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The Temple's Secret Tribute

Levying taxes without public consent has proven disastrous both in 17th century England and 18th century America. It may soon become apparent to the citizens of the developed world that, since 2008, they have effectively been being secretly taxed. The consequences could prove as revolutionary as before.

'NO TAXATION WITHOUT representation' proclaimed the Massachusetts lawyer, James Otis Jr. at the start of the American Revolution. He was echoing a century-old English sentiment first verbalised by John Hampden of Buckinghamshire who had opposed an earlier King's demand for taxation without consent. And what was the tax that had pitted a soft spoken parliamentarian against Charles I? It was the 'ship tax' that was levied, in times of war, against only the coastal English counties, who had to provide him with ships or their monetary equivalent. This tax was exacted by royal prerogative and required no parliamentary approval. So far so good... but then Charles I, running short of money, decided to impose the 'ship tax' during peacetime, and, more confusingly, from counties that did not have a coastline, such as Buckinghamshire. So one of its landowners, John Hampden, disputed the tax, was hauled into court, and lost. But ultimately the concept he championed - of needing consent in order to tax - prevailed. It has since reverberated over the centuries as the consensual handshake in the social contract between the ruler and the ruled.

Modern day ship money

Since 2008, the lingering spectre of Charles I has haunted our modern day monarchs. They remain keen on spending but reticent on facing their public, as such excessive borrowing and spending is difficult to justify when there is no war. So what to do? Initiate a "taxation without consent"

scheme, albeit with much greater finesse that Charles I.

So who is implementing our present day 'ship tax' on behalf of the King? The central banks. Central banks have two key customers: in peacetime, they attend to the banking system, in wartime they serve the government. Subjects understand the deal; debt is necessary to fight a war as are the taxes that follow. But we are currently at peace, and yet we are racking up wartime-like debts - the social contract is fraying. Central banks are no longer the independent bastion of monetary best practice but have become a mute adjunct to the government; they are our contemporary 'ship tax-collectors.' In times past a government in need of spending raised taxes; this was unpopular with their electorate, but a fact of life. Today during peacetime, they summon their new tax agency - the central bank.

A tax by any other name...

Over the last 8 years, in the developed world, government debt has doubled, but interest payments are barely changed, as the central banks pushed rates lower and lower, allowing the level of debt to surge without additional interest payments.

Inflation, over this period, has remained at 2%, while interest received, normally running at around the inflation level, has fallen to 0.2%. This is an effective tax rate of 90%. For a saver with money in the bank, low interest rates are exceptionally taxing; it is an undeclared and concealed 'ship tax', a tax without consent, at the behest of the King,



In Cahoots?

under the veil of an 'independent' central bank.

There is an additional 'tax without consent' wrapped up in this policy and it effects those people trying to buy assets using income. The QE policy has caused assets to rocket in price, but has left incomes stagnant. This can be viewed as a tax on those who do not own assets and a tax cut for those who do own assets. For the income earner who now wants to buy an asset, more needs to be set aside to achieve the purchase. This creates an additional tax 'pinch point' introduced by the central bank. Subjects feel both of these taxes, but seem unaware where the hidden burden comes from. The social contract continues to tear.

Survival constraints

Theoretically everything has a survival constraint, normally a simple calculation of money-in versus money-out. In peacetime when the government was funded by taxation this was their survival constraint. The King has now freed himself of this constraint via the central bank ship tax ruse; his subjects, however, remain under the yoke, continuing to pay taxes. This undermines the social contract and leads to consequences far beyond the financial with long-lasting results. The last time a King lost his head. Central Banks beware. ■