

Business People are the True Heroes not the Politicians

By Brian Sear

Politicians are panicking over the current financial crises and behaving badly. There have been many articles written about the inability of politicians and their government staff to comprehend basic business practices. Their behavior is highlighted in a New York Times article by Stephen Labaton titled "Some Banks, Feeling Chained, Want to Return Bailout Money". The article appeared in March 2009.

The table below shows how out of control our government and politicians have become. Information in the table comes from USDA data, Wikipedia and www.usgovernmentspending.com. The data is displayed in 4 year increments that coincide with the last year of a Presidents 4 year term. The size and growth rate of GDP for the World, America and China is helpful to determine how well American Business has performed. The out of control spending by politicians is so egregious that a majority from both parties should be fired.

Nation	1968	1972	1976	1980	1984	1988	1992	1996	2000	2004	2008	2012	
WORLD GDP	\$14.5	\$17.1	\$19.4	\$22.3	\$24.4	\$28.3	\$30.8	\$34.3	\$39.2	\$43.3	\$49.5	\$54.6	
WORLD 4 Year Increase		\$2.6	\$2.4	\$2.8	\$2.2	\$3.8	\$2.6	\$3.4	\$4.9	\$4.1	\$6.2	\$5.1	
WORLD 4 Year Increase %		17.8%	13.8%	14.5%	9.8%	15.6%	9.1%	11.2%	14.4%	10.5%	14.3%	10.3%	
USA GDP	\$4.2	\$4.6	\$5.1	\$5.8	\$6.6	\$7.6	\$8.3	\$9.4	\$11.1	\$12.1	\$13.2	\$14.1	
USA 4 Year Increase		\$0.4	\$0.5	\$0.7	\$0.7	\$1.0	\$0.7	\$1.1	\$1.7	\$1.0	\$1.2	\$0.8	
USA 4 Year Increase %		9.4%	10.6%	13.7%	12.6%	16.0%	8.8%	13.5%	17.9%	8.8%	9.6%	6.4%	
CHINA GDP	\$0.1	\$0.1	\$0.2	\$0.2	\$0.3	\$0.5	\$0.7	\$1.1	\$1.5	\$2.1	\$3.1	\$4.3	
CHINA 4 Year Increase		\$0.0	\$0.0	\$0.1	\$0.1	\$0.2	\$0.2	\$0.4	\$0.4	\$0.6	\$1.0	\$1.1	
CHINA 4 Year Increase %		42.1%	18.1%	39.4%	46.6%	53.4%	34.8%	57.3%	37.4%	43.1%	50.0%	36.0%	
USA Market Share	29.2%	27.2%	26.4%	26.2%	26.9%	27.0%	26.9%	27.5%	28.3%	27.9%	26.7%	25.7%	
Increase / <Decrease>		-2.1%	-0.8%	-0.2%	0.7%	0.1%	-0.1%	0.6%	0.8%	-0.4%	-1.2%	-1.0%	
CHINA Market Share	0.7%	0.8%	0.8%	1.0%	1.3%	1.8%	2.2%	3.1%	3.7%	4.8%	6.3%	7.8%	
Increase / <Decrease>		0.1%	0.0%	0.2%	0.3%	0.4%	0.4%	0.9%	0.6%	1.1%	1.5%	1.5%	
Realistic USA Spending												\$4.559	
USA 4 Year Increase												\$1.576	
USA 4 Year Increase %												52.8%	
Forecast USA Spending	\$0.178	\$0.231	\$0.372	\$0.591	\$0.852	\$1.065	\$1.382	\$1.561	\$1.789	\$2.293	\$2.983	\$3.662	
USA 4 Year Increase		\$0.053	\$0.141	\$0.219	\$0.261	\$0.213	\$0.317	\$0.179	\$0.229	\$0.504	\$0.690	\$0.679	
USA 4 Year Increase %		29.5%	61.2%	58.9%	44.2%	25.0%	29.8%	12.9%	14.6%	28.2%	30.1%	22.8%	
Spending % of USA GDP	1968	1972	1976	1980	1984	1988	1992	1996	2000	2004	2008	2012	
	4.8%	5.0%	7.2%	10.1%	13.0%	14.0%	16.7%	16.6%	16.1%	19.0%	22.6%	26.0%	
Realistic Spending from 2009 to 2012												22.6%	32.4%
President	Johnson	Nixon	Ford	Carter	Reagan	Reagan	Bush I	Clinton	Clinton	Bush II	Bush II	Obama	
Executive Control	Democrat	Republican	Republican	Democrat	Republican	Republican	Republican	Democrat	Democrat	Republican	Republican	Democrat	
Congress Control	Democrat	Democrat	Democrat	Democrat	Democrat	Democrat	Democrat	Republican	Republican	Republican	Democrat	Democrat	
Senate Control	Democrat	Democrat	Democrat	Democrat	Democrat	Democrat	Democrat	Republican	Republican	Republican	Democrat	Democrat	

First we should acknowledge the outstanding performance of our business people.

