

Something to Think About



OAKWORTH
CAPITAL BANK

COMMON CENTS

This past Wednesday, my teenage son asked me if I had heard the news about the redesign of the \$20 bill, and I simply responded: “yes, I have.” His facial expression suggested he was expecting something more insightful or thought provoking than my three words, so I threw the ball back in his corner: “What do you think about it son?”

His response was not terribly nuanced or politically correct, even if it was spot on accurate from an economic perspective: “I guess the most important thing is if it still spends, and it will.”

When you think about, the United States has 7 bills in public circulation: \$1, \$2, \$5, \$10, \$20, and \$100. We live in a great country, and have had literally thousands, if not millions, of worthy candidates to have their picture on our currency. For better or for worse, I don’t think the Treasury will ever take Washington off the \$1; Jefferson off the \$2 (and we don’t really use many of those in any event); Lincoln off the \$5, or Franklin off the \$100. That leaves 3 units to represent the remaining fabric of our country, and celebrate all the heroes, heroines, writers, inventors, teachers, and everyone else who has helped to shape our country.

As for Andrew Jackson, knowing what I know of the man, I doubt we would be friends he were alive today. Further, when you really boil it down, he is most remembered, and revered (if that is the right word), for winning a battle in a war that was already over. That’s right, the United States and Great Britain signed the Treaty of Ghent on December 24, 1814 formally ending what we call the War of 1812, and the Battle of New Orleans happened on January 18, 1815.

Frankly, Jackson was pretty low hanging fruit for a redesign, and Grant will get the ax when the Treasury decides to redo the \$50. It will be kind of fun to see who gets on the thing; as I have mentioned, there are no shortage of worthy candidates. Do you really think the global currency markets care which Americans are on the things?

Not a chance.

The value of a currency comes from the global demand for it. This has everything to do with interest rates, current account balances, size and dynamism of the economy, stability of the government and its adherence to the rule of law, and, frankly, the amount of war material a country has. Every currency transaction has some subset of those factors, either consciously or subconsciously.

Quick....who is on the €100 note? How about the £50? One more? Okay, whose face is on the ¥5000 note?

Well, the first question is a trick one: “The hundred euro notes depict bridges and arches/doorways in the Baroque and Rococo style (between the 17th and 18th century).” The answer to the second is: £50 legal tender notes in the United Kingdom feature either Matthew Boulton or James Watt (Bank of England), or Sir Walter Scott (Bank of Scotland); so you have your choice of three. Finally, a certain Higuchi Ichiyō graces the ¥5000 Japanese currency. She was a writer during the reign of the Meiji emperor. Boulton? He was James Watt’s business partner. Watt? He gets the credit for inventing the steam engine. Sir Walter Scott? He was a Scottish writer, who is probably most famous for Ivanhoe, best known for having Robin Hood (Locksley) as a major character.

Inside this issue:

Something to Think About	1-4
Disclaimer	2

“We will make electricity so cheap that only the rich will burn candles.”

Something to Think About Cont.

Hey, I had to look that stuff up, and wasn't familiar with Boulton or Ichiyō at all, even if I was with the other three.

The point of this is, if there really is a point, it doesn't really matter who is on the world's various bank notes. The global economy is in a very weird situation where there are too many of things, and not really enough demand for them. As a result, you have negative interest rates in Europe; Japan's baffling monetary policies, and the United States knowing it has to do something with its monetary policy, but boxed into a corner by the current state of affairs.

The reason? I would argue it is because 'we' have arguably conquered mankind's demand for the basic necessities, in aggregate and particularly in the world's developed economies. In other words, we have become somewhat saturated with sheer stuff, and recent innovations have been so many variations on a theme or clever ways to kill time. If not that, as opposed to necessitating the buildout of additional capacity, they have reduced the need for what we already have.

Take a look at your smart phone. What can't it do? Not so long ago, you needed a separate phone to make calls; an actual camera to take pictures; a computer to surf the Internet, and a separate device to film 'videos.' By combining all of these technologies, among others, in one handheld device, we have scotched the need to have any number of factories and industries, which represent a lot of jobs. No? Well, just ask the folks in Rochester, New York, about this. Kodak used to be a pretty big employer there you know.

Also, consider the Internet. Ever heard of Amazon.com? What impact do you think online shopping has had or will have on the traditional brick & mortar retail outlet? Especially those retailers which can't differentiate themselves through either price or product? Call the management at Sears, and ask them what they think about the Internet.

Thomas Edison was famous for having said the following about electricity: "We will make electricity so cheap that only the rich will burn candles." Quite true Tommy. We still have candles, to be sure, but they cost a pretty penny for what amounts to be wax and a wick. However, the commercial application of electricity, a brand new industry at the end of the 19th Century and first part of the 20th, required the building of massive turbines and dams. To get current into people's homes, workers had to erect umpteen forests of utility poles, and string or lay thousands upon thousands of miles of wire and cable. Of course, once a home had electricity, it could have lamps, stoves, irons, furnaces, radios, televisions, and, ultimately, computers, to name just a few.

