

Tuesday, 10th January, 2017

Dear Chris,

Grey granite steps encased in a marbled jasper tunnel elegantly descend 30ft into the Royal Crypts of El Escorial where the kingly remains of the Austrian and Bourbon Habsburgs rest. This octagonal gilded chamber houses the remains of the villain of the Armada, the counter-reformer, and the first head of a global empire - Philip II. His Empire had a foothold on every continent and port on every ocean.

The maintenance of this Empire required financing and the infamous silver from the New World was too erratic to be depended on as a secure source of revenue. Therefore bonds were issued against specific tax receipts. However, importantly the empire never used more than 20% of its tax revenue to cover the interest. When this ratio did rise to this level the foundations of Empire began to fragment.

Why is Philip II or his finances relevant? It may direct us to how his current descendant - Don I - reorganises the finances of the American Empire. Currently, the important ratio of US interest payments to tax revenues is 13%. However, this is at a time when the stock of debt has doubled from ten to twenty trillion dollars and interest rates have fallen to historically low levels, providing very

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cheap funding.

The small increase in interest rates that is being priced in the marketplace combined with Don I's proposed tax cuts (and hence reduced revenue) implies that this ratio is set to rise, threatening to cross that critical 20% threshold.

When Philip II reached this point, he generally decided to renegotiate the terms of the debt, doing so on three occasions. The negotiations became less and less successful and by the third time it became inevitable that interest payments would eat up more and more of the secured tax base. This began the waning of Spanish influence.

Don I understands interest payments and debt renegotiation well, as he has done this a few times himself. However, when this mindset is applied to the regular rhythms of Empire it conceals the Empire's decay. The quiet beauty of the tombs of Kings' offer up this silent lesson.

See you in the office tomorrow - Mustafa