Dritter Weg	(Political) third way
Ellenbogengesellschaft	Elbow society
Exportweltmeister	Export world champion
Exzellenziniative	Excellence initiative
Feine britische Art	Elegant British style
Fit statt fett	Fit instead of fat

Föderalismusreform	Reform of the federal structure
Freie Demokratische Partei	Free Democratic Party
Freistaaten	Free states
Fresswelle	(Post-war) wave of guzzling
Fritten	Chips
Gammelfleisch	Rotten meat
Gedemütigt	Humiliated
Geier Sturzflug	Vulture dive
Geiz ist geil	Stinginess is cool
Glas ist halbleer, das	Glass is half empty
Grundgesetz	Basic law/constitution
Gründlich	Thorough
Hauptstraße	Main street
Heuschrecke	Locusts, hedge funds
Immobilie	Real estate, property
Ist Deutschland noch zu retten?	Can Germany still be rescued?
Jetzt wird wieder in die Hände gespuckt, wir steigern das Bruttosozialprodukt	Let's spit into our hands now and raise GDP
Kassandra der Jammerkultur	Cassandra of misery culture
Kindergärten	Kindergardens
Kollektiver Wahnsinn	Collective madness
Ladenschlußgesetz	Shop closing law, trading law
Land der Dichter und Denker	The land of poets and thinkers
Länderfinanzausgleich	Inter-state finance transfer
Länderebene	State level
Länderparlamente	State parlaments

Länderregierungen	State governments
Ländersache	State issue
Leben der Anderen, Das	Lives of others
Linkspartei	Left Party
Mahnmal	Memorial
Markenprodukte	Branded products
Meister	Master, expert
Neidkultur	Culture of envy
Neue Bescheidenheit	New modesty
Neonazis	Neonazis
Neoliberalismus	Neoliberalism
Neue Bundesländer	New (Eastern) federal states
Plädoyer	Plea
Plattenbauten	Concrete slab high risers
Promi (kultur)	Celebrity (culture)
Reformmüde	Tired of reforms
Reformstau	„Pile up“ of reforms
Reiseweltmeister	Travel world champion
Sahnetorten	Cream cakes
Schadenfreude	The joy of seeing someone else suffer
Schlagerstar	German-style music star
Schoppen	Small jug (of wine)
Selbstzweifel	Doubt of yourself
Solidarpakt	Solidarity pact
Soziale Gerechtigkeit	Social justice
Sozialistische Einheitspartei, SED	Socialist Unity Part of Germany
Spargelstecher	Asparagus cutters
Speckgürtel	

	Bacon belt, i.e. commuter belt around big cities
Spießig	„Narrow minded“, „provincial“
Staatsgalerie	State, national galerie
Stadtumbau West/Ost	City transformation West/East
Stasi	Former Eastern German secret police
Über	Superior, „over“
Über den Tellerrand schauen	Looking over your own plate (being open minded)
Überwachungsstaat	Surveillance state
Verschlafen	Missed the boat
Volksaktie	People’s share/equity
Volkspartei	People’s party
Vorsprung durch Technik	Being ahead through technology
Weißwein	White wine
Weltuntergangsstimmung	World is nigh sentiment
Zeitgeist	The spirit of the times

X. Endnotes

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[1] edition.cnn.com/2006/SPORT/football/06/10/world.groupb/index.html

[2] *Germany finds a world of happiness by playing host*, Simon Kuper, Financial Times, June 9th-10th 2007.

[3] In October 2007 FIFA gave the 2014 World Cup to Brazil.

[4] www.timesonline.co.uk/tol/comment/columnists/guest_contributors/article685652.ece

[5] For example *Ist Deutschland noch zu retten*? (Can Germany be saved?) and *Die Basarökonomie*[5] (The basar economy?) by Hans-Werner Sinn, *Marktplatz Deutschland – Mit dem Prinzip Einfachheit zurück zum Erfolg* (Market place Germany – with simplicity back to success) by Ulrich von Suntum, *Investition in die Zukunft – Wie Deutschland den Anschluss an die globalisierte Welt findet* (Investing into the future: how Germany can catch up in a globalised world) by Ludwig von Wartenberg and Hans-Joachim Haß or *das Ende der Sozialen Marktwirtschaft* (The end of the social market economy) by Wolfgang Münchau.