There are approximately 300 Million (M) people, 125 M employees, 100 M investor/employees and 25 M businesses. Individuals, small businesses and large Corporations are the only

Business People are the True Heroes not the Politicians

source of wealth and prosperity for America. Government is an overhead or drag on our prosperity.

At the end of Nixon's first term, 1972, America's GDP stood at \$4.2 Trillion. By 2008 at the end of Bush II's second term America's GDP was \$13.2 Trillion. Over 3 to 1 growth! Along the way there were periods of underperformance and periods of over performance. The bottom line is that American Business people found ways to grow their businesses in spite of meddling by politicians. America's market share of World GDP held at 26.7% in 2008, down only slightly from 27.2% in 1972. This meant that we had grown at a similar growth rate to World GDP.

It is also true that China's performance was superb. Their GDP grew from \$0.1 to \$3.1 Trillion over the same time period. Because of their strategic intent to make GDP growth their highest priority they grew at twice the rate of World GDP growth from a market share of 0.1% to 6.3% by 2008. Because of this performance and because the Washington crowd do not have a clue how business works they have declared defeat and herald the 21st Century as the Chinese Century. They run around in panic, hold show trials in Congress, blame business people for crises of government making and denigrate the very people who make it possible to pay taxes and create wealth and prosperity for all the people.

Over the last 50 years American enterprise has grown to about 25 million businesses, approximately 7 million corporations, 18 million small businesses and probably over 125 million employees who work together at all levels to achieve the strategic plan of the companies. There are literally thousands and thousands of success stories. Companies like Apple, HP, IBM, Intel, TI, Walmart, GE, Johnson Controls, P&G, Amgen, and Berkshire Hathaway to name just a few. These Companies are resilient and high performance. All employees work together as a team in a symbiotic relationship between customers and investors. Customers write the checks for compelling, beneficial products, investors provide the capital for company growth and expect a good return, and employees innovate reducing cost and improving quality as they go down the experience curve. Growth provides more jobs at increasing compensation as responsibility grows.

The failures like GM, Michigan stand out because they did not follow good business practice. 80 years ago the company was given an outstanding start by its founders quickly rising to over 60% market share domestically. For the last 50 years GM lost market share domestically until today when they are ready for bankruptcy. How did this happen? Complacency set in within the higher echelons of management. They succumbed to Union demands that increased their cost and reduced their quality for a few specific job descriptions. This stopped the company from going down the experience curve. Management was then squeezed from pandering politicians who made law about what type of cars they should make. Michigan became a Union state which did not help. Right to work states have a significant advantage. Management should have been courageous enough to have told the unions and politicians that unless this

Business People are the True Heroes not the Politicians

nonsense stops they will bankrupt the Michigan operations and start again in locations more favorable to business success.

Let us go back to the high performance companies. One of the ways they became high performance was to realize that each job description, out of thousands in a large company, may need specific compensation to maximize results. CEO's charged their Human Resource departments and Compensation Committees to come up with imaginative ways to provide motivation and incentives. Because there are so many types of jobs there are many types of compensation. An hourly worker may be paid by the hour or paid on how much work was completed. In addition a profit sharing bonus may be paid to encourage the hourly employee to be a team player. A sales man may get a low base pay and a high commission. A technical worker may be offered a lower base pay with a bonus based on meeting certain project objectives. A CEO may get stock options that vest over years to encourage corporate initiatives that benefit the shareholders.

Knowledgeable people know with certainty that Incentive Compensation is a significant competitive advantage and should be considered carefully by anyone privy to company confidential information. The bottom line credibility in all these methods of compensation is target compensation that is based on market studies of the free market value of any specific job. Then corporations set their policies based on this target compensation and adjust incentive programs to market by reducing base and adding incentives. Such programs are considered intellectual property that keeps the company competitive.

So how an incompetent politician can come up with a law that will tax certain bonuses at 90% in certain types of companies is beyond imagination. It is so stupid because that politician by acting on the premise that if he pontificates enough he may get some extra votes at election time, he neglects the unintended consequence that he may be putting the company out of business thereby reducing the tax basis to pay his salary.

Now let us take a look at the pathetic performance of our politicians. Government spending by our politicians from 1972 to 2008 is completely out of control. Back in 1972 when Nixon finished his 1st term government spending (overhead on the people's enterprise) was \$0.231 Trillion, 5% of a \$4.2 Trillion GDP. By the end of Carter's term in 1980 government spending had risen to 10.1% of GDP. In my view total government spending should not go over 10%, 5% for overhead and 4% for protection and 1% for safety net. Most self respecting conglomerates run with 5% corporate overhead. Berkshire Hathaway runs with a lot less overhead.

