Tullett Prebon Research, a blog by Dr Tim Morgan

When states steal

by Tim Morgan on March 18, 2013

If the Cypriot government's proposal to "tax" – for which read "steal" – the funds of depositors in its banks is remarkable, the novelty lies in the blatant nature of the expropriation rather than in the principle of the state helping itself to private property. Though generally acting in subtler ways, governments have always felt remarkably few inhibitions about such confiscation.

Whilst few states would risk an open, Cypriot-style smash-and-grab, the transfer of assets from the citizen to the state already happens, and is likely to accelerate across much of the developed world. If the likelihood of expropriation is linked to the degree of trouble in which a government finds itself, British citizens should be very worried indeed.

As I'm sure you know, the government of Cyprus proposes to help itself to 9.9% of all bank deposits over €100,000, with a smaller (6.75%) sum being extracted from those with smaller savings. There are rather more precedents for this than you might imagine.

Though "ship money" and "Morton's fork" hold a special place in the history of legalised theft, the most famous example of state expropriation in modern history is probably Executive Order 6102, signed by President Roosevelt in April 1933. Ostensibly designed to combat the "hoarding" of bullion, 6102 forced all Americans to surrender their gold to the Federal Reserve or face a fine of up to $10,000 (say $180,000 at 2013 values) and a maximum of ten years in prison. Those surrendering their gold having been compensated at $20.67 per ounce, the government then raised the price to $35, where it remained until Richard Nixon ended the gold convertibility of the dollar in 1971.

Like the action taken in Cyprus, 6102 was a remarkably blatant example of a process that, in practice, usually takes place more subtly, and on an almost day-to-day basis. For a start, inflation is itself a means of transferring wealth from the individual to the state. "Fiscal drag" is another way in which the state lays its hands on citizens' money, and governments routinely treat interest as taxable "income" even when that interest is insufficient to maintain the real value of individuals' savings.

Asset transfers have already become more prevalent. In Britain, for example, the combination of ultra-low policy rates and quantitative easing (QE) has been responsible for the wholesale expropriation of value from savers, a process most evident both in the gap between inflation and interest rates and in the decimation of annuity rates.

Whether you think that raiding the savings (and especially the pension funds) of the prudent is immoral or not depends, of course, on how much importance you place on the liberty of the individual to do what he or she likes with savings which, almost invariably, have been accumulated from already-taxed income. Immoral or not, what should worry us most is that this process is legal, and would get worse if – as many have suggested – the Bank of England were to "relax" its inflation target. .

Beyond such stealthy transfers, could expropriation become both more blatant and even more rapacious, with, for example, the introduction of a "wealth tax"? My view, as I'm sure you know, is that the UK is now in a near-hopeless economic and fiscal bind, with a market-imposed rise in interest rates by far the biggest single risk. The government knows that it must do anything – literally *anything* – to stop rates from rising. Only the bravest would bet that the definition of “anything” would stop short of further asset transfers from prudent individuals to a spendthrift state.