GDP and Me

Gross Domestic Product (GDP) is the total value of all the goods and services a country produces. When this number is divided by the total number of people living in a country, you get the *Per Capita Income*. Thus, countries with people who are making a lot of stuff or doing things that they can charge a good price for will have a larger GDP—and will usually be richer. But if there are a lot of people who either aren't working or working at low paying jobs, the country's GDP will be lower. This is why even a large country like China had a relatively low GDP and remained poor during much of the 20th Century. Its people just weren't producing a lot of high value goods and services. Most of them worked as unskilled laborers or subsistence farmers. The United States, on the other hand, enjoyed a very high GDP during much of the 20th Century. In the year 1950, Americans, representing only 6% of the world's population, produced 27% of world GDP. Western Europe, with 12% of the world's population, produced 26% of world GDP; India, with 14% of the world's population, produced 14% of world GDP; China, with 22% of the world's population, produced 4% of world GDP; and Japan, with 3% of the world's population, produced 3% of world GDP.[1]

Thus, in those days America was making a lot of money to divvy up among its citizens. The average worker's cut was about one fortieth that of the bosses running the corporations that were fueling much of the country's economic growth. By the mid-1950s, the unemployment rate had dropped to less than 3%, so most people had a job.

Surprisingly, the United States still produces about 25% of world GDP, but a lot has changed. CEOs now make about 380 times what the average worker makes. Even an artificially low unemployment rate of 9%, which doesn't include people who have quit looking for jobs, means that millions of people are not receiving a share of the proceeds from the nation's aggregate economic activity. The widespread practice of shipping manufacturing jobs overseas has preserved corporate profits (and in the process maintained previous levels of economic output reflected in GDP), but resulted in a declining middle class. Displaced workers are forced to accept low-paying jobs in the service sector—i.e, becoming Walmart "Associates" or flipping burgers at McDonalds. In other words, they have become poor, often without even realizing it. The illusion of a middle class existence is

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[1] Timothy Taylor. 2008. *America and the New Global Economy* (The Teaching Company, 2008) Audio File.

maintained by a plethora of material goods that their parents and grandparents never had back in the 1950s.

These items are often purchased on credit with high rates of interest. A massive industry has emerged to provide financing to poor people for everything from cheaply made houses, to cars, to electronic gadgets. All of this lending and spending also gets included in the GDP—the total amount of goods and services that the country produces—accounting for 70% of it. Meanwhile China, now responsible for 9.5% of world GDP, generates an ever growing income for its citizens by manufacturing and selling most of the items that the indebted Americans keep buying. China's GDP growth has averaged 10% per year over the past 30 years. America's GDP growth has averaged less than 3% during the same period, and the ongoing financial crisis does not bode well for the future. The massive amount of personal debt means that people are eventually going to have to stop buying stuff other than absolute necessities. The massive amount of government debt means that Washington can't take up the slack by hiring lots of people to do things other than the basics that are required to keep the nation running. So, GDP will inevitably decrease—and people will inevitably become poorer than they once were.

So what does this have to do with me? Well, you might fare better than the Joneses down the street, but we're all in the same ship together. It would be nice if any one of us could set things right and put the nation back on the proper heading, but we will always be limited as individuals. What you can do, though, is start making preparations now for the lean years ahead. This will be far more beneficial than spending like a drunken sailor in the vain hope that it's all going to get better soon. Policymakers realize that the quickest and easiest way to stave off the inevitable—and hang on to their government paychecks as long as possible—will be to encourage people to keep spending, even if they have to take on more debt to do so. But this course of action will be bad for you and ultimately bad for the country. It is amazing to hear and read about people who are going out and buying things, thinking they are fulfilling some sort of patriotic duty. It's time to stop drinking the Kool Aid constantly being poured out by the media and start doing what common sense should make obvious. Save everything you can, invest in yourself to develop marketable skills that will enable you to effectively compete in a ruthless job market, then save some more money and develop some more skills.