

The Horsch *Business Report*



Helping you grow your career, company, and economic wellbeing



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INTRODUCTION

The U.S. economy is growing nicely with inflation now the focus of the Federal Reserve. Interest rates are headed upward in 2022.

Polarization in the U.S. political scene continues and the social spending bill before Congress continues to drift along without resolution. Recently, Senator Joe Manchin has stated that he will vote “no,” which will kill the Build Back Better Act in its present form.

While police defunding has lost its luster, police reform and retraining will be a long-haul issue.

THE ECONOMY

Overview

The U.S. economy is continuing to grow despite the coronavirus mutations and clogged traffic at various ports. Inflation has risen sharply to 6.7% in the Consumer Price Index (a 39-year high) and to 9.6% in the Producer Price Index (a 10-year high).

The Federal Reserve has changed its mind on inflation being just “transitory” and it’s now deeply embedded in the U.S. economic system. The Fed has done its “pivot” on inflation realizing that clogged traffic at the ports can be resolved by mid 2022, but increased labor rates are permanent.

It is good news that with vaccines, particularly with the booster shot, the Omicron virus, while highly contagious, will likely be contained with fewer serious hospital visits and deaths. With the two viruses in motion, employers may have to reexamine their early 2022 reopening of central offices, and schools may have to revisit distant learning.

WASHINGTON SCENE

Overview

President Biden's poll numbers remain low and former President Trump continues his rant about election fraud and is launching his own social media platform to carry his philosophy forward.

It is a bit scary to realize that in Congress (particularly the House) junior legislators can attack each other with outrageous charges and find it helps with fundraising, which is key to keeping them in office. Former President Trump has set the example for this, and it is like a political virus that is spreading without sufficient party leadership to stop it. This is not how a democracy, particularly the leading one in the world, should be functioning. (One political commentator, David Brooks, suggested that they are engaging in preschool politics.)

The infrastructure bill has finally passed and is one measure of bipartisanship, but the social spending bill is still bogged down on the ultimate cost issue with Senator Joe Manchin not supporting it in its current form.

Washington continues to flounder on anything sensible on immigration reform and it is costing President Biden political support. (Currently, 50% of registered voters in the U.S. are listed as Independents and they are more interested in middle-of-the-road political positions.)

The Communist Land Grab

The world is watching closely as China is closing in on Taiwan with Chinese aircraft threatening Taiwan territorial borders and Russia poised to invade Ukraine. Unfortunately, both countries at risk were formerly part of the countries of the attackers, so there is a high motivation to bring them back by the attackers.

In China's case, they took over Hong Kong illegally (ahead of schedule) and they don't care

much about what the world thinks about their taking over Taiwan. They've already renamed it and are bullying commercial firms to use the new name or be punished for not doing so. The takeover is likely to occur sooner rather than later before the U.S. pivots its military focus from the Mideast to the Far East.

In Russia's case, they fear Ukraine eventually becoming a member of NATO since it is located right on its border. We would feel the same if Mexico became part of a defense force that was controlled by our enemies. At the moment, we are putting diplomacy skills up against what is becoming 180,000 well-equipped Russian troops. This invasion will also happen sooner rather than later if Putin isn't satisfied with our pledges to not support Ukraine for NATO membership.

Clearly Putin continues his long-term attempt to rebuild the old Soviet Union, one piece of real estate at a time.

ELSEWHERE

Global Warming

Despite global floods, fires, tornadoes / hurricanes, and drought, the world is moving slowly to address global warming with most nations missing goals established a few years ago. Some of the delay is due to the obvious cost to countries to address the issue. Consider the following:

- A recent U.S. poll asked if homeowners would pay \$20 more per month on their utility bills to address global warming. The clear answer was, "no."
- A widely respected Swedish expert in global warming has estimated that the proposed goals by the U.S. for 2050 would cost every U.S. citizen \$13,000 annually. This assumes no science breakthroughs since the author has no way of judging future science breakthroughs.

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- When we look out at 2050 with a long-term view knowing that billions will be spent on research projects to address the problem, it is hard to know what new technology can do to reduce the ultimate cost. Obviously, it will be impactful.

