U.S. News: Trump's Tax Law Viewed Skeptically by Americans --- WSJ poll shows 52% oppose the package, seeing it as helping big firms and the rich

Rubin, Richard; Katy Stech Ferek . Rubin, Richard; Katy Stech Ferek.

FULL TEXT

WASHINGTON -- Americans view President Trump's tax-and-spending law as a win for wealthy households and large corporations that will hurt poor people and widen federal budget deficits, according to a new Wall Street Journal poll.

The findings show Republicans' challenges in selling the law's benefits as they try to hold their slim control of the House and Senate in next year's midterm elections, and the poll demonstrates how Democrats might be able to capitalize on voters' skepticism to stage a comeback.

Overall, the law drew 42% support and 52% opposition, performing slightly worse than Trump himself in the poll. It generated negative marks from 94% of Democrats, 12% of Republicans and 54% of independents.

Nearly 70% of overall poll respondents said the law would help the wealthy, while just 7% said that group would be hurt. At least half of poll respondents said the legislation would harm poor people, the working class, Social Security beneficiaries, the U.S. economy, Medicaid recipients, nutrition-assistance recipients and the federal budget deficit.

"Cutting Medicaid is unpopular. Cutting food assistance is unpopular," said Sen. Brian Schatz (D., Hawaii). "Cutting those things in order to fund tax cuts for the very wealthy is unpopular."

The law contains more in tax cuts than spending cuts, and it is projected to increase budget deficits by $3.4 trillion through 2034, compared with doing nothing, according to the Congressional Budget Office. In the short run, that means tangible benefits for tens of millions of Americans in bigger paychecks and larger tax refunds, and Republicans say they are confident the law's standing will improve as Americans learn more about it.

Republicans said they are proud of the law and are confident they can highlight its border security, energy production and tax-cut provisions, and argue that Democrats effectively voted to increase taxes by opposing the tax-cut extensions.

"It's wildly popular when people hear what's in the bill. It's a great bill," said Rep. Richard Hudson (R., N.C.), who runs House Republicans' campaign arm. "So we just need to tell the truth."

Although Americans have a clear view of many provisions, and they favor Trump's new tax cuts, they are mixed on what the legislation overall means for them, leaving openings for both parties to shape public opinion. Respondents were nearly evenly split on whether people like them would benefit. And 39% said their households would mostly be harmed by the legislation with another 20% saying it would make no difference to them.

The Wall Street Journal poll of 1,500 registered voters was conducted July 16 to July 20 by two firms -- one run by Democrat John Anzalone and the other by Republican Tony Fabrizio. The margin of error for the full sample is plus or minus 2.5 percentage points. Respondents were reached by landline or cellphone, with some respondents contacted by text messages and invited to take the survey online.

The poll shows paths for Republicans to promote the law. New tax cuts -- breaks for tipped workers, senior citizens and overtime pay -- all generate strong support, winning not just a supermajority of respondents but also a majority of Democrats. In particular, Trump's "no tax on tips" policy has broken through to voters as a positive -- and is still being overwhelmed by the rest of the legislation and opposition to tax cuts for high-income people.

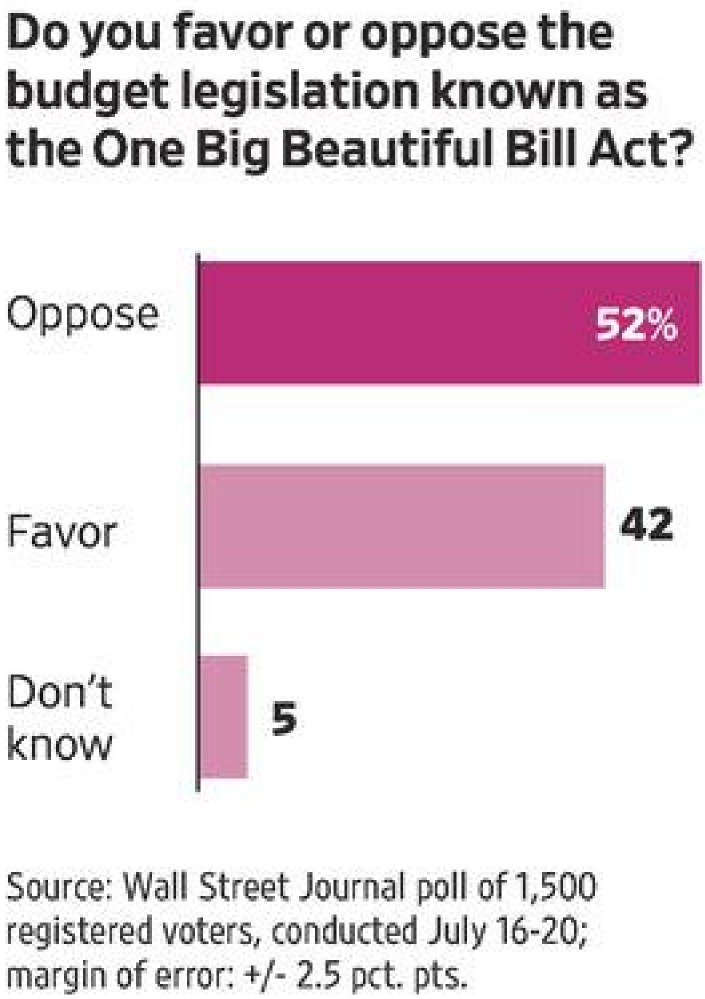
"People know about the fact that it includes no tax on tips and they really like that," said Molly Murphy, president of

Anzalone's firm, Impact Research. "It's not outweighing their concerns about cuts to healthcare, cuts to food services, kind of the other pieces in the bill."

Trump signed the legislation -- the "one big, beautiful bill" -- on July 4, and it is the biggest policy accomplishment of his second term so far. The law extends tax cuts that were scheduled to expire Dec. 31, lowers projected spending on Medicaid and nutrition assistance, boosts funding for immigration enforcement and national defense and adds new tax breaks for businesses and middle-income households.

Support for changes to Medicaid and nutrition assistance vary greatly depending on how they are described. A majority of poll respondents oppose cutting Medicaid, the health insurance program for lower-income households. But when cuts are described as work requirements and more frequent eligibility checks -- a significant part of the plan -- a majority is in favor.

They support making able-bodied recipients work 20 hours a week by a 62% to 34% margin, but that backing vanishes when they are asked if they favor removing benefits from people who don't comply with a work requirement. Democrats have described work requirements and other Medicaid changes as cuts to the program and they have warned that changes to state funding formulas will cause benefit reductions and hospital closures. Republicans say the law targets waste, fraud and abuse in the health insurance program.



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By Richard Rubin and Katy Stech Ferek

DETAILS

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Taxpayers Should Beware the Costly SALT Cap Phaseout Zone

DeMuth, Philip . DeMuth, Philip.

ProQuest document link

FULL TEXT

Right now, people making more than $500,000 a year are sitting pretty. They are in the 32% federal tax bracket and probably loaded with mortgage interest. They pay an abundance of state and local taxes, and they might even make a few donations to charity. Excited to finally itemize $40,000 of their state and local taxes for a fat tax deduction, they fail to spot the trouble ahead.

Trouble is coming, however, and it lies in the SALT Cap Phaseout Zone. The problem arises when the effective marginal tax rate on their next dollar of income increases from 32% to 41.6%, which they will discover next April. Here's how this happened.

High-earning residents of New York, New Jersey, California and other high-tax locales are tempted to cheer now that Congress has raised the cap on state and local tax deductions. Ever since the Tax Cuts and Jobs Act capped these deductions at $10,000 during President Trump's first term, politicians from high-tax states have fought to undo it. They've now achieved a partial victory: The One Big Beautiful Bill Act raises the cap to $40,000 -- at least temporarily. But hold the champagne. This relief comes with a hidden tax hike.

When the federal income tax began in 1913, state and local taxes were deductible to an unlimited extent. But by 1969 the dreaded Alternative Minimum Tax was instituted, offering no SALT deduction at all. That was followed in 1991 by the Pease limitation, which clawed back up to 80% of every itemized deduction. The 2017 tax cuts swapped these back door erosions for a simple front door $10,000 SALT ceiling.

The SALT deduction gave states an excuse to spend recklessly. The net effect was that conservatively managed, low-tax central states had their federal tax dollars forwarded from Washington to their high-taxing, free-spending liberal cousins on the coasts. In effect, middle-class workers in Texas and Oklahoma pitched in to help pay the state taxes for millionaires in Massachusetts and New Jersey.

Robbing the poor to pay the rich is bad tax policy. So is subsidizing waste and extravagance. When Congress capped SALT deductions at $10,000 in 2017, these high-tax states were disgruntled. They tried to sidestep the problem by letting their taxpayers donate to special state funds and receive a federal charitable deduction in exchange. In 2019 the Internal Revenue Service disqualified these "charities" from the federal deduction.

Affluent blue-state taxpayers were left carrying the weight of their state and local taxes. Never mind that they were only losing a subsidy that others never enjoyed. Few of those looking to the One Big Beautiful Bill for deliverance are from states with even one Republican senator.

The Constitution says tax laws begin in the House. To pass the One Big Beautiful Bill Act, the Senate had to contend with the House's plan, which permanently raised the cap on state and local taxes from $10,000 to $40,000. Shedding no tears, the Senate snapped the deduction back to $10,000 at the end of 2029, booking a projected savings of $50 billion to $80 billion to grease the reconciliation process. Sometimes it pays to vote Republican.

The new $40,000 cap is available to people in the lower tax brackets when they don't need it, while remaining unobtainable to those in the highest brackets when they could really use it. The people with income in between have

been selected for special punishment: a 9.6% surtax on income from $500,000 to $600,000.
That is the range where every additional dollar starts by getting taxed at the normal 32% bracket rate, but now simultaneously triggers a 30% SALT cap phaseout. This means 30 cents of a previously shielded dollar will also be shaken down by 32%, for an additional 9.6% tax on that dollar. If you started in the 32% bracket, your effective marginal rate becomes 41.6%.
If that sounds bad, brace yourself: The SALT cap phaseout will push you into the 35% bracket $10,000 to $15,000 sooner than you expected, while lifting your marginal rate to 45.5%. Depending on your particular cocktail of itemized deductions, a point may come when it is better to jettison the whole SALT apparatus and settle for the standard deduction.
There isn't much time to prepare. Unlike most sensible tax provisions that give you a year to get ready, this one begins in tax year 2025. You might already be destined for the SALT Cap Phaseout Zone and not even know it.
It all depends on your Modified Adjusted Gross Income, which for this section of the bill is your vanilla Adjusted Gross Income after adding back any esoteric foreign income exclusions under Sections 911, 931 or 933. Unless your situation is unusual, your MAGI will equal your AGI. For context, check your AGI in 2024 (Form 1040, Line 11). A chinwag with your accountant might be in order well before the ball drops on 2025.

Mr. DeMuth is author of "The Tax-Smart Donor: Optimize Your Lifetime Giving Plan."
By Philip DeMuth

DETAILS

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LINKS

U.S. News -- Capital Account: The Inflation Risks of Firing Powell

Ip, Greg . Ip, Greg.

FULL TEXT

The U.S. has endured inflationary shocks in the past few years: pandemic disruptions, massive fiscal stimulus, Russia's invasion of Ukraine, an immigration clampdown, tariffs and soaring projections of national debt.

Yet investors have expected that in a few years' time inflation will be around 2%. The reason: They instinctively assume that no matter the shock, the Federal Reserve is there to keep inflation low, like the brakes on a car.

If President Trump succeeds in forcing out Fed Chair Jerome Powell, that assumption will be shattered. The Fed would no longer be an independent check on the government, just another part of that government with inflation subordinated to other priorities, such as the cost of U.S. debt.

What then? Markets wouldn't like it, though predictions of a crash look overwrought. Stocks have hit records while discounting some possibility of Trump removing Powell. The lag between monetary policy and inflation is long and variable.

The real consequences of a subservient Fed would show up gradually, once inflation pressures emerge and the Fed, fearful of crossing the president, fails to act.

Investors and the public would no longer assume low inflation will prevail in the long run. And because expectations are self-fulfilling, inflation itself would grind higher.

Last week Kevin Warsh, a former Fed governor under consideration to succeed Powell, confidently declared the Fed's

next chair would be independent: "Independence in the conduct of monetary policy is essential." Another contender, Trump adviser Kevin Hassett, said, "Everybody at the White House understands the independence of the Fed is super important."
But whether the Fed is independent isn't up to the next chair. If Trump can fire Powell, he can also fire his successor. In May the Supreme Court indicated that the president can't remove a Fed governor, including the chairman, except for cause. Trump said last week he wasn't likely to fire Powell, but left open the possibility that Powell might have to "leave for fraud." Trump officials appear to be trying to establish a cause for firing Powell based on expensive renovations at the Fed's headquarters.
Trump's concern over building project costs is selective. Take his wall on the southern border: During the 2016 campaign he said it would cost $8 billion to $12 billion and Mexico would pay. Trump ultimately got $17 billion from taxpayers in his first term for the project, according to the Department of Homeland Security. It wasn't finished, and Mexico didn't pay. Republicans in Congress have just allocated an additional $46.5 billion to complete the job.
So the Fed's building is simply a pretext for what Trump really wants: replacing Powell with someone who will lower interest rates. If Trump succeeds in forcing Powell out over the building, he will assume he can find a reason to remove any Fed chair.
To be sure, the chair has only one vote on the Federal Open Market Committee, composed of seven governors and five of 12 reserve bank presidents. Still, if Trump can replace Powell, he can replace other governors with loyalists, who can then remove uncooperative reserve bank presidents. Advisers such as White House budget director Russ Vought have long felt monetary policy should be under the president's control.
Whether Powell is forced out or finishes his term in May, his successor will be "damaged goods," analysts at Piper Sandler wrote last week. "No matter who gets the job, markets will have doubts about his independence." They added: "The politicization of the Fed we are witnessing is a monumental development."
Cynics might say the Fed has never been truly independent. Harry Truman, Lyndon Johnson, Richard Nixon and Ronald Reagan at various times pressured the Fed to keep rates low.
But unlike Trump, they did so mostly behind closed doors, knowing the appearance of independence mattered. Even so, Fed acquiescence to that pressure helped drive up inflation in the 1960s and 1970s.
From 1993 until now, presidents avoided interfering with monetary policy, and inflation fell to around 2% and stayed there, until 2021.
Critics call inflation's surge to over 7% in 2021-22 proof the supposedly independent Fed was a failure. In fact, the pandemic's disruptions to supply chains and labor markets made some inflation inevitable. Powell, like almost everyone, failed to foresee how those disruptions, colliding with stimulus-fueled demand, would fuel inflation. Once he clued in, he jacked rates up sharply, practically inviting a recession.
Remarkably, inflation came back down without a recession because once supply and demand returned to normal, so did wage and price-setting. Workers and companies never acted as if high inflation was here to stay. This was a victory, not a failure, for the post-1993 monetary regime.
The victory isn't complete. Underlying inflation by the Fed's preferred gauge is around 2.7%, above the Fed's 2% target. Last Thursday Fed governor Chris Waller (another potential Powell successor) said it was close to 2%, after excluding tariff effects.
What would happen if Powell were fired? In May, Goldman Sachs economists looked at unscheduled leadership changes in central banks around the world and found inflation was 1 to 2 percentage points higher two years later with no benefit to growth.
The U.S. financial system is the world's most trusted, in great part because of the Fed. But there are hints that trust is eroding, such as a falling dollar and rising gold price. More ominously, market inflation expectations are edging up. Based on inflation-protected bonds, the expected inflation rate in three to four years -- after tariff effects have washed out -- has risen from 2.15% at the end of June to 2.36%, according to interest rate strategists at JPMorgan Chase. That probably reflects concerns about Powell's removal.
The likeliest path for inflation in the near term is down, thanks to a slack labor market. It's when the economy heats

up and price pressures emerge that the central bank's freedom to set interest rates will have consequences. And we won't know the brakes have failed until it is time to stop the car.

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By Greg Ip

DETAILS

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LINKS

U.S. News -- Chicago Fed Chief: New Tariffs Cloud Inflation Picture

Grossman, Matt . Grossman, Matt.

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FULL TEXT

New tariffs unveiled by President Trump have further muddied the inflation outlook, said Chicago Fed President Austan Goolsbee, making it more difficult for him to support the rate cuts that the president has pressed for.
During the past few months, after Trump paused steep bilateral tariffs he proposed in April, anxiety about how tariffs could push up prices calmed substantially. That put the Federal Reserve on track to ease interest rates again soon, Goolsbee said in an interview Friday.
But the latest round of tariffs -- including a 35% levy on some Canadian imports and a 50% tariff on goods from Brazil, set to begin Aug. 1 -- could spark fresh concerns about inflation, which might force the Fed to maintain its wait-and-see posture until the central bank gets more clarity, Goolsbee said.
"I'm hopeful that when we go back and talk to [businesses] now, they don't say, 'Oh, this is putting us back to where we were on April 3,'" Goolsbee said. "But I don't know, because this has just happened."
The Fed began easing rates last September as it gained traction against inflation. A brief inflation resurgence earlier this year, as well as uncertainty about how changes to trade, immigration and fiscal policy will hit the economy, have led it to hold its benchmark rate steady at 4.25% to 4.5% since December.
Goolsbee and other Fed interest-rate voters broadly agree that if inflation continues to cool, rates can move lower over time to reach a more neutral setting. Since the Fed's June meeting, Goolsbee has been among the Fed officials most supportive of cutting rates again sooner.
But now, the latest round of tariff increases requires more caution, Goolsbee said.
"The more we keep adding things to the mix that make it hard to figure out, 'Are prices going to be rising or not?' The more it's just throwing more dirt back in the air," he said.
Inflation readings since Trump's April 2 tariff announcement have been encouraging. In the 12 months through May, the Fed's preferred inflation index rose by 2.3%, within a stone's throw of its 2% target.
Much debate at the Fed has centered on whether tariff-driven price increases are still on the way. If so, policymakers are scrutinizing whether they will come as a one-time jump, or as part of a more sustained bout of inflation that the Fed has to fight with a longer stretch of restrictive policy.
Meanwhile, a slightly weaker but relatively solid mosaic of data on the underlying state of the economy has led Chair Jerome Powell and other Fed officials to advocate for patience.
Trump's demands for lower rates and his caustic criticisms of Powell have further complicated the path forward. Trump is set to nominate Powell's successor next year and has insinuated he will pick a candidate aligned with his preference for low interest rates.
On Thursday, the White House ramped up its pressure on Powell by demanding he answer for cost overruns in the Fed's renovation of its Washington, D.C., headquarters.
Goolsbee said he and his colleagues in the Fed's leadership ranks will insist on blocking out political influence.
"I'm still pretty confident that the culture of the Fed is one that everyone takes the job seriously and recognizes how important independence is from political interference," he said.
By Matt Grossman

DETAILS

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LINKS

Political Economics: Hong Kong Takes Another Currency Hit With a Smile

Sternberg, Joseph C . Sternberg, Joseph C.

FULL TEXT

Danger, Will Robinson: The Hong Kong dollar is in the news again.

The Hong Kong Monetary Authority in recent months has intervened at both the top and the bottom ranges of the Hong Kong dollar's fixed exchange-rate band with the U.S. dollar, causing big swings in interest rates. Cue chatter in the financial press about whether Hong Kong's peg to the greenback could be scrapped under market pressure.

It's a jarring possibility. Hong Kong's peg, in place since 1983, is the single most successful economic policy implemented by anyone anywhere in Asia for at least the past 50 years.

The Linked Exchange Rate System, as it's formally known, fixes the exchange rate at 7.8 Hong Kong dollars per American greenback, plus or minus a tiny margin. It has endured through an Asian financial crisis that collapsed most other currency pegs, through the SARS outbreak of 2003, through the global financial panic of 2008 and through Covid. The peg also survived Hong Kong's return to Chinese sovereignty in 1997.

This longevity hasn't deterred occasional speculative attacks from investors who ought to know better. Bill Ackman announced in late 2022 that he'd taken a short position against the Hong Kong dollar, apparently unworried by the collapse of Kyle Bass's short in 2020. George Soros once took a run at it. The temptation is irresistible whenever the Hong Kong dollar drifts toward the weaker end of its permitted trading range, as it has in recent weeks.

It might help if everyone remembered what Hong Kong's dollar peg actually is. To wit, it isn't a "peg" at all. It's a currency board.

Hong Kong's dollar is backed by a monetary reserve whose U.S.-dollar-denominated safe-asset holdings slightly exceed the number of Hong Kong dollars outstanding. When capital inflows cause the Hong Kong dollar to appreciate, the Hong Kong Monetary Authority stands ready to buy unlimited U.S. dollars, issuing new Hong Kong dollars in return at the 7.8 rate in order to avert an upswing. More important, when capital flows outward, the full reserve ratio means the HKMA is able to buy as many Hong Kong dollars as necessary to maintain the fixed rate.

Contrast this with looser currency-peg arrangements, such as those that fell apart in the 1997 Asian financial crisis. In these setups, authorities maintain reserves insufficient to back the local monetary base fully. Speculators can break the peg by launching a run on the currency, forcing authorities either to deplete reserves or to defend the exchange rate with crushing interest-rate increases. A government usually finds it has no choice but to abandon the peg.

Such peg arrangements once were popular because they provided the appearance of stability while allowing policymakers to "manage" the economy via domestic interest-rate and fiscal policies. Hong Kong surrendered those freedoms in 1983 for the strictures of a currency board, binding itself to U.S. interest rates and an imperative to maintain fiscal balance. The territory's households and businesses often have paid for this decision in the form of wild swings in interest rates during periods of economic stress.

It isn't an accident that the recent peak in shorting the Hong Kong dollar came as the Federal Reserve raised interest rates aggressively to fight American inflation -- a rate increase not obviously appropriate for Hong Kong amid mainland China's softening economy. The reality that U.S. monetary policy may often be ill-suited for Hong Kong is what causes outsiders to assume its government will abandon its currency board eventually.

Yet the persistence of Hong Kong's currency board despite that mismatch is precisely what makes the city's exchange-rate story so instructive. The arrangement remains enormously popular among the people who bear what most economists would consider its greatest costs, to the point that this is the one area of Hong Kong's political economy Beijing appears unwilling to disturb. Why?

Probably because Hong Kong residents long ago discovered that many of the putative benefits of more conventional monetary arrangements are illusory.

Hong Kong's currency board means authorities can't use monetary policy to try to "smooth" economic cycles or to fine-tune inflation or deflation. Since the currency board inhibits the government's ability to run large or persistent fiscal deficits, politicians are severely constrained in their ability to pump up spending to juice the economy during downturns. So for more than 40 years, Hong Kong's economy has been both forced and allowed to respond to crises without ham-handed bureaucrats and politicians trying to fix it.

Perhaps not coincidentally, since 1984, the year after the currency board's introduction, the territory has experienced stupefying economic growth of a cumulative 344% in inflation-adjusted terms, and real per capita gross domestic product has grown 190%. Meanwhile, governments elsewhere that enjoy full monetary discretion subject their people to serial inflationary and recessionary disasters.

Speculators assume the currency board must crack because it prevents Hong Kong officials from setting economic policy as other governments do. That's exactly why Hong Kong people like it. Beijing may one day conclude it can no longer tolerate such an arrangement on its doorstep. But until then, study Hong Kong's currency board, don't scoff at it.

By Joseph C. Sternberg

DETAILS

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U.S. News -- Capital Account: Trump Makes 'Fiscal Dominance' Play

Ip, Greg . Ip, Greg.

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FULL TEXT

There is a potential spoiler to the growth dividend President Trump is counting on from the tax cuts that Congress just passed.

Those tax cuts will be financed by unprecedented borrowing. Textbook economics predicts that borrowing will push interest rates higher, neutralizing the benefits of lower tax rates.

Trump has an answer for that: break the link between budget deficits and rates. In recent weeks, he has intensified his demands that Federal Reserve Chair Jerome Powell cut rates, or step aside for someone who will.

Trump has always been, as he puts it, a "low interest rate person." But his latest demands add a critical new dimension -- he wants lower rates to meet his fiscal priorities.

A flood of new bonds to finance deficits would normally put upward pressure on long-term interest rates. Trump's Treasury is trying to short-circuit that mechanism, signaling that debt issuance will tilt toward shorter-term securities and Treasury bills.

This is a gamble. If short-term rates jump, the cost quickly hits the budget. Trump, though, doesn't intend to let that happen. "We're going to get somebody into the Fed who's going to be able to lower the rates," he said on Fox News.

A central bank that shifts its priorities from employment and inflation to financing the government has succumbed to "fiscal dominance." It is usually associated with emerging markets that have weak central banks, such as Argentina. The result is typically some combination of inflation, crisis and stagnation.

Getting to that point, though, can take years. Meanwhile, fiscal dominance can be a powerful stimulant. While fiscal dominance isn't yet the status quo in the U.S., the mere possibility of lower interest rates, aided in part by the prospect of a change in Fed leadership, coupled with deficit-financed tax cuts, have helped the stock market romp to new records.

Central banks have long been intertwined with government finance. The Bank of England was founded in 1694 to help the monarchy raise money.

The Federal Reserve capped interest rates during and after World War II. In the 1960s, it avoided tightening monetary policy while Treasury was trying to sell bonds, a practice that helped fuel inflation.

Since then, the Fed has avoided explicit coordination with fiscal policy. From 2008 to 2014, it did hold interest rates near zero and buy government bonds. This wasn't fiscal dominance, because the Fed was acting on its own, not on the instructions of the president.

Trump, unlike other presidents, expects the Fed chair to follow his priorities. Earlier this year, he flirted with firing Powell. He backed off after bond yields shot up and stocks sank. A few weeks later, the Supreme Court effectively said the president can't fire a Fed governor (including the chair) without cause.

Trump then explored a different way to pressure the Fed: naming the next Fed chair, even though Powell's term runs through next May. The idea is that markets, being forward-looking, would pay more attention to this "shadow chair" than Powell. And indeed potential successors are now openly making the case for lower rates.

It isn't a given, of course, that Powell's successor will do Trump's bidding. Still, Trump is creative at finding ways to force institutions he doesn't directly control to do as he says.

Back in May, House Republicans unveiled their version of Trump's "one big, beautiful bill." It would have pushed the deficit from $1.8 trillion last year, or 6.4% of gross domestic product, to $2.9 trillion in 2034, or 6.8% of GDP, according to the Committee for a Responsible Federal Budget.

The U.S. has never before run such large deficits for so long. As bidding at Treasury bond auctions turned sloppy and Moody's stripped the U.S. of its triple-A credit rating, 10-year Treasury note yields climbed to 4.55%.

The bill that passed Thursday is even more profligate. If temporary tax cuts in the bill are extended, as the 2017 tax cuts have been, the deficit climbs to $3.3 trillion, or 7.9%, CRFB projects. And yet yields closed Thursday at 4.35%.

Yields have fallen for several reasons, including mild inflation and softer labor market data. But the prospect of a Trump-friendly successor to Powell seems to have played a part.

If governments could borrow as much as they wish and set interest rates by fiat, why don't more do it? Because there is no free lunch. If interest rates are persistently too low, something bad will happen, usually inflation.

Trump's threats against the Fed have yet to shift investors' expectations of future inflation. Perhaps they believe that no matter what Trump wants, the Fed will remain true to its mission. Even if they don't believe that, it is expensive to fight the Fed. For all the mystique around "bond market vigilantes," markets won't price in higher rates if the Fed is determined to keep them down.

More important, inflation has many drivers besides fiscal and monetary policy. As I wrote three weeks ago, mild inflation and cracks in the labor market (assuaged somewhat by the June jobs report) have boosted the case for a rate cut. Just because Trump's call for lower rates is self-serving doesn't mean it is wrong.

Still, history suggests that when a central bank over time follows a president's dictates rather than its own judgment, the economy pays a price. Though maybe not soon enough to matter to the president.

By Greg Ip

DETAILS

Subject:	Tax rates; Borrowing; Presidents; Federal Reserve monetary policy; Inflation; Central banks; Interest rates; Tax cuts; Government bonds; Budget deficits; Labor market; Tax legislation
Business indexing term:	Subject: Tax rates Borrowing Federal Reserve monetary policy Inflation Central banks Interest rates Tax cuts Government bonds Budget deficits Labor market Tax legislation; Industry: 92111 : Executive Offices 92113 : Public Finance Activities 52111 : Monetary Authorities-Central Bank
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LINKS

U.S. News: Trump's 'No Tax on Tips' Vow Contains Caveats

Reich, Josie; Rubin, Richard . Reich, Josie; Rubin, Richard.

FULL TEXT

Many service workers are eagerly awaiting no longer paying taxes on their tips. Yet the fine print in Republicans' new law could limit savings for some waiters, bartenders and others.

Among the particulars restricting the reach of the measure: Only the first $25,000 in tips are free from income taxes. Tipped workers will still face the 7.65% combined payroll taxes that fund Social Security and Medicare. And workers won't be able to benefit if federal officials say their type of service job doesn't qualify.

"No tax on tips" started as a campaign promise by President Trump during a 2024 stop in Nevada, the state with the highest concentration of service workers who rely on tips. It is now a key element of the tax-and-spending megabill that Trump signed into law on Friday. Even though it is one of the smaller pieces of the law in terms of dollars -- accounting for $32 billion out of $4.5 trillion in tax cuts -- it is one of Republicans' top talking points.

The cut could save some service workers thousands of dollars a year in federal taxes.

"It would be extra money," said Yolanda Garcia, a barista at Resorts World Las Vegas. "It would help me buy more groceries, even a gallon of gas." She estimates she usually gets $200 to $300 every two-week pay period from tips. If she makes less, taxes cut into her wages because she is taxed on an estimate of her wages and tips, she said.

Some four million people in the U.S., or 2.5% of all workers, earn tips, according to the Budget Lab at Yale, a nonpartisan research center founded by former Biden administration officials. Some workers can make tens of thousands of dollars -- or even more -- in tips each year. To hold on to their gratuities, some workers already illegally skip reporting the income to avoid paying taxes on it.

Workers are currently taxed on their tips as part of their overall income, which many complain forces them to skimp on such basics as food and gas as well as vacations.

More than a third of tipped workers don't make enough to pay federal income taxes, including many low-income workers with children and students who work in part-time tipped jobs. They wouldn't benefit from the no-tax-on-tips deduction.

Under Republicans' policy, workers who do pay federal income taxes will be able to deduct up to $25,000 for tips. For someone in the 12% tax bracket making that much in tips, the change would deliver up to $3,000 in savings. The deduction would start phasing out once an individual's income reaches $150,000, or $300,000 on a joint return for people who are married.

The relief will take effect this tax year. The law orders the Treasury secretary to publish a list of typical tip-earning jobs that qualify for the deduction, so it is unclear now exactly who will benefit. Tax experts said barbers, restaurant servers and other longtime service workers are almost certain to qualify, but it is unclear whether it will extend to other types

of jobs such as online creators, who are sometimes tipped for their work.
Much of this year's savings would come as a lump-sum part of the tax refunds workers will receive in early 2026. Workers can also change their paycheck withholding now; the law instructs the Internal Revenue Service to update tax withholding tables next year to accommodate the change.
The new law also requires the Social Security numbers of the worker and any spouse, barring workers living in the country illegally and workers married to them from claiming the deduction. Other parts of the legislation, such as changes to Medicaid, nutrition-assistance benefits and other tax cuts, could also affect service workers.
Employers will need time to adjust their payroll systems, said Michael Chittenden, a tax lawyer at Covington &Burling. The businesses might need to communicate with workers about the limits so employees don't expect tax breaks they aren't getting, he added.
Some workers reported that their tax forms asked for their income altogether -- and said they are concerned that they might have trouble claiming the tax break unless they can clearly report tips separately from wages.
Sebastian Espinoza, a busser at Caesars Palace in Las Vegas, has been looking forward to using the tax savings to pay for modest luxuries like a vacation and eating out more.
Espinoza estimated he usually makes roughly $30,000 in tips annually, and he depends on that money to help cover rent and make car payments.
By Josie Reich and Richard Rubin

DETAILS

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LINKS

U.S. News: U.S. Watch

ProQuest document link

FULL TEXT

NATIONAL PARKS

Foreign Visitors

Face a New Fee

International visitors will soon have to pay an added surcharge to visit Yellowstone, Yosemite and other iconic U.S. national parks.

President Trump signed an executive order Thursday directing the secretary of the Interior Department to develop a plan to increase entrance fees for foreign travelers to national parks while keeping them affordable for Americans.

"The national parks will be about America first," Trump said Thursday night at a kickoff event for America's 250th birthday in Iowa.

It is still too early to say the amount of the surcharge or when it would take effect. The order directs the extra funds be used for purposes that include improving the visitor experience and addressing maintenance backlogs.

This method of generating additional funding for the parks comes as the Trump administration has proposed cutting more than $1 billion, or more than one-third, from the Park Service's budget in the coming fiscal year.

The White House and Interior Department didn't respond to requests for comment.

Of the more than 400 parks in the national park system, just over 100 currently charge an entrance fee.

-- Allison Pohle

SUPREME COURT

Trans Sports Ban
Slated for Review
The U.S. Supreme Court agreed on Thursday to consider the constitutionality of state laws banning transgender women and girls from participating on female school sports teams.
The cases arise from challenges brought by transgender student athletes against policies in West Virginia and Idaho blocking individuals whose sex at birth was male from competing in women's and girls' track teams. Opponents of the bans argue they violate the constitutional guarantee of equal treatment under federal law and the 1972 Title IX law that prohibits sex-based discrimination in education.
In Idaho, a Boise State University transgender student challenged a 2020 law that would have barred her from running on the women's track team. The Ninth Circuit Court of Appeals in 2023 upheld an injunction against the ban, finding it was likely unconstitutional.
In West Virginia, a 12-year-old transgender girl challenged a 2021 law barring her from competing on her middle school girls' track team. The Supreme Court declined West Virginia's emergency request to enforce the law and keep her off the team while the case continued in the lower courts. Last year, a Virginia appeals court blocked the implementation of the law, finding it violates Title IX.
-- Mariah Timms

TRADE
China Says Deal
Is Being Sped Up
China is reviewing and approving applications for exports of controlled items to the U.S., as Beijing and Washington speed up the implementation of their trade framework, the Chinese commerce ministry said.
American officials have informed China that they are lifting a series of restrictive trade measures, a ministry representative said Friday.
"Dialogue and cooperation are the right path" to take, adding that "blackmail and coercion are no solution," the representative said.
Friday's statement was a response to recent media reports saying that some companies have received notices from Washington to resume exports of chip-design software, ethane and aircraft engines to China, according to the ministry's website.
The developments came after President Trump said late last month that the U.S. had signed a trade deal with China, without further elaboration.
As part of a pact struck after trade talks in London in early June, Beijing agreed to ease curbs on rare-earth exports in exchange for removal of some U.S. trade limits.
-- WSJ Staff

DETAILS

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LINKS

Trump's Megabill: Economic Fallout Will Be Muted at First --- Trump's policy law promises a modest economic tailwind, with long-term risks

Kiernan, Paul . Kiernan, Paul.

FULL TEXT

For all the fireworks over President Trump's $3.4 trillion policy measure, the economic impact will be modest at first -- too little for most people to notice, economists predict.

Starting this year, more money will be spent on the military and border enforcement. Many people who earn tips, work overtime or are over 64 will pay lower taxes as soon as this year. The bill also reduces projected spending on Medicaid through provisions that will disqualify several million people from benefits starting in 2027, as well as food stamps.

But the vast majority of the bill's price tag comes from extending provisions of the 2017 Tax Cuts and Jobs Act slated to expire Dec. 31. Those extensions aren't going to change the behavior of individuals and firms the way the tax cuts did when first implemented, or the way President Joe Biden's 2021 stimulus did.

That is a macroeconomic plus: Averting a tax increase is one less drag on an economy facing headwinds from Trump's trade and immigration policies.

"The vast majority of it is a continuation of current policy, and everything else that's being battled about is, you know, not big numbers," said Michael Feroli, chief U.S. economist at JPMorgan Chase. "If you're going to talk about GDP and macro things, you need big numbers to make it matter."

The legislation's cost and economic effects depend on what baseline is used for comparison. Compared to a scenario in which the 2017 tax cuts were allowed to expire, the new law means gross domestic product, adjusted for inflation, will be 1% to 1.2% larger by 2027, said Kent Smetters, faculty director of the Penn Wharton Budget Model.

But most economists thought complete expiration unlikely since both Republicans and Democrats had long supported extension of most of the tax cuts for individuals. Once Trump was re-elected and Republicans took control of both chambers of Congress, near-total extension became a fait accompli.

Versus a baseline in which the 2017 tax cuts were extended, the new bill should add between 0.2 and 0.5 percentage point to GDP growth in 2026, said Josh Hirt, senior U.S. economist at Vanguard.

The benefit from the law could be significantly offset by Trump's tariff increases. Goldman Sachs expects GDP to be about 1% smaller in the first quarter of 2026 as a result of the tariffs.

Among the provisions contributing to the law's near-term growth boost are temporary deductions for tip income, overtime pay and senior citizens; and full expensing of business investment. Increased spending on defense and border security are also expected to push up growth in the near term. The deduction for state and local taxes, which was significantly pared back in the 2017 law, will be expanded through 2029, at a cost of $142 billion.

Except for investment expensing, those provisions phase out after several years. Meanwhile, cuts to Medicaid and other spending only take effect after the midterm elections next year. Thus, the tax cut stimulus is frontloaded while the drag from spending cuts is backloaded.

"In the out years, [the bill] flips from fiscal expansion to fiscal contraction as the temporary tax cuts expire and as the planned spending cuts ramp up," said Wells Fargo economists Michael Pugliese and Aubrey Woessner.

Backloading the spending cuts raises the risk that, in the future, Congress will vote not to implement them at all.

The short-term benefits of the law must be weighed against the potential for trillion-dollar deficits as far as the eye can see, pushing up interest rates and crowding out private investment.

"Our big way of thinking about this bill is, will the deficit impacts overwhelm the potential growth impacts?" Hirt said.

The Committee for a Responsible Federal Budget, which advocates for smaller deficits, estimates if the law's various tax cuts and spending increases are made permanent, it would add $5.5 trillion to deficits through 2034, pushing debt to 127% of GDP.

By Paul Kiernan

DETAILS

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LINKS

U.S. News: Medicaid Cuts Affect More GOP Voters --- The party is drawing more lower-income people, complicating politics of policy bill

Zitner, Aaron; DeBarros, Anthony; Dougherty, Danny . Zitner, Aaron; DeBarros, Anthony; Dougherty, Danny.

ProQuest document link

FULL TEXT

To understand why Republicans have struggled to unite behind their domestic-policy bill that cuts taxes and Medicaid, look at how much progress the party has made on winning support from working-class Americans.

About 15 years ago, Republicans represented 26 of the 100 lowest-income House districts, according to Census data. By 2023, they represented 56 -- more than half. At the same time, Democrats came to dominate the wealthiest House districts, representing 69 of the 100 where incomes are highest.

In other words, America's two political parties have traded places economically. Where Americans once referred to upper-income "country club Republicans" and blue-collar "lunchpail Democrats," they now see a working-class GOP and, in many ways, a professional-class Democratic Party.

That is good news for Republicans, because working-class voters -- often defined as those without a four-year college degree -- are one of the biggest blocs in the electorate. But the GOP now represents more constituents who rely on social safety-net programs, such as Medicaid.

The bill that passed the Senate on Tuesday would cut taxes on tips, on overtime and on car-loan payments for many Americans, and it would make tax cuts enacted in President Trump's first term permanent. It also includes a host of tax cuts for businesses. To diminish the effect of the bill on deficits, the party wants to pare back Medicaid, the federal-state health program for low-income and disabled people. Republicans are also looking to cut the program that helps low-income people buy groceries, which was once known as food stamps but now goes by the acronym SNAP.

The party of middle- and lower-income America is a party that is more reliant on those safety-net programs. Consider the 145 House districts -- one-third of all of them -- that are most reliant on Medicaid. The number electing Republicans has more than doubled since 2009.

Republicans proposed even bigger cuts to Medicaid before they came to represent so many low-income House districts. A 2014 plan from then-Rep. Paul Ryan, the party's leading architect of fiscal policy, would have reduced the budget deficit but also cut Medicaid by about 25% over time and removed 14 million people from health coverage, the Congressional Budget Office calculated.

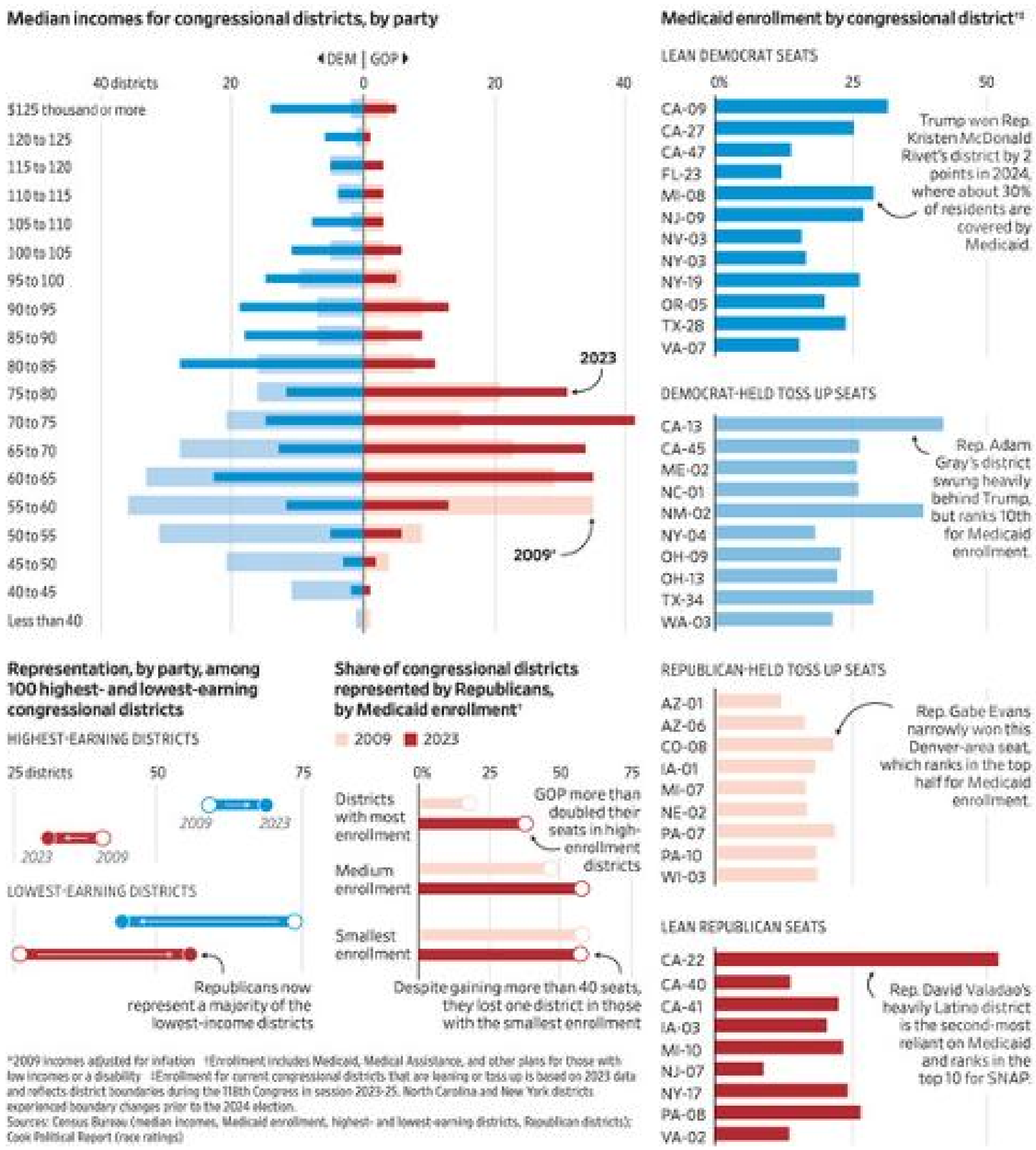
Why is Trump supporting a measure that could hurt his voters? Republicans have long thought they would take on less political risk in cutting Medicaid than cutting Social Security or Medicare benefits, which most workers feel they have earned through their payroll taxes. That is one reason Trump has long said he doesn't want to cut Social Security or Medicare. Republicans say their goal is to help some people move off Medicaid by asking them to meet a new work requirement, which they say can position them for new employment opportunities -- and that it is appropriate to ask those who can work to do so.

Critics of the bill say millions of people will lose coverage because they won't bother to comply with the work requirement or will be discouraged by its bureaucratic hurdles.

Some Republicans are warning that passing these safety-net reductions would cause a voter backlash in the 2026 midterms and cost the GOP its House majority.

Of the 18 Republican-held House districts that the nonpartisan Cook Political Report says are tossups or merely lean in the GOP's direction, five are among the most dependent on Medicaid -- that is, they are among the top one-third of House districts ranked by Medicaid reliance.

Cutting Medicaid could also damage the GOP's prospects in its best pickup opportunities, in districts where the Democratic hold is tenuous. Of the 22 Democratic-held districts rated as tossups or as merely leaning Democratic, 13 are among the most-dependent on Medicaid.



Enlarge this image.
By Aaron Zitner, Anthony DeBarros and Danny Dougherty

DETAILS

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LINKS

Trump's fiscal policy, risk for US position: economists

ProQuest document link

FULL TEXT

Donald Trump's "staggering fiscal policy excesses" and his attacks on the independence of the Federal Reserve may erode the United States' position as a safe haven par excellence for foreign investors, economists surveyed by the Financial Times warned.The survey, conducted by the Kent A. Clark Center for Global Markets at the University of Chicago Booth School of Business, found that more than 90 percent of economists polled were concerned or very concerned about the role of dollar-denominated assets. Clark Center for Global Markets at the University of Chicago Booth School of Business, found that more than 90 percent of economists surveyed were concerned or very concerned about the role of U.S. dollar-denominated assets as a safe haven over the next five to 10 years.This week, the White House insisted that Trump's economic policies will help reduce the U.S. debt, in its latest attempt to convince fiscal hawks (hard-line fiscal politicians) in the Senate to pass the president's flagship tax bill.However, independent estimates, including those from the fiscal regulatory agency, the Congressional Budget Office, indicate that the measures contained in the budget bill - which Trump called "the big, beautiful bill" - by the end of this decade will push the US federal debt above its previous post-World War II peak.While the dollar usually appreciates during bouts of panic in global markets, the sharp drop in global stock markets after the unveiling of aggressive reciprocal tariffs on April 2 added to a depreciation of the U.S. currency.The benchmark S&P 500 index has since recovered and is at an all-time high on hopes that Trump's economic policies will not derail growth and boost inflation in the world's largest economy. "Safe-haven assets are the Swiss franc and gold. In fact, the U.S. looks like an emerging market, where political uncertainty generates increasing risk premiums that push long-term yields higher and the value of the currency lower," said Saroj Bhattarai of the University of Texas at Austin.The dollar is trading at a three-year low amid concerns about fiscal sustainability and doubts about the Federal Reserve's independence, while Trump continues to criticize his chairman, Jerome Powell, for his reluctance to cut interest rates amid worries that the global trade war could drive inflation."A staggering fiscal policy overshoot is all but guaranteed, and that invites, but does not guarantee, a change in sentiment on dollar assets," noted Robert Barbera of Johns Hopkins University. "Combine this new reality with a de facto takeover of the Fed by the White House, either by firing Powell or promoting a mediocre one as a replacement? That will take me from being worried to being very, very worried. "Powell's term ends in May 2026 and there is speculation that Trump may announce his successor early in an attempt to undermine the Fed chairman's position."Fiscal deficits, deliberate government actions to shrink the U.S. financial account and devalue

the dollar, uncertainty about succession at the Fed and questions about the Fed's independence all affect (the dollar's safe-haven status)," said Anna Cieslak of Duke University.U.S. Treasury yields, which typically fall in times of market volatility, rose in early April. While the benchmark 10-year has since fallen to around 4.3 percent, many economists believe it may soon reach 5 percent, a level that will generate concern in the Trump administration.Nearly three-quarters of the 47 respondents predicted the yield on 10-year debt will exceed 5 percent by the middle of next year. "U.S. Treasury bonds may no longer be a safe asset," said Evi Pappa of the Universidad Carlos III de Madrid. "Look at what happened on 'release day' with 10-year yields compared to Europeans. "Pessimistic forecastsEconomists grew more pessimistic about the outlook for the U.S. since their last survey in March.The average expectation now is for the world's largest economy to expand 1.5 percent over the course of this year, down slightly from the estimate of 1.6 percent in the spring.Independent surveys of economists and U.S. households and businesses show that growth and confidence forecasts plunged after the April 2 tariff announcement, but have since partially recovered thanks to the U.S.-China trade truce and rising stock prices.Economists took a more hard-line stance on inflationary pressures, with median expectations for core Personal Consumption Expenditure Price Index (PCE) inflation this year rising from 2.8 percent in March to 3 percent in June on the expectation that tariffs will be passed on to consumers.However, only a handful of respondents believe there is more than a 50 percent chance that core PCE inflation will top 4 percent and the unemployment rate 5 percent anytime between now and the end of 2026.A better-than-expected reading of the consumer price index in May raised hopes that a smaller-than-feared portion of the cost of the tariffs is going to be passed on to U.S. consumers.But the annual core personal consumption expenditures inflation figure for May, released Friday, rose slightly to 2.7 percent, from 2.6 percent the previous month.
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LINKS

A 'Revenge Tax' Victory for Congress

ProQuest document link

FULL TEXT

Remember those news reports a few weeks ago about a "revenge tax" that was going to kill American financial markets? Well, our competitors in pink were wrong again. Treasury Secretary Scott Bessent announced Thursday that he'll ask Congress to ditch the tax -- because the provision worked.

At issue is a passage in the GOP's budget behemoth to retaliate against governments that impose "unfair foreign taxes" on U.S. companies. Section 899, as it's known, took aim specifically at an effort at the Organization for Economic Cooperation and Development to harmonize global corporate tax rules. Mr. Bessent has reached an agreement with finance ministers from Group of Seven countries to exempt U.S. companies from the most onerous part of the OECD tax system, he wrote Thursday on X.com.

The deal concerns pillar two of the OECD plan, which imposes a corporate alternative minimum tax at a rate of 15%. Governments around the world adopted this in 2021 in an effort to mute tax competition from lower-tax jurisdictions such as Ireland. Companies subject to U.S. taxation now will be exempt from this minimum tax, Mr. Bessent said. We noted weeks ago that this was the simplest, and likeliest, solution to this impasse.

America, which could hardly be described as a tax haven, was never a target of the OECD provision. Congress created its own global minimum-tax regime in the 2017 Tax Cuts and Jobs Act, known as Gilti (we'll spare you the full name). But U.S. companies were at risk of getting caught in the crossfire because U.S. law and the OECD's pillar two define the corporate tax base differently, such as with different treatment of tax credits.

This created a serious risk of double taxation. With that danger averted by Mr. Bessent's deal, the secretary has asked Congress to drop Section 899 from the budget bill and lawmakers signaled they will.

So much for the scaremongering that Section 899 would hand a protectionist cudgel to President Trump, or even that it was a back-door capital tax on foreign holdings of Treasury debt. This is above all a vindication of Congress,

although the usual suspects will try to paint it as a retreat in the face of investor pressure.
Congress never supported the OECD's pillar two, and the suspicion was bipartisan. The OECD agreed to the deal because the Biden Administration signed up for it as part of a Rube Goldberg political machination to try to bully Congress into approving a corporate tax increase at home.
Treasury Secretary Janet Yellen misled foreign leaders into believing Washington was on board with the global plan, but Republican lawmakers first proposed a retaliatory tax in 2023. Some of them traveled to Europe that year to deliver the warning in person. Section 899 was designed to leave ample time for negotiation with foreign governments and to ratchet up the retaliatory tax only gradually, precisely in the hope that it wouldn't need to be deployed.
Thorny global tax issues remain. It's unclear how quickly Mr. Bessent's pillar-two deal will be implemented in countries that already have introduced the OECD taxes. Mr. Bessent's deal also doesn't address pillar one of the OECD tax plan, which allows foreign excess-profits taxes on the world's largest companies, primarily American tech and pharma firms. Expect these taxes to figure prominently in President Trump's trade negotiations.
But the new deal likely solves the biggest tax problem for the largest number of American companies. Count this as a rare win for global tax sense.

DETAILS

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LINKS

Pablo Duarte (Flossbach von Storch Institute): "The next black swan may be US fiscal policy rather than tariffs".

ProQuest document link

FULL TEXT

Flossbach von Storch is one of Europe's leading investment boutiques with assets under management in excess of EUR 70 billion. The firm has a research center, which allows it to have its own analysis of the main macroeconomic variables. With investors watching the consequences of tension in the Middle East on inflation and with the issue of tariffs just around the corner, Pablo Duarte, senior analyst at FvS Research Institute warns that the real problem for the markets may come from the high debt in the United States and the low growth expected to control it.

What do you think could happen between now and July 9 in the U.S.-European tariff negotiations?

We don't know what is going to happen, but we are somewhat understanding what Trump's way of negotiating is like, so the effect is not going to be that serious. This pause shows that there is willingness to negotiate, that there is willingness to find a middle ground and the interesting thing with the European Union is that it has relatively high tariffs, not only with the U.S., but among the member countries themselves. It could actually be an opportunity for the intra-European market. But in the end it's not going to be that bad, it's something that, especially the stronger, higher-

quality companies will be able to pull through in an easier way.
Could we see some kind of prolongation of the pause?
The latest public reports indicate that the EU was aiming for a deal similar to that of the UK and the US. The EU, however, is not known for being the most agile and effective negotiator. Therefore, it is likely that they will at least try for an extension. What is certain is that it is not in anyone's interest for these tariffs to be implemented. Nor does it seem to be discounted in the markets. It would be a surprise if there were no agreement at all. But, even here, life is full of surprises.
And how do you see the negotiations with China shaping up?
Perhaps it is more difficult to envision, because it is an autocratic regime where the president has more power and more control than, at least in theory, Trump has to make disruptive measures. That is something that strengthens Xi Jinping's bargaining position. But China has long had growth problems, extremely high unemployment rates, especially in the young population. All consumer sentiment indicators are down and its trade with the US is very large. So the position is not very strong on both sides, so I think eventually we are going to have higher tariffs than we had before, but manageable. The potential economic pain for both sides is going to cause positions to soften enough to come to an agreement that is manageable.
The market has already somewhat tested Trump's fiscal policies, with moves in the bond market Could a 'black swan' occur, given the high US public deficit?
Yes, that is the key issue today, more so than tariffs. To talk about a black swan is a good way of defining it. The US public debt is at a level that in peacetime was unheard of, at over 120%. And there are two ways in which this figure can go up: by going further into debt or by less growth. I am Colombian and I know firsthand that many of the debt crises in Latin America occurred precisely because of a lack of growth rather than an increase in debt. On this issue, the United States is playing with fire a little bit, because it has a very high debt ratio, with high interest rates and investors are cautious about every announcement and every move.
And what happens if growth starts to slow? If the tariff issue becomes a thorn in the side of global trade, it's going to cause a slowdown in global and, obviously, U.S. growth. And if there are inflationary pressures that force the Fed not to lower rates, or even to raise rates, and if we have, for whatever other reason, something that causes a drop in output, we can have a lower growth rate with very high interest rates that make it a problem to pay off that very high debt. And that's where the string could get tight and break.
So it is a black swan in the sense that everybody is looking at debt, but very few people are looking at growth, which is an important part of this ratio. We are watching very closely because that's where something can happen. Obviously the U.S. has the dollar as its reserve currency and the Fed can start buying as many bonds as necessary. But this is not going to solve the growth problem.
What political effects could this have?
We don't know what political effects it could have, because by then people would not be very happy with Trump. If inflation comes back, growth goes down and the debt problems persist, we would have another wave of telluric movements in politics that, right now, are hard to foresee, but there could be a scenario in which the debt problem blows up.
And what would be the critical low level of growth at which we really have to start worrying?
Well, the classic rule is that growth should be at least as high as interest rates in order to be able to finance the debt. So if we have interest rates at 4.5% for 10 years, growth should be about that percentage, at least the potential growth for the next 10 years. That 10-year potential growth is now about 4%. The U.S. used to have a huge amount of room to go into debt without it causing problems, but now it has such a narrow margin that it can start to get out of control.
To what extent is the Fed going to be able to resist the pressures it is receiving from Trump to maintain its independence in its monetary policy?
The truth is that so far it has been quite resilient. Although Trump has also started to soften a little bit. He's been less aggressive of late. But there are two factors to consider. One is what direct influence the president can have on Fed decisions through social media posts. And the other question is how much influence he can have at the political level

by trying to move chips in such a way that there is more pressure on the appointment of the Fed chairman. I think the media influence is low. He brags a lot, the media publishes it, but when it comes to making decisions, that doesn't put much pressure. At the institutional level he may have more influence and it would be more serious. But so far there are no indications that he wants to make an institutional change in that sense, which would be a huge warning signal for the markets.

But in the end a central bank will always support its government. So, if the debt really starts to get out of control, the Federal Reserve is going to intervene because it is not going to let the government go bankrupt without having done anything.

There is a lot of enthusiasm now about Europe, because with the arrival of Trump it has caused flows to be redirected to the Old Continent, because of defense and security investment programs, and infrastructure in Germany. But this is going to force countries to have to make spending cuts or take on more debt.

This is not yet conditioning the market. But it is a very interesting aspect because when Germany announced the constitutional reform, with the previous parliament, yes there was euphoria in the markets on the one hand, but also concern on the debt side. We saw how German bonds went up in one day what they had not gone up in many years, but then it calmed down because the markets realized that the mere fact of being able to get into debt and being able to invest does not imply that there is going to be such a strong growth momentum.

We are talking about Germany, a market with very rigid structures in terms of environmental regulation, for example. Having had the constitutional spending ceiling rule for so many years has meant that the level of debt is not so high. We are at 63% of GDP more or less and it may go up to 85%, but it would be manageable, it would still be below most EU countries. And there would also be the ECB to back it up if necessary. So it may take many years yet to see the impact of these investment decisions, unless there is some urgency such as Russia coming to Poland, Estonia, Latvia or Lithuania.

This contrasts very much with the view from outside, because it is believed that Germany is finally going to be able to spend and there is going to be growth. But here the outlook is quite pessimistic.

That is why I was asking him how this enthusiasm can end, if regulation is really going to be relaxed to boost investment.

Let's see what happens. It's going to be key in the next few months to see how spending starts to happen. First, what is going to be the pace of indebtedness and how it is going to be spent. Because it is going to be key whether there are reforms or not in order to expect higher growth.

What impact can the escalation of tension in the Middle East have in the short term?

The impact in the short term will be greater the stronger the Iranian response. At the moment, no one seems to believe that Iran could strike back strongly, causing a change in the course of events. The attack has great global relevance, but not because it has caused chaos, but rather because it has reaffirmed the US position in favor of Israel, and because, at least on this front, it does not seem to be renouncing its role as protector of the West. This can be interpreted as a slice of confidence and a relief amid questions regarding the American willingness to defend the West since Donald Trump became president.

Everyone fears some form of closure of the Strait of Hormuz, what impact can any kind of blockade of this sea passage really have or the latent threat that it may occur at some point?

The closure of the Strait of Hormuz would be significant because it would bring a disruption to the oil trade similar to that of 2022, with Russia's attack on Ukraine. The effects of a blockade would be similar to those of that time. On the one hand, gasoline and, in general, energy prices would rise. Exporting countries would see a bonanza thanks to higher prices and would be able to compensate price increases more easily. On the other hand, importing countries would have to deal with higher prices, without the benefits of export earnings. However, the consequence would also be complicated for China, which is Iran's largest customer. And like any major customer, it too is sometimes caught in the line of the injured parties.

To what extent can it force the Fed to accelerate rate cuts?

This year, not much. A rise in oil prices would mainly affect gasoline and energy prices in general. A rise in these prices

leads, first of all, to people spending more of their disposable income. Currently, the savings rate in the U.S. is almost 5%, the average since the beginning of the millennium. It has been lower in the past, so it is likely that consumption of other goods will not have to be drastically reduced. This makes the Fed's anticipated two cuts seem somewhat premature.
However, the rise in oil prices is not an isolated phenomenon. Global growth projections had already been corrected downward. If the tariff conflict flares up with the July 9 deadline for "reciprocal" tariffs, and the economy weakens more than expected, the Fed could cut rates despite the rise in energy prices. But this scenario does not seem very likely for now.
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LINKS

New Medicaid Cuts Stir More Trouble For GOP Tax Plan

Hughes, Siobhan; Rubin, Richard; Beavers, Olivia . Hughes, Siobhan; Rubin, Richard; Beavers, Olivia.

ProQuest document link

FULL TEXT

WASHINGTON -- Senate Republicans' plan to extract more savings from Medicaid as part of their revised tax and spending package triggered a backlash within the party, raising concerns that leaders could miss their self-imposed deadline of getting the bill to President Trump's desk by July 4.

Republicans remain divided on a series of issues, ranging from healthcare spending to deficit reduction to clean energy tax credits to state and local tax deductions. A significant GOP revolt on any of these could prove fatal for the legislation, which must clear the 53-47 GOP-controlled Senate and then be approved again in the narrowly divided Republican-run House.

The tax and health portions of the measure, unveiled late Monday, would make it harder for states to shift Medicaid costs onto the U.S. government. The plan contains a provision that would essentially cut to 3.5% from as much as 6% so-called provider taxes for entities like hospitals in the states that expanded Medicaid under the Affordable Care Act. These taxes enhance states' Medicaid budgets and in turn, attract more federal matching funds.

Some Republican senators said they were caught off guard by the steep reductions and indicated they could be deal breakers.

"Alarming," said Sen. Josh Hawley (R., Mo.) of the proposal to cut the provider tax. "It's a big change from what we had previously been discussing, certainly what I discussed with leadership," he said, calling it "potentially really bad for rural hospitals."

Hawley has been outspoken in defense of Medicaid funding, but also recently won a provision in the bill to fund victims of nuclear radiation poisoning, a cause he has championed.

Sen. Jim Justice (R., W.Va.) said that the Medicaid change is "going to hurt our rural hospitals and hurt them in a big way, and I don't want to see that." Sen. Susan Collins (R., Maine) also has concerns about the effect on rural hospitals in her state.

Critics of the provider tax, including Trump's Medicaid chief, Mehmet Oz, call provider taxes a circular money-laundering scheme because they ultimately attract more federal matching funds -- money that is generally directed back to the hospitals paying the tax. But it has also become an embedded feature of the U.S. health system, with Medicaid covering more than 70 million people.

While the Medicaid changes angered the program's defenders, it did little to cheer budget hawks who have criticized the overall bill. Sens. Ron Johnson (R., Wis.) and Rick Scott (R., Fla.) both said the Medicaid cuts weren't enough.

"It just simply doesn't meet the moment," said Johnson of the bill. He added that there was no way to fix the legislation by July 4.

Budget hawks want to see deeper reductions in federal spending to offset the extension of Trump's 2017 tax cuts and the addition of new tax cuts -- such as a version of no taxes on tips -- that the president campaigned on.

The rival GOP stances make for complicated trade-offs.

"There are those who want more cuts. There are those who want more spending. There are those who want more tax increases or tax cuts, and there are those who want more deficit reduction," said Senate Finance Committee Chairman Mike Crapo (R., Idaho). "So all of those issues are floating around."

Democrats are united against the legislation, which is being advanced under special procedures that allow the GOP to evade the 60-vote threshold for most legislation and pass the bill with a simple majority.

Sen. Rand Paul (R., Ky.) is opposed to the bill because it would also increase the debt ceiling by $5 trillion, meaning Republicans can likely afford to lose only two more votes and still pass the bill.

"I don't think deeper Medicaid cuts will pass the Senate nor the House," said Rep. Don Bacon (R., Neb.), who voted for the House bill after blocking a similar attempt in the House to cut the provider taxes levied in states that didn't expand Medicaid.

The House last month passed its version of Trump's agenda by a single vote. Broadly, the bill would extend expiring tax cuts and create new tax breaks that Trump requested. It also includes new limits on federal nutrition assistance. The House version would increase budget deficits by $2.8 trillion through 2034 after factoring in the projected economic growth the bill would create, leading to 15% more red ink than previously estimated, according to a new Congressional Budget Office report out Tuesday.

The Senate's version shows adjustments all over the place, creating a smaller but longer-lasting child tax credit expansion, a less generous extension of the tax deduction for closely held businesses, a gentler version of a retaliatory tax against some foreign governments and an extensive revision of tax rules for U.S.-based multinational companies. The CBO hasn't yet detailed the expected costs of the Senate bill.

Senate Republicans' more generous extension of clean energy tax credits assuaged concerns from Sens. Thom Tillis (R., N.C.) and John Curtis (R., Utah), who had both warned about the quick cutoffs in the House bill. But they could also create headaches, particularly when the bill heads back to the House.

On top of that, party leaders must contend with blue-state Republicans who insist on a higher cap for the state and local tax deduction. The House bill bumped the cap to $40,000, while the Senate bill keeps it at the current $10,000, acknowledging that is a starting point.

Senate Majority Leader John Thune (R., S.D.) stuck by the cuts to the provider tax, saying that the new limits, along with related cuts to supplemental payments to many Medicaid providers, would "rebalance the program in a way that provides the right incentives to cover the people who are supposed to be covered by Medicaid."

Broadly, many Republicans said that Medicaid has expanded to cover groups and services beyond what was intended, jeopardizing the social safety-net program. Democrats said that cutting the provider tax would destabilize care for the poor and disabled.

By Siobhan Hughes, Richard Rubin and Olivia Beavers

DETAILS

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LINKS

High U.S. Debt Load Is the Talk of Wall Street --- Growing federal debt is threatening to drive up borrowing costs for Americans

Goldfarb, Sam; Dougherty, Danny . Goldfarb, Sam; Dougherty, Danny.

FULL TEXT

Some of the biggest names in finance are speaking in increasingly alarmed tones about an issue that has bothered investors for decades: the U.S. government's outsize debt load.

Ray Dalio, founder of the hedge fund Bridgewater Associates, has warned of a debt crisis akin to an "economic heart attack."

Jamie Dimon, chief executive of JPMorgan Chase, is predicting a breakdown in financial markets.

Here is a look at how the government borrows and what it means for markets and the economy:

A MISMATCH BETWEEN

SPENDING AND REVENUE

The government has to borrow money for a simple reason: It spends more money than it collects in revenue.

Borrowing fills that gap, ensuring that the government can make the payments required by current law.

ADDING IT ALL UP

Outstanding Treasurys totaled nearly $29 trillion at the end of May, equivalent to around 95% of annual U.S. economic output and roughly double the amount outstanding eight years ago. The government is constantly issuing and paying down huge amounts of bills. But the bulk of its outstanding debt carries longer maturities.

ANXIETY OVER DEMAND

Worries about deficits are being exacerbated by concern about demand for U.S. debt -- particularly whether President Trump's tariff policies could lead in various ways to reduced foreign appetite for Treasurys.

In fact, the share of Treasurys held by foreign investors -- including both public- and private-sector buyers -- has been declining for years.

Hedge funds, counted as "households" in Fed records, have helped pick up the slack. But they are seen as a less stable source of funding because they typically buy Treasurys using large amounts of borrowed money. That means they occasionally dump bonds during times of market stress, making those situations even worse.

THE LIFE OF A TREASURY

After a government bond is issued, it trades in the secondary market.

The 10-year notes whose price is charted at right were sold on Aug. 7 of last year at around 99.3 cents on the dollar, offering an annual interest rate of 3.875%. Since then, their price has declined, increasing their yield -- or expected annual return.

That is because investors who buy the securities at a lower price earn additional capital gains if they hold them to maturity, when they are paid back at 100 cents on the dollar.

THE MECHANICS OF BORROWING

The government does the bulk of its borrowing by issuing securities known as Treasurys.

Investors can buy directly from the government or purchase and sell in the secondary market. (The government also issues savings bonds to individuals and nonmarketable debt to federal trust funds, including the Social Security trust funds.)

The government raises money by auctioning off trillions of dollars of Treasurys each month -- while also paying down trillions of dollars of debt that is coming due. Debt is identified by its maturity: Bills mature in one year or less. Notes mature in two to 10 years. Bonds mature in 20 or 30 years.

A BENCHMARK
FOR
EVERYTHING

The yields on Treasurys set a baseline on borrowing costs across the economy because the U.S. government, for all its challenges, is still seen as the safest borrower around. The yield on the 10-year note, in particular, is a major determinant of 30-year mortgage rates.

WHY
DEFICITS
MATTER

Treasury yields are heavily influenced by the economic outlook and investors' expectations for short-term rates set by the Federal Reserve. One reason that prices have fallen -- and yields have climbed -- since last summer is that the unemployment rate has stabilized and investors are now anticipating fewer interest-rate cuts from the Fed.

Investors are also concerned that the sheer volume of coming Treasury issuance could outstrip demand and push yields higher, regardless of what the economy is doing.

Investors are accustomed to surging deficits during wars and recessions. Right now the government is borrowing as if it were in a crisis -- even though it isn't. That points to a structural fiscal imbalance that could require the government to keep issuing larger and larger amounts of notes and bonds.

(See accompanying illustrations -- WSJ June 17, 2025)

Sources: U.S. Office of Management and Budget via St. Louis Fed (debt size); Federal Reserve Bank of St. Louis (gap, Treasurys borrowing rates, deficit as a share of GDP); Treasury Department via Sifma (new Treasurys, Treasurys outstanding); Federal Reserve via Sifma (holders); LSEG (Treasury notes price); Freddie Mac (mortgages)

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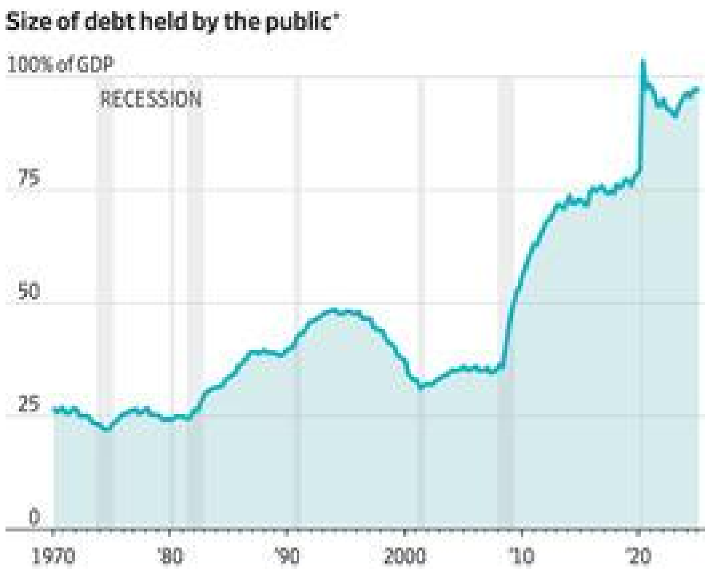

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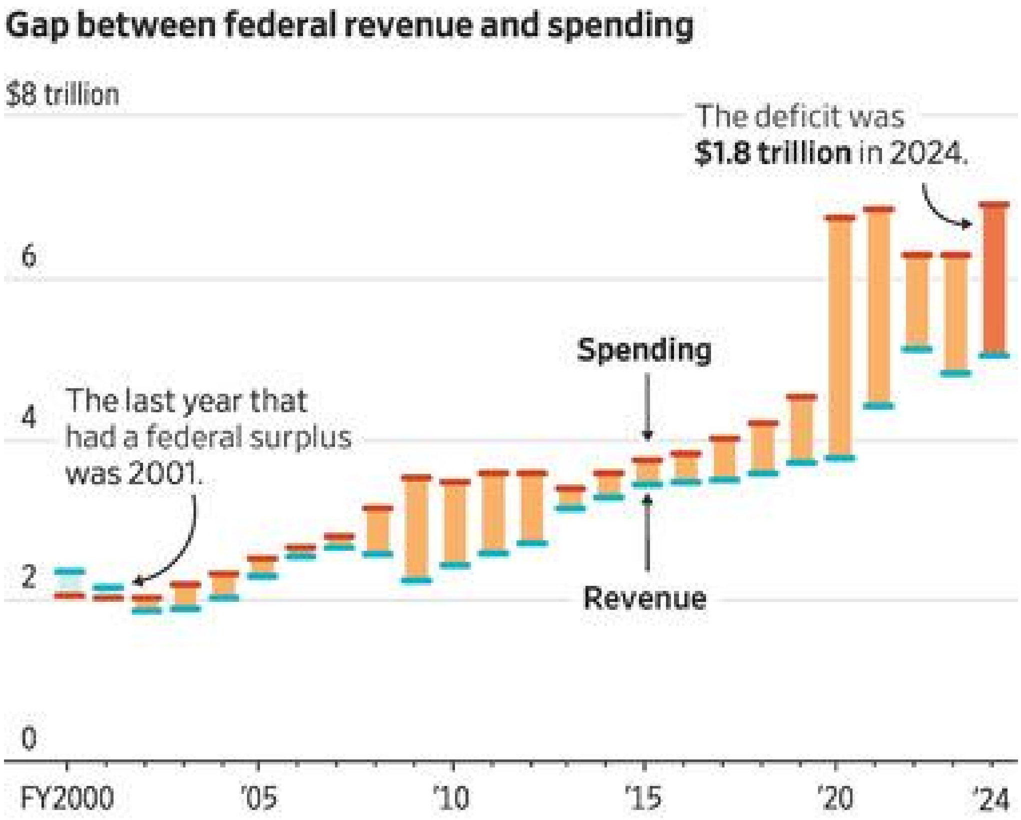

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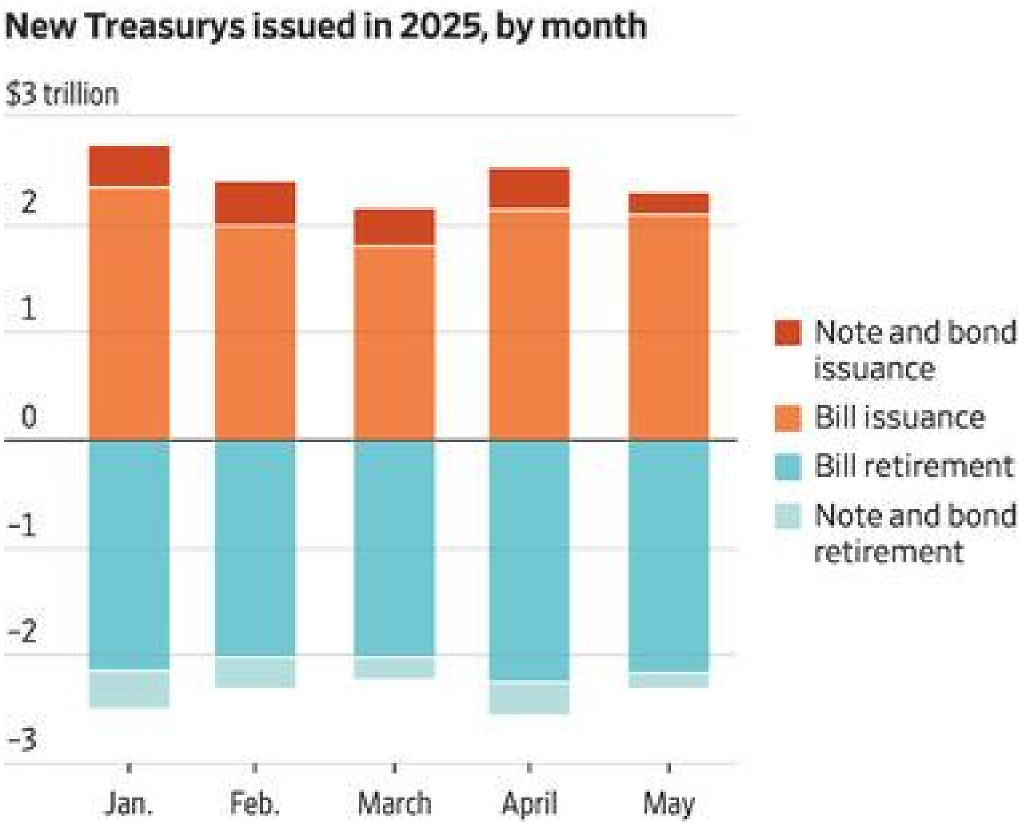

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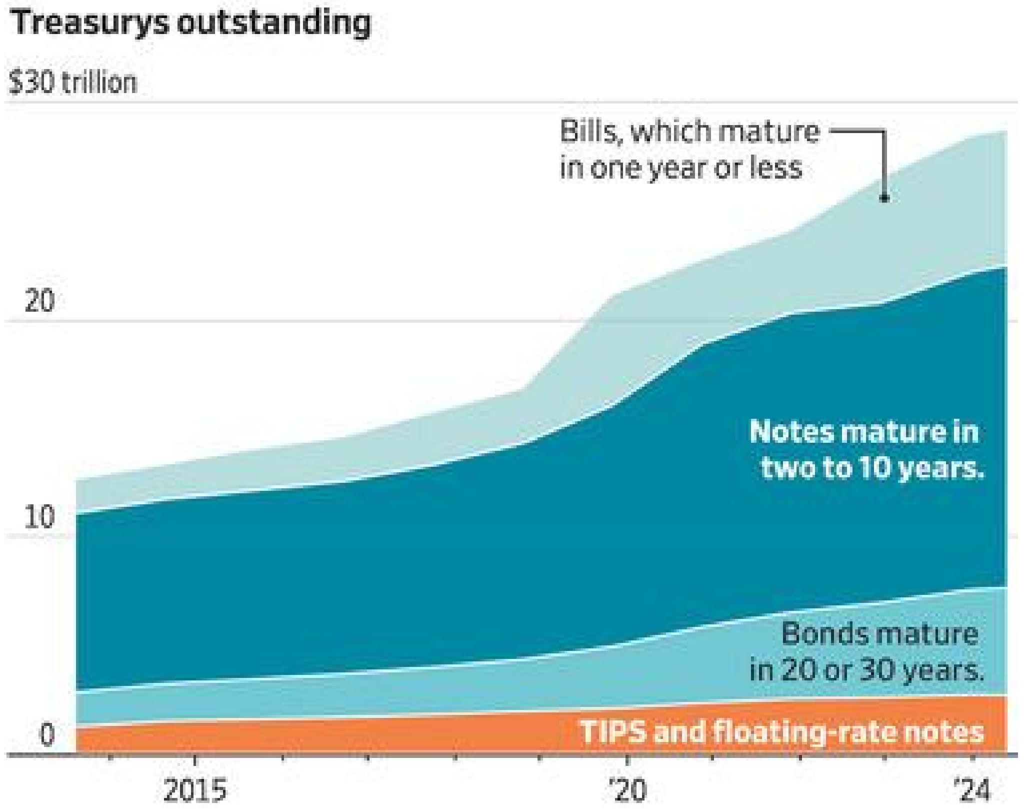

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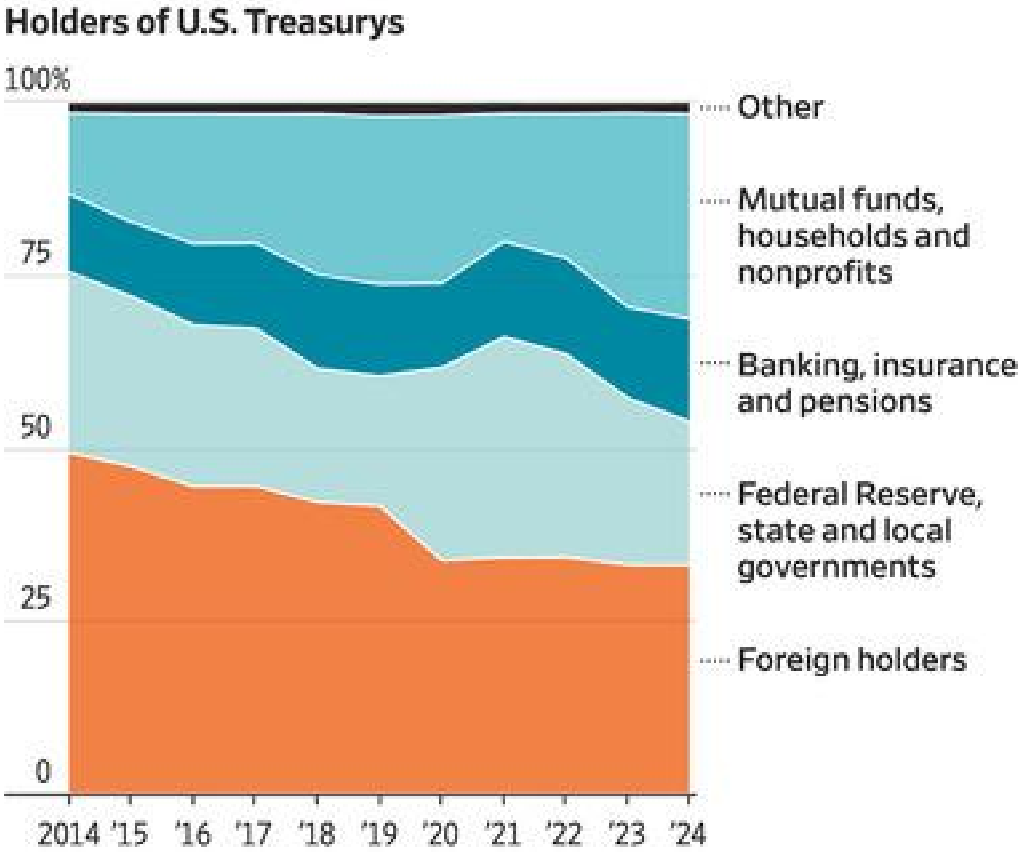

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Long-term borrowing rates†

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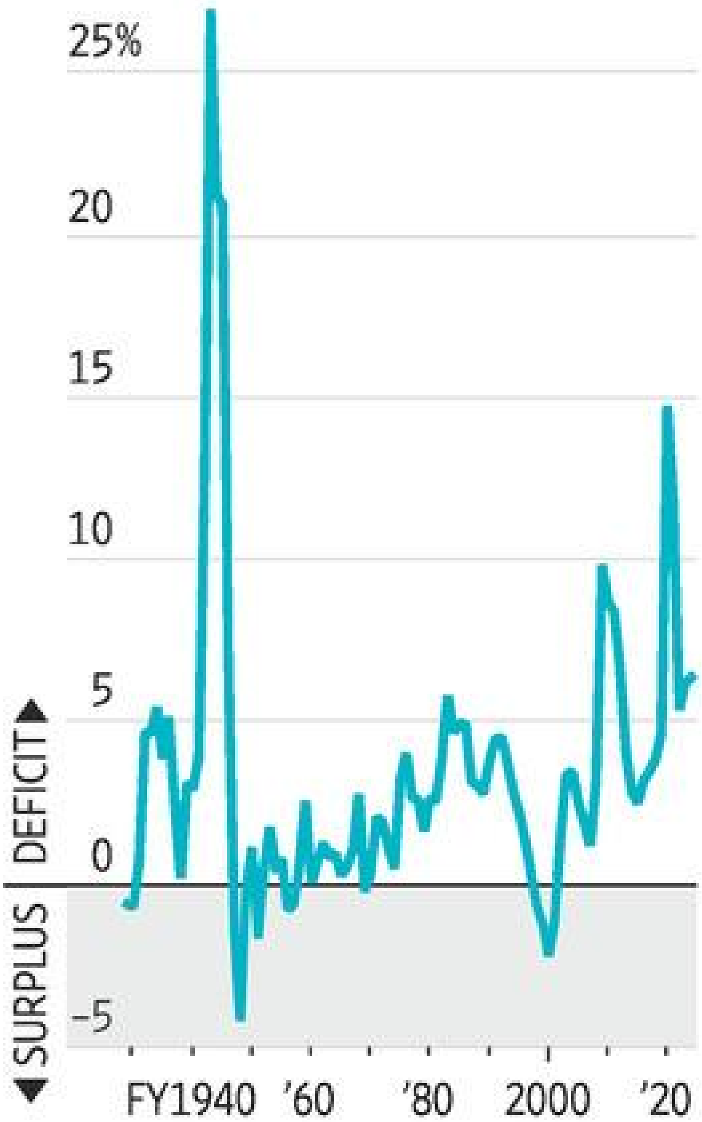
Federal deficit as a share of GDP, by fiscal year



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By Sam Goldfarb and Danny Dougherty

DETAILS

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LINKS

How the Federal Reserve Fuels Fiscal Profligacy

Shelton, Judy . Shelton, Judy.

FULL TEXT

If Republicans are serious about reducing federal deficit spending, it is important to consider the effect the Federal Reserve has on the nation's budgetary outlook. If the numerical models imposed by the Congressional Budget Office drive fiscal policy, lawmakers also need to understand what they portend for monetary policy.

The Fed once was committed to "normalizing" its balance sheet -- shrinking its footprint in credit markets by reducing the size of its portfolio of Treasury debt and mortgage-backed securities. Chairman Jerome Powell noted in a 2019 speech that large-scale asset purchases by the Fed over the previous 10 years had been viewed from the outset as "extraordinary measures to be unwound, or 'normalized,' when conditions ultimately warranted."

But according to CBO estimates, the Fed won't be reducing its holdings of Treasury securities over the next decade. Instead, it will increase them significantly. The Fed owns $4.2 trillion in U.S. government debt in the form of Treasury bills, notes and bonds. The CBO projects the Fed's holdings of Treasurys will climb to $9.9 trillion in 2035 -- more than double today's amount.

For perspective, the central bank owned less than $500 billion in Treasurys before the 2008 global financial crisis. The CBO predicts that the Fed's share as a percentage of federal debt held by the public will rise to 20% in 2035 from 16% in 2025. Through multiple rounds of quantitative easing, including vast new purchases of Treasurys during the 2020 pandemic, the Fed has become the largest single holder of U.S. national debt.

The blowout of the Fed's balance sheet has enlarged its powers and prominence. Aside from the Fed's ability to influence interest rates that directly affect the cost of financing government debt -- now 16% of total federal spending -- the ramifications of the nation's compromised debt funding raise disturbing questions about the commingling of government functions.

To what extent do the consequences of past actions by the central bank now impinge on the fiscal options facing lawmakers? The Fed's complicity in fueling the inflation that was largely driven by excessive government spending in recent years appears to have rendered monetary officials leery of economic activity -- to the point of leaning toward restrictive interest rates at the expense of productive economic growth.

All of which leads to the fundamental challenge of defining the appropriate role of a central bank in a free-market economy. The Fed's portfolio of government-backed financial assets generates huge earnings from interest-rate payments. By law, after covering its own expenses, the Fed must remit these earnings to the Treasury. Therein lies an inherent conflict of interest: Federal Reserve remittances have been a significant source of revenue to the federal budget, providing more than $835 billion from 2013-22.

While Fed officials portray this fiscal bonanza as an incidental consequence of monetary policy, at least one member of Congress has expressed open appreciation. In July 2020, during Mr. Powell's semiannual testimony before the House Financial Services Committee, Rep. Brad Sherman (D., Calif.) applauded the Fed for consistently remitting its "profit" to the Treasury, adding: "I think you should focus on it because it is very important."

The Fed's main tool for conducting monetary policy is to pay interest on the cash balances of commercial banks and money-market funds kept on deposit at the Fed. Since September 2022, interest payments from the Fed totaling $607 billion have exceeded its own interest income -- which means those earnings from the Fed's portfolio have been going to private banks and mutual funds rather than the Treasury. Legislators might be interested to know that 44% of the money the Fed is currently paying on $3.4 trillion in reserve balances is going to foreign banks.

Congress could rescind the Fed's authority to pay interest on reserve balances, which was granted in October 2008 as part of an emergency package. The Fed would likely return to traditional open market operations as its main tool for conducting monetary policy. Banks would respond by moving their cash into Treasury securities, bringing down interest rates. Even better, banks might increase lending to the private sector.

If the Fed chooses to maintain interest rates aimed at restricting economic activity, it would mean selling a portion of its portfolio securities -- thus shrinking its $6.7 trillion balance sheet in accordance with the original plan. But there's a complication. From the CBO's perspective, this would trigger recognition of the Fed's $927 billion in cumulative unrealized losses on its portfolio, wiping out the Fed's earnings from interest payments. No "profits" from Fed operations, no remittances to the Treasury.

The accounting conundrums of federal agencies are wearying to the soul. But to accept passively the inexorable enlargement of government would be fully demoralizing. We must confront the Fed's effect on the federal budget because robbing Peter to pay Paul leads to further government encroachment. Taxpayers will ultimately pick up the tab.

Ms. Shelton is a senior fellow at Independent Institute and author of "Good as Gold: How to Unleash the Power of Sound Money."

By Judy Shelton

DETAILS

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LINKS

U.S. News -- Capital Account: The Case for Rate Cuts Is Growing

Ip, Greg . Ip, Greg.

ProQuest document link

FULL TEXT

President Trump's tariffs present the Federal Reserve with two conflicting challenges. First, they raise prices, which weakens the case for cutting interest rates. Second, they sap confidence and demand, which strengthens the case.

To date, the Fed has focused on the first risk, keeping its interest rate target between 4.25% and 4.5% since December. It might soon have to pivot to the second.

Evidence is accumulating that inflation, despite tariffs, has been milder than feared, while the labor market might be deteriorating.

The Fed doesn't have to act when it meets next week.

There is less urgency than last September when rates were a full percentage point higher and rising unemployment carried a whiff of recession. Tariff effects might become more pronounced in coming months.

But in their outlook and rhetoric, Fed officials need to acknowledge risks are shifting. And they can also pat themselves on the back, because the economy is actually unfolding much as they expected when they began easing nine months ago.

In May, the Treasury Department collected roughly $15 billion more in customs duties than in February. That is equal to about 3% of total consumer spending on goods. Some goods prices have risen, but not by that much. And in May, prices fell on some obvious tariff targets such as apparel and new cars.

This is a head scratcher. If consumers aren't paying the tariffs, who is? Not foreign producers, at least through April, when import prices excluding fuel rose. Not, apparently, retailers and wholesalers, whose margins took a hit in April but bounced back in May, according to the producer price report released on Thursday.

Maybe the data aren't picking up some of the ways companies are coping with tariffs, such as keeping prices stable but charging more for shipping.

In any case, the Fed ought to take comfort that the supply chain has proved much more resilient than a few years ago.

Economists think tariff effects will become more apparent in coming months. But that alone isn't reason enough for the Fed to stay on hold.

Tariffs represent a one-time boost to the price level, which means after a year, inflation should revert to its pre-tariff trend. The question is whether tariffs push the trend higher.

The good news is that in the past few months, the trend has eased.

A key reason inflation has been slow to return to the Fed's 2% target is stubborn service prices, and that can in great part be blamed on housing costs cooling more slowly than economists and the Fed expected based on private rent data.

Not anymore. "A lot of what we expected in shelter has come to fruition," said Omair Sharif, an independent forecaster specializing in inflation data.

Services inflation has also been damped by plunging airfares, thanks to more empty seats and cheaper jet fuel.

Together, this is why excluding energy, services inflation fell to 3.5% in May, from 4.5% in December, which in turn has nudged core inflation (which excludes food and energy) to a four-year low of 2.8% in the past three months.

Inflation according to the Fed's preferred gauge, the price index of personal-consumption expenditures, is also near its lowest since the pandemic, likely between 2.5% and 2.6% in May. It is running at around 1.3% annualized in the last three months. But for tariffs, the Fed would probably declare mission accomplished by year-end.

So the underlying trend suggests the Fed should be easing.

Now suppose tariffs do lift core inflation in coming months. For that to push the underlying trend higher depends crucially on the labor market. The pandemic inflation was so persistent because it occurred when workers were so scarce.

Demand was strong, and people had left the labor force because of Covid or retirement. Wage inflation shot to 7%, from 3.5% before the pandemic.

The labor market today isn't tight; it's showing cracks. The unemployment rate, to two decimal places, has risen every month since January, by a quarter percentage point in all.

At that pace it would reach 4.6% in the fourth quarter. This suggests the economy is growing slightly below its potential, which should keep a lid on price and wage pressures.

For months, both hiring and layoffs have been low, keeping unemployment under wraps. But new claims for jobless insurance jumped in the last two weeks, a hint that layoffs -- outside the federal government -- are picking up.

Payroll growth looks healthy, at 139,000 in May. This, though, could be a head fake. From January through April. the Bureau of Labor Statistics initially reported hefty job growth only to revise that down sharply in later months. The same could happen with May data.

RBC Capital Markets recently noted that a string of negative revisions like this is common around recessions. Another hint: payroll processor ADP estimates that, based on a survey of its clients, private job growth was just 37,000 in May.

Why the labor market would weaken is unclear. Stock prices are buoyant, not what you'd see right before a recession. Perhaps uncertainty about tariffs is undercutting hiring, although that link isn't obvious. And Republicans' tax-and-spending bill could deliver fiscal stimulus later this year.

Against that, though, tariffs are already draining money from the economy. And if they do push inflation higher in coming months, they will also cut into purchasing power, aggravating risks to jobs.

Though not as out of whack as last September, rates are still roughly 0.5 to 1.5 percentage points above what Fed officials consider "neutral," the level that keeps growth, inflation and unemployment stable. That restrictive stance make sense so long as inflation is all the Fed has to worry about. It no longer is.

Enlarge this image.

By Greg Ip

DETAILS

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LINKS

U.S. News: Foreign-Student Crackdown Puts Innovation at Risk

Kiernan, Paul . Kiernan, Paul.

ProQuest document link

FULL TEXT

Ajay Bhatt had never been on a plane when he left India for City University of New York to pursue a graduate degree in 1981. More than four decades and 130 patents later, billions of people are still using Bhatt's most-recognizable invention, the Universal Serial Bus, or USB.

"My dad really didn't want me to go," recalls Bhatt, who is now a U.S. citizen. But, he said, "This was the country where you could get the very best education, and everybody was welcoming."

High-skilled immigration has long been part of the secret sauce that gave the U.S. the world's most dynamic economy. Studies show newcomers punch well above their weight in innovative output and entrepreneurship. They authored 23% of U.S. patents from 1990 to 2016, according to a 2022 study by Shai Bernstein of Harvard Business School and four co-authors. They founded or co-founded more than half of the U.S.'s billion-dollar startups, according to another study. Immigrants co-founded or played a major early role in Nvidia, Alphabet and Tesla.

From Elon Musk to lesser-known figures such as Bhatt, many of these inventors and founders originally came to the U.S. on student visas. President Trump's policies could disrupt that pipeline.

In May, the Trump administration paused interviews with student-visa candidates in order to vet their social-media activity and said it would begin to "aggressively revoke" the visas of Chinese students at U.S. universities. It also sought to block Harvard University from enrolling foreign students; that order has been stayed by a federal judge. On Wednesday night, the Trump administration banned citizens of a dozen countries from entering the U.S., as well as those from countries including Cuba, Venezuela, and Laos from applying for student visas. The president also issued an order that effectively bans foreign nationals from attending Harvard.

"We have people who want to go to Harvard and other schools," Trump, a Republican, said last month. "They can't get in because we have foreign students there. But I want to make sure that the foreign students are people that can love our country."

The U.S. hosted more than 1.1 million international college students in the 2023-24 academic year, according to the Institute of International Education. In fiscal 2024, the government approved 263,000 applications by foreign graduates for temporary employment under the Optional Practical Training program, or OPT, and 52,000 onetime students or dependents rotated into H-1B work visas, which can lead to citizenship.

Trump's nominee for U.S. Citizenship and Immigration Services director, Joseph Edlow, said in a confirmation hearing May 21 that he would like to develop regulations "that would allow us to remove the ability for employment authorizations for F-1 students beyond the time that they are in school." F-1 is the main visa used by students.

