

The Horsch Business *Report*



Helping you grow your career, company, and economic wellbeing



LARRY HORSCH

INTRODUCTION

As time marches on, we've seen the China / Western nations relationship decline, the war between Russia and Ukraine slowing to a slog, parts of the advanced world troubled with an economic slowdown, and Washington politicians displaying gridlock for the whole world to see.

On the positive side of life, there are breakthroughs involving artificial intelligence applications that appear to be a game changer in information processing.

As usual, if you have friends who may be interested in the free *Report*, refer them to the website listed below.

THE ECONOMY

Overview

The labor market in the U.S. has been stronger than the Federal Reserve would like as it continues to bear down on inflation. Even so, it has eased off raising interest rates in June as medium and smaller banks have tightened their lending requirements after several bank U.S. bank failures. Bankers, who are conservative by nature, find it easy to become more conservative.

Inflation is now about half the rate that was occurring at its peak, so the Federal Reserve policies are working.

WASHINGTON SCENE

The Federal Debt Limit Political Dance

The struggle to add to the federal debt got solved, as usual, at the last minute, but after scaring most citizens. In the process we have a few politicians saying a default is no big deal, when, in fact, it would be an economic and financial disaster for the United States.

As noted in previous *Reports*, the time to question adding more debt is when Federal budgets are being approved, not later when the Federal debt limit needs raising because Congress has already approved the spending and needs more money to cover it.

We are approaching a time when the Federal debt level will no longer be an issue viewed as a distant risk. As our federal debt exceeds 100% of GDP, it is approaching a dangerous level. It needs much more attention than it has been given by both political parties, dating back to Bill Clinton's administration.

Our own conclusion, from having served in the military and having observed many government functions over the years, is that a 10% cut across the board in federal government spending could be managed. That may sound like a radical idea, but we believe it is fundamentally correct. (Note: The Associated Press estimates that fraudsters potentially stole about \$280 billion and about \$123 billion was wasted or misspent, amounting to about 10% of the \$4.2 trillion COVID-19 relief funding disbursed – we rest our case.) The U.S. federal government has become mostly a giant spending machine lacking managerial principles. (Peter Drucker, the great management guru in the last half of the 20th century, essentially said the same thing about 50 years ago.)

The U.S. 2024 Presidential Vote

The two political parties and independents in national elections are listed below according to their size from Gallup:

- Independents are about 41% of voters
- Republicans are about 30% of voters
- Democrats are about 27% of voters

As you can see, it is impossible for Republicans or Democrats to get elected in a national election without substantial support of independents. So, the challenge is for the Republicans and Democrats to not veer to the extremes in their primaries, less they lose independent support in the general elections.

The challenge for the Republicans in the 2024 presidential election is that both Trump and DeSantis are in danger of scaring off independents in the general election, and the more moderate Republicans so far have very modest ratings in the polls. In addition, Trump continues to carry significant legal baggage.

The challenge for Democrats is Biden's age. As long as he is President and his health does not decline in the near future, no important Democrat is likely to challenge him in his party. There is growing concern that Kamala Harris could succeed him if his health fails.

As we noted in previous *Reports*, both Republican and Democrat leading candidates in the polls are being rejected by their own parties – a very odd event. Obviously, it is still early in the run for the Presidency in 2024, and new names will appear, particularly in the Republican Party.

ELSEWHERE

Crime Control

While we are making almost no progress in gun control due to political deadlock, efforts to control and retrain police departments are continuing. (In Minneapolis, home of the George Floyd murder, the police department continues to rebuild its numbers, which are about 33% below normal staffing levels. In addition, it is under both state and federal edicts to improve its overall performance.)

In many major cities crime has hampered business activities. The tendency of governments has been to invest money to assist them in recovery. Unfortunately, much of this money is wasted because citizens will not visit areas as long as they are affected by heavy crime rates.

We would do well to follow the actions of Rudy Giuliani when he was Mayor of New York City and had his police force concentrate on following the top 40 to 50 likely criminals until they were caught in the act and put in prison. This approach substantially dropped crime rates and was copied by other major crime cities with similar results.

Russian and Ukrainian War

The long-awaited counteroffensive by the Ukrainian military may soon begin with a renewed inventory of equipment from the U.S. and Western countries. What happens in the next few months could have a major bearing in a peace treaty, particularly as the Russian citizens learn more about the war and become nervous in the towns and cities near the Ukrainian border.

