

J. Michael Locke

Musings

#281: Musing

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The AI labor debate continues. The monthly government jobs report on Friday showed a reduction of 92,000 jobs and a rise in the unemployment rate. In addition, previously reported months were revised downward. Basically, a terrible report and a break downward from the previous months which showed a “no hire / no fire” stalled labor market.

Anecdotally, payment processing company Block announced it was cutting 40% of its workforce. Now, this is the company run by former Twitter leader Beard Dorsey so not a beacon of exemplary leadership but still pretty stunning. Dorsey said *“The intelligence tools we’re creating and using, paired with smaller and flatter teams, are enabling a new way of working.”* What might be a worse dynamic is Block’s stock jumped 25% providing motivation for other corporate leaders to do the same.

Anthropic itself put out a graph showing the potential role of AI in particular jobs and how much was actually happening:

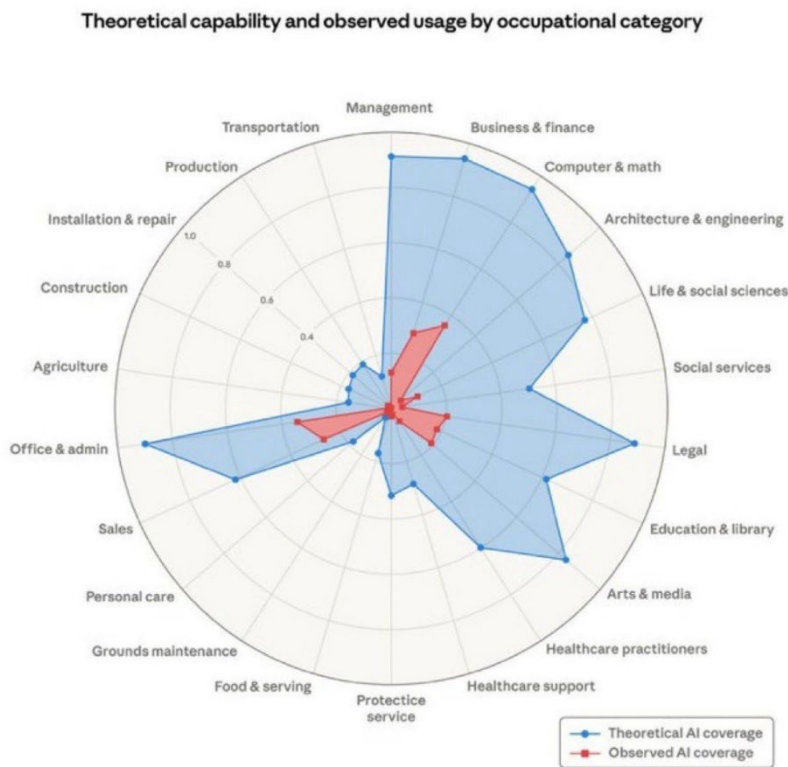


Figure 2: Theoretical capability and observed exposure by occupational category
This figure shows the share of job tasks that LLMs could theoretically perform (blue area) and our own job coverage measure derived from usage data (red area).

Good opinion piece in the NYT by Gina Ramondo who was Governor of Rhode Island and then Secretary of Commerce encouraging the higher education industry and corporate leaders to get ahead of the coming labor dislocation (thanks Stan Goldblatt). *“Artificial intelligence is transforming work faster than our work force is adapting. Millions of Americans — from white collar to blue collar, entry level to executive — may soon find themselves jobless and without prospects. Leaders across the political spectrum and the private sector tell me this crisis is coming and there’s no obvious solution.....I refuse to accept that an unemployment crisis is inevitable. The answer, however, isn’t to slow down A.I. innovation and leave ourselves less competitive and less prepared. Nor is generic reskilling that pushes people into completely new roles and industries. Instead, we should build a modern transition system with better data to predict job losses and new forms of support to help workers transition between jobs.”*

At the same time as the labor market softens, the war in Iran is creating inflationary pressure as oil prices rise (why DJT?) . The key question is the duration of the conflict and the resulting contraction of oil supply as the Strait of Hormuz is closed. Look at this graph from WSJ on gas prices already:

Average price of regular unleaded gas



Source: Oil Price Information Service

Caption. PHOTO: CREDIT/SOURCE

According to Goldman, *“History suggests that oil price spikes driven by geopolitical shocks can be short-lived if markets gain confidence that supply disruptions will be temporary.”* Lets hope.

This is a terrible deck of cards for the Federal Reserve and its dual mandate to have full employment and low inflation. Rising unemployment at the same time you have increasing inflation is a no win.

I continue to promote patience (even though Rahm Emanuel recently called patience a waste of time). Whether it is the labor market or inflation/interest rates, everything is too dynamic right now like driving in the fog. Slow down until the fog starts to clear.

I would keep hiring salespeople. A common mistake by corporate leaders is to view salespeople like other employees and have a set number budgeted and staff to that number. Salespeople have a ramp in productivity (depending on sales cycle) so having a person on payroll is different than having a full person producing. It is also a high turnover area with rates often more like 25% even in well-run companies with all-in turnover of 10%. The result is you need to hire more like 150% of what you need so if you need 4 productive salespeople you probably should hire 6 as a couple will either not work out and be fired or choose to leave.

