

## J. Michael Locke

### Musings

---

#### #231: Musing

#### July 15, 2023

Some good signs on the inflation front. CPI up only 3%. The Federal Reserve likes to look at “core” inflation which excludes the volatile food and energy prices which was up 4.8% (big difference being the major reduction in gas prices). Some experts say that core number is deceiving because it includes an “owners’ equivalent rent” factor for housing costs which was still high (up 8.3%). Zillow listed rents are down and many disagree with the methodology. European economists don’t include that so they think inflation much lower. Anyway you cut it, good progress.

The reduction in inflation also means “real wages” are now growing. People have been getting nice raises but inflation has been so high that their real wages (wage increase minus inflation) have been decreasing. Inflation is now lower than wage growth so real compensation increasing.

Rising interest rates have also made cash an asset class. It used to be dead money as you earned nothing from your cash sitting in the bank. Now you can earn 5% or so and should build it into your asset allocations.

I am a big believe that value creation primarily comes from talent and talent management. Marvel studios crushed DC comics because they were an integrated/organized operating entity where DC was owned by Warner Brothers and used matrix organization models so no one really “owned” the final results. Of course, it all starts with getting the right people. I really enjoyed this post by successful CEO/entrepreneur Stuart Frankel on the importance of talent: *“When I start working with somebody, I tell them two things in the first meeting: (1) this is going to be uncomfortable for you (but only for a short time) and (2) you already know how to fix most of your problems. We talk, I do a lot of listening and then eventually the leader concludes that they don’t have the right people in the right roles. As Jim Collins so perfectly says in Chapter 3 of Good To Great: first who, then what. Collins goes on to give excellent examples of great leaders who first focused on getting the right people on board before figuring out the right strategy. The right leaders in the right seats figure(e it out. They focus on the right things and get things done. Through their exceptional performance, they deliver outsized results and let the CEO sleep better at night. Most importantly, great leaders attract great talent. The wrong leaders or leaders in the wrong seats often wreak havoc. There is always an excuse. Always a reason why the deal slips into the next quarter, the customer churns or the product feature is late. Don’t get me wrong, deals slip and product features are late, but if that is your default, that’s a problem. It’s the people, stupid.”*

One tough talent question right now is what to do about generative AI like ChatGPT. There is not a deep labor pool of experienced executives. You can’t really hire someone to figure it out. I recommend being entrepreneurial. My guess is some members of your team have “self-identified” and are playing with it. Create a skunkworks group of these intellectually curious innovators and have them come up with a game plan on how your business can leverage the technology. This WSJ article shares my view of having a group of people own it. [businesses-have-a-big-idea-to-tackle-ai-more-task-forces](#)

My dislike of unions has been apparent in these musings. One sticking point for Hollywood actors and writers is they want to limit use of generative AI. In their opinion, a studio should have to use a writer and not leverage ChatGPT. Maybe the issue is the technology can write as well as *some* of the humans.

Great quote from a successful CEO on the importance of focus: “Companies die from indigestion and not starvation.”

I never took antitrust in law school but it seems wrong to me that a company can take its big position in one market and then use it to crush people in another market. Meta/Facebook just used its installed base of 2.4 billion Instagram users to jump in front of Twitter. Insta’s “Threads” offering got 100 million users in a matter of days. It is tightly integrated with Instagram (you can’t delete Threads without deleting Instagram). Isn’t this what Netscape accused Microsoft of with Internet Explorer back in the day – tying one product to the other? I am not looking to protect Musk but this is one area Lina Khan might have right. Zuckerberg is famous for (and talented at) replicating someone else’s innovation — snap becomes stories, TikTok becomes reels, Twitter becomes threads.

The default behavior to buy insurance may start getting questioned. The basic construct is to aggregate a risk pool so the negative event to one “buyer” is covered by the others premiums. If you can handle the negative event yourself, you shouldn’t buy insurance. The actuaries mathematically determine rates that say they should make money on you according to probabilities. For example, I say never buy the extended warranty at Best Buy etc.