[6] *Wir Deutschen* by Matthias Mattusek.

[7] Examples include *Watching the English*, Kate Fox and *The English – A portrait of a people*, Jeremy Paxman.

[8] *Springtime for Germany – or how I learned to love Lederhosen*, Ben Donald, 2007.

[9] *Fantasy Island – Waking up to the incredible economic, political and social illusions of the Blair legacy*, Larry Elliott and Dan Atkinson, Constable, London, 2007.

[10] *ZUM JAHRESWECHSEL: Die Stimmung in der Bevölkerung hat sich weiter verbessert*, Institut für Demoskopie Allensbach, Archiv online 20/2006, December 2006, www.ifd-allensbach.de/

[11] Translation by the author. The speech was given in German. The original text was: "*In den vergangenen Wochen haben wir alle gespürt, dass unser Land vor großen Veränderungen steht...Viele sehen mit großen Sorgen in die Zukunft. Viele fragen sich: Ist jetzt die lange Zeit zu Ende, in der es im großen und ganzen immer aufwärts ging? Werden wir uns auf schwere Zeiten einstellen müssen? Neben ernsten Stimmen und zutreffenden Warnungen hören wir in der letzten Zeit manches törichte Gerede, als stehe der Untergang Deutschlands bevor. Wir dürfen bei allem Streit nicht die Maßstäbe verlieren. Uns in Deutschland sind doch nicht*

über Nacht alle Tugenden und Kräfte verlorengegangen, die uns immer wieder geholfen haben, Schwierigkeiten zu überwinden: Fleiß und Einsatzbereitschaft, Solidarität und Gemeinsinn, Mut und die Bereitschaft, neue Wege zu gehen." www.bundespraesident.de/Reden-und-Interviews/Reden-Johannes-Rau-,11070.91226/Weihnachtsansprache-2002-von-B.htm?global.back=/Reden-und-Interviews/-%2c11070%2c0/Reden-Johannes-Rau.htm%3flink%3dbpr_liste%26link.sTitel%3dweihnachtsansprache

[12] www.channel4.com/news/articles/politics/domestic_politics/blairs+resignation+speech/509002

[13] www.labour.org.uk/conference/brown_speech

[14] 70 per cent or 248,000km^2.

[15] Berners-Lee was the creator of the World Wide Web, whereas Crick was a co-discoverer of the structure of the DNA molecule.

[16] Somewhat surprising to many Germans, London is actually quite far south - on similar latitude to Cologne. Maybe the misperception that "Britain" is a very northerly country has to do with German weather forecasters relentlessly observing that most bad weather systems approaching Germany come from the North Atlantic and the "British Isles"? Could it also be that London, despite hosepipe bans during the long summer droughts, will forever be the foggy, rainy place of Sherlock Holmes in the imaginations of Germans?

[17] 244,000km^2.

[18] www.statistics.gov.uk/cci/nugget.asp?id=6

[19] www.independent.co.uk/news/uk/home-news/london-capital-of-the-world-766661.html

[20] *U.S. Cities in the World City Network*, The Brookings Institution, February 2005.

[21] *The best places to call home – New York? London? Paris? Munich? Monocle ranks the cities that offer the best quality of life*, Monocle, issue 05, volume 01, July/August 2007.

[22] The figures provided are based on Eurostat population projections. National projections in the UK show a very different story. Population projections published by the Office for National Statistics show an increase of the UK population to 77 million people by mid century, with the main driver of growth strong positive net migration.

[23] www.destatis.de/jetspeed/portal/cms/Sites/destatis/Internet/DE/Navigation/

Statistiken/Zeitreihen/LangeReihen/Bevoelkerung/Tabellenuebersicht__nk.psml and *Population trends No 122*, Winter 2005, Office for National Statistics, www.statistics.gov.uk/downloads/theme_population/PopTrends122v1.pdf

[24] *Bevölkerungsprognose 2006 bis 2030 – Gesamtstadt*, Senatsverwaltung für Stadtentwicklung, www.stadtentwicklung.berlin.de/planen/bevoelkerungsprognose/

[25] *Global city of the year: London*, www.fastcompany.com/magazine/126/global-city-of-the-year-london-calling.html

[26] Zum Kinderwunsch von Kinderlosen in Ost- und Westdeutschland, Bundesinstitut für Bevölkerungsentwicklung, 2006, www.bib-demographie.de/cln_090/nn_749852/SharedDocs/Publikationen/DE/Download/Materialienbaende/119,templateId=raw,property=publicationFile.pdf/119.pdf

[27] www.statistics.gov.uk/default.asp

[28] The exact figures are 1.3 million, 760,000 and 680,000 people respectively.