This is a great example of a new technology which spawned even more technology and industry sectors. This, then, created and sopped up any amount of capital and currency units. We are in sore need of such an economic and technological revolution today. To be sure, our technological gains have made us more efficient, or have certainly give us the ability to be more efficient even if we choose to use these gains to waste time. However, I would argue recent technological advancements have displaced workers and industries at a pace unseen since the Industrial Revolution. Unfortunately, the 'next great thing' or next steps aren't readily visible in the developed world. We simply consume more variations of the same thing.

Consider, Kraft organic macaroni & cheese at \$2.49 for a 6 oz. box? The original, and better tasting, costs closer to \$1.50, or less, for 7.25 oz. This means, when adjusted for size, the organic variety costs twice as much as the original. Is it twice as healthy? We could debate that hours, and I would contend until the bitter end: "call it what you want.

Disclosure

This report does not constitute an offer to sell or a solicitation of an offer to buy or sell and securities. The public information contained in this report was obtained from sources and vendors deemed to be reliable, but it is not represented to be complete and its accuracy is not guaranteed.

This report is designed to provide an insightful and entertaining commentary on the investment markets and economy. The opinions expressed reflect the judgment of the author as of the date of publication and are subject to change without notice; they do not represent the official opinions of the author's employer unless clearly expressed within the document.

The opinions expressed within this report are those of John Norris as of the date listed on the first page of the document. They are subject to change without notice, and do not necessarily reflect the views of Oakworth Capital Bank, its directors, shareholders, and employees.

Something to Think About Cont.

You are still eating macaroni & cheese, which isn't the best stuff in the world for you." Or how about those shopping bags the store sells for \$2-3 a pop? Consider this snippet from an article in MarketWatch:

"Indeed, some reusable bags need to be used over 100 times before they're better for the environment than single-use plastic bags. Polyethylene bags need to be used four times, a polypropylene bag must be used at least 11 times, and a cotton bag must be used at least 131 times, according to a study by the U.K. Environment Agency."

Here is a link to the study, which is admittedly a few years old. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/291023/scho0711buan-e-e.pdf.

There are plenty of such examples from which to choose. The end result is simple: our economies have met our basic material needs, obviously at a price, and it currently remains to be seen what technology will ultimately develop to create perceived needs which previously didn't exist...requiring the buildout of additional capacity to sop up all this mess, and reduce our demand for \$50+/plate restaurants and organic macaroni & cheese.

Until such time, we will have a surfeit of cash chasing a surfeit of supply. In fact, the supply of sheer stuff, mostly existing stuff in a different hue, is actually larger than the swimming pools of money the world's central banks have created over the last decade or so.

As it is, the world's politicians and central bankers are hard at work trying to figure out a way to get people to consume and produce more stuff they don't actually, physically need...in aggregate. The markets wait with baited breath to see what the next iteration of iPhone or Galaxy will bring. Kashi will market supposedly healthy snacks which are strangely hard to eat and even more strangely devoid of taste. Budweiser will change its marketing campaign for the hundredth time to stem its decline in market share owing to the mind boggling number of choices consumers now have in the beer aisle. Movie studios will pump out yet another 'live action' comic book or sequel to something that wasn't really all that mentally stimulating. Nicholas Sparks will publish yet another book which reads extremely similar to his previous one. The automotive industry will produce vehicles with new technologies which will ultimately eliminate the need for mirrors all sorts...heck, driving itself. But, you know, it is more stuff...just more of the same.

As a result, you can put Santa Claus on the \$10 bill if you want, but won't spur any real change in the economy. Money is just a method of effecting a transaction, nothing more. The transaction actually occurs because one person has something and the other person wants it. It has nothing to do with the physical appearance of the currency unit which effects the transaction. Heck, if you have something I really want, and you tell me you NEED ¥50,000 for it, guess what? You will have 10 pictures of Higuchi Ichiyō staring back at you in relatively short order.

You need \$100? In the future, you will have either 5 Harriet Tubmans in your palm or 1 Benjamin Franklin. I think you get the point. The picture on the note doesn't impart value, nor does it increase our demand for anything. We have to produce and sate the demand, and judging from the current state of things it would appear the developed world is kind of saying: "what more do I really need?" At some point, that will change, but not today.

Perhaps that is a reason why our non-profit sector has grown at a much more rapid rate than the economy as a whole over the last 5 years. To that, non-profit consumption has outpaced overall consumption by 1.25% annualized since the BEA started tracking it in 2011. Go figure.

In the end, you know, it was about time to change a face on one of our currency units, and Harriet Tubman is a pretty good choice. The \$20 with her face on it will spend the same as a \$20 with Andrew Jackson on it. What's more, if you read about the woman, you will likely conclude if more Americans had the same amount of guts, fortitude, courage, faith, and personal conviction she had, you know, we probably wouldn't worry about such things.