

INSTITUTIONAL ADVISORS

## PRINCELY FINANCE AND TAXATION

### (Our Annual Christmas Number)

One would have hoped that financial rip-offs committed by medieval princes would have been permanently shelved when liberal enlightenment ended the divine right of kings.

Recent imperious announcements by Chairman Bernanke to use the "printing press" to inflate anything they can should be considered startling only in the resort to honesty. Euphemisms for currency depreciations started with the original promoters of the Fed and the tout was that a "flexible" currency would prevent serious financial contractions.

Although policymakers have been convinced that currency depreciation would keep every "recovery" going, the 95 percent depreciation of the dollar's purchasing power has exaggerated the booms and busts.

This is particularly ironical as government intervention did not prevent massive contractions such as with the commodities collapse of 1921 and with the collapse of virtually everything after 1929. Moreover, the timing and percent declines on the 2008 crash replicated those of 1929 with remarkable fidelity. That infamous crash had replicated the 1873 example.

Some relief could be felt in a Santa Claus rally, but the enormity of the crash suggests that the year 2008 will soon have the historical cachet of "1929". The establishment's experiment in artificial money, artificial securities and artificial credit ratings culminated in the biggest credit disaster in history. Blame has yet to be critically applied to all participants and history suggests that it will.

Nineteenth Century liberals, so rational and principled in their views, could not have imagined the greedy craft developed by many modern governments in confiscating private wealth earned by productively working citizens. Are we seeing medieval financial tyranny replicated by today's proponents of the divine right of bureaucrats? A look at history provides perspective.

Although outrageous when imposed, the passage of time makes early examples of princely finance somewhat amusing: the colourful Richard I (1189-1199) sold property to finance his joining the crusade of Peter the Hermit. Upon returning, he took it back on the pretense that originally he had no right to sell it.

The infamous King John (prompted the Magna Carta in 1215) introduced the clever plan of imprisoning and ransoming the mistresses of priests, confident that the funds he could not obtain from their greed he would from their lust.

Edward I (1272-1307) confiscated money and silver or gold plate from monasteries and churches, faked a voyage to the Holy Land and, in keeping the money, refused to go.

Edward IV (1461-1483) was described as the handsomest tax-gatherer in the country; and when he kissed a widow because she gave him more than he expected, it is said she doubled the amount in hopes of another kiss.

The fiscally sound Henry VII (1485-1509) approached wealthy families with two arguments. If the household was not extravagant in expenditure, then he attacked what they had saved by thrift; while if they lived extravagantly they were considered opulent and could afford any exaction. Named after his minister of finance, the ploy was called "Morton's Fork".

A broader form of wealth confiscation capable of tapping even the poor was accomplished by currency debasement and extreme examples in ripping off everyone provoked severe social disorder. No matter what method employed, financial outrage prompted the evolution of parliament as a necessary means of constraining fiscal ambitions of the governing classes.

The struggle between individual freedom and authoritarian state proceeded until the late 1600s when growing commercial wealth and political power in London began to become influential with its financial common sense. The specific event that formalized the victory over the ancient status quo was the "Glorious Revolution" of 1688, which maneuvered the pro-business and Protestant William of Orange into the British Crown and displaced James II as the last absolutist king. How refreshing this was is indicated by the oppressive politics of his and his predecessor, Charles II. Starting with the restoration of the monarchy with Charles in 1660, both kings were bribed by France to change the culture of England - consistently in an authoritarian direction. Scornful remarks by miffed establishment were similar to those directed to the pro-business "religious right" today.

No matter how imaginative or despotic princely financing was, it can't compare with the long- running compulsion to spend other people's money by today's bureaucrats and politicians, virtually unrestrained by the checks and balances of constitution or mainstream media.

But before expanding this point, consideration should be given to the other event that formally ended the old world, which was the beginning of modern finance with the incorporation of the Bank of England in 1694. As history shows, central banking is fine when disciplined by a convertible currency and, when not, it becomes a tool of state ambition to confiscate wealth through currency depreciation. That the dollar has lost 90% of its value in only 50 years exceeds most princely devaluations and, like those, has been no accident.

Indeed, the Fed's compulsion to "print" could be an attempt to go for the final 10%. While many outside central banking would consider this as infinite folly, it is uncertain as to how long this endeavour will maintain credulity in even academic circles. Regrettably, modern financial agencies such as the Treasury or Federal Reserve System have become as corruptible as their medieval counterparts.

Fortunately, history provides some antidotes to governmental abuse of the productive sector. Short of rebellion, the most effective of course has been government and its financial agencies being forced to be accountable to the taxpayer. As for those who have

wrecked the currency (also a government responsibility), Dante, in his *Inferno*, reserves a special place in hell for "false moneyers".

The Anglo-Saxon Chronicles record something equivalent, albeit more temporal:

**"1125 A.D. In this year before Christmas King Henry sent from Normandy to England and gave instructions that all moneyers ... be deprived of their members ... Bishop Roger of Salisbury commanded them all to assemble at Winchester by Christmas. When they came hither they were then taken one by one, and each deprived of the right hand and the testicles below. All this was done in twelve days between Christmas and Epiphany, and was entirely justified because they had ruined the whole country by the magnitude of their fraud which they paid for in full." - The Laud Chronicle (E)**

Fortunately, history indicates that the public will eventually figure out that no matter how beguiling the claims about currency management and taxation are, the gambit has been mainly to confiscate private savings. They will then demand the return of sound money and accountable government.

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