CITY & FINANCE

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MONDAY VIEW

By **Bob Bischof**

UK to catch-up with Germany? Pigs might fly!

THE think tank CEBR reckons Britain will not only overtake its old rival France soon but also that the UK stands a good chance of narrowing the gap with Germany by 2020 and leaping ahead of Europe's economic powerhouse by 2030.

Now, economic forecasting is not an exact science and it is mighty difficult to predict even a year ahead. The CEBR found that out when they finished 37th out of 40 economic forecasters for the year 2013, according to the Sunday Times' league table.

Are the predictions about Britain v Germany any more credible? As a German living in this country, perhaps I am biased, but I think not.

The 2013 figures show Germany at \$3.65trillion, France at \$2.65trillion and the UK with \$ 2.45trillion of output. To catch up with France within the next four years, Britain would need around \$50bn in additional output per annum, or a roughly 2pc higher growth rate. That could be on the cards, given the woes of the French economy.

As for narrowing the gap with Germany by the year 2020 that looks a bit tougher. German GDP is 45pc higher than Britain's; not surprisingly as Germany has a 33pc larger workforce (40m vs 30m) and productivity is more than 10pc higher.

The CEBR argues a weak euro will make it harder for Germany to stay ahead, though most analysts believe the opposite, as a weak currency helps the country's thriving export industry.

Even a chronically low birth rate in Germany is unlikely to have much effect. It has always relied on an influx of Gastarbeiter, or guest workers from abroad, to bolster the labour market. It is doing so now after having successfully integrated 22m newcomers after the fall of the Berlin Wall in 1989.

Can Britain catch Germany? Can pigs fly? But why even think in these terms? It would make a lot more sense to examine ways of stopping the widening of the gap.

The danger with selling illusions about the future is that it can breed complacency among businessmen and politicians alike.

Britain could easily do better and should do so. But it has to be realistic about its position in the world and the huge effort it needs to turn around its growing balance of payments deficit, to increase business investment, to make sure its youngsters have the right education and skills, to improve its infrastructure, to raise productivity and not to rely on rising house prices to fuel another consumption-led boom.

All that needs to be tackled at a time when the Government is trying to get the deficit down, whilst Germany will have a balanced budget in 2014.

Could it be done? I believe it can, but it needs a shift towards long-term strategies in business and government. Selling British businesses and assets for short term shareholder value and calling it "Inward Investment" is not the answer.

Mergers and acquisitions are no match for organic growth strategies; neither is paying the largest dividends as a percentage of profits of all developed economies.

The UK has an abundance of entrepreneurs but cannot emulate the Mittelstand – the small and medium businesses that are the backbone of the German economy.

ALL too often starved of adequate bank finance, those that make it over the first hurdles are soon driven into the arms of private equity or the stock market and too many are swallowed up and disappear.

Lord Bamford, who chairs JCB, his family firm, said to me not long ago: 'If my Dad or I had gone to the stock market for money, we would not be here any more.'

His words should haunt British politicians. If the UK wants to reduce its dependence on the City and get properly into the international race and not with an arm tied behind its back, it should do something about growing more SMEs into JCBs. It's the real economy, stupid!

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