College is a diminishing business. Demographic spread of population means fewer high school grads and also shortage of workers so companies will hire without degrees and focus more on skills. The ever-escalating cost (in large part due to inefficient cost structures driven by unionized faculty) have further reduced ROI and left unmanageable debt. The result is a collapse on public support. From Inside Higher Ed: “A Gallup poll shows only 36 percent of Americans have “a great deal” or “quite a lot” of confidence in higher education, which is down by about 20 percentage points from eight years ago.”

Our daughter Cate taught me about “Blue Zones” which are particular geographic pockets that have a much higher life expectancy (Ikaria, Greece and Sardinia, Italy for example). The research shows nine qualities (<https://www.bluezones.com/live-longer-better/> )

1. **Move Naturally:** *The world’s longest-lived people don’t pump iron, run marathons or join gyms. Instead, they live in environments that constantly nudge them into moving without thinking about it. They grow gardens and don’t have mechanical conveniences for house and yard work.*
2. **Purpose:** *The Okinawans call it “ikigai” and the Nicoyans call it “plan de vida;” for both it translates to “why I wake up in the morning.” Knowing your sense of purpose is worth up to seven years of extra life expectancy.*
3. **Downshift:** *Even people in the Blue Zones experience stress. Stress leads to chronic inflammation, associated with every major age-related disease. What the world’s longest-lived people have that we don’t are routines to shed that stress. Okinawans take a few moments each day to remember their ancestors, Adventists pray, Ikarians take a nap and Sardinians do happy hour.*

4. **80% Rule:** *“Hara hachi bu” – the Okinawan, 2500-year old Confucian mantra said before meals reminds them to stop eating when their stomachs are 80 percent full. The 20% gap between not being hungry and feeling full could be the difference between losing weight or gaining it. People in the blue zones eat their smallest meal in the late afternoon or early evening and then they don’t eat any more the rest of the day.*
5. **Plant Slant:** *Beans, including fava, black, soy and lentils, are the cornerstone of most centenarian diets. Meat—mostly pork—is eaten on average only five times per month. Serving sizes are 3-4 oz., about the size of a deck of cards.*
6. **Wine @ 5:** *People in all blue zones (except Adventists) drink alcohol moderately and regularly. Moderate drinkers outlive non-drinkers. The trick is to drink 1-2 glasses per day (preferably Sardinian Cannonau wine), with friends and/or with food. And no, you can’t save up all week and have 14 drinks on Saturday.*
7. **Belong:** *All but five of the 263 centenarians we interviewed belonged to some faith-based community. Denomination doesn’t seem to matter. Research shows that attending faith-based services four times per month will add 4-14 years of life expectancy.*
8. **Loved Ones First:** *Successful centenarians in the blue zones put their families first. This means keeping aging parents and grandparents nearby or in the home (It lowers disease and mortality rates of children in the home too.). They commit to a life partner (which can add up to 3 years of life expectancy) and invest in their children with time and love (They’ll be more likely to care for you when the time comes).*
9. **Right Tribe:** *The world’s longest lived people chose—or were born into—social circles that supported healthy behaviors, Okinawans created “moais”—groups of five friends that committed to each other for life. Research from the Framingham Studies shows that smoking, obesity, happiness, and even loneliness are contagious. So the social networks of long-lived people have favorably shaped their health behaviors.*

Let me finish with some Scott Galloway content. I enjoyed this quote: *“There were three truths in 2023: 1) Cryptocurrencies were a leveraged Ponzi scheme; 2) the Metaverse and headsets don’t work; and 3) Harry and Meghan are terrible people.”* Also, below my initials are his long post on the failures of higher education.

Jml

### **Super Drug by Scott Galloway**

What if there was a drug that extended [life](#), made you [happier](#), [healthier](#), and [wealthier](#), and strengthened your [relationships](#)? The good news: It exists. The bad news: It’s being needlessly hoarded.

This drug is higher education. America is the world’s premier source, producing the compound at a purity no other manufacturer can rival. Harvard, for example, quadruples the patient’s [income](#). It also dramatically increases their odds of [becoming president](#). [Millions](#) come to the U.S. to access this drug. In

a rational world, we'd be making as much of it as possible. Instead, we sequester it behind ivy-covered walls and sky-high tuitions. And for centuries, we prescribed it almost exclusively to white people.