"For too long, woke, so-called 'elite' institutions like Harvard have admitted inordinate numbers of foreign students and allowed antisemitic violence to ravage their campuses -- hindering Jewish students' education, prompting concerns of espionage, and threatening U.S. national security," a White House spokeswoman said. "Ensuring that guests in our country want to learn and contribute positively to our educational environment, rather than undermine Americans' safety, is critical to a strong U.S. economy."

The changes outlined by Edlow would effectively kill the OPT program, said Stuart Anderson, who now runs the National Foundation for American Policy, which supports high-skilled immigration. That would make it impossible for many foreigners to start U.S. businesses after they graduate and significantly dim the allure of U.S. universities for international students, he said.

In a 2022 study, Anderson found that immigrants founded or co-founded 319 of 582 U.S. startup companies that had achieved valuations of $1 billion or more. Nearly half of those had been founded by immigrants who attended U.S. universities as international students, the study said.

"It's not that surprising that a lot of international students end up starting a business because risk-taking is obviously in their makeup," Anderson said. "They're willing to take a chance and travel a long way to study in another country."

Whether the world's best and brightest will continue flocking to U.S. universities is an open question.

Angelika Fretzen came from Germany to do postdoctoral research at Harvard University in 1998. She joined a biotech startup alongside four other post-docs and spearheaded the development of Linzess, now a leading drug for irritable bowel syndrome.

The early days of Fretzen's career were hard. Boston's community of scientists, many foreign, repeatedly helped her get back on the horse. "If I had faced the kind of adversity that I think some of our young students here are facing right now," Fretzen says, "I would have probably gone back to Germany."

'Invisible Ceiling' in Europe Made U.S. a Better Option

Gleb Yushin, a materials scientist who was born in the Soviet Union, considered schools in a handful of other countries -- Germany, Japan, the U.K. -- before deciding to get his Ph.D. at North Carolina State University.

"In Europe, there was an invisible ceiling . . . that would prevent immigrants from reaching their full potential," said Yushin, who came to the U.S. in 1999 on an F-1 visa, the main visa used by students.

The company he co-founded, Sila Nanotechnologies, has raised more than $1.3 billion from investors, employs about 400 -- mostly in Alameda, Calif., and Moses Lake, Wash. -- and developed groundbreaking technology for improving batteries, Yushin said.

By Paul Kiernan

DETAILS

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LINKS

The Tax That Wrecks U.S. Farms

Sierra Dawn McClain . Sierra Dawn McClain.

ProQuest document link

FULL TEXT

Jolene Riessen's children may lose the farm if Congress doesn't extend the Trump tax cuts. Ms. Riessen, 64, is a widow. She plans to leave her Northwest Iowa farm to her two sons, who are in their 30s.

Ms. Riessen estimates the value of her farmland and equipment -- including four tractors, two combines and a planter -- at $14 million to $19 million. The 2017 Tax Cuts and Jobs Act raised the federal estate-tax exemption from about $5.5 million to $11 million, and inflation adjustments have brought it up to nearly $14 million. But the increase was temporary and, unless it's renewed, will revert next January to the pre-2017 level indexed to inflation, or about $7 million. The tax bill passed by the House would set the exemption at $15 million -- permanently and with annual adjustments for inflation.

Ms. Riessen estimates that under the lower estate-tax exemption, her heirs would have to sell either 120 of the current 450 acres, or all the equipment plus 40 acres. Either way, the farm would end up smaller and harder to run at a profit.

The estate tax disproportionately harms American farmers. More than 80% of an average farm's total assets are illiquid, according to Sam Kieffer, president of public policy at the American Farm Bureau Federation. The land, equipment, buildings, livestock, crops, storage facilities and other tangible assets that a farmer uses to run his business is "not an investment portfolio that can be converted into cash overnight," Mr. Kieffer says.

Thus, if a farmer dies and leaves his estate to his daughter, she will likely need to sell assets to pay the tax. "It's your actual producers who are land-rich and cash-poor who are burdened by this," says Anson Howard, a fourth-generation Texas rancher and attorney for landowners. In his law practice, Mr. Howard has seen clients take out hefty loans, sell substantial acreage and equipment, and otherwise downsize their operations to hold on to their family farms.

Ranchers and farmers are often forced to make difficult decisions to stay afloat. When Ann Margaret Hughes, 34, was a teenager, her grandmother died. The family scrambled to pay the estate tax on their Monroe, N.C., farm. Ms. Hughes's parents made financial sacrifices, scaled back business investment plans, and took out a 15-year loan to pay the tax. Ms. Hughes knew she wanted to farm when she grew up, so she emptied her college fund and drained her remaining savings to help her family foot the tax bill.

In high school and college, cattle rancher Mark Eisele, 68, worked on a neighboring ranch in Cheyenne, Wyo., owned by Jerry and Ann King. The Kings didn't have children and wanted to leave their ranch to Mr. Eisele when they died. It took seven years and about $30,000 in legal and appraisal fees to put together an estate plan. While that reduced the eventual tax due, the bill was still around $500,000 when Mr. Eisele inherited the ranch.

A policy that pushes farmers to sell acreage against their wishes is destructive to American agriculture. If a developer buys and paves over acreage, it ceases to be farmland. Some urban sprawl is natural and necessary, but high-quality soil is scarce, and permanently taking it out of production reduces America's supply of arable land. U.S. farm acreage was 8% smaller in 2022 than 1997, according to the U.S. Census of Agriculture.

The estate tax pushes those with generational knowledge, local support networks and passion for farming off the land. An investment firm or corporation could theoretically buy the land, keep it in food production and manage it equally well, but at what cost? A longtime farming family going out of business would change the fabric of a rural community.

Lawmakers should pursue tax policies that encourage rather than erode the multigenerational farming model. "Death and taxes are the two things that are for sure in life, and it's hard to go up against both of them at the same time," Ms. Hughes says. "You really don't have time to grieve your loved one. You're thrown into your business and trying to make sure it survives."

Ms. McClain is an assistant editorial features editor at the Journal.

By Sierra Dawn McClain

DETAILS

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LINKS

U.S. News: The Numbers Behind GOP Food Cuts

Frosch, Dan; Pacheco, Inti . Frosch, Dan; Pacheco, Inti.

FULL TEXT

Among the key pieces in the fiscal package passed last week by House Republicans: cuts to the federal program that helps low-income people pay for groceries, formerly known as food stamps.

The GOP aims to tighten work requirements, saying that too many people on the Supplemental Nutrition Assistance Program, or SNAP, aren't working. They also want to shift more of SNAP's costs to the states. Their plan -- which has to be approved by the Senate -- would lead to more than $230 billion in cuts over the next decade, according to the Congressional Budget Office.

The federal government spent $93.8 billion on SNAP during the last fiscal year to feed an average of 41.7 million people each month. The average monthly benefit, per person, cost $187.54.

What does SNAP do?

The program distributes funds on a prepaid card to help people pay for food. Many factors determine who is eligible for SNAP and how much they receive, including household income level and size.

Generally, most American households qualify for SNAP benefits if their gross income is less than about $3,380 a month, for a family of four. That represents 130% of the federal poverty level.

Able-bodied adults ages 18 to 54, without dependents, must work (or participate in employee training) for at least 20 hours a week. Otherwise, they are limited to three months of benefits in three years.

What drives the cost?

States administer the program with federal dollars, but have some leeway in setting eligibility rules. States also differ in how many resources they devote to the program.

Also, enrollment and costs typically rise following economic downturns, such as the 2008-09 financial crisis. The U.S. hit a peak for the monthly average number of people using SNAP -- 47.6 million -- in fiscal 2013, when the country was still recovering from that crisis.

Last fiscal year, the monthly average number of people on SNAP was down about 6 million from that peak a decade earlier. That means roughly 12% of the U.S. population is relying on the benefit.

The rate of SNAP-eligible people who enroll in the program has risen in recent years. In the 2022 fiscal year -- the most recent year measured -- a record high 88% of people who qualified for SNAP enrolled in the program.

How has age changed?

People enrolled are getting older as the nation ages and because of more efforts to sign up eligible seniors. At the same time, the portion of SNAP recipients in households with children shrank to 47% in 2023, according to the most recent U.S. Census Bureau survey data, down from 55% a decade earlier.

Has the cost changed?

The cost of SNAP benefits to the government jumped during the pandemic, reaching an inflation-adjusted high of $124.9 billion in 2021.

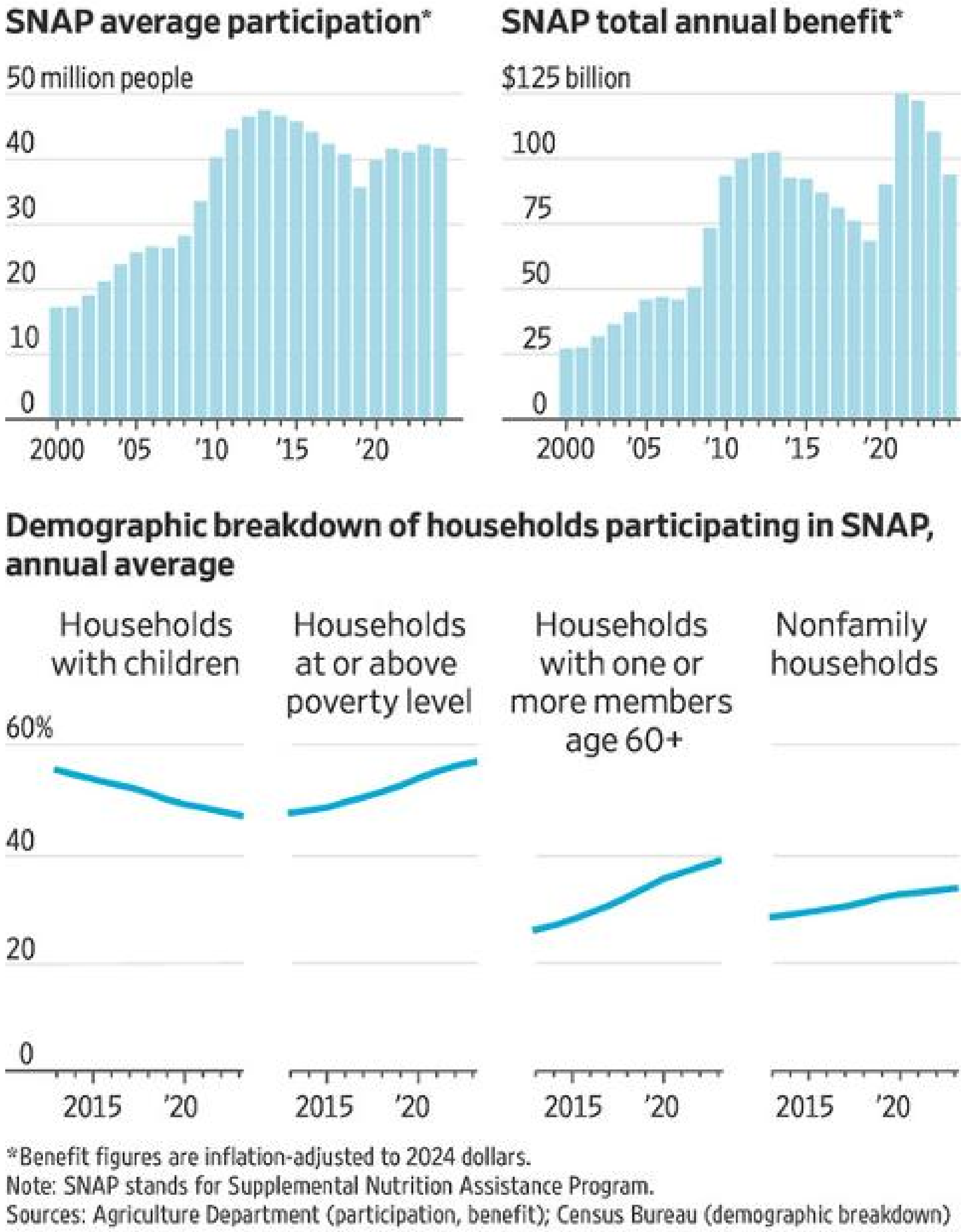
The program makes annual adjustments to account for cost-of-living changes, such as hikes in food costs caused by inflation. The average amount paid to SNAP recipients is currently down from pandemic highs because Covid-era emergency measures expired, but also above levels from the years heading into the pandemic.

Adjusted for inflation, SNAP's total benefit costs declined by about 25% between fiscal 2021 and 2024.

What are GOP goals?

Republicans point to a 2022 Agriculture Department analysis that found that just 28% of SNAP-enrolled adults with

neither dependents nor disabilities that would prevent them from working had earned income from jobs that year.
The House bill would expand the upper age limit so that able-bodied adults without dependents have to work to get SNAP benefits by 10 years, to age 64. The plan would also limit work exemptions that caregivers of children under 7 can receive.
The Center on Budget and Policy Priorities, a progressive group, said nearly 11 million SNAP recipients could lose at least some food assistance under the GOP's plan. The group also said the GOP numbers don't account for how many SNAP enrollees might have lost a job and were looking for work, and that an estimated 82% of able-bodied adult SNAP users who are not living with children brought in earnings in 2023.



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By Dan Frosch and Inti Pacheco

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LINKS

RINGGIT OPENS HIGHER AS US TRADE POLICY UNCERTAINTY, FISCAL CONCERNS WEIGH ON DOLLAR

Rahman, Abdul Hamid A . Rahman, Abdul Hamid A.

FULL TEXT

KUALA LUMPUR, May 27 (Bernama) -- The ringgit opened higher against the US dollar today, buoyed by continued weakness in the greenback amid growing concerns over the United States' (US) fiscal trajectory and trade policy inconsistencies.

At 8.05 am, the ringgit rose to 4.2050/2250 against the US dollar compared with Monday's close of 4.2155/2220.

Bank Muamalat Malaysia Bhd chief economist Dr Mohd Afzanizam Abdul Rashid said the US Dollar Index (DXY) had extended its downward trend, falling to 98.934 points, as investors grew wary of the direction of US trade policy under President Donald Trump.

"The delay in implementing the 50 per cent tariff on European Union goods until July 9, 2025, signals uncertainty in the Trump administration's trade stance, undermining confidence in the US dollar.

"Furthermore, the expansionary fiscal measures, which are expected to widen the US fiscal deficit and increase national debt levels, have further weighed on sentiment towards US assets," he told Bernama.

Mohd Afzanizam said that against this backdrop, emerging market currencies, including the ringgit, continued to appreciate, supported by improving capital inflows and better risk appetite.

"Market trends suggest the ringgit could maintain its positive momentum in the immediate term, especially if the US maintains its current policy tone," he said.

The ringgit traded higher against a basket of major currencies at the close.

It gained vis-à-vis the euro to 4.7903/8131 from 4.7972/8046, rose against the British pound to 5.7058/7329 from 5.7175/7263, and expanded versus the Japanese yen to 2.9500/9643 from 2.9506/9553 on Monday.

The local note also traded higher against its ASEAN peers.

It improved against the Singapore dollar to 3.2757/2915 from 3.2826/2879, strengthened against the Thai baht to 12.8992/9745 from 12.9231/9466, advanced vis-à-vis the Philippine peso to 7.58/7.63 from 7.60/7.62, and appreciated against the Indonesian rupiah to 258.7/260.1 from 259.4/259.9, previously.

-- BERNAMA

TAGS: Ringgit, US dollar, Mohd Afzanizam Abdul Rashid, Fiscal, Policy

AHAR AHAR SPSA

DETAILS

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LINKS

Free Expression: Congress Sleeps Through an Economic Wake-Up Call

Baker, Gerard . Baker, Gerard.

ProQuest document link

FULL TEXT

Only two men will be able to look back with real satisfaction on the role they played in the passage last week of the One Big Beautiful Bill Act, the House's attempt at implementing most of President Trump's fiscal agenda.

The first is Speaker Mike Johnson, who again showed that there may be no more proficient cat-herder in the country.

Leading a fractious Republican caucus that enjoys -- if that's the word -- a majority of a mere handful over a mostly united Democratic opposition, and under threat for more than 18 months that one false move would cost him his job, Mr. Johnson prevailed again. The speaker has compared himself to Moses, leading his harried tribe through the Red Sea. A better analogy might be Jason, repeatedly piloting his Argonauts between the Scylla of Trumpian disapproval and the Charybdis of popular distrust.

The second is Rep. Andrew Garbarino (R., N.Y.), who fell asleep in the small hours while the vote was being taken, according to Mr. Johnson, and missed the final roll call. Having been in a state of unconsciousness when the measure passed may save him from having played his part in a monstrous act of economic mismanagement.

The bill's many defects have been well rehearsed on these and other pages: the fiscal incontinence that will see the addition of $3 trillion to the government's $36 trillion in debt in the next 10 years; the failure to produce anything more than an exiguous reversal of the spending extravaganza of the past five years, with cuts of less than 2% of projected outlays over the next decade; the re-complexification of the tax code that the 2017 Tax Cuts and Jobs act had admirably simplified, with a smorgasbord of new deductions and exemptions; the reward for Democrat-run states' profligacy represented by the quadrupling of the state and local tax deduction. It is no golden fleece that Jason and his crew have brought home.

But the specifics of the measure are less important than the overall picture of political dysfunction and economic ineptitude. Instead of doing its part to facilitate the better parts of Mr. Trump's economic ideas and acting as constitutional ballast against the bad parts, Congress is diluting the good stuff and doubling down on the madness. So bigger tax cuts driven by the pursuit of narrow short-term political advantage, allied to minimal spending restraint, are unfolding alongside the administration's ruinous (and almost certainly unlawful) global trade and international economic policies.

All of this casts bigger doubt on the durability of America's unique model of market-driven, innovation-led, private-sector-generated growth. We are witnessing all the signs of advancing economic derangement at the public-sector level: policy unpredictability, fiscal disorder and erratic interventionism on the shifting whims of a mercurial leader. This great republic is moving steadily up the steep curve of the banana.

We have a president who makes radical changes to tariffs based on economically dim views about international trade, who then changes and unilaterally changes them again with no notice or consultation, who believes he has the authority to tell companies like Walmart what they should be charging their customers and companies like Apple exactly where and how they should source their production, who seems intent on discouraging the brightest minds in the world from coming to the U.S., where they have contributed to America's world-beating success in science, technology, innovation and entrepreneurship for decades.

We have a Congress that unilaterally surrenders its constitutional responsibility over much of this policymaking and weighs in happily to compound the problem with politically expedient and economically reckless contributions of its own.

And yes, before you object, this after four years of a Democratic administration with a complaisant Congress that seized the opportunity presented by a dementia-disabled president to advance its own radical and economically ruinous goals.

In 2025 the value of the U.S. dollar has declined by almost 10% against other currencies. Since "Liberation Day," the interest rate investors demand to hold the safest of risk-free assets, 10-year U.S. government debt, has risen by half a percentage point to 4.5%. The spread between U.S. and German 10-year bond yields has increased by almost a full percentage point this year. This is a reflection of rising concern about U.S. fiscal sustainability as well as an attempt by markets to price the cost of policy uncertainty, capricious governing and instability.

For the past decade, American business has enhanced its advantage over the rest of the world, innovating in artificial intelligence, biotech and finance, boosting its productivity. Most of that has been achieved not because of policy but in spite of it. If investors begin to see American private-sector Gullivers tied down by political Lilliputians, our economic powerhouse constrained by erratic, unstable and obstructive government, the threat to American supremacy is real. Lawmakers may want to stay awake for that.

By Gerard Baker

DETAILS

Subject:	Tax cuts; Politics; Fiscal policy; Economic policy; Economic conditions
Business indexing term:	Subject: Tax cuts Fiscal policy Economic policy Economic conditions
Location:	United States--US
People:	Garbarino, Andrew; Johnson, Mike
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LINKS

RINGGIT ENDS HIGHER AGAINST GREENBACK AMID CONTINUED CONCERNS OVER US FISCAL POLICY

DURRATUL AIN AHMAD FUAD . DURRATUL AIN AHMAD FUAD.

ProQuest document link

FULL TEXT

KUALA LUMPUR, May 23 (Bernama) -- The ringgit closed higher against the US dollar and other major and regional currencies on Friday as the greenback remained weak amid continued concerns over US fiscal policy.

At 6 pm, the local note jumped to 4.2285/2345 versus the US dollar from yesterday's close of 4.2705/2765.

Bank Muamalat Malaysia Bhd chief economist Dr Mohd Afzanizam Abdul Rashid said the US House of Representatives' approval for a sweeping tax and spending bill has added to worries over the credit outlook of the United States. "This corresponds with the recent sovereign rating downgrade by Moody's Ratings," he told Bernama.

The ringgit traded higher against a basket of major currencies at the close.

It appreciated against the British pound to 5.7072/7153 from 5.7212/7292 yesterday, gained vis-à-vis the euro to 4.7985/8053 from 4.8218/8286, and went up versus the Japanese yen to 2.9502/9546 from 2.9768/9812.

The local note also traded higher against its ASEAN peers.

It improved against the Singapore dollar to 3.2891/2940 from 3.3061/3110 yesterday, strengthened against the Thai baht to 12.9744/13.0012 from 13.0000/0254, and advanced vis-à-vis the Philippine peso to 7.65/7.66 from 7.68/7.69.

The ringgit increased against the Indonesian rupiah to 260.7/261.1 from 261.5/262.0.

-- BERNAMA

TAGS: Ringgit, US dollar, Bank Muamalat, Mohd Afzanizam Abdul Rashid

DAAF DAAF TKB

DETAILS

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LINKS

The Senate Can Improve the House Bill

ProQuest document link

FULL TEXT

House Republicans passed their giant tax and budget bill Thursday, a political triumph for Speaker Mike Johnson despite its policy disappointments. The House bill had to pass because the alternative was a GOP failure to govern, but the Senate now has a chance to make it better.

The House version does include some policy gains, notably preventing a $4.5 trillion tax increase next year if President Trump's 2017 tax cuts expire. Lower tax rates for individuals are made permanent. The measure would restore full expensing, which encourages business investment, albeit only through 2029. The bill also doesn't disturb the 21% permanent corporate tax rate, which was the crowning achievement of 2017.

The bill's tax and Medicaid provisions are absorbing media oxygen, but there are brighter spots elsewhere. The $150 billion infusion for national defense is sorely needed. The bill's billions for building ships could be a life raft for a shrinking U.S. Navy, if paired with presidential leadership.

There is some modest welfare reform that cements the GOP as the only party still defending America's work ethic. The bill tightens food-stamp work requirements and asks able-bodied adults, including parents with school-age children, to work or volunteer part-time.

The bill also aims to limit the federal government's student loan buffet and hold colleges more accountable for student outcomes. One provision that has received little attention is an expansion of health-savings accounts that Americans like and allow more individual choice in health spending.

Elsewhere, the policy potpourri is disappointing. On Medicaid, Chip Roy and other conservatives were able to move up the work requirement to 2026 from 2029. But House Republicans couldn't find the courage to fix Medicaid's core dysfunction, which is that the feds pay a larger share of the cost for covering able-bodied adults than for pregnant women.

The House did add a late provision allowing certain higher payment rates for states that have declined the ObamaCare bribe to expand Medicaid. The hope is that the fillip, plus the bill's attempt to crack down on state Medicaid financing scams, will dissuade the 10 state holdouts from taking the cash bait.

The conventional wisdom is that Medicaid reform is a heavier lift in the Senate, but some GOP lawmakers in the upper chamber know it's risky to touch a health entitlement without fixing the real problems. The Senate can say the feds will only pay 80% of costs for able-bodied adults on Medicaid thanks to the Affordable Care Act. That's an improvement over the current 90% and politically defensible. Plow some of the savings into Medicaid payments for low-income kids and the disabled to rebut willful distortions from Democrats and GOP Sen. Josh Hawley.

The House's right flank also extracted a faster phase-out of the Inflation Reduction Act's rich tax credits for solar and wind. Projects will have to begin construction within 60 days of the bill's enactment to qualify for the subsidies. The original bill allowed credits as long as projects began operating by 2031.

Alas, the bill will quadruple the deduction for state and local taxes, to $40,000 for those making less than $500,000. The $10,000 cap was a triumph of 2017 and a Republican ambition for decades. What a pity to watch the GOP undo its own success. The GOP couldn't resist this demand by Members from high-tax states after loading the bill with special favors for seniors, tipped income, overtime and, worst of all, interest on car loans. Senators have much less stake in SALT and can trim the deduction.

Another job for the Senate: Make business expensing permanent. The Senate could also scrap the carve-out for tipped income or overtime. These do nothing for growth, and the President could still declare victory if he gets one of them.

The House budget bill was always going to be imperfect with such a narrow GOP majority. But its roughly $1.5 trillion in spending reductions, permanent lower tax rates, modest welfare and student loan reforms, and a boost for atrophied U.S. military defenses would never have happened under a President Kamala Harris and Democratic Congress.

The House bill misses many reform opportunities and won't produce the growth and rising incomes of the 2017 bill. But Washington these days is a world of least bad alternatives, and the Senate can improve the result.

DETAILS

Subject:	Tax rates; Student loans; Medicaid; Patient Protection &Affordable Care Act 2010-US; Tax increases; Fiscal policy; Federal budget; Federal legislation
Business indexing term:	Subject: Tax rates Medicaid Patient Protection &Affordable Care Act 2010-US Tax increases Fiscal policy Federal budget
Location:	United States--US

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LINKS

Treasurys Stabilize After Tax Bill Clears House

Barnato, Katy; Langley, Karen . Barnato, Katy; Langley, Karen.

ProQuest document link

FULL TEXT

The bond market showed signs of stabilizing Thursday after the House passed President Trump's sprawling tax-and-spending package. Major stock indexes were mixed, while bitcoin prices rose to a record.

Treasury yields, which move inversely to prices, slipped. The benchmark 10-year yield edged lower to 4.551%. Its 30-year equivalent inched down but remained above 5%.

Before last-minute changes, the bill was expected to increase budget deficits by about $2.7 trillion over a decade.

Investors had expected to see "much more in terms of fiscal restraint," said Federal Reserve governor Christopher Waller.

Anxieties about the size of the forecast deficits, combined with Moody's Ratings stripping the U.S. of its last major triple-A credit rating, have pushed yields higher in recent days.

On Thursday, the S&P 500 and Dow Jones Industrial Average each declined less than 0.1%, with the Dow losing 1.35 points. The tech-heavy Nasdaq Composite added 0.3%.

The S&P 500 plunged after Trump's announcement of sweeping tariffs on April 2, only to rocket higher after the president said he had authorized a 90-day pause on certain tariffs to most countries. Stocks have remained volatile but generally continued higher.

"The market seems tired," said Andrew Slimmon, senior portfolio manager at Morgan Stanley Investment Management. "What has led the rally is the high-risk stocks. That's running out of steam."

New data showed an unexpected drop in existing-home sales last month, in the slowest April for the housing market since 2009.

On Wednesday the Dow fell 1.9% after a disappointing Treasury auction accelerated the bond selloff.

In Thursday's trading, health insurers declined after the Centers for Medicare and Medicaid Services said it would expand its auditing of Medicare Advantage.

Bitcoin reached $111,986.44, a new intraday high, extending a rally that gained extra momentum this week after the Senate voted to advance a bill aimed at regulating stablecoins. Trump will attend a gala dinner Thursday with the biggest holders of his $TRUMP meme coin.

Asian and European stocks retreated, echoing Wednesday's falls in the U.S. Eurozone business activity declined in May, despite Trump rolling back some tariff hikes, new data showed.

By Katy Barnato and Karen Langley

DETAILS

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LINKS

U.S. News: How Higher SALT Cap Will Affect Taxpayers

Ebeling, Ashlea; Rubin, Richard . Ebeling, Ashlea; Rubin, Richard.

ProQuest document link

FULL TEXT

Republicans' giant tax and spending bill aims to give people a bigger break for taxes they pay to state and local governments, but not everybody will benefit.

The bill would let some people deduct up to $40,000 on their federal returns for the property taxes on their homes, and state income or sales taxes. That deduction for state and local taxes, or SALT, would be four times the current cap of $10,000, though it comes with income limitations and other caveats.

The higher SALT cap would mean millions of mostly high-income taxpayers in high-tax states would save thousands of dollars off their taxes. The changes could go into effect for the 2025 tax year.

Whether you benefit comes down to whether you take the standard deduction or itemize deductions. Taxpayers typically choose whichever is higher, and the new SALT cap would change the equation for many people. Itemized deductions can include those for state and local taxes, mortgage interest, charitable contributions and medical expenses.

A modest-income older couple might find that the standard deduction still leaves them better off while a high-earning single person might find itemizing and claiming the higher SALT deduction would now pay off.

"Some people are going to be able to itemize for the first time ever, just based on state income taxes alone," said Richard Pon, a CPA in San Francisco.

To help pay for the Trump tax cuts of 2017, Congress imposed a fixed $10,000 SALT cap, whereas before there was no cap. That law also raised the standard deduction and lessened the bite of the alternative minimum tax, which effectively limited SALT deductions for some top earners even before the cap. Many people ended up better off overall, though the cap proved to be unpopular in high-tax states such as New York and New Jersey.

The issue became a sticking point when Congress began negotiating an extension of the 2017 tax cuts, sparking disagreements between Republicans in high-tax states and Republicans who see a higher SALT deduction as a subsidy for state governments. The bill must now go to the Senate, where none of the highest-taxed states are represented by Republicans.

Some of the very highest earners would get a tax hike under the House bill. It would eliminate a state workaround that some high-income service business owners have been using that essentially lets them take unlimited SALT deductions. While eliminating the workaround for service-business owners, the House bill preserves it for many other business owners, such as manufacturers.

The higher SALT cap would also start phasing down once income reaches $500,000. The phaseout range ends at $600,000, when taxpayers would again face the $10,000 cap.

The bill also includes a new limitation on SALT deductions. People in the top 37% tax bracket would only get the deduction at a 32% rate, so that a $10,000 state tax bill would reduce federal taxes by $3,200 instead of $3,700.

For married couples, the SALT cap is the same as it is for single taxpayers. Yet they get a doubled standard deduction, so it is harder to get over the threshold where itemizing state and local taxes makes more sense than the standard deduction. That is especially true for couples where both spouses are 65 or older as they get an additional senior deduction, $1,600 each for 2025.

About nine out of 10 taxpayers take the standard deduction today, according to the Internal Revenue Service. "They send me all the stuff: charity receipts, the 1098 for the mortgage, the summary of their real estate taxes, and it is like, 'Sorry, you end up with the standard deduction,' " said Richard Shorin, a CPA in Ambler, Pa.

By Ashlea Ebeling and Richard Rubin

DETAILS

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LINKS

Why Project 2025 Has Wild Horse Lobby in a Frenzy --- Conservative policy blueprint appears to call for a culling of Western horse populations

Martinez, Xavier . Martinez, Xavier.

FULL TEXT

In August, Hollynn Larrabee purchased a copy of the nearly 1,000-page Project 2025 policy book. On page 528, she found herself staring down a call to arms against her beloved wild horses.

The three-paragraph passage -- penned by William Perry Pendley, acting director of the Bureau of Land Management during Trump's first term -- argued that wild horses were overrunning Western rangelands. It called on Congress to let the BLM "dispose humanely" of some.

"It made me physically ill," said Larrabee, a 54-year-old emergency physician living in Sandy, Utah. She adopted three horses -- Stardust, Shaman and Santana -- from a nearby wild horse range, in part because of the passage.

Equine industry publications have also raised hay. "Under Project 2025, Will the Nation's Wild Horses be Safe?" blared an April headline from Thoroughbred Daily News.

It isn't clear whether the government would kill a large portion of the wild horse population. A spokeswoman for the Interior Department said the agency "remains committed to sustainably managing wild horse and burro populations on lands we manage." It didn't list euthanasia among anticipated management strategies.

Pendley didn't respond to a request for comment. He has previously called the horses an "existential threat" to public lands.

Advocates argue the animals are icons of America's untamed West, and polls show public support for them is strong. Congressional lawmakers this month formed a bipartisan Wild Horse Caucus, focused on promoting "humane policies" to care for and manage wild horse populations.

Still, advocates want to put the proposal safely out to pasture. They are lobbying lawmakers, meeting with DOGE operatives and bolstering educational campaigns.

Linda Greaves has taken to regularly renting a pickup truck with a mounted billboard emblazoned with "Save America's Wild Horses." She displays it in prominent locations around Washington, D.C. -- catching the eye of some congressional aides.

Greaves, a life coach, estimates she now spends as many as 40 hours a week on wild horse advocacy, including visits to Capitol Hill from her home in Great Falls, Va.

The debate over wild horses has roiled state and national politics for decades. The government estimates roughly 73,000 wild horses roam on public land today -- nearly triple the number it says is sustainable. Federal officials corral thousands of the horses each year, saying they overgraze on grass needed by cattle and disrupt native wildlife.

Maintaining these populations is costly. The BLM is barred from euthanizing most of the horses, making many of them government wards for life. Currently, 62,000 live in holding facilities. The agency spent $153 million on its horse program in fiscal 2024; two-thirds of it went to caring for those horses.

Last month, four wild horse proponents met with Department of Government Efficiency staff at the Interior Department headquarters in Washington, according to people who attended. Their argument: the overpopulation narrative is overblown and the roundups, often using helicopters, unnecessary.

"You would hope that, somewhere, someone in DOGE would see this archaic, inhumane way that we round up horses and say, 'This is truly ridiculous,'" said Chris Kman, who lobbied to prevent the removal of about 200 horses from

North Dakota's Theodore Roosevelt National Park last year.
The advocates brought a 33-page bound booklet detailing program costs, cruelty claims and their suggested alternatives. One recommendation was to move cattle, which they say put more stress on the land than horses, to private rangeland.
DOGE aide Matt Luby didn't confirm that the government was considering the Project 2025 proposal, attendees said. But he didn't reassure them, either. They said he referred to himself as the CFO of the federal government. He asked questions about the horses' monetary value, whether they were a native species and whether there is an overpopulation problem.
"His questions felt like he had his mind made up," said Britta Hesla, who lobbies on behalf of Horse Plus Humane Society.
The group left the meeting without receiving commitments from Luby. Hesla plans to try to score another meeting when she returns for a horse conference in June.
Luby didn't respond to a request for comment.
"How do you quantify the value of nature?" asked Greaves, who was at the meeting. "It's priceless; you can't put a dollar sign on it."
Though the Trump administration has distanced itself from the Heritage Foundation's policy blueprint, many of the president's executive orders have aligned with its recommendations.
Many political consultants consider support for the culling of wild horses to be political suicide.
At Doug Burgum's confirmation hearing for Interior Secretary in January, Sen. John Hoeven (R., N.D.) asked the former North Dakota governor to reiterate his commitment to wild horse populations, particularly in Theodore Roosevelt National Park.
Burgum, a fellow horse lover, agreed and added: "For the record, people should know that as popular as Sen. Hoeven is in our state, the horses in the national park have even more followers on social media than he does."
Advocates aren't taking any chances. Hesla, who has lobbied on Capitol Hill since 2016, attended 15 meetings with congressional staffers during a two-day advocacy spree in March. She plans to continue the push.
With no confirmed BLM director, she is on high alert for any policies that would affect America's horses. "If they go through with this, it's going to be war," Hesla said.
By Xavier Martinez

DETAILS

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LINKS

President Tells GOP Dissenters To Drop Objections --- Trump signals waning patience with opposition over Medicaid, SALT cap

Beavers, Olivia; Hughes, Siobhan . Beavers, Olivia; Hughes, Siobhan.

ProQuest document link

FULL TEXT

WASHINGTON -- President Trump turned the screws on holdout Republicans, warning they would pay a steep political price if they stood in the way of the multitrillion-dollar tax and spending agenda that party leaders want to pass quickly through the narrowly divided chamber.

In a closed-door meeting Tuesday with the House GOP conference, the president urged fiscal conservatives to give up efforts to expand Medicaid cuts and a bloc of moderates to be measured in their demands for further blue-state tax relief, pushing them to unite around his "one big beautiful" budget bill, according to people familiar with his comments.

"Don't f--- around with Medicaid," Trump said, according to attendees.

House Speaker Mike Johnson (R., La.) has said he wants to vote on the package as soon as Wednesday and no later than the coming Memorial Day weekend. But holdout lawmakers said sticking points remained and could force changes to the bill or delays in voting despite Trump's arm-twisting.

Late Tuesday, House GOP leaders and Republicans from high-tax states neared an agreement on a further boost to the state and local tax deduction.

The overall package funds a series of promises Trump, a Republican, made on the campaign trail. It would extend his 2017 tax cuts and make new ones like no taxes on tips, as well as boost border spending and repeal climate tax credits. He warned that taxes would rise for many U.S. households if Congress fails to extend the provisions from his first term and that Republicans who opposed the bill could face primary challenges.

"What Republican would vote for that? Because they wouldn't be a Republican much longer. They would be knocked out so fast," Trump said before the meeting, arguing the party is united -- except for "one or two grandstanders."

He took aim at one House Republican opposed to the bill, saying Rep. Thomas Massie of Kentucky should be "voted out of office."

After the meeting, Trump said: "Anybody who didn't support it as a Republican, I would consider to be a fool."

Republicans can afford to lose only a handful of votes in the House, where they have a 220-213 majority. Democrats are united in opposition, saying the proposal cuts Medicaid to fund tax cuts for the wealthy. If the measure does pass the House, Republicans would be able to bypass the usual 60-vote threshold in the GOP-led Senate by using a fast-track process called budget reconciliation.

A senior White House official said Trump made clear he is losing patience with all holdouts. The president backs work requirements for Medicaid and the exclusion of unauthorized immigrants but doesn't want additional changes, the official said. Further increases to the cap on state and local tax, or SALT, deductions sought by Republicans in states like New York can be tackled in a future bill, the official said.

Some Republicans weren't sold but indicated a resolution could be near.

"The president, I don't think, convinced enough people that the bill is adequate, the way it is," said Rep. Andy Harris (R., Md.), chairman of the hard-line House Freedom Caucus, who has pushed for deeper cuts to Medicaid. "We're still a long ways away, but we can get there. Maybe not by tomorrow, but we can get there."

"We need a little more SALT on the table to get to 'yes,'" said Rep. Nick LaLota, a New York Republican. "What I want to do is provide a cap structure that makes my middle-class constituents whole." Later in the day, he said there had been progress. "We're now talking about numbers better than have been presented to us before," he said.

The bill would cut taxes by nearly $4 trillion through 2034, compared with doing nothing, while generating about $1.6 trillion in spending reductions and other deficit-reducing policies. Final official estimates aren't available, but the total effect on the deficit would expand it by about $2.7 trillion.

House Majority Leader Steve Scalise (R., La.) said recent changes to the bill, including accelerating Medicaid work requirements, could push the total spending cuts and savings in the bill up to $1.7 trillion. Scalise rejected calls by some lawmakers to keep debating.

"We'd be voting next February if some people got their way," he said at an Americans for Prosperity event on Capitol Hill on Tuesday. "It's time to close the deal and vote."

Some fiscal conservatives want even deeper and faster changes to Medicaid, which serves 70 million low-income and disabled people, to limit the growth of the deficit. But centrists and other Republicans warn that further cuts would hurt the party's chances of keeping the House majority in the midterm elections. On Sunday night, four conservative holdouts allowed the bill to proceed through the Budget Committee, but they said their concerns weren't fully resolved.

Some members are pressing the idea of cutting back on the share the federal government contributes to Medicaid. Johnson has repeatedly taken that idea off the table, but spending hawks said it needs to be part of the mix, citing rising budget deficits and saying that the matching rate is unfair to states that declined to expand Medicaid to cover more low-income people, as permitted by the 2010 Affordable Care Act.

A day earlier, Johnson held a series of meetings with various factions. He met with the Republican Main Street Caucus, where people familiar with the meeting said he was in listening mode, making notes on a writing pad as his GOP members raised issues with Medicaid and energy tax issues, including about nuclear power.

Johnson then jetted to another meeting, largely composed of House Freedom Caucus members and centrists, according to people familiar with this meeting. Johnson also met with the Republicans from New York who have been insisting on an increase in the SALT cap.

Inside the room Tuesday, Trump pushed Republicans holding out for better terms on SALT to accept the latest offer from Johnson, according to people in the room. The initial GOP proposal called for raising the cap to $30,000 from $10,000. People familiar with the discussions said a deal was near to set the cap at $40,000.

By Olivia Beavers and Siobhan Hughes

DETAILS

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LINKS

U.S. News: Trump Agenda Hangs on Tax Bill Success --- President pressures Republicans to pass legislation that is seen as a 'do or die'

Andrews, Natalie; Whalen, Jeanne . Andrews, Natalie; Whalen, Jeanne.

ProQuest document link

FULL TEXT

WASHINGTON -- President Trump's multitrillion-dollar economic agenda hinges on fractious GOP lawmakers who are at odds over the details of a tax package that could determine their fate in next year's midterm elections.

Trump is betting that the legislation will win over voters who are skeptical of his stiff tariffs, which threaten to raise prices for American consumers. The bill contains versions of his campaign-trail pledge to eliminate taxes on tips, overtime and Social Security benefits, and boosts the child tax credit.

The economic and political stakes are enormous. If Trump is able to secure passage of his "big, beautiful bill," he could take credit for delivering tax cuts ahead of the midterms. If the legislation falters, millions of voters could instead be focused on the economic fallout from his trade agenda. On top of that, many tax cuts put in place during Trump's first term would expire, triggering tax increases for many U.S. households.

The president is increasingly ratcheting up pressure on Republicans to fall in line. "We don't need 'GRANDSTANDERS' in the Republican Party. STOP TALKING, AND GET IT DONE!" Trump wrote on social media last week. On Tuesday, Trump traveled to Capitol Hill, where he echoed that message during a meeting with House Republicans.

"The bill is do or die. President Trump understands that. That's why he's on the Hill whipping votes and his staff is on full-court press," said Matt Whitlock, a former senior Republican Senate aide.

Democrats are rushing to define the bill as a giveaway to the rich, citing tax cuts for corporations and high earners in the package. The party is hoping to replicate its successful messaging from Trump's first term, when they convinced many voters that Republicans' 2017 tax-cut bill was a boon for the rich, ushering in Democratic gains in the House in the 2018 midterms.

"By always falling in line behind Trump, vulnerable House Republicans are sealing their fate by taking incredibly damaging votes, even if it hurts their communities," said Rep. Suzan DelBene (D., Wash.), who is leading Democrats' campaign arm.

Democrats' opposition to the bill centers on proposed cuts to Medicaid and to programs that provide food aid to low-income households, and they are readying an advertising campaign aimed at souring the public on the legislation. They charge that Republicans are cutting the social safety net to help fund tax cuts for the wealthy.

Republicans have a narrow majority in the House, and Speaker Mike Johnson (R., La.) can afford only three defections in his caucus to pass the legislation with all Democrats opposed. So far, a handful of conservative lawmakers have withheld their support, pushing for more cuts to Medicaid and spending, while lawmakers in vulnerable districts have pushed for more relief tied to state and local taxes.

Late Tuesday, House GOP leaders and Republicans from high-tax states neared an agreement on a further boost to the state and local tax deduction.

Johnson wants to pass the bill by Memorial Day weekend and send it to the Senate, where it will also need to navigate between fiscal hawks who want sharper spending reductions and moderates who worry about cutting too deep. Trump wants the bill to his desk by July 4.

The debate comes as the U.S. economy has remained remarkably resilient amid pressures created by Trump's trade policies. But consumer and business sentiment has soured markedly in recent months as many fear tariffs will increase prices and undermine global trade.

In the 2024 presidential campaign, Trump harnessed public frustration over inflation to build support for his candidacy. Since taking office, Trump's standing on the economy has fallen, following his decision to impose stiff tariffs on imports from dozens of countries. The move has roiled markets and spooked his Republican allies, prompting a series of walk-backs from the White House. But many of his tariffs remain.

Recent polls show voters are dissatisfied with Trump's handling of the economy and inflation. It is a change from his first term, when Trump repeatedly had an overall negative score for his job performance, but a favorable view on his handling of the economy.

Republican lawmakers and other allies of the president acknowledge privately that Trump may have just one shot to pass far-reaching legislation before Washington shifts to midterm campaign mode.

By Natalie Andrews and Jeanne Whalen

DETAILS

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LINKS

Fiscal Concerns Put Pressure On Dollar and Bond Market --- Yields on long-term Treasurys rise further after nation loses AAA rating

Goldfarb, Sam; Lang, Hannah Erin . Goldfarb, Sam; Lang, Hannah Erin.

ProQuest document link

FULL TEXT

The U.S.'s deteriorating fiscal situation is threatening to spoil Wall Street's good mood.

Investors sold U.S. government bonds and the dollar on Monday, after Moody's Ratings stripped the U.S. of its last triple-A credit rating late last week, citing large budget deficits and rising interest costs. Adding to the nervousness about the U.S.'s debt trajectory, the House Budget Committee advanced a tax-and-spending bill Sunday that is projected to add trillions of dollars to those deficits.

Though stocks ended the session higher, selling pushed up yields on longer-term Treasurys, which rise when bond prices fall. The yield on the 30-year bond briefly topped 5% before settling just below that threshold, still near its highest level of the year.

The yield gains extended a weekslong climb, fueled by a mix of receding recession fears, persistent worries about inflation and growing concerns that wider deficits will necessitate ever-larger bond auctions. A bigger supply of Treasurys can outstrip demand, forcing the government to pay higher interest rates to attract investors.

The size of recent budget deficits have been particularly alarming for investors. That is because they have come while the economy is strong, rather than in a recession, when tax revenue typically plunges and the government ramps up spending to revive growth and help the unemployed.

"If we're putting up deficits of this type now, what might it be like when the economy does run into any form of trouble?" said Christopher Sullivan, chief investment officer for the United Nations Federal Credit Union.

The yield on the 30-year Treasury bond settled at 4.937%, according to Tradeweb. That was up from 4.786% at the end of last year. The yield on the 10-year note settled at 4.473%, up from 4.437% Friday and less than 4.2% at the end of April.

The rise in yields has hardly slowed stocks, which have rebounded in recent weeks after the Trump administration walked back some aggressive tariff policies and investors' fears of a recession eased.

Still, investors are keeping a watchful eye on Treasury yields, which play a major role in determining borrowing costs across the economy. The S&P 500 rose 0.1% Monday, while the Dow Jones Industrial Average increased 0.3%, and the tech-heavy Nasdaq Composite was flat.

Heading into this year, many analysts argued that one of the biggest risks to stocks would be a jump in Treasury yields if Republicans passed tax cuts without offsetting their cost.

Those worries faded to the background when President Trump announced huge new tariffs on April 2, raising immediate concerns that the economy could be driven into a recession. But they have resurfaced lately, even before the Moody's downgrade, while the long-awaited tax-cut legislation has taken shape in Congress. After clearing its latest hurdle on Sunday, the House is expected to vote as soon as this week on a proposal that would extend expiring tax cuts, add some new ones and reduce spending on Medicaid and nutrition assistance. It is expected to increase budget deficits by about $3 trillion over the next decade, compared with a scenario where the tax cuts expire as scheduled Dec. 31.

The U.S. has a longstanding imbalance between the money it spends and what it collects from taxes. Publicly held federal debt stands at about $29 trillion, nearly double the level when Trump signed his original tax cut in 2017. Nearly $1 in every $7 the U.S. spends goes toward paying interest, more than the country spends on defense.

Fiscal concerns threaten to revive the "Sell America" trade that emerged last month, when investors worried that isolationist trade policies could lead to a global capital war that would result in foreign investors dumping U.S. assets, including Treasurys.

"It adds further fuel to the 'Sell U.S.' trade, and you're seeing that reflected," said Michael Arone, chief investment strategist at State Street Global Advisors.

"Investors are waiting and seeing what happens with policy; they're waiting and seeing what happens with interest rates," Arone said. "That's uncomfortable, and I think that's ultimately what is being reflected in markets."

Several investors noted that concerns about the U.S.'s fiscal standing have plagued investors for years without causing extended disruptions to stocks. They said factors including changes in trade policy are more likely to move markets in the short term.

"The market has no idea what to focus on, and it keeps having to shift," said Kevin Gordon, senior investment strategist at Charles Schwab. "Tariffs will probably still be number one on that list."

By Sam Goldfarb and Hannah Erin Lang

DETAILS

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LINKS

U.S. Fiscal Policy Meets Dimming Appetite for U.S. Assets -- Market Talk

ProQuest document link

FULL TEXT

0902 ET - Markets are getting "very nervous" because U.S. legislators are poised to lock in policy that will widen the budget deficit in coming years, while investors' appetite to buy U.S. assets is diminishing, Deutsche Bank's George Saravelos writes. This stance is leading to a combined drop in U.S. bonds prices and the dollar. "The persistence of this pattern would be a clear signal the market is losing its appetite to fund America's deficits and rising financial stability risks," Saravelos says. At the other extreme, is a fiscal stance that tightens too quickly, closing the deficit sharply but forcing the US into a recession and a deep Fed easing cycle, Saravelos says. "In this more conventional world, the dollar drops and bond yields rally at the same time," he says. The 10-year Treasury yield is at 5.547% and the WSJ Dollar Index falls 0.6%. (paulo.trevisani@wsj.com; @ptrevisani)

(END)

May 19, 2025 09:03 ET (13:03 GMT)

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LINKS

U.S. News -- Capital Account: Tax Code Gets MAGA Makeover

Ip, Greg . Ip, Greg.

FULL TEXT

A tax break for interest on auto loans is the sort of gimmick Republicans used to deplore. It favors one industry over others and encourages debt. All else equal, it means higher marginal tax rates, which are bad for growth. In 1986, the break disappeared from the tax code along with numerous other carve-outs as part of a sweeping reform signed into law by President Ronald Reagan.

Nearly 40 years later, the auto-loan tax break is back. It's part of the massive tax package House Republicans released this past week, though progress stumbled Friday on opposition by conservatives. Its return symbolizes how President Trump has rewritten Republican tax orthodoxy.

Trump promised the tax break, which will be limited to U.S.-assembled cars, to win auto workers' support. Like the bill's deductions for tips and overtime, and an expanded deduction for the elderly, it caters to Trump's electoral coalition.

These Make America Great Again-themed provisions aren't great economics. They violate the principle that people in similar financial circumstances should be taxed similarly. Why should workers who are eligible for tips or overtime have a lower tax rate than those who aren't? Why should a 65-year-old pay lower taxes than a 64-year-old?

They also fail to meet the traditional Republican definition of "pro-growth," which usually means broadly lowering rates to encourage work and investment.

Instead, they are likely to distort behavior: Employees might try to change jobs or hours to qualify for overtime; some establishments might encourage more tipping or alter job categories to reduce their wage bills; and car buyers might take out loans instead of leases.

But what MAGA tax policy lacks in economic grounding or ideological consistency, it makes up for in political potency. Its shrewdly populist appeal parries Democrats who are striving to campaign on economic populism. During the campaign, Democratic nominee Kamala Harris mimicked Trump's proposed tax break on tips.

Along with MAGA tax breaks, the GOP bill has a helping of MAGA tax increases aimed at constituencies in Trump's crosshairs. It goes after benefits for immigrants, especially those who entered the U.S. illegally, such as tax credits for children, education and health insurance. It taxes remittances they send to family members abroad. It boosts the tax on private foundation and university endowment income. It terminates tax credits for electric vehicles and renewable energy.

The bulk of the bill, of course, is about extending Republicans' 2017 tax bill. That law mostly constituted tax reform in the usual sense: It lowered marginal rates, especially on business, and partially paid for them by eliminating, narrowing or consolidating tax breaks.

The bill did as intended. The increase in paychecks from personal income tax cuts boosted growth in 2018, and economic research suggests the business provisions in time increased investment.

But the bill was never popular. Republicans went on to lose control of the House that fall.

In extending those parts of the bill scheduled to expire this year, Republicans made some MAGA-flavored changes. In 2017, they got rid of a costly and inefficient deduction for domestic production. Trump wanted a variant back: a reduced tax rate on domestic manufacturing. He didn't get that, but Republicans did revive a provision allowing immediate write-off of new equipment purchases and expanded it to new factories.

In 2017, Republicans drastically curtailed the deduction for state and local taxes, known as SALT. It was a three-fer: It raised money, simplified the tax system and punished Democratic-led states. But during the campaign, Trump, vying for votes in the Northeast, called for the break to be restored. The bill triples the deduction, but a handful of blue-state Republicans want more.

MAGA tax policy is populist, but it is Republican, not Democratic, populism. Republicans prefer to limit tax breaks to those who pay tax. They thus increased the maximum child tax credit by $500 for four years, but not the "refundable"

portion, which hands cash to families who pay too little income tax to get a full credit. (That was a centerpiece of the Biden 2021 stimulus.)
There is newfound enthusiasm on the "new right" for raising taxes on the rich, and even Trump has mused about a higher rate on millionaires. But his heart wasn't in it, and for now that's one red line Republicans won't cross.
So if Republicans extend existing tax cuts and tax breaks and create new ones, how will they pay for it? Mostly by borrowing; their much-ballyhooed cuts to Medicaid and food stamps won't be nearly enough.
Including those spending plans, the nonpartisan Committee for a Responsible Federal Budget estimates the deficit will rise from $1.8 trillion last year to $2.5 trillion in 2028 and, if provisions slated to expire in 2028 become permanent, $3.3 trillion in 2034. As a share of gross domestic product, the deficit would grow from 6.4% last year to 8% in a decade. Never before has the U.S. run such large deficits for so long.
So when it comes to saving future generations from debt, MAGA Republicans are much like mainstream Republicans and Democrats under President Joe Biden: They talk big about the dangers of deficits and debt while making them worse. The ones who have to pay aren't in anybody's coalition.
By Greg Ip

DETAILS

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LINKS

One Cheer for the House Tax Bill

ProQuest document link

FULL TEXT

The House Ways and Means tax bill is out, and it resembles the rest of Trump II economic policy: The best parts are from the first term, and the worst are from the second. The overall bill is largely a political document focused more on massaging a hundred constituencies than helping the economy grow.

The good news is that the bill makes much of the 2017 tax reform permanent, notably the lower income-tax rates across tax brackets. The best growth provision restores 100% expensing for equipment purchases, which was gradually phasing out, but only through 2029. It also expands bonus depreciation to new factories through 2028. Too bad these non-permanent provisions will inevitably steal some growth from the future.

Another piece of good news is that the 2017 reform's 20% deduction for small businesses that pay at the individual rate is made permanent and increases to 23%. The bill raises the estate tax exemption to $15 million and makes it permanent. With no cuts in tax rates, this is it for the growth provisions.

At least the committee resisted an increase in the top marginal income-tax rate. This was a close-run thing, and thanks to Newt Gingrich, Grover Norquist and the Club for Growth for defeating the JD Vance wing of the GOP. Vigilance will be needed because the taxers will try to add a higher rate later in the process to fund some favor for their special interests.

But the bill does raise the top marginal rate by stealth by limiting itemized deductions for the 37% top bracket, which kicks in at $626,350 for singles and $751,600 for couples. This echoes the Pease limitation on itemized deductions, which the 2017 tax reform wisely axed. Tax reform has typically meant trading fewer deductions for lower rates, but not with this crowd of Republicans.

One other silver lining is the elimination of the Internal Revenue Service's direct file program -- the agency's version of Turbo Tax that is championed by Sen. Elizabeth Warren. The bill also increases penalties for unauthorized disclosure of taxpayer information.

Alas, the rest is a hodgepodge of tax cuts for some groups, and tax increases for others. In that respect it's less a tax reform that simplifies the code than a tax version of a spending bill that redistributes income through the tax code. As with tariffs, the political swamp is open for business in a big way.
Start with new tax exemptions for tips and overtime pay for workers earning less than $160,000. Mr. Trump campaigned on both as he tried to buy working-class votes, but the biggest beneficiaries will be accountants and K Street. Wait for the lobbying bonanza as workers and industries try to take advantage of these carve-outs.
The bill limits the tip exemption to an "occupation which traditionally and customarily received tips before December 31, 2024." Do plumbers, electricians and personal trainers customarily receive tips? Treasury Secretary Scott Bessent will decide.
Republicans also include Mr. Trump's proposed deduction for interest on auto loans, which is a subsidy for the car industry. Perhaps Republicans hope the deduction will offset the cost of the President's auto tariffs. Don't be surprised if auto makers pass on more of their tariff costs via higher interest charged by their lending arms.
Seniors earning up to $75,000 will also get an "enhanced" $4,000 deduction, which is a pure vote-buying exercise, though preferable to Mr. Trump's mooted exemption for Social Security income. Note this is on top of the $16,000 standard deduction. All these tax breaks expire in 2028, which is intended to disguise their budgetary cost.
Republicans criticized Democrats for obscuring the cost of their Build Back Better bill's costs by phasing out the entitlement expansions and transfer payment increases after a few years. Now they are doing the same. The tax exemptions will invariably be extended, and you can bet Mr. Vance will campaign on them in 2028.
Ditto for the bill's new $1,000 government payments for babies born through Dec. 31, 2028. Such "MAGA accounts" would be another layer on the entitlement state, and Democrats will be all too happy to throw in more taxpayer money when they return to power.
That is the history of the child tax credit, which first passed in 1997 at $400 and Republicans are again expanding. Republicans would make the $2,000 child tax credit permanent and add another $500 through 2028. The child credit is income redistribution that does nothing to change incentives to work or invest.
The bill at least scraps the electric-vehicle tax credit and a handful of other Inflation Reduction Act tax credits. But the wind and solar tax credits don't phase out until 2029, and the 30-year history of these subsidies suggests they will be extended. The bill also extends a tax break for the ethanol industry and other biofuels producers through 2031.

An increased $30,000 deduction (from $10,000) for couples for state and local taxes (SALT) also begins to unravel one of the GOP's biggest achievements from 2017. The bill claws back some of the SALT benefit for couples who earn more than $400,000, another sneaky tax increase on high earners. The SALT caucus demands too much, but its Members look at the rest of the bill and say why not us? This is what happens when a tax bill becomes a Turkish bazaar.
Congress must pass a tax bill this year to avoid a $4.5 trillion tax increase, but the House price is a partial reversal of tax reform and a far more complicated code. Give it a single cheer.
(See related letters: "Letters to the Editor: Revisiting What Makes Tax Reform Successful" -- WSJ May 17, 2025)
(See related letters: "Letters to the Editor: The Child Tax Credit Can Put Parents to Work" -- WSJ May 30, 2025)

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LINKS

U.S. News: Duties Cut On Small Shipments From China

Vipers, Gareth; Huang, Jiahui . Vipers, Gareth; Huang, Jiahui.

ProQuest document link

FULL TEXT

The Trump administration said it would cut tariffs on low-value parcels from China to 54% from 120%, hours after Washington and Beijing agreed to a 90-day trade truce.

According to a White House executive order late Monday, the U.S. will slash the "de minimis" tariff on shipments from China, including Hong Kong, marking a further de-escalation in the simmering trade war between the world's two largest economies.

Under U.S. tax law, the de minimis exemption lets companies avoid import taxes and customs inspections on international shipments with a retail value of less than $800.

President Trump in February suspended the provision for China as part of an executive order imposing tariffs on the nation's imports, and imposed a tax of 120% of a package's value.

That order caused widespread confusion among e-commerce retailers and logistics operators, and prompted the U.S. Postal Service to temporarily stop accepting parcels from China. Trump later delayed the crackdown.

Use of the provision has ballooned with goods from bargain sites such as Shein and Temu. About 1.36 billion shipments using the provision entered the U.S. in fiscal 2024, up from 637 million four years earlier, according to U.S. Customs and Border Protection.

Trade barriers have led some exporters to raise prices or stop shipping to the U.S. Even with the planned cut, analysts are unclear if there will be much relief for Chinese e-commerce firms that do business in the U.S.

By Gareth Vipers and Jiahui Huang

DETAILS

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LINKS

U.S. News: GOP Unveils Tax Plan to Extend Cuts --- Initial version lifts standard deduction, but is silent on issues dividing party

Rubin, Richard . Rubin, Richard.

ProQuest document link

FULL TEXT

WASHINGTON -- The first public version of Republicans' long-awaited tax bill aims to put more money in Americans' pockets quickly in early 2026, extending President Trump's expiring tax cuts and adding some new twists that would boost many tax refunds next year and increase take-home pay.

The bill released late Friday would increase the standard deduction by $1,000 for individuals and $2,000 for married couples starting in tax year 2025, above and beyond the Trump tax cuts' expansion of that basic level where income taxes don't apply. The standard deduction is currently $15,000 for individuals and $30,000 for married couples.

The maximum child tax credit would increase to $2,500 from $2,000, also starting this year. Those changes would mean that many taxpayers who don't change their withholding would see larger-than-expected refunds in spring 2026. For a middle-income married couple with two children in the 12% tax bracket, that means a $1,240 tax cut for tax year 2025.

In addition, the proposal from the House Ways and Means Committee adds an extra inflation adjustment to tax brackets for tax year 2026 -- a benefit that would show up in smaller paycheck withholding in January.
The Ways and Means bill sets the stage for a Tuesday committee debate and vote. The tax package will be combined with other committees' ideas into Trump's "one big, beautiful bill," a giant package of spending cuts, tax cuts and new spending that the House is trying to pass this month.
Friday's bill is incomplete and will likely be changed substantially before the committee vote.
It is silent on some of the issues that are dividing Republicans, including the cap on the state and local tax deduction and the fate of clean-energy tax credits that Democrats created in 2022. It doesn't include the tax-rate increase for the highest-earning Americans that Trump has been floating in recent days.
The changes to the standard deduction and child credit wouldn't be permanent under the proposal, but they would have an immediate effect above and beyond maintaining the status quo.
The boosts would make it easier for Republicans to show Americans some benefit from tax cuts before the 2026 midterm elections. The extra tax cuts could also counter some of the effects of Trump's tariffs on consumers.
Lawmakers have been touting their plan as preventing an enormous tax increase, but many Americans who don't closely follow the tax law may be unaware of that looming threat.
Offering an additional tax cut that people can see early next year could make it easier to sell as Republicans try to defend their slim House majority.
"Pro-family, pro-worker tax provisions are the heart of President Trump's economic agenda that puts working families ahead of Washington and will create jobs, grow wages and investment, and help usher in a new golden age of prosperity," Committee Chairman Jason Smith (R., Mo.) said.
Democrats are expected to oppose the bill.
They argue that the tax-cut extensions give too much to upper-income households and warn that middle-income Americans would be hurt by the GOP plan's expected Medicaid cuts and by Trump's recent tariffs.
"Releasing this bill under the cover of darkness, omitting major provisions, the only marker that this is Republican marquee legislation are the tax cuts for billionaires," said Rep. Richard Neal (D., Mass.), the top Democrat on Ways and Means.
The bill also includes few of the potential tax increases that Republicans have been considering, and has no mention of such ideas as higher taxes on university endowments, limits on deductions for executive pay and caps on businesses' ability to deduct state and local taxes.
It doesn't yet include versions of Trump's desired proposals, such as faster write-offs for factory construction projects and removing taxes on tips, overtime pay and Social Security benefits.
The bill does include a permanent extension of higher estate-tax exemptions, setting that at $15 million per person in 2026 and indexing it to inflation.
It would also permanently extend the deduction for certain closely held businesses that pay taxes through their owners' individual returns, boosting that break to 22% from 20% while changing some rules. The top tax rate on that income from closely held businesses would drop to 28.9% from 29.6%.
Multinational companies would avert tax increases on certain foreign profits and some income from U.S. exports.
The plan also retains some key limits on deductions that Congress created in 2017, such as a rule that caps at $750,000 the amount of mortgage debt that can generate deductible interest.
It would permanently repeal miscellaneous itemized deductions, such as legal fees and unreimbursed business expenses. Moving expenses in most cases would remain nondeductible.
The nonpartisan Joint Committee on Taxation didn't release revenue estimates on Friday. That -- plus the incomplete nature of the plan so far -- makes it hard to tell immediately how the bill might fit within a fiscal constraint that is likely to be $4 trillion over a decade.
Although the bill would make some tax cuts permanent, it schedules some to lapse in a few years, a move that lowers the headline cost but sets up expirations for a future Congress to address.
For example, the extra standard deduction lasts only through 2028. So does the $2,500 child credit, which would drop

to $2,000 in 2029 and then increase with inflation.
By Richard Rubin

DETAILS

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LINKS

U.S. News: House Republican Puts Tax Bill at Risk --- Bacon objects to deep Medicaid cuts and doesn't buy leaders' assurances

Beavers, Olivia . Beavers, Olivia.

ProQuest document link

FULL TEXT

WASHINGTON -- Rep. Don Bacon has become known as a rare House Republican who regularly criticizes President Trump's actions. Now his vote could be crucial to Trump's tax plans.

The Nebraska centrist is warning that House GOP leaders are putting battleground members like him in a particularly precarious political position -- and imperiling the GOP majority in the next elections -- if they opt to make deep cuts to Medicaid to help pay for the president's "big, beautiful" bill that extends 2017 tax cuts and add new breaks.

Bacon, 61 years old, is on board with enacting money-saving work requirements on able-bodied users and more frequent eligibility checks for the health-insurance program, which serves low-income and disabled people. But while the House Energy and Commerce committee is looking for nearly $900 billion in reductions over 10 years, largely from healthcare, Bacon says taking any more than $500 billion from Medicaid is too much. And he says some Republican leaders have privately tried to get him to drop his objections by saying any steep reductions passed by the House would be blocked by the Senate anyway.

"Here's the tactic they've been using: 'Don't worry about the Senate. They'll fix it.' And now we're getting ready to take our third vote on this," Bacon said in a recent interview, referring to earlier steps in the budget process. "We feel like we're being pushed up to the edge of the cliff here."

During Trump's first 100-plus days, Bacon has spoken out against the administration over tariffs, how the U.S. has treated its allies, the president's statements about Ukraine and Defense Secretary Pete Hegseth's handling of sensitive information on Signal, among other issues. He said he plans to vote against a Republican bill backing Trump's renaming the Gulf of Mexico as the Gulf of America.

After the Liberal Party staged a come-from-behind win in the Canadian elections, he quipped: "The president has made liberals great again in Canada."

When a news headline mentions a Republican objecting to something Trump has done, odds are it is Bacon -- and some colleagues grumble he is too eager to engage with the press. Party leadership "has asked me to try to tone it down a little bit, and I want to be respectful," he said. Asked if he is going to listen, Bacon replied with a laugh: "Well, I say I could do a lot more. I've been looking for opportunities not to have the opportunity."

The former public-affairs aide for Gen. David Petraeus said he has narrowed down his TV appearances to two out of 20 requests a week, while fielding 30 to 40 daily texts from reporters. He has taken back stairwells to get from his office to the House floor to try to avoid the media.

"I don't want to be too predictable, so you got to mix up which doors you're going out of," he said.

Trump has held off on criticizing Bacon amid the budget fight. Republicans see him as holding a crucial seat in a district that would otherwise be in Democratic hands. Trump endorsed Bacon in the 2024 general election.

Bacon's hard line on Medicaid comes as Speaker Mike Johnson (R., La.) and his leadership team are working to pull together disparate wings of the GOP. Johnson has both assured conservatives they will get at least $1.5 trillion in overall cuts, while also telling Medicaid defenders that the program will be protected in the final product. Critics say both can't be true.

Bacon argues there are about 20 other GOP members who feel similarly about defending Medicaid, more than enough to sink the bill in the House, where Republicans have a 220 to 213 majority.

Some Republicans say Bacon's line is wrongheaded.

"I think that his position is ridiculous," said conservative Rep. Eric Burlison (R., Mo.). "He's got a fixed number. But what if you found out that there's $500 billion in savings. . .and he says, 'Oh, no, I'm committed only to cutting $300 [billion].' That is an illogical decision."

Some front-liners have told leadership directly that they won't vote for the bill until it is negotiated in advance with the Senate and the White House. The vulnerable members fear House leaders are effectively forcing them to walk the plank -- making them take a vote that will be used against them on the 2026 campaign trail -- to push the Senate further to the right, a House Republican said.

In past votes on the budget, GOP leadership urged centrists to vote for the framework, arguing that they would be able to make a final policy call later, when the details were inked. The House Energy and Commerce Committee, which oversees Medicaid, is tasked with finding $880 billion in savings.

Those details are being written now in the final sprint to wrap up the budget-reconciliation process, which allows Republicans to bypass the Senate's typical 60-vote threshold, by Memorial Day weekend. Trump wants to sign the package into law by July 4.

By Olivia Beavers

DETAILS

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LINKS

U.S. News: Trump's Tax Cut Tied to Tariffs Doesn't Add Up

Rubin, Richard . Rubin, Richard.

ProQuest document link

FULL TEXT

WASHINGTON -- President Trump suggests tariffs can replace income taxes for most Americans. One big problem: The math doesn't work.

Trump has teased the notion of linking his tariffs with major income-tax cuts, floating a huge change in how the government raises revenue and offering voters worried about tariffs a promise of future benefits. This would expand his agenda beyond extending his expiring 2017 tax cuts and ideas such as "no tax on tips," which will be central parts of a bill being crafted in Congress now.

"When Tariffs cut in, many people's Income Taxes will be substantially reduced, maybe even completely eliminated," he said on social media. "Focus will be on people making less than $200,000 a year."

Trump's statements point to a central riddle of his trade agenda -- whether the point of higher tariffs is raising money or gaining leverage to strike deals with trading partners. But even if Trump left high tariffs in place, the revenue wouldn't come close to the amount raised by income taxes for people making under $200,000.

Republicans are trying to get the president's tax bill written soon, aiming for a House vote as soon as next month. They hope to finish by July 4, Treasury Secretary Scott Bessent said Monday. The plan will likely extend expiring tax cuts -- for all income groups, not just those under $200,000 -- and lower taxes even further for targeted groups such as tipped workers and Social Security recipients. That legislation is also expected to reduce spending on Medicaid and federal food assistance.

Trump and Republicans aren't actually replacing the income tax with tariffs, but in very broad strokes, they are heading in that direction, lowering one and raising the other. Depending how the bill is written, some people could be pushed off the income tax rolls.

"We're living the realistic version of this," said Brendan Duke, senior director for federal budget policy at the Center on Budget and Policy Priorities, a progressive group.

Here are four big reasons to be skeptical of claims that tariffs will replace taxes.

Not enough money

Trump's current suite of tariffs would generate $167 billion this year, assuming his Liberation Day levies return in full after a pause ends, according to the Tax Foundation, a conservative group that favors lower tax rates and fewer tax breaks.

That is a huge jump in tariff revenue, one that is causing market and economic ripple effects, and it still wouldn't be nearly enough to eliminate income taxes on people making below $200,000. In 2022, the bottom 90% of households -- those with adjusted gross incomes below about $179,000 -- paid about $600 billion in individual income taxes.

"This idea has been debunked thoroughly by people on the left, by people on the right, by anyone who can do math," said Erica York, vice president of tax policy at the Tax Foundation.

Trump also argues that tariffs would lead to a surge in domestic investment that would create jobs and revenue. That is backward, York said, because the negative economic costs of tariffs outweigh any benefits.

Tariffs on, tariffs off

Trump's emphasis on tariffs as a revenue source runs smack into his use of tariffs to get other countries to the negotiating table.

Tariffs that get imposed and then removed or lowered after a trade deal can't be a stable revenue source.

"It's all totally self-contradictory," Duke said.

Bessent said the revenue will depend on what the U.S.'s trading partners want to do.

"If they don't want to lower their tariffs, if they don't want to lower their non-tariff barriers, if they don't want to stop manipulating their currencies, then our tariffs will be higher," he said.

Who pays or doesn't

One important feature of the federal income tax is that tens of millions of households already don't pay it.

In 2022, about 40% of households didn't pay federal income tax, according to the Tax Policy Center. That is because they are retired or disabled or otherwise don't make enough money to exceed the standard deduction.

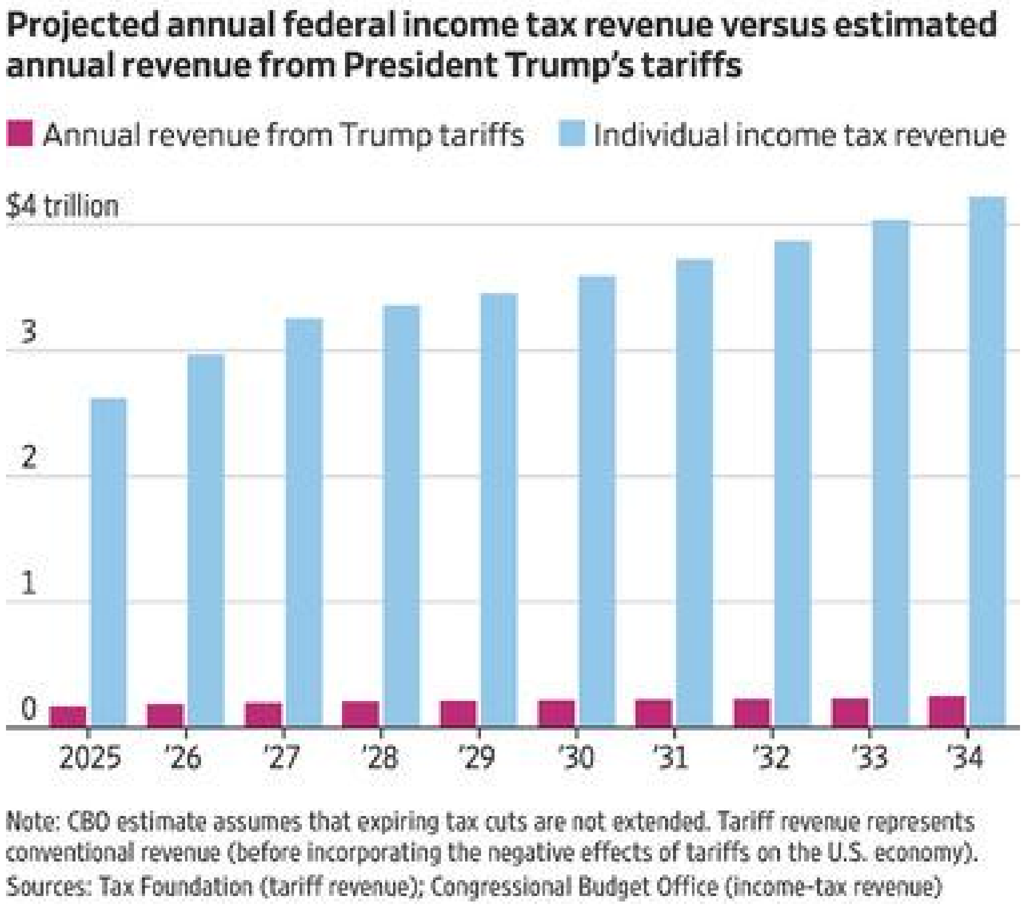
Many lower-income households actually get net refunds from the income tax.

Tariffs, on the other hand, ultimately apply to anyone who purchases consumer goods. Put another way, swapping income taxes for tariffs means trading a tax that some people pay for a tax that almost everyone does. That shifts the burden toward lower-income households.

The spending side

Trump often says a return to a government financed by tariffs would bring the U.S. back to the period before 1913, when the country amended the Constitution to authorize an income tax.

In that era, tariffs were a major revenue source -- but the government was far, far smaller. There was no Medicare, Medicaid, air-traffic control, nuclear weapons or space program.



Enlarge this image.

By Richard Rubin

DETAILS

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LINKS

U.S. News: These GOP Lawmakers Hold Key to Tax Bill

Beavers, Ol ivia . Beavers, Olivia.

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FULL TEXT

WASHINGTON -- Republicans pushed President Trump's "big, beautiful" tax and spending package closer to the finish line with votes this month approving a budget framework. But as lawmakers return to work this week, hard intraparty fights remain in writing and ironing out the multitrillion-dollar package.

Most GOP lawmakers are on board with the broader plan to extend expiring pieces of the 2017 tax law, introduce new tax breaks such as "no tax on tips," boost border spending and cut other government outlays. Speaker Mike Johnson (R., La.) wants to get the bill finished by Memorial Day. Still, fights are smoldering over the details, and several small groups of lawmakers have painted certain issues as nonnegotiable.

Republicans are using a process called budget reconciliation that requires a simple majority in both chambers, which allows them to pass the package without Democratic votes. With the Senate split 53-47 and a House divided 220 to 213, any small group of Republican dissidents can block the broader GOP agenda.

A group of so-called budget hawks have hinged their support of the president's reconciliation bill on the idea that the tax cuts must be paired with significant spending cuts. These Republicans are willing to allow some deficit increases because they assume that economic growth will cover some of the costs. But they have indicated that -- even though they have moved the process along so far -- they aren't automatic yes votes.

While government funding and federal spending battles often center on the pushback of members of the ultraconservative House Freedom Caucus like Reps. Chip Roy (R., Texas) and Andrew Clyde (R., Ga.), others are raising concerns as well. Rank-and-file Republicans like Reps. David Schweikert (R., Ariz.) and Lloyd Smucker (R., Pa.), a Budget Committee member, are among those also warning about a bill that would expand deficits too much.

It is a tough balance to strike. The House's budget calls for at least $1.5 trillion in spending cuts over a decade, with a goal of at least $2 trillion. The budget hawks say they are going to insist that the final bill hits those targets. Cuts that deep could clash with the desires of others in the party who would be comfortable with smaller reductions. So far, Johnson has privately told GOP holdouts that he plans to stick to the House budget instructions that require a minimum of $1.5 trillion.

One area likely to be targeted in the pursuit of steep spending cuts is Medicaid, a health-insurance program that covers more than 70 million people who are low-income and is a big part of state budgets and the healthcare economy. There is a bloc of Republicans warning that deep reductions in coverage will hurt constituents and make GOP efforts to keep the House majority more difficult in 2026.

Such members include Reps. David Valadao (R., Calif.) and Rob Bresnahan (R., Pa.), who are both in battleground district seats. And in the Senate, Sens. Susan Collins (R., Maine), Lisa Murkowski (R., Alaska) and Josh Hawley (R., Mo.) have opposed deep cuts.

A group of Republican lawmakers are vowing that their support for the Trump tax bill depends on raising the cap on state and local tax deductions, which was limited to $10,000 in 2017 as part of Trump's tax law.

Most of these lawmakers hail from states that have higher costs of living and property taxes, like New York, New Jersey and California. Reps. Nick LaLota, Mike Lawler and Andrew Garbarino of New York and New Jersey's Jeff Van Drew and Tom Kean Jr. are among those pushing strongly to address the issue, with some threatening to withhold their support from the GOP package if the cap isn't raised.

Some Republicans are suggesting the cap could be raised to $30,000 or more, but higher caps reduce revenue that could be used elsewhere.

"Our party needs Blue State Republicans' votes to pass reconciliation," LaLota said. "Our price will be a reasonable increase in the SALT cap -- it's a matter of fairness, political pragmatism, and simple vote math."

Republicans whose states and districts received billions in funding that went toward clean-energy projects through the Biden administration's Inflation Reduction Act are also warning party leaders against clawing back this funding and limiting tax credits that provide incentives. Such a clawback could be used to help offset the cost of other tax cuts, and Trump has repeatedly vowed to repeal the law.

Recently, Murkowski and Sens. Thom Tillis (R., N.C.), John Curtis (R., Utah) and Jerry Moran (R., Kan.) sent a letter to Senate Majority Leader John Thune (R., S.D.) detailing the fallout if the buzzsaw comes for the Inflation Reduction Act-

related investments.
These senators joined nearly two dozen House Republicans who have argued in favor of preserving some of the Biden-era green-energy tax credits. Those members include Garbarino as well as centrists like Reps. Don Bacon (R., Neb.), Jen Kiggans (R., Va.) and Mariannette Miller-Meeks (R., Iowa).
By Olivia Beavers

DETAILS

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LINKS

The High Cost of the Fed's Mission Creep

Warsh, Kevin . Warsh, Kevin.

ProQuest document link

FULL TEXT

Editor's note: The following are excerpts from a speech delivered on April 25 by Kevin Warsh to the Group of Thirty and the International Monetary Fund. Mr. Warsh was a member of the Federal Reserve Board of Governors, 2006-11, and is a distinguished fellow in economics at the Hoover Institution.

I was a member of the Federal Reserve Board of Governors more than a dozen years ago. Nothing about the period was easy. We made good calls and mistakes. Inevitably, the hardest question then -- and the most salient now -- was the Fed's role and responsibility.

After one particularly intense weekend that resulted in extraordinary policy support, former Chairman Paul Volcker commented that the Fed had gone "to the very edge of its lawful and implied power, transcending certain long-embedded central-banking principles and practices." We took that as a brush-back pitch -- high and tight -- from a strong institutional ally to his successors.

But Volcker's warning has gone largely unheeded. The Fed has assumed a more expansive role inside our government on all matters of economic policy.

In my view, forays far afield -- for all seasons and all reasons -- have led to systemic errors in macroeconomic policy. The Fed has acted more as a general-purpose agency of government than a narrow central bank. Institutional drift has coincided with the Fed's failure to satisfy an essential part of its statutory remit, price stability. It has also contributed to an explosion of federal spending. And the Fed's outsize role and underperformance have weakened the important and worthy case for monetary-policy independence.

U.S. fiscal policy is on a dangerous trajectory. Irresponsible spending surged, especially in the aftermath of the pandemic. I struggle to absolve the Fed of the nation's fiscal profligacy. Fed leaders encouraged government spending when times were tough but didn't call for fiscal discipline at the time of sustained growth and full employment. I'd prefer monetary policymakers to steer clear of fiscal commentary. But if the Fed chooses to cross the line, there should be real and rhetorical symmetry.

The Fed has been the most important buyer of U.S. Treasury and other federal debt since 2008. The Fed's $7 trillion balance sheet is nearly an order of magnitude larger than the day I joined. It's a proxy for the Fed's growing imprimatur on the economy.

I bear some responsibility for the creation of asset purchases, known more commonly as quantitative easing. In the 2008 crisis, we cut interest rates to near zero and sought new ways to make monetary policy looser and bring liquidity

to illiquid markets. I strongly supported this crisis-time innovation, then and now.
But when the crisis ended, the Fed never retraced its steps. I worried mightily in the summer and fall of 2010 -- a time of strong growth and financial stability -- that the decision to buy more Treasury bonds would involve the Fed in the messy political business of fiscal policy. QE2 was announced. I disagreed and resigned from the Fed soon after.
QE -- with some fits and starts in the 2010s -- has become a near-permanent feature of central bank policy. Members of Congress found it easier appropriating money knowing that the government's financing costs would be subsidized by the central bank. The line between the central bank and the ostensible fiscal authority has grown harder to identify.
Central bank vanities aren't limited to monetary policy. "Climate change" and "inclusion" are politically charged issues. The Fed has neither the expertise nor the prerogative to make political judgments in these areas.
A couple of examples: First, in late 2020 the Fed joined the Network of Central Banks and Supervisors for Greening the Financial System. The Fed said it is "active, and in many cases, plays a leading role in climate related work." Fast-forward to January 2025 -- in a somewhat different political environment -- and the Fed withdrew from the "greening" group, and changed its tune.
Second, in August 2020 the Fed announced a newfangled monetary-policy framework. In my view, the new regime was the Fed's "end of history" declaration that high inflation was vanquished and the dominant risk was that prices would be too low.
As part of the new regime, the Fed redefined its legislative remit of "maximum employment" as a "broad-based and inclusive goal." The new nomenclature of "inclusive employment" was understood to underscore the Fed's willingness to accept higher inflation so that certain groups would achieve higher rates of employment.
More recently, Fed leadership has sounded considerably more ambiguous whether the Fed's new definition of full employment was different from the old. If it's no different in practice, then was the new language simply a political nod? If the new definition is different, then shouldn't Congress have some say?
I should also note the Fed misjudged the economics: The steepest price of its new policy has been paid disproportionately by the supposed beneficiaries. The more the Fed opines on matters outside its remit, the more it jeopardizes its ability to ensure stable prices and full employment.
For about 40 years, Americans scarcely thought about changes in the price level. If the Fed's enviable track record of price stability had continued through this decade, central bankers may have been granted wider berth. But then the Fed foundered on fundamentals and inflation surged.
Stable prices were the Fed's plot armor. As in the movies, it was protection for the protagonist against those who would dare a challenge. The Fed's roving remit and grand ambitions, however, expanded its surface area and exposed its vulnerability even more.
Central-bank independence is more often cited than defined. Independence isn't a policy goal unto itself. It's a means of achieving important and particular policy outcomes.
Independence is reflexively declared when any Fed policy is criticized. Congress has granted important functions to the Fed in bank regulation and supervision. I don't believe the Fed is owed any particular deference in bank regulatory and supervisory policy. Fed claims of independence in bank matters undermine the case for independence in monetary policy.
And when the Fed turns away from its creed and tradition, exercising powers that are the province of the Treasury Department, or taking positions on societal issues, it further jeopardizes its operational independence in what matters most.
I strongly believe in the operational independence of monetary policy as a wise political economy decision. And I believe that Fed independence is chiefly up to the Fed. That doesn't mean central bankers should be treated as pampered princes. When monetary outcomes are poor, the Fed should be subjected to serious questioning, strong oversight and, when they err, opprobrium.
Our constitutional republic accepts an independent central bank only if it sticks closely to its congressionally directed duty and successfully performs its tasks. We should remember that the revealed preference of the body politic is a

deep distaste for inflation -- and for bailouts and power grabs.

The Fed's current wounds are largely self-inflicted. A strategic reset is necessary to mitigate losses of credibility, damage to its standing and -- most important -- worse economic outcomes for our fellow citizens.

By Kevin Warsh

DETAILS

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LINKS

Asean causes deep concern in US fiscal policy

Javier Arana Villasusa . Javier Arana Villasusa.

ProQuest document link

FULL TEXT

Hanoi, Apr 10 (Prensa Latina) The Association of Southeast Asian Nations (ASEAN) today expressed deep concern over the negative impact of the new tax policy announced by the United States.

"This policy could pose enormous challenges to the business community, especially small and medium-sized enterprises, potentially undermining global economic growth prospects and disrupting supply chains as well as trade and investment flows," the regional bloc warned.

ASEAN's concern was reflected in a Joint Statement adopted today by the grouping's economic ministers, after a special online meeting. They also reaffirmed the importance of the ASEAN-US Comprehensive Strategic Partnership for regional economic growth.

The document, said the Voice of Vietnam broadcaster, reaffirms the Partnership's commitment to a rules-based, predictable, transparent, free, fair, inclusive, and sustainable multilateral trading system, with the World Trade Organization (WTO) playing a central role.

It also notes the need to call on the United States "to engage in a constructive and frank dialogue to address trade-related concerns and ensure a balanced and sustainable relationship."

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PL-157

DETAILS

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LINKS

U.S. News: Tariffs Aren't the Only Obstacles --- Trump's offensive also targets other nations' regulations, tax policies, licensing

Kim Mackrael; Bade, Gavin; Luhnow, David . Kim Mackrael; Bade, Gavin; Luhnow, David.

ProQuest document link

FULL TEXT

The Trump administration wants countries to tackle non-tariff barriers to trade, which it says help explain the U.S. goods trade deficit.

Some barriers are widely recognized, such as import quotas and onerous rules to certify products. Others have been cited as problems by President Trump and his team but aren't necessarily viewed as trade barriers by economists or other countries.

This week, the European Union said it had offered to lower its industrial product tariffs to zero if the U.S. would do the same. Trump said no. Vietnam's pitch to eliminate tariffs on U.S. imports also appeared to fall short.

From Brussels to Hanoi and Ottawa, leaders are learning that cutting a deal with the U.S. on trade could require much more than lowering tariffs. It might mean rewriting domestic regulations on issues such as food safety, or scrapping tax and other policies the Trump administration doesn't like -- a much more complicated undertaking that dims the prospect of resolving the trade disputes quickly.

"It's not only tariffs," Trump said this week after the EU's offer. "They come up with rules and regulations that are just designed for one reason: That you can't sell your product in those countries."

U.S. Trade Representative Jamieson Greer hammered that point home during a Senate hearing on Tuesday, holding up a copy of the National Trade Estimate, a federal report that details non-tariff barriers, and telling lawmakers that it has become "very popular" in recent days. Greer went on to detail some non-tariff barriers for lawmakers, such as licensing requirements in India that block U.S. ethanol.

In some cases, it appears that non-tariff barriers had been enough to prompt Trump's team to hike tariffs on countries even though the U.S. is running a trade surplus with them. Australia, for instance, was given a 10% tariff despite importing more from the U.S. than it exports. Pressed on that point during the hearing, Greer noted that Australia blocks U.S. beef and pork.

Trump said Wednesday afternoon that he authorized a 90-day pause on certain tariffs to most countries.

The public emphasis on non-tariff barriers reflects internal thinking at the White House, said people with knowledge of the discussions, one of whom said that addressing non-tariff barriers is the most important aspect of any potential economic deal to Trump and his economic staff.

The U.S. has longstanding barriers of its own. The Buy American Act from 1933 gives preference to U.S.-made products for federal government procurement -- a market worth hundreds of billions of dollars. Agricultural subsidies for American farmers make U.S. crops cheaper, giving them an advantage. And the 1920 Jones Act, still on the books, forces all goods being shipped domestically in the U.S. to use American-built, owned, crewed and flagged vessels.

Clear Protectionism in Some Cases

In some cases, non-tariff barriers are clear protectionism.

Argentina for years forced car companies that wanted to import cars to either build factories in Argentina or export products that were equivalent in value to their imports -- trying to ensure the country wouldn't add to a trade deficit. That led to some strange businesses, such as South Korean carmaker Hyundai exporting peanuts from Argentina to import its cars into that country.

But for many other trading partners, non-tariff barriers are the result of a country's culture, politics and longstanding practices, which makes them difficult to get rid of, says Mary Lovely, a senior fellow at the Peterson Institute for International Economics.

"The French government knows that if it liberalizes its norms on agricultural products, it's going to have tractors lining the streets of Paris," she said. Other countries such as Japan view protecting rice farmers as a food security and cultural matter.

By Kim Mackrael, Gavin Bade and David Luhnow

DETAILS

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LINKS

The Country Needs a Tax Cut, and Soon

ProQuest document link

FULL TEXT

President Trump isn't relenting on his tariff destruction, and the political gallows should focus Republicans in Congress on passing a pro-growth tax bill -- pronto. The House will take up the Senate's budget resolution this week,

and spare us the selective outrage about the supposed fiscal profligacy of avoiding a $4.5 trillion tax increase.
Senate Republicans over the weekend passed their budget outline that moves along the process so it can pass a tax bill with 51 votes. The budget resolution passed 51-48, with Republican Sens. Susan Collins of Maine and Rand Paul of Kentucky voting no.
Democrats and the press claim Republicans are fiscally irresponsible because the Senate GOP is measuring the cost of the bill under a "current policy" baseline. That's Beltway-speak for assuming that current tax policies -- the cuts for individuals in Mr. Trump's 2017 bill -- will continue rather than expire as scheduled at the end of this year.
Congress bakes spending into its baseline projections, and putting taxes on equal footing isn't a "gimmick." Current policy is the baseline the Obama Administration preferred for extending the Bush tax cuts in 2012.
The policy baseline is especially important because it will let Congress make the 2017 tax cuts permanent, which is crucial for the investment and growth that lifts incomes. New ideas like President Trump's hoary carve-outs for tipped income or auto loans will still be scored as a "cost."
"Keeping the tax rates where they are," as Senate Finance Chairman Mike Crapo explained on the floor, is not "the same as spending more money," and most Americans understand this. Tax revenue is within the historical norm at 17% of the economy.
The irony of the panic about deficit-busting is that the bill could end up being the most consequential spending restraint in decades -- if Republicans have the courage of their convictions on Medicaid and green subsidies. Congress could save the House goal of $880 billion from Medicaid merely by slowing its growth. That isn't a cut.
The usual suspects in the House are complaining that the Senate budget doesn't demand enough spending restraint. This is wrong given the outline merely opens the debate about details. It also ignores that the bigger threat than deficits now is a revenue-killing, outlay-boosting recession. Mr. Trump's $700 billion a year in tariffs is the largest tax increase in recent decades, and Republicans should be thinking of a much bigger supply-side tax cut to offset the damage.

DETAILS

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LINKS

A Republican Tax Proposal Could Harm American Businesses

Suozzi, Tom . Suozzi, Tom.

ProQuest document link

FULL TEXT

Republicans in Congress are drafting a tax bill that raises the state and local tax deduction cap for individuals from $10,000 to $25,000. It's a good start, but not good enough. The bill would extend most other parts of the 2017 Tax Cuts and Jobs Act -- at a cost of more than $4.5 trillion. To offset the deduction cap increase, some lawmakers are considering a dangerous idea: limiting the corporate, and other business, state and local tax deduction, or C-SALT. As one of the few members of Congress trained as a certified public accountant, I've spent my career focused on balancing budgets and fostering economic growth. Eliminating the C-SALT deduction would be a devastating, ill-advised move that would thrust American businesses into turmoil. Even conservative-leaning groups, including the Tax Foundation and Americans for Tax Reform, agree that limits on C-SALT would shrink economic output, reduce jobs and burden businesses nationwide.

State and local taxes aren't optional. They're a business cost, just like payroll, rent or electricity. If businesses can no longer deduct state and local taxes from their federal returns, it means they're taxed on income they never actually made. That's not only unfair -- it's economic malpractice.

A manufacturer or restaurant could have a tough year, post no profits and then be asked to pay federal taxes on money it already handed over to state and local governments. Eliminating C-SALT might make that business appear profitable, because it wasn't allowed to deduct its property or sales taxes on its federal return. It would then be liable to pay additional taxes to the federal government out of funds it doesn't have. That's unsustainable -- and it certainly doesn't encourage hiring, investment or expansion.

For small businesses operating on tight margins, this change could mean the difference between keeping the lights on or shutting their doors for good. If businesses close, it would mean lost jobs and declining tax revenues for communities to fund such essential services as police, fire departments and public schools.

Some may try to cast this as a problem only in "high tax" states. They're wrong. This isn't a blue state versus red state issue. C-SALT deductions matter everywhere: In Texas -- a state often touted as "low tax" -- 62% of all state tax revenue comes from businesses. In Florida, 50% comes from businesses. Limiting C-SALT punishes the businesses that provide essential support for state and local governments.

Further, businesses bear nearly three-quarters of state and local taxes in rural states such as Wyoming and North Dakota -- much higher than the nationwide average of businesses bearing about half the tax load. Many red states -- including Tennessee and Alabama -- have higher-than-average corporate income tax burdens. Eliminating C-SALT would hit businesses in these states particularly hard.

Shockingly, eliminating C-SALT would treat taxes paid in foreign countries more favorably than those paid to U.S. states. American corporations operating abroad use the foreign tax credit to deduct taxes paid to foreign governments. Our tax code is also structured to tax profits earned by U.S. businesses overseas at a lower rate than profits earned domestically.

Why would we encourage American businesses to move abroad? If we punish companies for investing in American communities while rewarding them for moving overseas, we're simply exporting jobs, innovation and growth.

It's easy to imagine a large corporation relocating to a tax haven. But for brick-and-mortar businesses such as hotels, restaurants and shopping centers, moving isn't an option. Landlords, developers and retirees invested in real-estate investment trusts will get hammered. Communities count on these institutions. If Congress strips them of C-SALT deductions, they'll go under.

In 2023 alone, U.S. businesses paid some $1.1 trillion in state and local taxes. Eliminating the C-SALT deduction could translate to a stealth federal tax increase of between about $430 billion and $800 billion over a 10-year period. That's not tax reform -- that's a job-killing, growth-slowing economic land mine.

C-SALT deductions aren't a loophole. They're a longstanding, bedrock principle of the tax code. They protect against double taxation, support local economies and ensure that businesses aren't penalized for operating in America.

