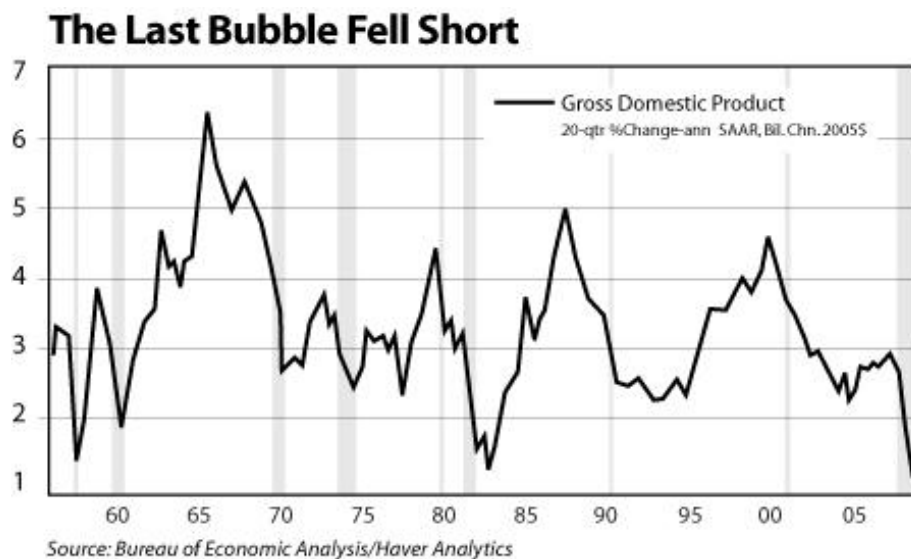


## MORE DEBT, LESS GDP

WEB BUZZ 2009.10.12

The following chart is the companion to the one noted in our Web Buzz of 10/05/09. As you may recall, that earlier chart revealed that the economy was no longer achieving much bang for the borrowed buck as measured by nominal GDP. This is a classic example of the law of diminishing returns. The late 1960s were the high point of additional debt adding to growth in GDP.



Adapted from *The Richbacher Letter*

Since the high point in GDP that occurred in the third quarter of 2008, GDP has declined. However, total marketable debt has continued to increase. The result, of course, is that the ratio of total marketable debt to GDP has increased. Think about it. Even though the economy has been in recession for 18 months, our collective debt to national income ratio has increased by 10.5%. Does anyone believe that we can borrow our way out of recession?

There is little doubt that the third quarter GDP will be in positive territory. Nearly 100% of this growth will have come from government stimulus programs and debt guarantees. Little to none of this growth is sustainable. Even worse is

the fact that nothing has been done to correct our basic problem - too much debt.