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Subverting the Teutonic way [1]

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Are the days numbered for Europe?s last big bastion of sound money and public finances? The omens from its real estate market aren?t good.

Germany?s Chancellor Angela Merkel faces unrelenting pressure from virtually all other world leaders to set the printing presses free and to hand over her citizens? dosh to feckless foreigners. Oh, it?s all dressed up in grand macro-economic excuses about matching surpluses and deficits, harmonizing fiscal regimes and stabilizing markets but the assault strikes at the foundation of Germany?s recent success ? hard work, prudent saving and thoughtful investment. Like Britain?s own St Margaret in her final days, Frau Merkel is increasingly cornered by the baying hounds.

It looks like the rot, though, has already crept into the home front ? literally. This week?s Sunday Times Home section has an article on the booming property market in Germany [3]. Could it be that even those industrious Germans are succumbing to the siren call of easy money to be made in real estate ? the same temptation that skewered the economies of Ireland, Spain and, yes, the UK?

German house prices had been relatively steady for two decades but have started to move up significantly in the past couple of years.

Nationally, house prices were up 5.5% last year while flats in the biggest cities rose by 10%. The Sunday Times article is replete with the kind of anecdotes so familiar to British home and property supplements over the years: Berlin properties now fetching three times their price four years ago, opportunities in buy-to-let, exploitation of tax breaks. One developer is quoted as saying: ?We?re seeing Greek millionaires pile in out of fear and because they think it?s trendy??

All these are worrisome signs of a bubble in the making. Even The Sunday Times article itself poses the question ?So where are the best places to invest?? ? surely a leading indicator of trouble ahead. If German airwaves become saturated with reality make-over TV shows and dinner parties with arguments about the best source for marble counter tops, then we?ll know that even Germany is lost.

We?ve argued before that speculative investment in real estate is a poor substitute for truly productive investment, something that Germany has clearly avoided in the past, much to its benefit. The more Frau Merkel is forced to give away to foreigners, the more the folks back home will ask ?Oy! Wo ist meine?? That would be a far cry from the Germany we?ve come to respect and, secretly, admire.

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