Eliminating these deductions is misguided and reckless. To protect American jobs, strengthen small businesses and keep the economy on solid ground, lawmakers must preserve the C-SALT deduction.

Mr. Suozzi, a Democrat, represents New York's Third Congressional District.

By Tom Suozzi

DETAILS

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LINKS

Vietnam expects U.S. fiscal policy in line with good relations

Javier Arana Villasusa . Javier Arana Villasusa.

ProQuest document link

FULL TEXT

Hanoi, Apr 3 (Prensa Latina) Vietnam expects the United States to maintain a consistent policy with good bilateral relations and the hopes of the peoples of both sides, Prime Minister Pham Minh Chinh said here today.
The chief executive made the remarks while leading a meeting of the Government Standing Committee with ministries and branches to assess the situation and discuss immediate and long-term solutions after the U.S. announced reciprocal tariffs on products from many countries, including Vietnam.
Minh Chinh emphasized that the current situation shows that trade competition is becoming fiercer, more complicated and more unpredictable, so he asked ministries and branches to be calm, courageous, proactive, flexible, timely with effective responses to all developments to overcome difficulties.
Referring to the U.S. decision, he noted that such fiscal policy "should also be in line to conditions and circumstances of Vietnam as a developing country, which still has to continue to overcome the continuos serious and prolonged consequences of many years of war," the government e-newspaper reported.
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LINKS

U.S. Trade Risks Global Fallout --- Foreign investors retreat as America's selloff this year reverses their gains

Dulaney, Chelsey . Dulaney, Chelsey.

ProQuest document link

FULL TEXT

What do priests in New Zealand, Taiwanese life insurers and the oil-rich nation of Norway have in common? They have all been riding high on booming U.S. markets -- and are now vulnerable to a reversal in fortunes.

The superior performance of U.S. investments over the past decade-plus has been a giant magnet for the world's money. Foreign investors own almost 20% of all U.S. equities compared with 7% at the start of this century, Goldman Sachs data shows. The bets generated years of windfall profits, making up for dreary returns on offer in many overseas markets.

Now, foreigners are racking up losses as the so-called American exceptionalism trade sputters. The Trump administration's tariff whiplash, doubts about the U.S. artificial-intelligence trade and recession fears have rattled U.S. markets this year, even as European ones have rallied.

The selloff could prove temporary. But it is stoking concern that if U.S. markets really were to crater, the collateral damage would be profound.

"You've got an enormous global concentration in U.S. financial markets," said Brad Setser, senior fellow at the Council on Foreign Relations and a former U.S. Treasury Department official. "Investors are taking an increasingly big risk."

Overseas investors are more vulnerable to U.S. market turbulence because of their exposure to the dollar. The S&P 500 is down about 9% from its February peak, but eurozone investors have lost about 13% due to the dollar's slide, according to FactSet data.

"Looking back in history at episodes when concentration was so high, it always ends," said Torsten Slok, chief economist at Apollo Global Management. "The finance textbook is clear: You should simply not allow your U.S. share to grow so big."

The large presence of the U.S. in global portfolios is a byproduct of years of measly returns abroad -- and huge success in America, thanks to fast economic growth, thick profit margins, and innovative tech companies such as

Apple and Nvidia. The U.K.'s FTSE 100 index is up less than 30% over the past decade. The S&P 500, even after this year's selloff, is up more than 170%.

The rise of passive investing, in which funds track a broad market index, also plays a role. As U.S. markets have grown, so has their share in indexes, creating built-in demand for American assets.

U.S. stocks make up 72% of MSCI's index of international stocks, a benchmark for many global portfolios. That is up from about 47% in 2008. American debt's share in global bond benchmarks also has shot higher.

In one of London's poshest areas, the Royal Borough of Kensington and Chelsea, the local government's pension fund has enough money to pay out all its obligations two times over thanks largely to U.S. stocks.

In New Zealand, the pension fund for Anglican Church clergy notched a 27% increase on its international stock portfolio in its latest fiscal year. Norway's $1.8 trillion oil-wealth fund posted its largest-ever profit thanks to "massive gains" on its tech portfolio, according to Nicolai Tangen, chief executive of Norges Bank Investment Management, which operates the fund.

"We are very happy shareholders in great American companies. For the last 10 years, the U.S. has compounded at twice the rate of Europe," Tangen said.

He and others have concerns, however, especially about the market's reliance on U.S. tech. Previous U.S. financial-market downturns were global events. The 2008-09 subprime mortgage crisis ricocheted across the global financial system, and the dot-com crash in the early 2000s fueled recessions in economies such as Taiwan's that had built up large tech sectors.

Norway's fund has trimmed U.S. tech holdings, but its overall exposure to the U.S. has been rising because of a government decision to put more money in America. U.S. assets made up 53% of the fund's investments last year, up from 32% a decade earlier. It can deviate only slightly from its benchmarks, which are largely dominated by U.S. assets.

The fund's latest stress-test scenario showed it could lose 18% of its value if the AI boom turns to bust. The wealth fund contributes about 20% of Norway's government budget and helps pay for its generous social-welfare programs.

Individual investors have piled in, too. Trading apps have opened up U.S. markets to investors in Europe, where people traditionally stashed savings in cash, bank accounts and insurance policies. The most popular stocks on European trading app Trade Republic last year were Nvidia, Apple and Amazon.com.

Omer Martinet, 29 years old, of Bordeaux, France, started investing in 2020 and now holds 70% of his stock portfolio in U.S. companies.

"I compared the performance of French companies to U.S. companies, and the difference was astonishing," he said.

Martinet, who is up overall on his investments, said he had lost "tens of thousands of euros" this year because of the U.S. market selloff. If they don't recover, he might have to delay his plan to buy an apartment. But he isn't giving up on his U.S. investments.

"I think the U.S. economy will remain, for at least this century, the main economy in the world," he said.

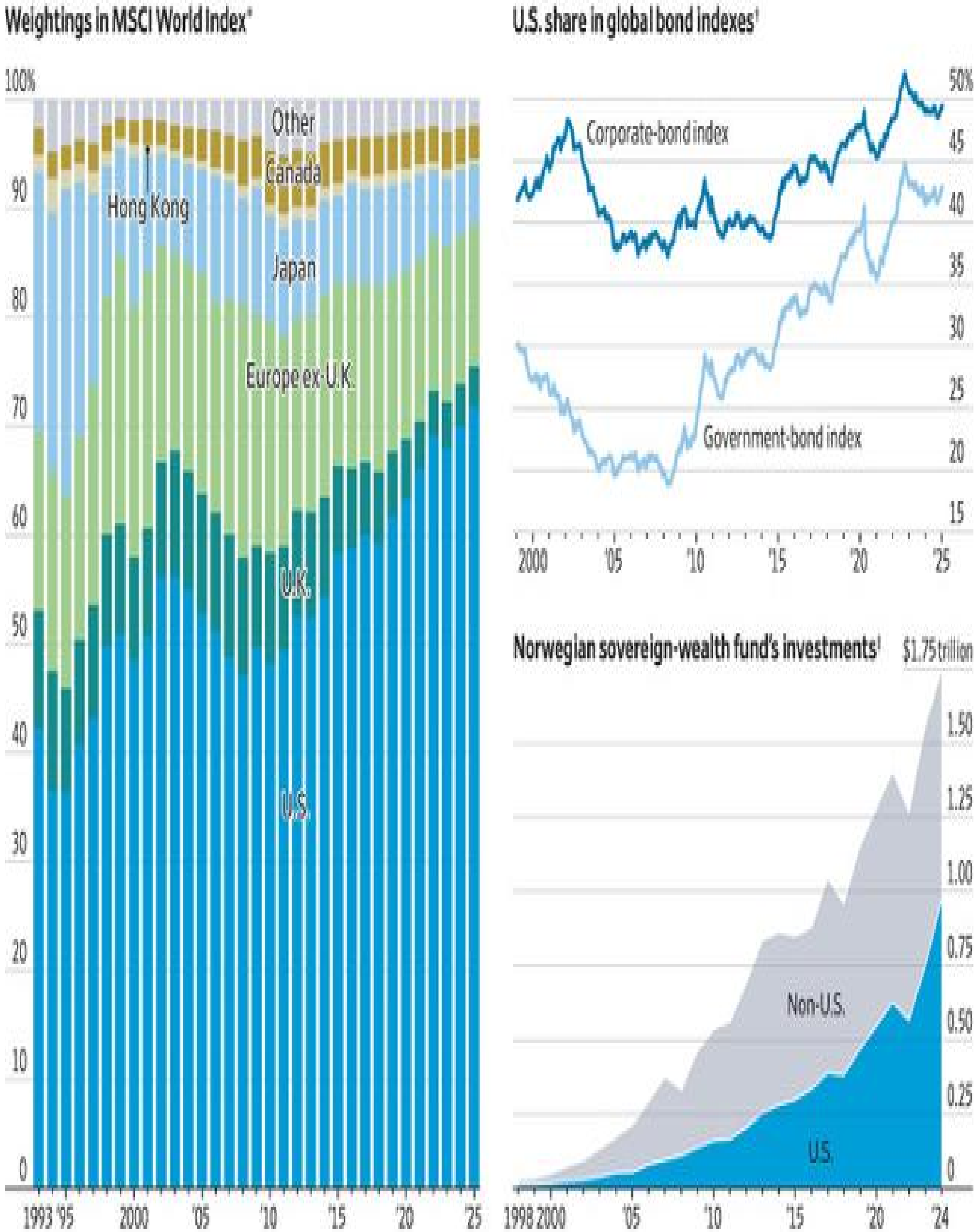
The dollar has weakened this year. A further selloff is a threat to overseas investors, who owned more than $14 trillion in U.S. bonds at the end of 2024, according to Federal Reserve data. Many only partially shield themselves against currency swings, a practice known as hedging.

Taiwanese life insurers are among the most exposed, said Setser of the Council on Foreign Relations. They own more than $700 billion in foreign bonds, he said, mainly U.S. dollar debt. Most of their liabilities are in Taiwan dollars. About 40% of this currency mismatch isn't hedged.

Many foreign investors say the U.S. still has more to offer than much of the rest of the world.

Australia's largest pension fund, AustralianSuper, has about one-third of its $230 billion in assets in the U.S. and is expanding its New York office. John Normand, head of investment strategy, expects the U.S. market turbulence will be temporary.

"The U.S. is first in the league table for interesting investment opportunities that meet all of our criteria: scale, scope, cyclical strength, structural strength," Normand said. "The U.S. is going to have certain advantages for a while."



*2025 data as of March 26 †Shows U.S. weighting in the FTSE World Government Bond Index and FTSE World Broad Investment-Grade Bond Index. Monthly data, through February 2025
‡Excludes cash and derivatives

Sources: MSCI (weightings); FTSE Russell (U.S. share); Norges Bank Investment Management (investments)

Enlarge this image.
By Chelsey Dulaney

DETAILS

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LINKS

U.S. News: Businesses Bristle at a GOP Tax Proposal

Rubin, Richard . Rubin, Richard.

ProQuest document link

FULL TEXT

WASHINGTON -- Congressional Republicans may consider capping corporations' ability to deduct state and local taxes from federal taxable income, and business lobbyists are rallying to fight the potential change, which would raise hundreds of billions of dollars over a decade.

Repealing or curbing the corporate state and local tax deduction (C-SALT, in tax shorthand) would parallel today's $10,000 cap on SALT deductions for individuals and raise money to pay for tax cuts in the major legislation Congress is assembling this year.

Ending deductions for state corporate income taxes would yield $223 billion over a decade, and ending property-tax deductions would nearly double that, according to the Tax Foundation, which favors a system with lower rates and fewer breaks. That is easily enough to cover, for example, President Trump's no-tax-on-tips pledge or help offset changes to the individual SALT cap.

"It might be something to consider as a pay-for for higher individual SALT, but we'll see," said Rep. Lloyd Smucker (R., Pa.), who is a member of the tax-writing House Ways and Means Committee.

Party leaders are still arguing about the broader fiscal framework and the scope of spending cuts.

Even with that uncertainty, businesses see the C-SALT risk as real, and they are warning that a cap is a tax-rate increase by another name.

"Retaining a 21% corporate rate is by far the No. 1 issue of our members, and we see this as a threat to that," said Catherine Schultz, vice president for tax and fiscal policy at the Business Roundtable, which represents large-company chief executives.

This isn't 2017, when corporate pressure to lower the 35% tax rate and lighten taxes on foreign profits motivated Trump's first-term tax law. Then, Republicans made corporate changes largely permanent and set individuals' tax cuts to expire after 2025.

This time, with those individual expirations looming, large U.S.-based companies are mostly playing defense, trying to preserve 2017's wins. Companies want extensions of some international rates and restoration of lapsed tax provisions on capital investment, research costs and interest expenses. Trump's promised tax break for domestic manufacturers would be welcome, too.

Most congressional action, however, is focused elsewhere, on continuing expiring tax cuts for individuals, estates and closely held businesses. Republicans are seeking ways to include Trump's promises to eliminate taxes on tips,

overtime pay and Social Security benefits, and that has them considering spending cuts, changes to clean-energy tax credits and ideas like the C-SALT cap that otherwise might be unpalatable.
Republicans also are re-examining the 2017 SALT cap they imposed on individuals. There, they are likely to lower the tax burden by raising the $10,000 cap. That change would respond to concerns from GOP House members from New York, New Jersey and California.
Like the original $10,000 cap on individual deductions, a C-SALT cap raises significant money but isn't technically a rate increase. It is ultimately paid by higher-income people because much of the burden would be felt by corporate shareholders. And it creates incentives for state and local governments to lower their taxes.
If they pursue a C-SALT cap, lawmakers will encounter several crucial choices.
An income-tax deduction limit would be less far-reaching than one that also applies to property taxes. But because corporate income taxes are calculated largely based on the location of a company's sales, not its headquarters, companies can't avoid them by moving. In that sense, it is quite different from the individual cap.
Congress would also need to consider state taxes on particular industries, such as severance taxes on oil, gas and mineral extraction and premium taxes on insurance policies.
"Done in any way, scoped broadly or narrowly, it is simply a backdoor rate increase," said Aaron Padilla, vice president of corporate policy at the American Petroleum Institute.
For life insurers, premium taxes effectively operate as a gross receipts tax, said David Chavern, president and chief executive of the American Council of Life Insurers. He said his member companies can't change where their customers live or reprice policies sold decades ago.
"I can't quite tell if this is just the intellectual debate that people are having or whether there's something real underneath," Chavern said. "We kind of need to talk about it so people understand it is a really bad idea."
Lawmakers would also decide how to handle businesses such as partnerships and S corporations, which don't face corporate income taxes and instead pay through their owners' personal tax returns.
By Richard Rubin

DETAILS

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LINKS

U.S. News: Florida Looks at Scrapping Its Property Tax

Campo-Flores, Arian; Acosta, Deborah . Campo-Flores, Arian; Acosta, Deborah.

ProQuest document link

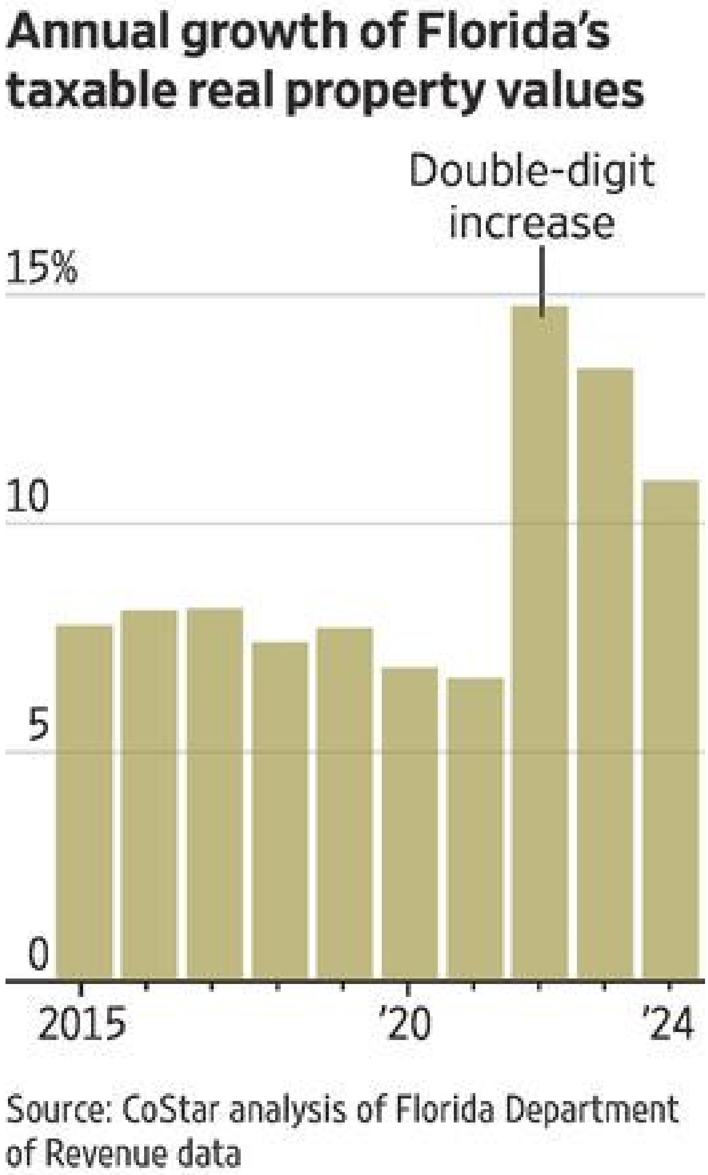
FULL TEXT

Florida's leaders are considering a far-reaching remedy to cut the soaring costs of owning a home: ditching property taxes.

Killing property taxes would leave the state more reliant on its sales tax and strip local governments of revenue to fund everything from schools to social services. A full repeal is unlikely soon, but the idea is gaining political traction, reflecting the strain homeowners are under.

The property-tax system is among the top issues under discussion in the legislative session that began this month.

Eliminating property taxes would be the first such move in the nation.
Republican Gov. Ron DeSantis urged the Legislature in his recent State of the State address to provide relief from such taxes. And Florida's lawmakers have filed dozens of bills on the issue, ranging from proposals to end property taxes to smaller tweaks to give targeted help to homeowners.
"People are getting crushed not just by home insurance but by property taxes," said GOP state Sen. Jonathan Martin, who is sponsoring a bill that would require a study on the elimination of property taxes be completed by October. "That American dream in Florida is taking five figures a year in local taxes."
Revolts against property taxes have erupted elsewhere in recent months as homeowners' tax bills have risen alongside home values. Property values in the U.S. increased 27%, adjusted for inflation, between January 2020 and July 2024, according to the Tax Foundation, a think tank.
"You're seeing a groundswell of opposition to property taxes generally" -- one reminiscent of a wave of protest in the 1970s and 1980s that triggered ballot measures including Proposition 13 in California that capped property taxes, said Jared Walczak, vice president of state projects at the Tax Foundation.
A number of states including Wyoming, Kansas and Montana are weighing significant property-tax limitations, he said. In November, voters in North Dakota rejected a ballot measure that would have eliminated property taxes.
Median home prices in Florida have skyrocketed, quadrupling in the Miami metro area since 2012 and more than tripling in the Orlando and Tampa metro areas, according to real-estate brokerage Redfin. Average home-insurance premiums in Florida have climbed, rising to $3,731 in 2024 from $1,973 in 2018, according to the Insurance Information Institute and state data.
Florida's effective property-tax rate ranked 28th nationally in 2023, according to an analysis by the Tax Foundation. But as real-estate values have surged, the total amount levied has roughly doubled over the past decade, reaching more than $55 billion in the 2024-25 fiscal year, according to a recent presentation by Azhar Khan, staff director of the Florida Senate's finance and tax committee.
In 2022, Zoe Tosteson Losada, now 69, purchased her dream retirement home in Palm Beach Gardens for $809,000. About a year after the purchase, she saw her annual property-tax bill explode, to about $10,700 from about $6,000, because the value of the home was reassessed after changing hands.
She has since realized that the cost of the taxes, coupled with ballooning insurance costs, makes staying there unlikely. "I will not be able to retire in this house," said Tosteson Losada, who lives in the home with her retired husband, Freddy Losada, who is in his 80s, and their son.
DeSantis has said his goal is to get a constitutional amendment abolishing or reducing property taxes on the ballot in 2026, which would require at least 60% approval from voters to pass.



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By Arian Campo-Flores and Deborah Acosta

DETAILS

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LINKS

U.S. News -- Capital Account: Europe Comes to Life as U.S. Stumbles

Ip, Greg . Ip, Greg.

ProQuest document link

FULL TEXT

At the World Economic Forum in Davos two months ago, the mood around Europe was funereal. Its economy and markets had underperformed the U.S. for years. Now a newly inaugurated President Trump promised to

sledgehammer Europe with tariffs while juicing U.S. growth with lower taxes, less regulation and cheaper energy.
As usual, the Davos consensus got it wrong. Since then, the moods across the Atlantic have switched places.
European stocks are up nicely, while the American market has had a correction (a 10% drop). On Wednesday, Federal Reserve officials revised their outlook for inflation up and for growth down. The dollar, which shot up after Trump was elected, has sunk.
Some perspective is in order. A market reversal was overdue; the valuation gap between European and American stocks was becoming absurd. Even with revisions, the U.S. is still likely to grow faster than the European Union and Britain this year. Business activity indicators in Europe remain weak.
Yet a more fundamental reappraisal of the two regions' prospects might be in order, and it has a lot to do with Trump -- though not the way most expected.
U.S. growth prospects have actually slipped since Trump's arrival. In January, economists expected growth of 2.2% annualized in the current quarter. Now, estimates are around 1% to 1.5%. On Wednesday, Fed officials lowered expected growth this year to 1.7% from 2.1%.
The exact reasons for the downgrade are unclear; the first-quarter slowdown reflects data that predated Trump's first full month in office. Still, his trade war has taken a toll on business and consumer confidence.
Moreover, the risk that tariffs keep inflation above the Federal Reserve's 2% target means the central bank is for now keeping interest rates at 4.25% to 4.5%, though it hasn't ruled out later cuts.
European growth prospects haven't changed much. In fact, the threat of tariffs led the European Central Bank earlier this month to mark down expected growth in the eurozone this year to just 0.9%.
But several positives are pushing in the opposite direction. Though European leaders are nervous about Trump's eagerness to strike a peace deal in Ukraine with Russian President Vladimir Putin, the prospect has brought European natural-gas prices down.
And with underlying inflation lower in Europe than the U.S., the ECB has cut rates twice this year, to 2.5%, and will likely cut them again, a useful tailwind to consumers.
Meanwhile, European leaders have been galvanized to act on their stagnant economies, nowhere more than in Germany. This week, its legislature amended its constitutional "debt brake" to effectively permit unlimited defense spending. Evercore ISI, an investment bank, estimates that defense and infrastructure spending will rise by the equivalent of 3% of gross domestic product. The equivalent in the U.S. would be nearly $1 trillion a year.
The European Commission, the European Union's executive arm, is pushing in the same direction, proposing to exempt defense from the bloc's deficit caps. On Wednesday, it proposed a defense fund of 150 billion euros, the equivalent of $164 billion. Participation by U.S. weapons suppliers would be limited unless America signs a security agreement with the EU.
"WWII got the US out of the Great Depression; Europe's rearmament should do wonders for Europe's cyclical outlook," Stephen Jen and Fatih Yilmaz of Eurizon SLJ Capital wrote this week.
More important than the numbers is the change in mindset. Germany enacted its debt brake in 2009 when its leaders were determined to avoid the instability that excess debt had wrought on its European neighbors.
They succeeded, but at a cost. An aversion to borrowing kept German demand depressed and its trade surplus high while starving the military and infrastructure. Marking the shift in mindset, Defense Minister Boris Pistorius said ahead of Tuesday's vote: "The threat situation comes before the financial situation."
Germany isn't the only place where pro-growth policy is in fashion again. U.K. Prime Minister Keir Starmer is rolling out permitting reforms to speed up the construction of houses, infrastructure and nuclear power plants. Chancellor of the Exchequer Rachel Reeves vowed this week to ease restrictions on mergers. France, meanwhile, signaled that it would approve loans to finance six new nuclear reactors, estimated in 2022 to cost 52 billion euros.
These steps could take years to bear fruit, and there's no guarantee execution will match intent. Still, it's notable that political leaders have mustered the intent. Why now? Trump can take some credit, though not in the way Europe would want. His overtures to Russia, ambivalence toward the North Atlantic Treaty Organization and promised tariffs have created in Europe an urgency around rearming and breaking down internal barriers to investment and

innovation.

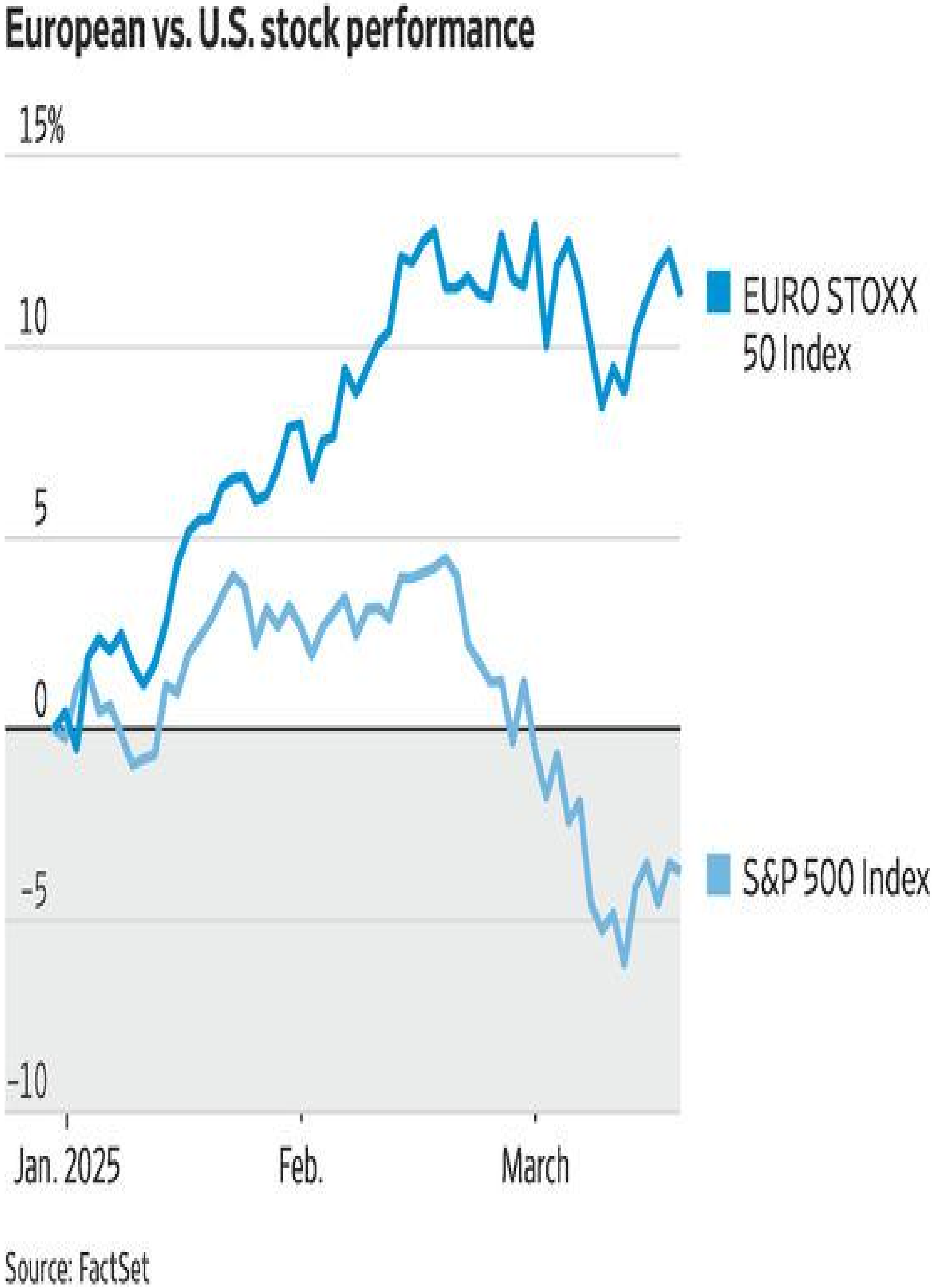
German conservative leader Friedrich Merz, likely the next chancellor, said last month that his priority will be to "strengthen Europe as quickly as possible so that, step by step, we can really achieve independence from the U.S.A."

French President Emmanuel Macron last month cited Trump's mantra "drill, baby, drill" to tout his own agenda of boosting nuclear-generated electricity: "Here there is no need to drill, it is plug, baby, plug."

Trump isn't just changing the policy calculus in Europe. In China, his tariffs are easing the way for more fiscal stimulus.

Andrew Batson of Gavekal Research estimates that China will run a budget deficit of 10.9% of GDP this year, its largest ever, bringing additional stimulus equal to 2.4% of GDP.

There is an irony here. If Europe and China succeed in firing up internal engines of growth, that could, along with the weaker dollar, help narrow their trade surpluses with the U.S. Tariffs would have achieved Trump's goal of reducing the trade deficit, but not the way he expected.



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By Greg Ip

DETAILS

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LINKS

U.S. News: Republicans' Infighting Stalls Tax Bill --- Disagreements on spending cuts and other matters slow House-Senate pact

Rubin, Richard . Rubin, Richard.

ProQuest document link

FULL TEXT

WASHINGTON -- President Trump's tax-cut plans are grinding through Congress in slow motion. The tax cuts themselves aren't really the reason why.

Republicans, who control the House and Senate, are divided over the size of spending reductions that accompany tax cuts, which budgetary yardstick they use and whether a debt-ceiling increase should be attached. The Senate still hasn't fully blessed the House strategy to pass one bill that would address the fiscal matters along with border security, after months of debate over whether to split Trump's priorities into two or even three party-line bills.

"There's a lot that we're still working through," Sen. John Hoeven (R., N.D.) said.

Until all the questions are formally resolved with an agreement between House and Senate Republicans, Congress can't unlock the door to the fast-track process that circumvents Senate Democrats. And until they unlock that door -- which could take weeks or months -- Trump's "one big, beautiful bill" is stranded outside in the cold, straining relations between the chambers and testing some lawmakers' patience.

"Clearly, it's not Plan A. They'd like to get this done sooner," said John Gimigliano, a former House GOP aide now at KPMG. "The complexity, the cost, the reality of the politics of the incredibly narrow margins in the House. It's just going to be a very drawn-out, complex negotiation."

The tax piece of the puzzle isn't simple -- tax policy rarely is -- but a solid Republican consensus has developed around the basics. Lawmakers want to extend the 2017 tax cuts that are scheduled to expire at year-end and prevent a tax increase on most households. Given the stakes of failure, Republicans expect they will ultimately get that done somehow.

They also will try to fulfill Trump's campaign-trail promises, such as ending taxes on tips, overtime pay and Social Security benefits. Other Trump ideas might slide in there, such as full equipment deductions retroactive to Jan. 20, lower corporate taxes on domestic manufacturers and a deduction for car-loan interest.

Republicans expect internal tension over how high they set the cap on the state and local tax deduction to placate blue-state House members. They anticipate disagreement over curtailing Democrats' clean-energy tax incentives because those breaks are tied to investments in GOP districts.

For now, none of that is ripe, because Republicans' plans remain in procedural limbo. House members insist that the Senate largely accept its fiscal framework: one bill, with taxes, border money and spending cuts.

"We need the Senate to not be wasting time," Rep. Jason Smith (R., Mo.), chairman of the House Ways and Means

Committee, said.
Senators, however, don't have a clear plan. Lawmakers will spend the week ahead trying to prevent a government shutdown before a March 14 deadline, and they are scheduled to be on recess for three of the six following weeks.
"We're socializing the ideas and we're starting to narrow in and bring into focus what some decision points are, so we're getting there," Senate Majority Leader John Thune (R., S.D.) said late this past week. "It's gonna take some time, but I feel like we're making good headway."
House leaders set a crucial marker in late February, rallying 217 of 218 Republicans behind a fiscal framework that leans heavily into spending cuts demanded by conservatives. That plan calls for $4.5 trillion in tax cuts over a decade and at least $1.5 trillion in spending cuts. If the spending cuts don't exceed $1.5 trillion, the tax cuts shrink to $4 trillion.
The House plan calls for at least $880 billion in cuts from the Energy and Commerce Committee. The bulk of the spending overseen by the panel is for Medicaid, the health-insurance program covering more than 70 million low-income people.
Potential Medicaid cuts cause consternation among House GOP moderates, who advanced the fiscal-framework process but haven't committed to backing a future bill. Democrats, meanwhile, are highlighting how Republican plans would simultaneously take money from Medicaid and extend tax cuts for wealthy Americans.
The second obstacle in the Senate is the measuring stick for tax-cut extensions. The House used what is known as a current-law baseline, which assumes tax cuts expire as scheduled and counts extensions as a cost.
Key senators favor the "current-policy baseline," which assumes tax-cut extensions don't cost anything. Some call the approach a gimmick, and it faces procedural challenges and lacks unanimous support. Still, the current-policy baseline is Republicans' easiest path to making tax cuts permanent -- a Trump priority. Smith said House members could accept the baseline switch if the Senate didn't water down spending cuts.
By Richard Rubin

DETAILS

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LINKS

The Two Trumps on Taxes

FULL TEXT

The story of Republican tax policy in the Trump era is the contest between pro-growth ideas and anti-growth income redistribution. An example of both was on display in President Trump's speech to Congress on Tuesday.

The good idea was Mr. Trump's proposal to let companies deduct the full cost of capital expenditures in the year they are made. This spurs investment and the economy's supply-side. Mr. Trump's 2017 tax reform provided such "bonus depreciation," which began to phase out in 2023 and is set to expire at the end of next year.

Mr. Trump on Tuesday pitched extending full expensing retroactively to this January. "It was one of the main reasons why our tax cuts were so successful in our first term," he said. He's right. Bonus depreciation complemented his tax reform's cut in the corporate rate to 21% from 35% and the elimination of U.S. tax on repatriated foreign income.

All of this encouraged companies to repatriate foreign earnings and invest in new plants and productivity-enhancing equipment in the U.S., which lifted real wages. Business investment rose 5.6% in 2018, versus 3.3% in 2016, and it remained strong until late 2019 when the costs and uncertainty of Mr. Trump's tariffs started to bite.

Business investment has remained sluggish since the post-pandemic rebound amid the Biden regulatory blitz, which suppressed animal spirits. Fixed investment growth averaged 3.7% in 2023 and 2024 and fell 3.2% in the fourth quarter. One risk now is that uncertainty from the Trump tariff whiplash will further slow investment.

As Eli Lilly CEO David Ricks said last week when announcing a $27 billion investment in four new U.S. pharmaceutical plants, "tax reform is the carrot. When that's not in balance, I don't think they're going to get the outcome they want" with tariffs. It's "essential" that the tax reforms "are extended permanently this year."

Unlike the Biden green-energy and chip tax credits, full expensing is available to all businesses and doesn't distort investment. Companies don't get a bigger tax break for investing in, say, hydrogen than natural gas production -- or factories for manufacturing electric-vehicle batteries than for gas guzzlers. Businesses, not government, decide where to make investments.

As for the anti-growth idea, Mr. Trump also highlighted a tax deduction for loan interest payments on U.S.-made cars. This is subsidy for consumption of a subset of a single product, akin to Mr. Biden's elective-vehicle favoritism. The interest deduction could help offset higher prices from his tariffs and boost demand in the short term.

But the subsidy would also fuel higher prices and make cars less affordable over time, which is what has happened with homes from the mortgage interest deduction. The carve-out would further complicate the tax code while subsidizing debt over investment. The Tax Foundation estimates a deduction for all auto loans would cost the Treasury some $60 billion over 10 years.

Bureaucrats will decide whether a car counts as "made in America" amid a corporate lobbying blitz. This is what has happened with the Inflation Reduction Act's rules for EV credits, which are conditioned on a certain share of their battery components and minerals being made in North America and countries with which the U.S. has free-trade agreements.

Mr. Trump was right Tuesday when he said the 2017 tax reforms were crucial to his first-term economic success. Extend them, Mr. President, don't undermine them with bad ideas to please narrow political interests.

DETAILS

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LINKS

U.S. News: Migrants With No Criminal History Swept Up --- Immigration officers are under pressure to ramp up their arrest numbers

Tarini Parti; Hackman, Michelle . Tarini Parti; Hackman, Michelle.

ProQuest document link

FULL TEXT

Just a few minutes after he had left home for work, Lucas Dos Santos Amaral was stopped by immigration officers near his home in Marlborough, Mass. The officers told him the name of someone they were looking for, and said the man looked like him.

The Brazilian doesn't have a criminal history or orders for removal from a judge, his lawyer said, meaning he doesn't have the type of background the Trump administration laid out as its priority for deportation.
Dos Santos Amaral, 29, identified himself to assure officers he wasn't who they were looking for. The officers looked him up and learned that he was overstaying a tourist visa from 2017, according to his lawyer, his wife and a state legislator helping with his case. Dos Santos Amaral was arrested and detained on the spot and eventually was moved to a detention center in Texas -- without the knowledge of his lawyer or family.
Immigration officers are under immense pressure to ramp up arrest numbers. The result is the administration, despite largely promoting arrests of criminals, has been detaining a number of migrants, like Dos Santos Amaral, who don't have criminal backgrounds or orders for removal, according to interviews with immigration lawyers, activists, state and local officials and families of migrants arrested.
Living in the U.S. illegally is a civil violation subject to deportation but it isn't a criminal offense.
Overall, Immigration and Customs Enforcement has arrested more than 20,000 migrants living in the U.S. illegally in the first month of the Trump administration, according to the Department of Homeland Security. Arrests are on pace to more than double the 113,000 arrests ICE made under President Joe Biden in fiscal year 2024.
Tricia McLaughlin, spokeswoman for DHS, didn't provide a detailed breakdown of how many of the more than 20,000 arrested had a criminal background. She said of those arrested, 22 were known suspected terrorists and 640 were suspected gang members.
ICE initially provided daily arrest numbers with a breakdown of how many being deported had committed crimes, but stopped after the first few days. On the highest day for arrests that ICE disclosed, roughly half of those picked up by immigration officers had a criminal background.
Senior ICE officials told subordinates after Trump's first week as president that the agency's offices are each responsible for 75 arrests a day, or roughly 1,000-1,500 arrests a day across the country.
Kush Desai, a spokesman for the White House, said the Trump administration "has re-established a no-nonsense enforcement of and respect for the immigration laws."
Immigration officers have used aggressive tactics, including going to schools and dressing in plainclothes while making arrests, and their targets have been unusual, lawyers, activists and migrant families say. Administration officials have described arrests of non-criminals as "collaterals," but in many cases, immigration officers have also been racially profiling and specifically asking for migrants who don't have criminal backgrounds or orders for removal, immigration lawyers said.
"I was very much shocked," said Eloa Celedon, Dos Santos Amaral's lawyer.
Dos Santos Amaral was released on an $8,000 bond about a month after his arrest. His deportation case will now make its way through the immigration courts. Dos Santos Amaral, who owns a painting business, has a 3-year-old daughter who is a U.S. citizen, and his wife is pregnant with their second child.
"Lucas is back home, but the fight isn't over," said his wife, Suyanne Boechat Amaral, 32, a singer and recipient of the Deferred Action for Childhood Arrivals program.
"They were saying they were seeking gang members and drug dealers and criminals," she said. "And all of a sudden, I see my husband in this position."
Tom Homan, Trump's border czar, has said he isn't satisfied with the level of arrests. The acting director of U.S. Immigration and Customs Enforcement, Caleb Vitello, was recently removed from his post.
Didier Melendez was dropping his co-worker off at a check-in appointment with ICE in Little Rock, Ark., last week when officers came downstairs to say they had detained his friend -- and wanted to see his papers, too. Melendez said he told the officers he was a DACA recipient and in any case was married to a U.S. citizen who is in the process of sponsoring him for a Green Card.
The officers handcuffed Melendez's wrists and ankles and brought him upstairs. Technically, Melendez's DACA protections -- which must be renewed every two years -- had lapsed a week earlier, and though he had applied for a renewal in the fall, the government still hadn't processed it. Melendez, now 35, also had an old deportation order from when he was 13 and his parents didn't take him to a required court hearing.

The officers told him that, given he had no protections at that moment, they could deport him that day if they wanted. They ultimately decided to release him because he hadn't had any previous run-ins with the law -- but warned Melendez they wouldn't be so lenient next time.

"They told me, 'You better get your things in order because we have your info, and we'll be looking for you,'" Melendez recalled.

Melendez's lawyer, Lily Axelrod, said it is unusual for ICE to arrest or detain DACA recipients.

John Cano, an organizer with the Legal Aid Justice Center, said a hotline set up by his group that services certain parts of Virginia has received 100 calls since Trump's inauguration. At least a dozen of those have been from migrants without criminal backgrounds who were arrested at an ICE check-in or at immigration court when they showed up for their scheduled proceeding.

By Tarini Parti and Michelle Hackman

DETAILS

Subject:	Immigration policy; Deportation; Arrests; Attorneys; Criminals; Enforcement; Deferred Action for Childhood Arrivals; Detention centers
Business indexing term:	Subject: Attorneys; Industry: 54111 : Offices of Lawyers 92214 : Correctional Institutions
Location:	United States--US
Company / organization:	Name: US Immigration &Customs Enforcement; NAICS: 921130
Classification:	54111: Offices of Lawyers; 92214: Correctional Institutions
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ProQuest document ID:	3172407549
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LINKS

U.S., Germany Fiscal Policy Changes Impact Currency Outlook -- Market Talk

ProQuest document link

FULL TEXT

1110 ET - A more conservative outlook for U.S. fiscal policy is behind the recent rally on Treasurys, Deutsche Bank's George Saravelos writes. It also weighs on the dollar. Saravelos says he now expects government outlays under Trump to be lower than previously forecast, while Germany seems to move toward more spending after last Sunday's election. Deutsche Bank is turning neutral EURUSD, after recommending a short position on the currency cross. Saravelos sees "downside risks emanating from additional disruption from trade policy/tariffs (and by extension a more dovish ECB stance), but upside risks emanating from a more pro-active German fiscal stance and a more positive resolution to the Russia-Ukraine crisis." EURUSD rises 0.4%, to 1.05. (paulo.trevisani@wsj.com; @ptrevisani)
(END)
February 25, 2025 11:10 ET (16:10 GMT)

DETAILS

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LINKS

U.S. Fiscal Policy Is Key to Rates Forecasts, Says Deutsche Bank Research -- Market Talk

ProQuest document link

FULL TEXT

0655 GMT - U.S. fiscal policy is core to Deutsche Bank Research's rates forecasts for this year, its strategists say in a note. They expect a modest net fiscal easing but with unusually elevated uncertainty related to both taxes and spending, they say. Currently, however, they don't yet see anything in the data that suggests federal spending has been put on a significantly different trajectory. Ten-year U.S. Treasury yields trade within their recent range, last little changed at 4.546%, according to Tradeweb. (emese.bartha@wsj.com)

(END)

February 19, 2025 01:55 ET (06:55 GMT)

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LINKS

U.S. News: House GOP Aims for Tax Cuts of $4.5 Trillion --- Senate moves ahead with a narrower plan that focuses on border security

Rubin, Richard; Hughes, Siobhan; Beavers, Olivia . Rubin, Richard; Hughes, Siobhan; Beavers, Olivia.

ProQuest document link

FULL TEXT

WASHINGTON -- House Republicans released the first blueprint for their "one big, beautiful bill" that would cut taxes, reduce spending and provide money for border enforcement.

Lawmakers created the outline after weeks of tense internal meetings among their competing factions, and some members indicated they weren't fully on board.

That plan released Wednesday -- headed for a Budget Committee vote Thursday -- calls for a minimum of $1.5 trillion in spending cuts over a decade and a maximum of $4.5 trillion in tax cuts from the Ways and Means Committee. It would increase the federal debt limit by $4 trillion, likely enough to get through about two years. The plan calls for $300 billion in new spending, likely for immigration enforcement and the military.

The spending-cut minimum is below the $2 trillion or $2.5 trillion floor that the most conservative House Republicans wanted to hit. Possible spending cuts would be to energy, education and agriculture programs.

The tax-cut maximum is below the $5.5 trillion that would allow for extending all of the tax cuts that expire at the end of this year and make room for priorities of President Trump, such as tax-free tips, overtime pay and Social Security benefits.

The release of the plan came as Senate Republicans also claimed progress Wednesday in implementing Trump's top priorities. The House and Senate are still moving in different and incompatible directions, however, and they have to resolve that dispute before they can get anything significant to Trump's desk.

The House plan says it ultimately is aiming for $2 trillion in spending-cut reductions and that the goal would be to reduce the Ways and Means deficit-increasing allowance if spending cuts don't hit that target.

The targets are going to test House Republicans' ability to unify their fractious, narrow majority, now at 218-215. Rep. Ralph Norman (R., S.C.), a Budget Committee member, said Wednesday that progress had been made in setting the floor for spending, but he was undecided on whether he would support the plan. And Rep. Eric Burlison (R., Mo.) said the plan was "pathetic" and that the spending cut floor needed to be higher.

Even if House Republicans adopt a budget, subsequent legislation that stays within those thresholds could prove challenging to write and pass.

"This is Trump's agenda. Would you want to be the person that stands between the president and his agenda?" said Rep. Lisa McClain (R., Mich.), the House GOP conference chair.

Rep. Jason Smith (R., Mo.), the Ways and Means chairman, had previously said that a $4.5 trillion maximum allowed for tax cuts wouldn't be enough to accomplish all of Trump's tax priorities. On Wednesday, he said, "It's a good starting point."

Most of that amount would be consumed by extending tax cuts that expire at the end of this year. If Congress doesn't act, taxpayers' standard deduction would shrink, rates would climb and the child tax credit would be cut in half. Republicans also want to loosen the cap on the state and local tax deduction and fulfill Trump's campaign-trail promises.

Rep. Lloyd Smucker (R., Pa.), said the administration has backed the $4.5 trillion number.

Republicans have several options that could help hit that target. Ways and Means could cut spending in its jurisdiction, including programs for low-income households and Medicare changes that wouldn't directly hit beneficiaries. The panel could also curb tax breaks, including clean-energy tax credits that the Democratically controlled Congress enacted in 2022.

On the spending side, the largest cuts would be at least $880 billion from the Energy and Commerce Committee, which has jurisdiction over Medicaid, the health insurance program for low-income people. Republicans have talked about a variety of Medicaid changes, including work requirements for able-bodied beneficiaries and revisions to funding formulas for the federal-state program. Other possible spending-cut targets include student-loan programs and food assistance for low-income people.

Republicans are planning to assume that real economic growth -- caused by their plans and Trump's actions on deregulation and fossil-fuel production -- can be higher than the 1.8% forecast by the Congressional Budget Office. That would throw off enough tax revenue so Republicans can claim that their plan wouldn't add to budget deficits. But such growth is difficult to achieve and sustain, economists say, especially because Trump's immigration and tariff policies tend to slow growth.

Democrats highlighted the contrast between the potential cuts to Medicaid and food assistance and the tax cuts that would go to some of the wealthiest households.

"This is the same crew that, when Democrats are in charge, cried crocodile tears about deficits and debt, but then once they're in office, they blow up the debt far more than any Democratic president or Democratic Congress has," said Rep. Brendan Boyle (D., Pa.), the top Democrat on the Budget Committee.

Meanwhile, in the Senate, the Budget Committee advanced the first phase of its two-track plan, voting 11-10 on party lines to back a budget blueprint after rejecting Democratic amendments.

Instead of one big bill, Republican senators wrote a budget aimed at allowing a roughly $350 billion package focused on border-security and national defense. They want to save the messier tax and spending debate until later in the year, though that approach runs the risk that Republicans might struggle to do that and need to seek Democratic votes to avoid a tax increase.

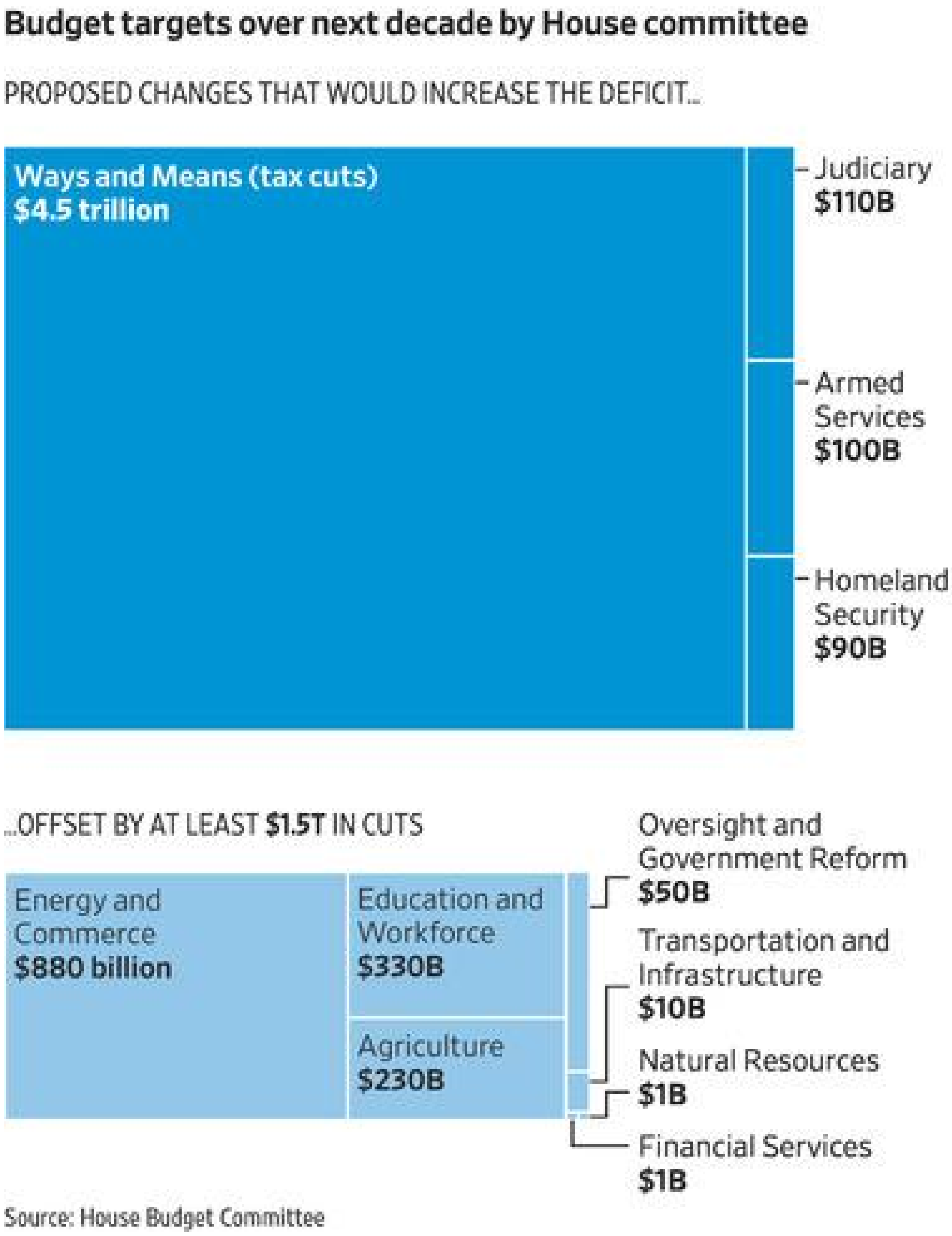
Tom Homan, Trump's border czar, and budget chief Russell Vought met Tuesday with Senate Republicans and emphasized how they are running out of money for the immigration enforcement that Trump wants, said Sen. Lindsey Graham (R., S.C.), the Budget Committee chairman.

"Why would they come over and tell us, begging for money, if they didn't want to move?" Graham said. "I think they came over to create a sense of urgency, that we need the money and we need it now for border and the military."

Graham and Republican senators say they understand the House's approach -- the theory being that the House can only corral its members once in a single pass-fail exercise -- but they just don't think it is doable now. The Senate budget doesn't make room for tax-cut extensions nor does it require spending cuts as large as the House plan.

"This isn't easy," said Sen. Ron Johnson (R., Wis.). "I think we're all finding one big beautiful bill is also one really big, complex and hard to even draft -- much less pass -- bill as well."

Republicans are using the process known as budget reconciliation to advance Trump's priorities. The approach lets them advance a bill in the Senate with a simple majority, avoiding the 60-vote filibuster threshold and the need for Democratic votes.



Enlarge this image.

By Richard Rubin, Siobhan Hughes and Olivia Beavers

DETAILS

Subject:	Federal budget; Medicaid; Enforcement; Beneficiaries; Low income groups; Fiscal policy; Jurisdiction; Tax cuts; Government spending; Immigration; Budget deficits; Tax increases
Business indexing term:	Subject: Federal budget Medicaid Beneficiaries Fiscal policy Tax cuts Government spending Budget deficits Tax increases; Industry: 92313 : Administration of Human Resource Programs (except Education, Public Health, and Veterans' Affairs Programs)
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LINKS

U.S. News: White House Immigration Moves Chill Businesses in Latino Neighborhoods

Simon, Ruth; Kiernan, Paul . Simon, Ruth; Kiernan, Paul.

ProQuest document link

FULL TEXT

The Trump administration's promise of mass deportations and immigration raids is already having chilling effects on spending by immigrants. The effects are wide-ranging, from sluggish tamale sales on a Los Angeles sidewalk to canceled home purchases in the Virginia suburbs.

Joshua Calderon, who sells guitars and giant teddy bears in South Los Angeles, said he recently cut his hours because nobody is walking by his shop.

"There are no customers," he said. "It's been day after day with practically no sales."

Emilio Sandoval, a nearby street vendor, normally sells out of tamales by midmorning. But at 10:30 a.m. recently, the pot of Mexican corn-flour treats was still half-full.

"People are afraid of going out," said Sandoval, from his perch under a brightly colored umbrella. "I have cousins who don't have papers and don't want to go out because they could be separated from their daughters."

The Trump administration has issued a spate of directives to expedite the removal of immigrants who are living in the U.S. without authorization. It has also launched a splashy public-relations campaign to draw attention to deportation efforts and raids. The flurry of activity has fanned fears in Latino communities -- and a sharp drop in consumer spending, according to business owners.

"Everyone knows somebody who is undocumented," said Sam Sanchez, a Chicago restaurateur and co-founder of Comite de 100, a recently created organization of Latino business owners focused on immigration. "People are saving money." Even people who are in the U.S. legally, he added, are afraid of being picked up by accident.

Since President Trump took office, Immigration and Customs Enforcement has arrested an average of 822 migrants a day, according to the partial records that are available. ICE arrested roughly 310 people a day in the 2024 fiscal year.

A sustained pullback in economic activity in Latino communities would have repercussions for local businesses and the broader economy. U.S. Latinos of any race accounted for roughly 13% of consumer spending in 2023, according to Labor Department data.

Latinos have been starting businesses at more than twice the rate of the U.S. population as a whole, according to Census Bureau data. Immigrants accounted for 36% of launches in 2023, versus 25% in 2019.

While many Latino entrepreneurs are in the U.S. legally, entrepreneurship is an attractive option for those who are in the country without authorization because it doesn't require a work authorization or a Social Security number.

"The community shifted from peace to fear and uncertainty," said Angie Millan, a small-business owner in Philadelphia who is a U.S. citizen and began carrying her passport after a recent ICE raid at a carwash in her city.

Millan said that demand for her services, which include notary services and tax preparation, is down 40%. When she went to pick up lunch at a local Colombian restaurant, no one was there.

An estimated 2.5 million U.S. citizens live in a family with someone who is in the country without authorization and is married to a U.S. citizen, according to Fwd.us, an immigration advocacy group.

The fear driving the spending slowdown is evident in dinner-table conversations and requests for mental-health services.

At MiSalud Health, an online provider of bilingual healthcare services, two-thirds of consultations are now for mental-health issues, four times higher since just before the election.

"People are very concerned about their kids being picked up from school, their being picked up," said MiSalud CEO Bismarck Lepe.

By Ruth Simon and Paul Kiernan

DETAILS

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LINKS

U.S. News: President's Allies Want Quick Border-Bill Win

Rubin, Richard . Rubin, Richard.

ProQuest document link

FULL TEXT

WASHINGTON -- Senate Republicans are charging ahead with a border enforcement and defense-spending plan, aiming to leapfrog their House colleagues and deliver a quick victory on President Trump's priorities before turning to tax policy later in the year.

Budget Committee Chairman Lindsey Graham (R., S.C.) called for $342 billion in new spending over four years, paired with an equal amount of spending cuts. Graham's panel will meet next week to take the first formal steps on the border-and-defense proposal.

Graham's move puts him at odds with House Republicans, who are still trying to assemble the blueprint for their "one big, beautiful bill" that would add the South Carolina Republican's items to an extension of expiring tax cuts, cuts to programs such as Medicaid and perhaps a debt-limit increase.

Meanwhile, House Republicans said Friday they are making progress on a budget framework and aim to release a plan as soon as this weekend.

The monthslong internal Republican debate over legislative strategy -- one bill or two? -- remains unresolved. Instead of settling on an answer, for now, they are doing both. Next week could bring dueling Budget Committee votes -- one in the House and one in the Senate -- on very different plans.

Eventually, to unlock the path to a party-line bill that can dodge the Senate filibuster, the House and Senate will need to agree on an approach and adopt the same budget resolution. Trump has backed the House's one-bill approach while remaining open to the two-bill plan.

Senate Republicans argue they are funding immediate priorities and that they need more time to work on complicated tax policy before the Dec. 31 deadline when tax cuts from 2017 are set to expire.

House members say packaging everything together in an up-or-down vote that reflects support for Trump or opposition to him is the only way to ensure that the president's ideas get across the finish line.

The Senate plan would provide money for border wall construction, detention beds and immigration enforcement, according to the Budget Committee. It would also expand the Navy and fund air and missile defense. The plan also aims to expand leases for oil-and-gas production and repeal a fee on methane emissions.

"To those who voted for and support real border security and a stronger defense in a troubled world, help is on the way," Graham said.

Meanwhile, House Republican leaders said they were talking to their rank-and-file members with the aim of releasing a budget blueprint soon. Lawmakers met for more than four hours at the White House on Thursday and more than three hours that night at the Capitol.

"We have a framework that I think can work," said Speaker Mike Johnson (R., La.), who indicated that a plan would likely be released by Monday.

The House's narrow and fractious majority -- 218-215 right now -- is a potential advantage for Johnson. If he can somehow get everyone together on a single bill, he can make a case to the Senate that there is no other plausible alternative.

However, getting everyone in the House GOP behind a single plan is a nearly impossible juggle. A change that placates conservative spending-cutters frustrates moderate lawmakers -- and vice versa.

At the White House on Thursday, Johnson and his leadership team had argued for setting a target of $1 trillion in savings over a decade, according to one person in the room, aiming to set a low bar that lawmakers would then be in a position to exceed when they actually write a bill. But conservatives have sought a higher floor of more than $2 trillion.

Republican leaders believe if they can get to $2.5 trillion in cuts over a decade, they will have their entire majority on board with the bill, said a person familiar with the internal discussions.

By Richard Rubin

DETAILS

Subject:	Fiscal policy; Leadership; Federal budget; Tax cuts; Legislators; Border security
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LINKS

U.S. News: Musk-Targeted Agency Provides Aid Around the World

Pisani, Joseph; McKay, Betsy . Pisani, Joseph; McKay, Betsy.

ProQuest document link

FULL TEXT

Elon Musk, the billionaire adviser to President Trump, is targeting the U.S. Agency for International Development as part of his directive to slash federal spending.

USAID provides financial aid to countries around the world. Its funds help combat human trafficking, battle diseases, feed people in places ravaged by famine and support American-allied countries affected by war.

What happened to USAID?

Musk's Department of Government Efficiency moved to exert control over USAID over the weekend, clashing with security officials before accessing the foreign-aid organization's classified systems.

The moves marked the start of a far-reaching campaign by Musk to upend the federal government agency by agency, according to his allies.

Trump is planning to fold USAID into the State Department by executive order, The Wall Street Journal has reported, and Secretary of State Marco Rubio told reporters Monday that he is the acting director of USAID.

President John F. Kennedy created the agency in 1961, based on a foreign-assistance law Congress passed that year. Congress made it an independent agency in 1998.

The Trump administration removed the agency's website, USAID.gov, and placed it into a subsection of the State Department's website.

The administration closed USAID's headquarters at the Ronald Reagan Building in Washington, D.C., to workers on Monday, instructing them to work remotely.

Can the Trump administration legally do this?

Congress gave USAID independent legal authorities and dissolving it as an independent agency would take another act of Congress, said Matthew Kavanagh, director of the Center for Global Health Policy &Politics at Georgetown University. Article I of the Constitution gives Congress the prerogative to create or abolish agencies, he said.

The White House didn't respond to a request for comment.

Why are Trump and Musk targeting USAID?

Gutting USAID fits into Trump's campaign promise to cut aid to foreign countries.

Republican critics say USAID is wasting taxpayer money on programs that promote liberal causes, such as abortion.

USAID has said it is barred from funding abortions by law. It does fund post-abortion care for women to prevent maternal deaths, the agency has said. Rubio said Monday USAID's work has to be aligned with American foreign policy.

Democrats say USAID saves lives and provides foreign aid quickly in times of crisis. USAID supporters also say the agency is an important tool of diplomacy, separate from foreign policy.

How big is USAID?

The agency had a budget of roughly $44.2 billion in fiscal 2024, or 0.4% of the federal budget, according to USAspending.gov. It has more than 10,000 workers. About two-thirds of them serve overseas, according to the Congressional Research Service.

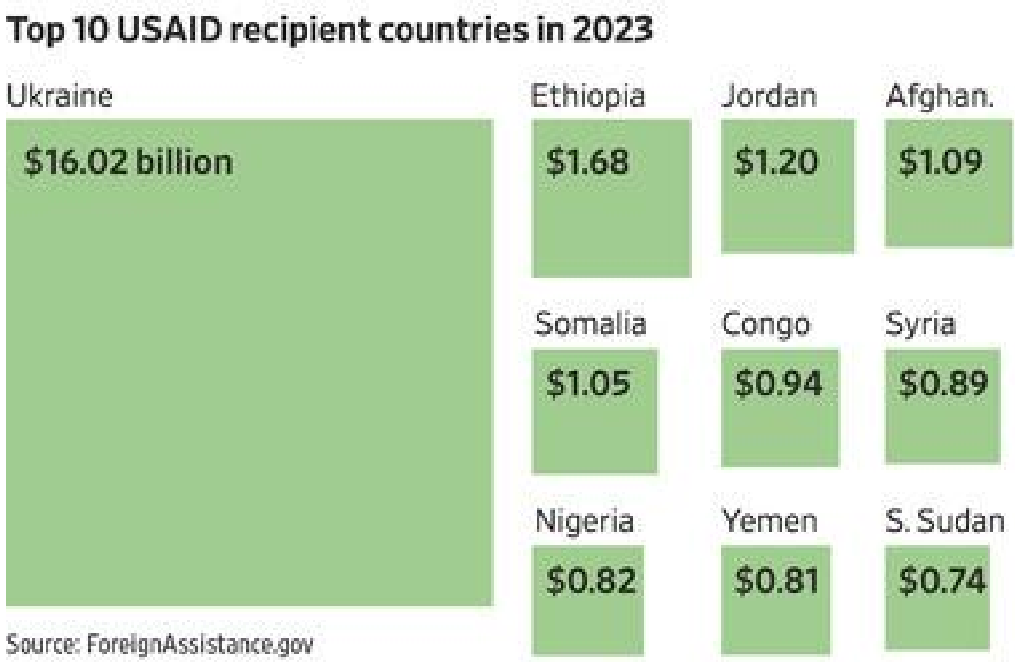
What are some examples of USAID's work?

USAID gave assistance to about 130 countries in fiscal year 2023. The top 10 recipients were Ukraine, Ethiopia, Jordan, the Democratic Republic of Congo, Somalia, Yemen, Afghanistan, Nigeria, South Sudan and Syria.

What would aid cuts do?

Large cuts in humanitarian aid could mean people outside the U.S. lose access to vaccines, food and maternal care, said Maryam Deloffre, associate professor of international affairs at George Washington University.

(See related letters: "Letters to the Editor: Is Scrapping USAID Prudent or Pernicious?" -- WSJ Feb. 18, 2025)



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By Joseph Pisani and Betsy McKay

DETAILS

Subject:	American history; Abortion; Foreign aid; Foreign policy
Location:	United States--US
People:	Musk, Elon
Company / organization:	Name: Agency for International Development; NAICS: 928120
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LINKS

Trump and Congress Need to Attack the U.S. National Debt

Arrington, Jodey . Arrington, Jodey.

ProQuest document link

FULL TEXT

Treasury Secretary Scott Bessent is concerned about America's large and growing national deficit. "We have never seen this before when it is not a recession or not a war," he said during his confirmation hearings. He's right. Our deficit is unsustainably high, and without a course correction it will undermine efforts to promote economic growth and reduce inflation and threaten our standing as the world's superpower.

Joe Biden's fiscal legacy can be summarized in one shameful milestone: The federal government now spends more paying interest on the national debt than it does on defense. Interest spending nearly tripled during Mr. Biden's term. This is a disastrous result of his reckless spending spree, which ballooned the debt, triggered rampant inflation and increased borrowing costs for consumers and businesses. As Republicans prepare to turn the page and execute President Trump's America-first agenda, surging interest costs represent a ticking time bomb that must be defused.

Despite the Federal Reserve's cutting interest rates by a percentage point since September, bond yields have been surging, hitting their highest levels in more than a year in mid-January. While multiple factors influence this trend, a major culprit is America's untenable long-term debt. As the debt grows, Washington must borrow more money to finance it. Investors, looking to mitigate risk amid such profligate federal spending, demand higher returns on U.S. Treasurys. This leads to compounding interest payments and even more borrowing and debt.

The average interest rate that the federal government pays on our national debt is 3.3% -- about double what it was when Mr. Trump left office. In 2024 net interest costs accounted for 18% of federal revenue, and nearly half of every dollar we borrowed went to finance the debt. This trend is continuing: By 2035 interest payments will suck up almost a quarter of federal revenues, and about two-thirds of every dollar borrowed will go to finance the debt.

Left unchecked, these payments are on track to become the single largest item in the federal budget by 2051, crowding out private investment and national priorities like infrastructure and national defense. If interest rates exceed expectations, this could happen even sooner. My economics team calculates that if borrowing costs are just 1 percentage point higher than projected, it would add an additional $5 trillion to the national debt over 10 years.

Higher rates of federal borrowing lead to higher borrowing costs for businesses and families on everything from mortgages to car loans to small-business financing. This stifles economic growth and strains household budgets. Rising national debt makes everyone pay more.

It's time to face reality. The era of spending without limits or accountability has reached its breaking point. We must start by reducing the debt, a challenge that's daunting but not insurmountable. Our debt-to-GDP ratio hovers around 123%, an all-time high excluding the height of the Covid-19 pandemic. In 2024 the federal deficit was 6.4% of GDP, higher than most times of peace and relative prosperity throughout history. According to a 2010 study in the American Economic Review, countries with debt-to-GDP ratios exceeding 90% experience median growth about 1 percentage point lower -- and average growth nearly 4 percentage points lower -- than nations with lower debt burdens.

Reversing this trend offers clear benefits. According to the Congressional Budget Office, every 10-percentage-point reduction in our debt-to-GDP ratio could lower interest rates by a quarter point, saving tens of billions of dollars annually. The CBO also estimates that stabilizing our debt-to-GDP ratio could add $5,500 to real per capita income by 2054. Lower debt levels would restore investor confidence, reduce borrowing costs and secure America's economic future. This is why the 119th Congress must focus its attention on reducing the deficit.

It's a perilous path for a nation to spend more to finance its past than to secure its future. If interest costs continue to spiral out of control, it will undermine economic stability and global trust in the dollar. To realize the benefits of pro-growth policies such as tax reform and regulatory relief, we must root out wasteful, fraudulent and unnecessary spending and restore the fiscal health of our country. True fiscal discipline is the only path forward.

Washington has a surplus of possible avenues but a deficit in political will to get the job done. Enter Mr. Trump. His political courage exceeds that of any president in modern political history. He's risked his life pursuing solutions to America's problems, from border insecurity and unfair trade practices to our waning leadership on the world stage. Under his leadership, by cutting spending and controlling the national debt, the U.S. can launch an era of unparalleled strength and prosperity.

Mr. Arrington, a Texas Republican, is chairman of the House Budget Committee
(See related letter: "Letters to the Editor: Attack the Debt, but Don't Forget Entitlements" -- WSJ Feb. 7, 2025)
By Jodey Arrington

DETAILS

Subject:	Federal budget; Borrowing; Interest costs; Debt management; Economic development; Federal Reserve monetary policy; Gross Domestic Product--GDP; Interest rates; National debt; Economic growth; Budget deficits
Business indexing term:	Subject: Federal budget Borrowing Interest costs Debt management Economic development Federal Reserve monetary policy Gross Domestic Product--GDP Interest rates National debt Economic growth Budget deficits; Industry: 92113 : Public Finance Activities 52111 : Monetary Authorities-Central Bank
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Bond Markets Prepare for More Expansionary U.S. Fiscal Policies -- Market Talk

FULL TEXT

0814 GMT - Bond markets have already begun to reprice in anticipation of more expansionary fiscal policies, deregulation, and easier financial conditions, J.P. Morgan Asset Management's Iain Stealey says. This repricing has prompted the Federal Reserve to adopt a more cautious stance on monetary easing, the international CIO for fixed income says in a note. U.S. 10-year Treasury yields have recently risen to a 14-month high and the yield curve has steepened. The cash U.S. Treasury market is closed on Monday, with the market focusing on Trump's inaugural speech, with potential hints at fiscal policies, and on executive orders. (emese.bartha@wsj.com)

(END)

January 20, 2025 03:14 ET (08:14 GMT)

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LINKS

U.S. News: Democrats Help GOP Advance Migrant Crackdown

Martinez, Xavier . Martinez, Xavier.

ProQuest document link

FULL TEXT

WASHINGTON -- The GOP-led Senate on Friday voted to move forward with a sweeping bill that would require the Department of Homeland Security to detain undocumented immigrants arrested for theft-related offenses and dramatically expand the power of states to challenge immigration decisions.

Ten Democrats sided with Republicans to advance the legislation, called the Laken Riley Act, a sign of the Democrats' shifting stance on immigration. Polls showed voters consistently favored Republicans' hard line on the border and immigration, following a surge of illegal crossings that has since subsided. A bipartisan bill backed by President Biden stalled last year.

The chamber voted 61-35 to end debate on the bill, above the 60-vote threshold required for most legislation to advance. The vote puts the bill on track to clear the Senate next week on a simple majority, which would then send it back to the House to be approved and forwarded on to Donald Trump's desk once he is president.

Supporters say the measure would provide justice to families who have had loved ones killed by undocumented immigrants and prevent more deaths. Pro-immigrant groups and some law enforcement argue it manipulates a personal tragedy, raises due-process concerns and would require billions of dollars in new spending to be properly implemented.

"We have irresponsible, open-border, soft-on-crime policies, and that must end," said Sen. Katie Britt (R., Ala.), who spearheaded the legislation that was joined by two Democratic co-sponsors, Ruben Gallego of Arizona and Pennsylvania's John Fetterman.

Some Democrats attempted to force votes on amendments to exclude Deferred Action for Childhood Arrivals, or DACA, recipients, as well as minors who arrived in the country illegally but aren't DACA-eligible. Senate Majority Leader John Thune (R., S.D.) declined to bring any to a vote.

Senate Minority Leader Chuck Schumer (D., N.Y.) said he couldn't support the legislation "without more changes to address deficiencies." Schumer noted that, while dozens of amendments had been filed, only two have received a floor vote. "We Democrats want to see our broken immigration system fixed."

The Laken Riley bill would widen the group of people eligible for deportation by including nonconvicted individuals, raising due-process concerns and rapidly expanding the pool of individuals who would be eligible for deportation.

A second provision of the bill would grant state attorneys general legal standing to sue federal immigration officials and to request intervention for individual cases. Some Democrats and legal experts said they expect the standing provision, a doctrine grounded in the Constitution, to be challenged as unconstitutional.

An amendment from Sen. Chris Coons (D., Del.) that would have eliminated the provision granting attorneys general legal standing to sue was rejected in a party-line vote.

The Laken Riley Act could cost billions and take years to fully implement. A memo from U.S. Immigration and Customs Enforcement circulated among senators before Friday's vote estimated the annual cost of encoding the bill to be nearly $27 billion -- about a quarter of the Homeland Security Department's budget for the 2025 fiscal year.

The legislation's namesake, Laken Riley, a 22-year-old nursing student in Athens, Ga., was murdered by a Venezuelan national living in the U.S. illegally.

By Xavier Martinez

DETAILS

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Business indexing term:	Industry: 92213 : Legal Counsel and Prosecution
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LINKS

U.S. News: Deaths in the U.S. To Outpace Births By 2033, CBO Says

Kiernan, Paul . Kiernan, Paul.

ProQuest document link

FULL TEXT

The Congressional Budget Office forecast sharply lower population growth in the U.S. during the next three decades than it projected one year ago, reflecting lower rates of immigration and fertility.

As a result, deaths are expected to exceed births in 2033, seven years earlier than the nonpartisan agency projected a year ago. Immigration is also projected to fall, and as a result the populace is likely to be older and smaller in 2054 than previously expected. That would have important implications for everything from economic growth to fiscal policy.

In an annual demographic outlook, released Monday, the CBO raised its population estimate for 2025 to 350 million from 346 million, but lowered its estimate for 2054 to 372 million, 11 million fewer than a year ago. That means the population is projected to grow 6.3% during the next three decades, instead of 10.5%.

"Without immigration, the population would shrink beginning in 2033, in part because fertility rates are projected to remain too low for a generation to replace itself," the CBO said.

Less expected immigration and lower fertility rates were behind the long-term changes to the CBO's outlook, which draws data from a variety of government sources and reflects the laws and policies that were in place as of Nov. 15.

Restrictions at the southern border imposed by the Biden administration in June caused net immigration -- the difference between people coming into the U.S. and people leaving -- to fall short of the CBO's initial projections for last year.

Because the effects of those executive actions are expected to continue, the CBO reduced its cumulative net-immigration forecast for the 2024-28 period to 8.6 million from 9.9 million. Over the longer term, the CBO expects immigration to add about 1.1 million people to the U.S. population a year, about 42,000 fewer than it projected a year ago.

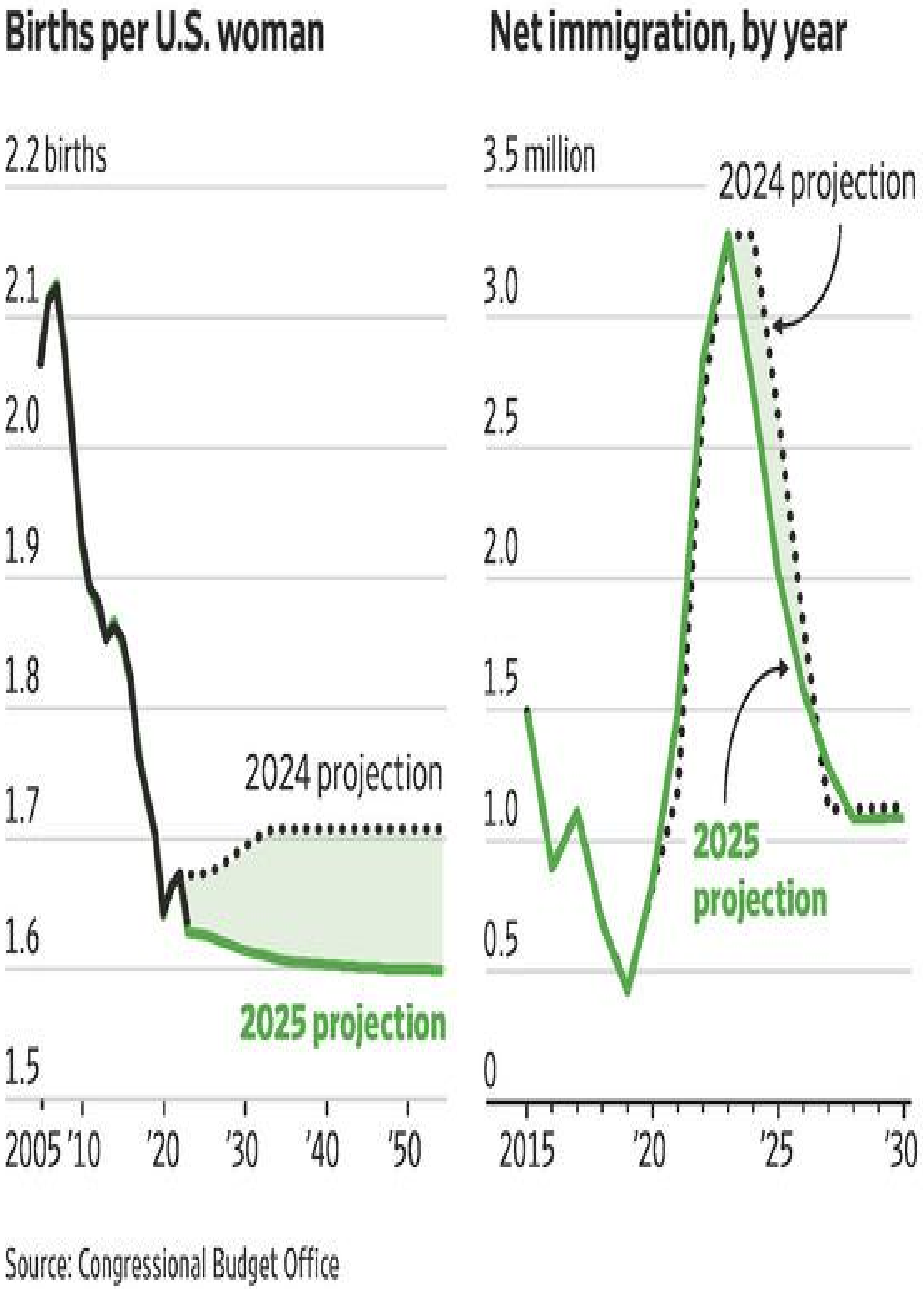
The CBO's outlook doesn't incorporate the possible effects of President-elect Donald Trump's planned crackdown on illegal immigration, which remain highly uncertain. Economists at Goldman Sachs forecast net immigration during Trump's presidency of about 750,000 a year.

The outlook shows how even small demographic changes from one year to the next can add up over several decades to meaningfully alter the makeup of the U.S. population.

For instance, the CBO now expects there to be 93 million people ages 24 or younger in 2054, down from 106 million in 2025. A year ago, the CBO expected that age group to remain mostly stable over the coming decades.

Population growth drives the labor force, which, along with productivity, determines the size of the economy, tax revenue and the relative economic strength of the U.S. compared with competing nations like China.

The expected drop reflects the fact that Americans are having fewer children. Last year, the CBO projected the fertility rate -- the number of children the average woman is expected to have over her lifetime -- would hold steady at 1.7 through 2054. But procreation hasn't recovered much from the pandemic: In 2023, the U.S. fertility rate was a hair above 1.6.



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By Paul Kiernan

DETAILS

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LINKS

U.S. News: Fed Official Says Further Cuts Can Wait --- Musalem suggests he favors greater caution in trimming interest rates more

Timiraos, Nick . Timiraos, Nick.

ProQuest document link

FULL TEXT

ST. LOUIS -- A Federal Reserve official said he viewed last month's decision to lower interest rates as a "close call" because the economic outlook appears to be different now than it was when the central bank started cutting rates four months ago.

St. Louis Fed President Alberto Musalem said by the time of last month's meeting the risk that inflation might get stuck between 2.5% and 3% had increased. As a result, he thought greater caution would be appropriate in making further reductions.

Musalem had previously indicated he was supportive of the Fed's decision to begin cutting rates with a bolder half-point rate cut in September. "Since September, the picture changed," he said in an interview at the bank on Thursday. "The economic data came in stronger . . . and the inflation numbers printed higher than desired. So I changed my assessment of risks."

Going forward, rate reductions "have to be gradual -- and more gradual than I thought in September," he said.

Musalem, an economist who spent much of his career in finance, joined the bank last April and will take a turn as a Fed voter this year. He said he wasn't one of four officials last month who suggested a rate cut wasn't needed in projections submitted at the meeting. He said he penciled in two cuts for this year in those projections, putting him in line with the median of 19 participants who submitted them.

Among the puzzles facing Musalem and his colleagues this year is what constitutes a "normal" or neutral interest rate that neither spurs nor slows growth. That question hadn't been relevant for most of last year because the Fed had lifted rates to a two-decade high to combat inflation.

But with inflation declining and worries mounting about weaker labor-market conditions last summer, the Fed began lowering rates. Officials cut rates at each of their last three meetings by a combined percentage point. Fed officials have broadly signaled they are inclined to hold rates steady at their meeting Jan. 28-29.

Musalem said the labor market is in good shape and needs to be watched carefully, but the part of the Fed's mandate that is "still out of bounds is on the inflation side."

Musalem said that because his estimate of the neutral rate is slightly higher than most of his colleagues', the current setting of interest rates might be slightly less restrictive than would be appropriate.

He said it was too soon to say how the Fed might need to adjust its interest-rate stance if the incoming Trump administration follows through with threats to impose broad new tariffs that send up the price of consumer goods and services. The "textbook response" would call for not changing the Fed's policy outlook if prices rise in a one-off fashion, Musalem said.

"Will it be a 'one-and-done' or will it be two years of a sequence of tariffs in many different sectors of the economy?" he said. "If it's over two years, incrementally, every month or every two months, it gets harder to parse out."

Fed officials are uneasy because they believe consumers' and businesses' expectations of future inflation can be self-fulfilling. After several years of high inflation triggered by the pandemic and a policy response that showered the economy with ultralow interest rates and fiscal stimulus, it is harder to predict how a new round of price hikes could

influence expectations.
"It's a $30 trillion economy. It's very complex. It's not a textbook," said Musalem. "We're going to have to wait and see what is implemented, how it's implemented, what's the size, what's the duration, what are the interactions with other countries."
Long-term interest rates have climbed notably in the months since the Fed's first cut, with yields on the 10-year Treasury note hitting their highest level in more than a year on Friday. But Musalem said he thinks financial conditions are still supporting economic activity.
Musalem said higher long-term rates mostly reflect an increase in "real" or inflation-adjusted yields, meaning they don't reflect expectations of higher inflation by investors.
"That's not to say that inflation expectations didn't rise a little bit. They did. But I think 70% of the move has been the real rate," Musalem said. Higher real rates, in turn, mostly reflect an increase in what's known as the "term premium" or the extra yield that investors demand for the risk of buying longer-dated securities, he said.
By Nick Timiraos

DETAILS

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Business indexing term:	Subject: Federal Reserve monetary policy Inflation Interest rates Tariffs; Industry: 92113 : Public Finance Activities 52111 : Monetary Authorities-Central Bank
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LINKS

US fiscal policy needs to be put on a sustainable path, says Yellen

ProQuest document link

FULL TEXT

US Treasury Secretary Janet Yellen said on Wednesday that it was urgent to ensure that US fiscal policy returned to a sustainable path. "I hope the new administration takes this seriously," she said in an interview with CNBC.

Yellen explained that, with high interest rates, the cost of servicing the debt has increased recently, which strengthens the need for a tighter fiscal policy. According to her, the resilience of economic indicators could slow down the process of cutting the prime rate.

The secretary acknowledged that there had been limited progress in the fight against inflation in recent months, but said she was convinced that price indices were on a downward trend.

Yellen acknowledged that increased fiscal spending may have contributed to the inflation shock since mid-2021, but attributed the movement primarily to turbulence in supply chains

For her, the labor market has cooled and is at levels similar to those observed before the covid-19 pandemic.

Yellen also indicated that she was in favor of reforming the debt ceiling and said that the mechanism does not play a constructive role in fiscal policy.

On China, Yellen stressed that it is important for the US to maintain a dialogue with the Asian country and said that communication channels between the two have improved - even though Beijing was accused of hacking into US systems at the end of December.

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LINKS

Fitch flags concerns over 'significant' US fiscal policy challenges

ProQuest document link

FULL TEXT

The United States is facing "significant" tax-and-spend challenges this year that are unlikely to be swiftly resolved by Congress, the ratings agency Fitch said Tuesday, flagging a recent "deterioration" in governance.
Congress has had frequent battles in recent years over the best way to tackle growing spending commitments, with lawmakers divided over whether to tax more, spend less, or do both at the same time.
That is unlikely to change with the return of President-elect Donald Trump, who pledged on the campaign trail to ring-fence spending on things like social security benefits while also promising to extend tax cuts due to expire at the end of the year.
The United States now faces "significant fiscal policy challenges in 2025 relating to the debt limit, appropriations, and tax cuts in the context of already large deficits and an increasing debt burden," Fitch Ratings said in a statement.
"We believe it is unlikely that these will be resolved expeditiously because of long-standing weaknesses in the federal government's budgetary process and a narrow Republican House majority," it added.
Although Republicans will control both houses of Congress and the White House come inauguration day on January 20, they will hold only a razor-thin majority in the House, making it difficult to pass controversial decisions like raising the debt limit and finalizing appropriations.
"The absence of a unifying budget process and the forthcoming policy debate around additional tax cuts and spending adjustments amid a still-challenging political backdrop means that important decisions are likely to be reached on an ad hoc, issue-by-issue basis," they continued.
The note said that the "base-case assumption" was, however, that issues would be resolved.
The situation, they added, underscores the United States' "deterioration in governance on fiscal matters over recent years."
da/aha

DETAILS

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Press Release: Fitch Ratings: US Faces Several Fiscal Policy Challenges in 2025 -2-

ProQuest document link

FULL TEXT

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LINKS

Press Release: Fitch Ratings: US Faces Several Fiscal Policy Challenges in 2025

ProQuest document link

FULL TEXT

The following is a press release from Fitch Ratings:

Fitch Ratings-London/New York-07 January 2025: The U.S. (AA+/Stable) faces significant fiscal policy challenges in 2025 relating to the debt limit, appropriations, and tax cuts in the context of already large deficits and an increasing debt burden, Fitch Ratings says. We believe it is unlikely that these will be resolved expeditiously because of long-standing weaknesses in the federal government's budgetary process and a narrow Republican House majority.

The latest debt limit suspension expired at the start of this year, and the Treasury estimates that the new limit of USD36.1 trillion will become binding between January 14-23, 2025. December's continuing resolution (CR) keeps the federal government funded until March 14, 2025. And the tax cuts enacted in 2017 are set to expire at end-2025.

Based on previous events, we assume that the debt limit will be increased, or suspended again, before the so-called x-date, when cash balances and 'extraordinary measures' used to meet financial obligations are exhausted. We think the x-date will likely fall in the summer, perhaps as late as July or August, considering the Treasury's cash balance ended 2024 at close to USD722 billion and given our expectation that tax receipts will pick up significantly from last year.

However, we think it is unlikely that debate to increase or suspend the debt limit will be resolved early in 2025 given the significant disagreements on spending policies in Congress. A pre-Christmas government shutdown was only averted at the last minute, after a contentious debate around president-elect Donald Trump's insistence that funding be tied to a fresh suspension/increase of the debt limit, and disagreements over certain spending items.

December's events were consistent with our expectation that Congress would rely on CRs, pushing the appropriations process into this year and demonstrating the potential obstacles to securing agreements on fiscal measures, both within Congress and between Congress and the President. The Republican clean sweep in last year's elections has not eliminated the need to build consensus, as seen when several congressional Republicans voted against a spending bill favoured by the president-elect that would have raised the debt limit.

Persistent policy disagreements, especially on spending matters, and the narrow Republican House majority mean that we doubt that all the required appropriations bills will be passed by March 14, requiring another CR to avoid a shutdown. The Republicans won 220 seats in November, five more than the Democrats, but the resignation of Matt Gaetz and the appointment of two other House Republicans to roles in the Trump administration would temporarily shrink their majority to just two.

This could lead to a busy period over the summer in which policymakers try to finalize appropriations bills, raise or suspend the debt limit before the x-date, and reach agreement on extending the 2017 tax cuts. Our base-case assumptions are that these issues will be resolved. But the absence of a unifying budget process and the forthcoming policy debate around additional tax cuts and spending adjustments amid a still-challenging political backdrop means that important decisions are likely to be reached on an ad hoc, issue-by-issue basis, underscoring the U.S.'s deterioration in governance on fiscal matters over recent years.

The policy assumptions underlying Fitch's U.S. fiscal deficit and debt projections reflect the weak fiscal framework and apparent lack of appetite across the political spectrum for a policy mix that would ensure durable and structural deficit reduction. We assume the 2017 tax cuts are extended, while non-defense discretionary spending is only 15% of the budget, leaving little room for significant cuts.

We forecast general government (GG) deficits to exceed 7.5% of GDP in 2025 and 2026, notwithstanding resilient GDP growth and the associated cyclical personal and corporate revenue benefits, plus capital gains from strong stock markets in 2024, and additional tariff revenues.

Large fiscal deficits in line with these forecasts would push GG debt above 120% of GDP in 2026, over twice the forecast 'AA' category median. The interest burden has risen sharply as well, given significantly higher average interest rates than in 2008-2022 and the ballooning debt. The interest expense is now the second-largest spending item for the U.S. government, topping defense spending and Medicare (only social security is higher). As longer-term pressures from population aging and social-security spending come into focus, rising GG debt remains among the key sensitivities of the U.S. sovereign rating.

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LINKS

EXCHANGE --- Heard on the Street: The Biggest Losers From High U.S. Rates

Sindreu, Jon . Sindreu, Jon.

ProQuest document link

FULL TEXT

[Financial Analysis and Commentary]

Like many of America's products, the country's monetary policy might have its biggest impact abroad.

The Federal Reserve's latest policy meeting in mid-December was taken badly by equity investors. While officials lowered interest rates for the third consecutive time, they were more hawkish about 2025. Derivatives markets, which at the end of September were pricing in between four and five rate cuts, now expect only one.

Still, both the S&P 500 and the Nasdaq have staged a decent rebound over the past week, buoyed by the usual holiday bargain hunting. But the Stoxx Europe 600 has struggled.

Unlike in the U.S., the gross domestic products of the eurozone and the U.K. haven't resumed the growth path that they had before the pandemic. Europe is home to far fewer technology companies, and fiscal stimulus was less generous there. China's manufacturing spree is threatening the export-focused model of the eurozone's core economies.

Also, high borrowing costs appear to have been far more effective at damping demand for bank loans in the eurozone than in the U.S. in 2023 and 2024, according to official surveys.

Based on how the European Central Bank and the Bank of England have set policy, it would have been difficult to tell any of this. While the former was first to cut rates this year and the latter has now fallen a bit behind, they have both spent the past three years moving basically in lockstep with the Fed.

To be sure, the eurozone still has lower borrowing costs in absolute terms. Benchmark rates there stand at 3%, compared with a 4.25% to 4.5% target in the U.S.

But this is because Fed officials figure the "neutral rate" is around 2.9% in the U.S. Meanwhile, ECB President Christine Lagarde estimates it somewhere between 1.75% and 2.5% in the eurozone, given its slower long-term growth.

Investors are betting that the ECB will go on a rate-cutting spree next year to get to the lower end of this range, even as the Fed and the BOE mostly stand pat.

Median forecasts on Wall Street suggest that the divergence in economic growth across the Atlantic will keep widening in 2025. With the European Union's fiscal rules having been re-established in April, austerity could make a comeback, or at least remain a sore point in the midst of political crises in Germany and France. The U.K.'s outlook is clouded by budget consolidation.

That leaves the BOE and the ECB to act. Both have often pushed back against the idea that they track the Fed. Yet the experience of the past few years should give investors pause.

Why are Western central bankers so reluctant to break ranks? For one thing, the recent global inflation surge suggests that central banks actually have quite a limited ability to enforce their mandates and influence prices, which can be greatly influenced by global, supply-driven phenomena. Inflation can rise even if growth weakens. To minimize political backlash, their incentive is to ape one another, often fighting yesterday's war, rather than anticipating the future needs of their specific domestic economies.

Absent a recession, don't expect Europe to switch to full-on monetary stimulus -- that is, unless the U.S. does so first.

By Jon Sindreu

DETAILS

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LINKS

A True Budget Reconciliation Plan

McClintock, Tom . McClintock, Tom.

ProQuest document link

FULL TEXT

Our country is in dire economic straits. Years of profligacy under both parties have dug a fiscal hole so deep that interest on the national debt exceeds defense spending. To address this growing crisis, some are counting on the nascent Department of Government Efficiency. Others propose a bipartisan fiscal commission to spending cuts.

But Congress alone holds the purse strings. The federal government can't raise or spend a single dollar unless Congress says it can. Fiscal responsibility rests with lawmakers -- and can't be dodged, or DOGEd.

Fortunately, 50 years ago, Congress developed a process specifically designed to bring spending in line with revenues: budget reconciliation. Unfortunately, it has rarely been used for its intended purpose.

Reconciliation is beautiful in its efficiency. First, a majority in the House and Senate adopt a budget resolution setting revenue and spending targets. The appropriate committees then formulate and report plans to meet these targets. The Budget Committee in each chamber combines the plans into a single bill, and both chambers separately pass their versions of the bill via simple majority. They then reconcile any differences in the legislation before sending it to the president for his signature.

There's one catch: The reconciliation process can be used only for reforms necessary to implement the budget. It can't be used for general policymaking.

When budget reconciliation is used as intended, it significantly reduces deficits. During the Clinton administration, reconciliation bills in 1996 and 1997 helped create a balanced budget in 1998, including by establishing landmark work requirements that dramatically reduced welfare rolls. These reforms restrained government spending, created incentives for work, and gave the economy room to grow.

Too often, though, reconciliation has been used to enact comprehensive policy changes that failed or fizzled. In 2021 Democrats used reconciliation to pass the $1.9 trillion American Rescue Plan, which ballooned the deficit and helped ignite the worst inflation in 40 years. In 2017 Republicans attempted to enact comprehensive healthcare reform within the narrow confines of reconciliation, resulting in a mess that collapsed on the Senate floor. The Tax Cut and Jobs Act of 2017 passed via budget reconciliation, but to conform to the process's requirements, most of the provisions were made temporary.

Republicans in 2017 achieved no healthcare reform and only temporary tax relief, and in exchange, they squandered the chance to prevent the fiscal debacle we now face.

The incoming Republican congressional majority has a rare second chance to save our country from insolvency. It must not repeat the mistakes that brought us here. Republican leaders in the House and Senate are again proposing to use the reconciliation process not as it was designed -- to set and adhere to spending limits -- but rather to chase shiny policy objectives, including tax reform, energy development and border security.

These are vital reforms, and many aspects of them can indeed be realized through the reconciliation process. But reconciliation can't produce comprehensive policy reform. What it can produce is comprehensive fiscal reform at a moment when our nation most needs it. Congress must pass a reconciliation bill to amend the laws that put so much government spending on autopilot.

The American people voted in November to give us the tools and the trust to save our country. We must prove worthy of that trust by averting fiscal disaster.

Mr. McClintock, a Republican, represents California's Fifth Congressional District.

By Tom McClintock

DETAILS

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LINKS

U.S. News: Spending Revolt Is Ominous for GOP --- Party tensions present challenges for tackling tax and spending priorities

Rubin, Richard . Rubin, Richard.

