

Wednesday, August 23rd 2017

Dear Chris,

The candy cane Roman arches supported by light coloured but thick granite pillars confuse my senses, given that I am standing inside the largest mosque of the Medieval world. 40,000 worshipped here in this city of half a million a 1,000 years ago. Cordoba, the 'light of the world', is put forward today as a historical paragon of diversity and tolerance and, like all myths, there is a kernel of truth. Yes, Jews, Christians, and Muslims lived in the same city, but the key to this diversity was the idea of the 'dhimmi' - an individual whose person and assets were protected by the payment of a tax.

Spain's Muslim rulers slowly exploited and exhausted the reservoir of compliance that came with the protected status of 'dhimmi', by over-taxation and humiliation; incrementally the benefits of security began to be outweighed by the costs. The docile 'dhimmi' lasts as long as they not over abused.

The concept of tax for protection, without any rights, is still in use today for global monetary policy. The US Dollar is the world's currency, we use it for trade settlement, we price our commodities in it, we benchmark our credit off it, and we save in it. All non-Americans, like the non-Muslims

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of Andalusia, are granted the safety of the use of this money to do all of the above, but we also pay the implicit tax exacted by the Federal Reserve. This takes the form of QE or low interest rates or in the form of a 2% inflation target. The Fed controls the money we use - we are all 'dhimmi' to the American central bank and we are content to be so, as long as we are not fleeced too much.

The Fed, like its Muslim Andalusian counterparts, now faces a similar situation. The Fed's edicts have primarily served the owners of assets, not the holders of the US Dollar, whose status and holdings have been exploited. The usefulness of the US\$ remains, but the myth of its critical indispensability shows signs of fracturing as the world's 'dhimmi' search for different ways to settle payments.

As I gaze down the endless chain of arches, there is an abrupt interruption - a church has been implanted amongst the columns; it defiantly screams 'we are no longer dhimmi'. It is a lesson the Fed should take to heart.

See you in London after the bank holiday - Mustafa