

The Horsch *Business Report*



Helping you grow your career and your company



LARRY HORSCH

INTRODUCTION

We are entering a period of real conversion from the Trump administration to the Biden administration. The easy changes have been made and now the more difficult ones, like China, North Korea, Iran, Russia, and global warming are being addressed.

We appreciate your comments on the Report in assisting us to make it more useful.

THE ECONOMY

Overview

The economy in the US is recovering nicely as the coronavirus and its variants are being brought under control.

The initial concept of a \$2.3 trillion recovery program proposed by the Biden administration is a catchall pot and will probably be narrowed down before being passed.

The Federal Reserve continues to support low interest rates, but the fear of inflation from overspending is pushing interest rates gradually upward. Low interest rates have created an extraordinarily strong housing market with money flowing in from outside the US to purchase homes as rental properties.

The drama of Internet sales versus store sales continues as the former is growing at a 20% or more rate for many companies with the latter growing only 2% to 3% for many companies. Obviously, many stores with little or no presence on the Internet are struggling and may not be part of the future in serving consumers.

Federal Debt

We are piling on more Federal debt as we spend to fight the virus recession with a significant amount of proposed spending having nothing to do with the virus recession.

One of the issues in the US is that Republicans have generally given up as protectors of expanding the Federal debt since Ronald Reagan. George W. Bush as president once said, “Ronald Reagan taught us that Federal deficits don’t matter.”

The political disease in almost every country in the world involves politicians promising benefits to its citizens and not making them pay for it with tax increases or eliminating obsolete programs. In the US, we have an additional problem where almost 50% of adult citizens don’t legally pay any Federal income tax. So, why would they worry about this if benefits are being given away for free today and into the future.¹

While everyone knows that we are passing a growing Federal debt onto our children, grandchildren, and great-grandchildren, the emotional shock isn’t great enough so far to change the tendency toward deficit spending.

Politicians also know that the likely long-term consequences of their actions will occur well after they have left office. The consequences are:

- A decline in the US dollar and its prestige in world trade
- Increased costs on all imports as the dollar falls
- Eventually, others will not lend the US money to be paid back in dollars, and as the dollar declines the debt increases.

WASHINGTON SCENE

Voting

The two key thoughts on this topic are hard to deny:

- All legal US citizens have a right to vote in a democracy.
- Because voting is so important, people voting need to be identified to have solid protection against any voting fraud today or tomorrow.

Both political parties are involved in tribal warfare on this matter, which isn’t helpful.

Consider the following:

- If the Republican Party is seen as intentionally suppressing legal voting, then it is going down the wrong track.
- If voter identification is made more difficult for people who don’t have a driver’s license or some other form of official identification, then they should have two years to get some form of approved identification. If they don’t get one in two years, then they have given up the privilege of voting.

Let’s get the discussion back on the right track and address the issues without the theatrics.

The Search for More Federal Revenues

As the Federal government embarks on new stimulus packages with large Federal deficits already in place, President Biden has decided on expanding taxes on people who make more than \$400,000 per year, and possibly eliminate capital gains taxes for some in favor of taxing any profit at an ordinary income tax rate. In addition, he is proposing to substantially increase corporate income taxes. A few observations:

- Corporate taxes were reduced in the Trump administration to make them competitive to taxes in other countries. If job creation is a key economic idea, then being uncompetitive because of higher corporate income taxes is not a good concept.

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- Raising taxes on individuals with very high incomes is probably a decent idea since that group has prospered disproportionately in the last dozen years, and middle-class income has been stagnant for over three decades, adjusted for inflation.
 - Eliminating long-term capital gains taxes and substituting ordinary income tax rates is a bad idea since taking risk in investing in businesses is key to our growth as the leading free enterprise country in the world. If we need to improve the capital gains features, then it might be helpful to extend the holding period from one year to three years so that investors' focus would match the corporation's three-year planning cycles.