ProQuest document link

FULL TEXT

WASHINGTON -- The DOGE caught the CR, and the road only gets bumpier from here.

The latest episode of House Republicans' fiscal-policy psychodrama featured a familiar problem -- how to unite a fractious and slim majority around a continuing resolution, or CR, to keep the government open. That was tough enough before Elon Musk, co-head of President-elect Donald Trump's Department of Government Efficiency, or DOGE, spurred Republicans to chuck a bipartisan agreement that included a series of unrelated deals.

The denouement was familiar, too. After scrapping the 1,500-plus page bipartisan bill at Musk's urging, Republicans tried a Trump-blessed version. That failed, too. The ultimate bill to keep the government open and provide aid to farmers and disaster victims relied on Democratic votes and it excluded Trump's main demand -- an increase in the debt ceiling that would keep that hot potato out of his lap next year. Trump and Musk showed their power to tear apart legislation but didn't demonstrate a way to put it back together.

It is an ominous sign for next year's all-Republican government, when the GOP will try to push Trump's border, energy, defense, tax and spending priorities into law through narrow majorities while keeping the government open and legally able to borrow.

There can be healthy tension inside a governing coalition. But fractures among Republicans on spending and tactics are tough to paper over, especially with, at best, a 220-215 majority in the House and a 53-47 majority in the Senate.

"We share a lot of things in common as a party -- the border, the economy, inflation -- and this is a time that our family's having some good discussion on how we go forward," Rep. Nick LaLota (R., N.Y.) said.

For more than a decade, House Republicans have been hard to corral. The most antispending, antileadership members demand deep cuts that trouble moderates. Then, they get restless when major spending bills become law without them. Like three speakers before him, that dynamic is threatening Mike Johnson's survival when the House convenes Jan. 3 to elect a speaker.

"It's maddening to see the same thing play out each time," said Rep. Mike Quigley (D., Ill.)

House Republicans have racked up some accomplishments -- tax cuts in 2017 under Trump, spending-cut deals with President Barack Obama in 2011 and President Biden in 2023. But they have also been left out of some spending agreements.

While some GOP lawmakers prioritize deep spending cuts and smaller budget deficits, others seek increases in military spending or agriculture assistance, and so there typically aren't enough votes to force the depth of cuts that hard-line conservatives want. Just last week, alongside the spending bill, a majority of Senate Republicans joined with Democrats to pass a $196 billion deficit-increasing expansion of Social Security that removes 41-year-old limits on

what benefits some public-sector workers can receive.
The narrow majorities next year will empower every Republican to make demands. That will be true on spending bills that require cooperation with Senate Democrats and on tax and border-funding legislation Republicans will try to pass alone while sidestepping the Senate filibuster. A handful of Republicans in either chamber -- or a social-media post from Trump or Musk -- could take down a long-gestating piece of legislation.
Chances for chaos abound. On taxes alone, New York and New Jersey lawmakers are insisting on a significant increase in the $10,000 cap on state and local tax deductions.
Some Republicans say Congress must repeal Biden's clean-energy tax breaks while others warn against disrupting clean-energy investments. Some House Republicans worry about tax cuts increasing deficits unless spending cuts are attached, while senators are planning ways to make extending expiring tax cuts look costless.
Still, Trump is the party's one unifying force.
"We're going to need a lot of help from President Trump and the rest of the Republican Party to keep this together," said Rep. Max Miller (R., Ohio).
But, in his first term, Trump engaged haltingly and fitfully in the legislative process, not diving into most details -- until he did. Last week showed the limits of his influence. He demanded that Republicans include an increase in the debt ceiling and said failing to do so would betray the country.
When Republicans moved a bill that included Trump's demand, 38 Republicans voted no. The final bill passed without it.
Musk's involvement is another wild card. In Trump's first term, Republicans had one influential billionaire tossing flames into legislative dealmaking with tweets. Now, they will have two. Musk is animating the party's right flank, the antileadership faction that evolved into the House Freedom Caucus. Still, the prospect of significant tax and border legislation could be clarifying and produce the unity.
Lawmakers are waiting for Trump to decide how to structure their legislative agenda. Senators generally prefer a two-bill strategy, starting with a border bill and following with major tax legislation. Their idea is to build momentum with something that unifies the party, and then move on to something more complex.
Rep. Jason Smith (R., Mo.), chairman of the House Ways and Means Committee, wants everything together, partly because border spending and other GOP priorities may be needed to pass the tax bill. Lawmakers see the tax bill as must-pass legislation because failure means a tax increase for most households in 2026.
"This week is a clear indicator that the best and quickest approach to deliver on all of President Trump's priorities that he campaigned on is to have a big, beautiful package," Smith said Friday.
By Richard Rubin

DETAILS

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LINKS

GOP Takes Control, Headed for a Fiscal Cliff

Hensarling, Jeb . Hensarling, Jeb.

ProQuest document link

FULL TEXT

Republicans' election celebrations will have to give way next year to dealing with what Washington calls the "fiscal cliff." Key provisions of the historic 2017 Trump-Pence Tax Cuts and Jobs Act will expire then and the debt ceiling, currently capping a record gross national debt of $36.1 trillion, will be breached. Also next year, the Pay-As-You-Go Act -- which prohibits new legislation from increasing projected deficits -- will require $190 billion of mandatory spending cuts, and enforceable discretionary spending caps will expire. According to an analysis by the Economic Policy Innovation Center, if Congress continues current policies next year, another $5 trillion will be added to the national debt.

Congress should be alarmed. Although the Fed has been cutting rates, bond yields have been rising, and some Treasury auctions this year have been weak. That suggests that bondholders are beginning to question America's ballooning national debt. They likely have noticed that debt service is the fastest-growing line item in the federal budget, now exceeding that of the Pentagon. Congress should follow the Hippocratic counsel to "do no harm" -- it can ill afford to make our unsustainable debt even worse.

Besides giving us a robust economy and higher living standards, the Tax Cuts and Jobs Act showed that favorable tax policy also produces more tax revenue. As Congress revisits the TCJA, it can make the tax code even "growthier," to borrow a word coined by former Trump adviser Larry Kudlow. That doesn't necessarily mean making the entire TCJA permanent, but it does mean making permanent provisions like the 20% deduction for pass-through income and full and immediate expensing for capital investments. Other growth provisions proposed by Mr. Trump should be considered, such as lowering the corporate tax rate even further.

Unfortunately, even under the most promising growth models, the resulting tax revenue won't be enough to fill a $5 trillion hole that congressional budget rules require and that bond markets will likely demand. After all other possibilities are explored and exhausted, Congress will need to reduce tax expenditures significantly.

One possible offset that shouldn't be embraced is Mr. Trump's universal tariff plan. Yes, if levied at 10%, universal tariffs could theoretically raise $2 trillion over 10 years, according to the Tax Foundation. But the actual number would be much smaller, since the estimate doesn't account for retaliatory tariffs, inflationary effects, the harm to gross domestic product, or the inevitable litigation that could prevent Mr. Trump from imposing the tariff in the first place. Given the likely collateral damage, Congress would have to think long and hard before codifying these tariffs.

Other ideas floated during the presidential campaign will cost tax revenue. Should Congress restore full deductibility of state and local taxes, that's a new $1 trillion revenue hole that will likely make state and local governments grow. Eliminating taxes on Social Security benefits would open a $1.2 trillion revenue gap that, if not coupled with other needed reforms, would hasten the program's insolvency and statutory benefit cuts. Again, when it comes to the national debt Congress's priority should be to do no harm.

The real fiscal challenge remains on the spending side of the ledger, and it's only getting worse. Assuming the TCJA is made permanent, the Congressional Budget Office projects over the next 30 years that revenue as a percentage of GDP will remain essentially flat at the 30-year average of 17.3%, but spending will skyrocket, from 21.8% to 27.3%.

Enter the new Department of Government Efficiency, which holds great promise in reining in the power and abuses of the administrative state. Mr. Trump deserves credit for its creation. But even if Elon Musk and Vivek Ramaswamy prove to be the smartest men on the planet, DOGE holds considerably less promise in reining in spending.

Why? Because federal spending is driven by growing entitlements like Medicare and Social Security, which Mr. Trump pledged not to touch, and ballooning interest payments on the national debt, which must be paid. These constitute 77% of expected spending growth over the next 10 years. Since Congress is unlikely to cut defense spending, DOGE isn't left with much to work with on the spending front. Proposals like shedding empty office space and reducing the number of remote workers, worthy as they are, aren't up to the fiscal challenge.

That leads us to the too-often-ignored option of reducing tax expenditures, which consist of various exclusions, deductions, credits and preferences. These are usually referred to as tax loopholes by those who don't benefit from them or would prefer lower marginal tax rates. According to the Joint Committee on Taxation, these expenditures annually cost $1.8 trillion in lost revenue and have grown in number from 53 in 1970 to more than 200 today.

Two places to start reducing tax expenditures concern Joe Biden's American Rescue Plan and Inflation Reduction Act,

the latter of which included such expenditures as a $7,500 tax credit for electric-vehicle purchases. According to the CBO, the Inflation Reduction Act's energy tax provisions alone will cost $622 billion over the next seven years.
Other large tax expenditures include employer-provided health insurance, weighing in at $3.4 trillion over 10 years. The partial exclusion of capital gains on home sales and tax exemptions on municipal bonds also cost billions. Throw in the advanced semiconductor manufacturing credit, the deductibility of student loan interest, and the low-income housing tax credit, and you begin to unearth a target-rich environment for curbing tax expenditures.
Life is full of lousy options and tough decisions. To keep and improve a tax code built for economic growth, Congress will not only have to cut the federal budget but also meaningfully reduce tax expenditures. Adding to the national debt, historically the path of least resistance, is becoming less viable by the day.

Mr. Hensarling, a former chairman of the House Financial Services Committee (2013-19), is an advisory council member to Americans for Prosperity and an economics fellow at the Cato Institute.
Credit: By Jeb Hensarling

DETAILS

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LINKS

Justin Trudeau Nears the End

ProQuest document link

FULL TEXT

Canada's press is reporting that Justin Trudeau may resign as Prime Minister, and why keep the country in pain any longer? The Liberal government has been on political life support for some time, and our neighbors to the north deserve a new election.

The latest blow to Mr. Trudeau's faltering rule came Monday with the resignation of Finance Minister Chrystia Freeland. She didn't go quietly. She resigned with a tough letter citing differences with the Prime Minister over fiscal policy and preparation for Donald Trump's threat to impose a 25% tariff on Canadian exports to the U.S. The resignation was a political shock in Ottawa, but it's understandable that she wants to leave this Titanic before it sinks.

A 25% U.S. tariff would do great harm to Canada's economy, as the country's central bank governor noted last week. Ms. Freeland said in her letter that she favors "keeping our fiscal powder dry today, so we have the reserves we may need for a coming tariff war." Mr. Trudeau wants to keep on spending like there's no tomorrow, which for him there may not be.

Mr. Trudeau's Liberals are trailing the opposition Conservatives by 20 or so points in most opinion polls. The Conservatives are led by Pierre Poilievre, who unlike recent Tory leaders wants to offer a genuine policy contrast with Mr. Trudeau's spendthrift fiscal policy, his cultural leftism, and Liberal hostility to fossil fuels. Ms. Freeland and other Liberals can read the polls and apparently want to cast off Mr. Trudeau before he takes them all down.

But they've all been aboard the cruise, and Mr. Trudeau's failures aren't merely personal. He's presided over runaway deficits and a plunge in the Canadian dollar to a mere 70 cents on the U.S. greenback. And he's done this while not coming close to meeting Canada's defense-spending obligations to NATO.

Canada's voters are telling pollsters they want a change, and with Mr. Trump about to take power in Washington, they are going to need one.

DETAILS

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LINKS

World News: Canada's Finance Minister Quits Over Policy Conflict

Vieira, Paul . Vieira, Paul.

ProQuest document link

FULL TEXT

OTTAWA -- Canadian Finance Minister Chrystia Freeland quit the Liberal government cabinet on Monday, a surprise departure that raises further doubts about how long Prime Minister Justin Trudeau can keep his job, given the government's unpopularity.

The departure of one of Trudeau's most loyal and trusted lieutenants -- after publishing a stinging letter on the government's fiscal policy -- roiled the capital. It came the day Freeland was scheduled to introduce a fall economic statement, which showed sharply wider budget deficits than the government promised just a year ago.

In a letter, addressed to Trudeau and posted on X, Freeland said she and the prime minister have "found ourselves at odds" about policy. Freeland said Trudeau informed her last Friday that he wanted her to shift to a different cabinet position.

Trudeau named longtime ally Dominic LeBlanc as the finance minister.

"The government continues to focus on the work that Canadians want us to focus on," the new finance minister told reporters. "I have a lot of confidence in the decisions our government, our cabinet has made."

Trudeau didn't speak publicly until Monday evening at an event for Liberal Party donors. He told attendees it was an "eventful day, it's not been an easy day," and made no further reference to Freeland's decision in his roughly six-minute speech.

Market reaction to the uncertainty was muted. The Canadian dollar fell roughly 0.1% against the U.S. dollar, while the S&P/TSX Composite Index declined slightly. Freeland's resignation "would seem to cast serious doubt on Trudeau's capacity to manage the challenges ahead, but currency markets seem largely unworried," said Karl Schamotta, chief market strategist at foreign-exchange firm Corpay.

Darrell Bricker, head of polling firm Ipsos Public Affairs, said Freeland's resignation and the accompanying letter "is the biggest crisis the prime minister has ever faced."

Polls show the Liberals trailing the Conservative Party by roughly 20 percentage points. Trudeau has repeatedly said he would stay on as prime minister and seek re-election next year.

The letter indicates Freeland opposed the recent direction of fiscal policy amid the threat of a 25% tariff from President-elect Donald Trump on imports from Canada -- which economists say would likely trigger a recession in the country. Freeland said that during the fall, she made "strenuous efforts" to limit spending growth, given heightened uncertainty. Trudeau and Freeland in November unveiled a mini-stimulus package that envisaged spending more than 6 billion Canadian dollars, or $4.2 billion, on a broad sales-tax exemption and a one-time payment to about 18 million Canadians.

Freeland said the government needs to take the Trump tariff threat "extremely seriously," adding, "That means eschewing costly political gimmicks, which we can ill afford and which make Canadians doubt that we recognize the gravity of the moment."

"She's walking away saying, 'I don't have confidence in you,'" said Duane Bratt, a political-science professor at Mount Royal University in Calgary, Alberta, in reference to Trudeau.

Trudeau leads a minority government; the Liberals need the support of at least one opposition party to pass legislation and survive confidence votes in Parliament. About two-thirds of the public disapproves of Trudeau's performance. His Liberal Party is losing once-safe seats, and some members of his caucus have argued that he needs to go. A poll this month from Ottawa-based Abacus Data indicated he is less popular in Canada than Trump is.

A number of cabinet ministers have said they won't seek re-election. Earlier Monday, Housing Minister Sean Fraser said he would be leaving the cabinet, citing family reasons.

Some Liberal Party lawmakers on Monday said it was time for Trudeau to step down as prime minister. "I have been a great defender, but I don't just see how we move forward," Francis Drouin told the Canadian Broadcasting Corp. about Trudeau's future. Anthony Housefather, a Montreal-area Liberal lawmaker, told CTV News that Trudeau has passed his "shelf life" and that voters tell him they believe the Liberal Party has drifted too far to the left.

Freeland said she intends to remain a Liberal Party lawmaker and run for re-election next year.

Credit: By Paul Vieira

DETAILS

Subject:	Fiscal policy; Prime ministers; Canadian dollar; Budget deficits; Tariffs; Cabinet; Resignations
Business indexing term:	Subject: Fiscal policy Canadian dollar Budget deficits Tariffs Resignations
Location:	Canada
People:	Freeland, Chrystia
Company / organization:	Name: Liberal Party-Canada; NAICS: 813940
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LINKS

U.S. News: Senate Passes Delayed Disaster Tax Breaks

Rubin, Richard . Rubin, Richard.

ProQuest document link

FULL TEXT

WASHINGTON -- A long-stalled set of tax breaks for natural-disaster victims is headed to President Biden's desk, promising relief for people who suffered property damage from hurricanes, wildfires and other disasters.

The Senate passed the bill without opposition late Wednesday, following a 382-7 House vote in May.

The $4.9 billion legislation would aid disaster victims from events as far back as December 2020. The bill would also offer tax breaks to people affected by recent hurricanes, including those in Florida and North Carolina.

The key provision would let disaster victims deduct casualty losses exceeding $500, instead of only being allowed to deduct losses above 10% of adjusted gross income under the tax law that would otherwise apply. They could take those tax deductions atop the standard deduction instead of needing to itemize to claim them.

The bill would also let people exclude from income certain payments received due to wildfires since 2014 or due to last year's train derailment in East Palestine, Ohio.

"I applaud the Senate for putting this relief within arm's reach for Floridians. We're talking about hundreds of millions of dollars in Floridians' pockets," said Rep. Greg Steube (R., Fla.), who has been working on the issue since Hurricane Ian hit his district in 2022 and employed a rarely used parliamentary technique to advance the bill earlier this year.

The disaster tax provisions were part of a larger bipartisan tax deal between House Republicans and Senate Democrats earlier this year.

That bigger legislation would have revived expired business tax breaks, expanded the child tax credit and cut off claims for the employee retention tax credit, a pandemic-era program that officials say is riddled with fraud and ineligible claims.

But Senate Republicans blocked that bill, citing concerns about the child-credit expansion and arguing they could do better if they gained the majority in the election. During that impasse, Steube filed a discharge petition, an end-run around House leadership, and he got the disaster-tax bill through the full House in May.

Senate Democrats were unwilling earlier this year to break up the broader tax bill but decided after the election to advance the disaster measure on its own.

Credit: By Richard Rubin

DETAILS

Subject:	Disasters; Tax cuts; Tax credits; Fiscal policy
Business indexing term:	Subject: Tax cuts Tax credits Fiscal policy
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Publication subject:	Business And Economics--Banking And Finance
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Language of publication:	English
Document type:	News
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Last updated:	2024-12-10
Database:	ProQuest C entral

LINKS

U.S. News -- Capital Account: Trump Tariff Message: I'm in Charge

Ip, Greg . Ip, Greg.

ProQuest document link

FULL TEXT

When President-elect Donald Trump said he would nominate the hedge-fund manager Scott Bessent as his Treasury secretary, much of Wall Street and corporate America breathed a sigh of relief.

The choice of Bessent, who is hawkish on deficits, a defender of the dollar's reserve status, and until recently circumspect about tariffs, suggested that Trump would put a priority on market-friendly measures to boost economic growth and hold down inflation and interest rates.

The relief lasted 72 hours. Trump's announcement late Monday that he would slap tariffs of 25% on Canada and Mexico and an additional 10% on China dispelled any doubt that he would govern as he campaigned -- as a disruptive populist.

The lesson is that the most important member of Trump's economic team is Trump himself.

"In his first term, there was a lot of bluster that ended up getting walked back," Andy Laperriere, policy analyst at Piper Sandler, said in a note to clients Tuesday. "We expect plenty of bluster but more follow through in a second term because most of his staff is generally not going to try to talk him out of things like this."

Whether Trump will actually raise tariffs or is simply negotiating remains uncertain. Investors seem to think the latter: The fall in the Canadian dollar, Mexican peso and shares of exposed companies was relatively muted.

While Trump controls his agenda, the choices of Bessent and other establishment figures still matter. Supporters of Bessent think his presence will result in a more calibrated and growth-friendly policy mix than otherwise.

"He has a more thoughtful approach to trade-offs," said the head of a trade group in Washington. "His commitment to the stability of the market would imply he's going to recognize there's a point beyond which we could push tariffs that would be too far for the market and the economy."

Trump's cabinet picks suggest a reluctance to mess with the economy. While he nominated outside-the-box disrupters to oversee defense, health, justice and national intelligence, his five finalists for Treasury all hailed from the establishment: Bessent; Marc Rowan, a private equity magnate; Kevin Warsh, a former Federal Reserve governor; Bill Hagerty, a sitting senator; and Howard Lutnick, chief executive of the financial firm Cantor Fitzgerald. Lutnick has been nominated to run the Commerce Department.

On Tuesday, Trump said Kevin Hassett, a conservative economist and tax-cut advocate who chaired the Council of

Economic Advisers in Trump's first term, would head his National Economic Council, which coordinates economic policy within the executive branch. Trump named Jamieson Greer as U.S. trade representative. Greer is a trade lawyer who served as chief of staff to Robert Lighthizer, U.S. trade representative in Trump's first term.

Bessent is seen as a safe pair of hands based on his long record of market and economic commentary. He has proposed a "3-3-3" agenda: 3% growth, 3 million more barrels of oil a day and reducing the budget deficit to 3% of gross domestic product from its current 6%.

Bessent was initially skeptical of tariffs except as a negotiating ploy. "The tariff gun will always be loaded and on the table but rarely discharged," he told investors in his hedge fund in January. Trump is a "free trader," he told Mark Halperin in October. "A lot of what he's doing is escalate to de-escalate," Bessent said.

But Bessent found himself competing for the Treasury post with Lutnick, initially co-head of Trump's transition. Lutnick, too, had once described tariffs as a "bargaining chip," before adopting Trump's more protectionist rationale that they bring back manufacturing jobs.

In a Fox News opinion piece on Nov. 15, Bessent made a more forceful case for tariffs: "Used strategically, tariffs can increase revenue to the Treasury, encourage businesses to restore production and reduce our reliance on industrial production from strategic rivals."

It remains unclear whether Trump's opening salvo is a negotiating ploy, along the lines of what Bessent and Lutnick have hinted, or a pretext to tear up the United States-Mexico-Canada Agreement and restore tariffs indefinitely.

The latter involves much bigger risks to the economy. Other countries are unlikely to roll over. Peter Harrell, a scholar at the Carnegie Endowment for International Peace who was an international economic adviser to President Biden, said, "As a foreign leader you don't want to look like you're constantly giving in to threats."

China has a range of measures should it wish to retaliate, including restricting exports of critical minerals, punishing U.S. multinationals' Chinese operations, selling U.S. Treasury bonds, or devaluing its currency, said Scott Kennedy, a China expert at the Center for Strategic and International Studies, citing conversations with Chinese contacts that predated Trump's tariff announcement.

Another question hanging over Trump's economic team is where it takes fiscal policy. Trump's tax-cut plans helped push long-term Treasury yields higher around the election, but they fell Monday in part based on Bessent's reputation as a deficit hawk.

Bessent has said his policy priority will be extending Trump's 2017 tax cut, and enacting his other pledges, such as eliminating taxes on tips, Social Security benefits and overtime pay. Trump's promises would ultimately raise the deficit to between 7% and 12% of GDP by 2034, the nonpartisan Committee for a Responsible Federal Budget estimates.

In theory, Trump could cut taxes and lower the deficit by slashing spending. Simply reversing Biden's executive decisions, such as changes to Medicaid, would save up to $1.3 trillion over a decade, or 0.4% of GDP, the CRFB estimates.

Meanwhile, Elon Musk is leading an effort to slash government jobs and programs. Russell Vought, who will be budget director after holding the same job in Trump's first term, advocates the president's "impounding," or refusing to spend, money appropriated by Congress.

But impoundment might be blocked by the courts. More important, it isn't clear if Bessent, Musk or Vought can find enough spending cuts to pay for Trump's tax plans and lower the deficit without touching entitlements such as Social Security, which Trump has vowed not to cut.

Credit: By Greg Ip

DETAILS

Subject:	Gross Domestic Product--GDP; Appointments &personnel changes; Hedge funds; Economic growth; Social security; Budget deficits; Tariffs; Trade policy

Business indexing term:	Subject: Gross Domestic Product--GDP Appointments &personnel changes Hedge funds Economic growth Social security Budget deficits Tariffs Trade policy; Industry: 52394 : Portfolio Management and Investment Advice
Location:	China; Mexico; United States--US; Canada
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LINKS

U.S. News: GOP to Pack Goals Into One Bill

Rubin, Richard . Rubin, Richard.

ProQuest document link

FULL TEXT

WASHINGTON -- The tax-bill squeeze is on.

Republicans are trying to fit as many priorities as possible into one bill early next year, combining tax cuts, spending cuts, energy policy, border security and President-elect Donald Trump's campaign promises.

Engineering the legislation that way can help the party completely sideline Democrats, and it is Republicans' best chance to quickly exploit unified control of the House, Senate and White House. Strike first, strike hard, no mercy, to borrow an '80s movie catchphrase.

But balance is key. The path ahead is a political, arithmetical and procedural tightrope. As Republicans squeeze proposals into the tax bill, they must follow the rules of a special process called reconciliation that lets them dodge the Senate's usual 60-vote filibuster threshold.

They also must maintain near-perfect party unity, finding compromises on issues that divide Republicans, including budget deficits, clean-energy subsidies and the state and local tax deduction.

The intraparty debate will determine how much Republicans can cut taxes, how much money they can provide for beefed-up border security, how much federal land they can open for oil exploration and whether they can accommodate Trump's no-tax-on-tips promise.

Rep. Jodey Arrington (R., Texas), chairman of the House Budget Committee, said he wants the first step -- rolling out a budget that sets fiscal parameters for the bill -- within "days, not weeks" of the new Congress starting Jan. 3. "We ought to be able to unleash growth through tax cuts . . . and we ought to be able to bend the spending curve," Arrington said.

The 2025 fiscal debate will echo 2017, the last time Republicans had full control. Then, Republicans cut taxes and set major pieces to expire after 2025. The core of the 2025 bill would remove or extend those expiration dates.

In late 2017, beyond their tax policy aims, Republicans faced a political imperative. They had just failed to repeal and replace the Affordable Care Act, and they needed a win heading into midterm elections.

This time around, the pressure is greater. Failure to pass a bill wouldn't just make Republicans look bad. It would mean tax increases for 62% of households in 2026, because inaction brings higher tax rates, no deduction for closely held businesses and smaller standard deductions and child tax credits.

That is all unacceptable to Republicans and it means they will probably find a way to extend tax cuts, eventually.

Still, the legislative math is daunting. They will have a 53-47 Senate majority. The House will be super-tight, potentially reversing the typical dynamic where the Senate dictates terms.

House Republicans, at most, will have a 222-213 majority. It could be as narrow as 220-215 depending on final votes being tallied. Because of lawmakers leaving to join the Trump administration or for other reasons, House control could be as slim as 217-215 for months. That would empower every single Republican to make demands.

Credit: By Richard Rubin

DETAILS

Subject:	Political campaigns; Federal budget; Tax rates; Tax cuts; Budget deficits; Border security; Tax increases; Fiscal policy; Federal legislation
Business indexing term:	Subject: Federal budget Tax rates Tax cuts Budget deficits Tax increases Fiscal policy
People:	Trump, Donald J
Company / organization:	Name: Republican Party; NAICS: 813940
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LINKS

Markets Shine Spotlight on Deficits --- Stocks keep hitting records, but the past includes episodes of market unrest

Pitcher, Jack; Goldfarb, Sam . Pitcher, Jack; Goldfarb, Sam.

ProQuest document link

FULL TEXT

Worries about government deficits are making one of their periodic tours of Wall Street.

Investors say the prospect of bigger budget imbalances in the second Trump administration is a factor behind the recent climb in Treasury yields, which help set borrowing costs throughout the economy. This year's projected budget deficit of $1.9 trillion is already likely to reach more than 6% of economic output, a threshold crossed previously only during World War II, the 2008-09 financial crisis and the Covid-19 pandemic. Yet stocks keep hitting records.

With President-elect Trump's proposed tax cuts -- and soaring Social Security and Medicare costs -- projected to keep annual deficits at a historically high level, the debate over deficits is raging anew. Here's a look at how fiscal policy has affected investments during some recent administrations:

Ronald Reagan 1981-89

President Ronald Reagan's 1981 tax cuts contributed to a sharply higher federal deficit by the midpoint of his two-term administration. It reached as high as 5.7% of GDP in 1983 -- enough to prompt concern among investors. In that year, economist Edward Yardeni coined the term "bond vigilantes" for investors who will demand higher rates to buy Treasurys to compensate for the risks tied to budget imbalances and inflation.

"The idea of the bond vigilantes is that they intervene and maintain law and order if monetary and fiscal policy aren't going to do it," he said in a recent interview. "In the '80s, I think it actually had more to do with a fear that inflation would make a comeback than it had to do with the deficit."

The 10-year Treasury yield peaked above 15% in Reagan's first year, because of the Paul Volcker-led Federal Reserve's inflation fight. The combination of high rates and expansive fiscal policy attracted overseas money. The dollar got so strong that a group of developed countries agreed to deliberately weaken it during a 1985 meeting in Manhattan's Plaza Hotel.

George H.W. Bush 1989-93

Deficit reduction then became a priority in Washington, D.C. President George H.W. Bush reneged on his "no new taxes" pledge after concluding that any agreement to cut the national deficit would need both spending cuts and tax increases.

"In '81 we passed the giant tax cut. And by '82 it was pretty clear they had gone way too far. And so from '83 to '97, across three administrations, all we did was deficit reduction," said Marc Goldwein, senior policy director for the Committee for a Responsible Federal Budget.

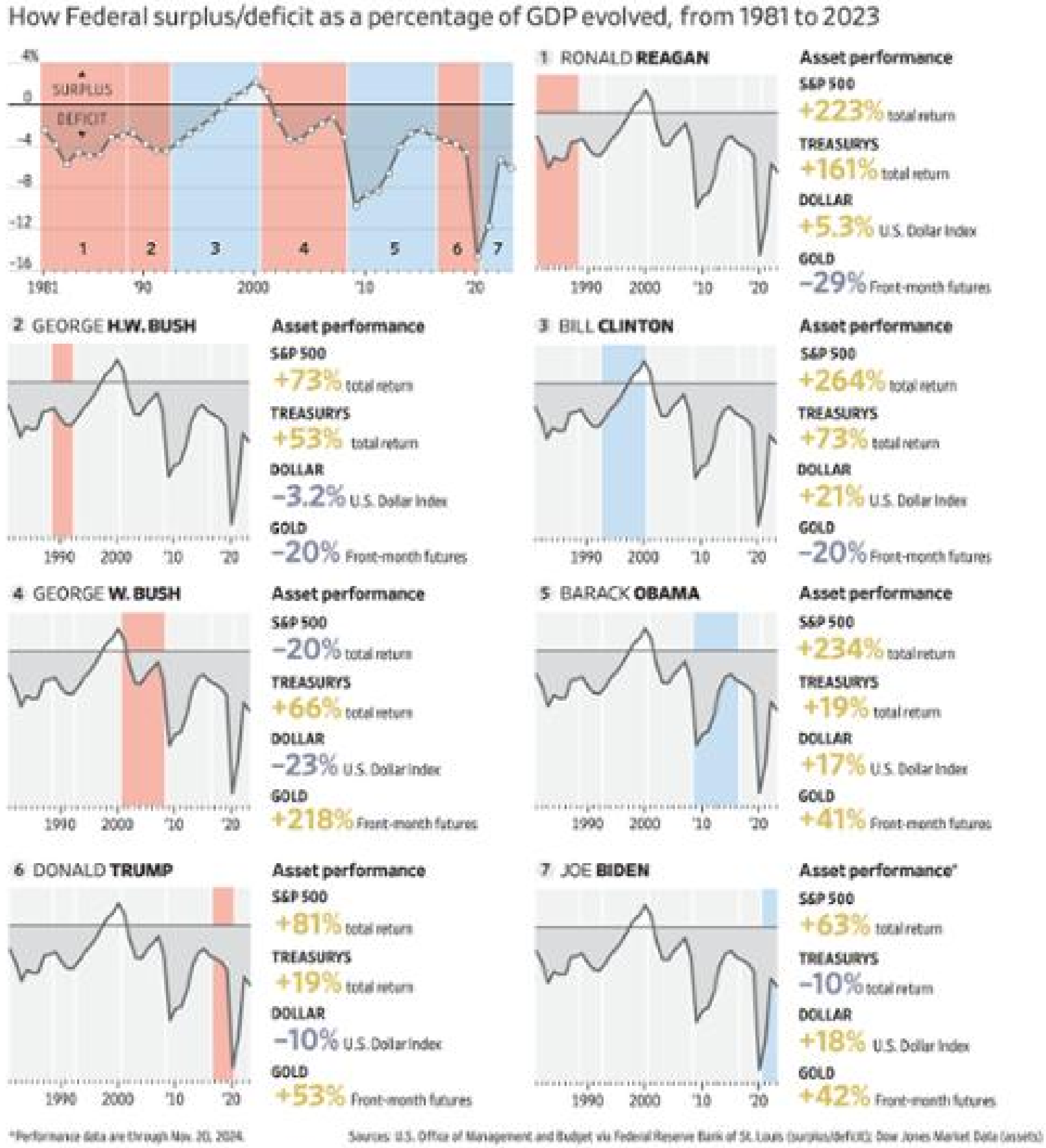
The deficit as a share of GDP peaked around 4.4% after the 1991 recession before falling to 3.7% by the end of 1993. The 10-year Treasury yield fell nearly 2.5 percentage points to around 6.4% at the end of Bush's term.

Bill Clinton 1993-2001

Entering the White House in 1993, Bill Clinton was caught between campaign promises to reduce the deficit and to deliver a middle-class tax cut. Economic advisers including Robert Rubin persuaded him to give priority to deficit reduction to help bring down longer-term Treasury yields. That prompted political adviser James Carville's quip that he would like to be reincarnated as the bond market because "you can intimidate everybody."

It wasn't a completely smooth ride: the 10-year yield surged above 8% in 1994 when the Fed was aggressively raising short-term rates. But yields retreated again afterward, as the Clinton-era boom briefly turned the deficit into a surplus.
"The world actually behaved the way economists think it should -- you cut deficits, interest rates fall, you get more investment," said David Wessel, director of the Hutchins Center on Fiscal and Monetary Policy at the Brookings Institution.
George W. Bush 2001-09
Deficits grew to records after the Bush administration's 2001 and 2003 tax cuts and a major increase in military spending that followed the Sept. 11 terrorist attacks in 2001. Stocks mostly rebounded from the dot-com collapse, and short-term rates topped 5%.
Then the collapse of the housing market fueled the financial crisis of 2008-09. Stocks plunged, and the Fed cut short-term rates to zero.
Barack Obama 2009-17
Deficits soared again when the Obama administration, seeking to help the economy revive, launched early stimulus packages. But tighter fiscal policy followed, which some economists blame for a slow recovery.
Rates stayed near zero and the Fed bought bonds to ease strains on the banking system. That helped support stocks, while easy borrowing conditions helped fuel the technology boom.
Political brinkmanship around the debt ceiling in 2011, however, led to fears of a missed payment on Treasurys, the world's safest investment, and sparked a credit downgrade of the U.S.
Stocks fell and investors sheltered in Treasurys before a deal was reached.
Donald Trump 2017-21
The Trump administration's early tax cuts put the deficit as a share of GDP back on the rise. Shares of banks, industrials and smaller companies soared along with bond yields, in what investors called the "reflation trade." Stocks hit records.
The unprecedented response to the Covid-19 pandemic in Trump's final year then widened the deficit again. A multitrillion-dollar bipartisan spending package kick-started a furious economic recovery, and sent the deficit as a share of GDP to the highest level since World War II.
Stocks recovered quickly after the Fed cut rates to near zero. Treasury yields hit rock bottom.
Joseph Biden 2021-present
The Biden administration kept the spending rolling. The Fed began rapidly raising interest rates to combat inflation, driving up the government's interest costs. Meanwhile, tax revenues slipped.
The government sold more bonds to cover the gap, exacerbating a bond rout that raised the 10-year yield to 5%.
Officials shifted the mix of borrowing a little toward debt with shorter maturities, helping calm markets.
Wall Street has since had little trouble absorbing the government's borrowing binge.
Continuing economic strength -- and the prospect of bigger deficits under the next Trump administration -- have helped drive bond yields higher in recent months. But some investors said that could still boost markets for some time.
"Generally speaking, deficit spending adds to corporate profits," said Sonu Varghese, global macro strategist at Carson Group. "Where things could get hairy is if the bond market feels like now rates have to be higher for longer, and that starts to crimp investment spending."
Note: Asset performance provided by Dow Jones Market Data except the S&P 500 total return for Reagan's presidency, which was provided by S&P Dow Jones Indices. Total returns for Treasurys are based on the Bloomberg US Treasury Index. Both Treasurys and the Reagan-era total stock returns are based on monthly readings and don't correspond precisely with inaugurations. Asset performance refers to either four-year or eight-year periods, depending on the presidency.

Peter Santilli and Mike DeStefano contributed to this article.



Enlarge this image.

Credit: By Jack Pitcher and Sam Goldfarb

DETAILS

Subject:	Federal budget; Investments; Economic crisis; Treasuries; Fiscal policy; Economic development; Federal Reserve monetary policy; Inflation; Interest rates; Tax cuts; Investors; COVID-19; Tax increases; Borrowing; Pandemics; Bond markets; World War II; Stocks; Political campaigns; Gross Domestic Product--GDP; National debt; Budget deficits

Business indexing term:	Subject: Federal budget Economic crisis Treasuries Fiscal policy Economic development Federal Reserve monetary policy Inflation Interest rates Tax cuts Tax increases Borrowing Bond markets Stocks Gross Domestic Product--GDP National debt Budget deficits; Industry: 92113 : Public Finance Activities 52111 : Monetary Authorities-Central Bank
Location:	United States--US
People:	Reagan, Ronald Wilson; Bush, George; Clinton, Bill
Classification:	92113: Public Finance Activities; 52111: Monetary Authorities-Central Bank
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LINKS

US fiscal, technology, oil, education policy examined by experts from Rice's Baker Institute for Public Policy

ProQuest document link

FULL TEXT

Nonpartisan data and insights on the top issues of the upcoming election such as U.S. fiscal, science and technology, energy transition and school choice policy are available in Election 2024: Policy Playbook, a series of policy briefs presented jointly by Rice University and the Baker Institute for Public Policy. The series offers critical context, analysis and recommendations to equip policy leaders governing the U.S. and Texas in 2025.

The Policy Playbook will series continually produces briefs until the Nov. 5 election and cover topics in eight categories: economy and jobs; science, tech and innovation; energy and sustainability; strong and resilient communities; health and education; borders and immigration; security and diplomacy; and Texas, the second-largest state economy in the country and eighth-largest economy among world nations.

INDEX

SECTION 1 WILLIAM MARSH RICE UNIVERSITY PATENTS

SECTION 1 WILLIAM MARSH RICE UNIVERSITY PATENTS

1.1 Number of Patents Issued to William Marsh Rice University (Past 12 Months)

There were a total of 47 patents issued to William Marsh Rice University in the past 12 months. The highest number (7) were issued in April, 2024.

Month	No. of Patents Issued
October	5
September	4
August	5
July	3
June	3
May	2
April	7
February	7

January	5
December	6
Total (Past 12 Months)	47

1.2 Patents issued to William Marsh Rice University by the US PTO and the EPO on same inventions
In the past 24 months the following 2 patents were issued by the USPTO and the European Patent Office (EPO) to William Marsh Rice University.

Title	US PTO	EPO
Interfacial Seeding Of Cells And Particles On Surfaces For Diagnostics And Therapeutics	4320170; 14 Feb, 2024	2022253477; 12 Oct, 2023
Multicomponent Plasmonic Photocatalysts Consisting Of A Plasmonic Antenna And A Reactive Catalytic Surface: The Antenna-Reactor Effect	12109558; 08 Oct, 2024	11958043; 16 Apr, 2024

1.3 Previous 10 WILLIAM MARSH RICE UNIVERSITY Patent titles:

Issue Date	Issuing Office	Patent Title	Patent Number
Nov 6, 2024	EPO	Regulated Cells Expressing Cytokines	2024215990
Nov 6, 2024	EPO	Synthesis of Hydrogen Gas by Flash Joule Heating Cross - Reference to Related Patent Applications	2024215434
Nov 6, 2024	EPO	Methods and Devices for the Non - Invasive Assessment of Cerebro - Spinal Dynamics and Diagnosis of Brain Pathophysiologies	2024211033
Nov 6, 2024	EPO	Heavy - Metal - Reduced Post - Industrial Waste in Cementitious Materials and Methods of Making and Using Thereof	2024210940
Nov 6, 2024	EPO	Prokaryotic and Eukaryotic Cells with Biosynthesized Sulfotyrosine for Genetic Incorporation	20240344040
Nov 6, 2024	EPO	Wireless Monitoring and Control of Implantable Magnetoelectric Devices	20240342484
Nov 5, 2024	EPO	Methods and Compostions for Engineered Mitochondrial Biogenesis	2024206687
Nov 5, 2024	EPO	Methods of Evading Immune Rejection	2024206618
Oct 31, 2024	US PTO	Multicomponent Plasmonic Photocatalysts Consisting of a Plasmonic Antenna and a Reactive Catalytic Surface: the Antenna-reactor Effect	12109558

Oct 17, 2024	EPO	Highly Efficient Self-Assembling Programmable Genome And Epigenome Editing Tools	2024191816

1.4 Previous 5 WILLIAM MARSH RICE UNIVERSITY Patent abstracts:
November 6, 2024 William Marsh Rice University issued patent titled "Regulated Cells Expressing Cytokines"
ABSTRACT
The present disclosure relates to compositions of encapsulated cells designed to deliver proteins of interest under the control of an inducible kill switc
November 6, 2024 William Marsh Rice University issued patent titled "Synthesis of Hydrogen Gas by Flash Joule Heating Cross - Reference to Related Patent Applications"
ABSTRACT
Method and systems for the synthesis of hydrogen gas by flash Joule heating, such as synthesizing hydrogen gas from waste plastic materials, other solid materials, or liquid materials by flash Joule heatin
November 6, 2024 William Marsh Rice University issued patent titled "Methods and Devices for the Non - Invasive Assessment of Cerebro - Spinal Dynamics and Diagnosis of Brain Pathophysiologies"
ABSTRACT
Systems and methods for assessment of fluid dynamics in a human subject involve: one or more physiological sensors configured to non-invasively record one or more physiological signals from the human subject; one or more microprocessors in communication with the one or more physiological sensors and configured to extract one or more features from the one or more physiological signals and to implement a machine learning algorithm configured to estimate one or more aspects of fluid dynamics from one or both of the one or more physiological signals and the one or more features; and an output device in communication with the microprocessors and configured to output the one or more aspects of fluid dynamics. The fluid dynamics may be cerebrospinal fluid dynamics. The fluid dynamics may be glymphatic fluid dynamic
November 6, 2024 William Marsh Rice University issued patent titled "Heavy - Metal - Reduced Post - Industrial Waste in Cementitious Materials and Methods of Making and Using Thereof"
ABSTRACT
Ultrafast flash Joule heating methods and systems, and more particularly, methods and systems for removing heavy metals from post-industrial waste, such as coal fly ash or bauxite residue. The use of the purified post-industrial waste includes forming cementitious materials that include the purified post-industrial waste and cemen
November 6, 2024 William Marsh Rice University issued patent titled "Prokaryotic and Eukaryotic Cells with Biosynthesized Sulfotyrosine for Genetic Incorporation"
ABSTRACT
The present disclosure provides an engineered cell comprising a sulfotransferase. In some embodiments, the sulfotransferase is NnSULT1C1 sulfotransferase. The present disclosure also provides methods for the biosynthesis of a peptide containing at least one sulfotyrosine residue, as well as compositions comprising a peptide containing at least one sulfotyrosine residue. In some embodiments, the compositions and methods of the present disclosure provide therapeutic peptides for use in treating and/or preventing a disease or disorder, such as an HIV-1 infectio
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DETAILS

Subject:	Physiology; Microprocessors; Fluid dynamics; Cytokines; Hydrogen; Patents; Education policy; Peptides; Photocatalysis; Industrial wastes; Human subjects; Public policy

Business indexing term:	Subject: Patents
Location:	United States--US
Company / organization:	Name: Rice University; NAICS: 611310
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Language of publication:	English
Document type:	News
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Document URL:	https://www.proquest.com/wire-feeds/us-fiscal-technology-oil-education-policy/docview/3127614432/se-2?accountid=14681
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Last updated:	2024-11-13
Database:	ProQuest Central

LINKS

U.S. News: Republicans Eye Deficit Amid Tax-Cut Plans

Rubin, Richard . Rubin, Richard.

ProQuest document link

FULL TEXT

As Republicans prepare the party-line tax bill at the core of their 2025 agenda, the key to everything is, simply, "The Number."

The Number is the maximum budget-deficit increase that Republicans are willing to tolerate as they extend tax cuts scheduled to expire after 2025 and advance the rest of President-elect Donald Trump's plans. To unlock the gate to the legislative fast track that lets them sidestep Democratic objections, Republicans must agree, with virtually no defections, on The Number.

It is a fraught conversation that is just starting, now that Republicans have won the Senate and stand close to winning enough seats for narrow control of the House. The intraparty debate will expose the tensions between deficit hawks and tax cutters and perhaps require Trump to be a referee.

Lawmakers are starting to lay down markers on The Number before the new Congress takes office in January.

Sen. James Lankford (R., Okla.) said Republicans should emphasize tax policies that spur economic growth, knowing they would be estimated to increase deficits. "We're not going to have something that's going to have zero deficit impact. That's not going to happen," he said.

But, he said, the GOP appetite for higher deficits isn't unlimited. The federal government spent $1.8 trillion more than it collected in fiscal 2024, hitting levels unprecedented outside of wars, recessions and emergencies.

House Republicans say they intend to move a bill in the first 100 days of the new Congress. It is likely to include tax cuts, border-security spending and energy policies such as expanded drilling on federal land. They can't do that until they agree among themselves and with senators on The Number.

"I want us to be bold and creative so we can include as many reforms in this package as possible," House Majority Leader Steve Scalise (R., La.) wrote to lawmakers last week.

But there is no firm agreement yet on what should go in that bill, how big it should be and how quickly it should move.

Sen. Ron Johnson (R., Wis.) said a straight extension of tax cuts would be a mindless approach that would prevent Republicans from pursuing the kinds of rate-lowering, base-broadening tax policies they campaign on.

"We've got a year. I'd rather take that year," he said.

Republicans are planning to use a procedure known as reconciliation. It is clunky, because it is restricted to budgetary items and because Congress can't use it to increase budget deficits beyond a 10-year window. But reconciliation's advantage is that the Senate can pass bills with a simple-majority vote. That is why Republicans used it for the 2017 tax law and why Democrats used it for party-line bills in 2021 and 2022.

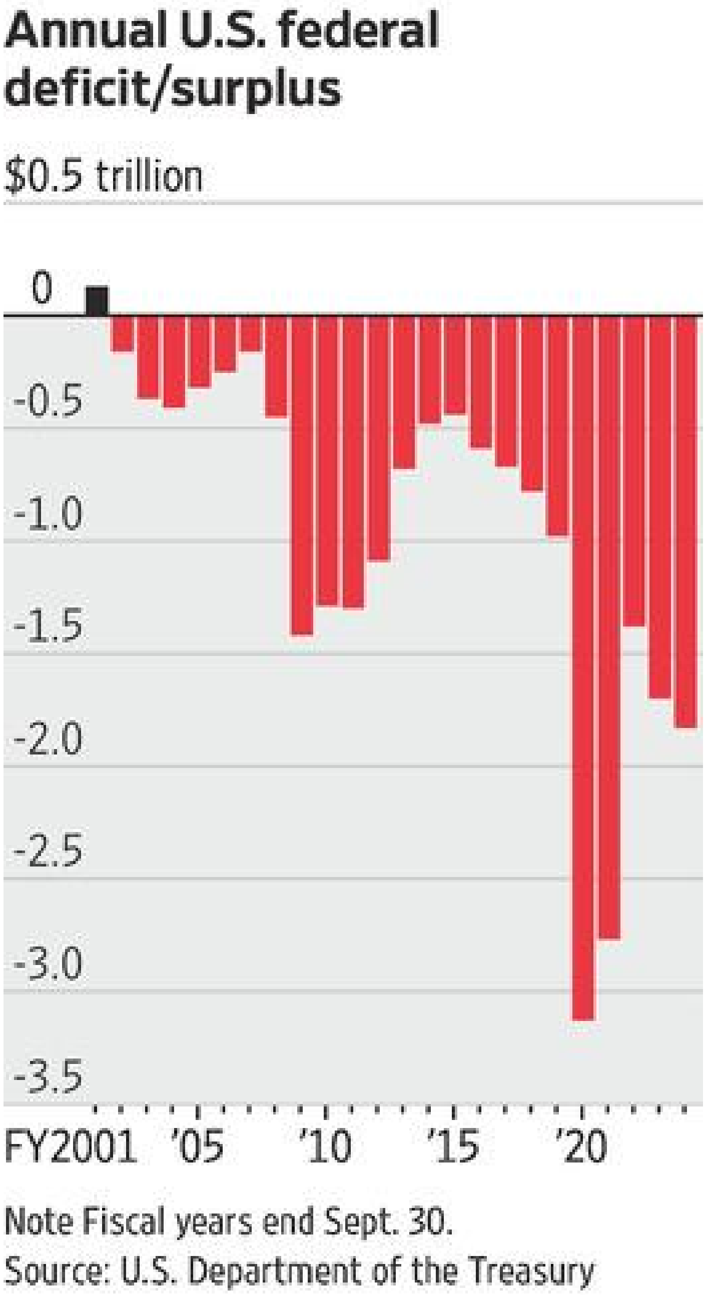
First, the House and Senate must agree on a budget with fiscal targets, with some general idea of what policies they are pursuing. Then, they advance bills that fit in those targets. Those fiscal targets will include The Number. (Technically, it could be several numbers, with benchmarks for several committees.)

The bigger The Number, the more net tax cuts Congress can pass.

The smaller The Number, the more those tax cuts must be dialed back or offset with spending cuts, tax increases or tariffs.

Trump has proposed large tax cuts on top of extensions and promised to protect major programs such as Social Security and Medicare while talking generally about spending cuts.

As the debate advances, wavering Republicans might look to him for a decision.



Enlarge this image.

Credit: By Richard Rubin

DETAILS

Subject:	Fiscal policy; Political campaigns; Federal budget; Tax cuts; Budget deficits; Reconciliation; Tax increases
Business indexing term:	Subject: Fiscal policy Federal budget Tax cuts Budget deficits Tax increases
Company / organization:	Name: Rep ublican Party; NAICS: 813940; Name: House of Representatives-US; NAICS: 921120; Name: Senate-US; NAICS: 921120
Publication title:	Wall Street Journal, Eastern edition; New York, N.Y.
First page:	A.5

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Language of publication:	English
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ProQuest document ID:	31268 42376
Document URL:	https://www.proquest.com/newspapers/u-s-news-republicans-eye-deficit-amid-tax-cut/docview/3126842376/se-2?accountid=14681
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Last updated:	2024-11-12
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LINKS

The Election Results And Your Money

Ebeling, Ashlea; Moise, Imani; Adedoyin, Oyin . Ebeling, Ashlea; Moise, Imani; Adedoyin, Oyin.

FULL TEXT

The second Trump administration stands to pursue tax cuts and policy initiatives that millions of Americans will feel in their wallets.

President Biden's push to curb credit-card late fees could be sidelined, analysts say. They don't expect his student-loan relief efforts to survive, either. With a Republican-leaning Congress, President-elect Donald Trump's 2017 tax cuts are more likely to be extended.

Pocketbook issues have already been a focus of the election, especially inflation. Investors greeted the election results by sending stocks soaring.

Much of the president's personal-finance agenda would need congressional action, and some of the biggest proposals could take years to become reality. Here are a few areas of financial impact:

Extending tax cuts

In 2017, Trump signed the Tax Cuts and Jobs Act, which lowered taxes for 80% of taxpayers. Many of those tax cuts will expire at the end of next year unless Congress acts. Trump has vowed to extend the tax cuts and to build on them, by eliminating taxes on tips and Social Security benefits.

Renewing the measures would retain the higher standard deduction and lower income-tax rates, keeping the top bracket at 37%. Affluent families could continue to pass on huge amounts of wealth to heirs tax-free if the higher threshold for the federal estate tax remains. The maximum wealth someone can die with -- or give away -- without owing the estate tax in 2025 is nearly $14 million.

Trump has separately said he wants to eliminate the state and local tax deduction cap of $10,000 that was put in the 2017 law to help pay for the cuts.

Congress could extend the cuts temporarily, or make some permanent.

Student-loan relief

The Biden administration forgave more than $175 billion in student loans for more than 4.8 million Americans, according to the Education Department. Some proposals have been struck down while others have met legal challenges.

The Saving on Valuable Education plan, known as SAVE, has been tied up in the courts because of lawsuits from Republican-led states arguing the president overstepped his administrative authority. The plan made the path for debt relief easier for longtime borrowers and those with low balances. Millions of borrowers enrolled in SAVE have had their loans put in temporary forbearance pending the legal outcome.

Trump is unlikely to continue the legal defense of the SAVE plan, said Tristan Stein, associate director for higher education at the Bipartisan Policy Center. He could also push Congress to replace the program.

"Trump has generally spoken in opposition to the Biden administration's student-loan forgiveness initiatives," Stein said.

Credit-card late fees

Trump's victory would also likely halt or reverse some rules developed by the current Consumer Financial Protection Bureau, like the $8 cap on credit-card late fees, according to Tobin Marcus of financial analysis firm Wolfe Research.

Under the Biden administration, the CFPB also penalized corporate giants like Goldman Sachs and Apple, and sought to expand its authority to regulate fintech companies such as PayPal and buy now, pay later providers.

Now, the CFPB is likely to take a more business friendly stance, similar to its approach during Trump's first term, industry analysts say.

During his last term, Trump sought to limit the CFPB's regulatory powers over financial institutions. The agency ordered banks, debt collectors and other financial companies to provide about $2 billion in consumer relief during his last term, compared with $6 billion during Biden's first three years.

Trump has floated a long-shot proposal to cap credit-card interest rates at 10%.

Child tax credit

Extending the 2017 tax cuts would mean retaining the child tax credit of up to $2,000 per child under 17. Vice President-elect JD Vance has said that he would like to raise the credit to $5,000, but such a measure could meet Republican resistance in Congress.

Democrats will push for an expanded credit as part of negotiations around the 2017 tax law's future. Vice President Kamala Harris called for a credit of up to $3,000 per child, with a bump up to $3,600 for a child under 6, and $6,000 per

child under 1.
The credit begins dropping to zero for single parents with adjusted gross income more than $200,000 and married couples with adjusted gross income more than $400,000.
Credit: By Ashlea Ebeling, Imani Moise and Oyin Adedoyin

DETAILS

Subject:	Tax rates; Election results; Presidents; Gross income; Financial analysis; Tax cuts; Estate taxes; Child tax credit; Fiscal policy
Business indexing term:	Subject: Tax rates Gross income Financial analysis Tax cuts Estate taxes Child tax credit Fiscal policy; Industry: 92111 : Executive Offices
People:	Trump, Donald J
Company / organization:	Name: Consumer Financial Protection Bureau; NAICS: 926150; Name: Congress-US; NAICS: 921120
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LINKS

Congress Outcome to Affect U.S. Fiscal Policy Path -- Market Talk

ProQuest document link

FULL TEXT

0513 GMT - It's too early to tell who will win control of Congress in the U.S., Capital Economics says. The House remains a toss-up and the final tally likely won't be known for some time, it says. If the House breaks for the Democrats, CE says Trump's ability to push through additional fiscal stimulus would be sorely constrained. If Republicans do hold the House, CE expects it will be hard to govern with what could be a somewhat weak majority. "As the market reaction makes clear, the bond vigilantes are stirring and the risk of an even bigger adverse reaction could intimidate the Republicans into forsaking another big package of deficit-financed tax cuts," says CE. (fabiana.negrinochoa@wsj.com)

(END)

November 06, 2024 00:13 ET (05:13 GMT)

DETAILS

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LINKS

U.S. Fiscal, Trade Policies Expected to Determine FX Trends -- Market Talk

ProQuest document link

FULL TEXT

1024 ET - The dollar has strengthened against the euro and the EURUSD "is now much closer to fair value," Deutsche Bank's George Saravelos says in a note about tomorrow's election. The cross is at 1.09. "In the event of a Harris victory, we would expect a squeeze higher," at least until U.S. fiscal policy is clarified, he writes. If Trump wins and imposes trade tariffs "the ECB would be forced to cut by a lot more and EUR/USD could trade down to 1.00 by next year." Saravelos says the market isn't pricing that much tariff risk. "We also think there is a real risk negative rates could return to Europe, especially Switzerland." (paulo.trevisani@wsj.com; @ptrevisani)

(END)

November 04, 2024 10:24 ET (15:24 GMT)

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LINKS

U.S. News: Migrant Divide In Miami Fuels Rightward Tilt --- Poorer new arrivals aren't embraced by Venezuelans who arrived years ago

Campo-Flores, Arian . Campo-Flores, Arian.

ProQuest document link

FULL TEXT

MIAMI -- On her radio show in Miami, Carines Moncada rails against a "border disaster" fueled by a surge of Venezuelan migrants. She posts articles on her social-media accounts about crimes allegedly committed by Venezuelan migrants and the suspected growing presence in the U.S. of the Venezuelan gang Tren de Aragua.

It isn't surprising material for South Florida's conservative Spanish-language media. Except for one thing: Moncada is from Venezuela herself.

As successive waves of migrants fleeing turmoil have sought refuge in the U.S., a schism is forming between more-affluent immigrants who arrived long ago, and newer, poorer arrivals.

Former President Donald Trump has made inroads among Hispanic voters even as he has inveighed against immigration and the situation on the U.S.-Mexico border -- messages that resonate with some Latinos.

Many Venezuelan migrants who arrived in the U.S. 10 or 20 years ago were well-off professionals who entered by plane. The more recent ones are largely poorer, less-educated people who crossed the U.S.-Mexico border by land. Many from the earlier waves are wary of the newcomers, saying some are criminals or arrive expecting handouts. Those from recent waves say they sometimes feel spurned by their more-established countrymen.

It is a dynamic that has played out repeatedly among other immigrant groups throughout history and across geographies, said Eduardo Gamarra, a political-science professor at Florida International University who frequently conducts polls on Latino attitudes.

"The earlier you've come, the more likely you are to reject those that are coming now," he said.

The receptiveness of some Hispanics to tough immigration policies helps explain Trump's gains among Latino voters in some surveys. A Wall Street Journal poll of registered voters in the seven battleground states released last month found that 40% of Hispanic voters supported Trump, compared with 53% who backed Vice President Kamala Harris. In 2020, Trump won 35% of Latinos nationally, according to AP VoteCast. Hispanic voters in the recent Journal survey picked Trump over Harris as best able to handle immigration and border security, 47% to 43%.

Customs and Border Protection apprehensions and other encounters involving Venezuelans soared to about 313,000 in the 2024 fiscal year that ended in September, from about 50,000 in the 2021 fiscal year, federal data show. New proceedings for Venezuelans in immigration courts -- another measure of new arrivals -- jumped to around 276,000 from around 29,000 over the same period, according to data from the Transactional Records Access Clearinghouse at Syracuse University.

Eugenio Rodriguez, 25 years old, said he sold condiments in Venezuela, making barely enough money to eat. He said he crossed the border in California last year and applied for temporary protected status and asylum. After reuniting with his wife, who had arrived earlier, the couple eventually made their way to the Miami area, where he works installing security systems and she works in a pharmacy. The couple can remain in the U.S. legally while waiting for an immigration court to hear their cases.

Rodriguez said he hasn't felt very welcomed by some Venezuelans who put down roots years ago. "Some people are more picky," he said. "They don't like the people who are entering very much."

In a 2023 FIU poll by Gamarra of Venezuelan-American registered voters in Florida, 45% of respondents agreed with a policy of deporting undocumented Venezuelans. An FIU survey released Friday of Hispanic registered voters in battleground states found that 36% agreed that the most effective way to combat illegal immigration is through mass deportation and 39% agreed that new waves of undocumented migrants are primarily criminals who threaten public safety.

Among leaders of South Florida's Venezuelan community, "there is a very strong rejection of those coming now," Gamarra said.

Older arrivals often complain that they came to the U.S. through legal channels, which cost time and money, while many of the recently arrived are crossing the border illegally and then asking for asylum. But Gamarra said that many of the earlier arrivals overstayed tourist visas and then sought to secure legal status.

The earlier immigrants also contrast their wealth and success with the poverty of the most recent wave of migrants, Gamarra said. "What you're seeing here is a reflection of the same kind of historical class bias that exists in every one of our countries."

Gustavo Garagorry said he fled to the U.S. from Venezuela in 2002 after facing threats for his work on an opposition political campaign. He entered with a tourist visa and filed for asylum, eventually becoming a U.S. citizen. Over the years, he earned a bachelor's degree and an M.B.A., worked as a legislative analyst for a city council member and started a business that specializes in permits and licenses.

Garagorry, 57, said that although he understands the desire of his fellow Venezuelans to seek opportunity in the U.S., he is troubled by the surge of migrants in recent years and what he says is the prevalence of wrongdoers among them. "They don't have the culture of those of us who came before," he said.

Regarding Trump's frequent denunciation of undocumented migrants, Garagorry added, "The rhetoric isn't the prettiest, but. . .it doesn't affect me because I'm not part of that group." His view aligns with a finding in a New York Times/Siena College poll of Hispanic likely voters released last month. Of respondents who were born in another country, 51% said they didn't believe Trump was talking about them when he discussed immigration problems.

Echoes of Cuban Community

Miami's Cuban community went through a similar experience as the Venezuelan one, when portions of an older guard of exiles who came in the 1960s and 1970s rebuffed the mass immigration of Cuban refugees in the 1980 Mariel boatlift. The newcomers were stigmatized as undesirable and for allegedly being populated with criminals and the mentally ill.

Some Venezuelans who arrived more recently share the misgivings about some fellow newcomers. Pedro Fernandez, 47, and his wife, Germania Pirela, 41, crossed the border in 2021 and filed for temporary protected status and asylum. They made their way to Miami and later Daytona Beach, and worked long days, he as a handyman and she as a restaurant worker. They saved enough money to buy a new townhouse.

The couple said they have qualms about two groups in particular -- those with criminal intentions and those dubbed "hijos de Chavez," or "children of Chavez," who grew up almost entirely under Hugo Chavez's dysfunctional socialist government and don't know what it is to work hard to get ahead.

The most recent arrivals "harm those of us who are doing things right," Fernandez said. "They don't represent us."

Credit: By Arian Campo-Flores

DETAILS

Subject:	Immigration policy; Hispanic Americans; Political campaigns; Polls &surveys; Voters; Criminals; Socioeconomic factors; Immigrants; Gangs
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LINKS

US fiscal, technology, oil, education policy examined by experts from Rice University's Baker Institute for Public Policy

ProQuest document link

FULL TEXT

Rice University issued the following news release:

Nonpartisan data and insights on the top issues of the upcoming election such as U.S. fiscal, science and technology, energy transition and school choice policy are available in Election 2024: Policy Playbook, a series of policy briefs presented jointly by Rice University and the Baker Institute for Public Policy. The series offers critical context, analysis and recommendations to equip policy leaders governing the U.S. and Texas in 2025.

The Policy Playbook will series continually produces briefs until the Nov. 5 election and cover topics in eight categories: economy and jobs; science, tech and innovation; energy and sustainability; strong and resilient communities; health and education; borders and immigration; security and diplomacy; and Texas, the second-largest state economy in the country and eighth-largest economy among world nations.

Fiscal Policy

U.S. national debt surged from $10 trillion to over $35 trillion since 2000, with projected deficits reaching $1.8 trillion in 2024, according to John Diamond, director of the Baker Institute's Center for Public Finance. Rising expenditures, particularly from Social Security and government healthcare due to an aging population, are driving the deficit. Despite projected revenue increases, spending will outpace growth, leading to larger deficits. Policymakers face the critical task of ensuring long-term fiscal sustainability to avoid imposing burdens on future generations from rising interest payments. In his article, Bring Fiscal Policy Under Control, Diamond argues that a more strategic approach to fiscal policies is necessary to manage short-term economic challenges, with a primary focus on stabilizing the long-term budget outlook, he said.

Science and Technology Policy

The U.S. is at risk of losing its leadership in global science, technology, engineering and mathematics (STEM), according to Neal Lane, senior fellow in science and technology policy, and Ramesh Ramamoorthy, executive vice president for research at Rice. They argue that U.S. public investments in science have historically driven economic growth and improved quality of life. Yet, the U.S. is increasingly losing ground to other nations, particularly China. Concerns include inadequate pre-K-12 education for a diverse STEM workforce, a shortage of women and minorities in science, and the need for a coordinated national strategy for research priorities. To maintain its innovative edge, the incoming administration must prioritize federal investment in scientific initiatives and unite the nation around this goal, they argue in their brief titled Restore America's Leadership in Science and Technology.

Oil Policy

While there are long-term goals to reduce dependence on oil and emissions, oil is likely to remain the primary fuel source for the U.S. economy for the foreseeable future, influencing economic and geopolitical dynamics through price movements in crude oil and gasoline, argues Mark Finley, fellow in energy and global oil. Oil accounts for 38% of U.S. energy consumption and is projected to maintain its leading role in the energy mix. The U.S. remains closely tied to global oil markets, affecting its vulnerability to international developments, as well. Finley argues in his brief, Oil Will Remain Central in Any Energy Transition Scenario, that policymakers should be cautious in managing oil price volatility, as market signals effectively balance supply and demand. New energy policies should acknowledge the ongoing significance of oil and the efficiency of the global oil market, ensuring secure and affordable oil access during efforts to reduce long-term dependence, he said.

Education Policy

The upcoming legislative session in Texas may lead to significant shifts in the state's education policy, argues Christopher Kulesza, scholar in child health policy. Although a proposal that included an education savings account (ESA) plan endorsed by Texas Gov. Greg Abbott was defeated during a special legislative session, Abbott invested $6 million to defeat Republican House members who opposed the plan. Abbott's campaign against these House members largely succeeded with the defeat of 11 of the 15 targeted legislators, likely resulting in a majority that favors school choice in the 89th legislative session, Kulesza said. If ESAs pass, the legislature must balance supporting education savings accounts (ESAs) with maintaining strong public education, he argues in the brief How to Design a Fiscally Responsible School Choice Program in Texas.

***

Original text here: https://news.rice.edu/news/2024/us-fiscal-technology-oil-education-policy-examined-experts-rice-universitys-baker

MSTRUCK-8899111 MSTRUCK

DETAILS

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LINKS

Gavin Newsom Loves Hollywood

ProQuest document link

FULL TEXT

It's enlightening to hear Democrats lambaste tax cuts for the so-called rich while they bestow government handouts on their Hollywood donors. Look no further than California Gov. Gavin Newsom, who this weekend pitched doubling the state's film tax credit, not long after raising taxes on other businesses.

California's tax revenue is exceeding budget projections this year owing to a buoyant stock market that has lifted capital gains. Mr. Newsom's first instinct is to spend the money helping his Hollywood friends. On Sunday he proposed increasing the state's film tax credit program to $750 million a year from $330 million.

"We're losing our market share and there's no reason," said California Film Commission executive director Colleen Bell. "Production companies are just seeking these tax credits. It's not enough anymore just to be the state with the best crews and the best weather and the best locations."

What do you know? Golden State progressives suddenly want to compete for businesses -- at least politically favored ones. They claim the benefits from the film tax credit program will trickle down to low-income communities, even though most studies find that such subsidies produce a trivial economic return. That's because they don't generate long-term investment and jobs.

On the other hand, broad-based tax cuts like those in the GOP's 2017 tax reform do produce such a return. It's also ironic that Hollywood unions are lobbying for an increase in California's film tax credit to compensate for the damage caused by their months-long strike last year.

If Mr. Newsom really wants to boost investment and jobs, he could cut taxes for all businesses and ease burdensome regulations. Instead, his budget this year increased business taxes by $14.9 billion over three years. He also recently signed bills that will restrict new warehouse construction, limit oil production and impose costly storage mandates on refineries.

Thanks, Mr. Newsom, for this lesson in modern progressive politics: Punish businesses with higher taxes and more regulation. Then redistribute the spoils to political friends.

DETAILS

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LINKS

MANSION --- Mansion Taxes --- Real-estate pros love to hate them, while local governments embrace them as a new source of funding. How much does the rise of 'mansion taxes' actually affect the housing market?

Taylor, Candace . Taylor, Candace.

ProQuest document link

FULL TEXT

After years of saving for a down payment, Hamza Sheikh was ready in 2022 to buy his first home -- a one-bedroom apartment in Manhattan.

Sheikh, who is in his early 30s and works in technology, was "dead set" on paying less than $1 million, according to his real-estate agent, Phillip Salem of Compass. That's because New York charges a so-called mansion tax for properties of $1 million or more, meaning he would have to pay an additional 1%, or at least $10,000, in cash at closing.

"It wouldn't have been a total deal breaker," says Sheikh, who likely would have borrowed the extra cash from his family. But avoiding the tax "made the whole process a lot more feasible."

They focused on apartments priced around $1.1 million, seeking sellers who might be willing to go below $1 million, Salem said. Eventually, they found a Chelsea condo asking $1 million; Salem negotiated the price down to $995,000, and they made a deal.

Mansion taxes -- shorthand for taxes on high-end real-estate sales, usually in the form of a one-time payment at closing -- are becoming more common as cash-strapped local governments look for new funding sources. In New York, buyers typically pay the mansion tax; in other markets, like Los Angeles and San Francisco, sellers are usually on the hook to pay such fees. Often popular with voters, these taxes face vehement opposition from the real-estate industry and business groups, who say such measures will cripple the residential real-estate market.

The impact is often much more nuanced. The data show that new mansion taxes tend to have a significant but short-term impact on the number of home sales, creating a rush of deals before the tax goes into effect and suppressing transactions for several months afterward. Then, the market begins to normalize.

Take Los Angeles, for instance. Since its new mansion tax, called Measure ULA, went into effect in April 2023 to raise money for affordable housing and homelessness prevention, the controversial law has been widely blamed for tanking the city's high-end housing market. ULA required the sellers of residential and commercial properties above $5 million to pay a 4% tax, while the sellers of properties of $10 million and up paid 5.5%. (The thresholds are adjusted for inflation each year.)

"In L.A., the luxury home market hit a wall," said California spec-home developer Simon James. "A lot of it had to do with ULA."

The first month the law was in effect, the number of L.A. property sales over $5 million plummeted to four from 90 the previous month, according to data compiled by real-estate appraiser Jonathan Miller. What happened, he said, is that sellers rushed to close deals before ULA took effect. "There was a heightened frenzy in the buildup to that tax being implemented," he said.

The number of high-end sales stayed low for several months as many owners delayed putting their homes on the market in hopes that ULA would be repealed or altered, local agents said.

That was the case for entrepreneur David Alexanderian, who completed a six-bedroom spec house in L.A.'s Bird Streets in 2023. "I waited for six or seven months" to put it on the market, he said. Eventually he gave up on the law being repealed and listed the home for $24.5 million.

When the roughly 11,000-square-foot house, which has a massage room and putting green, sold in August for $21 million, Alexanderian had to pay a total of about $1.25 million for the mansion tax and transfer tax, significantly cutting into his profit, he said. "This is a very unfair tax," he said, vowing not to do any future projects in L.A.

Gradually, the number of high-end sales in L.A. has crept back up. In July 2024, the city saw 25 home sales over $5 million, more than double the number in July 2023 and down slightly from July 2022.

"Initially, people didn't know what to do -- it was so jarring," L.A. Compass real-estate agent Tomer Fridman said of ULA. These days, the tax is more likely to play a role in negotiations, with buyers and sellers sometimes splitting the tax. "Now, it's a conversation to be had."

L.A.'s high-end market is still contending with high interest rates, spiraling fire-insurance costs and a general slowdown in housing sales across the country.

The lasting impact of mansion taxes tends to be with deals right around the price thresholds for when the taxes kick in. Some buyers, like Sheikh in New York, take pains to minimize or avoid paying such fees. In New York, that means plenty of $995,000 or $998,000 price tags, said real-estate agent Leslie Hirsch of Christie's International Real Estate Group.

Mansion taxes -- some of which also apply to commercial transactions -- have been present in some areas for years:

New York state in 1989 started requiring buyers to pay a flat 1% tax on any home purchase of $1 million or more. That has remained the starting point for the mansion tax since then, leading New Yorkers to complain that the name is deceptive, given that $1 million buys only a small apartment in Manhattan. "Someone from another country, when you tell them about mansion taxes, they fall off their chair and say, 'Have you seen a mansion?'" said longtime New York real-estate agent Leonard Steinberg.

Recently, more mansion taxes have been proposed or expanded as cities seek new sources of funding amid falling commercial property values and a decline in state funding since the 1970s, often coupled with state laws restricting other types of taxes.

"Local leaders are going to be put under immense pressure with few options," said Richard Auxier, a state and local tax-policy expert at the Urban-Brookings Tax Policy Center. "You're out of money -- what else are you going to do?"

In 2019, New York City added a supplemental mansion tax for buyers of homes of $2 million or more, with increases at different price levels, up to 3.9% for homes of $25 million and up. In San Francisco, voters have approved four increases in transfer-tax rates since 2008; in 2020, they approved Proposition I, which doubled the tax rate for sales of at least $10 million, with the sellers of homes at $25 million or more now paying 6%. Not all have succeeded: Chicago's Bring Chicago Home referendum, which sought in part to raise the city's real-estate transfer tax on property purchases of $1 million and up, was defeated in March.

New York City's mansion tax helps fund public transit, with the Metropolitan Transportation Authority collecting $345.1 million from the tax in 2023 for capital projects, according to an MTA spokesperson. In August, the MTA announced it would start selling debt backed by mansion-tax revenues to help raise $2 billion for infrastructure upgrades.

But most of the new measures around the country aim to address the housing crisis. The sharp jump in the homeless population, a shortage of affordable housing and increasing income inequality have helped sway public opinion in favor of mansion taxes in many places, said Peter Dreier, a professor of Urban &Environmental Policy at Occidental College who was involved in drafting Measure ULA.

Seven states, plus Washington, D.C., have a form of mansion tax, according to Kamolika Das, local tax policy director at the Institute on Taxation and Economic Policy.

"Taxing the people who have benefited the most from the real-estate boom -- that's a pretty attractive way of addressing the housing crisis," Dreier said. After ULA passed, "we got a lot of calls asking, 'How did you do it? Can we do it here?'"

In San Francisco, funds from Prop. I go into the city's general fund but are intended for rent relief and affordable housing. Between January 2021 and March 2024, Prop. I raised $324 million, according to a June report by the city's Housing Stability Fund Oversight Board. Of that, more than $203 million was spent on new affordable housing initiatives and to provide emergency rent relief to San Franciscans, the report said, including acquiring five sites to build more than 550 units of new affordable housing.

In Los Angeles, ULA revenues go into the House LA Fund, with roughly 70% going to affordable housing programs and 30% to homelessness prevention. As of April, $54.7 million in ULA funds had been proposed to expedite the building of 795 affordable housing units, and an estimated 11,000 people had been approved for ULA-funded emergency rent assistance, according to a report by Dreier and others. Between June and August, more than 1,500 people received legal services in eviction cases, Dreier said.

Governments often fail to anticipate the initial ups and downs when forecasting how much money mansion taxes will bring in, Miller said. For example, Measure ULA was projected to raise nearly $1 billion a year. Instead, from the time it went into effect to early October, it had generated only about $403 million from 623 transactions.

Dreier acknowledged that after ULA was introduced "for the first couple of months, the tax numbers were nowhere close to what we had anticipated." He attributed this largely to the real-estate industry going "on strike, basically, against the measure. It worked for a while, but eventually people had to sell their properties."

When New York City increased its mansion tax in 2019, it saw a similar pattern. In June 2019, the month before the increase took effect, the number of Manhattan sales of $2 million or more jumped to 661 from 355 the previous

month, then plummeted to 164 in July 2019, Miller's data shows.
"There was a sharp drop-off in transaction volume after a bit of a frenzy just before the enactment," recalled Steinberg. By December, the number of sales had returned to normal and even surpassed the number in December 2018.
Now, New York buyers are accustomed to the tax. "It's become the norm," said real-estate attorney Shaun Pappas with Starr Associates.
When North Carolina oncologist Dr. Sean Wang started looking for a Manhattan pied-a-terre, he didn't realize that New York has a mansion tax.
In August, he paid $985,050 for a one-bedroom in Midtown. While he said he feels "lucky" to have avoided the tax, his choice had little to do with that -- mostly, he liked that the south-facing condo has an extra half bathroom, unlike many of the apartments he looked at. For the right apartment, "I was prepared to pay more than $1 million," said Wang, 55. The mansion tax was "a minor contributing factor."
Like Wang, most buyers are more focused on finding the right home than avoiding mansion taxes, agents said.
"I don't think a buyer is going to lose out on their dream property because of a 1% payment," said Salem of Compass, who works in both New York and Los Angeles.
In San Francisco, real-estate agent Nina Hatvany of Compass said the tax only factors in a bit. "No one has said to me, 'I'm not buying an expensive house because when I sell I'll have this big tax," she said. There are some situations when it comes into play, she said; for example, if a homeowner is renovating their home and considering buying a house to live in temporarily, the high cost of selling may be a deterrent.
In Washington state, which expanded its excise tax in 2020, sellers also pay little attention to it, in part because home values have steadily increased for years. "It has been a nonissue, other than that people do not enjoy paying it," said real-estate agent Jen Cameron of the Agency Seattle.
Buyers and sellers try various tactics to avoid paying mansion taxes, especially for homes on the cusp of a price threshold where the tax kicks in or increases. Hirsch and her colleague Howard Morrel, who listed the New York home that Wang eventually purchased, purposefully priced it just below $1 million to help lure buyers. "If they can avoid the tax, it sets our listing apart," Hirsch said.
For communities considering measures like a mansion tax, Shane Phillips of the UCLA Lewis Center for Regional Policy Studies advises governments to implement marginal taxes, where the effective rate increases gradually with every dollar spent, rather than all-or-nothing thresholds. That would avoid "these weird threshold effects that occur," he said, calling them "inefficient and wasteful."
Another challenge with the politics of mansion taxes is how the funds are allocated, according to Auxier, the tax policy expert. The money collected fluctuates with the real-estate market, making it hard to predictably fund programs.
Credit: By Candace Taylor

DETAILS

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LINKS

U.S. News -- Capital Account: U.S. and IMF Disagree On China

Ip, Greg . Ip, Greg.

ProQuest document link

FULL TEXT

Eighty years ago world leaders meeting in Bretton Woods, N.H., created the International Monetary Fund to prevent the sorts of economic imbalances that had brought on the Great Depression.
Today, imbalances once again threaten global harmony. China's massive trade surplus is fueling a backlash. The U.S. attributes those surpluses to China holding down consumption while subsidizing manufacturing and exports, inflicting collateral damage on its trading partners. And it would like the IMF to say so.
The IMF, though, has steered a more neutral path. It has prodded Beijing to change its economic model while playing down any harm from that model for the world.
Decades ago, U.S. leaders thought bringing China into the postwar economic institutions such as the IMF and World Trade Organization would make Beijing more market-oriented and the world more stable. They now think the opposite. China has doubled down on an authoritarian, state-driven economic model that many in the West see as incompatible with their own.
The IMF, the world's most influential international economic institution, may find itself torn between irreconcilable visions of the global economy, especially if former President Donald Trump is re-elected next month.
Trump has prioritized reducing the trade deficit, especially with China, through tariffs, an approach the IMF has criticized. Many of his advisers are deeply suspicious of both Beijing and international institutions. Project 2025, an agenda for a second Trump term that includes many Trump advisers as authors, has suggested the U.S. should leave the IMF, though there is no sign Trump agrees.
The U.S. has been upset about the growth in China's trade surplus since it joined the World Trade Organization in 2001, wiping out U.S. factory jobs in what became known as the China shock.
China's surpluses have since shrunk as a share of its gross domestic product. But because China's economy is now so large, that surplus has grown as share of world GDP, to 0.7%. Other countries are alarmed at a growing flood of cheap manufacturing imports, dubbed "China Shock 2.0."
Jake Sullivan, President Biden's national security adviser, said at the Brookings Institution Wednesday that China "is producing far more than domestic demand, dumping excess onto global markets at artificially low prices, driving manufacturers around the world out of business, and creating a chokehold on supply chains."
Treasury Undersecretary Jay Shambaugh told me at a panel organized by the Atlantic Council two weeks ago that China is "already 30% of global manufacturing. You can't grow at a massive rate when you start from 30% of the world without displacing not just us, but lots of countries."
Pointing out such tensions is part of the IMF's job, Shambaugh said at the event. While the IMF has said China's industrial policies may be hurting its trading partners, "I would like to see them pay more attention . . . to the aggregate external imbalance."
The IMF's architects believed a breakdown in economic cooperation contributed to the Depression. Countries such as the U.S. that ran large trade surpluses felt no pressure to help those with deficits, like Britain. Countries going through the Depression sought to limit imports and boost exports by devaluing their currencies or imposing tariffs, in effect seeking to export their unemployment.
To end such "beggar-thy-neighbor" policies, British economist John Maynard Keynes proposed that trade be conducted through a global bank and currency that would prevent big deficits and surpluses. Instead, at Bretton Woods, delegates agreed to peg their currencies to the dollar with the IMF overseeing periodic revaluations.
By the 1970s, inflation and growing trade deficits caused fixed exchange rates to collapse. Cross-border capital flows soared, enabling poor countries to borrow from Western banks and investors. When they defaulted, the IMF had a new mission: helping them restructure their debts, usually on the condition of strict budget austerity. IMF, a popular joke ran, stood for "It's Mostly Fiscal."
Even today, while the IMF does still monitor trade deficits and surpluses, it rarely attributes those to cross-border influences, focusing instead on fiscal and other domestic factors.
In a blog post last month, IMF staff investigated the U.S. deficit and Chinese surplus and found little connection. The U.S. deficit reflected strong government and household spending, while China's surplus resulted from slumping property markets and domestic confidence. They "are mostly homegrown," IMF staff wrote. In an implicit rebuke to

the U.S., they wrote, "Worries that China's external surpluses result from industrial policies reflect an incomplete view."

This benign view of Chinese surpluses has drawn criticism. Brad Setser, a former U.S. Treasury official now at the Council on Foreign Relations, said the IMF has relied on data that understates the surplus.

Setser also raps the IMF's advice to Beijing to let interest rates and the exchange rate fall while tightening fiscal policy -- that is, raising taxes or cutting spending. That, he said, will weaken imports, boost exports and thus widen the trade surplus.

"Their analysis is all about how bad the fiscal situation is, with no real analysis of the balance of payments position," Setser said.

Pierre-Olivier Gourinchas, the IMF's chief economist, disagreed. He noted the IMF has consistently urged China to boost household consumption such as by strengthening the social safety net and shifting more of the tax burden from the high-consuming poor to the high-saving rich. He also noted that the IMF has argued for fiscal stimulus now and consolidation later.

Does the IMF's opinion make a difference? Most countries -- the big ones especially -- will never need to borrow from the IMF and can thus ignore its advice. The IMF has long urged the U.S. to rein in its budget deficit, noting this contributes to its trade deficit, and the U.S. has just as long ignored it.

And yet when the IMF speaks, it does so with an authority and credibility that no private analyst or individual country commands.

China's approach to boosting exports is "killing jobs elsewhere, and that's something the IMF should call out," said Martin Muhleisen, a former senior IMF official now at the Atlantic Council. "China doesn't want bad publicity from the IMF, in part because the criticism would resonate in many countries."

Enlarge this image.
Credit: By Greg Ip

DETAILS

Subject:	Trade surplus; Councils; Exports; Industrial policy; Global economy; International relations; Economic models; Trade deficit; Tariffs; Consumption; International trade; Fixed exchange rates; Gross Domestic Product--GDP; Manufacturing; Economic growth; Budget deficits; International relations-US
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LINKS

U.S. News: Election 2024

ProQuest document link

FULL TEXT

Harris Goes After

The Union Vote

Vice President Kamala Harris took a few minutes from her speech at a union hall in Lansing, Mich., on Friday evening to play some videos of her opponent Donald Trump, highlighting clips where he complained about paying overtime, said that U.S. autoworkers' jobs could be done by children and said United Auto Workers leader Shawn Fain should be fired.

"Listen to his words," Harris said to several hundred union workers gathered at the UAW hall Friday evening. "He's got his club, and I'm going to tell you, union workers are not part of his club."

The pitch was made to a group of supporters but underscores the importance of working-class voters in the coming election.

Republicans have made steady inroads with this traditionally Democratic voting bloc, and those voters helped fuel Trump's rise in the 2016 election.

Union workers typically provide an army of people to knock on doors and phonebank for Democrats as part of the critical get-out-the-vote operation.

-- Annie Linskey

Trump Revises

Pitch in Detroit

Former President Donald Trump wrapped up a day in Detroit with a rally in the city's downtown, telling supporters that he'll "return Detroit greater and stronger than ever."

This month, the Republican candidate called the city a developing nation, while speaking to its economic council. "Our whole country will end up being like Detroit" if Kamala Harris is elected president, he said then.

On Friday, Trump blamed Harris for problems the city has faced, such as poverty and crime, though the problems started long before Harris became vice president. "The Democrats have been wreaking havoc on this place," he said.

The city was hit hard during the Covid pandemic, just as it was recovering from bankruptcy and the 2007-09 recession. The city's poverty and unemployment rates are higher than the national average.

While most of the seats were full at the rally, the standing-room-only spaces were largely empty. Supporters waved signs that read, "Make Detroit great again" and "Build it in America." At one point, Trump's microphone stopped working and he stood on stage for more than 10 minutes while it was fixed.

-- Natalie Andrews

Senate Hopefuls

Square Off

Coming into Friday's debate, Democratic Sen. Tammy Baldwin had work to do. The three-term Wisconsin senator's healthy lead in the polls had shrunk to a near tie and the nonpartisan Cook Political Report changed its rating of the race to a "toss-up."

Baldwin leaned on her 25 years of experience in Congress during Friday night's matchup against GOP challenger Eric Hovde to showcase her history of working through partisan gridlock and preserving her party's values.

Baldwin pointed to her support of Affordable Care Act provisions and efforts to curb the opioid crisis. She defended her support of a failed immigration bill that Hovde and other Republicans have said didn't go far enough, and she pointed to her backing of the Bipartisan Infrastructure Bill passed in 2021.

For his part, Hovde leaned heavily on his promise to cut government spending and decrease regulation if elected. He accused Baldwin of supporting reckless immigration and fiscal policies. The Republican said he supported an expanded "right to decide" on abortions, but only early in a woman's pregnancy.

-- Xavier Martinez

DETAILS

Subject:	Immigration policy; Presidents; Voters
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LINKS

World News: New U.S. Pacific Strategy Is to Spread Out --- China challenge has America upgrading far-flung runways, reviving '40s airfields

Niharika Mandhana at North Field; Tinian; Cherney, Mike . Niharika Mandhana at North Field; Tinian; Cherney, Mike.

ProQuest document link

FULL TEXT

The remote Pacific airfield used to launch the atomic bombings of Japan during World War II is being brought back to usefulness with a different foe in mind: China.

Runways emerging from the encroaching jungles on the tiny island of Tinian, a U.S. territory, are part of a sweeping shift in how America's military would respond to a possible conflict in Asia.

Instead of relying on a few large air bases, the U.S. would disperse warplanes to make them less vulnerable to China's missiles. The rebuilding on Tinian is a key piece.

In recent months, Air Force crews have trudged through the foliage with machetes and GPS devices to mark the boundaries of the erstwhile runways, based on images and maps from the 1940s.

"The density was tough, very tough," said Master Sgt. Jody Branson, the operations superintendent, who belongs to the Air Force's 513th Expeditionary Red Horse Squadron. "If me and you walked back there, we could be 10 feet apart and not even see each other."

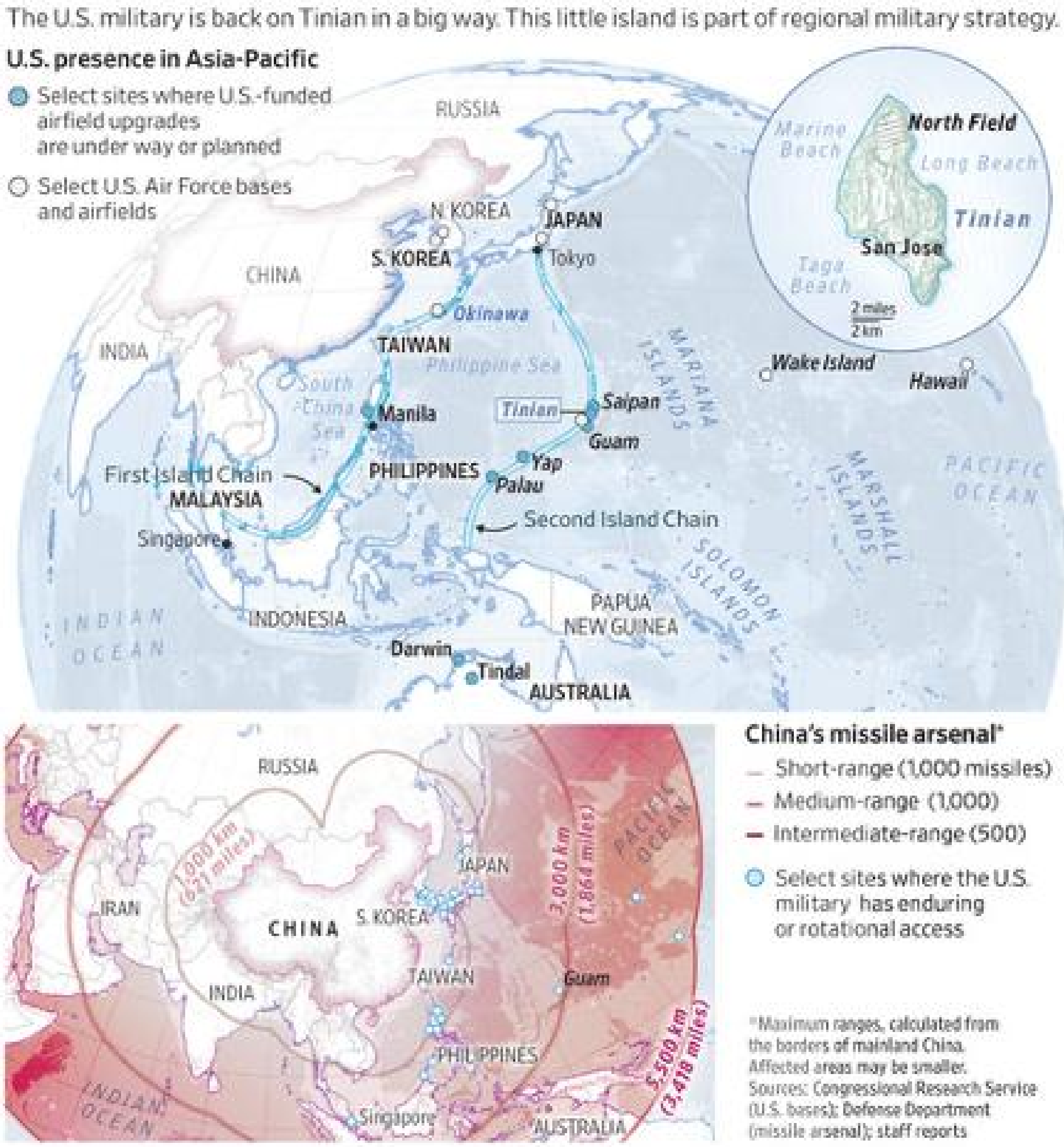
For decades, the U.S. didn't need the airfield. It consolidated its presence at a small number of large air bases. It can no longer afford to do so. In a conflict, China could direct its significant firepower at those well-known bases.

To prevent that, the U.S. would switch to a different posture during a crisis. Aircraft would scatter across an array of

airfields in the Indo-Pacific, hopping between locations to keep China guessing.
"We're interested in any runways, basically," said Michael Winkler, deputy director of air and cyberspace operations for the Pacific Air Forces. "If you've got 7,000-plus feet of runway, we'll look at that as a potential operating base."
That list consists of several dozen sites across the vast region, he said. Some are on U.S. territories, such as Tinian, but most aren't -- including vital places close to Taiwan, the region's most dangerous potential flashpoint. Japan and the Philippines, for instance, are home to a number of military installations and commercial runways to which aircraft could potentially disperse.
That means in a conflict, Washington would need to have tricky discussions with allies and friendly governments for wartime access. Winkler said the U.S. military has decided not to push those conversations "until the moment of that crisis."
For now, the U.S. is sending its airmen out to as many potentially useful sites as possible to get a lay of the land. At a number of spots, it is laying the groundwork to make facilities more suited for U.S. use.
On Basa Air Base in the Philippines, the U.S. is financing a taxiway and a parking apron, after upgrading the runway and building a warehouse. On Tinian, in addition to rebuilding North Field, the U.S. is bulking up the international airport with new taxiways and parking space for up to 12 refueling aircraft, budget documents show. The site is intended as a secondary fuel hub if the large U.S. base on the island of Guam is damaged.
On Guam itself, military crews are rehabilitating another World War II-era airfield so aircraft can spread out across different points on the island. About 500 miles southwest on Yap, a Micronesian island, the Air Force has proposed a $400 million runway extension, according to budget documents. Airfield improvements are planned on the tourist island of Saipan and on at least two sites in the archipelago nation of Palau.
Much of the digging and paving at the moment is taking place in an arc called the Second Island Chain, which includes a smattering of territories the U.S. controls as well as countries where the U.S. has military access. For American forces, upgrading infrastructure and positioning supplies at these locations is easier than in the First Island Chain, which spans Japan, the Philippines and Taiwan. The First Island Chain lies closer to China, but the U.S. is more dependent on foreign governments there and political winds can more easily shift.
Farther out, Washington is pumping money into two northern Australian air bases. At Darwin, it has built fuel storage and is making a squadron operations facility. U.S.-funded fuel storage is also going up at a base at Tindal, and infrastructure us planned so that the base -- which until now has catered to fighters -- can accommodate B-52 bombers.
Positioning bombers in Australia would force Beijing to decide whether to use its costlier long-range missiles -- and possibly draw another U.S. ally into conflict.
Airmen are trying to get the hang of the new location-hopping reality. In February, U.S. and allied aircraft bounced between six airfields on three islands: Guam, Saipan and Tinian. For the first time this year, the U.S.-led Valiant Shield exercises included U.S. fighters operating from the Japanese bases of Matsushima and Hachinohe. In August, the U.S. deployed B-2 stealth bombers to an Australian air base near Brisbane.
Beijing's military modernization has eroded U.S. dominance. If China moved to invade democratically governed Taiwan -- which it has vowed to take, by force if necessary -- it could send volleys of missiles at the U.S.'s main air bases in the region. For the U.S., this means the era of sanctuary at those bases is over.
Andersen Air Force Base on Guam is a strategic U.S. node. As many as 150 aircraft can park there, and it houses the Air Force's largest fuel-storage capacity anywhere.
On rotation at nearly all times are three or four tanker aircraft that can refuel other planes midflight. In the past 12 months, B-52 bombers have come to Andersen twice, for several weeks at a time. In February, more than 80 U.S. and allied aircraft descended on the base for exercises.
The U.S. military is developing more options to spread out aircraft -- on Guam itself, and on nearby Tinian and Saipan. It recently rehabilitated a short airstrip at the U.S. Navy base on Guam and uses the island's airport for exercises. At another site on Guam, Northwest Field, Air Force crews are rebuilding taxiways, clearing overgrown parking surfaces and throwing up a shelter that can double as a hangar. Northwest Field won't have all the facilities of a base. Mobile

air-traffic-control teams will come out as needed.
"We want to stay flexible, stay agile," said Capt. Luke Eckstein, who is part of the team rehabilitating the airfield. "Two is better than one, six is better than five."
Some analysts say the U.S. isn't investing nearly enough in infrastructure. Fiscal constraints mean many projects sit on unfunded wish lists, competing priorities pit buying new aircraft against pouring concrete, and far-flung locations raise hurdles.
"What we're trying to do is hard," said Andrew Huntoon, deputy director of logistics, engineering and force protection for the Pacific Air Forces. He pointed out that the Air Force must navigate local rules around environment and cultural heritage and the remote locations of some bases.
The Air Force teams out on Tinian have glimpsed the difficulties. The island is less than 40 square miles and is home to around 2,000 people. It has a school, a library and one gas station. Rental equipment needs to be shipped or flown in.
When flying into Tinian, it is hard to imagine the scale of the U.S. mobilization eight decades ago. Thousands of Navy Seabees carved what became a sprawling airfield, along with supporting infrastructure. At North Field, the Air Force crew of around 30 has spent months clearing out the jungle.
"We're writing the next chapter in history," said Maj. Blake Rothschild, commander of the squadron clearing the northern airfield. "We're not sure what the end of that's going to look like, though."