15

In 1960 the Black student population across Harvard, Yale, and Princeton was 15. That's 15 people, not 15%. In 1965, [President Johnson](#) made the case for doing something about it: "You do not take a person who, for years, has been hobbled by chains and liberate him, bring him up to the starting line of a race, and then say, 'You are free to compete with all the others.'" Subsequently, affirmative action has helped reallocate elite higher education more equitably: Between 1980 and 2020, the non-white Ivy League student population went from 14% to 50%.

Affirmative action has been controversial, and disputes about race-conscious admissions regularly reach the U.S. Supreme Court. This week the Court dismantled affirmative action, determining it unconstitutional to consider race in university admissions.

I believe this is the right answer (but the wrong question ... more on that in a moment). I'm not alone in this view. Affirmative action is broadly unpopular. In the U.S., [74%](#) of people don't believe race should be used as even a minor deciding factor in college admissions. California ended affirmative action at public universities in 1996, and in 2020 voters [rejected](#) a measure to reinstate it by 14 percentage points. The benefits of race-based affirmative action have expired. (See above: The changed racial makeup at Ivy League schools.) To be clear, race is still a [powerful force](#) in American society, but it lags a more sweeping agent: money.

\$\$\$

Students from the [top family-income bracket](#) score higher on standardized tests and are far more likely to go to college. At Harvard, [71%](#) of Black, Latino, and Native American students come from college-educated homes with family incomes above the national median. Reshuffling elites, by race, is still elitism.

In a capitalist society, money is increasingly the ultimate determinant of everything. Beyond your college performance, the amount your parents make improves most other outcomes, from [teenage birth rates](#) to [life expectancy](#). While it's true a poor Black kid is [disproportionately affected](#) by poverty more than a poor white kid, the more meaningful macro-indicator of their success isn't race — it's that they're poor. Family income isn't a *proxy* for inequality, *it is* inequality. Americans support [class-based preferences](#) by 2 to 1. And they work: [without looking at race](#), my alma maters, UCLA and Berkeley, consistently admit the [highest percentage](#) of students receiving federal Pell grants. In 2021 the UC system admitted its most [racially diverse](#) class ever.

The Court's ruling has inspired an overdue conversation re legacy admissions. They're a double-edged sword. It's wrong that the unimpressive kids of shopping mall developers gain easier admission to the best colleges. Admissions directors know this. But money is the neosporin for their souls — happy alumni are generous alumni and could (in theory) provide the resources to help disadvantaged kids. But that justification is inconsistent with the rising cost and elitism of higher education.

In the past five decades, the price of college has risen 1,600%. Meanwhile, increasingly commonplace

sub-10% acceptance rates are viewed as a feature not a bug. Some nuance here: This tuition increase is not evenly distributed, because the richest schools have torrents of money for scholarships. But their artificial limits on supply arbitrage good kids from middle-class families down the cartel chain to schools that charge the same price but don't offer the same financial aid ... or the same certification and experience. A kid from a top-0.1%-income-earning household is [80 times](#) more likely to get into an elite college than a kid from the bottom fifth. College sweatshirts would be more honest if they printed "Caste" above the logo.

### *Misdirection*

The discussion around affirmative action and the emotion it evokes distract from the real issue and culprits. The question facing American higher education is not "Who?" It's "How Many?" The answer should be ... "More." Specifically, lower cost, increased volume. More kids of color, more middle- and lower-income kids, more trans kids, more men, more women, more legacies, and more international students who pay full freight and become evangelists for the U.S. when they return to their native countries ... or stay to run a Nasdaq company. We need to stop finding reasons to divide us and focus on solutions that enrich us. Hoarding a lifesaving drug like this would cause chaos and anger. And it has. Ask any parent of a senior applying to college.