[29] news.bbc.co.uk/1/shared/spl/hi/in_depth/brits_abroad/html/default.stm

[30] news.bbc.uk/1/shared/spl/hi/uk/05/born_abroad/countries/html/germany.stm

[31] www.manager-magazin.de/unternehmen/artikel/0,2828,422371,00.html

[32] *International Migration*, Series MN No 33 2006 Data, Office for National Statistics, 2008, page 17.

[33] See for example, *Bloody Foreigners*, Robert Winder, Abacus, 2004.

[34] *Chunnel row over refugee camp*, news.bbc.co.uk/1/hi/world/europe/1502161.stm

[35] *Britain's couch potato children are now among the fattest in Europe*, Daily Mail 16 May 2008, www.dailymail.co.uk/health/article-566726/Britains-couch-potato-children-fattest-Europe.html or *Deutsche sind die dicksten Europäer*, Süddeutsche Zeitung 18 April 2007, www.sueddeutsche.de/gesundheit/artikel/580/110470/

[36]

[37] www.who.int/bmi/index.jsp

[38] *Health Profile of England 2007*, Department of Health, October 2007, page 32. European Union as of January 2004, in other words excluding the eastern and southern European countries that have become member states since May 2004.

[39] blogs.pm-magazin.de/PhilosophieBlog/stories/1570/

[40] Richard Layard.

[41] David G. Blanchflower and Andrew J. Oswald, *Hypertension and Happiness across countries*, Working paper, February 2007.

[42] en.wikipedia.org/wiki/Blu_Tack

[43] Translation by the author. The original text was: *Wie jedes Volk, zahlen auch die Briten einen Preis für ihre besten Tugenden. Kehrseite ihrere Toleranz ist Nachlässigkeit, zuweilen schlichte Schlamperei. Das (er)trug die Gesellschaft bisher mit sprichwörtlichem Humor, teils als Sünder, teils als Opfer*..." See *Datenschutzskandal in England Unglaubliche Schlamperei*, Die Welt, 22 November 2007, page 8.

[44] *The opening of Heathrow Terminal 5*, House of Commons Transport Committee, 22 October 2008.

[45] *This is London's MESSAGEBOARD*, London Lite 20 November 2007, page 10.

[46] www.bbc.co.uk/blogs/newsnight/2007/07/tuesday_31st_july_2007.html counago-and-spaves.blogspot.com/2006/04/case-for-anti-intellectualism.html, news.bbc.co.uk/1/hi/talking_point/1990905.stm

[47] www.timesonline.co.uk/tol/sport/football/premier_league/article2419068.ece

[48] What has led to this increase in inequality and what has led this large group to fall so rapidly behind is still hotly disputed, but technological progress and the forces of globalisation are most frequently mentioned. An increasing number of people, especially younger people, don't have the skills to participate in the normal labour market. Nowadays more young people are outside employment, education or training than ever before.

[49] www.daserste.de/doku/beitrag_dyn~uid,mct200qtd32ckh6a~cm.asp.

[50] See Institute for Fiscal Studies.

[51] See OECD. The OECD Pisa study, for example, showed that in Germany the family background was more important for performance and progress in school than in most other developed countries. Equally, the probability of going to university depends more on parents' educational achievements than in most other developed countries – demonstrating that the idea of free higher education could be very flawed.

[52] In fact there are no longer any problems; they have been reclassified as challenges.

[53] *Der Weg nach vorne fuer Europas Sozialdemokraten*: ein Vorschlag von Gerhard Schröder und Tony Blair. www.berlinews.de/archiv/453.shtml.