One Scattered-Forces Complication
Aside from getting access from allies, the Air Force dispersion strategy's biggest issue is logistics -- getting equipment, parts, fuel, munitions and support crew to scattered locations, possibly under attack -- said Jacob Heim, a senior policy researcher at Rand, an American think tank.
"In theory, from a survivability standpoint, you might want to be so dispersed you have two aircraft at every base, but there's no way you could actually have the logistics to support the aircraft when they're that widely dispersed," he said.
Part of the solution is to stock materiel ahead of time. But if hostilities broke out, supplies would still need to get to the right place at the right time.
"Having aircraft at an airfield doesn't do me much good unless I've got maintainers to support those aircraft, potentially weapons to load on those aircraft in a combat scenario, gas to put in those aircraft and everything else," said Michael Winkler, deputy director of air and cyberspace operations for the Pacific Air Forces.



Enlarge this image.

Credit: By Niharika Mandhana at North Field, Tinian, Mike Cherney in Tindal, Australia, and Camille Bressange in New York

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LINKS

Gold Edges Higher, Supported by Concerns Over U.S. Fiscal Policy -- Market Talk

ProQuest document link

FULL TEXT

0028 GMT - Gold edges higher in early Asian trade. There are worries that fiscal policy in the U.S. and elsewhere may not be sustainable, says Michael Widmer, global commodity strategist at Bank of America. U.S. national debt is expected to reach a record high three years from now, raising concerns over debt sustainability and Treasury supply, Widmer cites data the Committee for a Responsible Federal Budget as saying. With such concerns over U.S. funding needs and their impact on the Treasury market, gold may become the "ultimate perceived safe haven asset," Widmer adds. Spot gold is 0.1% higher at $2,694.03/oz. (ronnie.harui@wsj.com)

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LINKS

The Policy Elephant in the 2024 Election

Rove, Karl . Rove, Karl.

ProQuest document link

FULL TEXT

The 2024 election will be one of America's most consequential. The presidential candidates are offering our country strikingly different paths. But neither Donald Trump nor Kamala Harris is saying much about some of the nation's greatest challenges.

The first is America's national debt, now $35.7 trillion. That's larger than our entire economic output for a year. For the first time in history, the U.S. is spending more on the debt's interest payments than on defense.

The Committee for a Responsible Federal Budget says Mr. Trump added $8.8 trillion to the debt during his term, offset by $443 billion of deficit reduction. As of June, the Biden-Harris administration had added a further $6.2 trillion to the debt, offset by $1.9 trillion of deficit reduction. The debt will grow when Mr. Biden signs the fiscal 2025 budget. The Congressional Budget Office projects that absent any significant changes, the debt will reach nearly $50.7 trillion by the end of 2034. Without presidential leadership, we'll be on a road that ends with our children and grandchildren much less prosperous.

Yet neither candidate seems interested enough to offer voters a plan to do something about it. Instead, both are offering subsets of voters financial goodies. Ms. Harris would give first-time homeowners $25,000 for a down payment and small business startups a $50,000 deduction. Both candidates want tip income to be tax-free. Mr. Trump would raise the cap on the state and local tax deduction. These proposals won't increase economic growth. They'll add to the debt while warping the tax code. When did tips become a more worthy income source than an hourly wage or monthly salary? Why give wealthy blue-state homeowners preferential tax treatment?

The second significant issue the candidates are ignoring is the coming bankruptcy of the U.S. social safety net. According to their actuaries, Social Security's trust fund will be depleted in 2035 while Medicare's hospital trust fund will go bust in 2036. Studies suggest about half of Americans 65 or older live in households that get at least 50% of their income from Social Security. About 25% rely on the program for at least 90% of their income.

Both candidates are silent on these coming bankruptcies. Perhaps that's politically wise, but a reckoning still looms for the many Americans who depend on those programs. Addressing it now is the responsible thing to do.

Sadly, what the candidates have said about the safety net would put it in greater peril. Mr. Trump would end taxes on benefits of wealthier Social Security recipients, causing the program to go bankrupt two years earlier. Ms. Harris wants to add an expensive home-healthcare benefit to Medicare but won't say what it'll cost or how she'd pay for it. She seems to think drug companies will just cough up the money.

Then there's the third dire issue: the country's faltering security. The July report from the Commission on the National Defense Strategy concluded that "the threats the United States faces are the most serious and most challenging" since World War II and could result in a "near-term major war." But the U.S. "is not prepared" for a global conflict if it erupts. America "lacks both the capabilities and capacity" for the military "to be confident it can deter and prevail in combat."

Neither candidate can dismiss this disturbing warning as political spin. Congress created the commission to help develop a bipartisan agreement on America's strategic challenges. Led by former Rep. Jane Harman (D., Calif.) and Ambassador Eric Edelman, who served in Republican administrations, it's a panel of respected foreign-policy and national-defense figures.

So we should all take seriously the commission's urging that the U.S. cannot "wait for the next Pearl Harbor or 9/11." America must strengthen alliances now. The U.S. military must adopt new technologies faster, fund a larger industrial base to supply weapons and materiel, and be organized so all its branches can fight more effectively together. The commission argues that to prevent war, the U.S. must prepare to fight and win any conflict. Strength is the best deterrence.

Yet here again, both candidates are mostly mute. Mr. Trump occasionally asserts he alone can keep the peace -- a claim so vague as to be silly. Ms. Harris largely ignores the issue, thereby raising doubts about her as a prospective commander in chief.

The campaign's policy debates have been truncated generally, and on these three vital issues -- debt, entitlements and defense -- recklessly superficial. These challenges won't go away, whoever is elected. Without the benefit of a national discussion amid the campaign, no consensus can emerge on what to do. America is headed for trouble on multiple fronts, and both Ms. Harris and Mr. Trump are whistling past the graveyard.

Mr. Rove helped organize the political-action committee American Crossroads and is author of "The Triumph of William McKinley" (Simon &Schuster, 2015).

(See related letter: "Letters to the Editor: Voters Ask What the Country Can Do for Them" -- WSJ Oct. 25, 2024)

Credit: By Karl Rove

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LINKS

Oval Office Hopefuls: You Get a Tax Break! You Get a Tax Break!

Rubin, Richard; Martinez, Xavier . Rubin, Richard; Martinez, Xavier.

ProQuest document link

FULL TEXT

Supposedly, there's no such thing as a free lunch. But there might soon be tax-free overtime pay, tax-free Social Security benefits, free home healthcare or free assistance with newborn expenses.

This presidential campaign is bringing a whole new meaning to free-market economics. Republican nominee Donald Trump, in particular, layers tax giveaway on top of tax giveaway, promising voters everything but the kitchen sink. (So far, there's no deduction for kitchen sinks, but the campaign isn't over yet.)

Many of the ideas are more slogans than proposals -- concepts of a plan, to borrow a Trump phrase. They are accompanied by no details, fact sheets, white papers or experts. Still, if Republicans sweep November's election, some of them might be law in six months. Some might be forgotten except by beleaguered policy analysts who have spent the campaign season trying to figure out, again and again, what Trump is actually suggesting.

"We seem to be having an arms race," said Alan Auerbach, an economist at the University of California, Berkeley. "It's emblematic of the complete breakdown of any kind of responsibility about the budget."

It wasn't always this way. Weeks of the 2012 presidential campaign were consumed by a debate over whether Republican nominee Mitt Romney's tax proposals added up. The 2020 Democratic primary featured campaigns topping each other with 14-point Medicare-for-All plans and multitrillion-dollar tax increases to pay for them. None of the ideas had any chance of making it through Congress but were intended to at least suggest the awareness of trade-offs.

In 2024, Trump and Vice President Kamala Harris, the Democrats' presidential nominee, are piling on the promises, though with contrasting approaches. His pitch: You can pay less, and there aren't really costs, but even if there are, you won't pay them. Her pitch: You will get something, and someone else will pay.

Trump favors tax breaks, and the former president tends to announce them based on where he is speaking -- tax-free tips in Nevada, tax-deductible car-loan interest in Detroit, tax-free generators after a hurricane. He typically doesn't pair the giveaways with any way to pay for them. Instead, he promises that economic growth, cutting government waste or collecting revenue from tariffs can make up the difference, while claiming that tariffs will be paid by foreign countries rather than the American consumers who would feel the burden.

"To me, the most beautiful word in the dictionary is 'tariff,'" Trump told Bloomberg News on Tuesday at the Economic Club of Chicago.

Harris, meanwhile, tends to pull proposals -- largely spending programs and refundable tax credits -- from the long established Democratic agenda. This week, she said she wanted to offer one million forgivable business loans for Black entrepreneurs.

Harris typically does identify a way to pay for her proposals, and those also come from Democrats' wishlist of tax increases on corporations and high-earning households. She has offered enough tax increases to cover the cost of many of her proposals, though she might have trouble getting everything through Congress.

Trump's policy plans would widen budget deficits by an estimated $7.5 trillion over a decade, according to the nonpartisan Committee for a Responsible Federal Budget. Meanwhile, Harris's plans would increase deficits by $3.5 trillion, the group said.

Trump's tax-cut promises get reliable applause, and voters don't seem to punish candidates who offer free stuff.

"The reward for rigor -- internal rigor, almost, a clear demonstration of a policy process, a grappling with trade-offs -- like a dam, burst at some point," said Gordon Gray, who helped develop policy for Republican Sen. John McCain's 2008 presidential campaign. "There's just not an apparent reward for that."

Trump's plan to end income taxes on Social Security benefits was his most popular idea tested in a Wall Street Journal survey. The plan had support from 83% of voters; that fell by 15 percentage points when voters were asked if they backed the plan even if it added to the national debt.

Trump "delivered on his promises to cut taxes in his first term. He can be trusted to deliver again in his second term," Trump spokeswoman Karoline Leavitt said.

Trump, in particular, is drawing on his promise-heavy playbook from 2020. Unlike today, economists and lawmakers in both parties agreed then that wider deficits were worth the future costs because of the urgency of preventing the pandemic from wrecking the economy.

Sam DiObilda, a Coatesville, Pa., Republican who said he voted for President Biden in 2020 but plans to vote for Trump this time, is concerned about the budgetary implications of some of the Republican's proposed tax cuts. But he hopes the policies go hand-in-hand with ones designed to boost the economy and make up for the lost revenue.

"Donald Trump cuts regulations and, when you cut regulations, you stimulate business," said DiObilda, a 61-year-old retired teacher. "When you stimulate business, you stimulate the tax base."

Nathalie Morales, a Comstock Park, Mich., server, said the no-tax-on-tips promise has caused a stir among her co-

workers.
"It feels like a lot of empty promises," said Morales, 26, a Democrat who plans to back Harris. "I just think it's a ploy to get the people to come to his side."
Republicans have long charged Democrats with courting voters with handouts, saying there is a difference between government spending programs and tax cuts. The latter, many argue, just let people keep their own money and can encourage economic growth.
In addition, the line between tax cuts and spending programs can get blurry. For example, Congress could cut Social Security benefits using a formula that relied on annual income, which would be the same as the tax exemption for Social Security benefits.
Democrats, too, are arguing that the benefits of alleviating childhood poverty can make social-spending increases a good decision for the government, even if scorekeepers don't show it paying for itself.
Harris, asked in August how she would pay for some of her expansions of the child tax credit and earned-income tax credit, talked about the return on investment.
"Strengthening communities, and in particular, the economy of those communities, and investing in a broad-based economy, everybody benefits, and it pays for itself in that way," she said. (Her campaign later pointed to tax increases as well.)
If anything, economists said, the U.S. fiscal situation should be driving candidates to grapple even more with trade-offs. The budget deficit hit $1.8 trillion, or more than 6% of gross domestic product, last fiscal year. That raises the risk of economic problems, said Gray, who now runs the Pinpoint Policy Institute focused on maintaining prosperity. The clear doctor's advice, he said, would be prudence. That might go unheeded.
"They'd rather eat junk food and not exercise," Gray said.
Credit: By Richard Rubin and Xavier Martinez

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LINKS

China Unlikely to Commit to Specific Fiscal Policy Before U.S. Elections -- Market Talk

ProQuest document link

FULL TEXT

0847 GMT - Specific fiscal policy commitment from China will likely come only after the U.S. elections are over, Yeap Jun Rong, market strategist at IG, writes in a commentary. The next U.S. president will determine trade relations with the U.S., and economic data from China have yet to reflect the success of policies announced in September, Yeap says. As such, any policy commitment by China may be premature, he adds. The lack of policy clarity could lead to "a prolonged near-term consolidation in the Hang Seng Index." The worst is likely over, and the benchmark index could consolidate between 20400 and 21600, Yeap adds. (kimberley.kao@wsj.com)

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LINKS

U.S. News: Taxes Ride on Next President, Congress

Rubin, Richard . Rubin, Richard.

ProQuest document link

FULL TEXT

Taxes could go up, down or completely sideways next year, depending on which political party controls which parts of the government.

With the House, Senate and White House all in play, trillions of dollars ride on a few hotly contested seats. Lawmakers, analysts and investors are busily gaming out scenarios, trying to understand how the next Congress might handle expiring tax cuts and other fiscal debates.

A Republican sweep led by Donald Trump could yield a fresh round of tax reductions. Full Democratic control with Kamala Harris in the White House -- less likely given the trajectory of Senate races -- could spur higher taxes on corporations and wealthy households. Divided government -- a president from one party and Congress at least partially controlled by the other -- could cause a deadline-breaching showdown in December 2025 or a rare bipartisan agreement.

Nothing forces Congress to change tax laws, but the consequences of inaction are real. If Congress does nothing, many tax cuts Republicans enacted in 2017 expire after 2025, raising taxes on 62% of households in 2026.

"There is going to be a tax bill next year, no matter who's in the White House, no matter who's controlling the House and the Senate," said Brad Close, president of the National Federation of Independent Business.

Here are a few scenarios.

Republican sweep

Republicans created the 2017 tax cuts and will keep them. They are keen on extending the lower tax rates and larger standard deduction for households. And they are particularly eager to keep a 20% deduction for certain closely held businesses.

But Republicans' intraparty disputes and congressional rules will constrain them, especially with narrow majorities.

"This is the one where the distribution of outcomes is widest," said Michael Pugliese, a senior economist at Wells Fargo. "It feels a little bit like a 'choose your own adventure' in terms of what it would look like."

They might struggle on the first step: setting a budget target for how much their bill would add to deficits over a decade. Sen. Mike Crapo (R., Idaho), the likely Finance Committee chairman if Republicans win, argues that tax-cut extensions don't need to be offset with other provisions. But that view isn't universal, and some Republicans might be concerned enough about adding $4 trillion or more to budget deficits to resist that position.

Beyond extending the 2017 law, Republicans would consider incorporating tax-cut ideas floated by Trump during his presidential campaign. That includes removing taxes on tips and overtime pay, allowing deductions for car-loan interest and creating a special tax rate for U.S. manufacturers. Procedural constraints would likely prevent Republicans from following through on Trump's call to stop taxing Social Security benefits.

Democratic sweep

Democrats generally want to extend expiring tax cuts for households earning under $400,000, with Harris adopting President Biden's pledge to protect people below that threshold. Beyond that level, because many Democrats represent high-income areas, there will be pressure to push that $400,000 level upward -- protecting more constituents but reducing federal revenue.

The $10,000 state and local deduction cap divides Democrats. Progressives say it should remain to raise money from high-income households. But if Democrats sweep, New Yorkers Hakeem Jeffries and Chuck Schumer would run the House and Senate, respectively, making it more likely that the cap would increase or vanish. As a senator, Harris co-sponsored a bill to repeal the cap, but she hasn't taken a position this cycle.

Harris would seek an expanded child tax credit, based on the more generous version that existed in 2021. That was $3,000 for most children and $3,600 for young children, and it was fully refundable to households that don't pay income taxes. Harris would bump the credit to $6,000 for children in their first year. Many lawmakers will have their own priorities.

Even with narrow majorities, Democrats could likely agree on some tax increases, because they would no longer be blocked by exiting Sens. Kyrsten Sinema and Joe Manchin, who limited the party's revenue-raising policies in 2021 and 2022. Still, razor-thin Senate control in this scenario -- Democrats are unlikely to hold more than 50 seats -- could

complicate matters.
Divided government
Split control of government -- a very likely possibility -- could bring the messiest scenarios, if lawmakers take firm positions as the Dec. 31 deadline for expiring taxes approaches. It also has the easiest off-ramp, one Congress used in 2010 and 2013 to extend tax cuts.
If Harris embraces the Biden stance -- all extensions of tax cuts should be paid for -- that would prompt a showdown. Progressives say that is the best way to break a decadeslong cycle that steadily reduced taxes. They argue that Democrats should push Republicans into a position where they are seen as holding middle-class tax cuts hostage because they want to cut taxes for rich people. Republicans would counter by pointing to economic consequences of paychecks shrinking in early 2026.
But there is an off-ramp.
In 2010 and 2012, Congress also debated expiring tax cuts. A 2010 bipartisan deal extended cuts for two years without paying for them. Then, in early 2013, Congress made most tax cuts permanent -- and let rates rise for the top sliver of households.
But it isn't 2013, and wider underlying budget deficits may constrain lawmakers' willingness to borrow more. Macroeconomic conditions are likely to be stronger than during the recovery from the financial crisis. That could embolden brinkmanship because the economy could withstand a temporary hit.
Credit: By Richard Rubin

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LINKS

U.S. News --- THE OUTLOOK: Economists See Higher Inflation With Trump

Kiernan, Paul; DeBarros, Anthony . Kiernan, Paul; DeBarros, Anthony.

ProQuest document link

FULL TEXT

Most economists think inflation, interest rates and deficits would be higher under the policies former President Donald Trump would pursue in a second administration than under those proposed by Vice President Kamala Harris, according to a quarterly survey by The Wall Street Journal.

The results of the Oct. 4-8 survey echoed those of the Journal's survey in July, when Trump was facing President Biden. Biden dropped out of the race on July 21, and Harris became the nominee shortly afterward.

Since then, both Harris and Trump have released significant new policy proposals. Harris, for example, has called for new credits for newborn children and home buying, while Trump has proposed tax cuts on overtime pay and Social Security benefits, breaks for auto loan interest and state and local taxes.

The upshot: economists still think Trump's policies are more likely to add to inflation, deficits and interest rates. If anything, the margin has grown since July.

Of the 50 economists who responded to the survey's question on inflation, 68% said prices would rise faster under Trump than under Harris. That was up from 56% in July. Only 12% of the economists thought inflation would be higher under a Harris presidency, while the remainder saw no material difference between the candidates.

"Both candidates have policies that are inflationary," said Dan Hamilton, director of the center for economic research and forecasting at California Lutheran University. But in a change from their July forecast, Hamilton and his colleague Matthew Fienup now see a second Trump term producing faster price increases due to the former president's tariff plans. "Since July, it became apparent to us that Trump is even more anti-free-trade than Harris," Hamilton said.

Since July, Trump has pledged across-the-board tariffs of 10% to 20% on imported goods, up from his earlier plan to impose 10% tariffs. He has also proposed a 60% or higher tariff on imports from China.

Studies of tariffs imposed when Trump was president found they were often passed through to importers or consumers as higher costs or prices and hurt industries that depend on imported inputs.

"If the tariffs work the way economists think they work, I think people are in for a very nasty surprise," said Philip Marey, senior U.S. strategist at Rabobank.

Trump has touted tariffs as a way to bring manufacturing jobs back to the U.S., raise money for the federal government and punish countries that have been "ripping us off for years." He has disputed their downsides, noting that inflation was lower during his presidency -- despite a trade war with China and friction with other major trade partners -- than under the Biden administration.

"Then -- as now -- Trump policies will fuel growth, drive down inflation, inspire American manufacturing, all while protecting the working men and women of our nation from lopsided policies tilted in favor of other countries," said Brian Hughes, a senior adviser to the Trump campaign. "These Wall Street elites would be wise to review the record and acknowledge the shortcomings of their past work if they'd like their new forecasts to be seen as credible."

The Journal asked economists to assess the proposed policies of the candidates. Whether those policies are enacted depends on several factors, most important the makeup of Congress.

The Covid-19 pandemic and its aftermath make it hard to directly compare the economic records of Trump and Biden as president. Employment has grown faster under Biden than under Trump, mostly because the pandemic vaporized more than 20 million jobs in early 2020, setting the stage for a dramatic rebound. Inflation reached a 40-year high under Biden, much of that due to pandemic-related supply-chain disruptions and to federal stimulus, some of which was signed into law by Trump.

The Journal's survey asked economists how Trump's proposed broad-based tariffs would affect domestic manufacturing employment within three to five years, relative to a scenario with no such policy. Of the 44 economists who responded, 59% said employment would be lower, while only 16% said it would be higher. The remainder said employment would be the same.

While neither Trump nor Harris has expressed much appetite for fiscal rectitude, 65% of economists see Trump's proposed policies putting more upward pressure on the federal deficit, up from 51% in July.

On the campaign trail in recent weeks, Trump has proposed eliminating taxes on Social Security income and overtime pay, and lowering them on American citizens who live abroad. He has also vowed to step up deportations and immigration enforcement, which could reduce the number of people working and paying taxes in the U.S.

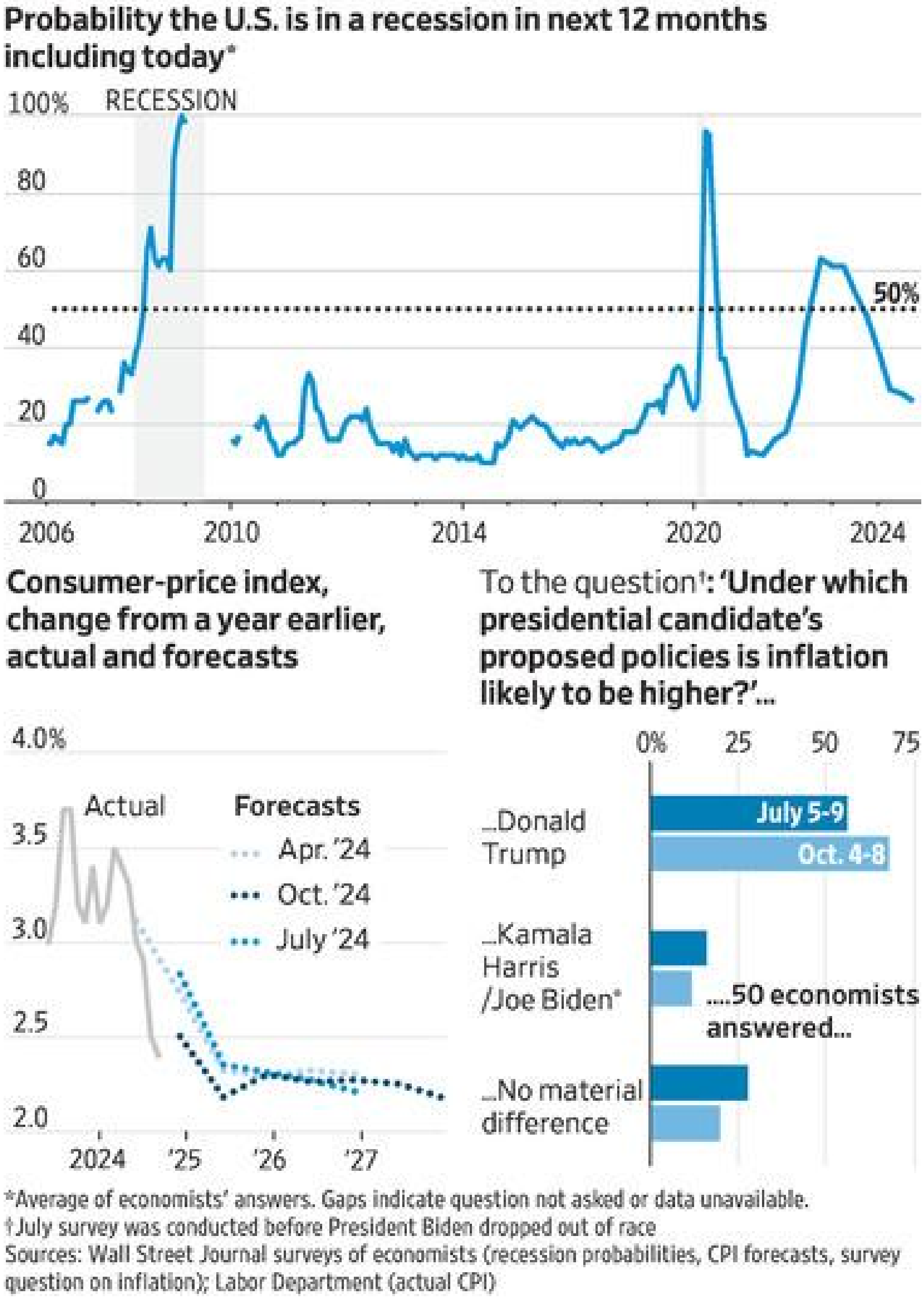
As a result, the Committee for a Responsible Federal Budget estimates Trump's plans would widen federal budget deficits by an estimated $7.5 trillion over the next decade.

A likely consequence of higher deficits and inflation is higher interest rates. The Journal's survey showed 61% of economists saw rates being higher under a hypothetical President Trump than under Harris.

The survey found economists' outlook had brightened since July. They now expect U.S. gross domestic product to expand 2.2% in the fourth quarter of 2024 from a year earlier, compared with an average forecast of 1.7% in July. Inflation as measured by the consumer-price index is seen at 2.5% at the end of this year, down from a July forecast of 2.8%.

The average probability economists assigned to recession in the next 12 months has fallen to 26%, from 28% in July.

The Journal's October survey received responses from 66 professional forecasters from business, Wall Street and academia. Some forecasters didn't answer every question.



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Credit: By Paul Kiernan and Anthony DeBarros

DETAILS

Subject:	Federal budget; Economic policy; Social security; Employment; Pandemics; Tariffs; International trade; Taxes; Political campaigns; Election results; Gross Domestic Product--GDP; Inflation; Manufacturing; Interest rates; Consumer Price Index; Presidential elections; Economists; Budget deficits

Business indexing term:	Subject: Federal budget Economic policy Social security Employment Tariffs International trade Taxes Gross Domestic Product--GDP Inflation Manufacturing Interest rates Consumer Price Index Economists Budget deficits; Industry: 92111 : Executive Offices
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LINKS

U.S. News -- Capital Account: Two Reasons Low-Rate Era Is Over

Ip, Greg . Ip, Greg.

ProQuest document link

FULL TEXT

The Federal Reserve three weeks ago slashed its short-term rate target by half a point and signaled more cuts to come. Yet in that time, investors have pushed the yield on the 10-year Treasury to 4%, the highest in two months. Why would long rates rise while the Fed's rates fall? The Fed sets interest rates for the immediate future. Investors are betting on the path of those rates for the next decade. And for two reasons, interest rates are likely to be higher, perhaps much higher, in the coming decade than in the prior one.

One of those reasons is relatively benign. Inflation and growth won't be as low as before the pandemic. The second is much less benign. The federal debt is on an unsustainable path, which might become even more perilous after the election, especially if former President Donald Trump wins and Republicans take control of Congress.

More than a year ago, the Fed pushed its rate target range to a 20-year high of 5.25% to 5.5% to make sure inflation didn't stay stuck above its 2% target, even if that meant causing a recession. By September, inflation was closing in on 2%. The half-point cut signaled that the Fed's priority was now protecting the labor market.

Then, last week's September jobs report at a stroke changed the picture of the labor market from deterioration to robust health.

The Fed's pivot, and the jobs data, drastically reduced investors' expectations of a recession that would force the central bank to slash rates deeply in the next year. That alone would merit higher long-term rates.

Meanwhile, it's possible economic growth will clock in at a surprisingly brisk 2.8% pace over the past four quarters. That would suggest that the economy has become less vulnerable to higher interest rates. In economists' jargon, the "neutral rate," which keeps inflation and unemployment stable, has apparently risen. As recently as December, Fed officials thought neutral was 2.5%. By September, they had raised that to 2.9%, and some officials had put it at 3.5% or higher.

By itself, a higher neutral is nothing to worry about (though maybe not if you're trying to get a mortgage) because it signals a return to normalcy.

But in combination with the soaring federal debt, it could cause trouble. Since 2007, the federal debt has climbed from 35% of gross domestic product to 98%. Much of this was a result of the 2008-09 financial crisis and Covid-19. The borrowing didn't put much upward pressure on bond yields because inflation and the neutral rate were so low.

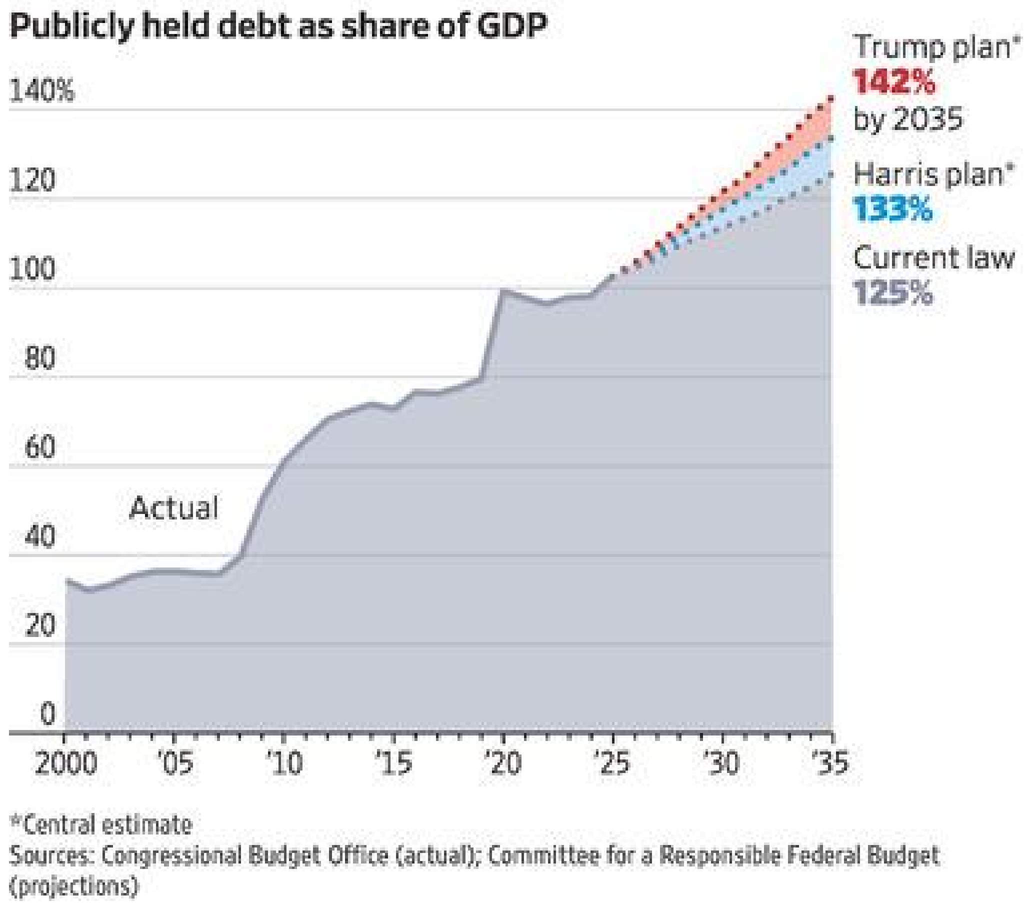
Yet in the past fiscal year, Washington borrowed $1.8 trillion. At 6.4% of GDP, that's a record outside of war, recession or crises such as the pandemic. Interest expense is climbing steadily. The Congressional Budget Office projects that under current law, publicly held debt will hit 122% of GDP in 2034.

The effect on long-term rates has been largely invisible thus far. It might become more visible before long.

Both Vice President Kamala Harris, the Democratic candidate for president, and Trump, her Republican opponent, have proposed lavish spending and tax cuts that would add significantly to the debt.

The nonpartisan Committee for a Responsible Federal Budget has estimated the debt impact at $3.5 trillion for Harris and $7.5 trillion for Trump from 2026 through 2035.

"Neither has anything close to a plan to deal with the overall debt, but clearly the Trump agenda would be significantly worse than the Harris agenda," said Maya MacGuineas, president of the CRFB.
Trump's plans not only are more costly than Harris's, they also are more likely to be enacted.
President Biden and Harris certainly had no compunction about running up debt for their spending priorities. Still, if Harris became president, Republicans are strongly favored to take back control of the Senate, where they would likely block most of her costly spending plans. Even within her own party, Harris doesn't command the personal loyalty that Trump does with his.
"The likelihood of Harris getting what she wants is far less than the likelihood of Trump getting what he wants, because she will not have the impact on Democrats that he has on Republicans," said Bob Corker, a former Republican senator from Tennessee.
Under Trump's influence, the debt has steadily receded as priority for Republicans. He banished any talk of cutting Social Security or Medicare benefits, the deficit's two biggest long-term drivers.
Much of the tax cut Trump signed into law in 2017 expires at the end of 2025, teeing up a major new tax bill early in the next president's term. He wants to make its provisions permanent, which could cost an estimated $4 trillion over 10 years, not including his other proposed tax cuts. Even if Trump doesn't get all he wants -- repealing taxes on Social Security benefits is a particular stretch -- he could get a lot of it.
Investors might then start to pay attention.
There's no good way to predict the impact, if any, on U.S. interest rates. Research has found that bond yields rise by 0.01 to 0.06 percentage point for each 1% of GDP the debt rises, according to a review in a recent Fed paper. When those estimates are applied to the CRFB's various scenarios for debt by 2036, that could imply anything from 0.25 to 2 percentage points.
Other factors also matter. Higher inflation would aggravate the deficit's impact on interest rates; lower inflation, a demand for bonds by an aging population or panicked investors would soften it.
And yet U.S. debt is clearly entering uncharted territory. A recent study by the Penn Wharton Budget Model suggested that even though the U.S. controls its own currency, its debt would become unsustainable as it approaches 175% of GDP. We're not there yet in the coming decade we could be getting close.
Said Corker: "For those who hope for even a modicum of fiscal responsibility, pray for divided Congress."



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Credit: By Greg Ip

DETAILS

Subject:	Social security; Pandemics; Presidents; Federal Reserve monetary policy; Gross Domestic Product--GDP; Inflation; Interest rates; Budgets; Economic growth; Tax cuts; Recessions; Labor market
Business indexing term:	Subject: Social security Federal Reserve monetary policy Gross Domestic Product--GDP Inflation Interest rates Budgets Economic growth Tax cuts Recessions Labor market; Industry: 92111 : Executive Offices 92113 : Public Finance Activities 52111 : Monetary Authorities-Central Bank
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LINKS

Deficit Pegged At $1.8 Trillion For Latest Year --- CBO data show that U.S. red ink persists as tax intake trails entitlement outlays

Rubin, Richard . Rubin, Richard.

ProQuest document link

FULL TEXT

WASHINGTON -- The U.S. budget deficit topped $1.8 trillion in the latest fiscal year, driven by higher spending on interest and programs for older people, as the government faces a persistent gap between federal outlays and tax collections.

The new data come as Republican presidential nominee Donald Trump and Democratic opponent Kamala Harris both propose new tax and spending plans that are estimated to add trillions of dollars more to the deficit over the next decade.

In all, the government collected $4.92 trillion in revenue and spent $6.75 trillion, putting the deficit at $1.83 trillion for the year ended Sept. 30, according to the Congressional Budget Office, which issued its estimates ahead of the official administration tallies expected later this month.

The previous year's deficit was officially $1.7 trillion, but it was actually wider, as the government recorded more than $300 billion in spending for student-debt cancellation in 2022 and a similar-size spending cut in 2023 when the Supreme Court blocked President Biden's program.

After that adjustment, the deficit was slightly smaller in 2024 than in 2023. Overall, the deficit was 4% narrower than CBO had projected in June.

Whoever wins the presidential election will face immediate decisions next year about agencies' spending levels, the federal debt limit and expiring tax cuts. That debate will be pulled one way by people concerned about projections of red ink and pulled the other way by those who support federal benefits and lower taxes.

The largest federal entitlement programs -- Social Security and Medicare -- cost 6% more than they did in fiscal 2023, or even more when adjusting for the timing of some payments, according to the CBO. The U.S. spent $950 billion on interest, up 34% from the prior year, mostly because of higher interest rates. Interest costs surpassed military spending.

Revenue climbed 11%, driven in part by taxes that were pushed from fiscal 2023 to 2024 because of disasters in California and by the Internal Revenue Service pausing payments of the employee retention tax credit, a troubled pandemic-era program.

"While the deficit is lower than it was last year, President Biden believes we need to reduce the deficit further by making the wealthy and large corporations pay their fair share, and by reducing wasteful spending on special interests like Big Pharma," said White House spokesman Jeremy Edwards.

House Budget Committee Chairman Jodey Arrington (R., Texas) said the "Biden-Harris agenda of unbridled spending and record inflation has pushed our nation further along a completely unsustainable path."

The latest deficit reading is about 6.4% of gross domestic product. The U.S. has run larger budget deficits before, both in dollars and as a share of GDP. But the country set those records during wars, economic crises and the coronavirus pandemic, not during a period like today's low unemployment and solid growth.

Projections show continued deficits for the foreseeable future and accumulated debt reaching record levels within a few years. That isn't a crisis, economists said, but the U.S. fiscal situation is riskier now.

Congress has missed opportunities to act and should move soon to make Medicare more efficient and make Social Security benefits less generous than projected, said Romina Boccia, director of budget and entitlement policy at the Cato Institute, which favors smaller government.

"Any fiscal plan that doesn't address these programs is basically not addressing the root cause of higher spending," she said.

Policymakers in both parties often talk about reducing budget deficits, but they disagree sharply on how to do so. They have in recent years agreed to limit spending by federal agencies. Those bipartisan deals haven't touched Social Security and Medicare, though healthcare costs have grown more slowly than expected.

Indeed, both major-party candidates have promised to avoid benefit cuts in Social Security and Medicare. Harris is now proposing to expand Medicare to cover long-term home care, which would add to spending.

Trump has called for some budget cuts and higher tariffs, but his proposed tax cuts far outweigh them. All estimates carry uncertainty, but Trump's fiscal proposals would increase budget deficits by $7.5 trillion beyond what would happen if Congress does nothing, according to an analysis from the Committee for a Responsible Federal Budget, or

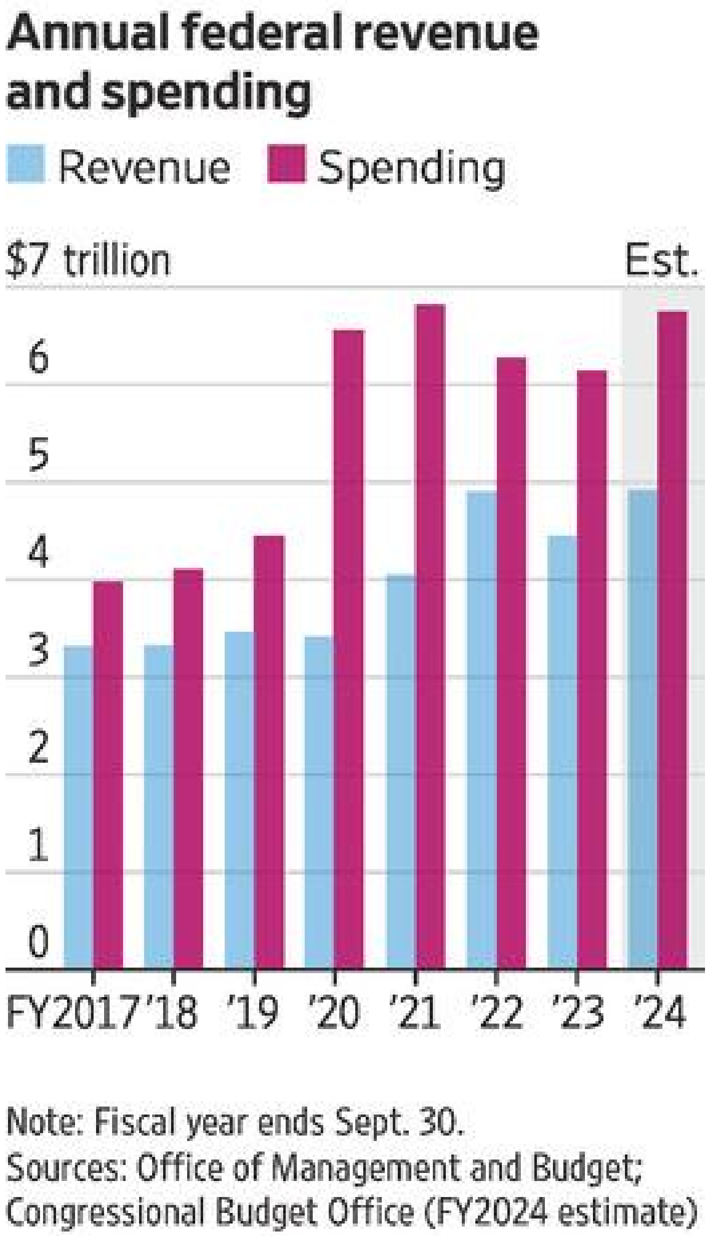
CRFB, which favors deficit reduction.

In addition to extending expiring tax cuts, Trump has proposed eliminating taxes on tips, overtime pay and Social Security benefits. Although he has called for closing the Education Department and rescinding some clean-energy tax credits, his missile-defense and mass-deportation programs would add costs.

Democrats, including Harris, said they would use tax increases on top earners and corporations to pay for new programs and reduce deficits. But the CRFB estimated that Harris's proposals would increase deficits by $3.5 trillion.

Progressives are focused on the expiration of many of Trump's 2017 tax cuts next year as a crucial moment for fiscal policy changes, and they are advocating finding new taxes to pay for any extensions.

"The first real opportunity right now to make progress on this front is not digging this hole deeper," said David Kamin, who was a White House aide to Biden and former President Barack Obama. "Next year looks like a good year to move toward a more sustainable trajectory and to pay for extension of the tax cuts."



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Credit: By Richard Rubin

DETAILS

Subject:	Costs; Social security; Pandemics; Fiscal policy; Taxes; Presidential elections; Tax cuts; Budget deficits; Medicare; Congressional committees; Tax increases
Business indexing term:	Subject: Costs Social security Fiscal policy Taxes Tax cuts Budget deficits Medicare Tax increases; Industry: 92111 : Executive Offices 92112 : Legislative Bodies
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LINKS

U.S. News: Vice President's Economic Plan Puts Focus on Consumers

Lahart, Justin; Restuccia, Andrew . Lahart, Justin; Restuccia, Andrew.

FULL TEXT

Vice President Kamala Harris is making a subtle but important shift in her approach to economic policy that represents -- at times -- a departure from Democratic traditions. While President Biden's agenda focused on jobs, Harris is focused on costs. Where Biden sees voters foremost as workers, she sees them more as consumers.

As a result, her policies are aimed at trying to help middle-class Americans afford the things they need and want, and helping them build wealth that can be passed along to their kids, her advisers say.

"I want Americans and families to be able to not just get by but be able to get ahead -- to thrive," Harris said last month in Pennsylvania. "I want you to be able to save up for your child's education, to take a nice vacation from time to time."

Partly, her approach is a consequence of economic realities. The American labor market remains robust, and on Friday, U.S. hiring blew past expectations by adding 254,000 jobs in September. The economy has added 16.2 million jobs since Biden took office.

At a rally in Michigan on Friday, Harris touted the new jobs data, but added, "There's still more we need to do. Prices for everyday things like groceries [are] still too high. You know it, and I know it."

Meanwhile, inflation is cooling, yet consumer prices are up 20% since Biden took office. While Harris's priorities are recognizably part of the Democratic Party tradition, she differs in some ways from former presidents Bill Clinton and Barack Obama.

Like Biden, she is more wary of trade than Clinton and Obama were and less confident in the power of the market to broadly benefit Americans. She also plans to keep in place Biden's investments in manufacturing.

Many of Harris's plans amount to an extension of his policies -- a reflection of political realities, too. Harris entered the race late in the process, leaving her little time to develop her own economic policy and make her case to voters. Her approach borrows much from Biden, but puts more emphasis on controlling costs and helping families build wealth.

The first half of the economic policy platform she released consists of kitchen-table cost concerns; the proposals include lowering middle-class taxes, cutting food and grocery costs, and lowering prescription drug prices. While Biden also talked about those issues on the campaign trail, Harris has zeroed in on them as the things voters care about most.

The text of her plan makes reference to costs and prices more than twice as often as jobs. And her ideas about creating an "opportunity economy" are focused on helping more Americans buy their first home or start a business.

Harris's advisers describe her as a pragmatist, and they say she is open to hearing out and working with CEOs -- a shift from Biden, who didn't build close relationships with corporate America.

Michael Strain, director of economic policy studies at the right-leaning American Enterprise Institute, said he sees Harris's proposals as conventional for a Democrat. He dislikes many of her ideas, such as her proposal to provide

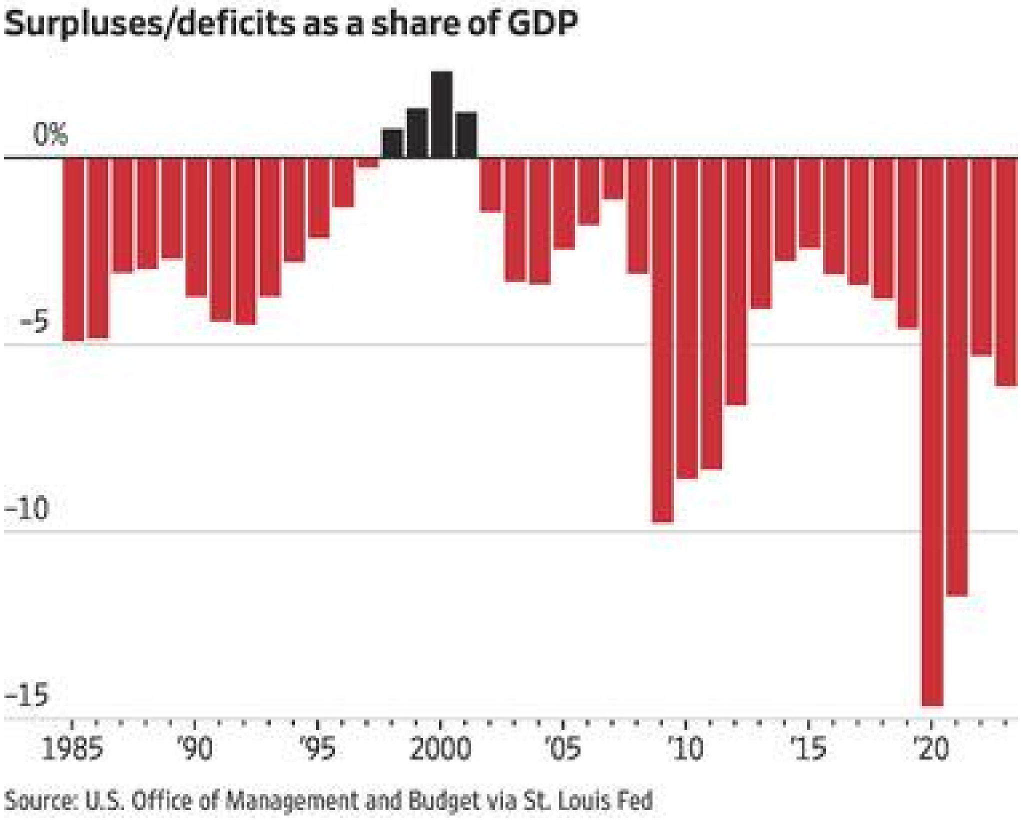
$25,000 in down-payment assistance to first-time home buyers and her focus on price-gouging. But he also thinks that she views business more favorably than Biden or Obama did.

"I do think that Vice President Harris seems to have a genuinely held conviction that business is a force for good in American life," he said.

Harris's viewpoints also speak to larger changes across the party.

Clinton proposed big ideas for the economy -- like his healthcare plan -- but felt that he needed to focus on fiscal restraint to achieve them. Though his health plan fell by the wayside, he was the only president since Dwight Eisenhower to exit office with the U.S. running a budget surplus. Worries about the deficit, meanwhile, were at the forefront of Obama's 2012 re-election campaign.

The deficit weighed less on Biden -- in part because his Republican predecessor, Donald Trump, presided over four straight years of rising annual deficits, deflating the political saliency of the issue. In Harris's debate with Trump last month, her only reference to the deficit was to say how much bigger it would be if Trump were re-elected. Trump didn't mention the deficit at all.



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Credit: By Justin Lahart and Andrew Restuccia

DETAILS

Subject:	Political campaigns; Prices; Economic policy; Middle class; Consumers; Costs; Voters
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LINKS

U.S. News: Deficits Would Rise More Under Trump Than Harris

Rubin, Richard . Rubin, Richard.

FULL TEXT

WASHINGTON -- Donald Trump's flurry of recent tax-cut promises pushed his fiscal plan deep into red ink, and he would increase budget deficits by more than twice as much as Democratic rival Kamala Harris would, according to a new study that is among the most comprehensive estimates to date of the candidates' proposals.

Trump's combination of tax cuts, tariff increases, military expansion and mass deportations would widen budget deficits by an estimated $7.5 trillion over the next decade, according to the Committee for a Responsible Federal Budget, or CRFB, a bipartisan group that favors lower deficits.

Meanwhile, Vice President Harris's plans -- social-policy spending, middle-class tax cuts and tax increases on corporations and high-income households -- would widen deficits by $3.5 trillion.

Those wider deficits would come atop the $22 trillion in budget deficits the U.S. is on pace to generate over the decade if Congress does nothing. After several rounds of tax cuts and emergency spending, the U.S. publicly held debt now exceeds $28.3 trillion.

That debt is now about equal to the size of the economy. And even without new policies, the country's debt load as a percentage of gross domestic product is already slated to push past its post-World War II records, thanks to the aging U.S. population and a structural gap between the government's revenue and its spending.

Economists warn that the country's rising debt creates risk, but for now, U.S. growth has remained solid and the country isn't in a fiscal crisis.

Both of the candidates have proposed policies that could boost economic growth -- business tax incentives and tax cuts that give consumers more money to spend -- while both also have policies that would cut the other way, such as Harris's tax increases and Trump's tariffs.

Under both plans, the national debt would keep growing faster than the economy, according to the study.

"Obviously, neither of them are moving in the direction of stabilizing the debt," said Marc Goldwein, the CRFB's senior vice president.

Trump, in particular, has layered proposed tax cuts on top of tax cuts. In addition to calling for extensions of his 2017 tax cuts, which expire at the end of next year, he has promised to eliminate taxes on tips, Social Security benefits and overtime pay. And he promised to restore the deduction for state and local taxes, which the 2017 tax law capped at $10,000.

His tariffs and energy policies don't come close to making up the difference, according to the study.

"President Trump started promising a new tax cut at every rally, and those really added up," Goldwein said. "Six weeks ago, they were kind of similar. That's no longer the case."

Campaign plans are often far vaguer than eventual legislation, and estimating even clear policies isn't an exact science.

For example, congressional scorekeepers and the U.S. Treasury Department are $469 billion apart in their estimates of the impact of raising the corporate tax rate to 28%.

Trump's deficits could be as low as $1.45 trillion and as high as $15.15 trillion, while Harris's could be as low as break-even and as high as $8.1 trillion, according to the analysis.

Harris has promised to prevent tax increases on households making under $400,000, which would require extending most of Trump's expiring tax cuts. She also has called for expanded tax credits for families with children, first-time home buyers and some companies, in addition to new federal investments in paid leave and child care.

The Trump campaign didn't respond to a request for comment.

Credit: By Richard Rubin

DETAILS

Subject:	Tax rates; Debt restructuring; Tariffs; Political campaigns; Gross Domestic Product--GDP; National debt; Presidential elections; Tax cuts; Economic growth; Budget deficits; Tax increases
Business indexing term:	Subject: Tax rates Debt restructuring Tariffs Gross Domestic Product--GDP National debt Tax cuts Economic growth Budget deficits Tax increases; Industry: 92111 : Executive Offices
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LINKS

U.S. News: How Candidates' Stances Have Changed Over Time

FULL TEXT

Former President Donald Trump has staked out new policy positions in recent weeks that suggest he would be a different president than he was when first elected in 2016. Trump's campaign has played down the moves, and a spokeswoman said "everyone knows who he is and knows he can be trusted." Here are some issues Trump has changed his views on:

Abortion

Before he ran for president the first time, Trump described himself as "very pro-choice." Then, in his first campaign, he said he backed overturning Roe v. Wade, the Supreme Court decision that guaranteed a right to abortion nationwide. Trump said in September that Florida's ban on the procedure after six weeks of pregnancy was too short, and suggested he would vote for a ballot initiative allowing the procedure until fetal viability, or about halfway through most pregnancies. He later said he wouldn't support the ballot measure. In October, he said he would veto a national abortion ban.

SALT Cap

While president, Trump passed a tax bill that capped the state and local tax deduction at $10,000 per return. That cap, along with other major pieces of the law, is scheduled to expire at the end of 2025. This part of the legislation has been unpopular in high-tax blue states. In September, Trump posted on Truth Social that he would "get SALT back," ahead of a rally in New York.

TikTok

As president, Trump said he wanted to ban Chinese-controlled TikTok from the U.S., siding with members of Congress from both parties concerned about the data the social-media app could gather. In March 2024, Trump reversed his position and said Congress shouldn't ban the app. He worried that it could strengthen Meta Platforms' social-media apps. Trump has sparred with Meta chief Mark Zuckerberg over money he donated in 2020 for Covid-19-related polling site accommodations.

Marijuana

In his 2016 presidential campaign, Trump backed medical marijuana but blamed recreational use for "big problems" in Colorado. He said legalization should be left to the states, though his 2021 fiscal budget proposal released during his re-election campaign included removing protections for state medical-marijuana laws. As he runs for president in 2024, Trump says he plans to vote for a ballot initiative in Florida that would legalize personal cannabis use for adults who are 21 and over.

Repealing Obamacare

Trump in 2016 campaigned on repealing the Affordable Care Act, or Obamacare, which originally required individuals to have health insurance or pay a penalty and sought to protect those with pre-existing conditions from losing health insurance. Republicans failed to overturn the bill in 2017, and the issue faded. The Republican platform adopted at

this year's convention makes no mention of repealing Obamacare. At the presidential debate with Harris, when asked if he would either replace or improve upon the Affordable Care Act, Trump said: "I have concepts of a plan."
-- Natalie Andrews and Rosie Ettenheim

Vice President Kamala Harris has backed away from some of her more liberal positions between her time as a California senator to her second presidential campaign. She says her values haven't changed. Here are some issues she has changed her views on:
Zero Emissions Vehicle Act
As a senator, Harris was a co-sponsor of legislation that called for increasing zero-emissions vehicles and ultimately phasing out all others by 2040. Harris's presidential campaign said recently she no longer supports the measure.
Medicare for all
After she joined the Senate in 2017, Harris supported Medicare for All, which would shift the healthcare system from private and employer-based insurance to a government-run program. She first softened that position when she campaigned for the presidency in the 2020 election, and released a proposal to expand access to Medicare while keeping private insurance intact. She further backed away from it after joining President Biden's ticket in 2020 and instead backed his plan, which called for building on the Affordable Care Act.
Green New Deal
Harris backed the progressive wish list of climate goals -- including ending the reliance of the U.S. economy on fossil fuels within 10 years -- as a co-sponsor of the Green New Deal legislation in the Senate. As vice president, Harris cast the tiebreaking vote on Biden's climate investment package, which contained about $1 trillion in tax credits, grants and loans for clean energy. Harris's 2024 presidential campaign has said it no longer backs the Green New Deal.
Decriminalizing Border Crossings
Harris, like most Democratic presidential contenders, raised her hand during a primary debate in 2019 when asked who backed decriminalizing border crossings. She later clarified she believed it to be a civil enforcement issue, not a criminal enforcement issue. Harris is now running on a border deal that failed in the Senate earlier this year that is considered one of the toughest, bipartisan immigration measures in recent years.
Fracking
Harris backed banning fracking during the 2020 Democratic presidential primary. After she became Biden's running mate, she then supported his position, which called for banning new permits for drilling on federal land and offshore, but the Biden administration didn't fully follow through on its pledge. Since ascending to the top of the Democratic ticket, Harris has backed away from banning fracking, saying she now believes the clean-energy economy can grow without having to ban fracking.
-- Tarini Parti and Rosie Ettenheim

DETAILS

Subject:	Bans; Health care policy; Debates; Patient Protection &Affordable Care Act 2010-US; Decriminalization; Political campaigns; Legislation; Presidential elections; Abortion; Medicare; Marijuana; Health insurance; Candidates
Business indexing term:	Subject: Patient Protection &Affordable Care Act 2010-US Medicare Health insurance; Industry: 92111 : Executive Offices
Location:	United States--US; Florida
People:	Harris, Kamala; Trump, Donald J

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LINKS

Tariffs Are Not the Policy Tool of the Future

FULL TEXT

In "The Case for Trump's Tariffs" (op-ed, Sept. 20), John Paulson defends former President Donald Trump's mercantilist obsession with America's trade deficit. His new tariff plan is presented as a cure-all for U.S. ailments: fixing the trade deficit, strengthening national security, reducing fiscal imbalance and rejuvenating manufacturing. That's too much to expect from an outdated, blunt policy instrument.

Trumpian trade economics fails to understand that if the U.S. invests more than it saves, the trade deficit is a macroeconomic necessity. Even if we succeed in slashing the deficit against China, other exporters (India, Mexico, Vietnam) will fill the gap, as happened in Mr. Trump's first term. Our overall trade deficit kept widening and manufacturing employment deteriorated after the tariff war began in 2018.

Another misconception: Foreign suppliers pay the tariffs. Ultimately, U.S. consumers pay the cost. Mr. Trump's proposed 60% tariff on China and 10% blank tariff on all other imports would raise consumer prices by an estimated 1.4% to 1.7%. This is an inflationary sales tax in disguise. The high tariffs would fail to spur a rebirth of U.S. manufacturing because the surefire tariff retaliation would cut our exports. Mr. Trump's "killer" tariffs would be a huge negative shock to world trade.

The "America First" trade policy also disregards that a considerable share of Chinese exports to the U.S. is conducted as part of the global supply chains of American multinationals. The Chinese value-added is much less than the official trade surplus. U.S. multinationals in China sell much of their products to domestic consumers. The overall bilateral interaction is thus more balanced than commonly believed.

Istvan Dobozi

Sarasota, Fla.

Mr. Dobozi is a former lead economist at the World Bank.

Manufacturing's share of real GDP in the U.S. has been constant at roughly 12% over the past 70 years, while manufacturing's share of employment has dropped from a third to less than a tenth. Why has that occurred? Improved productivity from automation, which leads to higher living standards. A 10% tariff, which Mr. Trump has advocated, would reverse this trend to the detriment of everyone. For instance, Mr. Trump's steel tariffs cost $900,000 for every job created or saved in that industry. If the tariffs are implemented, it will be the time to get in on the ground floor of investing in hothouses to grow bananas in Utah.

Scott Kaufmann

Kansas City, Kan.

DETAILS

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LINKS

U.S. News --- THE OUTLOOK: Migrants' Fiscal Effect Good, but Uneven

Fairless, Tom . Fairless, Tom.

ProQuest document link

FULL TEXT

Among the benefits economists often say immigration brings to aging Western countries is a healthier public purse. Having more immigrants expands the supply of young, productive workers to pay the taxes that finance the pensions and healthcare of the elderly, the argument goes.

New research shows the fiscal impact of immigration isn't that simple. The fiscal benefits are clear for high-skilled immigrants, but less so, and possibly even negative, for the lower skilled, according to some studies.

To be sure, fiscal effects aren't the only consideration in the current debate over immigration; other factors include the role of immigrants in relieving labor shortages, countering population decline or altering the character of the communities where they settle.

Nonetheless, the fiscal effects have drawn more attention as migration reaches record levels in the U.S. and Europe. A plurality of U.S. voters, or 44%, believe immigrants make the tax situation worse, while 18% believe they make it better, according to a Gallup poll last year.

In fact, in aggregate, the recent surge in immigrants will reduce the federal deficit, the Congressional Budget Office found; it indicated this was more so for higher- than lower-skilled migrants, although it said an increase in less-educated workers would also trigger stronger wage growth for the more educated people needed to work with them.

Low-skilled immigrants, many claiming asylum, make up an unusually large share of recent arrivals on both sides of the Atlantic. The CBO didn't estimate the impact of the surge on state and local budgets, but said it expected those costs to outweigh revenues.

What people, regardless of background, pay in taxes and consume in government services varies over their lifetimes. Before adulthood, they benefit from education and health services, but aren't yet working and paying taxes. Once people enter the workforce, they start contributing more in taxes than they consume in state services. As they retire, they stop earning, draw on government benefits and consume more healthcare and social welfare.

The Office for Budget Responsibility, the U.K.'s spending watchdog, in a study published this month found the average migrant worker made a net contribution of GBP 225,000, or about $300,000, to the public purse by age 85, in contrast to the net negative GBP 146,000 contribution of the representative U.K. resident.

But among migrants, the contribution varied widely. The average high-wage migrant contributed a net GBP 684,000, while the average low-wage migrant's contribution was a net negative GBP 578,000.

The takeaway from the report is that from a purely fiscal point of view, "it's not beneficial to have work-related migration into low-wage jobs," said Madeleine Sumption, director of the Migration Observatory at the University of Oxford.

The U.K. government recently raised salary thresholds for work visas in an effort to limit low-wage migration.

A second recent study, for the University of Amsterdam -- using detailed, anonymized data for all 17 million Dutch residents -- found non-Western immigrants with at most primary education cost the Dutch Treasury a net 360,000 euros, or about $400,000, over their whole lives. In contrast, non-Western immigrants with a master's degree made a positive net life contribution of 130,000 euros.

Each asylum seeker costs the Dutch state 475,000 euros over their lifetime on average, including the cost for the second generation. That partly reflects low levels of educational attainment, which tends to correspond to skill and wage level, said Jan van de Beek, an independent researcher who co-wrote the study.

In the U.S., the National Academy of Sciences in 2017 published detailed estimates of the fiscal costs of various migrant groups. They suggest that the average migrant with less than a high-school diploma will receive $109,000 more in benefits from all levels of government than they pay in taxes over their lifetimes. The figures are expressed in 2012 dollars.

However, other economists say simply subtracting benefits received from taxes paid doesn't give a full picture of how immigrants impact government budgets.

Employers pay immigrants to work because that labor adds value to their capital, and their capital income is subsequently taxed, said Michael Clemens, professor of economics at George Mason University. Revenue from taxes on capital (profits, dividends and capital gains) should therefore be added to immigrants' fiscal contribution, he said.

Clemens estimates that for every dollar of labor income, there are roughly 80 cents of capital income. Adding that factor to the National Academy of Sciences' calculations, he finds a migrant in the U.S. with less than a high-school education actually contributes a net $128,000 over his or her lifetime to the U.S. Treasury, rather than subtracting $109,000.
Another omission: Some low-skilled workers might complement high-skilled ones. Cleaners make possible the work of a surgeon, for example. Access to child care might allow an engineer to work longer hours.
These ripple effects on wages and labor supply add up to between $700 to $2,100 a year in additional fiscal benefits to what the National Academy of Sciences found for each low-skilled immigrant, meaning this group weighs less on U.S. public finances or even bolsters them over their lifetimes, according to a 2020 paper by Dominik Sachs, now at the University of St. Gallen in Switzerland, and Mark Colas of the University of Oregon.
When it modeled the overall impact of recent illegal immigration on the U.S. economy this year, the Congressional Budget Office found a big benefit for the Treasury: $897 billion for the decade through 2034.
Credit: By Tom Fairless

DETAILS

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LINKS

U.S. News: U.S. Senate Race In Blue Maryland Is Most Unusual

Peterson, Kristina; DeBarros, Anthony . Peterson, Kristina; DeBarros, Anthony.

ProQuest document link

FULL TEXT

GAITHERSBURG, Md. -- Fifteen minutes into her speech, Democrat Angela Alsobrooks acknowledged the strange reality of her Senate race in deep blue Maryland: Her Republican opponent, former Gov. Larry Hogan, is popular.
"We worked together and so I can tell you that as a person, I like Larry Hogan," said Alsobrooks, the Prince George's County executive. The question, she said, is which party should control the Senate.
Hogan's run as a centrist Republican who regularly criticizes former President Donald Trump -- and rejected his endorsement -- has made Maryland's Senate race the nation's most unusual. The GOP hopes a coalition of Republicans and suburban swing voters can propel him to an upset win.
"Every day, people come up to me and say, 'I'm voting for [Democrat Kamala] Harris and I'm voting for you, because we think you're exactly what we need in Washington,' " Hogan said in an interview.
Democrats' message boils down to reminding voters that Hogan is still a Republican -- and that sending a Republican to Capitol Hill has implications for national-policy fights from abortion to taxes. Democrats have a 51-49 majority in the Senate, and a GOP win in Maryland would almost guarantee Democrats lose control.
Maryland hasn't had a Republican in the Senate in nearly 40 years. But Hogan, 68, has defied the political laws of gravity before and continues to operate on what can seem like a different planet from the rest of the party. Trump, who is eager for a GOP Senate majority if he recaptures the White House, publicly backed Hogan in June, but Hogan dismissed it.
"I've been probably the leading voice of opposition to Donald Trump and the MAGA movement since the day he came down the escalator" in 2015 to announce his presidential bid, Hogan said.
Republicans typically have a hard time in Maryland. President Biden won the state by 33 points in 2020, and the 2024

Democratic nominee, Vice President Kamala Harris, is expected to cruise to victory. Polls show Hogan easily outperforming Trump in the state but trailing Alsobrooks by seven points, according to the Real Clear Politics average.
Hogan is getting deep-pocketed help: Maryland's Future, an independent political-action committee backed by Ken Griffin, chief executive of the Citadel hedge fund, and others placed an $18.3 million ad buy on radio and television. That sum raises ad spending by Hogan and allies from the primary through Election Day to $33.5 million, according to ad tracker AdImpact. In the same time, Alsobrooks and allies have booked $14.7 million in ads.
Democrats' TV ads cast Hogan as a rubber stamp for party heavies such Sens. Ted Cruz and Mitch McConnell in a prospective GOP majority. For many Democrats, abortion rights are the best example.
Hogan has said he would oppose a national abortion ban and support legislation codifying abortion rights. Democrats, however, point to state legislation he vetoed in 2022 that would have allowed nurse practitioners, physician assistants and some other licensed individuals -- not just physicians -- to perform abortions.
"There was a bill to lower the standards of care," Hogan said. "You can disagree, but you can't say that's restricting abortion."
Democrats, who overrode Hogan's veto, dispute that the legislation would have altered the level of care. And Alsobrooks said Hogan's stance that he would vote to codify abortion rights would be moot in a GOP-controlled Senate.
Hogan's supporters say he would use his leverage on behalf of Maryland. Centrist senators have used their clout as a deciding vote in recent years.
"He will make Maryland's vote more important than it's ever been," said Rona Kramer, co-chair of Democrats for Hogan and a former Democratic state senator, who praised his approach to the economy and fiscal responsibility.
Hogan shocked the political establishment in 2014 when he was elected governor after campaigning to lower taxes and work across the aisle. In his first year, Hogan canceled a multibillion-dollar subway project and activated the Maryland National Guard in response to protests and riots in Baltimore.
In 2016, Hogan said he wouldn't vote for Trump, instead writing in his father, who decades earlier had been the first Republican congressman to come out for impeaching then-President Nixon. Hogan was re-elected in 2018 by about 12 points.
"He was very moderate, he kept taxes low," said Republican Jason Dengenis, 47, of Odenton, who planned to vote for Hogan.
A late August poll by Gonzales Research &Media Services showing that roughly a third didn't recognize Alsobrooks's name. The 53-year-old would be the first Black person to represent Maryland in the Senate if elected.
The daughter of a newspaper distributor and a receptionist, Alsobrooks worked as a domestic-violence prosecutor and later as state's attorney of Prince George's County, before running for county executive in 2018. She cites Harris as a mentor and noted that since Harris's nomination for president, the coordinated Maryland efforts to elect Harris and Alsobrooks have added 50,000 volunteers.
"A, I think she'll do a good job, and B, she's a Democrat," said Renee Conway, 70, a writer and retired nurse who backs Alsobrooks. "I didn't think he was a terrible governor," Conway said of Hogan. But, she said, "The main thing is, I want a majority in the Senate."
Credit: By Kristina Peterson and Anthony DeBarros

DETAILS

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LINKS

Political Economics: Why Harris and Starmer Are Coming for Your Investments

Sternberg, Joseph C . Sternberg, Joseph C.

ProQuest document link

FULL TEXT

Of course they're coming for your investments.

Higher taxes on capital are becoming a centerpiece of liberal politics on both sides of the Atlantic. While Democrats flirt with substantially higher taxes on capital gains (realized or unrealized), Britain's Labour Party contemplates steeper levies on capital gains and inheritances as Chancellor of the Exchequer Rachel Reeves prepares her first budget proposal for release next month.

The left's ideological suspicion of capital is only part of the story. The more important phenomenon is a profound change in the tax base in modern economies after 30 years of failed economic policies and hyperactive monetary easing. Capital, rather than labor income, is where the money is now.

For at least 40 years, the value of American households' assets has increased faster than their incomes. Throughout much of the 1980s, household wealth hovered at or below 500% of disposable income, according to Federal Reserve data. If labor incomes and wealth had increased at the same rate, this ratio would have remained stable. Instead, U.S. household net wealth now stands at 785% of disposable income -- and that's off a peak of 836% in the first quarter of 2022.

This isn't a tale about real estate. Housing and other nonfinancial assets reached a recent peak at 39% of total household assets in 2006, roughly the same proportion as in the early 1980s, before retail stock ownership took off. Housing and other nonfinancial assets now account for 33% of total household assets.

This is a story instead of financial-asset ownership. The value of stocks held directly by households has grown to 163% of aggregate disposable income today from around 30% in the early 1980s. It's similar in Britain, where household wealth surged to around 700% of gross domestic product in 2019 from less than 400% of GDP at the end of the 1980s. There, too, housing is only part of the story.

What's fueling this wealth boom? Some of the drivers are big positives for the economy. In the U.S. and U.K., tax-law changes, the expansion of defined-contribution pension plans, and the rise of retail brokerages starting in the 1980s made financial-asset ownership more attainable for more households. American household net wealth stepped up toward the end of the Reagan era, to around 530% of disposable income, and financial assets as a share of household balance sheets drifted upward until the housing boom of the 2000s. This expanding pool of capital funds productive investments that produce both labor and capital incomes.

But a bigger cause of this asset explosion is policy error. The boom has occurred alongside a downward drift in Americans' personal savings rate -- to between 5% and 6% on the eve of the pandemic from above 10% in the early 1980s. Household net wealth is also growing much faster than GDP. These factors suggest that new savings and investment (including by baby boomers during their peak earning years) can't account for all of the increase of wealth, and neither can underlying GDP growth.

That leaves another probable cause: asset-price inflation, courtesy of the Federal Reserve and Bank of England. Sure enough, setting aside the tax and pension reforms of the 1980s, the biggest upward step changes in wealth track what are now recognized as significant monetary-policy errors.

In the U.S. those include the dot-com froth of the late 1990s, the too-low-for-too-long housing mania of the 2000s, and now the inflationary ultralow interest rates and quantitative easing of the pandemic era, all of which precipitated booms in net wealth relative to disposable income. In the U.K. it was the Bank of England's long periods of suppressing rates while "looking through" inflation in the 2010s and again in recent years.

Meanwhile onerous tax and regulatory policies on the Main Street economy undercut labor-income growth. Hence wages and salaries as a proportion of taxable income on individual tax returns in the U.S. have fallen to around 60% from well above 70% throughout the 1980s and '90s, according to Internal Revenue Service data analyzed for me by economists at the Tax Foundation.

No wonder cash-strapped politicians are eyeing capital taxation. Except that although this vast pool of household wealth looks like a revenue freebie, it isn't. For starters, there's no way to distinguish between the portion of wealth accumulation attributable to inflationary errors and the portion arising from productive investment. Mop up the latter while trying to absorb the former and you'll end up with no wage growth -- and no economic growth.

There's a subtler problem. While rapidly rising household wealth is a consequence of policy mistakes, it's also the only insurance households have against those mistakes. Expanding asset ownership over the past 40 years at least means that more households now own assets that are increasing in value even when their labor income isn't. Politicians pitching "taxing the rich" should assume the middle class eventually will figure this out. Beware once those voters do.

Credit: By Joseph C. Sternberg

DETAILS

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LINKS

U.S. News: Voters, Economists Diverge on Policy

Kiernan, Paul . Kiernan, Paul.

ProQuest document link

FULL TEXT

Economists and ordinary people often seem to inhabit different planets, but seldom has the chasm been this wide. As former President Donald Trump and Vice President Kamala Harris compete for any possible edge, they have offered a plethora of ideas that, while delighting voters by varying degrees, have appalled economists because they would distort markets or deepen America's fiscal hole.

The Wall Street Journal's recent poll asked 750 registered voters about the presidential candidates' proposed economic policies. Then, at the Journal's request, the University of Chicago's Clark Center put exactly the same questions to a panel of 39 top academic economists.

Trump's plan to stop taxing tips for service workers -- an idea Harris adopted after the Republican announced it -- is supported by about four-fifths of voters polled by the Journal. But among economists, 87% disapprove, saying it would arbitrarily benefit a small subset of lower-wage workers, distort the labor market, widen the budget deficit and create incentives to game the system.

Trump has proposed across-the-board tariffs of up to 20% on imported goods. Forty-seven percent of voters approve of the idea, slightly more than those who disapprove. By contrast, 100% of the economists said they "strongly oppose" the idea.

Trade is a bedrock of economic development that, in theory, enables each country to focus on what it is good at.

"When you put a tariff on something artificially, you're going to make things more expensive, and if it's an input, like steel for example, then you're going to make the downstream companies that are using steel less competitive," said Steven Kaplan, a conservative-leaning economist at the University of Chicago's Booth School of Business.

The American Economic Association defines economics as the study of how people use resources, respond to incentives and make decisions. Economists use data and theoretical models to evaluate whether government initiatives make people, and society at large, better off.

The father of economics, the 18th-century philosopher Adam Smith, extolled the invisible hand of markets and decried spendthrift kings and ministers. With fiscal rectitude out and populism in, modern economists say Smith would be holding his nose if he were alive today.

"We've done a terrible job of educating the American people," lamented Edward Glaeser, a center-right economist at Harvard University.

Eric Maskin, a Harvard economist and a 2007 Nobel laureate, said: "I also blame politicians who know better for not trying harder." Maskin said he can't recall an election cycle that reeked so badly of rotten policy. "I think this may be a new low," he said.

Harris has proposed a ban on corporate price gouging for food and groceries. It is one of her most popular policies. The share of voters who approve it exceeds the share who disapprove by a margin of 49 percentage points.

By contrast, two-thirds of economists disapprove and just 13% approve. "'Price gouging' is too vague to be useful -- and would be harmful if it was clarified enough to be significant," said William Nordhaus, an economist at Yale University and a 2018 Nobel laureate. "I doubt if it will be taken seriously."

History has shown that it is a bad idea for the government to attempt to regulate prices, which normally serve to balance supply and demand in a competitive market. "It interferes with the market system," said Maskin, who described his politics on noneconomic issues as left of center. "Higher prices help to equilibrate supply and demand, and they also serve a useful incentive function."

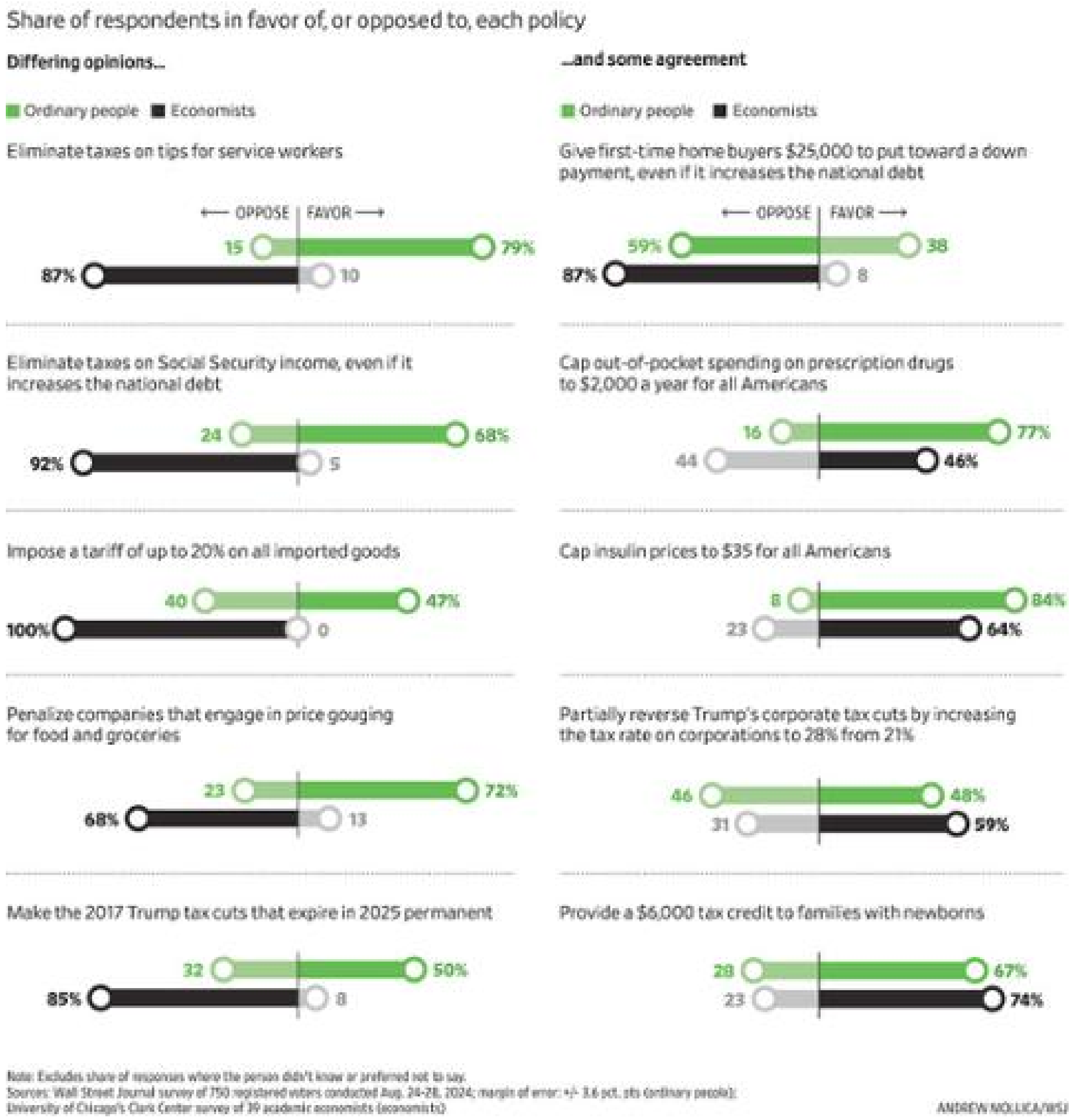
"It's either a gimmick, or it's a mess," said Carl Shapiro, a professor at the University of California, Berkeley, who served in President Barack Obama's administration.

There are areas where the public and economists agree. The public backs Harris's proposal to cap insulin prices at $35. So do 64% of economists.

"I do not favor a general price cap on drugs," said Kenneth Judd, an economist at the conservative Hoover Institution who studies imperfect competition, among other topics. Insulin, however, is an exception, he said. "Insulin is a very important drug, it has been around for many decades with great success, and there was no justification for the recent price increases."

A few of the candidates' proposals are supported by most economists. These include Harris's plan to provide a $6,000 tax credit to families with newborns, and to reverse Trump's corporate tax cuts partially by increasing the tax rate on corporations to 28% from 21%.

"We cannot keep cutting taxes forever," said David Autor, an economist at the Massachusetts Institute of Technology.



Enlarge this image.

Credit: By Paul Kiernan

DETAILS

Subject:	Polls &surveys; Tax rates; Prices; Supply &demand; Insulin; Price gouging; Presidential elections; Economists; Voters; Economic policy; Political campaigns
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LINKS

Ahead of Election, the Wealthy Look for Fail-Safe Estate Plans --- Trusts and lifetime gifts are used as ways to protect assets from potential estate-tax changes

Ebeling, Ashlea . Ebeling, Ashlea.

ProQuest document link

FULL TEXT

With the presidential race in a dead heat, rich Americans are calling estate lawyers.

The wealthy want to know if they should take steps to protect their fortunes from higher estate taxes. Should a change under the 2017 tax cuts expire as scheduled after 2025 -- considered more likely with Vice President Kamala Harris in the White House and Democrats gaining the majority in Congress -- the minimum wealth subject to the estate tax would be halved to roughly $7 million per person.

At that level, nearly 9,000 estates would owe estate tax in 2026, according to the Urban-Brookings Tax Policy Center. That is compared with roughly 4,000 estates estimated to owe the tax in 2025.

Whether it pays to draft a fail-safe estate plan for tax policies that haven't been decided is up for debate.

Financial advisers and wealth managers say that the cost of hiring them is justified for many families. By making large lifetime gifts and setting up certain types of trusts for spouses or children, people can remove millions from the balance subject to the estate tax.

Those advisers also say the window for people to make such tax-saving moves is shrinking -- and that it pays to do the work ahead of time if you are considering a trust.

But there are costs and risks of putting money into trusts unnecessarily, including capital-gains taxes that wouldn't apply to an outright inheritance.

There is also no guarantee the moves are even warranted for those under the higher estate tax thresholds. Though some Democrats in Congress favor an estate-tax overhaul that would go beyond just letting the Trump cuts expire, Harris herself hasn't staked out a position. Her campaign didn't respond to requests for comment.

Amy Elliott, a lawyer in Danville, Ind., helped her 77-year-old father set up an irrevocable trust this year. He funded it with $1 million this summer and is waiting until after the election to decide how much more, if any, to add to it.

"We'll move forward with funding if we've got a Democratic Congress and White House," Elliott said.

Former President Donald Trump wants to make the higher estate-tax limit permanent, along with the rest of the 2017 tax cuts, his campaign said. In a divided government, this will become part of messy, complex negotiations over trillions of dollars in expiring tax cuts. A Republican sweep could make repealing the estate tax altogether a remote possibility.

Even without the election, many more families have been setting up trusts in recent years to protect assets from creditors and divorce settlements, as well as for estate-tax savings.

The maximum wealth someone can die with -- or give away -- without owing the estate tax is $13.61 million today. That limit is indexed for inflation, and projected to reach $13.99 million for 2025, according to Wolters Kluwer Tax &Accounting. With proper planning, a married couple can shield twice that from the estate tax. The top estate tax rate is 40%.

By giving away assets now to their children outright or in an irrevocable trust, the rich can essentially lock in the current estate tax exemption, potentially saving millions of dollars in taxes at death. An irrevocable trust generally cannot be changed unless all the beneficiaries agree, or a court approves the changes.

Once the assets are in the trust, they are out of your estate, and in most cases out of your control.

Tim Starkey, a financial planner in Morristown, N.J., said he helped a client worth about $50 million set up irrevocable trusts for himself and his wife last year, in anticipation of the tax cuts' expiration and to get in front of the chance Democrats sweep in November.

They funded the trusts with $24 million in private-equity assets, and plan to add more to the trusts this year and next as the exemption climbs with inflation adjustments. "We set up the foundation," Starkey said.

The stakes are high, especially if Democratic proposals to close certain strategies come into play, said Robert Keebler, a CPA in Green Bay, Wis.
President Biden's budget proposes to curb dynasty trusts, which allow families to avoid estate tax for many generations, and to revise rules for valuing property put in trusts so people couldn't take big discounts.
The Biden plan would also change trust rules that let the person who set up the trust pay the trust income taxes and essentially shift more wealth to heirs tax-free. The Harris campaign has said that it supports the Biden budget proposals broadly.
Unmarried individuals worth at least $7 million, and married couples worth $14 million and up, should talk about the estate tax, estate lawyers said. The discussion includes how old you are and what assets you own.
"It's not just a snapshot right now. You need to think about your net worth in the future," said Aaron Burton, an estate lawyer in Denver.
You also need to think about how much you're willing to give away. The timing might be right for the tax laws, but not for your personal needs, said Ross Riskin, a CPA and financial planner in Newtown, Conn.
Still, setting up a trust takes time. If spouses are setting up trusts for each other, it could pay to do one now and the other next year.
There is also a big risk to acting before the government finalizes a plan.
Dawn Jinsky, an accountant and financial planner with Plante Moran in Southfield, Mich., had a recent conversation with a married couple in their mid-50s worth $35 million who decided not to proceed with an irrevocable trust.
"They didn't want to regret the decision," she said. They are looking at other ideas, including making annual tax-free gifts.
Anyone can give tax-free gifts of up to $18,000 to an unlimited number of people this year. These gifts don't count against the larger $13.61 million combined gift- and estate-tax exemption. The annual tax-free gifts limit is estimated to be $19,000 for 2025, according to Wolters Kluwer Tax &Accounting.
That could change.
One proposal in Sen. Elizabeth Warren's housing bill calls for a limit of $10,000 per gift and a total annual cap on tax-free gifts anyone can give in a year of $20,000.
Credit: By Ashlea Ebeling

DETAILS

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LINKS

U.S. News: Tax-Cut Proposal Shakes Up Debate On Social Security

Rubin, Richard; Tergesen, Anne . Rubin, Richard; Tergesen, Anne.

ProQuest document link

FULL TEXT

Donald Trump's plan to repeal income taxes on Social Security benefits would eliminate an unpopular levy, make it easier for older people to keep working, and leave a big hole in the program's finances.
At $1.5 trillion over a decade, Trump's tax cut for Social Security recipients is one of the former president's largest new policies as he seeks to return to the White House. It is smaller than extending expiring tax cuts but bigger than ending taxes on tips or lowering corporate taxes for domestic manufacturers.
Trump's proposal has revived a dormant debate over taxing Social Security benefits when they are paid out. His plan is unlikely to pass Congress unscathed if he wins this fall, but lawmakers will have to examine the program's finances by the early 2030s. Beyond seeking ways to extend Social Security's solvency, they might look to trim the tax on benefits.
The income tax on benefits hit 50% of Social Security recipients in 2023, according to the Social Security Administration, up from 10% when Congress created the tax in 1983. Many retirees are surprised when they learn about the tax liability, and surveys show the Trump proposal has touched a nerve.
Michael Feeney, 68, of Arlee, Mont., said his and his wife's Social Security benefits have been significantly reduced by surcharges they pay on Medicare premiums, which are deducted from benefits. Because Montana is one of a handful of states that tax at least some Social Security income, the couple face a tax rate of about 30% on benefits, said Feeney, who said Social Security comprises one-third of their retirement income.
The former executive at a life-sciences company said he has concerns about Trump's proposal, including how the government would make up the lost tax revenue. But, he said, the policy change would let him reduce withdrawals from savings and help alleviate his anxiety over inflation.
A bill supported by most House Democrats would reduce, but not repeal, the tax while expanding benefits. That bill would make up the lost revenue -- and then some -- by imposing taxes on wages and investment income above $400,000. That would be a stark change from today's Social Security payroll tax, which applies only to wages and self-employment income and stops at $168,600.
"We do something he doesn't," Rep. John Larson (D., Conn.), the Democratic bill's chief author, said of Trump. "We pay for it."
In about a decade, Social Security is projected to lack enough money to pay all of its obligations, triggering automatic benefit cuts unless lawmakers act.
Credit: By Richard Rubin and Anne Tergesen

DETAILS

Subject:	Taxes; Tax rates; Social security; Fiscal policy; Tax cuts; Income taxes
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LINKS

U.S. News: Rules Proposed for the 15% Minimum Corporate Tax

Rubin, Richard; Williams, Jennifer . Rubin, Richard; Williams, Jennifer.

FULL TEXT

The Biden administration is trying to turn a simple-sounding law -- large profitable companies must pay at least 15% in taxes -- into reality. It isn't so simple.

The Treasury Department on Thursday released 603 pages of proposed rules for the corporate alternative minimum tax, or CAMT, reaching a milestone in this exceptionally complex endeavor for regulators and corporate tax executives.

The proposal comes more than two years after Congress passed the law creating the tax and more than 20 months after it took effect.
The proposed rules explain the definitions and calculations for a parallel corporate tax system based on companies' financial reports, one that runs alongside the regular corporate tax system and makes affected companies pay whichever is greater. The rules mark an attempt to determine, in granular and sometimes impenetrable terms, what counts as a tax toward the 15% total and what counts as income.
Ultimately, the Treasury Department projects that about 100 companies will pay CAMT (pronounced CAM-tee by tax experts) and that the government will collect about $250 billion over a decade. Without the new tax, those companies would pay an average of 2.6%, according to Treasury officials. But the new tax itself doesn't actually bring every company up to 15% because Congress created exceptions for certain capital investments and tax credits.
"This is about tax fairness," said Deputy Treasury Secretary Wally Adeyemo. "The ability to use accountants and lawyers to reduce tax bills down to zero gives billion-dollar corporations a competitive advantage over smaller businesses."
Companies have been anticipating the regulations, fearing compliance costs and warning Treasury officials about circumstances that could skew the 15% calculation. Some of the rules would take effect for tax year 2024, and others wouldn't kick in until after the administration issues a final regulation.
Companies still owed the tax for 2023, generally using their interpretations of the law. In securities filings, such companies as Blackstone, KKR, Whirlpool, Duke Energy and Ally Financial have said they were paying the new tax. Their actual payments might change as companies digest the rules.
The government scheduled a public hearing for Jan. 16, meaning that the key decisions about what will go into the final rule will fall to the next administration.
Congress created CAMT in 2022 in the Democrats' climate and healthcare law known as the Inflation Reduction Act. Besides raising money to pay for clean-energy tax breaks, CAMT was passed to prevent companies from reporting high profits to investors and reporting low tax rates to the Internal Revenue Service. That can happen through aggressive tax planning. It can stem from timing differences in when financial-accounting rules and tax-accounting rules require companies to record income and deductions. And it can result from companies simply using tax incentives that Congress approved.
Rather than attacking particular deductions or tax-dodging maneuvers, CAMT operates as a backstop to prevent companies from benefiting too much from any combination of those techniques. It is a floor that requires companies with at least $1 billion in average profits to pay at least 15% of their financial-statement income, including unrealized gains in some cases.
CAMT's creation, more than 30 years after Congress tried and then scrapped a similar tax in the late 1980s, was a testament to legislative reality. Sen. Kyrsten Sinema, then an Arizona Democrat, rejected attempts to raise the corporate tax rate, and Sen. Joe Manchin, then a West Virginia Democrat, rejected changes to international tax rules. CAMT was the common denominator in the tied Senate. With Vice President Kamala Harris casting the deciding vote, Congress passed it and the rest of the Inflation Reduction Act without a single Republican vote. The law kicked myriad regulatory definitions and decisions to the Treasury Department and the IRS. Now, President Biden wants to raise the CAMT rate to 21% and bump the regular 21% corporate tax rate to 28%; that won't happen before he leaves office, but Harris is the Democratic presidential nominee and could take another run at that goal next year.
Credit: By Richard Rubin and Jennifer Williams

DETAILS

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LINKS

You Would Pay Harris's Wealth Tax

Scott, Hal; Gulliver, John . Scott, Hal; Gulliver, John.

FULL TEXT

Kamala Harris has doubled down on her support for a radical new tax on the unrealized capital gains of the ultrarich. She calls it the "billionaire minimum tax," but it would be better to call it the "capital markets death tax." It would crush the U.S. stock market, grind initial-public offerings to a halt, and hit you in the 401(k).

Federal capital-gains taxes have historically applied only when an asset is sold and income from the sale is realized. In recent years the left has been looking for a way to increase levies on the wealthiest Americans by taxing the appreciation of their assets, even if their assets aren't sold and income isn't realized. Sen. Ron Wyden (D., Ore.) proposed such a tax in 2021. President Biden offered his support in his 2024 State of the Union address and 2025 budget, which Ms. Harris has now endorsed.

The Biden-Harris wealth tax would apply a minimum annual 25% tax on the income and unrealized capital gains of Americans worth more than $100 million. Mr. Biden's 2025 budget estimates without justification that this tax would generate $500 billion in new tax revenue over the next 10 years. He proposes using that windfall to expand social programs for U.S. households in need.

Yet the Biden-Harris wealth tax would send public markets into a tailspin and hurt all investors, not only the wealthiest. Billionaires alone own more than $5 trillion in stock, or 7% of the entire stock market. Public stock represents 66% of their wealth, so they would need to sell hundreds of billions of dollars worth of stock to fund their wealth-tax payments. These sales would drive down stock prices and, therefore, returns for all investors. The largest, most innovative and fastest-growing U.S. tech companies would be hit the hardest. Unrealized capital gains are concentrated in these companies.

This wouldn't be a one-time problem. Stock sales would need to continue each year to pay the annual wealth tax. This would be a long-term drag on the returns of all investors, while also reducing the skin in the game of the innovative founders who built these companies. The wealthiest Americans would be entitled to tax refunds in future years if the value of their remaining stock holdings goes down, but that wouldn't diminish the effect of the tax on capital markets.

U.S. taxpayers with assets of more than $100 million hold approximately $4 trillion in unrealized capital gains in the shares of private companies. Selling these investments to cover a tax bill is even more difficult than selling stock in public companies. Private companies generally don't have active trading markets, so finding a buyer can be difficult and the cost of selling high. These sales can also disrupt the growth of private companies, which are often managed by their owners.

The Biden-Harris tax therefore includes an exemption from the proposed wealth tax for ultrarich investors who have 80% of their wealth in nontradable illiquid assets, such as investments in private companies. This would create a major incentive for the wealthiest Americans either to delist the public companies that they control or to keep their private companies from going public in the first place. If the ultrarich respond this way, it would reduce projected tax revenue and hurt all investors by shrinking the size of public markets.

