



Global  
Business Leadership

# SHAKING THE GLOBE NEWSLETTER

Courageous  
Decision-making in  
a Changing World



## GDP, Debt, and You

Volume 3, issue 4

Last Thursday, the government released the updated first quarter 2010 GDP figures. (Gross Domestic Product reports the total market value of goods and services produced within a country.) GDP results showed a 3% increase over a year ago. Is this good news or bad news? In order to put the GDP in perspective, it's important to understand what is driving the GDP. Researching information from the BEA (Bureau of Economic Analysis) and the Treasury Department provided parts of the answer, but did not provide analysis on how to interpret the data. Obviously, in the last year the U.S. government has supported some industries (such as housing and financial services), incurring **new record levels of national debt** of \$13 trillion in the process. Allow me to suggest three important guideposts we should monitor to better understand the U.S. economy and its development in the upcoming months and years.

### 1) GDP in perspective

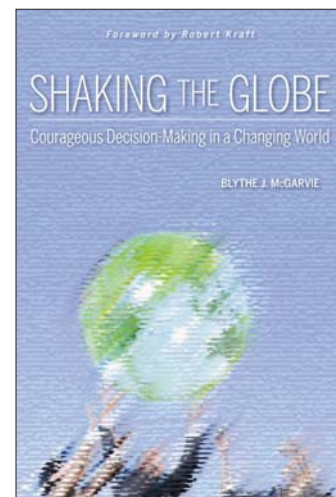
The components that together constitute GDP reflect the health of various economic sectors. GDP is comprised of four categories: Personal Consumption Expenditures (PCE), Private Domestic Investment (PDI), Net exports, and Government consumption expenditures and investments. There are many sub-components within each category. The last quarter's GDP may look anemic compared to the fourth quarter growth of 5.6%. However, we need to keep in mind that the fourth quarter of 2008 is when the financial crisis occurred and positive growth started again near the end of 2009. We are still overcoming the economic turmoil, but the businesses I analyze and with whom I work are making great headway with investments and results.

Of the 4 categories, the strongest annualized growth compared to a year ago was in the personal consumption expenditures, particularly in durable goods and services. PCE increased 2.4% on an annualized basis. This is double the rate of the 4th quarter figures. The only slightly lower growth in PDI also showed that businesses are investing again in equipment and software, as well as transportation equipment. Although exports grew slightly, imports grew almost twice as fast. While many of the imports could be from domestic-based companies that have business outside the U.S., it still is reported as a negative effect on our GDP. Finally, state and local government spending slightly decreased, as would be expected given the reduced opportunity for taxing for revenue as a result of lower business and personal revenues.

Every quarter we have a glimpse at what parts of the economy are stalled or moving. Analyzing this quarter's government data provides me with a quick glance at what is negative and positive. The remaining significant negative components dragging down the U.S. GDP are the continued depressed market for non-residential structures (think office buildings, warehouses) and residential fixed investments. Amazingly, motor vehicles and financial services are basically flat.



GE CEO and Chairman **Jeff Immelt** who shared his tough-minded optimism with McGarvie.



Blythe McGarvie's **Shaking the Globe**, with a foreword by Robert Kraft, was published by John Wiley & Sons in February 2009.



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## 2) National Debt

Americans' mood in 2010 is reminiscent of that of the drunken sailor who spent his money and woke up the next morning not knowing what happened to it. Now that we have taken on the burden of debt incurred by our government leaders and bureaucrats, the debt level per capita must be monitored. [Troy Adkins in Forbes.com](#) writes that "the National Debt is not paid back with GDP."

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*There is no such thing as  
government money—only taxpayer money.*

— William Weld  
former governor of Massachusetts

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The debt will be financed over a generation or more through more and higher taxes. It can only be hoped that this taxation will not deter further economic growth. I recommend reading Adkins' thought piece as he explains how the national debt affects everyone. The national debt is paid back with tax revenue. He writes, "If people are told that debt per capita is approaching \$40,000, it is highly likely that they will grasp the magnitude of the issue." Since we know that only 109 million private sector employees [are paying federal income taxes](#) out of the U.S. population of 309 million and debt is \$13 trillion, we can compute that the debt burden for taxpayers is three times that, or \$119,000 per capita. This burden discourages consumption spending and investment at the personal and business levels.

## 3) Deficit Spending

The final key guidepost to monitor is the government budget and deficit spending. There's not much we can do about the past, expect pay off some of the debt to reduce the interest burden and future tax increases. But, we can do something about current budgets. The 2009 budget deficit is at an unprecedented level of \$1.4 trillion and expected to rise this year. The United States is not alone with this problem. Greece is essentially bankrupt and other nations approach the same situation. Last week, the U.K.'s new government [outlined its deficit-cutting](#) with ideas to eliminate 4% of their future spending (GBP 6.2 billion of the total GBP 156 billion deficit).

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*A billion here, a billion there,  
pretty soon it adds up to real money.*

— Senator Everett Dirksen  
(1896-1969)

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Some of the ideas seem obvious, but miniscule, like cutting first class travel for government officials or freezing all new



McGarvie with **Goldie Hawn**, who discussed positive imagery at KIN Global.

recruitment of civil servants. Instead of palatable steps that save pennies, we, as a people, need to expect less from government—whether it is aid to businesses, assistance on education or healthcare or military strength. The United States cannot afford to spend at past and current levels. Let's monitor what the U.S. will be doing to reduce our deficit. Last week, White House economic advisor [Larry Summers](#) said the government must find a balance between stimulating the economy and reducing deficits. He gave no specifics. No interest group wants its ox gored and every proposal for budget reductions will produce outcries of "No-No-No." We, as business people, cannot expect to escape unscathed and must balance our own short-term interests for government help with the long-term needs of the society. • • •

Global Perspective:  
Items of Note



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