[54] news.bbc.co.uk/1/hi/uk_politics/6642857.stm

[55] Financial Times, Blair's children: how the bling era turned political, May 12-13 2007, page 11.
[56] I'm in tune with the "I can" generation, David Miliband , New Statesman, April 2007.
[57] www.dailymail.co.uk/pages/live/articles/news/news.html?in_article_id=409893&in_page_id=1770
[58] *Fantasy Island – Waking up to the incredible economic, political and social illusions of the Blair legacy*, Larry Elliott and Dan Atkinson, Constable, London, 2007.
[59] www.spiegel.de/kultur/gesellschaft/0,1518,423296,00.html
[60] tana ramsey's *family kitchen* or *real family food* and the londonpaper on 27th November 2007, page 11.
[61] *Dumbing down? No, we're much too clever*, Jamie Whyte. www.timesonline.co.uk/tol/comment/columnists/guest_contributors/article2067067.ece
[62] *Button it – the cardigan is back*, Daily Telegraph, 06th March 2008, www.telegraph.co.uk/news/main.jhtml?xml=/news/2008/03/05/ncardi105.xml
[63] *Brown: Britain has fallen out of love with celebrity*, see www.guardian.co.uk/frontpage/story/0,,2057149,00.html
[64] Guardian article 13th August 2007.
[65] www.liberty-human-rights.org.uk/issues/3-privacy/32-cctv/index.shtml
[66] Not content with having access to millions of cameras in London, in July 2007 home office documents were leaked that suggested that the police also wanted have access to the thousands of cameras installed to enforce London's congestion charge, not only to pursue terrorists but also any other type of criminal. politics.guardian.co.uk/terrorism/story/0,,2128878,00.html.
[67] FT magazine May 12th 2007.
[68] Childhood is changing, but 'paedophobia' makes things worse, www.ippr.org.uk/pressreleases/?id=2388
[69] *Our right to privacy, unless guilty of a crime* in: The Independent Thursday 28th February 2008, page 34 and *Big, bigger, biggest: The DNA database* in The Economist, 1st March 2008, page 34.
[70] *"Spy helicopter used at festival"* BBC News 19 August 2007 and *Drohne gegen Hooligans at www.kurier.at.sportundmotor/131924.php*
[71] *Britain is "surveillance society"* news.bbc.co.uk/1/hi/uk/6108496.stm

[72] The original text in German was: *"...18 Jahre nach dem Fall der Mauer würden noch immer viele Deutsche die Wende am liebsten rückgängig machen. 21 Prozent wünschen sich…Mauer und Grenzanlagen zurück... Bei der Beantwortung der Umfrage gebe es keine signifikanten Unterschiede zwischen den Bürgern in West- und in Ostdeutschland..."*
www.sueddeutsche.de/deutschland/artikel/892/141586/

[73] ICM for the Telegraph on Sunday (published on 26 November 2006

[74] www.seanconnery.com/biography/knighthood/

[75] www.bbc.co.uk/politics97/news/09/0908/scotland.shtml

[76] An interesting aspect of the movement towards Scottish independence is whether a newly-independent Scotland would automatically become a member of the European Union. Opinions are divided, with some sceptics arguing that Scotland would have to apply for membership. Interesting...

[77] en.wikipedia.org/wiki/Barnett_formula

[78] de.wikipedia.org/wiki/Solidarit%C3%A4tszuschlag

[79] In 2004 some people floated the idea that the *Solidarpakt* should be enshrined in the *Grundgesetz*, basically transforming something which is meant to be temporary (even if this means 20-30 years) into something permanent.

[80] *If it's good enough for the Scots it's good enough for the English*, Simon Heffer, Daily Telegraph, 29 November 2006.

[81] *Wir werden arm sein, aber glücklich: Fusion Berlin-Brandenburg auf das Jahr 2013 verschoben*, www.das-parlament.de/2005/04/Inland/003.html

[82] For further information on reforms to the federal structure see www.bundestag.de/parlament/gremien/foederalismus/index.html

[83] *Hague warns of EU superstate*, news.bbc.co.uk/2/hi/uk_news/politics/621873.stm

[84] That Germany is not the only country, which is struggling with such an electoral system, can be seen by looking at New Zealand. In the 1980s New Zealand established a Royal Commission to look into the electoral system. It concluded that New Zealand should drop its British-based first-past-the post electoral system (inherited from its colonial days) in favour of a Germany-style proportional representation system. In two referendums in the early 1990s New Zealanders voted for such a system, which was used for the first time in 1996 for a general election. Since then (in three general elections) no single party has won more than half the seats and as a result governments have moved from being single-party majorities to coalition governments.

One consequence of this reform has been that governments have been weakened and as a result relied on disproportionately influential kingmakers. Paralysis has set in: following the 2005 general election, New Zealand did not have a government. Let's not be surprised if New Zealand dumped its German-style system again in the future for the simpler British version.

