Patterns and Stories that CEOs need to know and understand

**Fact:** US GDP has been confined to a very narrow growth corridor since 1970

**Business Implication:** Set targets based on reality, not rhetoric.

**Explication:** This figure depicts the growth of US real GDP over time. The two straight lines identify the narrow corridor within which GDP has been confined for thirty years. This corridor grows at 3% per year and has a width that is only ±3% of real GDP. Call it the 3-3 rule of real GDP.

**Implication:** The CEO (Mr. Bush) and CFO (Mr. Greenspan) of USA Inc. should recognize that, rhetoric notwithstanding, the “change in USA management” every four or eight years has had no discernible effect on the long run rate of growth. Never mind oil shocks, the winning of the cold war, stimulative tax cuts, the Reagan deficits, the New Economy hype or record low interest rates. It’s still 3% growth with some downs (recessions) and ups (recoveries) within a narrow corridor. Faced with that reality, the President and the Chairman should focus on minimizing the downs and ups, or minimizing the damage this volatility causes. The pursuit of higher long-term growth based on the latest macroeconomic fad is likely to increase volatility, not reduce it.

YourFirm probably has the same problem. Your goals are chosen too much by rhetoric and not enough by reality.

This graph also has some important implications for GDP forecasting. This graph promises 3% growth in the future, not the exceptional 5% numbers that are currently popular with Wall Street analysts. This graph promises another down and up before the end of the decade. Looking forward to the next dip, firms and governments with cyclical revenues need to keep debt loads under control.

**Source of Data:** [http://www.bea.gov/](http://www.bea.gov/)

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