

The Horsch *Business Report*



Helping you grow your career and your company



LARRY HORSCH

INTRODUCTION

President Biden has reestablished the US position on NATO, G7, The Paris Climate Accord, WHO and Iran negotiations and has worked hard building a consensus in Congress particularly on the infrastructure bill. Time will tell whether he can detach himself enough from the liberal wing of his party to make real progress.

We continue to encourage your response to the Report to make it as useful as possible.

ECONOMICS

Overview

The US economy is recovering nicely from the coronavirus, and the current vaccines seem able to control the variants of that virus.

The Free Enterprise System

President Biden's proposal on social spending is more of a wish list than reality. The free enterprise economy can only provide so much revenue for these services or damage is done to the system in the way of excess taxes and excess debt.

It would seem, in the Biden administration, we have the social spenders bringing out their list and a group of budgeting people converting it into a cost proposition. No one is present with a first-class understanding of the US economy and the damage done by excessive government spending. President Biden himself, employed in the Senate, and as Vice President for over 50 years, does not understand the problem. The current laundry list for proposed spending simply can't be funded without key parts of the system being damaged (as outlined extensively in our last Horsch Report).

WASHINGTON SCENE

Overview

Senator Joe Manchin's ideas on pursuing bipartisan voting has particular appeal. Without bipartisan support, laws are put on the books that cause the government to zig and zag, depending on who is in power.* Laws that were put on the books with bipartisan support have an extended life that cause the government to be more stable.

Immigration

Whatever happened to the old US immigration policies that decided how many immigrants can come to the US each year and divided up the world by regions to determine which of those people could come here? We also had a special category for those whose lives were being threatened if they returned to their home country.

Under President Obama we lost control of the borders by trying a program of "catch and release" which often involves a group of illegal immigrants walking across the Rio Grande River into the arms of border agents who handcuffed them and processed them for a future court date which most of them never attended. They then melded into American society and 10 years later they all want to be citizens because they've been here for 10 years. A rather pathetic program if you're interested in having a solid immigration policy.

Under President Trump's guidance, we built walls that are only modestly effective and ended up separating children from their families at the borders only to find we don't have enough decent facilities to handle the children properly. President Trump did get tough using ISIS to return illegals to their home countries and leaned on Mexico to do a better job in guarding its southern border to reduce the flow illegal immigrants to the United States.

Under President Biden, the whole system of illegals is assuming that he's not going to be as

tough on the topic as President Trump. In asking Vice President Harris to take on the issue, we hear of a restored older program abandoned by President Trump to help particular Central American countries to control crime and corruption and become more prosperous economically so that their citizens would have less reason to leave the country.

Consider the following:

- The corruption and gang control is so great in Central America (and much of Mexico) that Vice President Harris's new program is really a 20- to 25-year program unlikely to yield short term results.
- As Mexico continues to simply be a conduit for immigrants to move to the US border, we need to explain to Mexico that if they don't tighten up their southern border in 90 days to stop the flow of immigrants, we will put a 50% tariff on all automobiles manufactured in Mexico for import to the US. Positive results will occur in 90 days.
- There needs to be a general review of the special category of immigrants that fear for their lives if they return to their native country. In the last few decades, corruption and lawlessness have increased in a major way in Mexico, Central America and some South American countries never contemplated on this scale.

If the Biden Administration does not move quickly on the issues above, they will lose the support of a growing number of Americans.

While there has been much conversation over the years that immigrants built our country, it is important to know they were legal immigrants processed in a logical system, not illegal immigrants violating our border laws.

Trump's Legal Issues

While ex-President Trump continues to believe he was cheated out of his re-election for president in 2020 and believes he will somehow return to Washington, his legal issues

are looming on the horizon.

A Grand Jury has been called in the Manhattan District to review various activities of the Trump Organization to determine if they are involved in criminal activities. Recently this Grand Jury has moved to charge the Trump Organization and its CFO Allen Weisselberg on tax related crimes involving unreported fringe benefits for employees. While the press is searching for who is the likely ultimate primary target in this investigation, in a one-man band structure like the Trump Organization, Donald Trump knows everything and controls everything and has to be the ultimate primary target.