### *Grand Bargain*

The Supreme Court has, accidentally, illuminated a path forward. [Striking down](#) Biden's debt-relief program freed up \$500 billion earmarked for higher education. Something with a \$500 billion price tag should be for an investment in the future of the country, not a populist bailout. The student debt relief package was an effort to shrink the tumor, but it did nothing to treat the underlying cancer — cost and access. It's telling that the affirmative action debate is [irrelevant](#) to most colleges and college applicants, as they do not have demand that far outstrips supply. That's the answer, supply.

Here's my proposal. The federal government should offer the largest 500 public universities (approximately the top third) an average of \$1 billion per school (adjusted by size), in exchange for the following commitments. Over the next 10 years:

1. Reduce tuition by 2% a year;
2. Expand enrollments 6% a year via investments in technology and infrastructure; and
3. Increase vocational/certificate programs to 20% of students.

The net result, in 10 years, would be double the freshman seats at half the cost (accounting for inflation) and a step-change in opportunity for kids who do not have the money, skills, or desire to pursue a traditional four-year degree. Nearly [50%](#) of Germans have some sort of vocational certification; in the U.S. it's 5%. Pro tip: Neither you nor your kid have failed if they don't get a four-year liberal arts degree. Note: Spare me the bullshit about an erosion in brand equity if our best universities broaden admissions standards. When I attended UCLA it had a 76% admissions rate, and the brand was outstanding. Scarcity is for luxury brands, not education. Rejectionist Nimbyism is a means of transferring of wealth from young/poor to old/rich: skyrocketing value in existing degrees and houses while the cost for young people to attain their dreams has — in lock step — also skyrocketed.

If we can scale companies 40% per year, then we can expand enrollments at our great public universities 6% per year. The system is ready. Remote learning and utilizing campuses during non-peak periods (summer, nights, weekends) could double capacity. Stop building luxury dorms and [lazy rivers](#). Abandon our obsession with four-year liberal arts degrees — we can continue to produce poets and philosophers, but also plumbers and cybersecurity technicians.

### *Private*

Most elite schools, however, are "private" though, right? Sort of. Even more than most "private" enterprises in the U.S., universities are profoundly entangled with the public purse (why the Supreme Court can tell Harvard how to run admissions). They are non-profits and don't pay taxes on their endowment income, they are the recipients of [billions in government grants](#), and their students pay tuition with federally subsidized student loans and financial aid. Accordingly, we should revoke the non-profit status of any university that enjoys a \$1B+ endowment but isn't expanding its freshman class size at the same, or greater, rate than population growth. If an organization is growing its endowment (i.e., revenues) but not their service to the commonwealth, there's a term for that: for-profit.

### *Debt*

Student loan debt is a problem, but it's not the generation-wide disaster the left claims it is. Most student loan holders have manageable debt (the [average payment](#) is about \$500 per month, or less than 10% of the median starting salary for a college graduate) which they pay off. That's how loans work. But we should expand our existing loan forgiveness programs for those who take public service jobs or were affirmatively misled. And we should put schools on the hook for the bad debt they create. If a college's graduate defaults on their student loans, the college should own 25% of the loss. This would force colleges to either improve the ROI of an education that foots the real economy or stop loaning \$200k to kids they know will struggle to pay it back — they have this data. A student loan bailout enables universities to continue growing the tumor with increased prices: yes, it helps young adults who've seen their wealth cut in half (real benefit), but it also bails out universities who will not alter their predatory lending practices — meaning this generation will ultimately have to pay for another bailout.

### *Springboard vs. Filter*

UCLA and UC Berkeley were transformative for me. I've given approximately \$18 million to the University of California, and I still owe them. But when I applied, UCLA's acceptance rate was 76%. (And I had to apply twice.) Today, it's 9%. The secret to my success was being born before me and my colleagues in academia mutated from public servants to luxury brands.

The media-fueled fight over affirmative action is the latest grist for the mill of a growing, insidious American pastime: hating each other. The answer isn't which people, but more people. The right has lost the American script, which is investing in youth whose best days are ahead of them — and the left wants to be wokesters vs. warriors attacking the real enemy. We're missing the forest for the anger. The answer is more.