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## ■ MID-IOWA BUSINESS

# What's next for our economy?

**T**he Great Depression made an impact on three generations of my family. Stories from my grandparents and photos of the old family farm brought a profound realism of that era to my parents and later to me. Understanding what could happen influenced how we managed our finances.

Likewise, I believe the impact of the Great Recession will long outlive the current upswing for a significant number of consumers, business leaders and perhaps even elected officials. Millions of Americans lost their homes during the last two years. Millions more are unemployed with no solid prospects for a turnaround. Almost everyone knows someone who is experiencing firsthand what is happening. That experience will change habits for years to come.

Personal savings rate data suggests a fundamental shift is underway. The personal savings rate has been above 5 percent for 25 consecutive months. This comes after 10 straight years of averaging roughly half of that value.

Today's savings rate is particularly impressive when one considers that nothing is being saved by the almost 10 percent of people who are out of work or the 17 percent who are underemployed. The last time the



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savings rate was consistently above 5 percent was 1998 when the unemployment rate was less than half of today's value.

Businesses are also holding onto cash for the same reasons as households. Many got closer to the precipice than they ever imagined possible. In addition, a generation of leaders had to lay off co-workers and reported it as the most difficult thing they ever had to do. Neither are lessons to be soon forgotten.

The third leg of the economic stool is government spending. This is the most difficult to predict since actions are driven by politics rather than logic.

Successful businesses and families understand that short-term sacrifice is required to realize long-term rewards.

Some combination of tax increases, interest rate increases and/or austerity programs will be necessary to rein in government debt.

The concept is foreign to the majority of voters, however, and voters' voices drive the actions of elected officials rather than the best interests of the country.

But even that may be changing as cities and states trim spending, and the federal government is starting to talk about deficit reduction. The trick will be balancing the long-term need for living within our means without causing so much short-term pain that voters revolt. It's a daunting, if not impossible challenge.

So what does all this mean to your organization or family? The overall economic pie will continue to grow over the course of the next decade, but at a rate of roughly two-thirds of that we've been accustomed to during our credit addiction of the past 25

years or so. Some combination of tax increases, interest rate increases and/or austerity programs will be necessary to rein in government debt.

Niches driven by new technologies will soar while competition in mature markets will intensify. If your organization competes in the latter (and this includes government-provided services), you'll have to demonstrate a clear competitive advantage to justify your existence. That will require best-in-class processes and a workforce that thrives on making customers feel special.

Smart families realize now they are solely responsible for their quality of life in retirement. Their children's quality of life will be heavily affected by their ability to enter a highly competitive job market that favors technical skills. Eating in tonight and ensuring the kids understand their math homework sounds like a good place to start.

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