

## Explaining the Munich miracle

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# On almost every indicator, Germany's south is doing better than its north

*The country's sunbelt soars ahead of its rustbelt*



GERMANY'S north and south have always been different. One half was mostly outside the Roman Empire, the other mostly inside it. The characteristic divide in dialects of German is the "Uerdingen" isogloss separating low forms of the language (where the pronoun "I" is pronounced "ik") from central and high ones (where it is pronounced "ich"). Protestantism dominates in one half, Catholicism in the other. The 19th-century conflicts leading to German unification were to a large extent a struggle between northern Prussia and southern Bavaria. The north industrialised sooner and more intensively. For most of the past two centuries it has been richer.

The Shortest History of Germany, a new, must-read book by the writer James Hawes, tells that story in full: of how the so-called limes separating Roman Germany from non-Roman Germany has remained a formative distinction throughout the post-ancient history of the German people. Yet though the concept of a north-south split is old, its current and increasingly stark manifestation is new.

In the immediate post-war years the southern states of West Germany were poorer than the rest. But they caught up over the three decades from 1960: by 1991 Bavaria's GDP per capita was €22,606 (\$26,585) in current prices, slightly more (4%) than North Rhine-Westphalia's €21,680. The north-south gap had resolved itself. Following reunification the big regional divide was now east-against-west: GDP per capita in the former communist states (plus West Berlin) in 1991 was just €9,759.

Yet with the 30th anniversary of the fall of the Wall approaching, east and west have grown a long way together. About €2 trillion of west-to-east transfers later, a gap still remains (indeed, some fret that progress has stalled) but living standards have recognisably converged. Meanwhile north and south are once more diverging. This time, the south is doing best. A new sort of divide is emerging in Germany.

North Rhine-Westphalia's GDP per capita in 2015 was €37,070, for example, while Bavaria's was €44,566. A 4% gap had grown into a 20% one. And while North Rhine-Westphalia's population had grown by 174,000 over that period, that of Bavaria had grown by 1.2m. The North Rhine-Westphalian economy was 50% larger in 1991; at the current rate the Bavarian one will overtake it outright and become Germany's largest state economy in the next decade or so.

My article in this week's issue of The Economist began as a comparison of the two states. Yet the more indicators I looked at, the more it became clear that the divergence of their relative fortunes in the past three decades is part of a bigger story: the divergence of the northernmost half of the German population and southernmost half (defined as the states of Bavaria, Baden-Württemberg, the Saarland, the Rhineland-Palatinate, Hesse, Thuringia and Saxony; where 50.06% of Germans live). [NB: In identity terms the "south" often refers just to Bavaria and Baden-Württemberg. My definition is more expansive, but derives some cultural legitimacy from the fact that it tracks the Uerdingen line almost perfectly.]

The southern states contain five of Germany's ten largest urban regions: the Central German Metropolitan region (around Leipzig), the Frankfurt conurbation, the Munich conurbation, the Nuremberg conurbation, and the Rhein-Neckar region (the high-tech cluster around Mannheim and Heidelberg). And the south contains about 45% of the still-poorer population of the former east; but the north's 55% includes wealthier Berlin. So it is a pretty fair comparison.

Yet of Germany's 16 federal states the seven southern ones do best almost across the board. According to the New Social Market Economy Initiative (INSM), the top five education systems are those of Saxony, Thuringia, Bavaria, Baden-Württemberg and Hamburg (followed by the Saarland). The five states where women live longest are in the south (Baden-Württemberg, Saxony, Bavaria, Hesse and Thuringia), as are four of the five where men live longest (Baden-Württemberg, Bavaria, Hesse and the Rhineland-Palatinate). The five states with the largest trade surplus are Baden-Württemberg, Bavaria, the

Rhineland-Palatinate, Saxony and Thuringia. Four of the five states with the lowest indebtedness per head are in the south: Saxony, Bavaria, Baden-Württemberg and Hesse. So are four of the five states with the lowest insolvency rates: Baden-Württemberg, Bavaria, Thuringia and Hesse. The four states with the lowest unemployment are also in the south: Bavaria, Baden-Württemberg, the Rhineland-Palatinate and Hesse.

The only three states that pay more into the federal budget than they get out are Baden-Württemberg, Bavaria and Hesse. Crime rates and fear of crime are both higher in the north. The GDP/capita of the south is €39,481; that of the north €34,967. Of the DAX index of Germany's top traded companies, 18 of the 30 are southern. In 2016, 34,782 patents were registered in the south and 13,692 were registered in the north. The northern states collectively have €371bn of debt and annual exports worth €391bn; the southern states collectively have €170bn of debt and annual exports worth €559bn. It would be churlish not to spot a pattern somewhere in all this.