[85] Chancellor of the Exchequer's Budget Statement 2004, www.hm-treasury.gov.uk/budget/budget_04/bud_bud04_speech.cfm

[86] *Germany: 2003 Article IV Consultation – Staff Report; Staff Supplement; and Public Information Notice on the Executive Board Discussion*, International Monetary Fund, November 2003, pages 3 and 4.

[87] Gordon Brown went so far as to proclaim that Britain was enjoying the best period since the Industrial Revolution – not sure what those poor people in workhouses back then would say about that?

[88] This book has also been published in English. See *Can Germany be saved? The malaise of the world's first welfare state*, Hans-Werner Sinn, MIT Press, June 2007.

[89] epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&screen=detailref&language=en&product=STRIND_ECOBAC&root=STRIND_ECOBAC/ecobac/eb012

[90] The employment rate is the number of people employed over the number of people in the relevant age group. The employment rate for those aged 16 to 59 (females) and 64 (males) was around 75 per cent during the period 2000 and 2006. www.statistics.gov.uk/statbase/Product.asp?vlnk=3802&image.x=30&image.y=16

[91] *The rivals* The Economist 15th March 2008, page 36.

[92] National Institute for Economic and Social Research (NIESR), 2007. In October 2007 the Government had to admit that it had consistently but not deliberately under-recorded the number of migrants that had taken up employment in the UK since 1997 and in particular 2004. It therefore appears likely that their contribution to economic growth was even more marked than the stated quarter.

[93] It is also interesting to look at working hour developments within the UK and Germany over time. average weekly working hours in the UK dropped by three per cent from 33 hours in the early 1990s to 32 hours in 2005 (implying that average annual working hours dropped from 1715 to 1665,

the latter very similar to the OECD figure presented in the main text). In Germany, annual working hours averaged around 1550 hours in the early 1990s but since then have fallen to just under 1450 hours, a six per cent drop. In Germany the drop is due to the increasing popularity of part-time employment: average annual working hours for those in full-time employment have remained very similar since the early 1990s at around 1660 hours. By contrast, the drop in average annual working hours in the UK has been due to the rising popularity of part-time employment but also because annual working hours for full-time workers have fallen from a peak of nearly 2030 hours in the mid 1990s. Despite this drop though, average annual working hours for those in full-time employment remain substantially higher – at 1940 hours – than in Germany. This means that Britons in full-time employment work around 15 per cent longer than Germans.
See *How have employees fared? Recent UK trends*, Employment Relations Research Series No. 56, Department for Trade and Industry, March 2006, page 21 and *Statistisches Jahrbuch 2007*, Statistisches Bundesamt, page 71
[94] *Working Time Around The World: main findings and policy implications*, International Labour Organisation, May 2007, www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_082838.pdf
[95] www.guardian.co.uk/money/2006/nov/06/workandcareers.europeanunion
[96] Admittedly, actual GDP per capita was markedly higher in the UK than in Germany but as Eurostat, the statistical arm of the European Union, points out, it is important to take account of different price levels across countries too when making international comparisons. In Eurostat's own words: "*In order to facilitate these international comparisons, the GDP in national currency of each Member State is converted into a common currency…However, this does not necessarily reflect the actual purchasing power of each national currency on its economic territory, because the converted GDP is a function not only of the level of goods and services produced on the economic territory, but also the general price level. Therefore, the simple use of the GDP converted into a common currency does not provide, in most cases, a correct indication of the "real" volume of goods and services. In order to remove the distortion due to price level differences, …Purchasing Power Parities are calculated and used as a factor of conversion…The "real" values of GDP obtained in this way are then expressed in terms of Purchasing Power Standards*", Gross Domestic Product 1998, Statistics in Focus Theme 2, 2/2000, Eurostat,

epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/CA-NJ-00-002/EN/CA-NJ-00-002-EN.PDF

97 *Gross Domestic Product 1998, Statistics in Focus Theme 2, 2/2000*, Eurostat, page 9. epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/CA-NJ-00-002/EN/CA-NJ-00-002-EN.PDF

98 *Bad food Britain*, Joanna Blythman, 2006. See also Daily Mail, 3rd June 2006 at www.dailymail.co.uk/pages/live/articles/news/news.html?in_article_id=388911&in

