

Something to Think About



OAKWORTH
CAPITAL BANK

COMMON CENTS

This month, the Federal Reserve introduce a new \$100 note that was a decade in the making. By any measure, it is a impressive looking piece, even if it is starting to look increasingly like, um, foreign currency. Regardless, I think it safe to say the United States has never had such hi-tech paper currency.



In an article on finance.yahoo.com, Lisa Scherzer pointed out some of the new anti-counterfeiting details: *“Two key security features of the new bill include a 3-D security ribbon with images of bells and 100s and a color-shifting bell inside a copper inkwell on the front of the note. If you tilt the bill back and forth, you’ll see the bells change to 100s as they move, shifting in color from copper to green in an effect that makes the bell seem to appear and disappear in the inkwell. The new note also features raised printing – if you move your finger along Franklin’s shoulder on the left side of the note, it feels rough, a “result of the enhanced intaglio printing process used to create the image,” NewMoney.gov’s site says.*

Even more, Crane & Co’s (the primary supplier of paper for US currency) Wikipedia entry had the following: *“Crane’s Motion security technology is being introduced into high denomination banknotes worldwide. The design involves a micro-lens array interacting with graphics far smaller than any microprinting.*

Sweden’s 1000 kronor banknote, released in 2006, was the first banknote to use Crane’s Motion technology. A 2007 AP article reveals that the US Bureau of Engraving and Printing will use a new security thread containing “650,000 tiny lenses” (now believed to be over 1 million lenses per inch of thread) in the next \$100 bill design to be released October 8, 2013.”

Wow. Who would have thought a simple \$100 bill would be so complicated. Even so, it costs the Bureau of Engraving about 12.5¢ to produce each one. That is a heaping helping of technology for a dime and 3 pennies, isn’t it?

Still, I find this very amusing. First, I have a strange sense of humor. Second, I guess I just don’t see the point. If counterfeiters dump a bunch of exact copies of old \$100 bills onto the global economy, it just saves us the trouble of having to print them out? Right? After all, we will spend about \$850 million on printing costs, alone, replacing the existing \$100 notes in circulation. Besides, the Secret Service estimates only some 0.01% of US currency in circulation is fake. So, this doesn’t seem like that much of a problem to me.

Okay, I might be horribly naïve, but consider what I wrote for the Montgomery Advertiser on the matter:

This week, I got my hands on a new \$100 bill. What is the point to all this? It

Inside this issue:

Something to Think About	1-3
Disclaimer	3

**At the end, fiat money returns to its inner
value—zero.**

Voltaire

Something to Think About Cont.

seems the powers that be come up with new designs for our money all the time, from coins to bills.

Would you believe the new design to the \$100 bill was a decade in the making? Honestly, I can't fathom that. Sure, many of the new details are beyond intricate, but a decade to design a paper note? Come on. For a case of Diet Mountain Dews and a couple of supreme pizzas, my office will design the best looking currency in the world for you, in an afternoon.

Ostensibly, the new \$100 bill is an effort to discourage counterfeiting. The more security features the thing has, the harder it will be for bad guys to replicate. And we all know how bad counterfeit money is, right?

The truth is: back in the days of typesetting and printing presses, counterfeiting was undoubtedly a difficult and expensive proposition. So much so, robbing a bank was probably simpler than running a counterfeiting scheme. By the time you ran off enough notes to recoup your investment in equipment, materials, and sweat, some fink had ratted you out to the fuzz.

Even in today's world of computers and printers, the Secret Service estimates only some 0.01% of circulating currency is fake. However, as you can imagine, the overwhelming majority of that is in \$100 bills.

Internationally, the \$100 bill is a store of value for people concerned about their own currencies and financial systems. So, a lot of this new issuance will end up in private safes in places like Rio de Janeiro, Mexico City, Accra, Delhi, Manila, Athens, etc. In other words, many of the estimated 8.6 billion \$100 notes in circulation aren't actually in circulation. As a result, they don't have the inflation effect you might expect.

Still, in my way of thinking, \$100 bills are a very curious store of value. They cost about \$0.12 to make, and the Federal Reserve ships them overseas by the pallet; each one containing approximately 640,000 of the things. In essence, you know, there really isn't any shortage of \$100 bills around the globe, or shouldn't be. Besides, how is it we can make something for \$0.12 and declare its value at \$100? After all, it isn't really backed by anything except promises, if that.

That is the real mystery.

In so many ways, I guess what I am trying to say is they can knock themselves out trying to design a counterfeit-proof \$100 bill, and so what? The Federal Reserve has created over \$3 trillion of new money over the last several years through its various quantitative easing programs, and the dollar hasn't collapsed and inflation hasn't soared. I mean, if that can't cause bad things to happen to the dollar, what harm can a few, say, North Koreans with a computer and printer really do?

Then there is the act I can still use old \$100 bills, as it will take a month of Sundays to completely swap the olds ones out. So, why not just counterfeit the old ones until you can figure out the new designs? Trust me, it won't take the bad guys the decade it took the Feds to make the new \$100 note. There is someone already not so hard at work at it,

Besides, the clerk at the checkout counter probably won't know the difference anyhow.

Consider this quote from a January 4, 2013 article in the New York Times:

Something to Think About Cont.

Nationally, the Secret Service seized nearly \$81 million in fake money and arrested 2,424 people in the fiscal year that ended in October. Bills come in from other countries — Peru is a particularly big contributor — or from local criminals who shift to counterfeiting as an alternative to the drug trade.

Okay, how does that compare? What is the relativity of that \$81 million? Well, at the end of October 2012, M1, the most appropriate money gauge for this type of comparison, was \$2.422 trillion. So, confiscated counterfeit money was about 0.004% of the domestic money supply. Further, the 2013 budget for the Secret Service, the group charged with nabbing this particular group of bad guys, was/is \$1.92 billion. Finally, the budget just to print US currency was \$686 million in 2012.

In essence, we spend 8x more on printing Federal Reserve notes than the total amount of phony money the Secret Service confiscated in fiscal year 2012. Couple that with the simple fact cashiers and clerks are the front line troops in combating counterfeiting and the fact you can continue to use old, presumably easier to counterfeit \$100 bills, and you can come to a pretty simple conclusion/question: what exactly is going on here?

Oh yeah...\$100 bills basically have no intrinsic value. So, the Federal Reserve has gone to a lot of trouble and no small expense to keep people from producing copies of an inherently worthless piece of paper. In fact, the true cost of that piece of paper is, again, 12.5¢. It ain't as if a \$100 bill gave you a claim against the nation's gold supply. If it did, tracking down counterfeiter's would be a far more important job, in my opinion. Further, the Federal Reserve isn't trying to create a shortage of the things either, having printed close to 13 billion \$100 bills over the last 10 fiscal years.

Heck, it seems like the Feds would like to have some help printing the things out, you know, share some of the costs. "Yo Ratface, I got Bernake on the line. He says he wants you to print out a few more sheets of them Benjamins. Seems the military brass wants to grease some Pakistani generals, and rupees aren't working."

So, in the end, the Fed started distributing a new, hi-tech \$100 bill this month. It looks different than the old \$100 bill in your pocket, but it spends just the same. But, hey, if you really like the new design, the Fed will be happy to print out a few billion more of things for you next year. Don't want anyone to debase the thing with any unauthorized printing, you know.

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.