Public markets are already small and getting smaller. In 1996 there were more than 8,000 public companies in the U.S. Today there are fewer than 5,000. Private markets are increasingly able to support the capital needs of large companies. There are now more than 700 private companies worth more than $1 billion and more than 40 private companies worth more than $10 billion. The most innovative and fastest-growing U.S. companies are private. Some are worth more than $100 billion, including OpenAI and SpaceX. Will Sam Altman and Elon Musk take these

companies public if doing so comes with a multibillion-dollar tax bill?
Billionaire founders also have voting control over many large public companies through dual-class share structures and can therefore potentially force a delisting of their public companies to save billions in taxes. Perhaps the trillion-dollar megacap technology stocks are too large to take private, but investors in these companies will suffer too as their billionaire founders shift their attention to private companies where they can better reap the returns of their innovations.
The shrinkage of public markets is a big deal for anyone with a 401(k), as 90% of U.S. investors don't meet the minimum wealth and income requirements to invest in private markets. If Ms. Harris has her way, it could do irreparable harm to Americans' ability to pay for their retirements. The left's desire to punish the ultrarich for their success will end up hurting the rest of us.

Mr. Scott is an emeritus professor at Harvard Law School and director of the Committee on Capital Markets Regulation. Mr. Gulliver is the committee's research director.
(See related letters: "Letters to the Editor: Like a Drug, a Gateway Tax Leads to More" -- WSJ Sept. 23, 2024)
Credit: By Hal Scott and John Gulliver

DETAILS

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LINKS

Harris's Capital-Gains Tax Disguise

ProQuest document link

FULL TEXT

We've seen many presidential campaigns, but this is the first in which the candidate proposing a huge tax increase is pitching herself as a supply-side tax cutter. That's what Kamala Harris is trying to float past voters, and so far she's getting away with it.

"If you earn a million dollars a year or more, the tax rate on your long-term capital gains will be 28% under my plan, because we know when the government encourages investment, it leads to broad based economic growth," Ms. Harris said to cheers in New Hampshire. Give her credit for knowing how to win plaudits from rich donors.

Mark Cuban told CNBC she is "going center 100%" by talking "more about entrepreneurs and helping them have access to investment." She does talk a good game. And the press is hailing her tax "moderation" because President Biden has proposed raising the top capital gains rate to 44.6%.

The truth is Ms. Harris is still proposing to raise the capital gains rate by nearly 40%, which would slam entrepreneurs. The 28% rate she's talking about is misleading since she also backs a five-percentage point surcharge on investment income. Her plan would raise the top capital-gains tax rate on taxpayers making more than $1 million to 33% from 23.8%.

That would be the highest rate since 1978, when Congress passed the famous Steiger Amendment, reducing it to 28% from 35%. The history of the capital gains rate underscores how far left Ms. Harris and the Democratic Party have moved on taxes.

After Jimmy Carter signed the Steiger cut, Ronald Reagan struck a deal with Democrats in 1981 to further reduce the rate to 20%. A 1986 tax bill raised the rate back to 28% as part of a reform that cut the top rate on ordinary income to 28% from 50%. The capital-gains rate hasn't exceeded 28% since.

Bill Clinton agreed to a tax package with Republicans in 1997 that lowered the rate to 20%, which helped fuel the economic expansion. George W. Bush in 2003 slashed the rate to 15%. The rate under Barack Obama rose to 23.8% in 2013 -- 20% plus his 3.8% surtax. He later proposed raising it to 28%, though it didn't pass Congress.

Even many liberal economists say increasing the rate above 28% would result in lower tax revenue by reducing realizations. Notably, income tax revenue as a share of GDP has increased after every capital-gains rate cut over the last five decades. Lower rates encourage investors to realize more gains and plow them into other ventures.

This allows capital to flow to more productive and beneficial uses. It's also one reason the U.S. has birthed so many successful tech companies. Ms. Harris's Silicon Valley donors such as LinkedIn founder Reid Hoffman understand all this, which is why they have been urging her to repudiate Mr. Biden's capital-gains rate.

Still, Ms. Harris hasn't renounced the Biden plan to tax unrealized investment gains, which means taxing an increase in the value of an asset even without a transaction that yields income. Don't sell a stock and you still get taxed if the share price rises, but would you be able to deduct unrealized losses? Mr. Biden called for a 25% tax on appreciation in assets for "billionaires" with net worth over $100 million.

No less than Rep. Ro Khanna this week slammed the idea. "Let's say you're an entrepreneur, you create a company, it gets to $100 million or $200 million on paper. Now if you're taxing that, you're probably going to force that person to sell it," the Silicon Valley Democrat told CNBC. He's right.

Ms. Harris's 33% rate would also punish entrepreneurs who sell their businesses after years of sweat equity. Many Americans who make more than $1 million are "rich" for only a year or two. A higher tax rate would reduce the return on their investment and act as a disincentive to start a business.

Her ballyhooed proposal to increase the tax deduction for startup expenses is small salve. We have to chuckle at the press's presentations of her as a champion for small businesses even as she plans to smother them with more regulations and tax increases on Subchapter S businesses, small and large.

Donald Trump could explain all of this to voters, though he's also now clouding his tax ideas with nationalist nonsense. In a speech Thursday, he touted plans to reduce regulation and increase energy production. Great. But then he endorsed cutting the corporate tax rate to 15% "solely for companies that make their product in America." That's merely a new form of industrial policy.

How about reviving a proposal his advisers floated when he was President to index capital gains for inflation? He won't beat Ms. Harris by racing her to the populist bottom.

DETAILS

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LINKS

Affirm Is on Track to Turn a Profit --- Lower interest rates and growing volume present headwinds

Demos, Telis . Demos, Telis.

ProQuest document link

FULL TEXT

[Financial Analysis and Commentary]

The past couple of years have thrown up plenty of obstacles for buy-now-pay-later lenders. But two of the leading companies are doing pretty well by some key measures.

Affirm, the publicly traded U.S.-based provider, last week said it expects to achieve positive operating income in the fourth quarter of its 2025 fiscal year, which would be the second calendar quarter of next year. Operating income for Affirm excludes certain other income related to cash and securities as well as tax benefits or expenses -- but includes costs like stock-based compensation or depreciation and amortization. And Europe-based, privately held Klarna just reported that it "was effectively break-even" on a net- income basis in the calendar second quarter of 2024.

Profitability of course is what many more-conservative investors want to see from upstart fintech businesses, at a minimum. But it also can be a source of false comfort in growing companies when it comes at an unusually buoyant time.

That doesn't seem to be the case here. At Affirm, for example, high interest rates have driven up funding costs in recent years. Likewise, concerns about consumers' health and willingness to spend have been looming.

Yet Affirm is maintaining its core profitability at today's rates, even as late payments tick a bit higher. In its most-recent quarter, the 2.4% of monthly U.S. installment loans that are delinquent by 30 days or more was slightly higher than the prior quarter, and up from 2.1% a year earlier.

Affirm has been able to adjust its pricing to merchants and consumers to levels that have accommodated higher transaction costs. In fact, the ability of Affirm to potentially expand its borrower pool to riskier credits and still profitably absorb any higher costs should bolster its value for merchants, who want to make as many sales as possible.

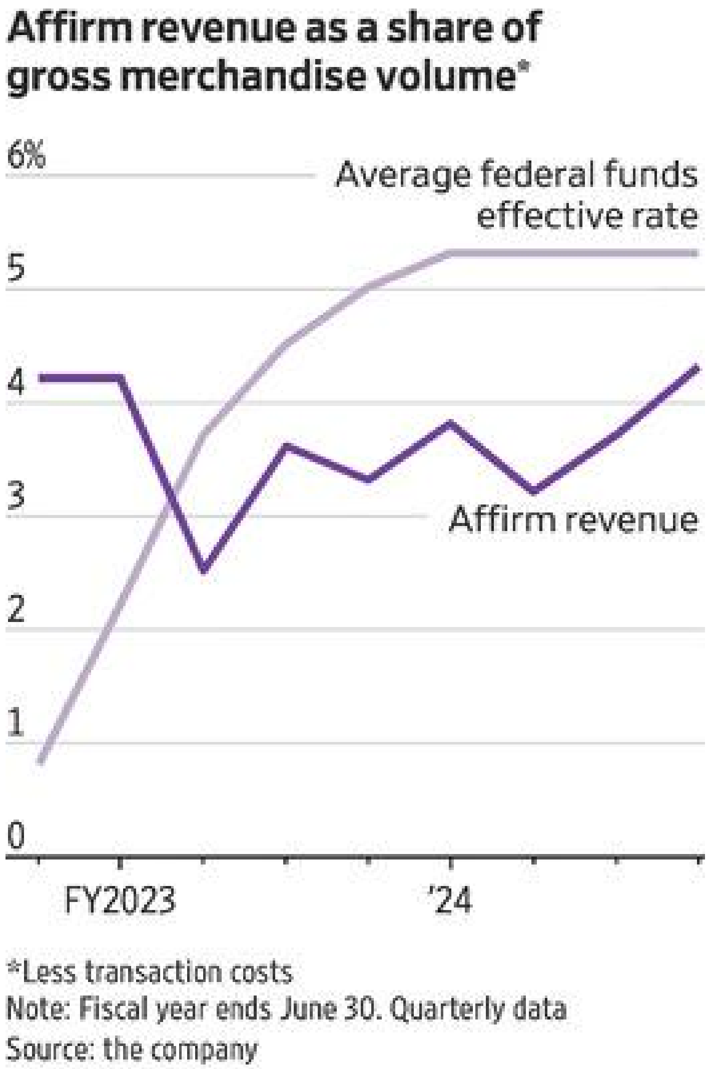
Revenue as a percentage of gross merchandise volume has now exceeded 9% for the past two quarters, after hovering closer to 8% for much of the past two years. And revenue less transaction costs, such as funding and provisions, was 4.3% of volume in the recent quarter. That was the highest quarterly rate in at least two years.

Similarly at Klarna, gross profit -- its measure of revenue less transaction costs -- grew 22% from the first half of 2023 to 2024, faster than the 16% rise in gross merchandise volume. The Swedish company has been preparing to potentially go public, and a successful offering could be a broader lift for the broader "BNPL" sector.

All this is ahead of the Federal Reserve's likely interest-rate cuts. Chief Executive Max Levchin told analysts last week that "the most exciting thing about reduction in the fed-funds rate is we'll just have more active users." He added: "We'll have more repeat users because we'll be able to approve more people."

And profit growth primarily comes from gaining scale. Affirm expects gross merchandise volume to grow from under $27 billion in its 2024 fiscal year to more than $33.5 billion in its 2025 fiscal year. That would be a growth rate of 26% or better, which is in the ballpark of the just-ended fiscal year's growth of 32%.

A hard economic landing would, of course, rewrite the script not just for buy-now-pay-later providers, but all kinds of lenders. But a soft-landing scenario would be a solid base for more growth.



Enlarge this image.

Credit: By Telis Demos

DETAILS

Subject:	Federal Reserve monetary policy; Fiscal years; Interest rates; Profits; Profitability
Business indexing term:	Subject: Federal Reserve monetary policy Fiscal years Interest rates Profits Profitability; Industry: 92113 : Public Finance Activities 52111 : Monetary Authorities-Central Bank
Location:	United States--US
Company / organization:	Name: Affirm Inc; NAICS: 522320; Name: Klarna Bank AB; NAICS: 522320
Classification:	92113: Public Finance Activities; 52111: Monetary Authorities-Central Bank
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LINKS

Harris's Tax Cuts, Increases Take Shape

Rubin, Richard . Rubin, Richard.

ProQuest document link

FULL TEXT

WASHINGTON -- Vice President Kamala Harris's tax proposals pick up the unfinished business of the Biden administration, pushing to raise taxes on corporations and high-income households while leaving most Americans'

taxes unchanged or lower.
Harris, the Democratic nominee for president, would increase taxes by about $5 trillion over the next decade and cut other taxes by more than $4 trillion. The federal government's total collections -- projected at $63 trillion over 10 years -- would be little changed, but the Harris agenda would shift who pays.
Under her plan, taxes would go up sharply on some high-income households, and top marginal tax rates would reach their highest point since 1986. The wealthiest investors and company founders would encounter sizable capital-gains tax bills that they don't face under current law.
Tax policy marks one of the biggest gaps between the two major parties and even slim congressional majorities could yield enormous differences in corporate profits and household finances -- particularly for the richest citizens. Harris hasn't discussed her tax plans in deep detail, but campaign aides indicated her support for President Biden's proposed tax increases and his promise to protect households making under $400,000 from tax increases. That is enough to give a clear sense of where she would head. She rolled out a child tax credit expansion plan earlier this month that went beyond Biden's agenda.
A Democratic sweep of the White House, Senate and House could allow Harris to get many of her fiscal plans enacted, though intraparty disagreements and slim vote margins could prevent the full agenda from becoming law. A 2025 Democratic Senate majority wouldn't include retiring Joe Manchin of West Virginia and Kyrsten Sinema of Arizona, who blocked many of Biden's tax plans in 2021 and 2022. But other Democrats could take their place as a limiting force in a narrowly divided chamber.
Even if Democrats don't win full control of Congress, a Harris administration would be thrust immediately into a tough tax negotiation in 2025 with Republicans: Major pieces of the 2017 tax law expire at the end of next year absent congressional action, an outcome that lawmakers in both parties want to prevent. The expiration could give Harris leverage to demand support for some of her tax priorities. If the president and Congress do nothing, about 62% of households will see their taxes go up in 2026, according to the Tax Foundation.
Former President Donald Trump, the GOP presidential nominee, wants to extend all the expiring tax cuts, for a total of $4 trillion over a decade. On top of that, he proposes to layer further cuts -- a lower corporate tax rate and tax exemptions for tips and Social Security benefits -- and running mate Sen. JD Vance (R., Ohio) has talked about a larger child tax credit. Trump also would impose tariffs that would recoup some of that lost revenue but also raise consumers' costs.
Harris wants to do far more than address the expiring tax cuts, and her campaign has endorsed all of the proposed tax increases from Biden's most recent budget.
Under that plan, the top marginal income-tax rate for individuals would climb to 44.6% across almost all income types, compared with today's lower top rates (23.8% on capital gains, 29.6% on some business income and over 39% on wages). High-income people would still pay lower rates on some of their income, but those marginal rates at the top matter because they can affect decisions about investments.
Harris, adopting Biden's plan, also would create a novel system that would tax the unrealized capital gains of people with net worth exceeding $100 million. Capital gains currently aren't taxed until assets are sold, and they are exempt from income tax at death, giving people an incentive to hold assets and pass them to heirs. (Estate taxes can still apply.)
Under the Harris plan, that top slice of households (about 0.01%) would pay an annual minimum tax of 25% of their income -- using a broader definition of income that includes unrealized gains. The proposal contains provisions that let taxpayers spread out payments, helps them deal with the difficulty of assessing hard-to-value assets and addresses liquidity constraints.
At an event at a Las Vegas restaurant last week, Trump claimed that Democrats would eventually seek to expand any tax on unrealized gains. "[It] will soon be applied to small-business owners and you will be forced to sell your restaurant immediately," he said.
Under Harris, capital gains for households making at least $1 million would be taxed as ordinary income. Unrealized capital gains, above a $5 million per-person exclusion, would be taxed at death. That tax would have some

exemptions for family businesses, residences and personal property.
"These would represent sea changes in how we have taxed wealthy individuals and families over the last several decades, and that's not an argument for or against them," said Andrew Lautz, an associate director at the Bipartisan Policy Center.
Corporations would face a 28% tax rate, up from 21% today, and large companies would pay a 21% minimum tax instead of the current 15%. The higher corporate rate would apply on a broader tax base because the 2017 law removed some breaks, and the increase would push the U.S. back toward the high end of countries' tax rates.
"Vice President Harris's campaign pledge to raise the federal corporate tax rate to 28% would have devastating consequences, resulting in higher prices, lower wages and fewer jobs," said a statement from the RATE Coalition, a group of companies that includes Target and Altria.
Harris has proposed additional tax cuts on top of those extensions. She would revive the expanded child tax credit that was in place for 2021, which gives households $3,000 for most children and $3,600 for those under age 6.
"All families, they love their children but don't always have the resources that are necessary to do all that they hope and pray and desire for their children," she said in 2021.
As president, Harris would add another tier for newborns with that year's tax credit worth $6,000.
Credit: By Richard Rubin

DETAILS

Subject:	Nominations; Tax rates; Corporate taxes; Tax exemptions; Political campaigns; Presidents; High income; Tax cuts; Households; Capital gains; Child tax credit; Tax increases; Fiscal policy
Business indexing term:	Subject: Tax rates Corporate taxes Tax exemptions High income Tax cuts Capital gains Child tax credit Tax increases Fiscal policy; Industry: 92111 : Executive Offices
People:	Harris, Kamala
Company / organization:	Name: Congress-US; NAICS: 921120
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LINKS

Massachusetts Fumbles the Tax Ball

FULL TEXT

For the latest evidence that state tax policy influences taxpayer decisions, take a look at the National Football League. On Monday former New England Patriots coach and general manager Bill Belichick explained that states with millionaire surtaxes like Massachusetts are at a disadvantage in attracting the best free-agent players.

"That's Taxachusetts," Mr. Belichick said on the Pat McAfee Show during a discussion about free agents. "Virtually every player, even the practice squad, even the minimum players are pretty close to $1 million. Once you hit the $1 million threshold, you pay more state tax in Massachusetts."

It's "just another thing you've got to contend with in negotiations up there," Mr. Belichick added. "It's not like Tennessee or Florida or Nevada or some of these teams that have no state income tax. You get hit pretty hard on that with the [players'] agents. They'll come and sledgehammer you down about . . . the tax they're paying."

Massachusetts used to have a 5% flat tax on all incomes above $8,000. But in 2022 the state imposed a four percentage point surtax on incomes over $1 million. The Patriots are way under the NFL salary cap and have money to outbid other teams for top talent. But they have recently lost out on free agents they were reported to be courting.

Taxes may not have played a role in those cases, and pro athletes make team decisions for many reasons, from championship prospects to management to weather. But most have a short career horizon for high-dollar earnings.

The state tax delta is not a rounding error.

Jared Walczak at the Tax Foundation calculated in April that Cincinnati Bengals quarterback Joe Burrow will pay an estimated $3.59 million in state income taxes in 2024 in Ohio, but if he played for the Jaguars in Jacksonville, Fla., he'd pay $379,000. A player making $50 million would pay $4,968,457 playing for Minnesota Gov. Tim Walz's home-state Vikings compared to $586,902 on that same contract at the Dallas Cowboys.

Those are eye-watering numbers, but the same tax calculations exist for all taxpayers. High-income earners have more flexibility than most to relocate. Democrats who think surtaxes on the affluent make good policy might reconsider that line of scrimmage.

DETAILS

Subject:	Professional football; Surtax; State taxes; Free agency; Fiscal policy
Business indexing term:	Subject: Surtax State taxes Fiscal policy; Industry: 71121 : Spectator Sports
Location:	United States--US; Massachusetts
People:	Belichick, Bill
Company / organization:	Name: National Football League--NFL; NAICS: 711211, 813990
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LINKS

U.S. News -- Capital Account: In Campaign '24, RIP Economics --- By Greg Ip

ProQuest document link

FULL TEXT

It's too soon to predict the winner of November's election, but not too soon to predict the loser: economics.

Economists routinely advise against price controls, tariffs, discriminatory taxes and wider budget deficits. Donald Trump, Joe Biden and Kamala Harris are entertaining some or all of them.

Of course, no one expects economic principles to always take precedence over other priorities. There are times when price controls, tariffs and deficits are actually good economic policy.

But the candidates haven't just demoted economic principles this year; they've jettisoned them altogether.

"Doesn't anyone listen to economists anymore?" asked Columbia University economist Glenn Hubbard, who chaired President George W. Bush's Council of Economic Advisers.

Sure, these ideas look politically shrewd. But if implemented, they may come back to haunt a future president.

No taxes on tips

Tax policy usually involves a trade-off between equity (treating people fairly) and efficiency (improving growth and well-being). Trump's proposal to end taxes on tips, quickly adopted by Harris, manages to be both inequitable and inefficient.

It's inequitable because it would tax people paid mostly via wages, such as cooks, more heavily than similar people paid mostly via tips, such as waiters. It's inefficient because it rewards a clumsy and often arbitrary form of compensation.

When tips are no longer taxed, employees and employers will try to take advantage by structuring more compensation as tips. The losers: consumers who already resent proliferating requests for tips. Tax breaks are supposed to encourage things we like, such as children and homeownership; this one does the opposite.

Price, rent controls

The U.S. hasn't had economywide wage and price controls since the early 1970s, and Harris isn't proposing them now. She and Biden have proposed something narrower: taking federal tax benefits away from corporate landlords that raise rents more than 5%, and cracking down on "price-gouging."

In spirit, these are similar to federal, state and local laws that regulate prices of insurance and drugs or during natural disasters. Yet as with formal price controls, they short-circuit the essential role of higher prices: drawing in new supply and encouraging substitution toward cheaper alternatives.

Price controls are justified when a few companies enjoy market power. Those conditions don't apply to apartments or food.

After rents soared during the pandemic, developers responded by building record new units. Thanks to that flood of supply, new lease rents are now falling.

Alexei Alexandrov, former chief economist of the Federal Housing Finance Agency, said no multifamily developer controls enough of the apartment market to have market power. While some landlords have been accused of colluding, "that's why we have . . . antitrust laws already on the books."

A temporary rent cap won't have much effect given rents aren't rising much anyway, Alexandrov said. If perceived to be permanent, developers will try to raise rents immediately, screen tenants more tightly, build fewer of the affected buildings or convert apartments to condos, he said.

Trump has called Harris's proposals socialism, yet he too has a soft spot for price controls. He routinely called for Medicare to negotiate drug prices. It finally happened this year, under Biden. Given Medicare's size, drug companies consider this tantamount to price controls.

Tariffs

Economists have a visceral dislike of tariffs. They're a tax on imports, and imports are quite useful. In recent years, a more nuanced view has emerged. Trump's tariffs on China, which Biden continued and Trump proposes to expand, reduce U.S. vulnerability to a geopolitical adversary.

But Trump's proposed 10%, or even 20%, "baseline" tariff on every country and product serves no obvious purpose. He claims this will cause American consumers to buy U.S. instead of foreign-made goods, boosting jobs and reducing the trade deficit.

Certainly, if you're willing to force consumers to pay thousands of dollars extra, you can make them buy domestic instead of imported products. But for what purpose? Protection can be justified for infant industries such as green tech or products essential to national security. T-shirts, wine and countless other imported products don't qualify.

In any case, tariffs alone won't reduce the trade gap because currencies, interest rates, savings, and the budget deficit often work in the other direction, boosting imports and reducing exports. Despite tariffs, the trade gap widened in Trump's presidency.

Perhaps Trump thinks tariffs give him leverage to force other countries to reduce trade barriers. Some might, but others, such as the European Union and China, will likely retaliate, as they did in his first term. Deutsche Bank economists show that manufacturing employment deteriorated in the U.S. after Trump's trade war began in 2018, with the biggest impact in the most manufacturing-intensive counties.

Tax giveaways

Harris has proposed a $6,000 tax credit for the parents of a newborn child. Not to be outbid, Trump's running mate JD Vance has pitched a $5,000 credit for every child. The fiscal arms race doesn't stop there; Harris is promising a $25,000 tax credit for first-time home buyers. Trump would end income taxes on Social Security benefits.

These ideas aren't inherently bad, but boy, they're expensive. The Committee for a Responsible Federal Budget estimates Harris's promises, beyond those made by Biden, cost about $1 trillion over a decade; Trump's Social Security tax repeal would cost at least $1.6 trillion.

The U.S. budget deficit is already close to a record outside wars and crises, and these plans would make it worse. There are times when it's OK, even necessary, for the government to borrow more: at war and in crises, and when inflation and interest rates are low. None of those things are true now.

Political types will say a few bad ideas are worth electing a good candidate, and besides, many won't be enacted. But some will. In December 2020, Trump called for new $2,000 stimulus checks, which even at the time looked excessive. The Democratic candidates in Georgia's Senate runoff elections picked up the call. After they won, new checks became a centerpiece of Biden's stimulus and helped fuel the inflation that haunts him, and Harris, now.

DETAILS

Subject:	Lessors; Social security taxes; Tariffs; International trade; Political campaigns; Price regulations; Interest rates; Economists; Cost control; Tax credits; Budget deficits; Wage &price controls; Medicare; Elections; Economic policy; Economic conditions
Business indexing term:	Subject: Social security taxes Tariffs International trade Price regulations Interest rates Economis ts Cost control Tax credits Budget deficits Wage &price controls Medicare Economic policy Economic conditions
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U.S. News: Trump's Threat of Steep Tariffs Hangs Over Markets

Goldfarb, Sam . Goldfarb, Sam.

FULL TEXT

It is the giant X-factor for investors heading into the presidential election: Donald Trump's sweeping plan to dramatically increase tariffs.

In a speech last week billed as a major economic address but that often veered far off topic, Trump doubled down on his commitment to new tariffs, pledging to implement "10 to 20 percent tariffs on countries that have been ripping us off for years."

A drumbeat of reports from Wall Street economists have warned that Trump's plans could substantially slow economic growth while driving up consumer prices. But there is considerable debate about what the former president would -- or even could -- do with tariffs if he won a second term.

On the face of it, Trump is proposing a radical overhaul of U.S. tariff policy, going far beyond what he did during his first four years in the White House. Starting in 2018, Trump imposed tariffs on about $380 billion of goods, mostly from China, according to the Tax Foundation.

The Biden administration kept most of those tariffs and added additional levies on roughly $18 billion of Chinese imports.

In the current election, however, Democrats haven't indicated support for additional tariffs. Trump, meanwhile, has advocated for what his campaign website has called a system of "universal baseline tariffs" that "rewards domestic production." Trump has suggested the tariffs could be set at 10%, with revenue being used to reduce the deficit or pay for new tax cuts.

Elsewhere, Trump has indicated he would support tariffs of at least 60% on Chinese imports to reduce trade with the world's second-largest economy.

Currently, the average effective tariff -- as measured as duties as a share of imports -- is around 1% on imports from countries excluding China and 11% on Chinese imports, according to Wolfe Research, a stock-market research firm.

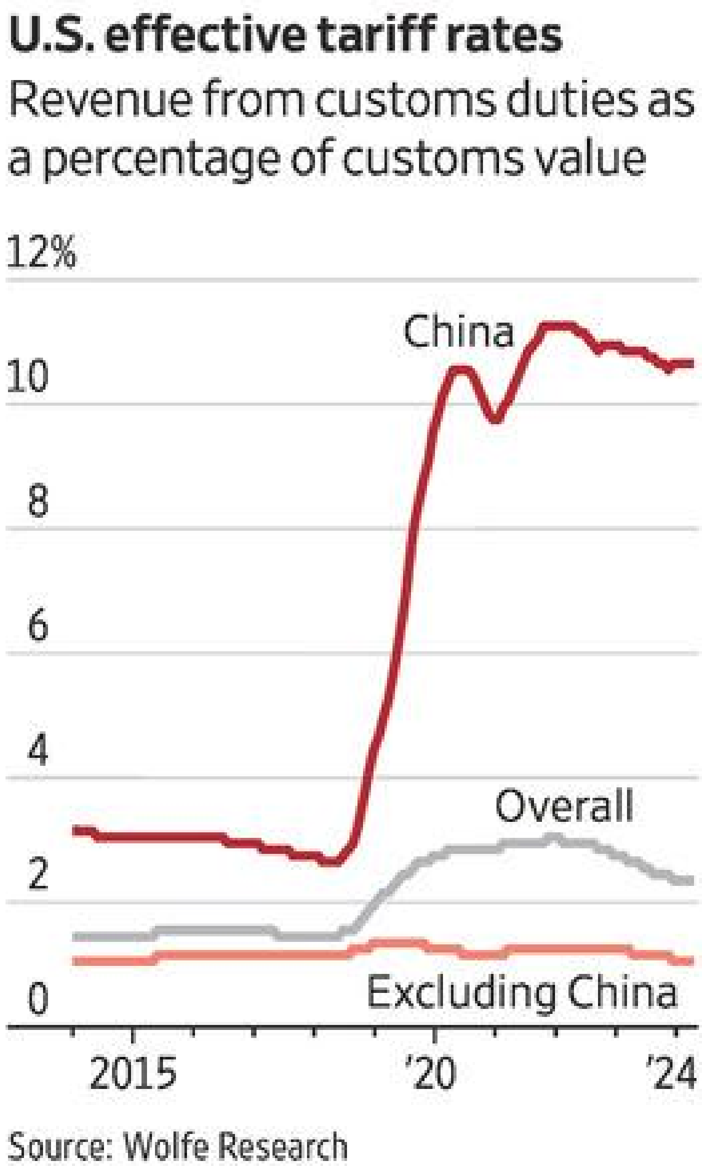
Tariffs aren't applied to foreign countries but rather to domestic businesses that import products. Economists say those businesses usually pass on the bulk of the cost to consumers by raising prices.

In the short-term, most agree that universal tariffs would drive up consumer prices and drag on economic growth by effectively taxing households and discouraging spending.

Even then, some economists argue that benefits to certain businesses, such as steel manufacturers, could be offset by harms to others, such as automakers forced to pay more for steel. Exporting businesses could be hurt by countries introducing retaliatory tariffs.

Analysts at TD Securities estimate that a 10% universal tariff would increase inflation by 0.6 to 0.9 percentage point. Combined with Trump's plans to restrict immigration, they calculate the tariffs would reduce growth by 1 to 2 percentage points, potentially tipping the economy into a recession. Other economists have arrived at similar

forecasts. Standard Chartered has estimated Trump's tariff plans would raise prices by 1.8% over two years.
Most economists believe tariffs would lead to a quick jump in consumer prices but not persistent increases.
Trump's previous tariffs had micro and macro effects on the stock market. His threats to impose tariffs on Mexican imports at one point drove down shares of automakers with manufacturing operations across the border. More broadly, analysts said his tariffs contributed to declines in stock indexes in 2018 by creating uncertainty about the economic outlook.
Analysts at Jefferies have said higher tariffs could help steelmakers like Cleveland Cliffs and U.S. Steel by discouraging imports from foreign competitors, while hurting importers such as Lululemon Athletica and Best Buy by squeezing their profit margins.
On paper, Trump's tariff plans would create a bigger drag on the economy than Democratic plans to let tax cuts on upper-income households expire at the end of 2025, according to Wolfe Research. That is because tariffs' effective tax increase would be bigger and would affect lower- and middle-income households, which are more sensitive to changes in costs.
Many investors are skeptical that Trump would raise tariffs by as much as he has promised and are more confident that he would extend tax cuts and reduce regulations on businesses, especially if Republicans also win control of Congress. That could lead to at least a small-scale repeat of 2016, when a Trump-led Republican sweep spurred a large rally in stocks.



Enlarge this image.
Credit: By Sam Goldfarb

DETAILS

Subject:	Tariffs; Political campaigns; Automobile industry; Consumer Price Index; Presidential elections; Economists; Economic growth; Tax cuts; Households; Tax increases; Trade policy; Fiscal policy
Business indexing term:	Subject: Tariffs Automobile industry Consumer Price Index Economists Economic growth Tax cuts Tax increases Trade policy Fiscal policy; Industry: 92111 : Executive Offices 33611 : Automobile and Light Duty Motor Vehicle Manufacturing
Location:	United States--US; China
People:	Trump, Donald J
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LINKS

U.S. News -- Capital Account: Trump Risks Misfire in Inflation Rhetoric

Ip, Greg . Ip, Greg.

ProQuest document link

FULL TEXT

Donald Trump really needs to find a new supermarket.

In a speech in North Carolina on Wednesday, the former president complained that bacon costs four or five times as much as it did a few years ago. "I don't order bacon anymore. It's gotten too expensive."

Clearly, whoever is selling him bacon is ripping him off: Bacon prices are up 18% nationally since President Biden took office.

Trump isn't just getting gouged on bacon. He has claimed grocery prices are up 70% when they're up 21% nationally since January 2021. He said last week that gasoline was $5 a gallon and rising when the average national price was $3.46 and falling.

Whatever the origin of Trump's numbers, it's plainly in his interest to keep the conversation on prices: If this election is a referendum on Biden's inflation record, Trump will win in a landslide.

And yet inflation might no longer be the election winner Trump has counted on.

For one thing, it's getting better. In July, consumer prices were up 2.9% from a year earlier, the lowest inflation rate since early 2021, and down sharply from 9.1% in mid-2022.

Markets have largely concluded that inflation is simply no longer an issue. Inflation-linked bonds project inflation in the coming year to be 2.2%, down from 2.6% just a month ago, according to Barclays.

To be sure, inflation is still an issue with voters; polls show they think it's getting worse. Trump pays no penalty for exaggerating prices because his claims resonate with how people feel. Moreover, one reason inflation is likely to keep easing is that unemployment recently rose, which, if it continues, is bad news for Vice President Kamala Harris, now the Democratic nominee.

But the retreat in inflation and softer jobs data have had one immediate, tangible benefit, both to consumers and Harris: lower interest rates. The Federal Reserve is almost certain to cut rates in September, and in anticipation, other borrowing rates have dropped. Mortgage rates have hit a 15-month low, so buying a house might be getting cheaper, though not by much.

In addition to the actual news on inflation improving, Harris is suffering less from public anger than Biden.

Public attitudes are driven less by prices rising more slowly (i.e., a lower inflation rate) than by their 19% cumulative change since Biden took office. Jared Bernstein, chairman of Biden's Council of Economic Advisers, pointed out in a recent speech, "A central banker wants inflation to get back to target. A shopper wants his or her old price back." Harris has internalized this lesson. Her stump speech doesn't mention falling inflation, but rather promises to reduce the cost of living and individual prices.

And a small, crucial slice of voters seems willing to give her a chance. Several surveys find voters trust her more on the economy than they trust Biden, though less than they trust Trump. In a poll of seven swing states, asked who they trusted more to bring the cost of living under control, 42% of respondents said Harris, while 48% said Trump -- a small margin given economic pessimism, said Amy Walter, editor of the Cook Political Report, which sponsored the poll. "Harris is benefiting from the fact that she's not getting the blame for a bad economy the way Biden was."

If voters are willing to blame Biden for inflation in the past, they still want to know, what will Trump or Harris do about it in the future? Presidents can't do much to influence economic growth or inflation, but are expected to try.

In her stump speech, Harris promises to "take on big corporations that engage in illegal price gouging, corporate landlords that unfairly raise rents on working families and . . . Big Pharma." Friday, she will propose a federal ban on price-gouging in the food industry, her campaign said. It's a natural message for a former prosecutor, but it won't make a discernible difference. Companies certainly did profit from higher prices in recent years, but there's little evidence it was illegal or fixable with federal action.

Trump has no concrete solution, either. In his view, inflation under Biden is due primarily to "a very stupid energy policy." On Wednesday, he promised to slash energy costs, including electricity, by half in 12 to 18 months.

He didn't explain how. Presidents have no direct control over electricity prices. Generation and transmission infrastructure take years to build. As for oil, he promises to "Drill, baby, drill." But even if more onshore or offshore federal leases were offered for drilling, the increase in supply would be marginal and years away, said Jim Burkhard, head of oil research for S&P Global Commodity Insights. U.S. oil production is driven primarily by the global price, he said, which is why domestic output hit a record last year despite Biden favoring renewables over fossil fuels.

In the next two years, the primary drivers of global supply will be OPEC and Russia, which are boosting production because of pressure from members who need the revenue, he said.

While the candidates' policies aren't likely to lower inflation, some might raise it. Specifically, economists think Trump's plans to raise tariffs and deport migrants will put upward pressure on import costs and wages and thus inflation. Deutsche Bank estimates his proposed 60% tariff on imports from China and 10% from everywhere else would raise consumer prices by 1.4% to 1.7%. On Wednesday, Trump suggested he would go even further, hitting all imports with a tariff of "10% to 20%."

Trump has also promised to extend all of his 2017 tax cuts, and end taxes on tips and Social Security benefits. His running mate, JD Vance, has proposed a $5,000 tax credit per child, more than double the current maximum credit. Even when offset by tariff revenue, that's a lot of potential fiscal stimulus.

In a recession, stimulus might help. Otherwise, it would add to inflation pressure. Ordinarily, the Fed would lean against the inflationary threat of tariffs and bigger deficits with higher interest rates. But whereas past presidents have left the Fed alone -- a tradition Harris said she would honor -- Trump also wants a say in Fed rate decisions.

Fed independence doesn't matter enough to voters to determine the outcome of the election. But it might determine the outcome on inflation -- and that ought to matter to voters a lot.

Credit: By Greg Ip

DETAILS

Subject:	Polls &surveys; Cost of living; Tariffs; Speeches; Electric rates; Political campaigns; Presidents; Federal Reserve monetary policy; Inflation; Inflation rates; Interest rates; Consumer Price Index; Voters

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LINKS

Good Riddance to a Bad Tax Bill

ProQuest document link

FULL TEXT

The Senate blocked a bipartisan tax measure on Thursday, and the headlines will shout that the GOP denied cash for children in poverty. But Republicans deserve credit for declining to entrench an anti-work entitlement in exchange for popular business tax breaks.

The Senate voted 48-44 not to advance the tax bill negotiated by Oregon Democratic Sen. Ron Wyden and GOP House Ways and Means Chairman Jason Smith. The bill, which passed the House this year, combined the renewal of expiring business tax provisions such as bonus depreciation with an expansion of the $2,000 child tax credit.

The business community lobbied hard for the measure, so all the more notable that GOP Senators noticed they'd been outfoxed by Mr. Wyden. The bill's changes to the child tax credit are arcane but amount to large cash subsidies to households that owe no income tax. The changes are temporary, but Democrats vow to make this a guaranteed income for parents.

The bill's changes mean a parent of three could claim $4,800 in cash credits with only about $13,000 of earnings, down from the roughly $34,500 required under the current credit system, according to estimates from the Foundation for Government Accountability.

Democrats have maligned Republicans as indifferent to struggling children, but the GOP can defend steady work as essential to improving a family's circumstances. The discipline and norms of parents and neighbors who work are crucial to helping children escape poverty, and this is one of the few cultural choices government can influence through the welfare state.

Children fare better economically in the long run if they grow up in communities where the adults around them are employed at high rates. That's one insight of a new study from Harvard University's Raj Chetty and his colleagues.

But Democrats refused to revisit the anti-work provisions. Particular credit is due GOP Sens. Mike Crapo (Idaho) and Thom Tillis (North Carolina), whose opposition lent a backbone to Republicans who might otherwise wave through the changes as politically popular with voters and business supporters.

A mere three Republicans supported the bill, as most have concluded the party can drive a harder bargain when the 2017 tax cuts expire next year. Vice President Kamala Harris is promising huge tax increases if she wins, and Donald Trump is so far mostly offering vote-buying sops such as exempting taxes on tips.

Congress will have to rebuild its intellectual muscle memory on taxes, and House Republicans signing onto the child tax credit blowout wasn't an encouraging sign. Kudos to Senate Republicans for pumping the brakes on this tax blunder.

(See related letter: "Letters to the Editor: Our Congress Has a Spending Problem, Not a Revenue Mess" -- WSJ Aug. 13, 2024)

DETAILS

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LINKS

U.S. News: Rate Cut to Put Fed in the Election Fray

Timiraos, Nick . Timiraos, Nick.

FULL TEXT

By opening the door wider to an interest-rate cut in September, the Federal Reserve is on a collision course with the presidential election.

For a central bank that judiciously aspires to stay above the fray of partisan politics, confronting a potential policy shift around election time amounts to a lose-lose. Delivering a rate cut ahead of the election could rile up Republicans and former President Donald Trump, but withholding a needed reduction could undermine the economy and upset Democrats.

The awkward optics give extra incentive for central-bank officials in the coming weeks to set expectations for and explain the reasoning behind any sequence of rate reductions they could initiate at the Fed's next meeting, in mid-September.

Fed Chair Jerome Powell continued a long-running effort to lay such groundwork on Wednesday when he said his attention was trained on ensuring the Fed could bring down inflation while preventing past rate increases from tipping the economy into recession. "Our focus is strictly on that," Powell said.

He fiercely disputed accusations that the Fed would be influenced by politics. "Anything that we do before, during or after the election will be based on the data, the outlook and the balance of risks, and not on anything else," Powell said.

The Fed lifted rates from near zero two years ago and quickly reeled off the most rapid interval of rate increases since the early 1980s to combat inflation. Officials last raised their benchmark short-term rates in July 2023 to around 5.3%, a two-decade high. Rate rises coincided with notable declines in inflation, which fell to 2.5% in June from 7.1% two years before, using the Fed's preferred gauge. The Fed targets 2% inflation over time.

Because Fed actions can alter economic outcomes, they can have important political consequences. Economic models say that because bond investors expect at least two and possibly three rate cuts this year, the exact meeting when the central bank cuts rates should have little immediate effect on the labor market, growth and inflation.

But consumers with credit-card debt and businesses that rely on short-term debt won't benefit until the Fed cuts rates. Such policy shifts are symbolically important and could boost consumer sentiment. Also, with a September rate cut widely expected by markets, borrowing costs could rise and other financial conditions could tighten if the Fed failed to follow through.

In an interview with Bloomberg Businessweek in June, Trump said the Fed's current rate setting is "very tough" for the economy but that moving to lower rates before the election is something central-bank officials "know they shouldn't be doing."

Trump allies signaled they will turn up the heat on Powell if he moves ahead with a rate cut in September. They fear it could boost sentiment and hand Democrats a triumphant talking point about the economy. "It would have minimal impact if they waited until November -- after the election was over," said Michael Faulkender, an economist at the Treasury Department during the Trump administration.

The Fed's next meeting is Sept. 17-18, and the one after that is set to begin the day after the Nov. 5 election.

Even if Trump heaps criticism on the Fed for cutting rates in September, some Republicans say any bellicosity should fade if he is elected because he will want the economy to be strong.

"There is a good argument that Trump will quickly forgive the Fed. . .if he wins, and in fact will be happy that they committed themselves to rate cuts just as he is coming into office," said Marc Sumerlin, a former economic adviser to President George W. Bush.

Three years ago, many Democrats who were trying to pass ambitious government-spending programs on Capitol Hill predicted the initial burst in high prices -- which posed a threat to that legislative agenda -- would fade on its own. Now, some voiced alarm that the presidential campaign of Vice President Kamala Harris won't benefit from the inflation slowdown that unfolded recently because the Fed's rate medicine has been as unpalatable as the price pressures it has tried to corral.

Former Biden administration officials and some former Fed officials argued in recent weeks that the Fed should cut rates now to prevent any unnecessary weakness in the economy and maximize the odds of a soft landing. "Fiscal and monetary policy have worked to create an extraordinarily strong recovery. The finish line is in sight, and it would be tragic . . . for the Fed to stumble and fall with 0.1 miles left in the marathon," said Bharat Ramamurti, a former White House economic aide.

In a letter urging Powell to cut rates on Wednesday, three Democratic senators, including Massachusetts Sen. Elizabeth Warren, said because rates are unnecessarily high, failing to lower them would amount to "succumbing to political threats" from Republicans.

Fed officials say taking the election calendar into account would compromise their nonpolitical approach. "Congress has, we believe, ordered us to conduct our business in a nonpolitical way at all times, not just some of the time," Powell said on Wednesday.

Credit: By Nick Timiraos

DETAILS

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LINKS

UK sees rising public ire at bonus culture

Parker, George . Parker, George.

ProQuest document link

FULL TEXT

Britain's growing distaste for the City of London's big bonus culture has reached a defining moment, after the chief executive of statecontrolled Royal Bank of Scotland was forced to give up a pound(s)1m award in the face of public, media and political criticism.

Stephen Hester bowed to weeks of pressure by giving up the award, saying that he was beginning to feel like "a pariah".

Mr Hester's relatively modest award - in the context of City bonuses - would barely have registered in the US, where Jamie Dimon, JPMorgan Chase chief executive, this month pocketed $17m in restricted stock and options with far less scrutiny.

But Britain is in an unforgiving mood. More than four years after the collapse of the bank Northern Rock heralded the onset of the financial crash, the country is still gripped by austerity, with many workers facing pay cuts in real terms until the 2015 election.

David Cameron, UK prime minister, has so far managed to take the country with him as he embarks on one of the world's most ambitious austerity programmes, but he remains vulnerable to charges that the wealthy are not sharing

the pain.
Since the beginning of the year Mr Cameron has vied with Ed Miliband, the opposition Labour leader, to respond to the public mood. Both men have promised to introduce "responsible capitalism", including giving shareholders power to rein in the pay of senior executives, which rose by an average of 49 per cent in the last financial year at the UK's leading companies.
But Mr Cameron's rhetoric collided with reality in the case of Mr Hester, the highly rated banker brought in to rescue RBS in 2008 after the taxpayer intervened to stop it going bust. The state acquired an 83 per cent stake in the process.
The RBS board believed Mr Hester deserved his pound(s)1m bonus because of the work he had done to shrink the bank's bloated balance sheet. However, there was one problem - the bank's share price has fallen by more than 40 per cent during the past year.
For Britain's media and political classes, this bonus seemed to be exactly the "reward for failure" against which Mr Cameron had been railing. But the prime minister backed off, fearing Mr Hester and the board would quit in protest.
Mr Hester seemed determined to hold on to his award in spite of intense media interest in his millionaire lifestyle and the publication of pictures of him astride a horse enjoying a day's hunting.
The chief executive finally bowed to pressure to renounce the award when Mr Miliband threatened to put the payout to a vote in the House of Commons.
Mr Hester's decision brought some relief to Mr Cameron, but the affair has left a lingering impression that the prime minister - the son of a wealthy stockbroker - remains instinctively on the side of the top tier of society.
Some fear that the battle over Mr Hester's bonus will damage the UK's reputation as a business hub. Alistair Darling, the former Labour chancellor, notes that Singapore is already making a pitch as a place where one can make money without fear of being pilloried.
Mark Field, the Conservative MP who represents the City of London, says Mr Hester was being "vilified" and, were he to walk out, it would be impossible to find someone to replace him.

Credit: By George Parker in London

DETAILS

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LINKS

Home foreclosure prevention scheme fails to reach enough borrowers

Shahien Nasiripour . Shahien Nasiripour.

ProQuest document link

FULL TEXT

Hamp programme ; The White House is blamed for the ineffectiveness of a plan it is now trying to save, says Shahien Nasiripour

The Obama administration is hoping that with a tweak it will be able to rescue a three-year-old programme to prevent foreclosure, long dismissed by even the staunchest allies of the White House.

Under pressure from Capitol Hill last week, the US Treasury department said it would triple incentive payments to investors, fund loan principal forgiveness by US-controlled mortgage lenders Fannie Mae and Freddie Mac and allow distressed homeowners another year to enrol in its signature borrower aid initiative, the Home Affordable Modification Programme (Hamp).

Initially billed as helping "3-4 million at-risk homeowners avoid foreclosure", Hamp has woefully underperformed, say government auditors, borrower advocates and industry experts. Fewer than 763,000 borrowers have had their

monthly payments permanently cut.
The changes follow a long line of alterations and initiatives brought in to help Hamp fulfil its promise, made in 2009 by Barack Obama, president. With Mr Obama facing the prospect of a dispirited base as he runs for re-election in November, his administration has put renewed emphasis on helping borrowers and the struggling housing market.
The White House has rolled out programmes to forgive borrowers' second liens and grant unemployed homeowners months free from repayments while they seek work. It has even tried to entice lenders to reduce loan principal in exchange for being protected from losses from default, by letting borrowers refinance into a cheaper mortgage backed by the US Federal Housing Administration.
Two years later, the FHA scheme has helped only 646 borrowers, according to the Special Inspector General for the Troubled Asset Relief Programme (Sigtarp). The figures underscore the difficulties the White House has faced in trying to get US lenders to help troubled borrowers weather the most punishing downturn since the Great Depression.
But many analysts say the administration deserves much of the blame. Experts were baffled when the Treasury said last week it would triple its incentive payments to investors in hope they would forgive borrowers' loan principal. Borrowers with negative equity owe about $700bn more on their housing debt than their homes are worth, says CoreLogic, a research company.
"This Hamp change should have a muted impact at best," said Anish Lohokare, analyst at BNP Paribas.
Analysts have questioned why Treasury officials did not increase payments to servicers, the companies that collect payments and seize homes when borrowers default.
"Part of the reason why participation in this programme has been so poor is because of the conflict of interest for servicers," said Neil Barofsky, former head of Sigtarp and a law professor at New York University.
"It's more in [servicers'] economic interest to foreclose rather than put borrowers into a Hamp modification," Mr Barofsky said. In the case of principal forgiveness, "one of the problems is that servicers are paid based on a percentage of the active principal. Principal reduction eats right into their bottom line".
Joshua Rosner, managing director at Graham Fisher &Co, said of last week's announcement: "The structure suggests [administration officials] don't really want it to work. They just want it to look like they're doing something."
About 36,000 Hamp loans have been modified by reducing principal. Treasury officials have assured borrower advocates that more principal reductions will occur, despite the incentives-based approach, according to participants in those discussions.
"This points at the fundamental problem of Hamp - it's incentives-based," said Alys Cohen, an attorney at the National Consumer Law Center. "It sets up incentives and hopes for the best, but in the end what homeowners need are outcomes. They don't need hope."
Although the approach aims at reducing the prevalence of negative equity, the median borrower in Hamp sinks further into negative equity with the modification, thanks to capitalisation of unpaid interest and fees, according to Sigtarp. Half of Hamp borrowers have a loan-to-value ratio of more than 123 per cent.
The Treasury says it has about $21bn in unobligated Hamp funds to use for its latest expansion. It has made more of that sum available to Fannie Mae and Freddie Mac to reduce borrowers' loan balances. The home loan lenders' regulator, the Federal Housing Finance Agency, said it would review that offer.
"But why didn't they do this years ago?" Mr Barofsky asked of Treasury's Hamp changes. "How many families lost their homes because they've dragged their feet on trying to fix something that was so obviously broken?"

Credit: By Shahien Nasiripour in Washington

DETAILS

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LINKS

Emerging market currencies off to best start this century

Ross, Alice; Wagstyl, Stefan . Ross, Alice; Wagstyl, Stefan.

ProQuest document link

FULL TEXT

Emerging market currencies are on track for their best start to the year since the turn of the century as risk appetite among investors improved.
The Mexican peso, Brazilian real and Indian rupee have outstripped currencies in the world's most industrialised nations to gain more than 5 per cent against the US dollar this year, bouncing back from sharp falls in recent months.
"It has been a spectacular start to the year for emerging market currencies," said Benoit Anne, currency analyst at Societe Generale.
The peso and the rupee have both risen 7 per cent this month against the dollar, while the real and the Russian rouble are up 6 per cent since the start of the year.
Overall, the 15 main emerging market currencies have each risen more than their historical average performance for the first month of the year this century. In contrast, the euro, yen and pound have risen less than 1.5 per cent against the dollar.
Emerging market equities have risen in tandem with currencies, as international investors' appetite for risk rose sharply and fund managers saw buying opportunities after last year's deep price declines.
Investors poured more money into emerging market equity and bond funds last week than at any time since April last year, committing $4.4bn, according to EPFR Global, a data provider. The dollar-denominated MSCI emerging markets' equities index, which lost 21 per cent in 2011, is up 10.2 per cent this year.
Individual markets have done better still: crisis-hit Egypt is up 25 per cent in dollar terms, making it the top performer among emerging market equity markets. It is followed by Hungary, up 21 per cent, and Turkey, up 19 per cent.
However, most emerging market currencies have still not recouped last year's losses after investors withdrew from Asian and Latin American countries in the latter half of last year , when fears of a eurozone break-up intensified.
Currency analysts at investment banks have said emerging market currencies will outperform the dollar and the euro this year.
But emerging market currencies remain at risk of central bank intervention this year. Analysts say policymakers are likely to take steps to limit currency appreciation to aid exports if global growth slows, while a reversal in risk appetite could see investors withdrawing funds again.

Credit: By Alice Ross and Stefan Wagstyl in London

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LINKS

Banks set to double crisis loans from ECB

Atkins, Ralph; Jenkins, Patrick; Oakley, David . Atkins, Ralph; Jenkins, Patrick; Oakley, David.

FULL TEXT

Emergency funding take-up could hit EUR1tn ; Fresh sign of liquidity squeeze for lenders

European banks are preparing to tap the European Central Bank's emergency funding scheme for up to twice as much as the ECB supplied in its debut EUR489bn auction last month, providing further evidence of the sector's liquidity squeeze.

Several of the eurozone's biggest banks have told the Financial Times that they could well double or triple their request for funds in the ECB's three-year money auction on February 29.

"Banks are not going to be as shy second time round," said the head of one eurozone bank at last week's World Economic Forum in Davos. "We should have done more first time."

Three bank chief executives, all of whom asked to remain anonymous, said they were planning to increase their participation twofold or threefold.

Goldman Sachs has told clients that banks could ask for twice as much in the February auction as in December when more than 500 lenders raised EUR489bn. "They could do another EUR1tn easily in February," said one senior banker. "It could be way more than that if things get worse in the markets."

The ECB, under new president Mario Draghi, launched its funding facility in December to avert a looming credit crunch, with EUR230bn of bank bonds coming due for repayment in the first quarter of 2012 while bond markets remained largely closed to new issuance.

Bankers credit Mr Draghi with helping to destigmatise the ECB's funding operation by persuading as many institutions as possible to participate. Previously, banks had shied away from such support schemes for fear of appearing weak.

Bankers expect many more banks to take part in the February auction, encouraged by the widespread participation last time, as well as the promise of unlimited cheap money - the funds attract an interest rate of only 1 per cent.

Analysts suggest banks have used some of this money to invest in higher-yielding eurozone sovereign bonds, helping to drive down borrowing costs for several hard-pressed eurozone governments, including Italy, Spain, Ireland, and Greece.

But yesterday yields were mostly higher across the eurozone periphery amid concerns over the Greek rescue plan.

Portuguese 10-year bond yields leapt more than 2 percentage points to 17.26 per cent, as investors increasingly expect the country to default.

Italian banks dominated demand for the December money, according to data collated by Morgan Stanley.

Bankers at Spanish, French and German institutions said they were also big takers. Even Royal Bank of Scotland tapped the scheme for EUR5bn of liquidity, using its Dutch subsidiary as a conduit.

Paul Tucker, Page 9 Inside Business, Page 14

Credit: By Patrick Jenkins and David Oakley in London and Ralph Atkins in Frankfurt

DETAILS

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LINKS

Gingrich suffers as campaign falls flat

Fifield, Anna . Fifield, Anna.

ProQuest document link

FULL TEXT

Florida vote ; The former House speaker has seen a sharp reversal of his poll lead of a week ago, writes Anna Fifield

Newt Gingrich's presidential nomination campaign has been rising and falling faster than the rockets he wants to send to the moon.

His staff resigned en masse last summer after the Republican hopeful abandoned campaigning and went on a Mediterranean cruise, only for some of them to come back when he started surging in the polls at the end of the year.

Then Mr Gingrich was sunk in Iowa, the first state to vote, by negative attack adverts from presumptive nominee Mitt Romney, but fought fire with fire and won a stunning victory in the South Carolina primary.

Now, as Republicans in Florida head to the polls today to vote for the man they want to challenge President Barack Obama in November, Mr Gingrich's campaign is flailing again.

Several polls give Mr Romney a double-digit lead over the former House speaker in Florida, a sharp reversal from Mr Gingrich's lead of a week ago.

Like the polls, his campaign has been noted for its wild gyrations, said Mike Franc, head of government studies at the Heritage Foundation, a conservative think-tank in Washington.

"He is hitting the articulate conservative high notes then he'll talk about putting a colony on the moon, all in the same news cycle," he said.

A win for Mr Romney tonight would restore the sense of inevitability to his candidacy. The former Massachusetts governor, alluding to Mr Gingrich's underwhelming performance in recent televised debates, said yesterday that Florida voters had seen the former speaker for what he was.

"People actually saw him in those debates and listened to his background . . . and they said, 'That's not what we want in the White House'," Mr Romney said while campaigning in Jacksonville yesterday.

Mr Gingrich had performed well in earlier debates, attacking not just his rivals but also the debate moderators and the media "elites" generally.

This changed last week, however, when NBC prohibited audience participation in its debates, making Mr Gingrich's lines fall flat.

There are no debates now until February 22 in Arizona, giving him little chance to recover. The debates have been important to Mr Gingrich, who is relatively underfunded compared with Mr Romney.

Mr Romney has outspent Mr Gingrich on the Florida airwaves by nearly $12m, the Politico news website reported yesterday.

The Gingrich campaign yesterday stressed that it was in for the long haul. "This race is just getting started," said Martin Baker, Gingrich's political director.

After the Nevada caucuses on Saturday, which Mr Romney is expected to win easily thanks to the state's large Mormon population, there will be votes in Colorado, Minnesota and Missouri on February 7.

Like Nevada, Colorado and Minnesota hold caucuses - long sessions where voters listen to pitches from surrogates before voting - and Mr Gingrich is not expected to fare well because his campaign does not have the ground organisation needed for such forums. But there are no consequential ballots until March 6, when 10 states will vote on "Super Tuesday".

In a sign of his lack of organisation, Mr Gingrich will not be on the ballot when Virginia - the state in which he now lives - votes for the Republican nominee on Super Tuesday, because his staff did not collect enough signatures to meet registration requirements.

Analysts say Mr Gingrich still appears to have a very slim campaign team. Many of them - such as Michael Krull, his campaign co-ordinator, and Vince Haley, his policy director - come from American Solutions for Winning the Future, the tax-exempt political organisation Mr Gingrich founded after leaving the House. It closed last year when he announced he was forming an exploratory committee to run for president.
People who have worked with Mr Gingrich say it does not make much difference who is on his staff.
"Anyone who has ever been around Newt knows that you can't control what Newt is going to do or say," said one former colleague. "Newt can go into a meeting but you never know what he's going to say when he walks out."
Multimedia and reports, www.ft.com/uselection

Credit: By Anna Fifield in Washington

DETAILS

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LINKS

US pharma

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FULL TEXT

Time to get off the drugs? We've had a good time, after all. Over the past 12 months, the average return of the eight-largest US pure-play pharmaceuticals and biotechnology companies by market value is a dizzy 34 per cent, according to Capital IQ, compared with the S&P 500's buzz-killing 3 per cent.

Before going cold turkey, keep a distinction in mind. The big eight fit in two broad categories. Pfizer, Merck, Bristol-Myers Squibb, and Eli Lilly are very slow-growing, dividend-paying pharma stocks. Amgen, Gilead, Celgene and Biogen Idec are big-cap biotechs that are expected to squeeze out solid single to double-digit sales growth over the next few years.

For the more staid former cohort, there are two general explanations of the strong one-year performance (up 24 per cent). Big-cap dividend stocks across all sectors have had a great run. And the year before the four were flat as a group, while the S&P rallied mightily, rendering them cheap and paving the way for them to perform well simply by reverting to the mean. The big biotechs (up 45 per cent) have been driven more by specific product and pipeline successes, for example a new multiple sclerosis drug at Biogen, and one for osteoporosis at Amgen.

The pharma stocks, then, have run up less and, except for Bristol-Myers, are cheaper than the biotech stocks. It would be a mistake to think that price-to-earnings multiples in the single-digits are a signal of low risk, however. As drugs such as Pfizer's Lipitor, Bristol's Plavix, Lilly's Zyprexa and Merck's Singulair lose patent protection, revenues are expected to fall at all four companies over the next few years. The big pharmas will rely on their pipelines or acquisitions to turn things around - a chancy business either way. The biotechs, despite higher multiples, look a better bet. If you want to party on, pay up.

DETAILS

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LINKS

Weak Europe and lighting changes knock Philips

Steinglass, Matt . Steinglass, Matt.

ProQuest document link

FULL TEXT

electronic equipment ; Austerity measures hit healthcare unit

Philips, the Dutch electronics manufacturer, reported a sharp drop in profits in the fourth quarter compared with a year earlier as it struggled with the weak European economy and the changeover to LED lighting.
The company reported a net loss for the quarter of EUR160m, due to an impairment charge of EUR128m in the lighting business and losses at its now spun-off TV division.
Sales rose 3 per cent year on year to EUR6.7bn, while the margin of earnings before interest, tax and amortisation (ebita) fell from 14.1 per cent in 2011 to 7.5 per cent. The results were in line with the reduced expectations Philips indicated in a profit warning three weeks ago . Frans van Houten, chief executive, said the company had been hit by "weak European sales, postponement in deliveries of existing orders in our healthcare sector, and inventory corrections and other operational issues in our lighting business".
Mr van Houten, who took over the reins last April, has accelerated the company's transition from its traditional consumer audio-visual business , where it faces strong competition from east Asia. The company's strategy is to emphasise its growth sectors in healthcare equipment and in lighting, where it is the world leader.
The healthcare division has suffered from European government austerity measures, which have slowed purchases at hospitals. Sales in the division rose just 3 per cent year-on-year.
Lighting growth has disappointed due to the ongoing slump in construction and to difficulties in the supply chain as the company makes the transition to new technology bulbs, which last longer and use different manufacturing techniques. Comparable sales in lighting were up 7 per cent year-on-year, with strong growth of 37 per cent in LED bulbs.
Philips' third division, consumer lifestyles, saw relatively strong sales growth in its personal health and grooming and domestic appliances sectors. It also benefited from being the first to complete Philips' cost reduction programme, known as "Accelerate!"
The company retains its target of 10-12 per cent annual ebita margins by 2013. Shares fell 2.5 per cent to EUR15.20 in early trading in Amsterdam.

Credit: By Matt Steinglass in Amsterdam

DETAILS

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LINKS

EBRD and Russian fund take stakes in Micex-RTS

Weaver, Courtney . Weaver, Courtney.

ProQuest document link

FULL TEXT

exchanges

The European Bank for Reconstruction and Development and the Russian Direct Investment Fund have taken stakes in Moscow's main exchange , in a bid to make Moscow more attractive for both local companies and foreign investors.

The EBRD will acquire 6.3 per cent of Micex-RTS, while RDIF, a $10bn fund launched by the Kremlin last year, will take 1.3 per cent. Kirill Dmitriev, head of RDIF, said a few leading private equity funds were in talks to join as co-investors.
Both Mr Dmitriev and an EBRD representative said the investments were being made with an eye on returns - and not as a favour to the Kremlin.
The daily turnover of Russian equities has risen from about $100m in 2000 to about $6bn today, with a third of the turnover on Micex-RTS.
Roland Nash, chief strategist at Verno Capital, the Russian investment fund, estimated that Russia could grow from a $1tn equity market to a $2tn one in a few years' time.
To generate that type of growth, Russia would need to woo both foreign investors as well its own companies, which in many cases forgo a domestic listing.
Mr Dmitriev said the two funds would steer Micex-RTS in introducing services such as exchange-traded funds and products aimed at mutual and pension funds.
Courtney Weaver

Credit: By Courtney Weaver in Moscow

DETAILS

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LINKS

Plassat prepares for tough task

Daneshkhu, Scheherazade . Daneshkhu, Scheherazade.

ProQuest document link

FULL TEXT

general retailers ; New Carrefour head aware of challenge ; Olofsson to step down in June

Georges Plassat, the incoming head of Carrefour, yesterday underscored the challenge of reinvigorating the world's second-largest retailer by sales, saying he was "well aware of the magnitude of the task ahead".

Carrefour confirmed that the veteran retailer would replace Lars Olofsson as chief executive this spring. Mr Plassat is to quit fashion group Vivarte, which is majority-owned by UK private equity group Charterhouse, to join Carrefour on April 2 as chief operating officer, becoming chairman and chief executive after the June 18 shareholders' meeting when Mr Olofsson will step down.

In his first public comments, Mr Plassat called for "the support of all within the company" - which some observers interpreted as an early warning to the French retailer's activist shareholders to refrain from interfering and to let him get on with the job.

Colony Capital of the US and Groupe Arnault, the investment arm of French luxury tycoon Bernard Arnault, hold 16 per cent of the shares and 20 per cent of the voting rights in Carrefour. Mr Plassat will be Carrefour's third chief executive since the two shareholders made their initial investment - now heavily lossmaking, at least on paper - five years ago.

"Mr Plassat clearly has the necessary experience from a retail perspective," said Jonathan Alvis, analyst at Bernstein Research. "It remains to be seen whether, if necessary, he will be willing to oppose major shareholders in order to do what's best for Carrefour."

Mr Plassat has spent the past 12 years at Vivarte, first as chairman and then chief executive. He is credited with having

made the group profitable within two years. Vivarte has continued growing through the recession, posting a 4.6 per cent increase in sales to EUR3.6bn in 2010-11.
Carrefour this month reported stagnant sales in 2011 and has said that operating profit will be down 20 per cent compared with the previous year.
Mr Plassat is a self-made multimillionaire thanks in part to his 8 per cent stake in Vivarte, whose more than 20 brands include the Andre and Minelli footwear and Kookai and Naf-Naf women's wear.
He already knows Carrefour, having headed the retailer's Spain business for two years after a long career at Casino, Carrefour's smaller, domestic rival.
Jaime Vazquez, analyst at Santander, said: "We believe he is possibly the best candidate for the job. He is French, he knows well the French and Spanish retail markets and he knows Carrefour. His experience in mass-market non-food will be valuable."
Mr Plassat is regarded as an able manager. "He is charming with a wicked sense of humour," said one person who knows him. He has "a minimal capacity to accept underperformance", said another.
Luc Vandevelde, former chairman of Carrefour, said: "Opinions on Georges vary wildly, but his one great advantage is that he really knows retailing and Carrefour needs a retailer at the top."
Some analysts cautioned against expecting too much, given Carrefour's exposure to slow-growing European economies and its outdated hypermarkets format.
Justin Scarborough, analyst at RBS, said: "We do not see a quick fix to Carrefour's problems and while its exposure to western Europe remains so high, this will continue to drag on profitability."
The CV: Georges Plassat
Born: March 1949 Education: Lausanne Hotel School and Cornell University Career: 1983-97: At Casino Group. Served as marketing director and chief executive of the restaurant unit. Chief executive of Casino France; then managing director and the management board chairman. Credited for integrating the Rallye chain and improving profitability. 1997: Quits Casino after clash with Jean-Charles Naouri, key shareholder and current chief executive. 1997-99: Carrefour, executive director for Spain. 2000: Chairman of management board of Groupe Andre, renamed Vivarte the following year. 2002: Quits Vivarte after a dispute with its main shareholders, the NR Atticus and Wyser-Pratte funds. 2004: Returns to Vivarte as chairman and chief executive when PAI Partners buys the group. Known as Georges the Cleaner for cutting jobs in two restructuring plans. Credited with expanding the group and making it profitable.
See Lex

Credit: By Scheherazade Daneshkhu in Paris

DETAILS

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Business indexing term:	Subject: Retail stores Casinos Job openings Chairman of the board Stockholders Profitability; Corporation: Carrefour SA; Industry: 71321 : Casinos (except Casino Hotels)
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LINKS

Dresdner bonuses 'not binding'

Binham, Caroline . Binham, Caroline.

ProQuest document link

FULL TEXT

The new owners of Dresdner Bank decided that an earlier promise to ringfence at least EUR400m for bonuses was not legally binding, the chief executive of Germany's Commerzbank told a London court, writes Caroline Binham .
Financial markets' deterioration in late 2008 following the collapse of Lehman Brothers, and the weight of political pressure over bonuses meant that Commerzbank decided it could no longer pay discretionary awards pledged to Dresdner employees before its takeover, Martin Blessing said in cross-examination yesterday.
"We broke our promise because given the circumstances it was necessary; it was the right thing to do," Mr Blessing said, agreeing that he was aware of the bonus-pool pledge before acquiring Dresdner. He accepted that the pool was created to stop defections and to allay fears raised by Britain's financial regulator that an employee exodus would further destabilise the bank. "The only thing we don't agree on is whether it was a binding commitment."
He was giving evidence in a landmark court case in which 104 bankers say they are owed EUR50m in unpaid bonuses from Dresdner, which Commerzbank acquired in 2009. The case pits public distaste for bonuses against a bank's legal commitments, particularly at institutions that have been bailed out by governments during the worst financial crisis in a generation. Commerzbank had to look to the German taxpayer twice during the crisis.
The Commerzbank case turns on the former Dresdner bankers' claim that they were told in August 2008, before the acquisition being agreed, that a guaranteed bonus pool had been set aside for staff "to be allocated on a discretionary basis".
Andrew Hochhauser QC, the barrister representing 21 of the bankers, maintained that the bonus pool was to pay out "come what may" and it could not have been performance-related given that it had been set up after financial losses of EUR1.37bn by Dresdner's investment bank in the first half of 2008.
In Mr Blessing's written arguments, he revealed that he believed "a company showing a loss should not distribute any bonuses" and that no discretionary bonuses were paid at Commerzbank in 2008, including to him.
Additional reporting by James Wilson in Frankfurt and Jane Croft in London

Credit: By Caroline Binham, Legal Correspondent

DETAILS

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LINKS

Wendy's eyes new front in burger wars

Rappeport, Alan . Rappeport, Alan.

FULL TEXT

travel &leisure

Wendy's, the US fast-food restaurant chain, says it will challenge McDonald's on late-night dining, breakfast and coffee as it looks to expand the hamburger wars to new fronts.

The company said its "Hot 'N Juicy" line of premium cheeseburgers helped Wendy's generate its strongest quarterly same-store sales since 2004 during the final three months of last year.

Following the McDonald's formula, Wendy's is also remodelling its restaurants with modern designs and flatscreen televisions and is rolling out a breakfast menu and a new coffee blend, called Redhead Roasters.

"We are making progress on re-establishing Wendy's as the quality leader and innovator," said Emil Brolick, chief executive .

Wendy's has been rejuvenated recently as consumers have been drawn to "better burgers", which are custom made and contain more high-quality beef. The company is also trying to balance its "barbell strategy" by catering to high-end customers with its Black Label burgers, covered with bacon and aged pepper jack cheese.

In spite of increasing consumer health consciousness, Wendy's has been promoting buttered buns and has not shied away from high calorie counts.

The strategy appears to be working. Last month analysts at Janney Capital Markets projected that Wendy's will overtake Burger King for second place in market share behind McDonald's later this year. McDonald's has thrived on coffee and breakfast sales and Wendy's is attempting to replicate that recipe.

Speaking yesterday at the Wendy's investor day, executives said they were "readying for expansion" by testing a breakfast menu in certain markets, selling items such as panini sandwiches, baked goods and premium coffee, while looking to accommodate late-night diners with expanded hours.

According to a recent analysis by Bernstein Research, breakfast is the fastest-growing meal offering for fast-food chains, and Wendy's has the most room to grow.

In 2010, breakfast accounted for a quarter of McDonald's sales, while it represented just 2.2 per cent of sales at Wendy's.

"Wendy's turnround hinges on success in the competitive breakfast day-part, along with continued menu innovation," said Sara Senatore, analyst at Bernstein Research.

During the fourth quarter, Wendy's comparable store sales rose by 4.4 per cent year-on-year, with revenues up 5.6 per cent to $615m. Special charges related to the sale last summer of Arby's were a drag on the company's operating income, which fell by 30 per cent to $4.3m, or 1 cent per share. Shares in Wendy's were down 2.9 per cent to $5.06 in afternoon trading.

Credit: By Alan Rappeport in New York

DETAILS

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LINKS

Ryanair lifts full-year profit forecast

Parker, Andrew; Wembridge, Mark . Parker, Andrew; Wembridge, Mark.

ProQuest document link

FULL TEXT

travel &leisure

Ryanair has claimed vindication of its decision to ground aircraft this winter, as it raised full-year profit guidance and outlined plans to return at least EUR500m to shareholders.
Europe's largest low-cost airline, which increased fares after grounding 80 aircraft in October, said yesterday it expected to generate a net profit of EUR480m in 2011-12, compared with previous guidance of EUR440m.
The Irish carrier paid a maiden dividend of EUR500m in 2010, and Howard Millar, finance director, said it was planning

a similar pay-out during 2012.
He also held out the prospect of a share buy-back, saying Ryanair was seeking shareholder authorisation for the right to purchase some of its American depositary receipts.
Michael O'Leary, chief executive, last year raised the possibility of a third special dividend during 2014 or 2015 in the absence of new aircraft orders, but Mr Millar said no decisions had been taken.
The shares closed up 0.96 per cent at EUR4.19.
Ryanair is benefiting from the economic downturn, as consumers switch to low-cost airlines. Mr Millar said the group should gain pricing power from consolidation and failures in the European airline industry, and noted the collapse of Span-air on Friday.
"Fewer competitors is generally good for us," he said. "It will help with improving average fares." Ryanair reported an average fare of EUR40 in the third quarter of 2011-12, up 17 per cent from the period in 2010-11. The increase was largely made possible by the decision to cut seating capacity and offer fewer discounted fares.
Aircraft were grounded in response to high fuel prices. This winter is the first time it expects a decline in the number of passengers. It carried 16.7m passengers in the three months to December 31, down 2 per cent from the period in 2010.
Ryanair reported revenue of EUR844m in the third quarter, up 13 per cent year-on-year, and pre-tax profit of EUR15.5m, after a EUR12.7m loss during the same period in 2010.
Basic earnings per share were EUR1.02, compared with a loss of EUR0.69 a year ago. Profit was boosted by December's mild weather. In late 2010, the airline had to grapple with costs from the snowy conditions in Europe. Unit costs rose 11 per cent, mainly because of an 18 per cent increase in fuel charges.
Gerald Khoo, analyst at Execution Noble, said Ryanair's strong revenue performance validated its decision to cut capacity.
See Lex

Credit: By Andrew Parker and Mark Wembridge in London

DETAILS

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LINKS

Unreliable emissaries

Guthrie, Jonathan . Guthrie, Jonathan.

ProQuest document link

FULL TEXT

Royal Bank of Scotland has added to its crimes against humanity by selling its aircraft financing division to an underbidder this month. The bank agreed to take $7.3bn from Sumitomo Mitsui in preference to a slightly higher offer from the China Development Bank. However, this scandalous waste of taxpayers' money looks less scandalous if you consider that CDB negotiators reputedly failed to turn up for important meetings. Reading between the lines, RBS also suspected they could not be taken seriously because shadowy Communist party bosses were the real decision makers.

That fear is understandable. Chinese representatives of state-owned businesses encountered by Lombard in the UK have often resembled Peruvian exile Paddington at the point when he still bore the luggage label "Please look after this bear".

Interrogation revealed that party officials had shoved them on to international flights with instructions to promote their brands, but without explaining what a brand was. The miracle of Chinese state capitalism has been achieved at a terrible cost in Chinese bosses forced to blunder around the world giving their business cards to the wrong people.

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DETAILS

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LINKS

Hounded Hester exposes RBS to a pack of meddlers

Guthrie, Jonathan . Guthrie, Jonathan.

ProQuest document link

FULL TEXT

There comes a point in a traditional fox hunt when the fox, hearing hounds baying and hooves thundering close behind, must know he is bested. Stephen Hester, chief executive of Royal Bank of Scotland, who is sometimes pictured in hunting garb alongside critical articles, reached that point himself on Sunday. Like Brer Fox, Mr Hester had become prey to an overwhelming enemy. Better to surrender his pound(s)1m share bonus than be torn limb from limb by politicians and media.

Mr Hester aims to be remembered for transforming RBS, which is 83 per cent owned by the state, into a bank that private investors will want to own in its entirety. Suffering a motion of censure in parliament for taking a pay-out contributing only modestly to his wealth was not part of that plan.

However, his capitulation will make his job harder. It proves that UK Financial Investments, the arm's length body that holds government stakes in RBS and Lloyds, cannot insulate either bailed-out bank from politics. The danger is that interventions from MPs bloodied by their victory over Mr Hester will weaken both banks, extending the timetable for selling government-held shares and reducing the price that can be achieved. Attracting good staff would become difficult.

RBS chairman Sir Philip Hampton may hope to forestall bonus controversies by diminishing the role of the remuneration committee and making pay-outs automatic when executives beat published performance targets. But even then, a culture gap means that rows remain likely. In the City, broadly speaking, you earn a bonus that is a big part of your pay just for doing your job. For employees of most organisations, bonuses are occasional, smaller pay-outs for outstanding performance. That unhelpful benchmark implies that no chief executive of a struggling bank should get a bonus, even if he was parachuted in as a troubleshooter.

The going is now good to firm for the City's enemies in Westminster. Barclays boss Bob Diamond and John Hourican, head of investment banking at RBS, will be targeted next. One hopes for the sake of both men that they have never been photographed in hunting kit.

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LINKS

Momentous machines

Guthrie, Jonathan . Guthrie, Jonathan.

FULL TEXT

News that BlueCrest Capital, a big hedge fund business, is floating shares to invest in computerised asset manager BlueTrend, could have been timed better. Man Group, owner of AHL, the City's best-known cyber investor, announced a 7 per cent loss for 2011 not so long ago. BlueTrend, while unrelated to Deep Blue, the chess-playing computer created by IBM, bears a family resemblance to AHL in a fondness for momentum strategies. It aims to spot trends in financial markets early and exploit them before they evaporate.

BlueTrend did better than AHL last year. But a return of 1 per cent still provides little buttressing for a compound annual growth that has averaged almost 17 per cent a year since 2005. Like AHL, BlueTrend gets a nasty migraine in its motherboard during markets volatility of the kind experienced last autumn. Both programs can do well in rising markets and superbly in a crash.

Investors in the shares of BlueCrest BlueTrend will be spared the obligation to scrutinise wider business strategy. The company is a feeder fund, whose shares should rise and fall roughly in line with BlueTrend's net asset value. All that shareholders need to decide is whether momentum itself has momentum. Easy.

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Hanjin reveals container ship slump damage

Wright, Robert . Wright, Robert.

FULL TEXT

industrial transport

South Korea's biggest shipping company, Hanjin Shipping, became the first group to reveal the financial effect of last year's slump in container shipping earnings yesterday when it announced a Won550bn ($487m) operating loss in the segment last year.

The loss in container shipping for Hanjin - which operates one of the world's 10 biggest container ship fleets - is a stark contrast to the segment's Won635bn operating profit in 2010, when a sharp recovery in demand produced record profits for many lines.

For Hanjin, the container shipping loss was partially offset by a Won53.5bn operating profit in Hanjin's business shipping dry bulk commodities such as coal and iron ore, up from Won51bn in 2010. The company nevertheless made a Won824bn net loss at group level, a sharp reverse from a Won290bn net profit in 2010.

The loss, was not as significant as some investors had feared and Hanjin's shares rose 7 per cent to Won13,200.

The oversupply of ships created by the delivery of significant numbers of vast new container ships would continue this year, Hanjin said.

"For the year 2012, Hanjin Shipping expects oversupply in the market due to continuous deployment of mega-sized vessels," it said. "However, [it] believes the market will gradually grow stable due to shipping carriers' efforts to improve profitability."

Almost all the world's large container shipping lines are expected to announce significant losses for 2011 after a flood of ship deliveries last year and a sharp slowdown in global demand for containerised goods sent earnings per container plummeting. Nearly all big container shipping lines - including Denmark's Maersk Line, the market leader - announced hundreds of millions of dollars of losses for last year's third quarter.

Hanjin's announcement came as another leading container line, Singapore's Neptune Orient Lines, announced that, in the six weeks to December 30, its revenue per 40-foot equivalent unit (FEU) had fallen 14 per cent compared with the comparable period of 2010, to $2,265. Volumes carried rose 6 per cent to 357,909 FEUs.

Lines are also suffering the effects of a price war unleashed in the second half of the year when Maersk Line introduced its new Daily Maersk service on the key Asia to Europe route, offering departures each day from Asian ports for the main northern European gateways.
Nils Andersen, chief executive of AP Moller-Maersk , Maersk Line's parent, told the Financial Times in November that the Daily Maersk had created "a little bit of panic" among its competitors.
Hanjin's container volumes rose 12.4 per cent over 2010 to 4.17m 20ft-equivalent units.
A 2.6 per cent fall in container shipping revenues to Won7.62tn helped to push down overall revenue 1.1 per cent to Won9.52tn.

Credit: By Robert Wright in London

DETAILS

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EU agrees tough fiscal treaty but Berlin warned over sovereign rights

Barker, Alex; Chaffin, Joshua; Spiegel, Peter . Barker, Alex; Chaffin, Joshua; Spiegel, Peter.

FULL TEXT

Twenty-five of the European Union's 27 countries have signed up to a German-inspired treaty enshrining tougher fiscal rules to help underpin the euro.

But Berlin was warned that there were limits to how much sovereignty governments could be expected to surrender for the sake of fiscal discipline.

Nicolas Sarkozy, the French president, said the German proposal for the EU to control Greece's budget decisions "would not be reasonable, not be democratic nor would it be effective". He said he had confronted Angela Merkel, his German counterpart, with his views and that she had agreed.

"The recovery process in Greece can only be enacted by the Greeks themselves, democratically," Mr Sarkozy said. "There can be no question of putting any country under tutelage. Having spoken to the chancellor, I can tell you this is exactly her position."

However, Ms Merkel said she still believed that Greece required stricter monitoring to stick to its bail-out targets, saying Athens' repeated failure to implement agreed reforms warranted more intensive intervention. "Greece is a special case in this sense," Ms Merkel said. "They have to implement the programme completely."

Senior EU officials met Lucas Papademos, the Greek prime minister, after the summit concluded to discuss new conditions for a second EUR130bn bail-out in talks that continued late into the night.

The continued debate over Greece's future came as Ms Merkel was handed a symbolic victory in her months' long drive to enforce tough budget limits for the single currency. But Berlin lost a second signatory at the summit when the Czech Republic announced it would join the UK by not agreeing to the pact.

David Cameron, the prime minister, who in December vetoed inclusion of the fiscal discipline measures in the EU treaties, said he would not block signatories from using EU-wide institutions. But he warned he would take legal action if the new treaty undermined British interests.

Ratification by Germany's most important partner in the eurozone also became more complicated as Mr Sarkozy said

he would not ask the French assembly to approve the treaty before April's presidential election. Mr Sarkozy's main rival, Socialist Francois Hollande, has said he would seek to renegotiate the pact, but Ms Merkel said she did not believe France would back away from the commitment. "Europe would not function any more if it changed course after every election."
Additional reporting by Joshua Chaffin and Alex Barker in Brussels
Eurozone turmoil, Page 6 Editorial Comment, Page 12 Philip Stephens, Page 13 www.ft.com/eurozone

Credit: By Peter Spiegel in Brussels

DETAILS

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LINKS

RBS pay overhaul seeks to avoid repeat of Hester bonus fiasco

Jenkins, Patrick; Murphy, Megan; Parker, George; Pickard, Jim; Rigby, Elizabeth . Jenkins, Patrick; Murphy, Megan; Parker, George; Pickard, Jim; Rigby, Elizabeth.

ProQuest document link

FULL TEXT

Royal Bank of Scotland is scrambling to overhaul its pay systems to head off a repeat of its executive pay fiasco, which saw Stephen Hester, chief executive, forced to give up a pound(s)1m bonus after 10 days of political and media criticism.

Sir Philip Hampton, RBS's chairman, and Penny Hughes, head of its remuneration committee, are looking at pay and bonuses. "We need to start wrestling with how we stop this happening again next year," said a person close to the board.

But the political maelstrom around bankers' bonuses shows little sign of abating with Labour determined to press ahead with a debate on February 7 calling for a reintroduction of a tax on such awards.

Mr Miliband believes this is a chance for Labour to capture public anger over City bonuses.

David Cameron, speaking from the European Union summit in Brussels, said RBS had "got to do a better job to demonstrate how pay is linked to performance" as he welcomed Mr Hester's move. "They have got to have a proper regard in terms of restraint when they have had so much money from the taxpayer," the prime minister said.

But Downing Street was equally adamant that it would not "micromanage" bonuses.

Business opinion was divided. Simon Walker, director-general of the Institute of Directors, said the government should have shown itself to be an activist shareholder in RBS.

But John Cridland, head of the CBI employers' federation, said: "Stephen Hester found himself in an impossible situation. It is a sad day when a strong performance cannot be recognised."

RBS, mindful that further controversy is likely when it announces bonuses in its investment bank, is considering whether to increase the transparency and objectivity of metrics used to calculate bonuses.

Meanwhile, the Financial Times has learnt that Barclays will provide much more detail on remuneration in this year's pay report, expected in March.

The bank, which sparked outrage when it revealed that Bob Diamond, chief executive, and two other executives received nearly pound(s)100m between them in 2010, is keen to head off a similar showdown, say people familiar

with its plans.
Additional reporting by Patrick Jenkins and Elizabeth Rigby
Bonus backlash, Page 2 Lombard, Page 18

Credit: By George Parker, Megan Murphy and Jim Pickard

DETAILS

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LINKS

Consumer spending lifts growth in Philippines

Landingin, Roel . Landingin, Roel.

ProQuest document link

FULL TEXT

GDP

The Philippine economy grew at a slightly higher pace in the last quarter of 2011, as buoyant consumer spending and a surge in public construction helped offset the effects of typhoons and weak global demand that slowed expansion in many exporting nations across Asia.

GDP rose by 3.7 per cent in the quarter to December, up from a revised 3.6 per cent in the previous period and 3.1 per cent in the second quarter, according to the National Statistical Co-ordination Board. Over the entire year, the economy grew by 3.7 per cent compared with the previous year's revised figure of 7.6 per cent, which was the highest in 34 years.

The Philippines was one of the countries in Asia worst hit by the global slowdown.

Last year GDP grew almost a percentage point less than the 4.6 per cent average for south-east Asia's four large developing countries, according to World Bank estimates.

Cayetano Paderanga, the Philippines' economic planning chief, said the economy suffered more than its Asean neighbours because of its highly concentrated exports, which are dominated by semiconductors and electronic devices, and of which almost half go to the US and Europe, the regions at the heart of the global slowdown.

Roel Landingin, Manila

Credit: By Roel Landingin in Manila

DETAILS

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LINKS

BNP Paribas falls on rating reduction to 'underperform'

Robinson, Duncan . Robinson, Duncan.

ProQuest document link

FULL TEXT

EUROPE

Negative broker comment knocked French lenders yesterday, as European equities endured a "risk off" start to the week.

BNP Paribas was the biggest faller on the FTSE Eurofirst 300, dropping 7.1 per cent to EUR32.18 after Bank of America Merrill Lynch reduced the bank's rating from "neutral" to "underperform". BofA also cut Societe Generale from "buy" to "neutral", sending it down 6.5 per cent to EUR19.71.

BofA cited new financial regulations proposed by Francois Hollande, French presidential candidate, including plans to separate commercial and investment banking, as the reason for the downgrades. "These additional uncertainties come at a time where the banks are already affected by high funding costs, the costs of deleveraging, [and] an adverse macro-environment and elevated sovereign risks," wrote analysts at BofA.

Overall, the FTSE Eurofirst fell 1 per cent to 1,030.43, as the bullish sentiment that pushed the index up almost 4 per cent during January continued to fade.

Steelmakers were among the worst-performing stocks. ThyssenKrupp fell 3.6 per cent to EUR21.11, while ArcelorMittal fell 4.1 per cent to EUR15.69 as fears over a drop in demand triggered a bout of selling in the sector.

"[Steel trader] Klockner &Co's CEO is reported to have said he expects European steel demand to fall in the region of 5 per cent in 2012," said Neil Sampat, analyst at Nomura. "Given the sector has risen about 40 per cent over the past two months, it has instilled a bit of realism into the market as we head into the results season."

French stocks were hit after the country's government cut its 2012 growth forecast to 0.5 per cent from 1 per cent, with the CAC 40 closing down 1.6 per cent at 3,265.64. Carrefour came off its recent highs, dropping 4.1 per cent to EUR17.52 after the French retailer confirmed it would replace its chief executive. In Frankfurt, meanwhile, the Xetra Dax edged down 1 per cent to 6,444.45.

In Milan, the FTSE MIB fell 1.2 per cent to 15,753.14. Generali fell 1.7 per cent to EUR12.21 after Standard &Poor's cut the Italian insurer from A plus to A after trading closed on Friday.

Nokia extended its losses from the previous week, falling 4.1 per cent to EUR3.76.

Credit: By Duncan Robinson

DETAILS

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LINKS

FSA unable to veto ABN Amro deal

Goff, Sharlene . Goff, Sharlene.

ProQuest document link

FULL TEXT

The Financial Services Authority was powerless to intervene in the disastrous takeover of Dutch bank ABN Amro by Royal Bank of Scotland, even though it felt the deal was "highly risky", according to the regulator's chief executive, writes Sharlene Goff .

Hector Sants told a parliamentary committee there was "no basis for an intervention" based on the information it had at the time of the acquisition.

He said that legally the FSA could only have blocked the deal if it had been convinced that RBS would fail immediately after the move. "RBS was meeting capital regulations at the time and was going to after the deal completed . . . It did not fail until over a year after the deal," Mr Sants told the Treasury select committee.
He added that he would like to see the rules changed so that the regulator could be held to account for allowing acquisitions to take place.
Mr Sants conceded that RBS was overseen purely by the FSA's retail team - even though its investment banking arm was growing rapidly in the years leading up to its collapse.

Credit: By Sharlene Goff

DETAILS

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LINKS

Long-serving central bank governor set to step down

Hume, Neil . Hume, Neil.

ProQuest document link

FULL TEXT

New Zealand

The governor of the Reserve Bank of New Zealand is to step down in September after deciding not to seek a third term.

Alan Bollard's departure, after a decade in the job, comes as New Zealand struggles with sluggish economic growth , a strong domestic currency and increased funding costs for its banks. The country is about to embark on a privatisation programme , selling stakes in four state-owned companies: Meridian, Mighty River Power, Genesis and Solid Energy.

Adrian Orr, a former chief economist at Westpac and the head of the New Zealand Superannuation Fund, is tipped by analysts as the most likely successor. However, analysts said an internal candidate, such as Grant Spencer, the RBNZ deputy governor, could not be ruled out. "The changing nature of the financial system is one of the biggest challenges facing New Zealand," noted Paul Bloxham, HSBC's chief economist for Australia and New Zealand.

Described as steady and pragmatic, Mr Bollard, 60, raised interest rates to a record 8.25 per cent in 2007 in an effort to contain inflation, holding them until the middle of 2008. He then slashed rates to a record low of 2.5 per cent during the global financial crisis. The governor of the RBNZ sets interest rates and oversees the financial system.

Neil Hume, Sydney

Credit: By Neil Hume in Sydney

DETAILS

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LINKS

China warns of Sudan security risk

Hook, Leslie; Manson, Katrina . Hook, Leslie; Manson, Katrina.

ProQuest document link

FULL TEXT

Beijing has called for companies operating in Sudan to increase security measures after the weekend kidnapping of 29 Chinese workers by rebel forces in South Kordofan province, write Leslie Hook in Beijing and Katrina Manson in Nairobi .

As negotiators from Beijing and elsewhere struggle to mediate an oil payment dispute between Sudan and South Sudan, the kidnapping illustrates the deteriorating security situation along the border and the risk that the bitter dispute could turn violent.

"Chinese companies should closely monitor changes in the country's security situation and take stronger precautions to ensure the safety of lives and property," the ministry of commerce said in a statement yesterday.

The 29 hostages remained in rebel custody last night, but 17 who had been in hiding near their camp were brought to safety by the Sudanese army, according to Xinhua news agency.

The kidnapped workers were employed by a subsidiary of Sinohydro - once part of China's hydropower ministry - which engineered the Merowe dam in Sudan.

Additional reporting by Gwen Chen in Beijing

Credit: By Leslie Hook in Beijing and Katrina Manson in Nairobi

DETAILS

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LINKS

Schools' tables to exclude vocational qualifications

Cook, Chris . Cook, Chris.

ProQuest document link

FULL TEXT

Education reform

About 3,000 vocational qualifications will no longer be allowed to count towards secondary schools' scores in league tables from 2014, under new reforms to be unveiled today by the government - but schools will receive credit for AS levels and music exams at grade six and above.

Of 125 vocational qualifications (VQs) that will be permitted to remain, 70 will count as the equivalent of a GCSE on the main performance measures used by schools. The remainder, including the ASs and music exams, will count towards some of the less important measures.

Some VQs, some of which were issued by Pearson, the education company that owns the Financial Times, used to carry the weight of several GCSEs in the league table. Under the new system, all qualifications counting towards the measures will carry the same weight.

Prof Alison Wolf, who holds a chair at King's College London, said: "Pretending that all vocational qualifications are equally valuable does not bring them respect. On the contrary, it devalues vocational education in people's eyes."

Michael Gove, education secretary, said: "For too long the system has been devalued by attempts to pretend all

qualifications are intrinsically the same. Young people have taken courses leading nowhere."
Christine Blower, general secretary of the National Union of Teachers, said: "The distorting effect that league tables have on our children and young people's education will not be changed by these reforms and could make matters worse by limiting the subjects which will now count towards them."
Chris Cook

Credit: By Chris Cook

DETAILS

Subject:	Qualifications; Education reform; Job requirements
Business indexing term:	Subject: Qualifications Job requirements
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LINKS

Mandelson uses Lords loophole to shield clients

Pickard, Jim . Pickard, Jim.

FULL TEXT

Lord Mandelson, the former cabinet minister, has sidestepped a new requirement for peers to disclose certain business clients after exploiting a loophole in the system.

He had been expected to be among a wave of peers to publish a full list of their clients under new rules voted through the House of Lords last November.

But the former Labour business secretary has avoided any need to do so after moving his advisory firm, Global Counsel, from one category to another on the Lords register. Global Counsel is part-owned by marketing group WPP.

The House of Lords moved to tighten up disclosure rules in the upper chamber after a series of scandals involving peers.

The new rules, which came into force at midnight on Friday, were supposed to result in members publishing exactly where their external income came from.

But after a lacklustre response from many members, a committee of peers has hastily convened a meeting to discuss whether they need to toughen up the disclosure rules.

Some 30 peers will receive letters asking why they have not replied to officials' requests for more information about their business interests.

Meanwhile, the question of whether the dozens of peers who did reply have provided enough information will be examined by the subcommittee on Lords' conduct, which is chaired by Baroness Manningham-Buller, former directorgeneral of MI5.

One of the six peers on the conduct committee said Lord Mandelson and other members appeared to have failed to comply with the spirit of the rules.

"If you want transparency, the crucial element is that you declare everything and don't hold back under the guise of a consultancy, and where you don't know what the consultancy is all about," the peer said.

"You can't stop peers setting up a consultancy . . . but we should examine a system whereby every time their consultancy negotiates a contract they must seek approval with our advisory body."

Until last week, Lord Mandelson's involvement with Global Counsel was entered on the House of Lords register as a "category 1" directorship of a public or private company. From January 28 Lord Mandelson would have had to declare any salaries, fees, and the "precise source of each payment" to himself through the group.

"Under the new rules you have to disclose the sources of income that you receive as a director, and one would expect that would include the clients of the company," said a Lords official.
But by shifting Global Counsel to "category 2", which covers "remunerated employment", Lord Mandelson no longer strictly has to provide this information.
This is because category 2 only insists on the naming of clients for businesses which are public affairs consultancies. The Labour peer's business is by contrast defined as a "strategic advice consultancy".
Global Counsel is thought to have justified the switch because the business is a "limited liability partnership" while category 1 only applied to "public and private companies".
"That rule on the face of it applies only to public and private companies; does that include LLPs?" questioned one Lords official. "That's a position that is not so clear. It is possible to take one of two views on whether that rule should apply to LLPs. That is something which will be discussed at the meeting."
A spokesman for Lord Mandelson said: "Lord Mandelson's entry has been updated having consulted the Registrar of Lords' Interests."
Another issue of transparency that the conduct committee may review is the fact that, at present, officials cannot force peers to disclose contracts government by confidentiality. However, the conduct committee will consider whether these deals will have to be disclosed.

Credit: By Jim Pickard, Political Correspondent

DETAILS

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LINKS

Evraz wanes on balance sheet fears

Elder, Bryce . Elder, Bryce.

ProQuest document link

FULL TEXT

LONDON

Evraz was among the FTSE 100 fallers yesterday after analysts raised concerns about the strength of its balance sheet.