99 *British parents spend least time with children*, The Independent 5 April 2007, findarticles.com/p/articles/mi_qn4158/is_20070405/ai_n18788096 and Britain's children are unhappiest in the Western world, The Times, 14th February 2007 at www.timesonline.co.uk/tol/news/uk/health/article1381571.ece

100 *Spotlight: Lord mayor of London plugs city's financial center*, International Herald Tribune, 2 February 2007, http://www.iht.com/articles/2007/02/02/business/wbspot03.php?page=1

101 See *Could foreigners and the regulators spoil the City's invisible exports?* The Independent, 15 July 2004. http://findarticles.com/p/articles/mi_qn4158/is_20040715/ai_n12800209.

102 en.wikipedia.org/wiki/Nation_of_shopkeepers

103 The economics literature calls this phenomenon the "economics of superstars". en.wikipedia.org/wiki/Superstar#Economics_of_.22Superstars.22

104 According to Smithers & Co, without the rapid growth of the financial sector – its expansion averaged 13 per cent annually between 1992 and 2007 – overall economic growth would have averaged 1.7 per cent annually and not 2.7 per cent over that period. www.ft.com/cms/s/2/f7dbccac-9a93-11dd-bfd8-000077b07658.html

105 *The drug that lubricates the City*, Financial Times, 20 December 2007, page 14.

106 Financial Times March 2008.

107 *Fantasy Island Waking up to the incredible economic, political and social illusions of the Blair legacy*, Larry Elliott and Dan Atkinson, Constable, 2007. Chapter 4: Bullshit Britain: Multiple Hallucinations of a "Creative Economy", pages 71 to 94.

108 The list of major music acts is indeed endless: Cliff Richard, Rolling Stones, Take That, Rod Steward, Oasis, Andrew Lloyd Webber etc…

[109] Or aspire to owning German engineering in a round about way by buying a Rolls-Royce or Mini (both BMW), Bentley (VW) or even Lamborghini (Audi).

[110] *Datenreport 2006 Zahlen und Fakten über die Bundesrepublik Deutschland Auszug aus Teil I*, Statistisches Bundeamt, 2006.

[111] *Statistisches Jahrbuch 2007*, Statistisches Bundesamt, page 71.

[112] According to the Der Spiegel (October 2007) there is a growing number of German firms returning to Germany now. German labour might be expensive but it is also of a high quality, reliable and advances in logistics have made transport costs come down. So the advantages of locating businesses in low wage countries in Eastern Europe or Asia seem to be eroded somewhat.

[113] See for example Peter Boffinger.

[114] OECD Outlook No 78 Database and OECD Revenue Statistics.

[115] A number of data sources have been used to compile this box. See *Tourismus in Zahlen*, November 2007, Table 5.2, Destatis; *Overseas travel and tourism*, October 2007, Office for National Statistics, (www.statistics.gov.uk/pdfdir/ott1207.pdf); *Grenzüberschreitender Tourismus in Europa: Einreise- und Ausreiseverkehr*, Table 1 in Wirtschaft und Statistik July 2007 pp 663, Destatis. Also note that the UK and German figures cannot be directly compared. With the UK an island and maintaining its own internal border controls (reflecting its status as a non-Schengen EU member state), it is relatively easy to establish how many people travel to and from the UK. The situation is different in Germany, which jointly with its neighbours abolished border controls. As such it is impossible to tell how many, say, Dutch or French residents travel to Germany for the day or visit their friends. The German figure is therefore based on foreign residents staying in some formal accommodation (including campsites but not friends) for at least one night. Everything else equal, the German figure should therefore be lower than the UK figure.

[116] In this context one should not forget that immigration is the services sector equivalent to importing goods from abroad.

[117] *Graduate Skills and Recruitment in the City*, City of London and Financial Services Skills Council, September 2006, page 3.

[118] *UK facing three-pronged assault on its labour market flexibility*, William Buiter, Financial Times, 28 September 2006.

[119] Apparently there is now a growing trend of firms returning, heads down, to their German home. See Spiegel article.

[120] Daily Mail 18 February 2008.