It does not help the solution that big polluters like China and India are still not addressing their continuing dependence on coal, which only muddies the conversation.

This topic is not going away, so we need more progress in 2022 and beyond.

Police Defunding Fades

Just as Minneapolis was a national focal point in police misbehavior after the George Floyd murder, it remains one as we follow the evolution of police defunding. In November, this issue was defeated in Minneapolis. Several city council members who supported defunding were defeated, as lawlessness has grown sharply, and the slogan of “defund the police” has become a liability for liberal politicians.

Minneapolis, like other major cities, has had significant attrition in the number of police (about 40%) and is now rebuilding to levels close to those existing before the George Floyd death. Retraining and reform of the police is now in the hands of a large committee. The police Chief Medaria Arradondo has seen enough and will be leaving his post shortly.

MANAGEMENT

A Need for Greater Long-Term Focus

Over the years, we’ve witnessed the struggle in publicly held companies trying to run the business for long-term results with pressures from Wall Street to meet quarterly earnings projections. Many of us have seen a company miss a quarterly forecast by one or two percent and watched the stock drop seven to eight percent immediately. Pressure

continues from Wall Street to maximize short-term results.

While a public company has an obligation to its shareholders to communicate with them, heavy pressure on short-term results normally reduces the long-term focus where the big results can occur. There are three ways of avoiding most of this:

- The founders keep enough ownership (35%) to fend off the outside pressures by having “working control” of the business.
- The founders institute an A and B stock model where the founders have significantly greater votes per share than outside shareholders.
- The founders don’t go public by realizing how the business could be built being privately held and going “asset light” to avoid public funding.

The last option may seem a bit theoretical, but in reviewing many businesses, we see how they become “asset heavy” in almost every functional area of the business. If the goal were to be managing a company that is “asset light,” many decisions would change and the company could avoid going public and keep a strong long-term focus, much like Cargill and the Koch brothers’ companies, both of which are huge and privately owned.

The Overrated College Degree for Employment

In the recruiting process today many human resources (HR) departments have listed a college degree as a requirement for being considered for a job. This has led many potential employees without a college degree to form their own business, or simply drop out and live in their parents’ basement. In the latter case, they see no hope in getting beyond a salary that barely pays for their current modest bills.

In reflecting on this, we believe a college

degree is often overrated for many jobs because:

- Many degrees have little to do with business (sociology, library science, nursing, history, philosophy, and others), yet the person gets involved in business to pay their bill.
- Many students in college aren't serious about notetaking and concentrating in class, so they cram for tests. In doing so, most of their acquired knowledge is not retained at the end of one or two years, and so much of school is wasted in terms of long-term retention of the facts.
- Without a work program tied to lectures in class, the student often can't see the practical value of the lecture and their interest wanes.

The entire concept of young adults running up nearly \$1.5 trillion of student debt in the U.S., coupled with limited guidance of what they should study, points to the need of a giant overhaul.

There is a golden opportunity for a smaller company to hire non-degreed employees and give them a career path with practical training to assist them in moving forward. There would be a long line of candidates outside the HR department door.

INVESTING

Overview

After being reappointed by President Biden for another term, Federal Reserve Chairman Jerome Powell has finally decided to speed up his schedule for increasing interest rates in light of strong inflation and a job market that has recovered reasonably well from the depths of the 2021 trouble.

In the meantime, extremely low interest rates are propelling gross speculation in the U.S. stock

market that, if left unattended, could bring down the U.S. economy when it deflates. (Where is Paul Volcker when we need him?)

As more amateur investors seek a quick gain in equities, one has to realize that the age-old allure here is that they are trying to find an activity that beats ordinary hard work. They are chasing everything that is shiny, and **this always ends badly.**


PARTING SHOT

How many of us have taken a little time to reflect on what we would do differently in 2022?

While New Year's resolutions seem to have died out over the years, a little time reflecting on where we've been and where we're going can be very helpful in guiding our careers and our lives.

Here's to a purposeful, prosperous, and peaceful New Year.

Respectfully submitted,



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