Perhaps most remarkable is that, on some indicators, the growing north-south divide is now as wide as or even wider than the shrinking east-west one. Saxony and Thuringia were both in old east, but as the above enumeration shows are often ranked next to booming Baden-Württemberg, Bavaria and Hesse. Unemployment is lower in these two former-communist states than in North-Rhine Westphalia or even wealthy Hamburg. Indeed, the north-south gap on unemployment is now greater than the east-west one; a fact hard to imagine a decade or so ago when eastern unemployment rates of around 20% were not uncommon.

Of course, massive western investment in the east is part of the story (the peeling infrastructure in parts of Bremen, Dortmund or Essen compares poorly with the streetscapes of, say, Dresden or Erfurt). But it does not explain why, within the former east, the south is doing best; why Erfurt is richer not just than Dortmund but also than Rostock. To tour through Boom Germany was once to travel from Hamburg to Munich, via Hannover, Duisburg and Cologne. Now it is a trip from Munich to Leipzig, via Stuttgart, Frankfurt and Jena. The reasons for this renewed north-south divide are many and various. I go into them in the article. In short: no one explanation sufficiently explains this shift, but many are necessary to do so.

History is one factor. Bavaria and Baden-Württemberg had almost no coal, steel or shipping production. So while the burghers of the northern states clung to such industries, the southerners were already plotting a new course based on the emergent technologies of a post-heavy industry age. So innovative and productive is the Bavarian capital of Munich (pictured above) that Handelsblatt, a German financial daily, recently deemed it "Germany's Own Bay Area" and "far and away ahead of other German cities in almost all categories". Its crime rate is half that of Berlin and of the ten richest German districts, five are in its metropolitan area.

Some point to deeper, sociological factors. In the south, a dying farmer would split his land among his sons; so the typical holding remained small and worked by the family that owned it. In the north land is flatter and thus efficiencies of scale easier to achieve, so pure primogeniture tended to apply and large holdings grew up. In Prussia the Junker ran vast, semi-feudal estates. Some see in this history grounds to

believe that the north is still more innately class-oriented and thus ideologically confrontational and the south more self-sufficient and thus entrepreneurial. All of which is debatable.

But the current political picture suggests there is something to the theory. To look at the Christian Social Union, which has run Bavaria since 1957, is to witness a party fairly pragmatic on economic matters (less so social ones) and most concerned with getting things done. Though it fumed about Angela Merkel's policy of letting in refugees, for example, the government in Munich has done the best job of integrating them. Baden-Württemberg is led by a Green-Christian Democrat (CDU) coalition that seems to have no fixed address but the "broad centre" on the left-right economic spectrum. The same can be said of the CDU-SPD government of the Saarland. The Rhineland-Palatinate is run by the least ideological and probably most effective of the SPD-led state governments. That the Thuringian and Saxon governments have chosen stability over grand overhauls of their states' education systems is cited as a reason behind their first- and second-place rankings in the INSM school assessment.

Luck, too, has played its part. Germany's industrial specialisation on cars, which has accelerated in the past three decades, has most benefited Baden-Württemberg, Bavaria and Saxony; the ancestral homes of Daimler-Benz, Porsche, BMW and Audi. Thanks to the financialisation of the world economy Frankfurt's centuries-old pre-eminence among continental European money centres matters more today than in the past; its glittering skyscrapers factories of GDP for the state of Hesse (the other, northern end of which is distinctly less wealthy) and to a lesser extent for the neighbouring Rhineland-Palatinate. Today the city's famous skyline is a forest of cranes.

Thanks to containerisation, Rotterdam has taken business from ports on the north German coast and the Rhine river. Thanks to globalisation it is cheaper to produce steel in Jiangsu or Jharkhand than in the Ruhr. Thanks to their pre-communist industrial traditions of optical technology, trade fairs and aviation, Thuringia and Saxony were able to build better post-communist capitalisms than their northern neighbours. The southwards and eastwards migration of Europe's centre of gravity has benefited the states of Bavaria, Thuringia and Saxony more than the likes of North Rhine-Westphalia.

The gap between north and south in Germany is getting wider. This begs questions. Should the country confront it energetically, as it did the (very different) east-west gap? Or should it accept it relatively philosophically, as America does the gap between California and Michigan? What responsibilities does the federal government have towards the citizens of the poorer northern states? For example rules currently prevent it from intervening to help under-performing school systems, which are run almost purely by the states. Should that change?

To answer these questions is not the purview of this blog post, nor my print article. But they do seem to demand a change of mindset. The east-west divide has dominated German geo-economic thinking for the past decades. It must remain a priority. But in a country whose competitiveness, demographic standing and overall prosperity will come under intense pressure in the coming years it is worth asking the question: how can the north be made more like the south? To answer this thoroughly would be to solve all manner of German conundrums.