[121] The original text was in German: "*Potenzielle Erwerber schauten vielmehr...nicht nur auf die Anfangsbelastung, sondern auch darauf, ob sie die Finanzierung auch nachhaltig aufbringen können. Hier wirkten sich in Deutschland seit einigen Jahren vor allem die verschlechterten Arbeitsmarktperspektiven als Unsicherheitsfaktor aus. Offensichtlich habe das hierzulande besonders stark ausgeprägte Sicherheitsbedürfnis der Menschen dazu geführt, dass viele ihre Kaufabsichten zunächst einmal aufgeschoben hätten. Deshalb helfe es auch nicht weiter, Finanzierungsangebote mit geringerem Eigenkapital und höheren Beleihungsquoten zu machen*." LBS Research, 22nd January 2007, www.lbs.de/microsite-presse/lbs-research/bezahlbarkeit

[122] *Facts about Germany*, Federal Foreign Office, page 380, 2003.

[123] *Immobilenmarkt Berlin: Mit schwerer Hypothek in die Zukunft*, Deutsche Bank Research Nr 316, March 2005.

[124] See www.landlordzone.co.uk/long-leasehold.htm for a more detailed description of leasehold: "*People are often confused when buying a flat (apartment)…when they discover that what they are actually getting is not the full freehold title to their property but a leasehold interest which has a limited life left on the lease…In other words, they are not the owners of the flat with a steadily appreciating asset, but a tenant who has purchased (usually for not great deal less money than a freehold) a diminishing asset, with service charges and annual rental to pay to boot. It's a system that is pretty well unique to England and Wales with a history in land law going back to William the Conqueror. In most other countries apartments are either rented from the owner, or wholly owned in perpetuity and the owner is also a joint owner of the building (block) by way of a cooperative or condominium arrangement..*".

[125] *Bezahlbarkeit von Wohneigentum deutlich verbessert*, LBS Research, 22nd January 2007, www.lbs.de/microsite-presse/lbs-research/bezahlbarkeit

[126] *Immobilenmarkt Berlin: Mit schwerer Hypothek in die Zukunft*, Deutsche Bank Research Nr 316, March 2005, page 25.

[127] In fact Berlin's population has fallen over the last 15 years, standing at around 3½ million now.

[128] *Immobilenmarkt Berlin: Mit schwerer Hypothek in die Zukunft*, Deutsche Bank Research Nr 316, March 2005, page 25.

[129] *Die Käufersicht: Wohnungen sind heute sehr "günstig"* in: Der deutsche Wohnungsmarkt: Anbieter und Nachfrager – heute und morgen, Deutsche Bank Research November 2006.

[130] See for example *United Kingdom: 2006 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for United Kingdom*, International Monetary Fund, March 2007, page 14. www.imf.org/external/pubs/ft/scr/2007/cr0791.pdf. The European Commission and OECD published similar assessments during that period.

[131] The more technical term for the discussion in the main text is *rental equivalence*. Rental equivalence states that there should be no difference between renting a property and buying it. For the rental equivalence concept to hold though, markets would have to work perfectly, which they often do not. As was argued in the main text, different types of assets do perform differently, at least over certain periods of time. For example, in the late 1990s when the stock market was flying and everybody expected to become an internet millionaire overnight, many mortgage lenders and independent financial advisors in the UK suggested taking out an interest-only mortgage. Rather than paying down the capital as with a normal mortgage, it was suggested to put the money into equity funds, which, after all, had outperformed the housing market comfortably.

This seemed like a clever investment strategy until, obviously, the stock market crashed in 2001 and many individuals found themselves with little or no savings. They had to start all over again and not surprisingly this type of mortgage has become relatively unpopular again.

Governments also distort investment decisions, as was already mentioned in the main text. In the UK, for example, individuals do not pay capital gains tax on the first property but they do pay the tax on other forms of investment – unless it is in a so-called Individual Savings Accounts (ISAs). However, the UK government does not want to be too generous with these and as a result caps the annual amount that can be put into an ISA.

In Germany there is less of a distortion in the sense that capital gains tax has to be paid on all types of assets if these are sold on within ten years of purchasing. The idea is to take the speculative element out of investment decisions. This is one of many reasons why home ownership in Germany does not seem to be such an obvious choice than in the UK.

[132] See also *The Great Wealth Transfer? Asset accumulation, inequality and the generations*, The International Longevity Centre UK, 2007.

[133] The increase in price is therefore more an illusion than a reality. Obviously, should the individual decide to sell the property in the UK and

then move abroad (as so man did over those years, for example to France or Spain) then the increase in purchasing power was for real.

