February 12, 2016

The Nuttle Report:
Behind the Curtain of Political Decisions
By Marc Nuttle

The voting has begun in the first open primary state of New Hampshire. Traditionally, the voting begins in Dixville Notch right after midnight at 12:01 a.m. on the day of the election. Governor Kasich carried the township 3 votes to 2 votes over Donald Trump. This early vote has been successful in predicting the ultimate primary winner in every election since 1968. What’s going on behind the curtain?

A lot has been said about the anger in America. Donald Trump continues to “tell it like it is” and throw all political correctness to the turbulent winds of our times. The timidity of the Republican candidates walking on egg shells is starting to take its toll. In the last Republican Presidential debate, when the candidates were asked what their policy would be to heal the conflict and racial divide between minorities and local police forces, everyone talked around the issue except Donald Trump. His statement centered on the premise that we must support our local police first. Most are honorable men and women who put their lives on the line every day, trying to do the right thing to secure the safety of the community. By casting them all in doubt, we have compromised their purpose. When pressed by the debate panel, “What about Ferguson?” he simply said we have to deal with such situations on a case-by-case basis. There will be bad apples, and you have to throw out the bad apples. But you don’t throw out the entire barrel of good apples. A simple analogy to make a cogent point.

Governor Kasich has placed his strategy on attracting moderate independents and dissatisfied moderate Democrats. In New Hampshire, independents can vote in any party’s primary. In the Democratic primary, the choices are between a favorite son who is an avowed Socialist and an establishment candidate listing under the cloud of a Federal
indictment. Neither has a palatable policy for Middle America. Governor Kasich is the only candidate who has presented specific actions that he would take in the first 100 days of his administration to create jobs and jump-start the economy. Jobs and security are the key issues. Independents are looking for what they would term “mainstream leadership”—practical solutions to defined problems for consensus policy.

The globalization of the world’s economy has been causing societal transitional angst since 1974. That was the pivotal year in which the manifestation of global trade agreements resulted in countries around the world utilizing cheap labor to manufacture products to be sold in America. Jobs, financing, and banking have never been the same since.

What is different about this time? There are three forces in the world reaching an apex impacting world economics.

**The United States and China are the two largest economies in the world. One is based on capitalism and the other is based on communism. The two systems cannot be reconciled in a one world economy. One or the other must be the dominant force.**

Why?

In capitalism, the market sets the amount of money in circulation. The money supply is monitored by the Federal Reserve and facilitated for the need of economic demand. This is where the term “demand economy” originates. Banks report to the Federal Reserve key economic banking indicators. The Federal Reserve acts upon the data accordingly for the good of the overall economic activity through monetary policy.

In communism, the state sets plans for economic activity. The government dictates the direction of economic development. Currency is managed for the purpose of achieving the government’s goals and plans. Through government command and by communist theory, the people and the economy are to act according to the state’s dictates. This is where the term “command economy” originates. Banks report to the Federal Reserve what they believe is necessary for the government to achieve its purposes. The money supply is managed solely for the government’s purposes.

The conflict between these two monetary systems is that in China today, no one knows for sure what the Chinese currency (yuan) is actually worth. The Chinese are not manipulating their currency; they are managing it negligently. As the Chinese economy moves from a labor-oriented to a services-oriented economy, growth is impeded because the national currency has no world market exchange rate.

Cuba and North Korea have followed this model for years, but it is not a critical problem because their economies are negligible in the world’s Gross Domestic Product (GDP). China, on the other hand, is roughly 20% of the world’s GDP—more than enough to distort economic activity, causing currency wars and turbulence, resulting in fluctuating commodity prices.
The United States, Europe, Canada, Japan, and China represent 80% of the world’s GDP and consumption.

The U.S. and China are bookends of world economic systems competition, with Europe in between awaiting the outcome. The world’s economic system is at a point wherein growth is difficult until the Chinese currency situation is resolved.

The oil producing countries of the Middle East and Russia do not necessarily rely upon market indicators as the basis for the production of oil. Geopolitical issues are just as important. Saudi Arabia increased their production levels of oil at a time when the price per barrel was not rising. Therefore, it was not in response to supply and demand.
Saudi Arabia may have made this decision to secure their position in the marketplace prior to the lifting of economic sanctions on Iran. It may have been an answer to Russian military action in Syria. It may have been in response to increased production in the United States. But it now appears that it has started a decline in oil prices that was not anticipated. By increasing production, certain world contracts for oil, including those with China, were further exacerbated with China’s economy slowing. Today’s reports on oil supplies indicate that the surplus may be greater than originally thought.

Emerging markets must navigate this complicated world economic reality. The matrix is flawed and inconsistent in reference to economic market forces.

The combined map below includes third world countries that must be supported by the World Bank and International Monetary Fund programs.
The debt of world governments now exceeds 100% of world GDP. Most governments continue to run deficits for general government services, not extraordinary measures. The deficits have now become structural.

Government central banks have executed policies to support lower interest rates in the hopes that this would stimulate the economy. Through quantitative easing, central banks have caused interest rates to be lowered to historic levels. There is a consequence to extended manipulation of credit costs. Approximately 20% of the world’s GDP is dependent upon bonds, annuities, and other financial instruments. The teachers’ retirement fund of New York depends upon annuities that guarantee cash flow for pensions. This is difficult for financial services firms to achieve and maintain when interest rates are suppressed unnaturally for extended periods of time. The strategy was that the economy would grow quickly and reach equilibrium for interest rates in a short period of time. This has not occurred. Now the accumulation of debt has become precariously high. If interest rates were allowed to reach the true market level, governments would not be able to afford the debt on their balance sheets. It is impossible to have economic growth without cost of capital. Therefore, if the economy is to grow, interest rates must rise. The rise of interest rates may be a catch-22 because interest on the debt is too great a cost to allow the economy to expand.

The above chart produced by Hoisington Investment Management Company indicates what the average interest rates for U.S. Treasuries have been since 1871 and should be today—4.2%. We are far below that rate today. In a fully functioning economy hitting on all cylinders, a reasonable cost of capital would be established.

These three forces of macroeconomics have reached a point wherein each exacerbates the effect of the other, and collectively impacts the world economy and therefore job creation, one of the key issues on the voters’ minds.
It is imperative that the United States of America take the leadership role in securing free enterprise, the reduction of deficits, and the management of currency for the benefit of the world’s economy.

Now, back to New Hampshire.

Behind the curtains in New Hampshire, what’s on the voter’s mind is the same that’s on all voters’ minds. Who has the best plan to create jobs, provide for our security, and allow our families to prosper without leaving any of us behind? From Bernie Sanders’ socialism to Hillary Clinton’s business-as-usual; from Donald Trump’s “I feel your anger” to Ted Cruz’s rule of law, to John Kasich’s government solutions, the voters are seeking cures for anxieties generated by the vicissitudes of our times.

The answer to our problems lies in understanding the right question to ask and relying upon principles that define us as a people. If you understand the right question and you know what you believe in principles, the answer will present itself.

My name is Marc Nuttle and this is what I believe.

What do you believe?

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**Marc Nuttle** is a lawyer, author, consultant and businessman who's had a varied career. He has represented and advised Presidents of the United States, leaders of foreign countries, state officials and corporations. Marc has worked on government policy and has predicted economic trends. Marc managed the successful Right to Work campaign in Oklahoma in 2001.
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