By 2008 at the end of Bush II's term government spending was \$3.0 Trillion a whopping 22.6% of GDP. What do we get for it? We get a bloated unionized government payroll, schools that produce less and less performance for more and more money, a post office that cannot

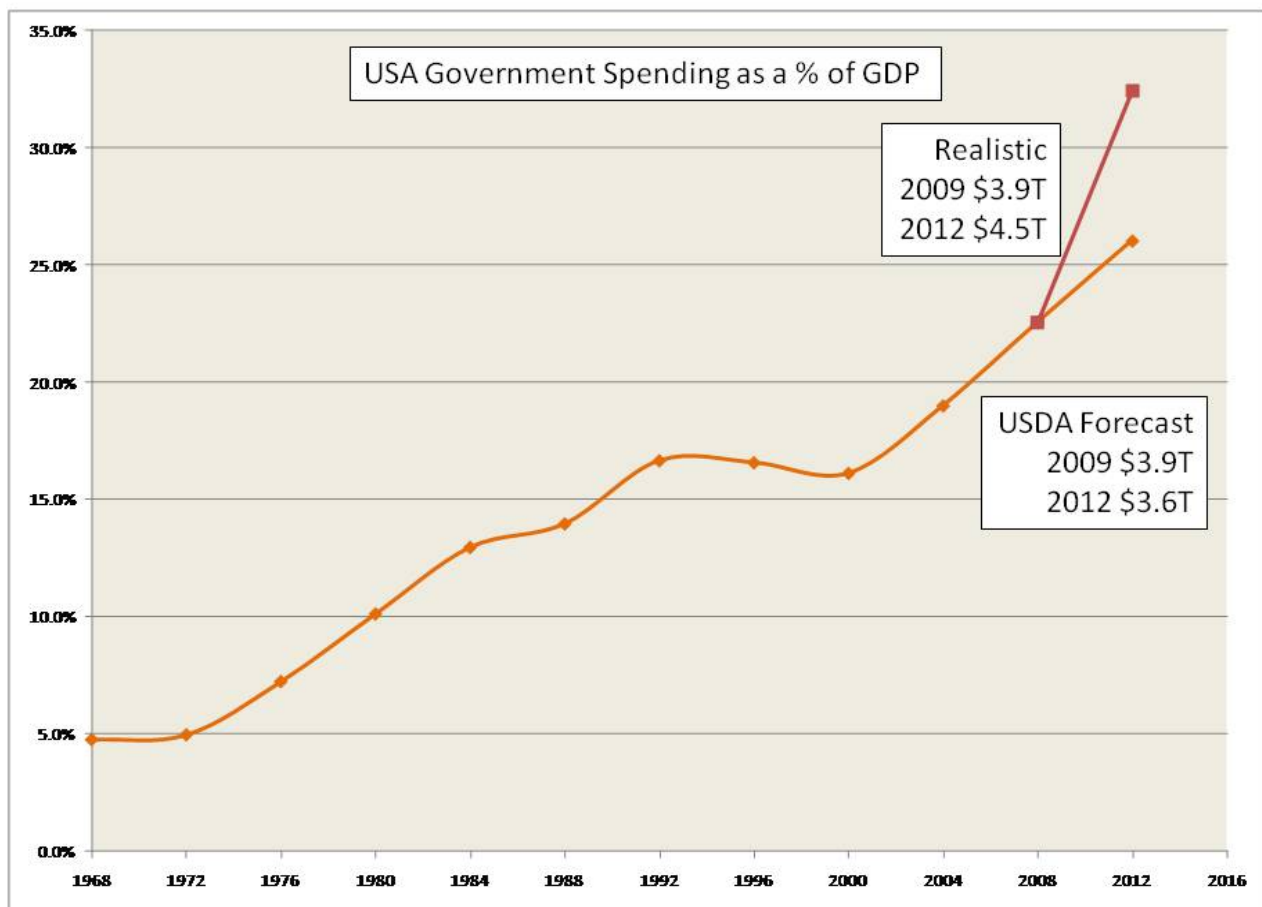
Business People are the True Heroes not the Politicians

compete with FedEx and UPS, a Ponzi Social Security System managed by politicians that renege on commitments to stay solvent, and Medicare that is out of control.

There is one redeeming feature; our military is the finest force of fighting personnel, backed up with great technology the world has ever known. Unfortunately politicians enjoy taking resources from what works and give the resources to those activities that do not work. The politicians have the gall to sell it as a peace dividend in a very unsafe world.

Perhaps there is a silver lining in the following chart that may guide us to circumvent the dark clouds ahead.

It is interesting to note that during Clinton's 2 terms, ending in 1996 and 2000, when he was pragmatic enough to compromise with a very conservative Republican house and senate, that together they achieved the only period where spending reduced slightly as a % of GDP. Also in that period we grew faster than the rate of growth for World GDP.



“We the people” should be very concerned with the current situation. What should have proceeded as an orderly professional process in the 2nd half of 2008 to slowly reduce debt and leverage in the financial community became a tipping point. Paulson, with his emergency

Business People are the True Heroes not the Politicians

request for \$700 Billion, approved by a stampeding congress to fix a banking fiasco caused by the politicians became a global spiral downward of crises proportion. Now we have a new administration that's throwing large amounts of money, that we do not have, at the problem in the hope that it will stabilize the market.

Government overhead at 28% to 35% of GDP will crush the American Dream.