Troika Dialog questioned whether investors were right to expect cash returns from Russia's biggest steelmaker, which switched its main listing to London in November . The broker forecast Evraz to have ended 2011 with net debt of $7.2bn.
Evraz closed 2.3 per cent weaker at 449 1/2 p. The tightly held stock, part-owned by billionaire Roman Abramovich, has risen by 23 per cent since transferring its listing to London.
Other emerging market resources stocks were out of favour in the wider market, helping to carry the FTSE 100 lower by 1.1 per cent, or 62.36 points, to 5,671.09. Essar Energy dropped 5.7 per cent to 126 3/4 p and Vedanta Resources lost 4.1 per cent to pound(s)11.75.
Lonmin was down 5 per cent to pound(s)10.37 after Goldman Sachs added the miner to its "conviction sell" list. Goldman forecast that Lonmin would have to cut capital expenditure, therefore growth, and may have to raise new capital if the platinum price deteriorates further.
Whitbread , the hotel, restaurant and coffee group, was 2.7 per cent weaker at pound(s)16.44 after Credit Suisse

turned cautious, based on concerns that growth from its UK hotels may disappoint.
Reed Elsevier retreated 2.2 per cent to 523p as the publisher faced a boycott of its scientific journals. Several prominent scientists have launched a protest against pricing policies at the group's Elsevier arm, which accounts for about 60 per cent of earnings.
A Merrill Lynch upgrade helped fashion retailer Supergroup take on 2.2 per cent to 645 1/2 p.
Dixons Retail rose 1.6 per cent to 15 1/4 p, with Societe Generale upgrading the stock to "buy".

Credit: By Bryce Elder

DETAILS

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Business indexing term:	Subject: Capital expenditures Balance sheets
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LINKS

Caught up with Keynes and Krugman in yet another liquidity trap

ProQuest document link

FULL TEXT

From Prof Tim Congdon.

Sir, Gavyn Davies, in his article "Equity returns should outstrip bonds in liquidity trap" (Insight, January 25) confuses an already muddled subject. Mr Davies acknowledges that Keynes originated the trap idea. He further asserts that, to Keynes himself, in the trap "bond yields had fallen to a lower limit" because of fears of a future fall in bond prices. So cash dominates bonds "as an investment vehicle". This is unobjectionable as far as it goes, but it does not go far enough. The implication of Keynes' theorising was that increases in the quantity of money could not reduce bond yields. In that sense monetary policy had been rendered impotent and reliance ought instead to be placed on fiscal policy.

After overlooking this vital ramification of Keynes' idea, Mr Davies then says that Paul Krugman reinvented the liquidity trap in the 1990s. That is not what Prof Krugman himself thinks, since he routinely describes the trap in his work as "classic" and attributes his thinking to Keynes. As it happens, Mr Davies is right that the liquidity trap in Prof Krugman's work is different from that in Keynes' General Theory .

In Prof Krugman's trap, as very reasonably interpreted by Mr Davies, the trouble arises because of perverse expectations about changes in the price level of goods and services. At a zero short rate of interest (implicitly, the interest rate set by the central bank in the money markets) expectations of deflation signify "too high" a real rate of interest, which obstructs "the full use of resources". Now note the differences between the Keynes and Krugman traps.

The Keynes trap relates to a downward barrier to bond yields because of perverse expectations about the price of bonds, so that an increase in the quantity of money does not achieve an effective easing of monetary policy. The Krugman trap arises because central bank operations affecting the monetary base cannot reduce the short-term nominal money market rate beneath zero, so that perverse expectations about the price level of goods and services mean that the real interest rate is too high. The Krugman trap is not a reinvention, but an entirely novel and distinct concept. (I am not saying it is an uninteresting concept.)

Unabashed, Mr Davies proceeds to offer yet another definition of a liquidity trap. This one - which may in due course become known as the Davies trap - is characterised as "a full liquidity trap", since it combines features of the Keynes and Krugman traps! He further proposes that relative asset valuations in the current alleged liquidity trap are consistent with good equity returns in future. I happen to agree with him on this, but must insist that his conclusion cannot be reconciled with his earlier discussions of either the Keynes or the Krugman trap. In The General Theory the only non-monetary assets to figure in the analysis are bonds, with equities dismissed by Keynes as the plaything of casino capitalism. As far as the Krugman trap is concerned, I suggest it is implausible that equity investors can make good returns while things are so bad that high real interest rates obstruct the full use of resources.

Tim Congdon,
International Monetary Research,
Huntley, Glos, UK

DETAILS

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Business indexing term:	Subject: Monetary policy Central banks Interest rates Price levels Money markets Liquidity Return on equity; Industry: 52111 : Monetary Authorities-Central Bank
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LINKS

Brussels to boost Pakistan with trade concessions

Green, Matthew . Green, Matthew.

ProQuest document link

FULL TEXT

EU relations

The EU hopes to grant greater market access to Pakistani exporters within the next few months following decisions by India, Bangladesh and other countries to drop their objections to the move.

The EU first proposed granting trade concessions to Pakistan after devastating floods ravaged the country in 2010.

The new terms will be valid for two years and chiefly benefit Pakistan's textile industry.

The plan had been held up at the World Trade Organisation by opposition from countries including India and Bangladesh and some Latin American and south-east Asian exporters.

EU officials, who have been lobbying these countries to agree to the plan, are optimistic the WTO will endorse the new trade terms at a series of meetings next month.

With the WTO hurdles cleared, the EU could enshrine the new trade terms into law as early as April or May.

"We are hopeful these trade concessions will finally be approved by the WTO, and then adopted into law by the European Union," Lars-Gunnar Wigemark, the EU ambassador to Pakistan, told the Financial Times. "It looks very positive."

The improved terms apply to more than 70 items, mainly textiles but also some ethanol products. Textiles account for some 60 per cent of Pakistan's exports.

The EU hopes improved trade terms will bolster a broader drive by Brussels to improve ties with Islamabad.

India shelved its objections late last year as both sides began to take steps to improve ties.

Matthew Green, Islamabad

Credit: By Matthew Green in Islamabad

DETAILS

Subject:	International trade; Exports; Textiles
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LINKS

Circling wagons is a protective action

ProQuest document link

FULL TEXT

From Ms Rose Gottemoeller.

Sir, Richard McGregor tries to conjure up the Wild West when he writes that "the Republican wagons are circling Newt Gingrich in Florida, determined to choke his political momentum" (report, January 28).

Wrong. Anybody who's watched a movie western knows that the settlers circle the wagons when they're being attacked by marauding Indians. It's a protective action, not a python squeeze.

Rose Gottemoeller,

Falls Church, VA, US

DETAILS

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LINKS

Universities keen to add value: Strategy

Cook, Chris . Cook, Chris.

ProQuest document link

FULL TEXT

Two big issues now dominate vice-chancellors' minds: making their universities good places to spend years learning, and making sure that students have good employment prospects. This is true even at well-established universities with strong academic reputations.

One such vice-chancellor, Sir Steve Smith of Exeter, said: "For us, it's about making sure the student experience is outstanding and making sure that they can see that coming to us leads to good jobs. We think students will increasingly look at employability."

For some institutions, a focus on employability will simply mean improving careers services and alumni networks. But for those with less storied names, raising employability levels could mean aggressive reform, including focusing resources on successful programmes.

London Metropolitan University has started this process with some vigour. London Met, like other institutions, promises strong prospects and value for money - but it has been unusually aggressive in securing both. Fees next year will start from pound(s)4,500, and the institution has been remoulding itself to make sure it can run good courses on a tight budget.

A change to VAT rules, introduced in November, has made it easier to share services. London Met has identified 70 areas, such as payroll, where it can collaborate with other London institutions.

But some reform will be difficult. Malcolm Gillies, vice-chancellor, has already cut the university's portfolio of courses from 557 to 160. The institution has now started to consult on making 229 staff members redundant.

Credit: By Chris Cook

DETAILS

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Tesco retraces its steps on carbon footprint labelling

Clarke, Pilita; Lucas, Louise . Clarke, Pilita; Lucas, Louise.

ProQuest document link

FULL TEXT

Shoppers confused by costly message

Tesco, Britain's biggest supermarket and an early champion of the green revolution, is to ditch its plan to emblazon all its products with a carbon footprint label because the message is too complicated.

The move is a blow to the "carbon labelling" movement, a relatively recent campaign designed to encourage consumers to buy products with a low environmental impact.

In 2007, Sir Terry Leahy, chief executive at the time, promised "a revolution in green consumption" and pledged to put the labels on 50,000 own-brand products.

Tesco is phasing out the logo after using it on just 500 products.

In comments that caught the industry unawares, Helen Fleming, climate change director, told The Grocer magazine that Tesco was phasing out the labels because they took several months' work to calculate and take-up among other retailers was slow.

"We expected that other retailers would move quickly to do it as well, giving it critical mass, but that hasn't happened," she said.

The supermarket group added: "While no final decision has yet been made, customers have told us that they find the labelling difficult to understand and so we are currently considering a range of options as to how we communicate what is often a complex message in a way that is easily understood."

Tesco is one of several high-profile companies to have made eye-catching green pledges in 2007, a year of global economic optimism. These are being challenged in more straitened times.

David Metcalfe, chief executive of Verdantix, an analyst firm that advises companies on environmental and energy strategies, said: "What we are seeing is the end of all the hopeful climate change strategies that were highlighted in 2007, when everyone had a lot of money," said.

"I wouldn't criticise Tesco for stopping this because no retailer anywhere in the world has found this a successful way of engaging consumers."

PepsiCo, the US-based snacks and beverages group that pioneered carbon footprint labelling on Walkers crisps in 2007, is also concerned about the low take-up but said yesterday it would continue to use its logo.

"Although we have not seen the take-up we'd have liked across industry, we still support carbon labelling as a way of helping consumers and business to understand and reduce their carbon emissions," said Martyn Seal, European director for sustainability at PepsiCo.

The Carbon Trust, a UK-based consultancy that developed the carbon footprint logo together with companies including Tesco, said it was "disappointed" at the retailer's move. But it was confident that "existing label customers and new customers will see the value of an internationally recognised carbon label backed by expert independent certification".

More than 100 companies have adopted the carbon label in 22 countries, the trust said. The annual sales value of

goods carrying the label was pound(s)3bn.
Other groups to have adopted the carbon footprint label include Dyson, the independent electrical goods company; Kingsmill, the bread-maker; and Morphy Richards, which makes household appliances.
Tesco says it remains committed to "ambitious and stretching" targets of zero emissions by 2020.
These targets take into account the carbon footprint of customers and the supply chain, which in many cases takes in farming and hefty transportation and so can be particularly intensive.

Credit: By Louise Lucas and Pilita Clarke

DETAILS

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Business indexing term:	Subject: Retail stores; Corporation: PepsiCo Inc
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LINKS

Saudi Arabia tells west that charity begins at home

Khalaf, Roula . Khalaf, Roula.

ProQuest document link

FULL TEXT

Executives from around the world descended on Riyadh last week, days before they moved on to the main January event, the World Economic Forum annual meeting in Davos.

Saudi Arabia's annual Global Competitiveness Forum has become a necessary stop for those hoping to cash in on an economy flush with oil revenues at a time of financial turmoil in the west.

Opened this year with an address by George Buckley, the head of US industrial group 3M, the event gave Saudi Arabia the opportunity to showcase itself when much of the world is in upheaval. Yet for all of the kingdom's need to become more integrated in the world economy, it too is looking mostly inward these days.

In one of the highlights of the forum, Turki al-Faisal, a prominent royal and former ambassador to Washington, warned that Saudi Arabia and other emerging economies would not help the west during the financial crisis unless they were given more clout in the running of the global economy, including in institutions such as the International Monetary Fund.

In a comment that resonated in Riyadh's financial and business circles, he stressed that the kingdom had its own challenges and would concentrate more of its resources on development at home and in the region.

"We will continue to support our neighbours where we are able, including financially, but now we also face new exigencies of our own," he told the audience.

Indeed, the kingdom's main economic pursuit these days is very basic: creating jobs and building affordable houses for an overwhelmingly young population.

Over the past year, as youth frustrations erupted in popular uprisings elsewhere in the Arab world , Saudi Arabia's long-time social concerns rose dramatically to the surface, prompting the launch of a $130bn social spending package.

Public employees received a bonus worth two months' salary and more young people were absorbed into an already bloated public sector. A huge SR250bn ($66.6bn) home-financing programme was launched and a new housing ministry created that is expected to carry out King Abdullah's pledge to build 500,000 homes.

A recent report from Riyadh-based Jadwa research says construction, driven by housing needs, will be the fastest-growing sector in the economy.

Pointing to areas that foreign investors are scrambling to benefit from, the report says construction companies and

producers of associated goods, raw materials and services will be the main gainers from the high level of government spending.
Despite Saudi Arabia's oil wealth, it has become increasingly difficult for young families to buy their own home, and many end up living with their parents long after they are married. Housing is the source of an increasingly open public debate.
Part of the problem is the steep increase in land prices - one property executive says prices in parts of Riyadh have doubled during the past five years.
The steep rise is blamed on land hoarding by political elites, including senior princes, who received land grants in the past and have no incentive to sell.
Financing is also an impediment - a mortgage law has been in the works for years but has yet to be approved, discouraging private developers from building housing for low-income Saudis.
Property companies are lobbying for a 2.5 per cent tax on undeveloped land to discourage the hoarding of vacant lots, but it is far from clear that they will get their way - or that a tax will be enough to make much more land available.

Government largesse, therefore, will plug an immediate hole, but it will have to go hand in hand with serious reforms that ensure a more functioning market in future.
As a study written for the ministry of housing notes, nearly 40 per cent of the Saudi population is younger than 15 and most will demand housing during the next 20 years.

Credit: By Roula Khalaf

DETAILS

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LINKS

Cameron warns of legal redress

Barker, Alex; Rigby, Elizabeth . Barker, Alex; Rigby, Elizabeth.

ProQuest document link

FULL TEXT

Eurozone told not to exceed remit ; PM seeks to placate party eurosceptics

David Cameron last night warned Europe's leaders he would see them in court if the treaty on eurozone fiscal discipline exceeded its legal remit, as the British prime minister tried to assuage his party's annoyance at him waving through a pact that he once opposed.

Attending his first summit in Brussels since the bitter December rift over Britain's veto, the prime minister privately adopted a more low-key and constructive approach in talks to finalise the treaty, while making clear that he would use the courts to preserve Europe's common market.

His legal threat will be increasingly emphasised in coming days, as Mr Cameron toughens up his rhetoric to placate eurosceptics' anger over allowing eurozone countries to use EU institutions for a parallel, intergovernmental pact.

Speaking after a summit when Britain was joined outside the treaty by the Czech Republic, Mr Cameron said he was keeping a "reserve" on use of EU institutions so the UK still maintained "leverage".

"We will be watching like a hawk and if there is any sign they are going to encroach on the single market we will take appropriate action," he said. "If they stick to fiscal issues that's an outcome Britain is comfortable with. We are using

that reserve to watch over this treaty."
In Brussels his more conciliatory diplomatic approach helped patch up severely strained relations with some EU leaders. But the gathering nevertheless included customary Anglo-French repartee, with President Nicolas Sarkozy disparaging London's reliance on financial services and Mr Cameron saying Britain's "door was open" to French banks fleeing a "mad" financial transaction tax.
Mr Cameron's concessions on EU institutions leave him politically exposed in Westminster. The dismay among hardline eurosceptics is a worry for Downing Street but so far there is no sign of it growing into a serious revolt this spring, when MPs will be asked to pass a bill to create a permanent eurozone bail-out fund.
London's biggest concern is that the fiscal pact will permit eurozone countries to pursue policy that should be agreed at EU level. Without safeguards for the City and the single market, the prime minister argued in December it would be dangerous to give the eurozone access to powerful institutions such as the European Court of Justice and the European Commission.
The decision to drop objections to the use of EU institutions reflects both the weakness of Britain's legal position and the political costs of raising objections before the pact members do anything that encroaches on UK interests.
The Conservative party's most hardline eurosceptics were damning of the "retreat". Bernard Jenkin, a senior Tory backbencher, told the Evening Standard: "What is the difference between refusing to sign the treaty of 27 and then allowing the hijacking of the EU institutions with a treaty of 17 plus?"
David Nuttall, who provoked the biggest ever backbench rebellion on Europe last year when he tabled a motion suggesting the public have a referendum on Britain's relationship with Europe, told the FT Britain was being "short-changed" by the decision.
But the prime minister did receive more qualified support from others. Andrea Leadsom, a founding member of the Fresh Start project, which seeks to help rebroker the UK's relationship with Brussels, said she "very reluctantly" supported Mr Cameron's decision - but with provisos.
Editorial Comment, Page 12 Gideon Rachman, Page 13

Credit: By Alex Barker in Brussels and Elizabeth Rigby in London

DETAILS

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LINKS

Adoboli pleads not guilty to four charges

Croft, Jane . Croft, Jane.

ProQuest document link

FULL TEXT

Former UBS trader to face trial in September ; Plea likely to slow probe by UK's FSA

Kweku Adoboli , the former UBS trader accused of causing the largest unauthorised trading loss in British history, has denied charges of fraud and false accounting.

Mr Adoboli, 31, entered pleas of not guilty as he appeared for a third time at Southwark Crown Court in London after being accused of unauthorised trading following revelations of a $2.25bn loss at the Swiss bank last year.

Mr Adoboli stood in the dock dressed in a grey suit, white shirt and purple-blue tie to confirm his name to the courtroom, which was packed with his friends and supporters as well as with the media.

He replied not guilty in a clear voice to every charge as each of the four counts were read out.
The charges relate to periods between the dates of October 2008 and September 2011.
The two charges of false accounting were amended in October to include reference to exchange traded funds for the first time.
Mr Justice McCreath remanded Mr Adoboli in custody and set a provisional trial date of September 3.
His pleas come after the same judge told Mr Adoboli last month that he had to enter a plea when he next appeared at Southwark.
Last month Paul Garlick, the trader's lawyer, asked the court not to arraign Mr Adoboli, who had changed his legal team just days before.
Mr Adoboli parted company with law firm Kingsley Napley and is now represented by Bark &Co, which also specialises in fraud cases.
Mr Adoboli, who has been granted legal aid, has been in custody since September. No application for bail was made during yesterday's hearing although the judge has said he would listen to a future application.
Mr Adoboli worked for UBS's global synthetic equities division , buying and selling exchange traded funds.
The not guilty plea will probably slow an investigation by the UK's Financial Services Authority of alleged regulatory and compliance failings at UBS.
The watchdog and Finma, the Swiss regulator, have jointly commissioned PwC to examine the losses and will probably receive a report next month. But any move to bring an enforcement action will be complicated by the need to protect Mr Adoboli's right to a fair trial.
The case comes at a time when the Swiss bank itself is under growing scrutiny following a tax evasion probe by US regulators and is cutting thousands of jobs in its investment bank to focus on its traditional wealth management operations.
It also comes weeks after revelations from an FSA tribunal hearing against two former UBS executives raised fresh questions about the bank's dealings with the businesses of Anil Ambani.
The bank was fined pound(s)8m in 2009 over compliance failings related to the so-called Asia II desk, which managed the portfolios of super-rich Indians such as Mr Ambani.
Trial threatens morale, Page 16 www.ft.com/ubs

Credit: By Jane Croft in London

DETAILS

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LINKS

Romney's cash-rich campaign rides high

Fifield, Anna; McGregor, Richard . Fifield, Anna; McGregor, Richard.

ProQuest document link

FULL TEXT

Florida vote ; Large lead ahead of pivotal primary ; Gingrich hit by attack ads deluge

Mitt Romney's campaign steamroller is bearing down on his Republican opponents in Florida's pivotal primary in a powerful display of money and organisation that has embittered party rivals.
On the eve of today's poll, Mr Romney had a double-digit lead in an aggregate of polls compiled by RealClear Politics over Newt Gingrich, who only a week ago held a commanding position in the state.
A clear win for Mr Romney would put him in a strong position to wrap up the Republican nomination and challenge Barack Obama in November's presidential election.
Mr Gingrich condemned a deluge of attack adverts run against him by third-party campaign groups supporting Mr Romney, and vowed to stay in the race "until the convention" in early September. "This race is just getting started," said Martin Baker, Mr Gingrich's political director.
The ads, largely financed and run by so-called super -Pacs, which can support candidates without co-ordinating with their campaigns, have painted Mr Gingrich as corrupt and erratic.
"Frankly if that stuff [in the ads] was true, I wouldn't vote for myself," Mr Gingrich said yesterday.
Super-Pacs have so far spent $44m in the presidential campaigns.
More than a third has supported Mr Romney, mostly by attacking Mr Gingrich. Although exact campaign spending figures are not yet available, campaign officials said that they were being outspent by the super-Pacs.
Mr Romney has been unapologetic about his scorched-earth tactics in Florida, unleashed after Mr Gingrich's come-frombehind victory in South Carolina 10 days ago. "Politics ain't beanbag," Mr Romney said in a television interview.
The Politico news website reported yesterday that Mr Romney had outspent Mr Gingrich on the Florida airwaves by nearly $12m.
Mr Romney's campaign has been active for months in Florida, rallying many elderly people to vote early.
"I think we have locked in a lot of votes," Eric Fehrnstrom, a Romney spokesman said. In a state with 2m registered Republicans, 534,000 votes have already been cast.
Mr Gingrich has won support from former Republican hopefuls Herman Cain and Rick Perry as well as Sarah Palin, the vice-presidential nominee in 2008.
Ms Palin urged her supporters "to rage against the machine" and "vote Newt" in protest at the Republican establishment's effort to marshal its forces behind Mr Romney and crush the former speaker.
Although there is plenty of time for the party to unite behind Mr Romney against Mr Obama, the lack of enthusiasm from the party's Tea Party wing could hurt the frontrunner in the general election.
If defeated in Florida, Mr Gingrich could struggle to regain his footing.
Over the next three weeks there are no debates, a setting in which he has thrived, and a handful of state caucuses that require the type of deep campaign organisation he lacks. There are no consequential ballots until March 6, when 10 states will vote on "Super Tuesday".
In a sign of his lack of organisation, Mr Gingrich will not be on the ballot when Virginia - the state in which he now lives - votes for the Republican nominee on Super Tuesday, because his staff did not collect enough signatures to meet registration requirements.
Like his polls, Mr Gingrich's campaign has been noted for its wild gyrations, said Mike Franc, head of government studies at the Heritage Foundation, a conservative think-tank in Washington.
"He is hitting the articulate conservative high notes then he'll talk about putting a colony on the moon, all in the same news cycle," he said.
Analysts say Mr Gingrich still appears to have a very slim campaign team. Many of them - such as Michael Krull, his campaign co-ordinator, and Vince Haley, his policy director - come from American Solutions for Winning the Future, the tax-exempt political organisation Mr Gingrich founded after leaving the House.
It closed last year when he announced he was forming an exploratory committee to run for president.
Multimedia and reports, www.ft.com/uselection

Credit: By Richard McGregor and Anna Fifield in Washington

DETAILS

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LINKS

Anti-corruption theme colours Kuwait election

Hall, Camilla . Hall, Camilla.

ProQuest document link

FULL TEXT

Partisan political groupings are united in an attack on graft as they campaign for parliamentary seats, writes Camilla Hall

Dressed in a lilac suit and cream-coloured headscarf, Massouma al-Mubarak, Kuwait's first female cabinet minister, drew applause from the crowds as she slammed government corruption in the oil-rich Gulf state.

"Where do the billions go?" she asked the audience of men and women who came to hear her evening address in a specially erected tent before the country's parliamentary elections on Thursday. Tackling corruption is the predominant theme of the electioneering, even for Ms Mubarak, who has faced such allegations herself.

Fighting government sleaze has become the familiar thread linking Kuwait's parliamentary candidates, who say they are tired of their national oil riches being wasted. More akin to the voices heard from Tunis to Cairo, Kuwaitis are asking questions that others in the wealthy Gulf seldom discuss in public as they prepare for their fourth parliamentary election since 2006.

Kuwait's national assembly has legislative powers and the right to grill the prime minister - an unfamiliar occurrence in the Gulf. However, for many of the parliamentary candidates, that is not enough.

The ruling Al-Sabah family has granted its citizens more freedoms than the region's other royal families, but political parties are still forbidden and the emir chooses the prime minister, who then appoints a cabinet of ministers.

From Islamist tribal leaders to liberals and the youth, there is a call for more political freedom in Kuwait. Diverse opposition groups have felt invigorated since November, when they were successful in forcing the resignation of Sheikh Nasser al-Mohammed Al-Sabah, the prime minister, accusing him and other lawmakers of corruption.

The allegations accused the former prime minister of sending state funds to personal bank accounts overseas. Sheikh Nasser has denied any wrongdoing. Broader claims involved members of parliament receiving bribes to sway their votes.

Fighting corruption has become "the buzz word", says Abdullah al-Shayji, who chairs the political science department at Kuwait University. "But the challenge is how to go about it."

Political tension reached a peak in November after opposition lawmakers joined students in storming the national assembly building, leading to several injuries. Although that energy has powered the election campaigning, it has remained peaceful.

Each night, candidates host rallies at their tents, known as diwaniyas. Amid a lack of pre-election polling, popularity can be gauged from the number of cars parked in sandy makeshift car parks near each tent. Voices of the candidates boom from loudspeakers into the night air.

Not far from Ms Mubarak's tent, at a rally in the lower-middle class neighbourhood of Rabia in Kuwait City, the mood was very different but the underlying message the same. The audience of men, dressed in traditional garb, was roused by loud music and videos of the incumbent candidates shouting inside parliament.

Hundreds of supporters streamed into the tent, even after every seat was taken, while young boys and old men also gathered outside in the cold to watch the event on a big screen. People came out in droves to see their local tribal favourites Ali Salem Dukbasi and Shaib Shabbab al-Muaisri, popular politicians who are both seeking re-election.

Each is vying for one of 50 elected seats in the national assembly, which comes with a maximum four-year term. Fifteen other seats are given to cabinet members, who are chosen by the prime minister.

Sheikh Jaber Mubarak Al-Sabah, the former defence minister and newly appointed prime minister, will have to undertake that task when the parliament is formed. He will face the choice of attempting to appease each faction through the appointments, or selecting a cabinet of respected technocrats.

Many say the latter option could help move the government past the deadlock of recent years caused by parliamentary instability and feuding, and lift the cabinet above partisan bickering.

With tackling corruption high on the government agenda this week, the cabinet said it had finalised a bill to create an Integrity Authority. The new parliament, once formed, will consider the bill.

Although combating "dirty money" has become the watchword of the elections, parliamentary veterans do not expect the loosely grouped and ever-changing opposition to remain united for long. There is also concern that the corruption scandal is far from over and more skeletons may soon emerge.

Back at the tribal gathering in Rabia, one of the speakers sums up the message: "We want a country that's run by constitutional law, that doesn't run by dirty money and bribes," says Abdul Rahman al-Anjari, another incumbent defending his seat. "This culture must stop."

DETAILS

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LINKS

We'll let you know when it reaches us

ProQuest document link

FULL TEXT

From Mr Wes Pedersen.

Sir, The US economy, you report, is expanding ("Inventory build-up boosts US growth", January 28).

It does seem quite the opposite to my wife and me, but we'll give you a shout when and if it ever expands to us or to any of our doubting neighbours.

Wes Pedersen,

Chevy Chase, MD, US

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LINKS

Letting China's economy bloom: Beijing should push further with reform programme

ProQuest document link

FULL TEXT

At times, what statisticians say can be more revealing than the statistics they present. This was certainly the case with Ma Jiantang of China's National Bureau of Statistics when he commented this month on the country's latest national income figures. His observation that "2012 will be a year of complexity and challenges", was a masterpiece of understatement.

China's economy faces two sets of problems this year. The first is the continued weakness of exports, owing to the slowdown in Europe which is China's main trading partner. The second is the faltering real estate market. New property starts fell by almost 20 per cent year on year in December alone.

The optimists prefer to look at the overall figures, which show the economy growing at 8.9 per cent in the fourth quarter. In their view, these figures suggest that Beijing is succeeding in orchestrating the "soft landing" which some analysts predicted would be impossible. The pessimists, meanwhile, prefer to emphasise how unreliable these figures really are.

But this debate, while heated, misses the point. Whatever external conditions dictate, China's economy will be made to perform. Deng Xiaoping's insight that without economic growth the Communist party would be history is particularly relevant in 2012. Months before a crucial handover of power among its top leadership, the Communist party will not let gross domestic product fall below the 7 or 8 per cent mark which many analysts see as a pre-condition for social peace. A new monetary and fiscal stimulus is likely to be launched if needed. While this may not match the heroic efforts of 2009, it would be a bazooka of sufficient size and firepower to buy the government some more time.

This thought may comfort politicians in Beijing. Unfortunately, there is a darker side to the coin. Whether or not a sino-style bazooka is deployed, China can no longer escape a range of structural reforms which it has avoided over the years.

Top of the list are measures to rebalance aggregate demand, shifting the economy away from investment and exports towards domestic consumption. Beijing also needs to shake up its supply side. Too many firms are kept in business by overly generous credit lines, while other, less politically-connected, enterprises pay too much for their credit. The debt of local governments is also a source of worry, as is the overall stability of the financial system.

Beijing has taken important steps to address these policy weaknesses. Consumption appears to be growing as a slice of gross domestic product. There have been attempts to deepen Shanghai's capital markets to make businesses less dependent on bank lending.

Keeping up the pace of reform is the key challenge for China this year, whether or not it reaches for another stimulus package. In this sense, China faces a similar challenge to stagnant Europe. Without structural economic reform, both regions are doomed to fall short of their true growth potential.

DETAILS

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LINKS

Region scores highly in graft league

Kerr, Simeon . Kerr, Simeon.

ProQuest document link

FULL TEXT

News analysis ; Survey indicates higher incidence of corruption in business than elsewhere, writes Simeon Kerr

Middle East business leaders are almost twice as likely as their global peers to say they expect to be confronted by bribery and corruption, a survey shows.

In interviews with 126 regional executives, accountancy firm PwC found 39 per cent think they will face bribery and corruption this year, compared with the global average of 23 per cent.

Although a longstanding problem, fraud is emerging from the shadows as Middle Eastern governments take more serious action against bribery, in a bid to attract foreign capital and assuage domestic political concerns.

Government efforts are in turn minimising the stigma involved in companies admitting the existence of internal fraud and seeking to prevent it.

From asset misappropriation and bribery to cybercrime and accounting fraud, 28 per cent of the executives reported being affected last year.

Tareq Haddad, PwC's partner responsible for forensic services in the Middle East, says the survey demonstrates that the region's response to corporate fraud lags behind the rest of the world.

The study, spanning private sector and government-related entities, found internal audit functions uncovered fraud in 6 per cent of cases, far behind the global average of 14 per cent. The most common means of detection in the region was "by accident".

Kroll, the corporate investigations company, says its business in the region has grown threefold in the past three years. It believes companies are much more willing to tackle what were once considered embarrassing issues, such as internal fraud.

"There is a greater willingness by parties to properly deploy external resources to address fraud and corruption," says Tom Everett-Heath, the company's Middle East head. "There is no longer merely an emphasis on closing the door after the horse has bolted, but rather making an effort to chase down the horse and recover it."

Dubai launched an anti-corruption drive in 2008, focusing on the property and finance sectors, which as boom later turned to bust netted convictions and the repayment of assets by dozens of executives. To this day, some employees remain unable to leave the country because of continuing investigations.

Other high-profile corporate scandals involving allegations of fraudulent behaviour, such as the battle between the Saudi conglomerate Ahmad Hamad Algosaibi &Bros and the Saudi billionaire Maan al-Sanea, have left banks facing billions of dollars in defaulted loans, thrusting the issue of corporate governance to centre stage.

Corruption and accountability became watchwords during last year's Arab spring protests, where demands for democracy and freedom meshed with popular concerns that cronyism and patronage networks were keeping the man on the street out of pocket.

Regime change in Egypt has triggered a wave of corruption investigations into deals carried out during the reign of former president Hosni Mubarak, while Tunisia has moved to overhaul corruption legislation to boost foreign investment.

"It's nothing new, fraud has been going on for years," says Lady Olga Maitland, the chief executive of Money Transfer International, a trade association promoting the money transfer industry. "But now it is the elephant in the room that everyone is facing up to."

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LINKS

Let happiness sit on your shoulder

ProQuest document link

FULL TEXT

From Prof Yeomin Yoon.

Sir, Samuel Brittan, referring to Aldous Huxley's Brave New World , laments that there are no such "soma" pills to keep people happy ("Diogenes was right to value more than happiness", January 27). May I suggest that Sir Samuel heed Henry David Thoreau, who said: "Happiness is like a butterfly: the more you chase it, the more it will elude you, but if you turn your attention to other things, it will come and sit softly on your shoulder."

I am sure that if Sir Samuel keeps doing such worthy things as writing his FT columns, which many readers enjoy reading and derive intellectual nourishment from (as this reader does), happiness will come and sit softly on his shoulder someday and he will be able to shake off his "sneaking sympathy" for John Stuart Mill's happy pig. Here is a proof: happiness always lands on my shoulder whenever I write letters to the FT even if the chances of them getting published are extremely low.

Yeomin Yoon,
Professor of Finance and International Business,
Seton Hall University,
South Orange, NJ, US

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LINKS

Bain chiefs may rue the Romney factor

McGregor, Richard; Schafer, Daniel . McGregor, Richard; Schafer, Daniel.

ProQuest document link

FULL TEXT

Private equity ; Buy-out group that the frontrunner co-founded shares more profits, say Daniel Schafer and Richard McGregor

Executives at Bain Capital stand to lose more than rivals from any increase in taxes paid by the private equity industry, thanks to a generous profit-sharing scheme at the group co-founded by Mitt Romney.
The low rate of tax paid by private equity partners was highlighted by the Republican frontrunner's returns released last week, which showed that he had paid an effective rate of 13.9 per cent in 2010.
Profits in the sector are treated as capital gains rather than ordinary income.
The Obama administration has supported removing the special tax treatment of the private equity sector, but previous measures have met bipartisan opposition. The most recent attempt at reform died in the Senate in 2009 after being opposed by Republicans and Democrats.
But the industry fears that scrutiny of Mr Romney's business career could reinvigorate efforts to end the special tax treatment. Boston-based Bain Capital pays its staff a 30 per cent cut of profits, a much bigger share than any other large buy-out group, according to people close to the situation.

Private equity funds usually keep a 20 per cent cut of profit, called carried interest, but Bain Capital lifted this to 30 per cent in 1998, towards the end of Mr Romney's tenure. He continues to receive profits from some Bain investments.
Mr Romney justified the move at the time on the basis of Bain's people-intensive investment model.
The group is known for sending an army of managers into its companies to revamp their costs and strategy.
The group has a higher number of employees - more than 900 currently - in relation to assets under management than most competitors.
In a little-noticed interview with CNBC last week, Mr Romney insisted that the real rate of tax for the industry was closer to 50 per cent, calculated by adding the 15 per cent in personal taxes to the 35 per cent corporate rate.
Raising that tax rate, Mr Romney said, would "choke off a lot of the capital that goes into creating new enterprises and creating jobs".
He defended the carried interest tax treatment, saying that if a capital investment, fairly priced at the time, "rises in value as a capital gain, then you treat it as a capital gain".
In a sector dominated by former investment bankers, the private equity group is unusual in that it is an offspring from a consultancy, Bain &Co.
Unlike founder-dominated rivals such as Carlyle Group and KKR, Bain Capital has a consensus-driven - and some say faceless - partnership structure with a "policy board" of nine equal partners as the power centre.
Also, 9 to 10 per cent of the group's invested capital comes from employees, dramatically higher than the 1 to 2 per cent that is common in the industry.
Mike Goss, a managing director of the company, said this high personal commitment meant Bain employees had to eat their own cooking.
"We are always much more focused on creating capital gains for investors than on the fee structure," he told the FT.
But investors said a very aggressive use of bank debt to finance deals - which led to failures such as the loss of most of its EUR400m equity at Bavaria Yachtbau, a German yachtmaker, in 2009 - had prompted a mediocre performance since the financial crisis.
Such losses, and an investor backlash against lavish fee models, have forced Bain Capital to backtrack recently.
"They do not deserve this premium any more because they are no longer as superior as they used to be," one large European private equity investor said.
In the $2bn Asian fund it is raising, investors have the option to pay 20 per cent carried interest or stick to the 30 per cent share but pay only half the management fee.
The group is pondering whether to offer the same choice for its next global buy-out fund, which it will start raising this spring with a target size of $6bn to $8bn - lower than the previous fund.
Bain Capital's 10th global fund, raised in 2007, has a size of $10bn. At the end of the second quarter, it was valued at 1.13 times initial cost, according to two investors in the fund.
This is slightly lower than the 1.16 times average for the best 25 per cent in the sector for the same fund year, according to data by Thomson Venture Economics.

Credit: By Daniel Schafer in London and Richard McGregor in Washington

DETAILS

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LINKS

MEPs must reject deeply flawed patent proposals

ProQuest document link

FULL TEXT

From Mr Tim Roberts.

Sir, The letter from three European entrepreneurs (January 30) expresses their understandable frustration at what they call "the current fragmented and over-complicated patent system" in Europe. They quote Jose Manuel Barroso's complaint that agreement on a new patent system is blocked by a "trivial disagreement" over the location of a patents court - an assertion that belittles the very real and substantial issues with the present draft.

Patent professionals, as well as organisations representing many thousands of innovative businesses in Europe, support the broad proposals for the unitary patent system in Europe. But we also urge your three letter-writers - as well as Europe's politicians - to be patient for a little longer. There is much more wrong with the current proposals than the issue of the location of the Court for a unitary European Patent.

We agree that Europe's economic recovery depends on continued innovation, particularly driven by small and medium-sized enterprises. But the current European patent proposals are flawed and would be a deterrent rather than an incentive to invest in innovative new technologies.

Features of the proposed new system would make it more costly and more uncertain, not less. For example, parties would have to bring any proceedings before a potentially expensive European Court, even if only of local domestic significance. This would give every party in every case the effective right of appeal to the Court of Justice of the European Union, and the freedom for that court to upset 30 years of jurisprudence from the European Patent Office. This would not be good for European business.

Politicians now plan to put this flawed proposal to the European Parliament on February 14. If it is voted through, Europe will be stuck with an inflexible, costly patent system, riddled with uncertainties. For that reason, we (the Chartered Institute of Patent Attorneys and other professional and industry associations in the UK and the rest of Europe) are pressing to have the European Parliament's consideration of this agreement deferred. MEPs must not approve a system that would be a heavy burden on businesses, rather than the driver for economic growth that we need.

Tim Roberts,
President,
Chartered Institute of Patent Attorneys,
London WC2, UK

DETAILS

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LINKS

Failed canal colony led to UK marriage

ProQuest document link

FULL TEXT

From Mr Francis Ghiles.

Sir, Paul Ashworth (Letters, January 24) is right to say that "no one ever got divorced because it made financial sense" when commenting of the potential costs of a break-up of the United Kingdom. At least we know that the "marriage" between the two nations was the consequence of the bankruptcy of Scotland.

The Act of Union in 1707 resulted from the collapse of the Darien scheme in 1698. Few people outside the UK know that, beset by famine and increasingly crowded out of international trade by the English, the Scots formed the

Company of Scotland as a would-be competitor to the East India Company in 1695. Three years later the company took up a hare-brained scheme that another Scot, William Paterson, had tried to sell, without success, to courts around Europe. It envisioned a Panama Canal before its time and a colony on the isthmus to speed up trade with the Far East. Scots from all walks of society subscribed in total more than pound(s)400,000 for the project, roughly one fifth of the nation's wealth.

Poor planning and strong Spanish hostility doomed the project: 300 survivors returned to a beggared nation out of 1,200 initial settlers, but not before a second wave of 2,500 had left, to meet a similar fate.

Francis Ghiles,
Senior Research Fellow,
CIDOB,
Barcelona, Spain

DETAILS

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LINKS

Hands-off role of ministers put in doubt

Goff, Sharlene . Goff, Sharlene.

ProQuest document link

FULL TEXT

Political pressure ; State involvement in the bank may no longer be confined to issues over executive pay, says Sharlene Goff

The decision by Stephen Hester, chief executive of Royal Bank of Scotland, to waive his bonus for 2011 has cast fresh doubt on the longstanding question of whether the bank can be run independently from government.
Since RBS received a bail-out from taxpayers three years ago, ministers have claimed to have a "hands-off" relationship with its board, standing back from the day-to-day decisions involved in running the business.
But the overwhelming feeling among City analysts and investors yesterday was that the political and media pressure on Mr Hester to decline a bonus awarded by his board had, once and for all, proved who was really calling the shots.
People close to Mr Hester say his decision to decline an award worth just under pound(s)1m was ultimately prompted by a proposal from Ed Miliband, Labour leader, for a House of Commons vote on whether the government should block the award.
While bank insiders hope the meddling will be confined to the particularly explosive issue of pay, some question whether newly emboldened politicians will shift their efforts to other sensitive issues at the state-backed bank.
"Management's decision-making power has been weakened," said one analyst. "The question is whether this opens the door to further interference."
Attention is already turning to whether RBS should be able to press ahead with plans to pay the pound(s)5m share bonus to John Hourican, head of its investment banking arm, that was awarded three years ago. Further scrutiny will come next month when the bank publishes pay details of its so-called "code staff". Last year these revelations showed that 323 senior employees received a total of pound(s)375m between them in 2010 - an average of pound(s)1.16m each.
Aside from pay, market observers are concerned that the government could take a more combative attitude to other topics - RBS's record on lending to small businesses, for example, or its retrenchment from overseas operations.
The big fear among board members - and indeed the government - is that Mr Hester will leave the bank as soon as an alternative opportunity arises. People who know him well doubt that he would step down purely over the bonus dispute but say he could quit if he felt his ability to run the bank was being undermined.

Within RBS, there is a growing sense that the bank will have to overhaul its pay policies to avoid another clash on bonuses next year. One option would be more transparent performance measures for annual and longer-term bonus awards.
Part of the problem with Mr Hester's bonus was the lack of clarity over exactly which targets he met and how he was rewarded for them. Much of the criticism has centred around a sharp fall in the bank's share price last year - although market performance made up only one element of the total pay-out.
A more radical approach would be to wipe out annual awards altogether, shifting the emphasis to regular salaries and longer-term incentives.
However, analysts point out that this would involve boosting fixed salaries for senior bankers - a move that could provoke even greater hostility from politicians and the public.

Credit: By Sharlene Goff

DETAILS

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LINKS

A bad memory for big money matters

Dickie, Mure . Dickie, Mure.

ProQuest document link

FULL TEXT

How clearly would you remember a transaction involving 40kg of cold, hard cash? Being unaccustomed to such weighty sums, I imagine I would find every detail hard to forget. But for Ichiro Ozawa, powerbroker of Japan's ruling party, a deal of just this size appears to have been less than memorable.

Mr Ozawa is on trial on charges of political funding violations. When I popped into court, I found him telling judges he recalled little about a transfer of Y400m ($63.3m) to his fund-raising body for a land purchase that is at the heart of the case.

Mr Ozawa, one of the biggest beasts in Japan's political jungle, says the money came from private savings kept in cash at his home. But prosecuting lawyers have so far failed to extract much more detail of the 2004 transaction, which they say would have involved a whopping total of 40kg in yen banknotes.

mure.dickie@ft.com

Credit: By Mure Dickie in Tokyo

DETAILS

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LINKS

Putin backs state capitalism to drive Russian economy

Belton, Catherine . Belton, Catherine.

ProQuest document link

FULL TEXT

PM puts faith in conglomerates

Vladimir Putin has set out an economic vision for Russia based on state capitalism and strong, paternalistic government as he seeks to return to the presidency in the face of unprecedented protests against his rule.
Writing in Vedomosti, the Financial Times' sister paper, the Russian prime minister gave little sign he intended to implement measures to boost economic competition demanded by his country's increasingly vocal entrepreneurial class.
Instead, he said state conglomerates had to drive transition to a high-tech economy that Russia must make to survive "fundamental change" in the global economy. Citing China and South Korea as successful examples, Mr Putin defended the state corporations created under his rule and said only the state could finance the high-risk innovation needed to reduce Russia's dependence on commodity prices.
"For Russia, it would be inadmissible to not have an economy that can guarantee stability, sovereignty and a decent standard of living," he wrote. "We need a new economy with competitive industries and infrastructure, with a developed service sector; in short, an economy that harnesses modern technology."
Dismissing frequent criticism that the state is inefficient in fostering innovation, Mr Putin said private companies had proved unwilling to take on the risks. Although he admitted that most state-run corporations had not proved competitive so far, "we don't intend to drop what we began halfway", he said.
Analysts and critics said Mr Putin's article did little to address hopes that he could adopt a more liberal agenda to accommodate an emboldened middle class protesting against the cronyism that state capitalism has fostered so far.
"This isn't Putin 2.0. it isn't even Putin 1.0 - it's Putin 0.1," said Sergey Aleksashenko, a former deputy central banker who is now head of macroeconomic research at the Higher School of Economics in Moscow. "In some countries innovation can be driven by state corporations, but not in Russia when the government is corrupt and state corporations are filled with the friends and relatives of officials."

Credit: By Catherine Belton in Moscow

DETAILS

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LINKS

Misdiagnosis has made IMF cavalier with taxpayer money

ProQuest document link

FULL TEXT

From Dr Desmond Lachman.

Sir, Lorenzo Bini Smaghi appears to be cavalier about using taxpayer money to address the eurozone debt crisis ("How to equip the IMF for the crises of our time", January 27). Not only does he propose that the International Monetary Fund has even larger and longer financial support programmes for countries in the European periphery than it has had to date, he also proposes that the IMF stands ready to forgo its preferred creditor status.

Dr Smaghi makes his proposals in seeming disregard of the IMF's highly unfortunate experience over the past two years with its Greek financial support programme, the largest IMF lending programme on record. Despite financial commitments by the IMF and the European Union to Greece in excess of 30 per cent of that country's gross domestic product, the Greek economy has not been spared from literal economic collapse. Nor has the country been spared from the need to now write down its privately owned sovereign debt by as much as 70 cents on the dollar, and to look for debt relief from the European Central Bank.

The main problem with the recent IMF programmes to countries such as Greece and Portugal has not been one of size or duration but rather one of policy misdiagnosis. Instead of recognising Greece and Portugal's problems as those of solvency, requiring upfront private sector debt reduction, the IMF went along with the European charade that these countries' problems were those of liquidity that should be addressed by very large scale official lending. And by so doing the IMF only compounded those countries' economic and financial problems.

Before the IMF goes down the road of a very large lending programme to Italy, it might want to consider whether Italy is capable of restoring public debt sustainability without debt reduction. In that respect, the IMF's recent World Economic Outlook forecasts for Italy are not encouraging. Those forecasts suggest that fiscal austerity will result in a decline in the Italian economy in 2012 of more than 2 per cent, which will undermine the Italian tax base and will prevent Italy from stabilising its public debt to GDP ratio anytime soon.

Desmond Lachman,
American Enterprise Institute,
Washington, DC, US

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Trading post

Chisholm, Jamie . Chisholm, Jamie.

FULL TEXT

There is an old investor saw that markets will take the route of most pain.

As colleagues note on these pages, we see this with regard to the euro, where many traders are suffering as the single currency confounds expectations. Last week it hit a five-week high versus the yen, for example.

This phenomenon is no aberration. Strong consensus leaves markets vulnerable to opposite trends because the majority's arguments are well established and there are few new investors left to enter the trade.

So, is further pain on its way for euro bears?

This week could prove crucial in establishing the next medium-term trend.

The euro's previously tight correlation with risk appetite has faded somewhat of late but it is still likely to benefit from better global economic news. February's national surveys of manufacturing activity, due tomorrow, may hold the key, alongside Friday's US non-farm payrolls data for January.

But yesterday's slip shows the main driver is eurozone woe. A relatively harmonious EU summit (well, it's possible) and a Greek debt deal in the next few days could see the euro enjoying short-covering propulsion.

jamie.chisholm@ft.com Rolling global overview at: www.ft.com/markets

Credit: By Jamie Chisholm

DETAILS

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LINKS

Happening: Ai Weiwei

ProQuest document link

FULL TEXT

What: Works by China's most famous artist

When: February 3-June 10

Where: Stockholm Konsthall

Details: In 2011, the year in which he spent nearly three months in prison for what the Chinese government called "economic crimes", Ai Weiwei was named by ArtReview magazine as the most powerful figure in world art. It's an irony that neatly sums up the artist's situation: a criminal in his own country, a respected artistic and political figure elsewhere.

In the 1990s Ai worked as a curator, architect (collaborating on the design for China's Olympic stadium) and blogger while becoming an increasingly active critic of the Communist government; he is still unable to leave China without official permission. Much of his work refers to China before the Cultural Revolution and the subsequent shift in Chinese cultural and craft traditions; highly symbolic objects are often treated with disregard for their value or intended function, as with the vases in "Ghost Gu Coming Down the Mountain" (pictured). The works in this exhibition - video, photography, installations - have been chosen for their focus on Chinese socialism, global trade and mass production. The gallery will also screen documentary films about freedom of expression and Ai's efforts to foster social change in China.

magasin3.com

DETAILS

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LINKS

Chairman of Canon takes reins as president

Soble, Jonathan . Soble, Jonathan.

ProQuest document link

FULL TEXT

electronic equipment ; Japan group seeks stronger leadership ; Profits rise 14% at camera maker

Fujio Mitarai, the 76-year-old chairman of Canon, is to resume day-to-day control of the Japanese camera and printer maker for the first time in six years.

The company said the move was designed to strengthen its leadership at a time of economic turmoil.

The appointment, which was announced yesterday alongside Canon's fourth-quarter results, will see Mr Mitarai add the jobs of president and chief operating officer, which he gave up in 2006, to his current titles of chairman and chief executive. Tsuneji Uchida , 70, the president and chief operating officer, will leave at the end of March.

Canon has remained profitable even as a sharp rise in the yen, the tsunami, flooding at its Thai plants and stiffer competition from China and South Korea have dragged down earnings at many rivals.

Net profit rose 14 per cent in the fourth quarter of 2011 after a fall following the March tsunami, Canon said.

Canon has been mentioned as a possible suitor for Olympus, the smaller camera company that is seeking a strategic investor after an accounting scandal came to light late last year .

Toshizo Tanaka, executive vice-president, said Canon was turning to a proven leader in uncertain times. "When the outlook is unclear, it's better to rally behind the ability of a veteran than to rush to hand over power to the next generation," he said.

Mr Uchida had "expressed a strong desire to step down" in favour of Mr Mitarai, he said. Neither Mr Uchida nor Mr Mitarai were available for comment.

Net profit rose 0.8 per cent last year in spite of its fourth-quarter rebound, and sales were down 4 per cent. For 2012,

the company expected profits to rise by 0.6 per cent to Y248.6bn ($3.2bn), short of many analysts' expectations.
Mr Mitarai was president for 11 years before becoming chairman and putting Mr Uchida in control of daily operations.
He later served as head of the Keidanren business lobby, making him one of the country's most influential business figures .
Mr Tanaka suggested he might retain the dual titles of president and chairman until 2016.
Japanese corporate successions are usually orderly and few presidents serve non-consecutive terms.
There have been exceptions, however. Most recently, in 2008 Osamu Suzuki, the then 78-year-old chairman of Suzuki Motor, reassumed the company's presidency after an eight-year absence.
See Lex

Credit: By Jonathan Soble in Tokyo

DETAILS

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The Davos consensus is under siege

Rachman, Gideon . Rachman, Gideon.

FULL TEXT

If nothing else, Newt Gingrich's campaign for the US presidency has contributed an excellent new phrase to the language. His coinage - "pious baloney" - kept popping into my head in Davos last week, every time I saw the World Economic Forum's ubiquitous slogan: "Committed to improving the state of the world".

Shocking as it may seem, the assorted bankers, businessmen, oligarchs and autocrats who descend on Davos each year are not motivated principally by altruism. And yet Davos this year did feature much agonising about inequality. In a few cases, this may have reflected moral unease. But pragmatism was even more important. Davos is effectively a festival of globalisation for men in suits and snow boots - who now fear that the argument for globalisation may be lost in the west.

Peter Mandelson, a former EU trade commissioner, caught the mood when he told a lunch that politicians need to persuade people that globalisation and free trade are still good, even when they are blamed for higher unemployment and stagnant wages. From the platform came numerous suggestions of how this might be done: stimulate growth in Europe, invest in education, get the Chinese and Germans to spend more.

Yet for all the words spilled, the two most significant speeches made on these themes last week were not delivered in Davos. They were Barack Obama's State of the Union address and a barnstorming campaign speech made by Francois Hollande, the Socialist party's candidate for the French presidency.

These speeches deserve to be read as a pair. Both men bemoaned rising inequality. Both promised higher taxes for the rich and more support for the middle classes. Both attacked high finance. Mr Hollande went as far as calling the world of finance a faceless government and "my true adversary". Both speeches promised to bring manufacturing jobs and factories back home - an idea that is usually deemed impossible in Davos. Mr Obama said his blueprint for strengthening the US economy, "begins with American manufacturing". Mr Hollande called for France's "reindustrialisation".

Alongside positive measures to encourage manufacturers, both the American president and the French would-be president stressed measures that are implicitly protectionist. Mr Obama promised to set up a trade enforcement unit charged with investigating "unfair trade practices" in countries such as China. Mr Hollande denounced "unfair competition" and proposed to rectify it, by telling foreign countries to raise their social and environmental standards, or face tariffs.

If these speeches weren't ringing in the ears of Davos delegates, they should have been. Davos is all about globalisation. And yet here were the likely winners of the two most important elections in the western world this year calling key elements of the whole construct into question. Mr Hollande promised to reassert the "sovereignty of the republic, in the face of globalisation".

In Davos, the most popular explanations for the backlashes against globalisation and high finance stressed the change in political mood after the financial crisis. Lavish rewards for bankers are a tough sell these days. The west is struggling while Asia booms.

But there are also structural forces at work. Globalisation contributes to inequality in the west by creating a global labour pool that holds down wages, while boosting corporate profits. Before the financial crisis - when economies were growing strongly and credit was easy - the middle classes were able to share in the proceeds of growth by borrowing heavily, while the poor could be protected through generous social spending. But now, with a credit crunch and pressure to cut welfare budgets, these adjustment mechanisms are much weaker.

The Davos consensus is that Europe needs more "structural reform" to balance budgets and spur growth. Raising the retirement age is almost always on the list of necessary reforms. Angela Merkel, the German chancellor, made a speech in Davos that stressed the need for austerity and economic liberalisation. She has warmly praised Mario Monti, the Italian prime minister, who is committed to cutting the costs of pensions.

Yet Mr Hollande is kicking against this consensus. He promised to lower the French pension age back down to 60, reversing one of president Nicolas Sarkozy's few significant reforms to the welfare state. If Mr Hollande wants to find somebody talking the same language, he should look across the Atlantic, rather than across the Rhine. Mr Obama is also trying to strengthen the social safety net, by expanding health benefits.

It should not be forgotten that both Mr Hollande and Mr Obama are campaigning. The US president's stress on higher taxes for the rich is helpful when he is likely to be running against a multi-millionaire whose effective rate of tax was less than 15 per cent. Mr Hollande's tack to the hard left may be partly a ploy to ensure he makes it to the second round of the election, by scooping up votes from small far-left parties.

But words have consequences. If the next French and American presidents are returned on the basis of campaigns that take aim at Chinese manufacturers and western bankers, that is likely to be reflected in future policy.

At the World Economic Forum last week, for all the talk of inequality and the need to demonstrate the benefits of globalisation, I heard little to suggest that "Davos man" is equipped to fend off a populist assault. The idea that "structural reform", plus austerity, plus better job training will do the trick is - well - pious baloney.

gideon.rachman@ft.com

Credit: Gideon Rachman

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LINKS

Euro foxes bearish hedge fund managers

Jones, Sam; Ross, Alice . Jones, Sam; Ross, Alice.

FULL TEXT

News analysis ; There is a widely held belief the euro will eventually fall against the dollar, write Alice Ross and Sam Jones

History is repeating itself for hedge fund managers looking to profit from a fall in the euro.

Speculators have put on record bets this month that the euro will fall against the dollar as concerns over the eurozone's debt burden rumble on. Yet, so far this year, the single currency has risen by more than 1 per cent.

That experience is all too familiar. The currency stayed stubbornly strong in 2011 in spite of increasing fears that the eurozone could break apart, and to the bafflement of many investors.

Many of the world's largest macro fund managers - who specialise in trading around complex global economic events - suffered last year on euro trades. The average global macro hedge fund dropped 3.8 per cent last year, according to Hedge Fund Research.

Managers say a significant part of the risk in trading the euro has been caused, perhaps paradoxically, by the bearish consensus on it. Short-term "political" rallies kept forcing managers out of their short positions last year - a snowball process that fed upon itself to cause even greater bounces for the single currency.

Large macro managers such as Moore Capital, Tudor Investment Corporation and Caxton Associates all saw low returns as a result of such trading difficulties .

Yet many hedge funds have since put their bets back on. The most recent figures up to last Tuesday from the Commodity Futures Trading Commission, the US regulator, show record bets on further euro falls.

Only a few days ago, however, these bets were hit after the unexpected message from the Federal Reserve that interest rates were not expected to rise until late 2014 . The dollar sank and the euro rose in response, closing some speculators with short positions out of the market.

In fact, shorting the euro has turned out to be just as fashionable - and just as frustrating - as it was in 2011.

"It continues to be a massive pain in the neck," says one currency hedge fund manager in London.

Even so, there is a widespread belief that the single currency should finally lose value against the dollar this year.

Many believe that the two possible outcomes for the euro last year - either a break-up or a quick fix - were so contrary that the markets were stuck in deadlock . Counterintuitively, analysts now argue that any agreement that averts an outright disaster in Europe should allow the euro - which is still historically overvalued against the dollar - to depreciate in an orderly fashion.

Indeed, many of the euro's props are falling away.

The European Central Bank has been cutting interest rates , with further cuts expected, making the interest rate differential between the dollar and the euro less attractive. Its decision to lend huge sums to Europe's banks in December - with a further tranche set for February - has been interpreted by the market as a form of quantitative easing, putting further downward pressure on the single currency.

In addition, central banks have slowed their purchases of the euro. Data from the International Monetary Fund at the end of December show a small dip in the value of euro reserves held by central banks around the world and a rise in dollar reserves. While some of that is down to valuation measures, investment banks say that central banks' appetite for buying euros is continuing to wane.

Stephen Jen, the former Morgan Stanley foreign exchange chief strategist who now runs his own hedge fund, SLJ Macro, is among those macro hedge fund managers who are confident that, this year, the eurozone's perilous situation will have a more sustained impact on its common currency.

Weaker economic growth should drive down the euro regardless of the political risks surrounding the Greek, Portuguese or Italian debt situation, many managers believe.
"A recession means lower inflation, lower interest rates and a lower level of aversion/objection among the policymakers of Europe towards a weaker euro," Mr Jen has told his clients.
Yet in spite of the fundamental picture, the uncanny similarity of the euro's trading pattern so far this year to 2011 is making some investors nervous. Some are looking for alternative ways to express a negative view on the euro.
Shorting other European currencies against the dollar, including the Swiss franc and the Swedish krona, has become popular this year.
Others are shorting the euro against emerging market currencies. The Mexican peso, the Turkish lira and the Brazilian real have had a particularly strong month against the euro .
But some are steering clear of big fundamental bets. Brevan Howard, Europe's largest macro hedge fund, lost money in foreign exchange trading even though the fund was up 12 per cent last year, it told its investors in a recent letter.
Brevan plans to eschew trying to profit from the eurozone's short-term political shifts and instead focus on broader themes this year.
"The European sovereign and banking issues appear to be approaching a head and may result in extreme outcomes [in either direction]," the company said. "One risk that we are particularly careful to avoid is betting on the outcome of the eurozone crisis."
www.ft.com/euro

Credit: By Alice Ross and Sam Jones

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LINKS

Victory for Merkel as EU leaders agree to treaty on fiscal discipline

Spiegel, Peter . Spiegel, Peter.

ProQuest document link

FULL TEXT

European leaders last night agreed to back a fiscal discipline treaty, handing Angela Merkel, German chancellor, a symbolic victory in her months' long drive to enforce tough budget limits for the single currency.

Under the pact, eurozone countries would be legally bound to balance national budgets over time - a price that European leaders see themselves paying to ensure Berlin's fiscal might continues to back the single currency.

But it also comes as leaders and institutions - from the International Monetary Fund to Italy's new prime minister - question the austerity-centred policy backed by Ms Merkel. Some likened the new pact to outlawing Keynesian-style fiscal stimulus. "We have to learn to explain that it's not just about the consolidation of our finances, but we also need the prospect of growth," Jean-Claude Juncker, Luxembourg's prime minister, said as he headed into the European Union summit in Brussels. As a consequence, the summit was nominally focused on creating new jobs in the EU.

The talks were not without drama. The Czech Republic joined the UK by failing to agree to the pact. A Polish-led group of non-euro countries including Sweden and Hungary had threatened to break from the pact if they were not given a seat at eurozone-only summits, but in the end it was only the Czechs that refrained from the deal.

David Cameron, the UK prime minister who in December vetoed changes to the EU treaty, was not planning to block members of the fiscal pact from using EU-wide institutions, according to William Hague, foreign secretary.

The treaty aims to force eurozone countries with high debt levels to bring their budget deficits down to 0.5 per cent of their economic output. There was debate about how much wiggle-room countries would get to breach new limits, with Berlin and the European Central Bank arguing for tighter wording in the treaty's so-called "escape clause".

EU officials believe the treaty, to be formally signed in March, is the first move in a carefully orchestrated strategy they hope will play out over the next two months to win back market confidence. The second step is likely to come in February, when EU officials hope to resolve how to pay for a growing gap in Greece's budget.

If eurozone leaders are then able to parlay such a deal to get international support for more IMF resources, officials believe it will force Germany to back increasing the size of the eurozone's rescue fund from EUR500bn to about EUR750bn.

Eurozone turmoil, Page 6 Editorial Comment, Page 12 Philip Stephens, Page 13 www.ft.com/eurozone

Credit: By Peter Spiegel in Brussels

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LINKS

The Short View

Mackintosh, James . Mackintosh, James.

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FULL TEXT

Germany is quite right to think outside control of the Greek budget is needed to impose austerity. Athens should accept, on condition that a Greek runs Germany's finance ministry, increasing spending to ensure German inflation. The combination would help solve the eurozone's problems.

Athens' dismissal of the German plan contributed to a glum market mood yesterday. The five-year US Treasury bond hit a record low yield, while 10-year yields in the havens of the US, Germany and the UK are all below 2 per cent.

Equities fell, but have decoupled from bonds since the autumn. Shares are up about 20 per cent, but bond yields have barely budged. Bonds are priced for the west to turn Japanese.

Uber-bears, led by Societe Generale's Albert Edwards, have predicted this for years. But investors coming around to the view now have missed the big gains. The lesson from Japan - as well as the yield - suggests the gains still to be had may not be that great.

Japanese government bond (JGB) 10-year yields are back below 1 per cent, less than half America's 1.8 per cent. If the US follows Japan there are gains to be made, but nothing special: in the year it took for Japanese yields first to drop from 2 to 1 per cent, in 1997-98, investors earned 11 per cent.

Strangely, JGBs have given a lower return than US bonds. From the peak of Japanese yields in September 1990, investors who rolled into each 10-year benchmark would have tripled their money. In US Treasuries, they would have made half as much again. (Include gains on the yen's rise and JGBs take the lead.)

Even worse, since JGB yields hit 2 per cent in 1997, the annual return has averaged only 3.4 per cent a year.
Buy government bonds to protect against disaster. Buy them in despair at the absence of other appealing options.
But even those preparing for the decline of the west should not expect to make much money if they are right.
www.ft.com/shortview

Credit: By James Mackintosh

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LINKS

Tech powers and a harsh lesson in survival: Stripping out failed strategies and finding new ways to excite customers is the surest way to revive fortunes

Waters, Richard . Waters, Richard.

ProQuest document link

FULL TEXT

technology

From troubled BlackBerry maker Research In Motion to fading internet power Yahoo and the bankrupt Eastman Kodak, the business headlines this year have told a familiar story: the fortunes of once-dominant technology powers can fade with unnerving severity.

Disruptive shifts in technology platforms and business models have become an unpleasant fact of life for tech companies and their investors alike. As Facebook gears up to make its regulatory filing as early as tomorrow that will set its initial public offering in train, the latest batch of troubles is a sombre reminder that the longevity of a seemingly entrenched business is far from assured.

Yet the shortening life cycles of tech powers are not inevitable. As companies as different as Apple and IBM have shown, it is possible to come back from the brink of irrelevance. Microsoft, frequently written off as a relic of the fading PC age, has also been laying the groundwork for a broader repositioning of its business, though its success is still unproven.

Given the sort of rapid shifts that can afflict technology companies, being alert to the danger is the first and most important quality needed for survival. That makes RIM, once comfortable in its role as the pioneer of mobile email, Exhibit A in corporate denial .

Asked about the threat to BlackBerry from the launch of the iPhone, the Canadian company's leaders brushed aside any danger, points out Rita McGrath, an associate professor at Columbia Business School.

By the time they saw the need to overhaul their own product line up - a move that eventually forced them into an acquisition to purchase a suitable new mobile software platform - it was too late.

RIM has fallen foul of some of the biggest forces to shape technology markets. One is the "consumerisation" that has turned parts of the once slow-moving corporate technology business into fashion-driven markets demanding new skills. RIM hardly believed that its BlackBerry users, tied to their corporate email systems, would so quickly cut the tie.

Another is the winner-takes-all nature of technology platform shifts that can quickly leave former industry leaders out in the cold. With software developers switching their attention to the new Apple and Google mobile software platforms, RIM now faces an uphill battle in putting itself back at the centre of the mobile technology ecosystem.
Even when they do succeed in identifying the mortal threat posed by a future technological disruption, it has proved remarkably hard for many tech concerns to adapt.
"The evolving digital technologies had been obvious to us since the late 70s," says Larry Matteson, a former Kodak executive who was once in charge of 23,000 people in the company's manufacturing division. That foresight didn't prevent a long slide that resulted in a filing for bankruptcy protection this month.
Kodak played it by the management text book: it identified its sustainable competitive advantages and sought to use these as a basis for diversification into new markets that would make up for an expected erosion of its film business.
Those strengths, according to Mr Matteson, now a professor at the Simon Graduate School of Business at the University of Rochester, included a powerful research and development base, particularly a world-leading position in organic chemistry; a specialist manufacturing capability learnt in the film business; and one of the top global consumer brands.
Kodak followed the logic of this analysis into markets as diverse as blood tests, photocopying and pharmaceuticals, with the acquisition of drug company Sterling. None proved to be the foundation for a big new business and all were later spun off.
This sequence of failures points to two of the main lessons from failed attempts by tech companies to adapt.
One is that it is not enough to dabble in new technologies. "Innovation needs to be treated as material and systematic, not an on-again-off-again process," says Ms McGrath. The vested interests inside corporations arrayed against disruptive change can be powerful.
Sony, for instance, has struggled to overcome the entrenched interests of its powerful product divisions, leaving it vulnerable to the sort of disruptive new products that often cross internal corporate boundaries, like the combination of Apple's iPod and iTunes store.
Despite often being the product of recent innovative thinking, tech companies may be worse suited to the challenge than other types of company, Ms McGrath adds. The hubris from their success is still strong, and they often lack broad management skills. "When the engineers are in power, it's easy to find that non-engineering suitable problems are not addressed," she says.
The other lesson is that strategic choices still count. Simply trying to change course and copy a disruptive new technology is often the wrong path to take.
IBM, seeing the threat to its mainframe computing business from the rise of the "client-server" era, threw its full corporate weight behind the PC business in the early-1980s. Yet it was only IBM's eventual decision to retreat from PCs that signalled it had learnt the strategic lesson: to stick to its high-margin IT business with the addition of software and services.
Kodak made a similar strategic mistake. Two decades ago, seeking a new direction, it brought in a rising star from Motorola, George Fisher, to help lead a move into digital cameras.
"They were thinking about taking a business with 60-80 per cent [profit] margins and going into consumer electronics, where 5 per cent is pretty good," says Mr Matteson.
Failing to make a go of it in digital photography, Kodak compounded its error by switching course into another challenging market: ink-jet printers. That has left it struggling against the likes of Hewlett-Packard, Lexmark and Canon, which dominate the consumer market.
IBM and Xerox, by contrast, turned in their moment of crisis to their core businesses, looking for ways to reinforce their value to their customers by enhancing what they had always done best.
"Too many companies focus on their products and not what the products are solving for the customer," says Ms McGrath. "Xerox finally figured out that customers don't want copies, they want workflows that allow them to get the right information to the right place for the right reasons, cost-effectively."
As Steve Jobs proved after returning to a near-bankrupt Apple in 1997, stripping away failed product strategies of the

past and finding new ways to excite customers is the surest way to revival.
For other executives struggling against the apparent inevitability of tech-company decline, it is a high mark to match.

Credit: By Richard Waters in San Francisco

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LINKS

Portuguese bond yields hit highs

Watkins, Mary . Watkins, Mary.

ProQuest document link

FULL TEXT

Portugal's bond yields reached new euro-era highs as many investors priced in a Lisbon default amid fears that its debt holders could suffer heavy losses once a restructuring deal with Greece is agreed.

At one point the yield on benchmark 10-year Portuguese debt rose as much as 204 basis points to 17.26 per cent.

Portuguese credit default swaps, meanwhile, rose to record levels as the market priced in about a 70 per cent chance that the country would default over the next five years.

Analysts said the market was looking to talks between private sector bondholders and Athens over how to restructure Greek debt as a possible template for any potential future negotiations with Portugal. The movement in Portugal's government bonds and CDS underscores how jittery investors have become about the risk of contagion from Greece to other troubled eurozone countries.

Earlier this month Standard &Poor's became the latest rating agency to downgrade Portugal to "junk". The move by S&P on January 13 triggered a sell-off by funds amid worries that Portugal could, like Greece, be at risk of a default.

Mohit Kumar, head of Europe and UK rates strategy at Deutsche Bank, said in part the Portuguese reaction reflected month-end rebalancing by investors in the wake of the S&P downgrade. But he said there was clearly also "broader market concern" that Portugal would need a further support package from the European Union.

Divyang Shah, global Strategist at IFR, said what was noticeable was the "radio silence" from the European Central Bank over Portugal. The ECB has scaled back purchases of government bonds, buying just EUR63m of eurozone sovereign debt in the week to January 27, versus EUR2.24bn the previous week.

"What is concerning is the lack of political commentary with regards to Portugal, almost as if things need to get 'worse' before it starts to register as an issue that needs addressing," said Mr Shah.

Greece's unresolved debt restructuring talks continue to overshadow more positive news. Last month's move by the ECB to offer a EUR489bn programme of three-year loans to more than 500 of the region's banks, averting a liquidity squeeze, has this month aided stocks and pushed bond yields for Italy and Spain lower.

Elsewhere, an Italian auction saw yields on 10-year bonds ease to 6.08 per cent compared with 6.98 per cent at the end of last year - the lowest point since October 2011.

Italy sold EUR7.48bn of five and 10-year bonds, just shy of its EUR8bn target, in a key test of demand for its longer-dated issues after a recent downgrade by Fitch.

Analysts said Italy's auction showed that the ECB's EUR489bn loan programme was having an impact, even on the price of longer-dated debt. However, Italian bond yields still remain susceptible to sentiment on the wider eurozone crisis.

Credit: By Mary Watkins in London

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LINKS

Sunshine Oilsands set to float in HK

Cookson, Robert; Hook, Leslie . Cookson, Robert; Hook, Leslie.

ProQuest document link

FULL TEXT

oil &gas

Sunshine Oilsands, a Canadian tar sands company backed by Chinese state-owned enterprises, has shunned Toronto and will next month launch an initial public offering in Hong Kong that could raise as much as $600m.

The company plans to sell a 25 per cent stake in the offering, according to people close to the deal, with the shares due to start trading by the end of February. It would be the world's biggest IPO so far this year, according to Dealogic.

Sunshine's decision to float its shares on the Chinese exchange is significant because its peers have traditionally listed in Toronto, where investors have had years of experience valuing unconventional oil deposits.

Sunshine's choice of Hong Kong was influenced by some of its leading shareholders, which are controlled by the Chinese government.

Last March, Sunshine raised C$230m (US$227m) from investors including China Life Insurance and Bank of China Group Investment.

China is the world's second-largest crude importer, after the US, and its voracious appetite for oil has prompted Chinese companies to invest aggressively in non-traditional oil sources including oil sands, shale oil and gas, and deepwater oil reserves.

While oil sands projects, most of which are based in Alberta, have been criticised in Canada and the US because of their environmental impact and carbon emissions, Chinese companies have had few qualms about investing in them.

Last year Cnooc, China's largest offshore oil producer, acquired Opti Canada , a bankrupt oil sands producer, for $2.1bn including debt.

Sunshine and its IPO bookrunners - Bank of China International, Deutsche Bank and Morgan Stanley - started sounding out potential investors yesterday and will begin taking formal orders for the shares next week. The company plans to set a final price for the shares on February 14, ahead of its market debut on February 21.

The share sale will provide a test of investor demand in the Hong Kong market, which has hitherto seen few listings by lossmaking resource companies with large investment plans.

As Sunshine's projects are at an early stage of development, the company will not generate a profit until 2014 at the earliest, according to a report by Bank of China International. The report values the company at between $1.8bn and $2.3bn, but warns that it faces "high execution risk" and would suffer from a decline in the price of oil.

Sunshine was founded in 2007 by Michael Hibberd, a former financier at ScotiaMcLeod, and Songning Shen, a geologist. Mr Hibberd and Mr Shen are co-chairmen of the group.

Oil sands are composed of bitumen mixed with sand, clay and water. The bitumen needs to be extracted from the sand using hot water or steam and then processed before it can be fed into a typical refinery.

Other big oil sands investments from Chinese companies include Sinopec's $4.7bn purchase of a stake in Syncrude in 2010.

Credit: By Robert Cookson in Hong Kong and Leslie Hook in Beijing

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LINKS

Euro slides on Greece nerves

Ross, Alice . Ross, Alice.

ProQuest document link

FULL TEXT

currencies

The euro moved off a seven-week high against the dollar yesterday as investors grew nervous about the lack of an outcome on talks between Greece and its creditors to restructure the nation's debt.
The single currency slid 0.7 per cent to $1.3128, while the dollar gained ground against other significant currencies amid the lower risk appetite.
Sterling was 0.3 per cent lower against the dollar at $1.5688 while the Australian dollar lost 0.3 per cent to $1.0592.
The retreat in the euro's value came as European Union leaders concluded a meeting in Brussels to finalise a treaty that would impose tighter fiscal rules on eurozone nations. Analysts said a positive tone at the summit as well as a decision from Greece on its debt package could help the euro to move higher in the coming days.
Speculators put on fresh record shorts on the single currency in the week to last Tuesday, according to the most recent figures from the US Commodity Futures Trading Commission.
This is expected to lead to widespread covering of those short positions if the euro rises again in the near term.
However, many analysts have said they expect the euro to move lower in the weeks ahead.
"Despite the latest positive news flow we remain intensely cautious on the euro's prospects in the run-up to the March 20 Greek bond redemption," said Chris Walker, an analyst at UBS.
"With the euro having already rallied . . . from the lows, we remain on alert for opportunities to enter fresh shorts."
The pressure on the euro led to a fresh high in the Swiss franc, which hit its strongest level against the eurozone's common currency since the Swiss central bank intervened to weaken its currency in September.
The central bank has said it will step in and buy euros to weaken the franc if the single currency moves below SFr1.20.
Currency traders said they were watching the currency pair closely for any sign of fresh intervention.
The euro fell 0.1 per cent to a low of SFr1.2050.
www.ft.com/currencies

Credit: By Alice Ross

DETAILS

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LINKS

BlueCrest set to float new vehicle in London

Jones, Sam . Jones, Sam.

ProQuest document link

FULL TEXT

general financial ; Hedge fund aims to raise $230m ; Fund poised to end new-money freeze

BlueCrest Capital, one of Europe's biggest hedge funds by assets, is poised to float a new vehicle on the London stock market as it begins to open up one of its main funds to new investments for the first time in years.

The company, which moved the bulk of its operations to Switzerland to take advantage of lower tax rates for its top traders in 2010 , conservatively expects to raise $230m through the listing to invest in its $13.6bn BlueTrend offshore hedge fund. The computer-driven BlueTrend is one of the most successful hedge funds to have navigated the financial crisis, but has been closed to new money - like many of BlueCrest's funds - since early 2010.

People close to the company said it was now ready to begin accepting fresh investments after work to fine tune its complex computer programs, which are responsible for all the fund's investment decisions, so that they can operate at greater capacity.

The fund, headed by the publicity-shy Brazilian-born Leda Braga, returned 42.8 per cent in 2008, compared to an average loss of 19 per cent for the industry.

It closed to new investment with assets of $9bn but continued to expand thanks to performance and greater allocations from existing investors.

As well as raising money from the listing, BlueTrend will be cautiously accepting new money from new big-ticket investors directly. People familiar with the firm said it would nonetheless be discriminating when picking investors.

BlueTrend's strong historic performance also means the actual amount raised in the flotation could be significantly higher than expected.

BlueCrest, which manages assets of $28.6bn, already has one vehicle - AllBlue - listed in London with assets of close to pound(s)1bn. A share offering for AllBlue last year was subscribed several times , raising pound(s)350m.

BlueTrend, in common with other computer-driven hedge funds, has performed less well recently - it returned only 0.1 per cent in the whole of 2011.

The fund's computer program, which aim to spot and ride price trends in dozens of different instruments around the world, was wrongfooted by volatile, politically charged markets.

Such difficulties have not stopped some rival trend-following funds taking in huge new allocations from investors.

Winton Capital, the world's largest trendfollowing hedge fund manager, saw its assets increase by $10bn last year . Winton's flagship fund made 6.3 per cent in 2011.

In 2010, BlueCrest shut down a version of BlueTrend that was open to retail investors because of concerns over its ability to mirror performance of the main offshore fund. The fund had an estimated $630m of investor money.

See Lombard

Credit: By Sam Jones, Hedge Fund Correspondent

DETAILS

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LINKS

US fines Japan car parts makers $548m in price-fixing probe

Simon, Bernard . Simon, Bernard.

ProQuest document link

FULL TEXT

Two of Japan's biggest car parts makers, Denso and Yazaki, have agreed to pay fines totalling $548m to the US government as part of a widening global price-fixing probe.

The Department of Justice said yesterday that four Yazaki executives had also agreed to plead guilty, and would serve prison terms of between 15 months and two years each.

The action against Denso and Yazaki comes on the heels of price-fixing investigations into numerous other suppliers of electrical and electronic -components.

The department's antitrust division described the car parts investigation as the biggest it had ever pursued in terms of its scope and the volume of trade affected by the illegal conduct. The investigations have involved authorities in the European Union, Japan and Canada.

Sharis Pozen, acting assistant attorney-general, said that "our investigation is still active and ongoing".

Furukawa Electric agreed last September to pay a $200m fine in the car parts probe. Three Furukawa executives, all Japanese citizens, pleaded guilty and were sentenced to prison terms.

Car parts makers around the world have come under intensifying scrutiny from antitrust regulators in the wake of a spate of acquisitions and other industry developments that have spurred concerns about uncompetitive practices.

The DoJ and the European Commission revealed last summer that they were investigating Sweden's Autoliv and Michigan-based TRW, two of the biggest suppliers of airbags and safety belts.

Autoliv said that while it could not predict the duration or outcome of the US and EU investigations, its operating results and cash flows "will be materially impacted".

The DoJ did not name the victims of Denso's and Yazaki's actions, but said that the guilty executives worked in Yazaki's Honda and Toyota divisions. Toyota owns a 23 per cent stake in Denso.

Credit: By Bernard Simon in Toronto

DETAILS

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LINKS

Support grows for Arab peace plan

Blitz, James; Carnegy, Hugh; Clover, Charles; Dyer, Geoff; Fielding-Smith, Abigail; Khalaf, Roula . Blitz, James; Carnegy, Hugh; Clover, Charles; Dyer, Geoff; Fielding-Smith, Abigail; et al.

ProQuest document link

FULL TEXT

UK, US and France back transition ; Russian intentions at UN still unclear

Britain, France and the US will be making their most forceful push yet for a political transition in Syria at the UN Security Council this week, lending support to an Arab plan that they hope will overcome Russian opposition.
As Syrian forces move to assert control over Damascus suburbs that have fallen into the hands of the opposition in the more than 10-month uprising, the foreign ministers of France, the UK and the US will be in New York today to listen to a briefing from senior Arab officials.
Nabil Elaraby, head of the Arab League, and Hamad bin Jassim al-Thani, the Qatari prime minister, are expected to plead for UN support to a plan that calls on Bashar al-Assad, the Syrian president, to delegate powers to his deputy and allow for a national unity government.
"It's an all-out push for the Arab peace plan," said a western diplomat. Paris and London said yesterday that they had the support of 10 out of 15 Security Council members, which would mean a resolution can be put to a vote. But it remains unclear how Russia, which last year vetoed a much milder resolution, will vote.
Moscow has long feared that any UN move would be a precursor to military action similar to the events that led to the Nato operation in Libya. Gennady Gatilov, deputy foreign minister, told the Interfax news agency that Russia would reject the current draft because "it leaves the door open for intervention". In what analysts saw as an attempt to pre-empt the UN debate, the Kremlin said yesterday it was trying to put together talks in Moscow between Damascus and the Syria opposition.
Interfax quoted an anonymous foreign ministry official saying the invitation to a dialogue "had already received a positive response from the Syrian regime. We are counting on agreement from the opposition as well in the coming days."
Officials from Syria's main umbrella opposition - the Syrian National Council - said they had not received an invitation. But the SNC is unlikely to attend a dialogue with Mr Assad, particularly as his regime's military assault continues.
"We don't consider them [Russia] honest brokers, they are continuing to send weapons to the regime," said Najib Ghadbian, a member of the SNC's general secretariat.
French and British diplomats say Russia can no longer block a UN resolution. "We're trying to convince Russia that they cannot stay in their posture of opposition to a resolution while there is this much killing on the ground," said a French official.
David Cameron, prime minister, called the situation in Syria "appalling'' and appealed yesterday to Russia to back the UN resolution. "It is time for all the members of Security Council to live up to their responsibilities instead of shielding those who have blood on their hands,'' Mr Cameron said.
The state department said Hillary Clinton, US secretary of state, had been trying to call Sergei Lavrov, Russia's foreign minister, for the past 24 hours, but he had been "unavailable".
If a resolution on Syria is passed in the next few days it would still not contain sanctions against the Assad regime, which Russia would not back. But according to a European diplomat the draft would allow the Security Council to review progress every 15 days after a resolution is passed.
Additional reporting by Geoff Dyer in Washington, Hugh Carnegy in Paris and Abigail Fielding-Smith in Beirut

Credit: By James Blitz and Roula Khalaf in London, and Charles Clover in Moscow

DETAILS

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LINKS

US banks lifted by Europe's woes

Harding, Robin . Harding, Robin.

FULL TEXT

Europe's debt crisis has kept US banks cautious on lending but they have benefited from a reduction in foreign competition, according to the Federal Reserve's latest survey of senior loan officers .

The quarterly survey found that domestic banks are not easing their lending standards and foreign banks in the US are tightening up. But 31 per cent of US banks, including 49 per cent of the largest, said reduced competition from Europe had boosted business during the past six months.

"The Fed's latest senior loan officer survey revealed that the ongoing crisis in the eurozone is beginning to have a more marked impact on domestic credit, with foreign-owned banks tightening lending standards on loans to American businesses," said analysts at Capital Economics.

But the results suggest that US banks, along with rivals in other countries such as Japan and Canada, have picked up some of the slack left by European banks in retreat from US lending. "About half of the respondents who reported competing with European banks noted such an increase in business," said the report.

Separate data on US money market mutual funds suggest that dollar deposits withdrawn from European banks have gone to other international banks or directly into US bond markets.

There has also been an effect in the other direction, with US banks tightening their supply of credit to Europe. Thirty-seven per cent of US banks tightened lending standards for companies with large operations in Europe and 58 per cent tightened their standards for banks with large European operations. That kind of feedback could lead to even slower growth in Europe.

Meanwhile, there were encouraging signs of increasing demand to borrow in the US, compared with a weakening of demand in the previous survey. Thirty per cent of large banks reported greater demand from companies with sales above $50m and only 10 per cent reported a decline. Thirty-nine per cent of banks reported moderately stronger demand for commercial real estate loans. There was little change in demand for mortgages.

A lack of demand for credit has been a feature of the recovery and one reason why the ultra-low interest rates adopted by the Federal Reserve have been slow to kick-start the economy. Last week, the Fed forecast that rates will remain close to zero at least until "late 2014".

There were some signs that the low interest-rate environment is leading to increased competition and driving down the cost of credit even though lending conditions remain tight.

Almost half of banks said they had cut the spread that they charge on industrial loans and a similar percentage cited more aggressive competition as a reason for having done so.

Credit: By Robin Harding in Washington

DETAILS

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LINKS

Beijing watches on as village experiments with democracy

Anderlini, Jamil; Jacob, Rahul; Zhou, Ping . Anderlini, Jamil; Jacob, Rahul; Zhou, Ping.

ProQuest document link

FULL TEXT

Wukan ; Some officials fear a local election will kick-start a perilous political journey, write Rahul Jacob and Jamil Anderlini

When the residents of the small southern Chinese fishing village of Wukan vote in a local election tomorrow, the person with most at stake will not be one of the 25 candidates.

For Wang Yang, the most powerful Communist party official in Guangdong, China's wealthiest province, the success or failure of this very unusual experiment in Chinese democracy could have a big effect on his political ambitions.

Wukan became famous last year during protests by thousands of villagers over a land dispute that saw the village sealed off by security forces. Mr Wang's decision not to resort to a brutal crackdown and instead promise a free village election to placate villagers helped defuse the crisis.

But this has also earned him some enemies among political rivals who fear that the move could lead to copycat actions elsewhere in the country.

Volunteers have spent the past 10 days conducting a door-to-door voter registration drive with 7,800 residents so they can vote tomorrow to select an election committee.

China has had village level elections since the late 1980s but it has not led to the hoped for democratisation because party officials wield so much power at the rural level, often vetting the candidates who can stand for election. The election in Wukan is different because it was prompted by villagers' demands that an allegedly corrupt party official who had ruled the village for decades be removed.

Mr Wang told a party meeting in January that he hoped Wukan would provide a template for "reforming village governance across Guangdong".

While Mr Wang sees the election as a solution to China's problem of mass rural protests, other more conservative leaders believe Wukan is the first stop on a perilous political journey.

"Officials in other provinces are complaining that he is setting a terrible precedent. They worry [about] people in their jurisdictions rising up and demanding a similar response," says a member of the Chinese People's Political Consultative Conference, the advisory body to China's parliament.

In Wukan, the protests that escalated in December were sparked by the sale of 660 hectares of communal village land over several years by Xue Chang, a party official, who had ruled the village for four decades. A report by the Chinese Academy of Social Sciences last year on urban development estimated that 3m farmers each year lost their land in similar circumstances.

Earlier in January, protesters marched to the governor's office in a village on the outskirts of Guangzhou, the provincial capital . They named Wukan as the inspiration for their action, as have other protesters in recent weeks.

With so much riding on the election, the feisty 20-something leaders of the protests in Wukan are proceeding with caution. Although they were at the forefront of December's protests, they have ceded the provisional leadership of the village elections to the older generation led by Lin Zualan, 67 . Miss Hong, a 30-something Wukan villager, said the young leaders of the demonstration had been happy to help with the preparations but have left the running of the election to the more experienced leaders in the village.

"They have eaten more salt than [the youngsters] have eaten rice," she said.

The villagers have planned a rigorous process whereby those elected tomorrow will supervise the election, likely to be in February, of 13 village representatives. These representatives in turn will act as an ombudsman that monitors the governance of the village committee, also to be elected this spring.

This lengthy process is designed to prevent the monopoly on power enjoyed by the erstwhile village governor, Mr Xue.

"The good thing is Wukan people know exactly what they want. They haven't been lured by people buying votes. They are focusing on the long term," said Zhang Lifan, a historian.

There is, nevertheless, plenty of scope for things to go wrong as the new representatives will have to deal with difficult

issues such as returning land to villagers and an investigation into the death in police custody in December of a popular village leader. This would likely require punishment of party officials. "Nothing has changed. We have to see if the election process will be able to resolve our complaints," says one of the more impatient leaders of the December protests.
Meanwhile, one well-connected member of the CPPCC summed up Mr Wang's risky endeavour in harsh terms: "If the results are not great, his political career could be over."
Additional reporting by Zhou Ping
Editorial Comment, Page 12

Credit: By Rahul Jacob in Hong Kong and Jamil Anderlini in Beijing

DETAILS

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China chastised on rare earths

Beattie, Alan; Chaffin, Joshua . Beattie, Alan; Chaffin, Joshua.

FULL TEXT

EU demands looser policy on exports ; WTO backs ruling on raw material sales

The EU has demanded China loosen its policy on sales of rare earth materials after the World Trade Organisation upheld a ruling that Beijing's policies to limit raw material exports violated international trade rules.

The case, brought in 2009 by the EU, US and Mexico, touches on one of the biggest sources of tension in the world trading system: the use of export restrictions to hoard raw materials for the use of domestic manufacturers.

The WTO's appellate body issued its decision yesterday, endorsing a previous finding that export duties, quotas and other policies enacted by Beijing to limit the foreign sale of nine raw materials were not justified on environmental or self-sufficiency grounds.

The EU, US and Mexico argued that the higher prices their manufacturers were forced to pay for goods such as bauxite, coke and zinc put them at a disadvantage across a wide swath of industries such as steel, batteries, chemicals and ceramics.

The case highlights the global scramble to secure supplies of raw materials after huge swings in commodity prices over the past few years. It also represents an example of the US and the EU joining forces to confront China on trade matters - a strategy that both Washington and Brussels believe will help maintain leverage over the world's second-largest economy.

The WTO case has acquired even greater importance amid Beijing's moves to impose similar restrictions on the export of rare earths, a category of 17 elements that are found in an array of high-tech products, including solar panels, wind turbines and mobile phones.

Such goods are becoming an increasingly important battleground for trade conflicts, with the US having launched a wide-ranging investigation into China's support for its renewable energy industry. Solar power companies in America have recently sought emergency anti-subsidy tariffs against imports of Chinese solar cells.

China accounts for more than 90 per cent of global production of rare earth materials. That dominance has unnerved its trading partners - particularly since Beijing has moved repeatedly over the past four years to tighten its supplies.

The EU and the US have so far refrained from filing WTO complaints against China over rare earths, hoping that their victory in the raw materials case would convince Beijing to revise its policies.
In a statement issued shortly after the ruling, Karel De Gucht, the EU trade commissioner, urged China to take action. "China now must comply by removing these export restrictions swiftly and, furthermore, I expect China to bring its overall export regime - including for rare earths - in line with WTO rules," Mr De Gucht said.
Ron Kirk, the US trade representative, called the ruling "a tremendous victory" that "ensures that core manufacturing industries in this country can get the materials they need to produce and compete on a level playing field".
The Chinese mission in Geneva expressed regret over the ruling but said that Beijing would respect the decision.
China agreed to cut export quotas and taxes when it joined the WTO in 2001.
The issue has been particularly sensitive for the EU because its manufacturers are so reliant on imported raw materials .
The commission estimated that the bloc's annual imports of the materials cited in the case, which also include fluorspar, magnesium, manganese, silicon carbide, silicon metal and yellow phosphorous, exceeded EUR1bn.
In order to obtain the materials at competitive prices, it said that European companies have been forced to relocate manufacturing operations to China.

Credit: By Joshua Chaffin in Brussels and Alan Beattie in Washington

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LINKS

Metro males find their place

Rigby, Rhymer . Rigby, Rhymer.

ProQuest document link

FULL TEXT

Women have long struggled to balance work and personal life, but now some men are trying to have it all too, writes Rhymer Rigby

In the recession of the early 1990s, the long-running Alex cartoon strip, which satirises an investment banker, ran a storyline where the titular character was made redundant. In one scene, his wife Penny comments how well he and his son are getting on. Alex replies that this is a matter of embarrassment to him - in finance only a loser spends enough time with his kids to bond with them. He explains that he should be a shadowy figure who makes his children cry.

At the time, the joke was spot on. But does it still hold? The idea of achieving a work-life balance has long been a management topic for career-minded women with children. But increasingly, the debate has also started to gain currency with men.

For many 30 or 40-something male executives, work alone does not define life in the way it once did. As people talk about portfolio careers, they now have portfolio lives of which work is an important part, but by no means the only part. They want to spend time with their families - and they may well want their work to be creative or reflect their interests. Some men now want to have it all.

David Canadas, wine buyer for Spain for Les Caves de Pyrene, an importer and wholesaler, is emblematic of this trend.

"When I was deciding what to do after I graduated [in economics], it was either a case of something that paid a lot of money or something I was interested in," he says.

Mr Canadas's work takes him abroad four to five days a month but he has made arrangements for when he is working in the UK to offset that absence. "I work from home which means I can take my son to the childminder three to four days a week," he explains. "It is quite flexible and I get to see my son a lot. I know people who leave at 7am and return when their kids are in bed. It's hard to imagine doing that."

Mr Canadas is by no means alone. Visit a nursery or school at drop-off, and you are just as likely to see dads dressed in expensive and artfully distressed jeans, deconstructed jackets and retro T-shirts. This doesn't mean that they're not serious about their careers, just that they work for companies where you can dress like this and where they have made allowances for their personal lives.

The rise of mobile technologies and devices, from the BlackBerry to iPad and smartphones, has also meant many dads are able to be in touch with the office without needing to be there all of the time.

This type of metropolitan male is not new but he was first given a name in the 1990s under the neologism of "metrosexual" (metropolitan and heterosexual). At the time, they were largely identified by their adherence to personal grooming and fashion, and over the past two decades, the phenomenon has been exhaustively documented in fashion and popular culture. Gradually, it has become more widely accepted for men to be interested in their looks, their clothes, family, food, art and so on.

However, while metrosexuality may mean that male moisturisers are an acceptable topic for saloon-bar discussion, there is one area where growth of the metro-male has taken longer: the workplace.

The main reason for this lag is demographic. Trends are started by people in their 20s but companies tend to be run by people in their 40s and 50s. Thus, those who joined the workforce in the mid-1990s were, by and large, working for bosses whose mindset was formed in the 1970s and 1980s.

"A lot of it is an age thing," says Martin Raymond, co-founder of the Future Laboratory in London, a trend and innovation agency. "People in their 30s and 40s now tend to take a metro approach to work, which is softer and more about consensus. You're even seeing metrosexuals at CEO level now."

What does this mean for the world of work? Will metro-men rule the corporate world of the 2010s in the way that Gordon Gekko types did in the 1980s?

Mr Raymond believes it could. "A metro working style is increasingly becoming the acceptable way to work," he says. "There's a much greater emphasis on soft skills - and in some companies those who cling to the old ways are going to look like dinosaurs and be marginalised. In a lot of businesses these are the skills you need to survive."

Nancy Halpern, a New York executive coach agrees, and adds that success in the modern workplace is all about relationship building. "It's the idea that relationships are the most important thing," she says.

"You form deep relationships with those you work with which is a very female model.

"A lot of it is also about influencing. I coach a guy who's smart and bright but hasn't built relationships. He hasn't won hearts and minds. I'm often brought in as a coach to work with people who are functionally brilliant but don't play well with others."