When seeking more Federal funding it would be useful to review how the IRS would capture up to \$1 trillion lost to tax fraud. Also, to avoid a 10-year fight with pressure groups for eliminating their tax breaks, a minimum tax rate should be set for individuals and corporations regardless of what their tax forms show under normal rules. This would dilute the overall tax breaks that were put into the tax system over the years.²

MANAGEMENT

Employee Turnover

In US business today there is pressure on many executives to work 60 to 75 hours per week to meet the goals. Some will let this consume all their energy and have little left over for their personal lives. Others will wear down and eventually leave the company. Driving the system at this pace is very shortsighted. Consider the following:

- All of us have a limit beyond which our creativity is gone, which is needed to solve key problems and capture major opportunities. Our guess is that it diminishes at about 55 hours per week for most people. Beyond that, the extra hours are not very productive.
- The general understanding of the cost of employee turnover is not realistic. The real cost is recruiting fees, but also all the mistakes that a new employee makes over the first 12 to 18 months learning the job. We have seen a commercial construction project double in cost when a key executive left this company.
- The simple fact is that the best employees have the most alternatives in getting a new job elsewhere. This means that if you are losing "A" employees, then the company is left with a number of "B" and "C" employees. You build great companies with "A" employees, not "B" and "C" employees.

One of the benefits of remaining privately held as a corporation is that management can take a long view in assessing these matters, as contrasted with the Wall Street view involving a more short-term focus.

Management Information

It is time to call a timeout on the use of cheaper and faster computers to provide a growing amount of information for management. This process started long ago with the concept of an auditing firm providing annual financial statements. Then it seemed appropriate to provide semiannual financial statements, followed by quarterly financial statements.

In some sales functions, headquarters personnel, often inexperienced in marketing and having no sales experience (but they do have an MBA in marketing), ask for huge amounts of information from people in sales reducing sales time with customers. They act like all the wisdom is in the headquarters staff.

The solution to all of this is to hire the best people available, train them, and delegate to them to let them do their job without being flooded with request for more information from headquarters.

CEOs and Politicians

We see CEOs of major US corporations boycotting states that are passing new laws on voting that appear to be restrictive.

The simple fact is CEOs are not given their position in corporations to engage in political issues unless it directly affects their business. Good financial performance does not occur when the goal is blurred by other distractions.

As we have noted before, a CEO's days are numbered if they produce poor financial results but do good on a variety of other issues.

INVESTING

Overview

Speculation is still at its peak with special-purpose acquisition corporations being formed even by celebrities to acquire a yet unknown company in the yet unknown industry.

From here on out into the intermediate future, there will be large crosscurrents with speculative concepts and good companies that are overvalued having sub performance, and other undervalued stocks doing fairly well. We are moving from a stock market to a market of stocks.

Bitcoin

This speculative "investment" was originally based on money laundering and other tax evasion concepts but is moving into a mainstream speculative asset. Some would say that it competes with gold as an "investment." The odds of it replacing real money is slim because the Federal Reserve needs to control the total money supply and its important role would be diminished if alternative money existed on any scale that was unregulated.

Since bitcoins can be priced at almost any number at any point in time, they can hardly be relied on as a mainstream money idea.

PARTING SHOT

As the Derek Chauvin trial was resolved on April 20, 2021 in Minneapolis with convictions on all charges on the killing of George Floyd, a sigh of relief occurred in the crowds gathered outside the county courthouse in downtown Minneapolis and the George Floyd memorial in south Minneapolis, almost in our backyard. With most of downtown Minneapolis and other hotspots boarded up in anticipation of problems, better days are ahead.

With the Minneapolis area getting two black eyes with the George Floyd and Daunte Wright events, it may well be that we have turned the corner in convicting a white officer in the killing of a Black citizen, a first in Minnesota history. While much more needs to be accomplished to correct police misbehavior, there is more light at the end of the tunnel.

Respectfully submitted,



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¹ In the 2016 presidential campaign someone videotaped Mitt Romney's fund-raising meeting where he talked about almost 50% of adult citizens legally not paying any Federal income tax, and he was soundly criticized for making the comment. Such is the condition of being politically correct versus facing the facts.

² Perhaps a 25% minimum tax rate for individuals and 15% minimum for corporations would be reasonable concepts and could be supported politically.