We would be surprised if the indictment for overstating assets for bank loans or understating assets for property or estate tax purposes could be upheld as a criminal matter. Lenders, the IRS, and others have experts of their own to rely on and don't pay much attention to the aggressive moves by private citizens. There has to be something more to this legal inquiry.

If, for whatever reason, Donald Trump is sentenced to jail for any length of time, his opportunity to restart his political career would obviously be sharply diminished.

The Other Republican Issues

We are witnessing the rapid decline of the Republican Party as it is dominated by far right pro-Trump supporters.

Liz Cheney's focusing on the truth of Trump's losing the 2020 election legally and her defense of the truth has been a large shot across the bow of the Trump battleship.

Less dramatic, but equally important, two polls indicate that 70% of current Republicans believe the 2020 election was stolen from Trump and 30% believe the QAnon conspiracy that promotes the idea that the Democrats are controlled by the devil and are molesting children. This 30%, when calculated against 75

million voters who voted for Trump in the 2020 election, amounts to 22.5 million people who believe in this conspiracy theory.

Some thoughts:

- If someone asked us how many votes Adolf Hitler would get in a US presidential election, we would guess at 2 to 3 million because there are probably that many mentally incompetent citizens among us, a far cry from the 22.5 million figure.
- With 22.5 million citizens believing in this type of conspiracy theory, it will be difficult to convert many of these to normal thinking in the short run.
- As the Republican Party has slipped to 25% of the voters, by itself it cannot be a winner in national elections. In addition, it is drifting away from converting suburban housewives to the cause with such crazy conspiracy theories.
- There are, at this time, only a limited number of Republicans willing to stand up to Trump. Current it appears Liz Cheney, Mitt Romney, a few other Senators and John Kasich would be on the list. Without a leader in the new effort, it will be hard for the Republicans to get traction.

MANAGEMENT

Governance

The function of a Board of Directors ranges from a husband and wife meeting once a year as owners of the business with their attorney to sign a few documents, to a large company with boards involving 12 to 18 members usually meeting quarterly and owning little of the company except for founders who still may be on the board.

Boards work best if:

- They are limited in number (5 to 7).
- The directors have a decent investment in the company.

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- The directors have successful business careers with some having ties to the industry involved.
 - The majority of the board members are independent directors as defined by regulatory agencies.
 - The directors are diligent in attending to their responsibilities.
 - They meet more often than quarterly.

The legal standard for a directors conduct is very high since the fiduciary obligation requires a director to conduct himself on corporate matters as he or she would on their own personal matters. However, in many public companies, the board of directors is in the distant background until there is trouble. When that happens, it may become very active to solve the issue at hand, including firing the CEO.

Currently political correctness is being super imposed on governance and there is a push to include more diversity on boards including greater gender diversity. The challenge is to do this and maintain the level of competence on the board representing the share holders.

INVESTING

The speculative fever in the US equity markets is likely to be broken eventually by inflation fears. Some inflation is already occurring in both industrial and consumer markets. The big spending plan of the Biden administration is causing additional concern.

The Federal Reserve continues to believe that the job market must improve before it worries much about inflation. Unfortunately, the ongoing virus has caused the working at home trends, along with large unemployment payments, to distort the job market statistics. Simply stated, the Federal Reserve is currently a bit out of step with market reality.

For those dreaming of a return to the roaring 1920s for equity markets, they might want to

reflect on the fact that the Dow Jones Industrial Average declined almost 90% in the early 1930s as a result of the “roaring 1920s”.

PARTING SHOT

Senator Roy Blunt, a Republican from Missouri, will be retiring soon and said in a recent interview, “Our democracy is dependent on the health of a two-party system”. He went on to say democracies work well when elected officials are well briefed on an issue and are willing to compromise, not when they believe their voters put them in Congress to not compromise on their beliefs.

We would do well to get our elected officials to stay on the subject matter at hand and not verbally attack people personally if they are in disagreement. It is difficult to compromise with others who you view as your enemy.

Respectfully submitted,



Larry Horsch
Founder and Editor
Minneapolis, MN
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* Each new political administration spends part of its time eliminating laws passed by the previous partisan administration under the control of the other party.