[134] *UK housing boom will, but how?*, Martin Wolf, Financial Times, 23 November 2006.

[135] *Is 2007 the year in which house prices will finally crash?*, The Independent 6 January 2007, www.independent.co.uk/life-style/house-and-home/property/is-2007-the-year-in-which-house-prices-will-finally-crash-430922.html

[136] Over the last few years a whole new trend has emerged: buy to let. Many owner occupiers have started to acquire property as an investment only to let out.

[137] *Facts about Germany*, Federal Foreign Office, page 380, 2003.

[138] Note that the commercial property market is entirely different, with much of Germany's stock owned by foreigners. Not to be outdone, German property investment funds are some of the biggest in the world and own substantial fractions of central London and other prime locations in the UK, as elsewhere in the world.

[139] Financial Times 8 November 2006, page 5.

[140] www.rousette.org.uk/blog/archives/2004/01/30/huf-haus/.

[141] Financial Times, 8th May 2007.

[142] *Home truths*, Jonathan Glancey www.guardian.co.uk/2020/story/0,,1309403,00.html.

[143] www.stadtumbau-ost.info and www.stadtumbau.com.

[144] *Kein eigen Heim, Glueck Allein*, Oliver Marc Hartwich, Die Welt, 23 August 2007.

[145] Financial Times, 23rd August 2007, page 2.

[146] news.bbc.co.uk/1/hi/england/london/4252421.stm

[147] The original text in German was: *Das enttäuschende deutsche Weihnachtsgeschäft hat im Einzelhandel die Kluft zwischen Gewinnern und Verlierern der Krise vergrößert...Der Hauptverband des Deutschen Einzelhandels rechnet für 2003 branchenweit mit einem Umsatzrückgang um ein Prozent...Für...verlief das Weihnachtsgeschäft damit noch schlechter als das gesamte Jahr. "Man war schon auf schwache Ergebnisse vorbereitet, aber die Zahlen für 2004 sind schlechter, als ich erwartet hatte"..."Die Verbraucher sind verunsichert."* In: Karstadt-Quelle in Katerstimmung, see www.welt.de/print-welt/article285162/Karstadt-Quelle_in_Katerstimmung.html

[148] www.ponsblog.de/?p=77 and www.guardian.co.uk/business/2005/feb/11/consumerissues.shopping

[149] epp.eurostat.ec.europa.eu/portal/page?_pageid=0,1136173,0_45570701&_dad=portal&_schema=PORTAL

[150] The increase would be even more marked if investment were included.

[151] *Don't worry: when the regulators are fretting, things are returning to normal*, Hamish McRae in: The Independent, 28th February 2008, page 47. See also Financial Services Authority, Financial Risk Outlook 2007, page 83, which shows a lower figure for the UK: secured debt of 126 per cent of disposable income in 3rd quarter 2006 and 26 per cent unsecured debt. www.fsa.gov.uk/Pages/Library/corporate/Outlook/fro_2007.shtml
Also see figures for 1996 to 2001 in Chart 4.7 in Financial Risk Outlook 2002 www.fsa.gov.uk/pubs/plan/financial_risk_outlook_2002.pdf

[152] www.creditaction.org.uk/debt-statistics.html

[153] The figures have been calculated taking the January 2000 and 2006 stocks and expressing them as a share of 1999 and 2005 GDP respectively. Sources include Bank of England and ONS.

[154] www.guardian.co.uk/money/2008/sep/05/consumeraffairs.creditcrunch.

[155] Paul Krugman and Michael Porter.

[156] Discussion started on 14 November 2007, see pinkfishmedia.net/forum/showthread.php?t=40873.

[157] Find footnote from Brian (Donna's husband).

[158] de.wikipedia.org/wiki/Ladenschlussgesetz

[159] German female employment rates increased from 55 to 62 per cent between 1995 and 2006. During the same time the female employment rate increased from 62 to 66 per cent in the UK. epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&screen=detailref&language=en&product=STRIND_EMPLOI&root=STRIND_EMPLOI/emploi/em012.

[160] www.mbplc.com/allbarone/index.htm

[161] For an interesting discussion why English food was so bad in the past, see *Supply, Demand, and English Food*, Paul Krugman, web.mit.edu/krugman/www/mushy.html