I am a big believer in the power of organizational culture. While an amorphous construct, it unofficially guides the decisions made everyday and the performance of the people within an organization. Cignetti created a culture of winning at IU. Bezos created a culture of obsessive customer focus at Amazon (they still pay for the relentless.com domain). Target has lost its culture. Buffett created a culture of capital stewardship at Berkshire Hathaway. His successor Greg Abel just wrote his first annual letter and I excerpted some pieces about their culture reprinted under my initials at end.

Sadly, our overall societal cultures are moving to insularity. From famed communications firm Edelman (thanks Matt Johnson): *“As economic anxiety, geopolitical tension, and technological disruption intensify, people are narrowing their world to smaller, familiar circles that reflect their views, and this hinders economic and societal progress.”*

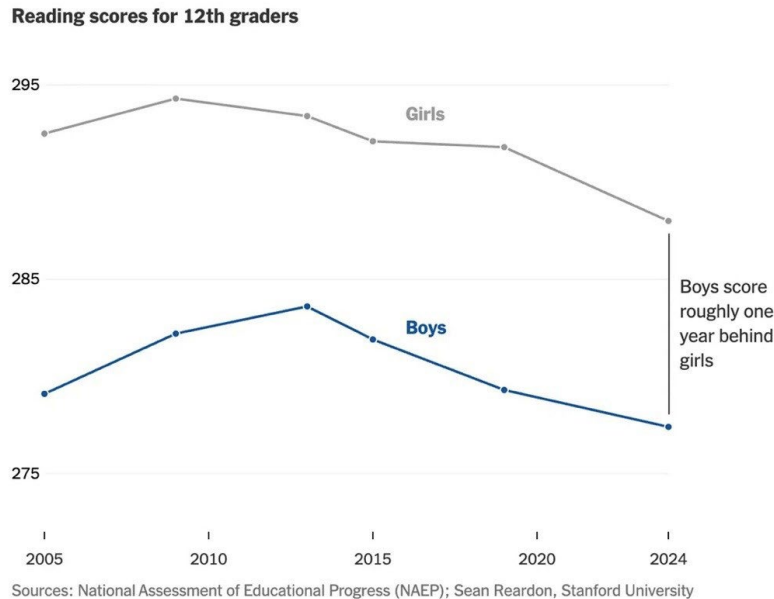
Worldwide, 7 in 10 have an insular mindset

Seventy percent are unwilling or hesitant to trust someone who has different values, facts, problem-solving approaches, or cultural background.

On average, percent who say
I am generally ...



The Grateful Dead had it right — the women are smarter. Certainly, at least when it comes to reading proficiency in our high schoolers (thanks Molly Hughes):



What is with the JFK Jr. and Carolyn Bessette infatuation? Some new streaming show is out and Gen Z is eating it up. Our daughter had a TikTok video with her channelling the Carolyn vibe with supporting music and it went “mini viral” with over 100,000 views? The TikTok algorithm apparently just kept promoting it aligned with consumer interest in the topic. What a world.

In a societal lowpoint, there is a musical opening in NYC about the guy who murdered the United Healthcare exec. Please don't buy tickets to “Luigi: the Musical”

Instead, do some needlepointing. This hobby has moved from an older, “country club crowd” activity to mainstream with younger women taking it up. Canvases are in short supply.

With our daughter's pending nuptials, the issue of “naming conventions” has arisen. I struggle with the first name use by your kids and their spouses. My wife told our future son in law, “please call me Heather” and I said “you can call me sir.” Where is my Archie Bunker LazyBoy?

Clocks change tomorrow. Enough with all of the drama around daylight savings time. Changing one hour is not that big a deal.

Clearly, my giving up negativity for Lent didn't work.

jml

Greg Abel, CEO of Berkshire Hathaway, annual letter laying out their cultural tenets:

Decentralized Model

We seek the best managers to run our operating businesses, who in turn lead talented teams. We operate a decentralized model with autonomy grounded in deserved trust. We minimize bureaucracy to

provide our managers the independence to focus relentlessly on their business. In return, we expect accountability and integrity in performance. This autonomy attracts exceptional people to Berkshire.

Integrity

We uphold Berkshire's reputation for integrity, as demonstrated by alignment between how we think, what we say, and what we do. We make decisions that uphold our culture, communicate with candor and transparency, and deliver on our commitments. The result is a reputation that is earned, not claimed, through cumulative principled conduct. Every action reflects a deliberate effort to deepen the trust placed in Berkshire.

Financial Strength

We maintain a fortress-like balance sheet, ensuring Berkshire's foundation is never compromised. We preserve this financial strength by using debt sparingly and prudently. Our substantial liquidity enables us to meet our obligations even under the most adverse conditions and to respond swiftly when opportunities arise.

Capital Discipline

We deploy our shareholders' capital to opportunities that generate rewards commensurate with their risk. When we expand existing operations, acquire new operating businesses, invest in equity securities, and repurchase Berkshire stock, we evaluate each opportunity based on its potential to grow Berkshire's intrinsic value per share over a time horizon measured in perpetuity.

Risk Management

We identify risks and strive to manage the level of risk across our organization. Our approach is decentralized, suited to each operating business's scale and complexity. We focus on risks that could threaten Berkshire's reputation, financial strength, or ability to realize opportunities for the long term.

Operational Excellence

We pursue operational excellence across our operating businesses. Our employees continuously strive to exceed customer expectations, improve efficiency to better compete and prepare for challenges to our operating models, and reinvest prudently in their operations. We recognize that performance fluctuates year to year, so we assess a business's success not by short-term results but by its ability over the long term to maintain and strengthen its competitive position and improve its economic prospects.