As this *Report* is being written Yevgeny Prigozhin, the head of the Wagner Group in Russia, decided to march his troops toward Moscow to pressure Putin to fire his top military advisors. Putin and his associates apparently left Moscow for the time being. A deal has been struck to return the Wagner troops to their camps and have Prigozhin move to Belarus. Obviously, many key facts are still missing in understanding this situation, but Putin has been weakened, which could lead to a quicker peace treaty in the Russian Ukrainian War.

Chairman Xi Jinping of China will probably play a role in a peace treaty since he has Putin's ear and has held back from heavy support for the Russian war effort.

On the bright side of all of this, NATO has been strengthened with a new commitment to face the Russian aggressiveness.

As we have suggested in a past *Report*, in 2024 we could see all of this as a piece of military history with Russian weakened in the minds of world leaders and Putin being seen as a delusional thinker trying to rebuild the Soviet Union.

MANAGEMENT

Inflated Job Requirements in the U.S.

In a recent interview, the former IBM CEO, Ginni Rometty, stated that too many jobs in the U.S. were requiring a college degree. She went on to say that probably 50% now listed as such should be changed and not require a college degree. One wonders what HR departments had in mind in causing this confusion. Perhaps, it is easier to whittle down the candidates for a job if there is one more box to check.

Currently in the U.S. economy, there are 9.9 million job openings for 5.8 million unemployed workers. Changing this demand for applicants to be college graduates in 50% of the jobs could help solve the mismatch between job openings and job candidates.

As we have noted in previous *Reports*, high school graduates, along with their parents, are waking up to the possibility of attending a trade school instead of attending a college, not graduating, and ending up with substantial student debt.

The Alfred Hitchcock ending to all of this involves a student who finds a trade school that fits his talents better than a college and later joins a company as a junior employee and gains substantial experience. At a later date, he forms his own company in that trade and begins to develop it. When he succeeds, he moves into an upscale residential neighborhood and realizes he is doing much better financially than many who went to college and are stuck in a middle management position in major companies.

INVESTING

Overview

Over the years investors have identified countries in second and third economic worlds as “sleeping giants” due to their natural resources and other advantages. Many countries in Africa and South America previously were cited, and now India is being included in this category.

Unfortunately, “sleeping giants” often continue to sleep due to poor governance at the federal level, corruption, or weak work ethic on the part of the citizens. India is now discussed as a replacement for China as a place for low value-added manufacturing. We’ll know in a few years if India, as the largest quasi democracy in the world, fulfills its possibilities.

Artificial Intelligence

Clearly, the U.S. stock markets in 2023 have evolved into two separate markets. In one market are the technology companies active in artificial intelligence (AI). In the other market are companies that are not affected materially by AI at this time. The former group’s stock market performance in 2023 is above a 20% gain, and the latter has relatively flat performance. The new buzzword in the stock market is AI, and we are just now learning about the implications of it, both good and bad. Some would say that we are reliving the dot-com craze in the mid-90s that ended badly. Now we have the AI craze where anyone who uses the AI name on a business card must be a winner. It is as though we are about to go through another California Gold Rush.

Many sophisticated observers of AI say that it is a game changer in its potential to process vast amounts of data at high speeds. They have also warned that the risks could be enormous, and that they need to be contained. The EU is already beginning to develop ideas on how to contain these risks.

A large amount of money is being invested in startups in this sector by venture capital firms. On the larger company scene, Microsoft seems to have leapfrogged Google in applying AI to many of its current services. While the accuracy of AI still needs improvement, it is still early in its development. Improvements will occur when major funding is involved in this technical sector.

PARTING SHOT

As we see continuous gridlock in our government, we would do well to consider the ideas found in the book *Think Again* by Adam Grant (Penguin Random House – 2021). The author suggests we can move beyond seeing things only in black and white to viewing the total picture before making an important decision. The author’s key ideas are:

- As you are about to make a major decision, list the odds of being right and the odds of being wrong (very little is 100% versus zero).
- Once you make a decision, keep in mind the determining factors that caused you to decide that way and see if they are changing.
- If the underlying facts change, you’ll have to adjust the odds of being right in either direction and possibly change your entire decision.

This process simply opens your mind to a world of facts and the likelihood of formulating better decisions that will make your life more rewarding.

Respectfully submitted,



Larry Horsch
Founder and Editor
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