Eddie Erlandson, an executive coach and co-author of Alpha Male Syndrome , defines the issue in terms of a female leadership style. "The metro male style is a hybrid of male and female styles," he says. "It's a kind of middle ground where the greatest effectiveness exists."

Demographics are only part of the story. Many of the greatest business successes of the past 10 years have been technology companies. While tech companies aren't feminine, they're certainly not alpha male either. They're usually run by geeks, and geeks and metros often have common ground, whereas geeks tend to view traditional alphas with at best, antipathy.

As well as companies themselves, the working environment is going this way too. Ms Halpern notes that open plan offices encourage relationship-building and collaboration.

Virtual infrastructures such as LinkedIn and Twitter also foster the idea that you are the sum of your workplace relationships - and in companies with only four levels from top to bottom, your relationships really may be as

important as your place in the hierarchy.
Does all this mean that trendily dressed 40 somethings who can cook a paella from scratch and whose children's school plays are diarised alongside their client meetings will be taking over the workplace?
To an extent, yes. But it is arguable that the very best leaders have always had a metro-male element to the them. As Mr Erlandson puts it: "Alpha males with better communication skills and greater interpersonal skills have always been more effective."
And that perhaps points to a future model executive: the alpha metro male.
Are you a metro man?
Are you leaving work at 5:15pm today because you have to:
a) catch a flight to Geneva?
b) pick up the kids?
In the office do you wear:
a) a suit that cost pound(s)1,500?
b) a T-shirt, distressed jeans and jacket that cost pound(s)1,500?
Did you arrive at work:
a) in a sports car that is the pinnacle of Italian engineering and style?
b) on a bicycle that is the very pinnacle of Italian engineering and style?
How do you feel about Jeremy Clarkson?
a) I do my best to ignore him.
b) love him.

Credit: By Rhymer Rigby

DETAILS

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LINKS

More than two reasons to oppose dual heads

Hill, Andrew . Hill, Andrew.

FULL TEXT

I'll say one thing for co-chief executives: two scapegoats are better than one. Since Research In Motion's fortunes took a sharp turn for the worse last year, its dual-leadership structure has taken a beating. With the BlackBerry-maker's decision last week to revert to one chief executive, the double-edged knives really came out for Jim Balsillie and Mike Lazaridis.

Four years ago, Canada's favourite corporate twins won a place on Barron's list of the world's best CEOs ("two under-appreciated Northern lights"); now critics are blaming the double-headed organigram for prolonging RIM's strategic agony.

These attacks place form above substance. The substantial case against RIM is that it has buckled under competitive pressure from an assault on its core smartphone market by two of the world's largest and most aggressive technology companies - Apple and Google. The worst that can be said about the co-chiefs is that they failed to respond quickly enough to that challenge. But that is a charge that could be laid against companies that had the supposed advantages of single-CEO, buck-stops-here leadership, from Nokia to Motorola.

That said, I nurse an innate suspicion of co-chief executives. Something about the just-married matiness of joint bosses rings false. Bill McDermott and Jim Hagemann Snabe seem to be reviving SAP, under chairman Hasso Plattner, but who did not cringe on reading Mr McDermott's assertion in a joint interview last year that "we have a unique way of making one plus one equal three"? Wipro's 2008 decision to give the top executive job to two people was later defended by Azim Premji, the Indian group's chairman and majority owner, using similar mystic maths : "We required the power of two, irrespective of the weaknesses of the power of two."

Most classic justifications for co-leadership fall apart under scrutiny: *It helps retain top management But it is the antithesis of decisive executive recruitment to give both candidates the job, potentially confusing lines of authority to keep egos temporarily in check. *It aids succession This is the reason used by family-owned groups trying to give the next generation an equal shot at the top. Think point 1), but with an added dose of toxic sibling rivalry. The case study here is Robert Mondavi, the Californian wine dynast . He appointed his two sons as co-CEOs in 1990, but it took the intervention of family therapists to help unscramble the arrangement after it went badly wrong. *We can't split the founders Co-founders often have complementary talents. But they don't have to be co-bosses. Over decades, Bill Hewlett and Dave Packard switched between president, chief executive or chairman of the computer group they founded. They never held the same title simultaneously. When founders outstay their welcome, the co-CEO arrangement can make it harder for a board to unseat them. *Shared leadership is strong leadership This may be the strongest justification. All corporate leadership is shared to some degree. Bob Frisch, a consultant, argues in his new book Who's in the Room? that it would be healthier for companies to recognise that most corporate decisions are inspired by a close-knit group of individuals - say, a triumvirate of CEO, chief financial officer and human resources director - outside the formal organisation chart. But the chief executive is solely accountable for the decision itself. "There always needs to be a tiebreaking authority," he says.

It may be significant that the current success of SAP's co-leaders comes under the watchful eye of Mr Plattner. Or that Mr Premji and Mr Mondavi were there to disentangle the arrangement. In RIM's case, where the co-CEOs were also co-chairmen, a falling-out between the duo could have led to "mutually assured destruction", in the words of Lucy Marcus, professor of leadership and governance at Madrid's IE Business School.

For all the wrong reasons, boards will continue to endorse co-chief executives. Deutsche Bank's Josef Ackermann will shortly hand over power to two successors. The theory is that Anshu Jain will pursue the global strategy while co-chief Jurgen Fitschen will be the face of the bank in its home market. But to my mind, the messy process and outcome bode ill. Inevitably, all three men were at Davos last week - hardly a sign they're comfortable delegating or dividing their duties.

andrew.hill@ft.com Andrew Hill blogs at www.ft.com/businessblog

DETAILS

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LINKS

Denso and Yazaki fined in car parts price-fixing probe

Simon, Bernard . Simon, Bernard.

ProQuest document link

FULL TEXT

cars

Two of Japan's biggest car parts makers, Denso and Yazaki, have agreed to pay fines totalling $548m to the US

government as part of a widening global price-fixing probe.
The Department of Justice said yesterday that four Yazaki executives had agreed to plead guilty, and would serve prison terms of between 15 months and two years each.
The action comes on the heels of price-fixing investigations against numerous other suppliers of electrical and electronic components.
The department's antitrust division described the probe as its biggest in terms of scope and the volume of trade affected by the illegal conduct. It has involved authorities in the European Union, Japan and Canada.
Furukawa Electric agreed last September to pay a $200m fine in the probe. Three Furukawa executives, all Japanese citizens, pleaded guilty and were sentenced to prison terms.
Car parts makers globally have come under scrutiny amid a spate of acquisitions and other industry developments that have spurred concerns about uncompetitive practices. The DoJ and the European Commission revealed last summer that they were investigating Sweden's Autoliv and Michigan-based TRW, suppliers of airbags and safety belts.

The DoJ said the guilty executives worked in Yazaki's Honda and Toyota divisions. Toyota owns a 23 per cent stake in Denso. Bernard Simon

Credit: By Bernard Simon in Toronto

DETAILS

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LINKS

Ryanair lifts full-year profit forecast

Parker, Andrew; Wembridge, Mark . Parker, Andrew; Wembridge, Mark.

ProQuest document link

FULL TEXT

travel &leisure

Ryanair has claimed vindication of its decision to ground aircraft this winter, as it raised full-year profit guidance and outlined plans to return at least EUR500m to shareholders.
Europe's largest low-cost airline, which increased fares after grounding 80 aircraft in October, said yesterday it expected to generate a net profit of EUR480m in 2011-12, compared with previous guidance of EUR440m.
The Irish carrier paid a maiden dividend of EUR500m in 2010, and Howard Millar, finance director, said it was planning a similar pay-out during 2012.
He also held out the prospect of a share buy-back, saying Ryanair was seeking shareholder authorisation for the right to purchase some of its American depositary receipts.
Michael O'Leary, chief executive, last year raised the possibility of a third special dividend during 2014 or 2015 in the absence of new aircraft orders, but Mr Millar said no decisions had been taken.
The shares closed up 0.96 per cent at EUR4.19.
Ryanair is benefiting from the economic downturn, as consumers switch to low-cost airlines.
Mr Millar said that the group should gain pricing power from consolidation and failures in the European airline industry, and noted the collapse of Span-air on Friday.
"Fewer competitors is generally good for us," he said. "It will help with improving average fares."
Ryanair reported an average fare of EUR40 in the third quarter of 2011-12, up 17 per cent from the period in 2010-11.
The increase was largely made possible by the decision to cut seating capacity and offer fewer discounted fares.

Aircraft were grounded in response to high fuel prices. This winter is the first time it expects a decline in the number of passengers. It carried 16.7m passengers in the three months to December 31, down 2 per cent from the period in 2010.
Ryanair reported revenue of EUR844m in the third quarter, up 13 per cent year on year, and pre-tax profit of EUR15.5m, after a EUR12.7m loss during the same period in 2010. Basic earnings per share were EUR1.02, compared with a loss of EUR0.69 a year ago.
Profit was boosted by December's mild weather. In late 2010 the airline had to grapple with costs from the snowy conditions in Europe. Unit costs rose 11 per cent, mainly because of an 18 per cent increase in fuel charges.
Gerald Khoo, an analyst at Execution Noble, said Ryan-air's strong revenue performance validated its decision to cut capacity.
See Lex

Credit: By Andrew Parker and Mark Wembridge

DETAILS

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LINKS

Romney's scorched earth politics anger rivals

McGregor, Richard . McGregor, Richard.

ProQuest document link

FULL TEXT

Florida lead widens after anti-Gingrich ads

Mitt Romney's campaign steamroller is bearing down on his Republican opponents in Florida's pivotal primary, in a powerful display of money and organisation that has embittered party rivals.

On the eve of today's poll, Mr Romney had a double-digit lead in an aggregate of polls compiled by RealClear Politics over Newt Gingrich, who only a week ago held a commanding lead in the state.

A clear win for Mr Romney would put him in position to wrap up the Republican nomination and challenge Barack Obama in November's election.

Mr Gingrich condemned attack-ads run against him by third-party campaign groups supporting Mr Romney, and vowed to stay in the race "until the convention" in September.

The ads, largely financed and run by so-called super-Pacs which can support candidates without co-ordinating with their campaigns, have painted Mr Gingrich as corrupt and erratic to the point of being unstable. "Frankly if that stuff [in the ads] was true, I wouldn't vote for myself," Mr Gingrich said.

Mr Gingrich also seized on comments he attributed to George Soros, the billionaire investor, claiming there was no difference between Mr Obama and Mr Romney, but if Mr Gingrich won, it would be a shame. "I am real change," he said. "I love people power, not money power."

Super-Pacs have so far spent $44m in the presidential campaigns. More than a third has supported Mr Romney, mostly by attacking Mr Gingrich. Although exact spending figures are not yet available, campaign officials said they were being outspent by the super-Pacs.

Mr Romney has been unapologetic about his scorched earth tactics in Florida, unleashed after Mr Gingrich's come-from-behind victory in South Carolina 10 days ago. "Politics ain't beanbags," Mr Romney said in a television interview.
Mr Gingrich has won support from the former Republican hopefuls Herman Cain and Rick Perry, as well as Sarah Palin, the vice-presidential nominee in 2008. Ms Palin urged her supporters "to rage against the machine" and "vote Newt" in protest at the Republican establishment's effort to marshal its forces behind Mr Romney and crush the former speaker.
There is plenty of time for Republicans to unite behind Mr Romney, but the lack of enthusiasm from its Tea Party wing could hurt the frontrunner in the general election.
If defeated in Florida, Mr Gingrich could struggle to regain his footing. Over the next three weeks there are no debates, a setting in which he has thrived, and only a few state caucuses, which require the type of deep campaign organisation he lacks.
Mr Romney's campaign has been active for months in Florida, rallying many elderly people to vote early.
Republican battle, Page 4 www.ft.com/uselection

Credit: By Richard McGregor in Washington

DETAILS

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LINKS

Transaction tax is 'feasible'

Carnegy, Hugh . Carnegy, Hugh.

ProQuest document link

FULL TEXT

The financial transaction tax announced by President Nicolas Sarkozy and due to be introduced in France in August falls well short of the scope of a controversial Europe-wide levy proposed by the European Commission and vigorously backed by Paris, writes Hugh Carnegy in Paris .

Mr Sarkozy insisted on Sunday that by taking the lead on introducing an FTT, France would provide a "shock" to push other countries into signing up to a full-blown tax covering the full gamut of financial transactions, which the president wants to see adopted at least by all 17 members of the eurozone.

"[This tax] will allow us to show to those that are reticent that an FTT is feasible, does not have perverse effects and responds to two issues: the excesses of finance and the financing of development," Francois Fillon, the prime minister, said yesterday.

Mr Fillon said the proposal would cover "naked" sovereign credit default swaps, instruments that offer insurance on sovereign debt without holding the underlying asset, and high-frequency equity trades.

But it will otherwise be limited to the purchase of shares in companies quoted on the Paris bourse and will be levied at 0.1 per cent, raising just EUR1bn a year, well below the 0.5 per cent "stamp duty" tax in place in Britain, the strongest opponent of an FTT.

Credit: By Hugh Carnegy in Paris

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LINKS

BSkyB agrees partnership with BBC over iPlayer

Bradshaw, Tim . Bradshaw, Tim.

ProQuest document link

FULL TEXT

MEDIA ; Service to feature on Anytime+ platform

British Sky Broadcasting has put aside its longstanding differences with the BBC over the iPlayer, as it seeks to expand and bolster Anytime+, its own online video service, against new competition from the likes of Netflix.

The BBC iPlayer and ITV's catch-up service will both be made available on television sets through the Sky platform for the first time later this year, as BSkyB pushes Anytime+ to a larger proportion of its subscribers.

Viewing TV shows over the internet using Anytime+ had previously been restricted to the 1.2m homes that subscribed to Sky Broadband and its pay-TV service.

By Easter, more than 5m households that have the latest Sky+HD boxes, and a broadband connection from any provider, will be able to use Anytime+ to catch up on recent Sky, BBC and ITV shows through their TV sets.

The partnership with the BBC comes just a year after BSkyB railed against the corporation's "rigid" approach to tying its video on demand content to the iPlayer , after long calling for it to "unbundle" its programming.

Last January, BSkyB hit out at the BBC Trust when it decided against syndicating BBC online video, other than through the iPlayer.

"We think the public would be better served if the BBC adopted a less rigid approach and unbundled its content for the benefit of the tens of millions of people who choose to watch TV on other platforms," BSkyB said then.

For the BBC, overcoming that hurdle "completes" the iPlayer's objective, which is enshrined in its licence-fee agreement, of "universal" availability on all the UK's main TV platforms. An integration with Virgin Media's pay-TV service has brought the iPlayer a substantial portion of its total usage in recent years.

ITV will benefit from another source of revenue for its online content, at a time when Adam Crozier, chief executive, is focused on reducing the broadcaster's dependence on advertising.

"A key part of our transformation plan is creating new revenue streams, and we see increasing consumer adoption of on-demand TV as a terrific opportunity to help achieve that goal," said Mr Crozier.

Credit: By Tim Bradshaw, Digital Media Correspondent

DETAILS

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LINKS

Rulemakers in Europe must flex muscles on Basel III

Lannoo, Karel . Lannoo, Karel.

FULL TEXT

Mario Draghi, in his former capacity as chairman of the Financial Stability Board, called the loopholes in Basel II " one of the major factors of the crisis ". We must ensure that their successive banking capital rules do not make the same mistakes. Proposals for Basel III are now under review by Europe's legislative bodies. It is vital that the European

Union analyses them closely.
The Capital Requirements Directive IV, which implements Basel III in EU law, is the most substantial of all the post-crisis regulatory measures entertained to date. But it urgently needs further streamlining and tightening.
Five key areas require specific attention: 1) the maximum harmonisation or uniform capital rule which encourages one-size-fits-all capital buffers for banks; 2) the limited role of the leverage ratio designed to limit risk-taking at banks; 3) the maintenance of the risk-free nature of sovereign exposures; 4) the continued reliance on credit ratings, despite all the criticism of their role, to determine the levels of capital required; and 5) the maintenance of a positive bias towards real estate exposures.
The European parliament should be reminded of its lenient review of Capital Requirements Directive I (or Basel II) in September 2005, when, under pressure from regulators and the industry, all the trading book provisions were added as a single amendment, without a proper discussion. This failing was partially and belatedly corrected in the Capital Requirements Directive II and III of 2009 and 2010, which radically increased capital for the trading book.
* The maximum harmonisation approach for bank capital has already been criticised, but it has yet to be changed in the wake of the European Parliament's initial report. It is difficult to argue in favour of a maximum limit on capital. Capital regulation is never perfect, as the crisis has demonstrated, but why should a bank not be allowed to compete on the basis of higher levels of capital? This would make the financial system safer.
* European policymakers should give the leverage ratio a much more central role in the bank capital regime than the European Commission has proposed. The almost unique reliance on the risk-weighted core tier 1 ratio, as used by the European Banking Authority in its stress tests, gives a misguided view about the health of the European banking sector as was demonstrated with the failure of the Belgian-French bank Dexia. The latter had a core tier-1 ratio well above 9 per cent, thanks to substantial sovereign holdings, but a tangible equity ratio of less than 2 per cent.
* Contrary to some reports in the media, the European parliament has not changed the sovereign risk-weighting in its initial report on CRD IV. It has merely proposed options to adjust "that risk weight accordingly as soon as possible". The zero-risk weighting, or no capital for sovereigns, thus remains in effect. The same applies to limits on large exposures, or the maximum percentage of the assets that can be invested with a single entity, which do not apply to governments and local authorities. The drawback of this method is that it unduly penalises banks with exposures to the "real economy", as the latest EBA stress test demonstrated. The current system builds in strong disincentives to lend to small- and medium-sized enterprises as compared to sovereigns, for example.
* The role of ratings agents in the determination of risk categories has also not been modified. While the European Commission is reducing the reliance on ratings agents in the latest amendment to credit rating agency regulation, ratings agents continue to have a central role in the determination of the risk weights, ie the level of the rating determines the amount of capital that must be set aside under the standard approach of Basel.
* Exposures to real estate continue to benefit from a much more favourable risk-weighting as compared to company loans. The bias towards real estate investments, the key cause of the financial crisis, is maintained, with a risk weighting of half (or even less) of the real exposure, even for commercial property. Real estate exposures must be assessed on the basis of their real cost.
In a post-crisis context, the European parliament's review of the proposed legislation looks excessively timid. Yet heads of state and governments are capable of changing parameters rapidly, as they did in October 2011, when they decreed that the 9 per cent tier 1 ratio should be met by all banks by June 2012. In pointed contrast, the European Basel III proposals state that this only needs to be 6 per cent by 2014.
In short, the European parliament also needs to do its job independently on Basel III. It must not shy away from flexing its muscles.
Karel Lannoo is chief executive of the Centre for European Policy Studies

Credit: By Karel Lannoo

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LINKS

Shanghai looks to foreign investors

Rabinovitch, Simon . Rabinovitch, Simon.

FULL TEXT

Plan to boost size of capital markets ; Goals to double trading volumes

Shanghai intends to expand greatly the size of its capital markets and open them more widely to foreign investors by 2015 as cornerstones of its strategy to become a global financial powerhouse.

The goals for the next four years range from the concrete, such as more than doubling trading volumes, to the aspirational aim of "significantly increasing the international influence" of Shanghai's markets.

The government said yesterday these were intermediate steps towards the objective of making Shanghai an "international financial centre that is consistent with China's economic strength" by 2020.

The city's stock, bond and commodities markets are among the world's biggest. The Shanghai stock exchange was ranked sixth globally in terms of market capitalisation in 2010, just behind London.

But strict capital controls have cut Shanghai off from other markets, and foreign institutions are allowed to invest only small amounts in it. The latest plan promised only a gradual removal of these barriers.

Kevin Lai, an economist with Daiwa Capital Markets, said China's legal and accounting systems also needed substantial improvements. "You need a platform that is market-driven and rules-based, an environment in which contracts can be enforced to international standards," he said.

The Shanghai city government and the National Development and Reform Commission, a powerful economic planning agency, outlined four areas of focus in the 25-page document published yesterday.

First, they will aim for sustained, rapid growth of Shanghai's capital markets. China's interbank bond market was the world's fifth biggest in 2010 and should crack the top three by 2015, they said. They also called for China's derivatives market, virtually non-existent in 2010, to be among the global top five by 2015.

Second, Shanghai will be linked tighter to international markets. They did not set targets but said more channels would be opened to foreign investors. At present the latter can only invest in China with special quotas. According to the plan, these will be enlarged. Foreign groups would also be encouraged to issue renminbi-denominated bonds and list on the Shanghai stock exchange.

Third, the city will beef up its financial services industry. As an example, they noted there were about Rmb15tn ($2.4tn) of assets under management in Shanghai in 2010 and said this should double by 2015.

Finally, Shanghai will aim for roughly the same taxation, legal and regulatory standards as other leading financial centres.

Hong Kong stands to lose the most from an ascendant Shanghai. But fears of its marginalisation have subsided over the past two years as it has emerged as the dominant offshore hub for renminbi trading.

Furthermore, Mr Lai of Daiwa said, it was not a case of winner takes all. The US had multiple financial centres and China was on a similar trajectory, he said.

"In a few years China will overtake the US to become the world's biggest economy. Hong Kong will continue to be the major international centre but Shanghai should be the next."

Credit: By Simon Rabinovitch in Beijing

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LINKS

Starbucks to enter India in $80m Tata joint venture

Crabtree, James; Fontanella-Khan, James; Jopson, Barney . Crabtree, James; Fontanella-Khan, James; Jopson, Barney.

ProQuest document link

FULL TEXT

BEVERAGES ; Coffee retailer seeks to reduce US focus

Starbucks yesterday announced long-awaited plans to bring its coffee shops to one of the world's greatest tea-loving nations through an $80m Indian joint venture with Tata Global Beverages.
The first outlet will open in Mumbai or Delhi by September as part of a wider Asian expansion by the US-based coffee retailer, which has 544 stores in China and has been eyeing the Indian market since 2006.
R.K. Krishna Kumar, chairman of Tata Coffee, said: "We plan to expand rapidly to all of the major metro cities and second tier towns. By the end of the year, we could have as many as 50 stores."
The 50/50 joint venture comes despite rule changes allowing 100 per cent foreign ownership of single brand retail stores, underscoring the difficulties faced by western companies seeking to enter India's $450bn retail market without local partners.
Starbucks is seeking to reduce the dominance of the US in its operations. More than 12,000 of its 17,000-plus stores are situated in its home market.
The Americas region - including a few hundred stores in Canada and Latin America - accounts for three-quarters of its revenue.
The coffee chain's announcement in India follows the decision of Swedish homeware retailer Ikea to postpone its Indian entry, citing onerous regulations requiring the local sourcing of products.
For the first time Starbucks will feature two brands on its famous green and white signs, under the strapline: "Starbucks, a Tata alliance".
John Culver, president of Starbucks China and Asia Pacific, confirmed the company had not considered a sole entry but said: "We think India can be one of our largest markets outside of the US."
Rama Bijapurkar, a market research expert and author of Winning in the Indian Market , said: "If Starbucks come to India thinking that just because they carry a foreign label it will walk over the local competition, they are going to be in big trouble."
India's food services retail market generated about $8.2bn in the year ending in March 2011 and is forecast to grow

more than 10 per cent annually over the next five years, according to Technopak, a retail market consultancy.

Credit: By James Crabtree in Mumbai, James Fontanella-Khan in New Delhi and Barney Jopson in New York

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LINKS

Japanese companies shun record low rates

McLannahan, Ben . McLannahan, Ben.

ProQuest document link

FULL TEXT

News analysis ; Two decades after the bursting of the country's bubble there is distinct reluctance to borrow, writes Ben McLannahan

Central bank interest rates may be at historic lows but, in many loan markets around the world, companies are paying more to borrow as the eurozone debt crisis blunts lenders' appetites for risk. Not so in Japan.

There, the biggest companies are able to borrow at record low rates, relative to banks' funding costs. The problem is that many companies, more than two decades after the bursting of Japan's bubble, are reluctant to borrow.

Last week Mitsubishi Corp, the biggest of Japan's trading companies, borrowed Y30bn for five years. It paid a margin of one basis point over three-month yen Libor, the lowest rate among 13 equivalent-term loans since 2004, according to Thomson Reuters. In August 2011, while global markets were contorted by fears over Europe, Sumitomo Corp borrowed Y21bn at a zero margin over six-month Libor.

Both are high quality borrowers, rated double A minus with a stable outlook by R&I, Japan's biggest credit-rating agency. But they are not exceptions. Indeed, the high-end market as a whole seems resistant to shocks. "Even post-earthquake, with all the talk of reconstruction sucking capital out of the loan market, there was barely a blip in corporate rates," says Aziz Dean, head of corporate finance at Citibank Japan.

The ultra-low spreads are a symptom of two related phenomena: a broad lack of demand for credit, and high liquidity at banks, especially in the regions.

Every quarter since 2000 the Bank of Japan has canvassed senior loan officers at large banks to gauge private companies' demand for loans. Only rarely, for brief periods, has the index nudged above zero to signal a stronger appetite for borrowing. Moreover, loan officers report that most requests for funds are precautionary, to provide cash on hand, rather than to invest in anything lasting. Dealogic data show loans for working capital purposes, such as Mitsubishi's, accounted for more than two-thirds of the total in 2011, a ratio that has risen for seven successive years.

"Banks are hungry for assets but the number of possible loan customers is small," says Katsuya Hosono, head of corporate banking at Aozora Bank in Tokyo, noting that since Lehman Brothers' collapse in 2008 the reluctance to borrow has been most acute among small to medium-sized enterprises. Aggregate loans outstanding at the nation's banks fell for 22 successive months between December 2009 and September 2011.

The result is historically low costs of borrowing for those that do avail themselves of bank loans. In November the average rate on new loans from domestically licensed banks fell to 1.019 per cent, the lowest since the Bank of Japan started tracking the data in October 1993.

In the short term, few expect rates to turn significantly higher. Given that imbalance between supply and demand, "borrowers are just not willing to pay for liquidity", says one investment bank head in Tokyo. Instead, banks try to make lending pay by seeking promises of more lucrative business, such as a bond issue, an equity deal or an interest rate swap programme.

If banks are doing little lending at home, they need to put their money to work somewhere. In recent years, much of the widening gap between deposits and loans - which was Y165.3tn in December, not far off the record Y167tn in June - has been steered towards Japanese government bonds.

Among the biggest banks, JGB holdings have more than doubled since Lehman. At Mitsubishi UFJ Financial Group, the nation's largest by assets, holdings of JGBs of Y47tn exceeded loans to companies of Y43tn at the end of September. Net gains on JGB sales at Sumitomo Mitsui Financial Group's banking division in the first six months of the current fiscal year represented more than a fifth of group operating profit.

Lenders have turned into "fixed-income fund managers", says Cameron Umetsu, economist at UBS in Tokyo. "That is why the fiscal deficit is so easily managed."

That is a welcome development for the Japanese government, able to borrow 10-year money at the second-lowest spreads in the world. But for the country itself, analysts say, it is also a clear sign of stagnation.

Credit: By Ben McLannahan in Tokyo

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Adoboli trial threatens to hit morale at UBS

Murphy, Megan . Murphy, Megan.

FULL TEXT

banks ; News analysis ; The prospect of attention in court adds to the bank's worries, writes Megan Murphy

At UBS's London headquarters, senior executives privately admit the last thing they wanted was for Kweku Adoboli, a low-level trader accused of losing $2.3bn last year on a series of unauthorised bets, to go to trial.

Already in the middle of a restructuring in which the Swiss group will retrench from the top tier of investment banking, UBS faces a potentially embarrassing examination of its internal workings following Mr Adoboli's decision to plead not guilty to fraud and false accounting charges.

A trial has been set for September in what will be one of London's biggest white-collar crime cases in recent years.

UBS declined to comment in view of the criminal proceedings.

Since the financial crisis, when the group almost collapsed after writing off more than $50bn in toxic securities, efforts to rebuild have been hobbled by regulatory inquiries.

At its flagship wealth management arm, a battle with US regulators over alleged tax evasion by some of its wealthiest

US clients spurred SFr165bn in withdrawals between 2008 and 2010. Two London tribunals have more recently probed allegations that some private bankers ignored internal guidelines, in a case that centres on whether certain former staff helped the businesses of Anil Ambani, the Indian billionaire, to set up an illegal offshore fund.
However, the revelation in September that Mr Adoboli of the so-called Delta One desk had allegedly gambled away more than $2bn through unauthorised futures positions on various stock market indices was by far its biggest setback, senior executives admit.
Within 10 days, Oswald Grubel, the respected chief executive, had been forced to fall on his sword while the bank accelerated an overhaul of its investment banking division.
Already struggling to compete amid unpredictable markets and tougher regulatory requirements, UBS has since announced plans to shed SFr145bn ($138bn) of risk-weighted assets within the business over the next five years as it attempts to chart a more stable future.
The overhang of the trial, however, threatens to distract executives from that strategy and damage staff morale, analysts say. A trial, likely to last several weeks, could focus on UBS's compliance procedures, as well as how Mr Adoboli was supervised, lawyers say.
Under Sergio Ermotti, the Italian-Swiss who assumed the top job last year, UBS has parted company with a group of managers in its sales and trading business, including the two senior executives from the business in which the losses occurred. Maureen Miskovic, its former chief risk officer, left in January after less than a year in the job.
"Senior management behind Delta One has already left UBS, so there are unlikely to be disclosures that do more than embarrass top brass," says one banking analyst.
UBS has completed an internal report of the incident; a probe by the Financial Services Authority and the Swiss Financial Market Supervisory Authority is expected to be ready for review this spring. That could generate some type of enforcement, given the scale of the losses involved.
"We have to be straight with ourselves," Mr Ermotti said in October. "In no circumstances should something like this ever occur."
Of biggest concern to many staff is the impact of the trading incident on their bonus. The bank was criticised last year for failing to reduce the sum set aside to pay its investment bankers in spite of the $2.3bn loss. Executives are working out how to account for the incident, with the bank due to report its year-end earnings next month.

Credit: By Megan Murphy

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LINKS

Silver price given further shine on US monetary easing hopes

Terazono, Emiko . Terazono, Emiko.

ProQuest document link

FULL TEXT

COMMODITIES

Silver hit a 10-week high, reflecting an improvement in market sentiment, extending gains it saw last week after

expectations of monetary easing in the US.
The grey metal rallied to $33.95 a troy ounce, the highest level since November 17 last year, although it was later trading at $33.58, down 0.8 per cent from last Friday.
Silver tends to be more volatile than its fellow precious metal, gold, attracting more short-term investments. Many investors have been discouraged from buying the grey metal after it hit a 30-year high of $49.51 last April before plunging 35 per cent in a matter of weeks. However, since the start of this year, silver has risen more than 22 per cent.
"Silver is a very good indicator of risk appetite," said Anne-Laure Tremblay, precious metals analyst at BNP Paribas in London.
Analysts noted silver's tendency to do well amid an increase in liquidity. Silver rallied when the US announced its first quantitative easing in March 2009. Investors also piled into the grey metal after Ben Bernanke, the Federal Reserve chairman, signalled a second round of quantitative easing, in August 2010.
With bullion up just less than 11 per cent since the start of the year, the ratio of the price of gold to silver has fallen from 55 at the end of last year to 51.5, indicating that the grey metal has started to outperform bullion again, in a repeat performance of last year, when the ratio fell to 32 in April.
Physical demand for silver has also been strong. Sales of US American Eagle silver coins in January so far total 5.7m ounces, the highest since January 2011, when sales were at 6.4m ounces.
"The high volumes are likely related to beginning-of-year stock-building," said Edel Tully precious metals strategist at UBS. Coin dealers have a bit more incentive to buy in January given that 2011 silver coins stocks were sold out by the end of last year, she noted.
The latest weekly data from the Commodity Futures Trading Commission showed the increased bullishness among silver investors. Net bullish positions in the grey metal rose by 17 per cent, or 20.6m ounces, in the week to January 24.

The figures preceded the US Federal Reserve Bank's announcement it would maintain low interest rates until 2014, which triggered a rally in the silver price.
www.ft.com/commodities Twitter: @ftcommodities

Credit: By Emiko Terazono

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LINKS

Super Mario's bank funding scheme is no panacea

Jenkins, Patrick . Jenkins, Patrick.

FULL TEXT

The Davos forum had its usual spread of A-List celebrities this year, from Archbishop Desmond Tutu to old rocker Sir Mick Jagger. But for most of the core banking contingent, there was only one "rock star" worth hailing: Mario Draghi, European Central Bank president.

I don't know anything about Mr Draghi's musical ability, but without exception among the bankers I encountered in the pretty Swiss ski resort there was praise bordering on Jaggeresque adulation for the Italian economist they like to

call Super Mario.
The reason is simple enough - he has saved them all a lot of heartache, not to mention a lot of money.
Within days of being appointed to his role late last year, Mr Draghi had initiated a scheme that had long been lobbied for by many of Europe's banks and by some of its policymakers - a mechanism to give any bank that wanted it three-year funding at a knock-down interest rate of only 1 per cent.
Immediately, he removed looming nervousness that the eurozone crisis could scare investors to such a degree that all funding of the banking system would dry up.
That evaporation of finance is, of course, exactly what did happen, with dramatic effect in 2007 and 2008, when a dearth of money in the markets killed the likes of Northern Rock in the UK and Lehman Brothers in the US - both of which were dangerously reliant on rolling over funding on a very short-term basis.
Mr Draghi's predecessor, Jean-Claude Trichet , had been under pressure ever since that first phase of the crisis to ease funding constraints. Mr Trichet has few critics for his handling of the crisis right up to his retirement in the autumn, but those who do point the finger accuse him of being too slow in addressing this issue of liquidity.
After repeated nagging, he twice (in 2009 and 2011) introduced one-year funding arrangements, but he resisted ever-louder calls in the second half of last year for lengthier financing schemes.
By the time the Frenchman's Italian successor had come into office, the situation was starting to look desperate, not least for the banking industry, both large and small, in his homeland. About EUR230bn of bank bonds were set to be repaid in the first quarter of 2012, and virtually no institution seemed able to issue bonds to commercial investors: for Mr Draghi, nervousness seemed to be bordering on panic.
As the ECB president likes to point out, his view was quickly borne out when more than 500 banks took a combined EUR220bn of new money, almost exactly matching their first-quarter refinancing requirement. In addition, they shifted other borrowing from shorter-term ECB facilities, giving lenders EUR489bn of three-year money.
Policymakers like to think the move is a de facto eurozone version of the kind of "quantitative easing" that the US Federal Reserve and the Bank of England used to stimulate their economies.
Banks, awash with cash again, should have no excuses for failing to inject credit into the small business community, and plenty of capacity to start mass buying of sovereign bonds, too.
It is little wonder that bankers love "Super Mario", too. Not only had the ECB removed any risk that they would run out of money to manage their core lending business. With such a modest interest rate, it had also given them an easy route to a nice profit margin.
Many more are queueing to take part in stage two of the great eurozone bank refinancing - some even believe demand for the February tranche of cheap money could reach EUR1tn.
But guess what? The ECB's three-year scheme is not the panacea everyone seems to think. First, there is little evidence yet that the money is making it into the "real" economy. Mr Draghi admitted on Friday that it would take "more time" to find out.
Second, the bigger the balance sheet of central banks such as the ECB become, the more nervous some become that the over-indebtedness problem - which has spread from individuals and companies, to banks and then to national governments - could end up undermining the global economy's last bastion of strength.
Third, no matter how crucial the ECB money has been as a prop to bank funding during special strain, extending life-support facilities for three years means you inevitably prolong the distortion of normally functioning markets.
For Mr Draghi to truly earn his rock star status, he will eventually need to turn off the life support without killing the banks.
Patrick Jenkins is the FT's Banking Editor
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LINKS

Three US shale groups to test strength of appetite for IPOs

Demos, Telis . Demos, Telis.

ProQuest document link

FULL TEXT

Three companies aiming to tap into the US shale gas and oil boom are set to make initial public offerings this week, a critical test for the nascent 2012 IPO market.

Conditions for the groups are expected to be difficult, however, amid a sharp fall in natural gas prices that is in part the result of a surge in companies using hydraulic fracking to extract gas and oil from shale rock in the US.

The pipeline of companies looking to debut in the US IPO market is the longest since 2000, according to Scott Sweet, senior managing partner at IPO Boutique, a research firm.

"Companies are trying to come out as fast as possible," said Mr Sweet.

The pace of US offerings over the next two weeks, with 14 companies looking to debut, promises to be the quickest since before the market correction last August led to a jump in volatility that lasted until the end of the year and largely shut the US share offering market until December.

Energy deals have represented the bulk of the market's reopening as companies move to take advantage of the shale activity boom.

Natural gas energy groups have raised a year-to-date record $2.1bn through IPOs and secondary share offerings, according to Dealogic. Oil and gas groups now represent about 10 per cent of the US pipeline of 217 companies.

"There's a limited window that shale companies are trying to take advantage of," said one senior banker close to the deals.

Two shale-related IPOs that sold in the second half of last year, Sanchez Energy and C&J Energy Services, have since seen their prices fall below their debut prices.

Of the three groups hoping to price this week, US Silica, which provides sand and other chemicals needed for fracking, as well as other consumer products, is said to have the strongest demand.

"This is a resource play, so it is a little more protected from price volatility," said Nick Einhorn, analyst at Renaissance Capital, an IPO research firm.

The other two groups, Matador Resources and Platinum Energy Solutions, are more sensitive to gas prices, which hit a decade low earlier this month at $2.322 per million British thermal units on the New York Mercantile Exchange. But they have rebounded since the low point on 23 January by 27 per cent, to $2.781 mBtu.

Matador produces mainly gas, but also some oil, which it is aiming to expand to take advantage of higher crude prices, in Texas and Louisiana. Platinum specialises in hydraulic fracturing services.

www.ft.com/energy

Credit: By Telis Demos in New York

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Aviva Investors looks to core strengths

Burgess, Kate; Gray, Alistair . Burgess, Kate; Gray, Alistair.

FULL TEXT

general financial ; News analysis ; Asset management arm has not paid off for the insurer, write Kate Burgess and Alistair Gray

When some of the oldest names in UK insurance merged to create what became known as Aviva, part of the plan was to build its asset management arm into a powerful franchise managing noninsurance money.

Twelve years on, Aviva has yet to convince analysts and investors that the strategy is paying off. Aviva Investors accounted for pound(s)97m, or just 4 per cent, of the insurer's pound(s)2.55bn operating profit in 2010 - down from pound(s)115m a year earlier.

Marcus Barnard, analyst at Oriel Securities, says Aviva Investors has been "a bit of an Achilles heel" for Aviva.

It has struggled even as other insurers have succeeded in transforming their asset management arms into sources of profits rather than simply costs associated with running insurance portfolios of bonds and property.

M&G - the fund management arm of rival insurer Prudential - contributed about 16 per cent to the Pru's profits last year.

Just as Aviva was being reborn, Prudential was formulating a direction for its fund management operations, paying pound(s)1.9bn for M&G in a high-risk acquisition that gave the insurer an independent brand to spearhead its push for external funds.

That strategy has turned the Pru, through the M&G brand, into one of Europe's foremost managers of high-margin retail savings funds, according to Reuters Lipper and other analysts.

Some 45 per cent of M&G's pound(s)198bn funds under management - which delivered pound(s)246m to Pru's operating profits - are from external third-party clients, many of them highermargin private investors.

External assets of Legal &General Investment Managers account for four-fifths of the insurer's pound(s)347bn under management. It delivered about a fifth of operating profits to the main group last year.

By comparison, Aviva's third-party client funds make up about a fifth of its assets.

Moreover, the bulk - about 69 per cent - of Aviva's pound(s)269bn funds remain low-cost cash and fixed income, and just 15 per cent are in equities. Even then, most of its equity assets are passively managed.

Perhaps it was "higher than expected" retail redemptions last year that marked the final straw for Alain Dromer.

Yesterday, the Aviva Investors chief executive announced the goal of returning to core strengths - managing credit and fixed income for institutional clients.

About 160 jobs are being axed, most in London running the group's pound(s)2bn of actively managed European equities. Most of Aviva's actively managed equities will be run from Paris.

Managing credit and bonds for big institutions may not earn high fees, unlike branded retail funds. However, the costs involved in running these portfolios will also be low.

"Greater focus in core areas of strength would improve profitability," Mr Dromer said.

But he reckons other insurers are in the same boat. "The way I see the market in the retail space is that it will be significantly attacked by volatility. [The industry] saw 90 per cent outflows in mutual funds in continental Europe in 2011. We've had to work very hard to keep assets," he said.

In contrast, about 90 per cent of Aviva's net sales were to investment institutions last year, Mr Dromer said.

The new wave of risk aversion that caused clients to withdraw billions from equities last year would continue, he said.

Credit: By Kate Burgess and Alistair Gray

DETAILS

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LINKS

Lithuania: not as bright as it seems

Wheatley, Jonathan . Wheatley, Jonathan.

FULL TEXT

The mood turned sour again on European markets yesterday, as fresh worries about Greece rattled investors' nerves. But that didn't stop Lithuania getting a one-year bond auction away at a pretty impressive yield, on the day the country said that its economy grew by a healthy 4.3 per cent last year, writes Jonathan Wheatley .

Nevertheless, a glance behind the headline figures suggests that even where things look cheerful, investors should be cautious.

Lithuania sold 70m litas ($26.6m) of one-year debt with a yield of 2.74 per cent, Reuters reported, down from a yield of 3.876 per cent on 50m litas of debt maturing in August 2013 sold at the beginning of January. Average yields on Lithuanian one-year debt have fallen from more than 4 per cent at the end of November to 2.71 per cent today.

Lithuania and the other Baltic states, says Neil Shearing at Capital Economics, "have been the poster child for austerity in the face of crisis, pursuing internal devaluation and implementing big budget cuts despite huge falls in output".

Lithuania, Latvia and Estonia have felt the pain of the 2008-09 financial crisis more than most. Latvia, supported by the International Monetary Fund, made the deepest cuts - and suffered the worst recession in the European Union. Even so, its centre-right government was re-elected in 2010 as growth returned.

But the Baltic states are struggling to maintain momentum. Lithuania's year-on-year growth is impressive but it masks a quarter-on-quarter contraction of nearly 1 per cent at the end of last year. Far from being in rude health, its economy is struggling.

Mr Shearing says: "This is the legacy of the crisis for all the Baltic states, They all lost competitiveness in the middle of the last decade. They are trying to claw back the output lost in 2008 to 2009 but they are still not back to pre-crisis levels.

"Growth will have to be driven from overseas as they all need to run big current account surpluses.

"When your main export markets are stagnating, that's a tall order."

Not that it hasn't been worth the struggle, Mr Shearing adds: "The big picture is that the Baltic states are much better positioned to weather global shocks than before.

"The excesses of the credit boom are behind them and the banks have cleared up their balance sheets."

Sadly, that may not be enough.

Mr Shearing says: "Today's [gross domestic product] data could be the first sign that the path back to economic health will be much bumpier than many have come to assume."

He puts Latvia in the worst position, with external debt equal to about 150 per cent of GDP, worse than Estonia with about 100 per cent and Lithuania with about 80 per cent.

www.ft.com/beyondbrics

DETAILS

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LINKS

Pressure shows on Europe's frail airlines

Kester Eddy; Johnson, Miles; Parker, Andrew . Kester Eddy; Johnson, Miles; Parker, Andrew.

ProQuest document link

FULL TEXT

travel &leisure

The fragility of some of Europe's airlines was highlighted yesterday when Malev Hungarian Airlines, the state-controlled Hungarian flag-carrier, declared that its finances were "unviable".
The Hungarian government is preparing to restructure Malev after designating it a strategically important asset.
But the airline's predicament underlined the rising pressure on some European carriers as they grapple with a deteriorating economic environment, high fuel prices and intensifying competition.
Spanair, the Spanish airline, is preparing for insolvency after the Catalan regional government, its controlling shareholder, refused to provide it with more funding .
Analysts warned of further airline failures after Spanair suspended operations on Saturday.
"We would highlight that a similar risk remains with a number of other state carriers, notably in central and eastern Europe, with further consolidation and potentially further failures very much on the cards," said Eamonn Hughes, analyst at Goodbody.
The European market is concentrating around five large airlines - Air France-KLM, International Airlines Group, Lufthansa, EasyJet and Ryanair - said Howard Millar, finance director at the Irish low-cost carrier.
Lorant Limburger, Malev's chief executive, told a board meeting yesterday that "despite the continually improving commercial results, the financing of activities had become unviable and was unresolved from the end of January", according to a statement by the airline.
It added that the board had instructed management "to draw up - by the end of the week - a new liquidity plan".
In its latest available set of accounts, for 2010, Malev recorded a net loss of Ft24.6bn ($126m). The carrier employs 2,600 staff and has a fleet of 22 aircraft.
The European Commission concluded this month that Malev had benefited from illegal state aid, and ordered the Hungarian government to recover an unspecified amount of funding provided to the carrier between 2007 and 2010.
The Hungarian ministry of national development responded by saying it would do its best "to sustain the airline's uninterrupted operation", adding that discussions with a "strategic investor" were in progress.
Efforts to save Spanair foundered partly because the Catalan government failed to persuade Qatar Airways, the Gulf carrier, to invest in the airline.
SAS, the struggling Scandinavian carrier that has an 11 per cent stake in Spanair, said yesterday that it expected to report a pre-tax loss for 2011 because the Spanish airline was filing for bankruptcy.
Previously, SAS had forecast a "marginally positive" pre-tax profit. Shares in SAS closed down almost 5 per cent.

Credit: By Andrew Parker in London, Kester Eddy in Budapest and Miles Johnson in Madrid

DETAILS

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LINKS

Greek asset sales behind target

Hope, Kerin; Wigglesworth, Ro bin . Hope, Kerin; Wigglesworth, Robin.

ProQuest document link

FULL TEXT

Deadline of 2017 is looking 'difficult' ; Risk of default deters investors

Greece will struggle to meet its target for assets sales even by the already delayed deadline of 2017, the country's privatisation adviser has said, highlighting the country's struggle to return to solvency amid a wilting domestic and European economy .

As part of its first bail-out package , Greece promised to sell EUR50bn of real estate and other assets by 2015, subsequently renegotiated to 2017.

Even that deadline now looks "difficult", according to Max Ziff, head of sovereign advisory at Houlihan Lokey, the restructuringfocused bank that is advising the Hellenic Republic Asset Development Fund.

"Around half of the assets are real estate, and you cannot just dump that on the market without destroying value," Mr Ziff told the Financial Times.

Several large private equity funds have visited Athens to examine the assets on offer. Three funds have already swooped to pick up Wind Hellas, the telecoms company, from creditors, but the only significant disposal by HRADF has been the sale of a 10 per cent stake in Hellenic Telecom to Deutsche Telekom for EUR390m. Overall, only EUR1.5bn was raised last year.

Greece planned to move ahead with the sale of its stake in refiner Hellenic Petroleum, natural gas grid operator Desfa and gas company Depa in the first half of the year, the HRADF said earlier this month.

However, sales of stakes in Thessaloniki's port and water utility, Piraeus port and Hellenic Postbank have been delayed, and even the disposal of some 35 large buildings occupied by government or government-related agencies has yet to materialise.

Athens already appears set for a first quarter without any privatisation revenues whatsoever, and is likely to miss the first-half target of EUR5bn this year. Discussions were taking place with a visiting European Union and International Monetary Fund mission on readjusting the timetable and increasing the stakes in state-controlled companies that would be offered for sale, a finance ministry official said.

For the foreseeable future, investors are unlikely to take any significant plunges given the danger that Greece could default and exit the eurozone - meaning that investments would suddenly be redenominated in a weaker new currency.

Mr Ziff hopes that interest may pick up once the negotiations over "haircuts" on Greece's debt pile are settled with private and public creditors, but concedes that, "until the fear of 're-drachmasation' is completely off the table, then the full potential interest from outside investors is unlikely to happen".

Most of the real estate assets consist of undeveloped land, and they will require costly investments in infrastructure and possible financial incentives for investors to buy and develop, a tricky proposition at a time of strict fiscal austerity.

One asset that has attracted some tentative interest is the Hellenikon airport , which was due to be developed into a commercial zone before the financial crisis struck. It has lain abandoned since being used as a sports facility during the 2004 Athens Olympic Games.

The airport site, a coastal strip south of Athens which is three times bigger than Monaco, could be leased for high-end

urban development and tourism for about EUR5bn, according to HRADF.
Any investment in Hellenikon would be welcome for Greece, "not just because of the money raised in the sale of the asset but also through invigorating the local economy", Mr Ziff said.
Editorial Comment, Page 8 Gideon Rachman, Page 9

Credit: By Robin Wigglesworth in London and Kerin Hope in Athens

DETAILS

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LINKS

Sarkozy takes a gamble on the German connection

Carnegy, Hugh . Carnegy, Hugh.

ProQuest document link

FULL TEXT

Campaign strategy ; French president boldly gives Merkel a starring role in his bid for re-election, writes Hugh Carnegy

Countless times during the past two years as the eurozone crisis raged, Nicolas Sarkozy, the French president, has stood side by side with Angela Merkel, German chancellor, anxious to present the image of an equal partnership battling to save the single currency.

Now, it seems, Ms Merkel and the example of Germany are set to play a central role in Mr Sarkozy's battle to save his presidency as he faces an uphill struggle to win re-election in the spring.

In a 70-minute television interview on Sunday night, Mr Sarkozy acknowledged with striking frankness that, in economic terms at least, France badly lagged behind its neighbour and must swallow German medicine if it was to recover lost economic prowess.

This followed an announcement earlier in the day from Berlin that Ms Merkel intended to join Mr Sarkozy on the campaign trail. Her Christian Democratic Union, meanwhile, issued an extraordinarily supportive statement after Hermann Grohe, the party's secretary-general, attended a meeting of Mr Sarkozy's fellow centre-right UMP party.

Mr Grohe launched a fierce attack on the policies of Francois Hollande, the opposition Socialist candidate who leads Mr Sarkozy in the polls, saying his policies of redistribution would weaken France and Europe too.

Mr Sarkozy, who was cool towards Berlin when he came to office five years ago, has for some time been pointing to Germany as an example France must follow to revive its economy. But piling so much emphasis on a country that, after all, was once France's most bitter enemy, looks like a bold political gambit on the eve of an election.

"It is a bit of a gamble because clearly some voters might find it unnecessary at best and inappropriate at worst," says Thomas Klau, fellow at the European Council on Foreign Relations. "But there is a strong body of Sarkozy's potential electorate that believes France does need reform."

Mr Sarkozy hammered home the point in his television appearance as he laid out proposals to boost France's sliding competitiveness and spur employment by cutting towering labour costs and allowing companies more flexibility to vary working hours and wages.

He trotted out a series of statistics to illustrate Germany's superior economic performance: it had three times as many youngsters in apprenticeships; French social charges on salaries were "double" those across the border; France had

lost 500,000 industrial jobs in the past decade while German employment grew.
The French president twice paid homage to the former German chancellor, Gerhard Schroder - "a man of great quality" - for introducing reforms that Mr Sarkozy now proposes for France. (He took care to point out that Mr Schroder was a Social Democrat.)
"The German economy chose to prioritise jobs, jobs, jobs," Mr Sarkozy said.
Many observers ask why, after five years in office, he is only now proposing such structural reforms, which French industry and many economists have long called for. They say the move is a desperate - and risky - attempt to regain the initiative from an increasingly confident Mr Hollande.
The president certainly needs a dramatic message. Unemployment has surged in recent months to almost 10 per cent of the workforce, and the government was forced yesterday to cut its forecast for growth this year to 0.5 per cent.
Placing so much focus on Germany's superior economic performance certainly risks playing into the hands of the extreme right National Front, whose candidate, Marine Le Pen, is leaching support from Mr Sarkozy with strident calls for France to break free from European - and German - dominance and to leave to euro.
But the president clearly believes his message will strike a chord with voters. An Ifop poll this month for the German embassy in Paris found that 74 per cent of French people felt Germany managed its economy better than France and 62 per cent thought France should be more inspired by Germany's social and economic model.
Jean-Dominique Giuliani, chairman of the Robert Shuman Foundation think-tank, says that in recent years the French have become increasingly concerned about high levels of debt and the threat of the eurozone crisis.
"Germany is regarded as credible and Mr Sarkozy has understood that it is popular in France to have an economic policy like Germany. It resonates with the electorate," said Mr Giuliani.
Additional reporting by Quentin Peel in Berlin

Credit: By Hugh Carnegy in Paris

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LINKS

Budget overlord plan stirs anger despite its lack of coherence

Beattie, Alan . Beattie, Alan.

ProQuest document link

FULL TEXT

Germany wants to appoint a European Union commissioner with veto power over Greece's budget and to force the government to place debt service before all other public spending.

Cue howls of indignation from Athens and unembarrassed shrugs of what-did-they-expect in Berlin.

Whether this is an exasperated guardian finally laying down the law to its delinquent ward or an unconscionable invasion of national sovereignty depends not just on your view of where the eurozone should be going, but how it got here.

Frame the narrative in one way, and the German proposal looks reasonable. A country with a chronic inability to

manage its public finances was generously but unwisely allowed into a single currency anchored by a nation of legendary fiscal and monetary probity.
When reality caught up with it, that country half-heartedly tried to undo the effects of decades of fiscal and economic mismanagement, generously assisted by rescue loans at massively below-market rates from the few creditworthy governments in the union. When it failed, thanks to endemic political dysfunction, those governments rightly insisted on putting together the framework of a fiscal union they should have done a decade before.
Frame it another way, and it looks outrageous. A peripheral poorer nation was encouraged to join a badly designed single currency by the rich elite of countries that dominated it. Those countries, having set up borrowing rules for the currency union, were the first to break them and did so with impunity.
Through complacency and inept financial regulation, and lacking good investment opportunities in their own stuttering economies, they then encouraged their banks to lend recklessly to the country on the periphery. When those investments went sour, the elite governments rushed to bail out their banks first by loading up the debtor government with yet more loans to pay them back and then by imposing a foreign overlord to extract repayments through legal force.
Leaving aside familiar but unhelpful comparisons with Germany's first world war reparations, more useful historical analogies are Kosovo, which has been operating under EU and international supervision since declaring independence from Serbia in 2008, and 19th century Egypt. Britain, aided by France, invaded Egypt in 1882 after an attempted military coup against the pliant Ottoman-sponsored regime threatened its investments, and then exercised control until after the first world war.
Treating Greece like Kosovo would imply it was similarly a dysfunctional state threatening to destabilise Europe. In truth, though, a Greek debt default need not be an existential threat to the eurozone requiring an abrogation of democratic legitimacy. Any country accepting bail-out money gives up some freedom to move - this is the basis of International Monetary Fund programmes - but there is a big difference between specific temporary conditions in return for loans and accepting a permanent loss in fiscal autonomy.
As for the idea that appointing a budget overlord in Greece is a necessary step towards fiscal union, rules on government debts and deficits do not constitute such a union without a wider system of large-scale permanent transfers and risk-sharing.
Greece tends closer to 19th Egypt, a country targeted by rich European creditors who lent recklessly to a fragile government, then imposed control to recover their investments in the name of economic efficiency - focusing on an IMF-style restructuring of Egypt's cotton industry - and ended up fuelling nationalist resentment.
The German plan may be just a ploy similarly to enrage Athens so much it leaves the single currency. But its departure would not solve the underlying problems of the euro. The budget overlord proposal may go down well with German voters, but it is not a coherent response to what went wrong in the eurozone and how this can be fixed.

Credit: By Alan Beattie in Washington

DETAILS

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LINKS

Saudi oil minister reassures on global supply

Bozorgmehr, Najmeh; Chazan, Guy . Bozorgmehr, Najmeh; Chazan, Guy.

ProQuest document link

FULL TEXT

Ali Naimi, oil minister of Saudi Arabia, has insisted the kingdom will be able to make up for any disruptions to global oil supplies, amid mounting tensions over the European embargo on Iran's oil exports.

His comments came as Iran ramped up its criticism of the Saudis, with a senior Tehran official describing the royal family as "tyrant rulers". The remarks, at an Islamic conference in Indonesia, prompted a walk-out by the Saudi delegation.

The remarks highlight frustration in Iran over Saudi Arabia's willingness to make up the shortfall from the European Union's decision to ban Iranian oil imports, designed to put pressure on Tehran over its nuclear programme.

Iran sees the Saudi intervention as pivotal to the EU's decision to proceed with its embargo.

Mr Naimi said investment in oil production capacity meant Saudi Arabia was "able to respond to shortages around the world".

Without naming Iran, he told an audience in London that the kingdom would continue to be a "reliable, steady and dependable supplier of energy to the world". He cited the example of Libya last year, when Saudi Arabia significantly increased oil output to make up for lost volumes.

Full implementation of the EU ban has been delayed for six months, to give southern European countries such as Italy and Greece, which are dependent on Iranian crude, time to find alternatives.

Last week Tehran said it would pre-empt EU sanctions with an immediate ban all oil exports to the EU . A vote on the ban in Iran's parliament did not go ahead on Sunday, apparently because of differences between legislators and the government of President Mahmoud Ahmadi-Nejad.

Brent oil dropped 34 cents, or 0.3 per cent, to $111.12 a barrel in London trading yesterday.

The comments in Indonesia were by Ali Akbar Nategh-Nouri, a senior adviser to supreme leader Ayatollah Ali Khamenei and a former parliamentary speaker. "Medina [the Saudi city that is the second holiest in Islam], which was supposed to be a symbol of justice and a base for equality, has turned into a place for the establishment of injustice and inequality in less than 100 years . . . and has become a base for tyrant rulers," he said.

The rift between Saudi Arabia and Iran has been deepened by popular uprisings across the region. The regional rivals have found themselves on opposing sides in revolutions of the Arab spring. Riyadh accused Tehran of fomenting unrest in Bahrain early last year, and sent in troops to the Gulf kingdom.

Analysts say oil markets should cope with an EU freeze on imports, against a background of softer oil demand. This month the International Energy Agency revised down its outlook for the year, forecasting global demand growth of 1.1m barrels a day, down from a projection of 1.3m b/d.

Saudi Arabia should have little difficulty making up for any shortfall, analysts add. Addressing the same conference in London as Mr Naimi, Abdalla el-Badri, Opec secretary-general, insisted oil markets were well supplied.

Credit: By Guy Chazan in London and Najmeh Bozorgmehr in Tehran

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LINKS

Initiative tackles 'neglected' diseases

Jack, Andrew . Jack, Andrew.

ProQuest document link

FULL TEXT

A dozen drug companies have joined forces to tackle 17 "neglected" tropical diseases, with the aim of eliminating five of them by the end of the decade.

Combining drug donations with fresh funding and research, the alliance aims to ease the burden of diseases which often have simple treatments but which still kill 500,000 people a year and affect 1bn in the world's poorest countries, costing an estimated $10bn in economic growth.

The wide-ranging initiative includes the US and UK governments, the Bill and Melinda Gates Foundation and the World Bank.

In an unusual commitment between rival companies, Johnson &Johnson will combine forces with rivals Pfizer and Abbott to develop a macrofilaricide anti-worming pill to tackle river blindness and lymphatic filariasis. Merck of Germany has increased 10-fold free supplies of praziquantal to treat schistosomiasis. Stefan Oschmann, head of pharmaceuticals, said of schistosomiasis: "There is a real chance that this ugly disease can be eliminated."

While most of the companies were already involved in drug donations, the fresh commitments substantially expand contributions for the long term, coupled with new efforts to fill gaps in research and extend their use. Ken Frazier, head of Merck of the US, emphasised the importance of accountability and support in delivering drugs. "Sustainable commitments, with financial and logistical support, are critical."

Bernard Pecoul, head of Drugs for Neglected Diseases Initiative, a non-profit organisation working with companies on developing new medicines, cautioned that all neglected diseases (NTDs) could not be treated equally.

He said: "For some NTDs, especially those with the highest mortality rates, such as sleeping sickness, Chagas disease and visceral leishmaniasis, disease control and elimination will only be achievable with further commitments to research and development."

Other specialists argued that philanthropists, including the Gates Foundation, should focus on co-ordination and implementation of existing drugs that already had the potential to eliminate diseases. Some warned that drugs alone would not resolve the problems.

Caroline Anstey from the World Bank said: "These are not neglected diseases but diseases of neglected people."

Ruhal Haque, Bangladesh's minister of health and welfare, cautioned: "Without improved sanitation, water quality and vector control we cannot succeed." There has been intense debate over the value of preventative large-scale "mass chemotherapy" to prevent and treat diseases such as schistosomiasis, with some concerns over drug resistance and questions over how easily the approach can be expanded and extended to other diseases.

In a letter in the Lancet, Professor Tim Allen from the London School of Economics warns: "There is a growing tendency for those promoting mass drug administration programmes to overlook evidence concerning how effective they really are."

Credit: By Andrew Jack in London

DETAILS

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LINKS

Damascus residents buy up gold bars as currency plunges

Peel, Michael . Peel, Michael.

ProQuest document link

FULL TEXT

Economic fall-out ; The city's jewellery souk is seeing soaring sales as fears of political uncertainty persist, says Michael Peel

Rasha, a young Syrian accountant, got married six months ago and now spends her entire $300 monthly pay on just one thing: gold.

She and her husband live off his earnings and put hers into a precious metal that seems to them the safest piggy bank as the country's political troubles deepen and its currency plunges.

"I realised gold's value because of the crisis," she said, adding that she was now thinking of using a wedding gift of $1,000 in cash to buy a gold bar. "I advise you to buy gold to save your money: it's very good for you."

Beneath the wedding necklaces cascading from shop windows in the jewellery souk in Damascus, Syria's capital, the piles of tiny tablets of unworked "neutral gold" show that stories like Rasha's have become increasingly common during the country's ten-month uprising. These Swiss bars, weighing one troy ounce and etched with a motif of a beautiful woman, are a beguiling currency in a country with a historic love of gold and a present-day fear about the future.

"Customers are buying ounces, pounds, blocks of gold," said a gold merchant who asked to be identified as Abu Sami and claimed he saw a 30-fold spike in demand at the start of the the crisis. "They are not looking for artistically made gold - only for pure gold."

Other gold traders agreed that sales of neutral gold shot up after protests in a number of cities and towns last year were followed by a lethal crackdown by the authorities. The ongoing violence has left an estimated 5,000 or more people dead.

The regime of President Bashar al-Assad says it is fighting an insurrection by armed terrorist gangs, and points to the emergence of militarised elements in the opposition as a justification for what it terms a "security solution" to the crisis.

Some gold traders say that, while a number of savers have already changed their money into gold, fresh - albeit more modest - demand is still being triggered by bouts of worry linked to political events. Elie, a merchant in the old city said that, having sold 350g of neutral gold last week, he offloaded a further 400g yesterday alone, after the Arab League demanded Mr Assad hand power to a government of national unity .

"It all depends on the news," he said, in an interview punctuated by calls from potential customers. "Not only the political news, but the economic news too."

Syrians' latest yearning for gold builds on longstanding habits of keeping savings from their cash-based economy in a visible, durable and portable form. Some people link this both to an aesthetic liking for the metal and to past periods of political uncertainty. Syria is at the heart of the Middle East and has endured the boots of Romans, Christian crusaders and Ottomans over the centuries.

A further driver to the recent enthusiasm for neutral gold has been the plunge in the Syrian pound from 45 to the dollar to more than 70 on the black market, which has led people to seek assets linked to hard currency, including dollars themselves.

No one - including the Damascus goldsmith workers' syndicate - offers official data on how much demand for gold has increased, but government figures accept that hoarding is going on.

"Yes, it's happening - not widescale, but it's happening," said Mohamed Nedal Alchaar, economy minister, in an interview last week. "It's scary to buy gold today because prices are unstable to start with."

Mr Alchaar's remarks hint at the potential for a nasty ending for the crisis gold bugs.

Merchants say the trend has adverse effects for them. The profit margins on neutral gold are small and demand for worked jewellery has fallen at the same time. One shopkeeper, who asked not to be named, picked out a 75,000 Syrian pound gold and zirconium necklace and commented ruefully that the craft was worth as much as the gold.

As for customers, they can do little but try to stay optimistic that the international gold price rise seen during the Syrian uprising - from about $1,400 a troy ounce in Mid-March to about $1,730 a troy ounce now - doesn't go into reverse.

"Gold never loses its value," insisted Rasha, adding with a wry laugh: "It never goes down - ever."

Credit: By Michael Peel in Damascus

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LINKS

China urged to increase rare earth sales after WTO ruling

Chaffin, Joshua . Chaffin, Joshua.

ProQuest document link

FULL TEXT

Beijing export policy violates trade rules

The EU demanded that China loosen its sales of rare earth materials after the World Trade Organisation upheld a ruling that Beijing's policies to limit raw material exports violated international trade rules.

The WTO's appellate body issued its decision yesterday, endorsing a previous finding that export duties, quotas and other policies enacted by Beijing to limit the foreign sale of nine raw materials were not justified on environmental grounds.

The case was filed in 2009 by the EU, US and Mexico, which argued that the higher prices their manufacturers were forced to pay for goods such as bauxite, coke and zinc put them at a disadvantage across a wide swath of industries - from steel to batteries, chemicals and ceramics.

It represents an example of the US and the EU joining forces to confront China on trade matters - a strategy that both Washington and Brussels believe is essential to maintain leverage over the world's second-largest economy.

It has acquired even greater importance amid Beijing's moves to impose similar restrictions on the export of a rare earths, a category of 17 elements that are found in an array of high-tech products, including solar panels, wind turbines and mobile phones.

China accounts for more than 90 per cent of global production of such materials. That dominance has unnerved its trading partners - particularly since Beijing has tightened supplies repeatedly over the past four years. The EU and the US have so far refrained from filing WTO complaints against China over rare earths, hoping that their victory in the raw materials case would convince Beijing to revise its policies.

In a statement issued shortly after the ruling, Karel De Gucht, the EU trade commissioner, urged China to take action.

"China now must comply by removing these export restrictions swiftly and furthermore, I expect China to bring its overall export regime - including for rare earths - in line with WTO rules," Mr De Gucht said.

Ron Kirk, the US trade secretary, called the ruling "a tremendous victory" that "ensures that core manufacturing industries in this country can get the materials they need".

There was no immediate comment from Beijing
German move on materials, www.ft.com/mining

Credit: By Joshua Chaffin in Brussels

DETAILS

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LINKS

Battle in suburbs intensifies

Fielding-Smith, Abigail . Fielding-Smith, Abigail.

ProQuest document link

FULL TEXT

Syrian troops battled for control of some Damascus suburbs yesterday as diplomats stepped up their efforts to secure a UN Security Council resolution calling on Bashar al-Assad, the president, to step down from power, writes Abigail Fielding-Smith in Beirut.

Activists said that more than 200 civilians had been killed across the country since Thursday as the regime sought to regain areas where armed rebels have established a presence.

Meanwhile, authorities said that six soldiers were killed in a roadside bomb attack in the Damascus suburbs alone.

The Arab League observer mission - which is monitoring Damascus's compliance with an undertaking given in November to end the violence - suspended its operations on Saturday, citing "the critical deterioration of the situation in Syria and the continued use of violence".

Faced with a crackdown on dissent that the UN estimates has claimed more than 5,400 lives, opponents of the regime, many of them claiming to be affiliated with a loosely organised group of defected soldiers and others calling themselves the Free Syrian Army, have resorted to weapons .

Activists reported large troop mobilisations in the suburbs of Damascus, leading to speculation that the Assad regime is planning an assault on areas of the country that the rebels have declared to be "liberated".

As fears of a significant escalation of the violence grew, Nabil El Arabi, the Arab League secretary-general, said that he would be seeking the Security Council's "support and agreement" to a proposal by the league for Mr Assad to hand over power to his deputy before the formation of a national unity government and elections.

In full: www.ft.com/syria

Credit: By Abigail Fielding-Smith in Beirut

DETAILS

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LINKS

A little less bombast and a little more humility, Mr Cameron

Stephens, Philip . Stephens, Philip.

ProQuest document link

FULL TEXT

Sometimes humility does not go amiss. Britain's politicians once understood the worth of self-deprecation. This thought came to mind the other day when David Cameron tipped up in Davos to tell Angela Merkel how to run her economy. Did Mr Cameron really imagine that the German chancellor was ready to be lectured by a British prime minister?

A smidgen of self-awareness might have suggested otherwise. Britain's politicians - Tory and Labour alike - are fond of reminding the world how clever they were to stay out of the single currency. The implication is that Britain boasts an economic performance to put the eurozone to shame.

Well, not quite. Mr Cameron presides over a budget deficit to rival that of Greece, a fast-rising debt burden and an inflation rate double the European average. Living standards are falling, growth has stalled and unemployment is rising. There is no one old enough in Whitehall to recall the last time Britain ran a current account surplus.

If one is to believe British policymakers, the economy's big strength is, well, the ability to weaken further a chronically weak pound. It used to be that central banks took a dim view of devaluation. Nowadays, the Bank of England celebrates sterling's fall. Perhaps it has a point. Few can match the British when it comes to debasing their own currency.

Mr Cameron is not the first tenant of Downing Street to tell the rest of Europe how to conduct its affairs. Gordon Brown was always boasting about his superior intellectual grasp of matters macroeconomic. Tony Blair used to nag Gerhard Schroder about the need for structural reforms. Margaret Thatcher was scathing about the attachment of continental Europeans to the social dimension of the market economy.

I don't blame Mr Cameron. His script was written in the Treasury. This is an institution not often troubled by self-doubt; nor one that pays much attention to its own record. Since the 1970s, Britain has been blessed with two great opportunities to transform its economic fortunes. The Treasury has squandered both.

The first was North Sea oil. Then came the liberalisation of international capital markets, which turned London into a global financial hub. These windfalls might have been invested in the nation's future - in boring things such as infrastructure and education. Norway put its share of the North Sea bounty into a fund for future generations. Britain has frittered it away to boom and bust.

In the years before the global financial crash, the Treasury believed its own rhetoric about abolishing the economic cycle. It overestimated tax revenues from the City and underestimated public borrowing. The mantra of light-touch regulation encouraged the banks to take outrageous risks.

Germany, of course, has had its share of economic challenges. Reunification brought a decade of sluggish growth. Restoring competitiveness after the creation of the euro meant a ferocious squeeze on living standards. Berlin was among the first to break the Maastricht criteria on deficits.

Nonetheless, German industry is the envy of its global competitors. Technological edge and quality have made the country the world's second-largest exporter. More recently, the government has put public finances into better order, growth has been driven by domestic demand and unemployment has fallen.

Economies are shaped by political and cultural preferences. The Germans like saving and fear inflation - a natural response to the country's demographics as well as its history. German industry takes a long-term view, prizing investment over short-term returns. The education system values technical as well as academic accomplishment.

There is no reason why the British, or anyone else, should share these preferences. As it happens, Mr Cameron also has a point when he talks about Germany's particular responsibilities in the eurozone. If it wants the single currency to survive, Berlin will have to accept more of the burden of current account adjustments.

But telling Germans to work less, to borrow more, and to produce shoddy cars and machine tools is not the answer. Does it ever occur to Mr Cameron's Treasury advisers, I wonder, that they could learn something from Germany about economic management?

philip.stephens@ft.com

Credit: Philip Stephens

DETAILS

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LINKS

Ten days of turmoil that ended in the calm of capitulation: Hester's million Panic broke out in the heart of government but the story would not go away

Giles, Chris; Jenkins, Patrick; Parker, George . Giles, Chris; Jenkins, Patrick; Parker, George.

FULL TEXT

David Cameron should have seen it coming. For weeks he had been delivering lectures on "responsible capitalism" and the need for shareholders to get off their hands to prevent "rewards for failure". His rhetoric was about to crash headlong into corporate reality.

The prime minister was putting the finishing touches to his long-awaited speech on moral capitalism on January 19 when the Financial Times broke the news that Royal Bank of Scotland intended to pay Stephen Hester, its chief executive, a bonus of more than pound(s)1m, even though the bank's share price had almost halved.

Panic broke out in the heart of government. Furious Treasury officials - taken by surprise by the timing of the story - called the bank to try to agree a line that would buy time. They decided the prime minister would say the FT story was "inaccurate" because the bank's remuneration committee had not formally agreed Mr Hester's bonus - a claim not made in the original story.

The battle of Mr Hester's bonus had begun. Although the RBS board believed its chief executive had met his targets, to the media and Labour it looked like a classic case of reward for failure: they turned to Mr Cameron to use the taxpayer's 83 per cent stake to stop it.

But there was a problem. Sir Philip Hampton, RBS chairman, told George Osborne that the board would not be subject to political pressure. "He made it clear that it would be intolerable to have shadow directors running the company," said one official close to the chairman.

Both Treasury and bank officials say Sir Philip and Mr Hester - in their separate conversations with the chancellor - never made explicit threats to quit. But Mr Osborne was in little doubt. "There was a credible threat," said one ally to the chancellor. "We could have ended up looking for a new CEO."

Mr Osborne ordered officials to scour through the contract signed by Mr Hester after he was recruited by Gordon Brown to rebuild the bank after its rescue by the taxpayer in 2008. "We looked at all the options," said Danny Alexander, Treasury chief secretary.

They did not look promising. Although the remuneration committee had discretion on the award, Mr Hester had met many of his targets. As political pressure mounted, Mr Osborne briefed the cabinet on January 24. "George made it clear the Treasury would deal with this," said one person at the meeting. "None of us really knew exactly what the contract said."

But the political omens were bleak. Vince Cable, Liberal Democrat business secretary, could see this was a no-win situation and washed his hands of the affair, saying the question of Mr Hester's bonus was "above his pay grade".

Mr Osborne decided to cut his losses and asked for the matter to be brought to a head within days. UK Financial Investments, which handles the taxpayer's 83 per cent stake in the bank, met RBS directors on January 25 to hammer out a compromise under which Mr Hester would receive pound(s)963,000 in shares - allowing Mr Cameron to say the bonus was half the pound(s)2m awarded the previous year.

News of the final deal began to filter out on the evening of January 26, but the story was about to take an unexpected turn. Egged on by a BBC Question Time audience, Jeremy Browne, a Lib Dem foreign office minister, said Mr Hester had a moral "duty" to turn down the bonus.

One RBS director thought that announcing Mr Hester's bonus ahead of time would "make the story go away". Instead, it meant that the RBS chief's package was now seen in isolation and could not be placed against what is expected to be a far greater bonus to be awarded to Bob Diamond, chief executive of Barclays, next month. Furthermore, neither the bank nor the government seemed to have a media strategy to defend Mr Hester's bonus. Ministers ran for cover and Mr Osborne aborted several planned media interviews in Davos on Friday morning.

Also in Davos, Ed Miliband began plotting a strategy that would bring the affair to a climax. Sitting in a meeting of world leaders, he could be seen texting Rosie Winterton, Labour chief whip, planning a Commons vote on Mr Hester's award. The initiative was announced on Sunday evening.

When he heard the news at his chalet in Verbier, Mr Hester thought he might still be able to face down his tormentors. He hit the phone to members of the board, including Sir Philip, but found that the mood had changed. According to one director, "the board wasn't strongly urging him to take the bonus".

As the resolve of the bank's senior team waned, Mr Hester's advisers warned that Mr Cameron was unlikely to mobilise Tory MPs to defend his pound(s)1m payment, raising the prospect of an overwhelming cross-party vote for him to give it up.

In spite of his reputation for having a fiery temper, Mr Hester's mood that night was described by colleagues as "businesslike" and "pragmatic". After 10 days of turmoil came the calm of capitulation.

Additional reporting by Patrick Jenkins and Chris Giles

Credit: By George Parker

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LINKS

Focus shifts to courses with job prospects

Cook, Chris . Cook, Chris.

ProQuest document link

FULL TEXT

Total applications fall 8.7 per cent ; Biggest fall in arts and social sciences

Would-be undergraduates are giving up on courses with poor job prospects, as university applications suggest the dismal labour market and rise in tuition fees are encouraging young people to concentrate on their future employability.

Statistics from Ucas, the university admissions service, show that total applications from the UK fell 8.7 per cent for entry in autumn 2012, the first year of the new tuition fee system. The maximum fee, now pound(s)3,275, will rise to pound(s)9,000, while the average net fee in 2012 is projected to be about pound(s)8,000.

Application numbers fell most rapidly in subject areas that command the smallest graduate wage. Several studies have found that the physical sciences, including medicine, are the most lucrative subjects for graduates. Applications for such courses have declined by only 2.5 per cent.
Matt Robb, of Parthenon, an education-focused management consultancy, said the fall in applications would not "cause too much financial discomfort" but there was a shift towards subjects that "from a return on investment perspective simply make more sense".
Several studies have found that professional and business degrees are also worth more than the average, and they too have been spared large drops in levels of interest.
Application volumes for these degrees are down by less than the average, recording a fall of only 5.2 per cent.
By contrast, the number of applications for the arts, humanities and social sciences are down 14 per cent. These subjects have lower returns than the average undergraduate degree.
The same pattern, of students shifting to subjects with higher returns, is visible at an institutional level.
Applications to Imperial College, the elite London university with a traditional specialism in science, medicine and technology, were broadly flat. Meanwhile, the University of the Creative Arts, also in London, has seen a 30 per cent drop in application numbers for its courses.
Despite the rise in fees, school leavers remain intent on attending university. The proportion of school-leavers applying would be a new record but for last year's pre-fee surge in applications.
The number of 18-year-old applicants fell 3.6 per cent, half of which is explained by a decline in that demographic group.
There was a much bigger decline in applications among older candidates, at 12 per cent, although the reason for that is not clear. Mr Robb suggests it could be related to labour market uncertainty.
"What mature students are looking for is flexible delivery, perhaps some online components. Universities are not really making that offer right now," he said. "So the economics of taking time out to study, especially when employers are under pressure, look bad."
It is not known how many students are applying for part-time study, which allows people in work to study without risking their jobs. However, providers who are adept at offering alternatives to the traditional three-year degree and offer places via Ucas are doing well this year.
Flexible study is also growing in popularity. Applications for full-time courses doubled at both Birkbeck College, which specialises in part-time study, and BPP University College, Britain's only for-profit degree-awarder, which offers accelerated degrees.

Credit: By Chris Cook, Education Correspondent

DETAILS

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LINKS

Messy reforms begin to bear fruit

Cook, Chris . Cook, Chris.

FULL TEXT

Employability ; Would-be students are seeing reputation of an institution as a secondary factor writes Chris Cook

The real imponderable of the English higher education reforms has been how students would react. On the evidence

so far, the government can claim that things are going reasonably well. The messy and haphazard reforms are on track.
The government wants to create a market where universities rely on fees paid by students for most of their tuition income, and fight to keep these customers happy. Ministers hope to achieve this culture shift with a combination of higher fees, lower subsidies and less regulation of institutions.
Supporters of the policy will discern hopeful signs. Would-be undergraduates are switching preferences. School-leavers and mature candidates are not simply queuing up behind their immediate predecessors to select the exact same universities.
This is good news for the government, which hopes to use competitive pressure to drive up teaching quality. If prospective students only sought out high prestige education and reputation, it would be impossible for new entrants - or existing players - to compete effectively with current market leaders.
The area candidates appear to want is improved job prospects. A recent poll by Parthenon, a management consultancy with a specialism in education, found that would-be students are already more concerned by job prospects than reputation.
Universities have noticed this preference. Plymouth promotes itself on its enterprise focus. Responding to the Ucas figures, Sir David Bell, vice-chancellor at Reading, lauded the institution's "highest graduate employability rates for a decade" before noting its status as "a world-leader in research".
New players are already entering the market, generally with a business focus. BPP University College, a for-profit provider of business degrees, doubled its applicant base this year. Pearson, the education company which owns the Financial Times, is entering the market in tandem with Royal Holloway.
Yesterday's figures will, however, strengthen concerns about what the process will do to students, who may miss the chance to expand their horizons with study for its own sake.
Stefan Collini, author of a forthcoming book on university reforms and a professor at Cambridge, says it is too early to draw "any clear conclusions" but expressed concern that students might be missing "a richer and more rewarding education" and may, in any case, be "wrong about what many employers want".

Credit: By Chris Cook

DETAILS

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LINKS

A Fuji TV fugitive

Dickie, Mure . Dickie, Mure.

FULL TEXT

Mr Ozawa's ordeal is the most closely watched trial involving a Japanese politician in years. Crack notetakers from all the big newspapers work in relays to jot down crucial testimony in time for afternoon editions. Yet it is not the only story of (alleged) crime and (possible) punishment that has been hitting the headlines.

One of the many pleasures of living in Japan is its social stability and the absence of the kind of urban no-go zones that disfigure too many western cities. But even though lawbreaking is relatively rare - the homicide rate is half the

UK's and a fifth that of the US - crime is as much of a media staple as it is in more murderous climes.
The escape of a convict in western Hiroshima city this month sparked feverish coverage, not least because it involved a Chinese man - crime by foreigners gets particular attention - and because breaches of security in Japan's oppressively orderly jails are very unusual. This was the first in two decades.
Li Guolin, a convict serving a 23-year sentence for shooting at a police officer, had scaled a prison wall that was under repair and then fled in his underwear. In many countries this might be no more than a minor story, but in Japan it dominated headlines and TV bulletins nationwide. State broadcaster NHK even broke into normal programming to announce Mr Li's capture after three days on the run. It turned out that he had made it only 2km from his cell.
mure.dickie@ft.com

Credit: By Mure Dickie in Tokyo

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LINKS

Court told of 'seed cash' for Redknapp

Blitz, Roger . Blitz, Roger.

ProQuest document link

FULL TEXT

Friend wanted to help Spurs manager

A $145,000 payment made by Milan Mandaric into a Monaco account set up by Harry Redknapp was "seed money" to help the Tottenham Hotspur manager build a portfolio of investments, the former Portsmouth FC chairman told a jury at Southwark Crown Court.

Taking the witness stand for the first time in the trial of the two men on tax evasion charges, Mr Mandaric, 73, said that he developed a close friendship with Mr Redknapp and wanted "to do something" for his friend.

Asked by his counsel, Lord Macdonald QC, if the payment in June 2002 was connected to Mr Redknapp's Portsmouth employment, Mr Mandaric replied: "Absolutely not. I wanted to do something entirely different - nothing to do with employment, contract, commitments."

The prosecution claims they deliberately concealed from UK tax authorities two payments totalling $295,000 into the Monaco account, and that the first payment was a "bung" for money Mr Redknapp claimed was due to him as part of a player transfer bonus. They deny the charges.

Mr Mandaric, now chairman of Sheffield Wednesday, told the court: "If the club owed Harry pound(s)100,000 - for God's sake, I spent pound(s)17m-plus out of my own pocket to support the club . . . In my 51 years in business, [paying taxes] was part of my business life. The Inland Revenue and the tax authorities, they were partners.

"[If the club owed Mr Redknapp money] I would have said, 'get Harry off my back, give him pound(s)100,000.'"

Mr Mandaric said the initial $145,000 payment was "seed money" for a project "in which Harry would invest money in my portfolio. He would benefit from the profit in that investment".

Mr Mandaric said he told Mr Redknapp to transfer $100,000 from the Monaco account to an account at a Florida company he controlled in early 2003. "It was not a good year," said Mr Mandaric, revealing he himself had lost more than $10m.

In April 2004, Mr Mandaric decided to close his business relationship with Mr Redknapp, he said, after the failed investment became the talk of Portsmouth directors and staff.

He told the jury he paid the seed money back from the Florida company into the Monaco account plus a nominal profit, after being advised by his accountants to maintain a clear audit trail.

Mr Mandaric, who owned clubs in the US, Belgium and France, said he never enjoyed as close a relationship with any manager as with Mr Redknapp, who he described as "a very emotional guy".
The case continues.

Credit: By Roger Blitz, Leisure Industries Correspondent

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LINKS

Remember me?

Dickie, Mure . Dickie, Mure.

ProQuest document link

FULL TEXT

The public was able to give a wholehearted welcome to the biggest law and order tale of recent weeks: the capture and indictment of Makoto Hirata, a former member of the doomsday cult that gassed the Tokyo subway in 1995.

Mr Hirata, who had been one of Japan's most wanted for 17 years, gave himself up on New Year's Eve and has been charged with abducting a cult member's brother. But police celebration has been muted by revelations that the wanted man had a hard time handing himself in.

Local media report that when he first announced himself at the Tokyo police headquarters, he was turned away. Mr Hirata looked different from the likeness posted on notice boards around the nation, the Yomiuri newspaper quoted the officer involved as saying. "I thought it was a joke," he said.

mure.dickie@ft.com

Credit: By Mure Dickie in Tokyo

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LINKS

Scottish groups widen independence debate

Bolger, Andrew . Bolger, Andrew.

ProQuest document link

FULL TEXT

Referendum

An attempt to widen the debate over an independence referendum for Scotland was launched yesterday by a coalition of business, unions, churches and other parts of Scottish civil society.

The group will discuss a third option to independence or the status quo - such as fiscal autonomy or "devo max" - that Alex Salmond, Scotland's first minister, has said he is willing to put on the ballot paper .

David Watt, executive director of the Institute of Directors Scotland, said: "We will be looking at what kinds of things we should be considering and what devo max will mean if we have that question."

Ben Thomson, chairman of Reform Scotland, the market-oriented think-tank, said: "All the polls indicate that the majority of the public want a solution to the current debate between the extremes of independence and the status quo."

Ed Miliband, on a visit to Glasgow, warned that efforts to improve social justice would be hindered by independence. The Labour leader said it was right that the people of Scotland make the decision, but added that he wanted to advance the case for a "fair, just United Kingdom".

Mr Miliband told his audience he spoke with humility after Labour's Holyrood defeat last May. "I am not here to tell Scots that Scotland cannot survive outside the United Kingdom," he said.
"But I am here to tell you that we need to make Scotland, England, Wales and Northern Ireland a fairer, more just, place to live. And we can do this best together."
Andrew Bolger
Future of the Union in-depth www.ft.com/union

Credit: By Andrew Bolger, Scotland Correspondent

DETAILS

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LINKS

Loping grooves and wild ideas: Reggae legend delivers the goods; Lorca in Iran; Buddhist opera; Polunin in motion

Cheal, David . Cheal, David.

ProQuest document link

FULL TEXT

POP ; Lee 'Scratch' Perry ; Jazz Cafe, London ; **** ; David Cheal

In the late 1960s and '70s, from his tiny four-track Black Ark recording studio in Kingston, Jamaica, Lee "Scratch" Perry unleashed a musical revolution -- creating the genre that became known as "dub" reggae; helping Bob Marley to launch his career; writing and producing a series of classic tunes; and elevating the art of the reggae producer to that of a kind of high priest. It's an over-used word, but he deserves the epithet "legend".

But, as anyone who has seen a Bob Dylan concert over the past 20 years will know, being a legend doesn't necessarily mean you are still any good on stage. Especially when, as is the case with Perry, that status was earned behind the mixing desk. In recent years, though, Perry has forged a career of sorts as a live performer, acquiring a reputation for sparky eccentricity with his silly hats, his bizarre pronouncements and his squeaky-scratchy singing voice.

So here, on the second of two sold-out nights in London, a diverse crowd - curious youngsters, seasoned reggaephiles in pork-pie hats - had come to see an object of curiosity as much as a hotly anticipated musical act. In fact, Perry - or, rather, he and his crack band - delivered on both fronts, with Perry serving up some typically odd pronouncements ("Jesus is in my cock"; "God bless the United Kingdom, and God curse the United States", that sort of thing) while his band delivered terrific, loping reggae grooves.

Perry, small, compact and heavily bejewelled, arrived on stage carrying a suitcase, wearing a Haile Selassie T-shirt and a shiny peaked hat plastered with icons and topped off with what looked like a 1950s crystal door-knob. He rambled, wandered, preached, squeaked and periodically held a cigarette-lighter flame up to his microphone (an echo, perhaps, of the day in 1979 when he deliberately burned his Black Ark studio to the ground). But the music was fabulously tight, the band poised on a razor's edge between tension and relaxation. The tunes, mostly, were variations on old themes - "Return of the Django" (a chart hit for Perry's Upsetters in 1969), "Police and Thieves" and a hypnotic "Have Some Mercy".

At 75, Perry's best years as a producer are long behind him. But with his magnetic oddness and his simmering band, he weaves a beguiling kind of musical magic. www.lee-perry.com

Credit: By David Cheal

DETAILS

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LINKS

Code of misconduct

Dickie, Mure . Dickie, Mure.

ProQuest document link

FULL TEXT

Authorities also appear to be making progress against the mighty yakuza , the crime syndicates that have long dominated Japan's underworld, commanding the loyalty of some 78,000 members and associates.

Over the past two years, local governments around the country have moved to isolate the gangsters from ordinary society by introducing rules that ban companies from commercial exchanges with yakuza , even when no illegality is involved.

The new rules last year prompted a temple that hosts memorial tablets for former godfathers of the most powerful group to announce that its members were no longer welcome to pay their respects.

Yet some police privately worry that putting pressure on the yakuza could actually increase violent crime by weakening bosses' control over desperate hoodlums.

Crime groups may also lash out at businessmen who seek to cut ties because of the new regulations, an explanation offered by some observers for a spate of shootings of construction workers on southern Kyushu island over the past year.

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Credit: By Mure Dickie in Tokyo

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LINKS

Treasury urged to find cash for care

Neville, Sarah . Neville, Sarah.

ProQuest document link

FULL TEXT

Interview ; Andrew Dilnot ; Economist ; The author of a report on provision for elderly people tells Sarah Neville there is no cheaper way forward

David Cameron should override Treasury opposition and endorse the conclusions of an official commission into long-term care, its architect Andrew Dilnot has urged, amid an intensifying debate within government about whether the plan is affordable.

A white paper, originally expected last year, has been postponed until April, and funding options have been relegated to a separate "progress report", sparking concerns from campaigners that austerity-bound ministers have baulked at the pound(s)1.7bn-a-year price tag for care for the elderly and disabled adults.

In his first interview since the day his report was published, Mr Dilnot says he is attempting to solve one of the most intractable issues of public policy at a time when public finances are in a worse state than at any time for the last 30 years.

"Naturally, the Treasury doesn't like spending money and that's almost its job," he says.

"I don't think there should be any surprise that their first inclination was not, 'hurray, here's another way of spending money'. And so what's been happening for the past six months is there's been very careful scrutiny of it, and a desperate attempt to find a cheaper, more effective way."

Mr Dilnot, who radiates a fierce and concentrated intelligence, adds simply: "There isn't one."

At the heart of his plan is a proposal to cap individuals' liabilities at about pound(s)35,000, with the state picking up the tab for any further care costs.

Speaking in his bay-windowed, book-lined room at St Hugh's College, Oxford , where the 51-year-old former director of the Institute for Fiscal Studies has been principal for a decade, he goes on: "The amounts of money we're talking about are small, particularly in this parliament, because by the time there's been legislation and the cap is in place, it then takes a while for liabilities to build up." His estimate is that the money required initially will be in the low hundreds of millions of pounds, "and it seems to me that the government should recognise, and probably is recognising, that this is an area where people want there to be change - that it is an area where we've been failing for 60 years. The consequences of doing nothing . . . are very severe."

A lower-cost option, which gained some momentum towards the end of last year, would be to reject the idea of a cap but endorse another of the commission's proposals: that the means test threshold that currently obliges anyone with assets over pound(s)23,250 to pay the full costs of their care should be raised to pound(s)100,000.

Mr Dilnot, who later this year switches Oxford colleges to take over as warden of all-graduate Nuffield, crisply dismisses that suggestion with all the finality of a tutor affronted by a weak argument in a first year essay.

"Government can do whatever it wants, or indeed nothing, but if the. . . . set of proposals in the white paper doesn't do something effectively to pool the tail-end risk, then it will leave the core problem.

"Because when you talk to people about what the problem is, it's the fear and the loss of control, and that comes from the lack of risk pooling, not from the means-testing threshold. The means test is itself stupid and the threshold should certainly rise, but the core part of the proposals is the cap."

Significantly, however, he appears relaxed at the prospect of the cap being set at pound(s)60,000 - pound(s)10,000 higher than the upper limit the commission proposed - following reports that ministers may favour that figure as a way of keeping the cost below pound(s)1bn a year.

"By implementation, there will have been a bit of inflation, so the top end of [our recommendation] could easily have got close to that," Mr Dilnot says.

His proposals come amid a wider debate over how the citizen's expectations of what the state will provide must change in an era of far tighter public expenditure. Warming to that theme, he suggests that his commission's suggestion that the individual should take "the low risk" while the state pools "the low probability, high risk . . . could apply to other bits of what the public sector does".

In the decade ahead, he says, "we are likely to see continued discussion about how risk should be shared between individuals and the wider community".

He has clearly relished the intellectual challenge of grappling with an issue that has long defeated policymakers yet has such a heart-rendingly human dimension. Longevity should be a source of pleasure not "a burden", he says firmly, adding: "People said: 'You must be mad to take this on because it is such a muddle.' But that is the time you have most chance of making a difference - when there's a muddle."

Credit: By Sarah Neville Public Policy Editor

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LINKS

Have we had the cataclysm yet?

Bernheimer, Martin . Bernheimer, Martin.

FULL TEXT

OPERA ; Gotterdammerung ; Metropolitan Opera, New York ; *** ; Martin Bernheimer

Robert Lepage's zillion-dollar production of Wagner's Ring cycle fared rather badly in its first three instalments. The central, accident-prone device, a 90,000lb cluster of 24 planks that bend, twist, rise and fall in computerised configurations, did little to advance narrative clarity while it cluttered the scene and forced forcing the so-called action on to the stage apron. The mythical exposition was clumsy at best, contradictory at worst. Still, optimists hoped that miracles would transpire, that the video projections would cohere, that the lingering questions would find affirmative answers with the arrival of Gotterdammerung on Friday. No such luck.

Theatrical ineptitude remained the rule of the night, up to and including the seemingly botched final transfiguration when virtually nothing happened on an empty, dimly lit panorama. Prior to that one endured some unintentional mirth as a silly puppet horse was pushed on so that brave Brunnhilde could ride gingerly into the pink glow that masqueraded as a funeral pyre. So much for cataclysmic climaxes.

Under the circumstances it was best to try to divorce music from drama, a process not exactly encouraged by the composer. Never mind the awkward choral processions, the clumsy side-entrances and side-exits. Ignore the textual contradictions.

Fabio Luisi, who has inherited James Levine's baton, enforced clarity and precision in the pit. There was little grandeur or subtlety in his taut and speedy approach; still, one had to admire his efficiency.

Deborah Voigt does not command the tireless power, rich timbre and even range of an ideal Brunnhilde. Not incidentally, Peter Gelb, the hyperbolic Met impresario, calls this "the most difficult soprano part ever composed". Undaunted, Voigt got through the obstacle course honourably, with breadth and sympathy, not to mention gleaming top tones. Jay Hunter Morris, the ersatz Siegfried - "definitive" and a "casting miracle", according to Gelb - introduced a physically and vocally slender, essentially unheroic hero. His prime virtues involved stamina, cheer and availability. Hans-Peter Konig boomed darkly as a jolly-giant Hagen. Eric Owens brought odd, Wotan-worthy force to the snivelling platitudes of his father, Alberich. Iain Paterson managed to make the weak-willed Gunther a tragic victim, radiantly seconded by Wendy Bryn Harmer as his sister, Gutrune. The Norn and Rhinemaiden trios were deftly projected and the gutsy Gibichung chorus, trained by Donald Palumbo, sang gloriously.

The most memorable performance, however, came from Waltraud Meier, who turned Waltraute's 20-minute cameo into a mini-drama of definitive urgency, sensitivity and pathos.

The non-capacity audience cheered the singers but, at least in part, booed the director. To many, this Ring has turned out to be a hyper-costly fiasco. But not to Peter Gelb. "Boy, has it been worth it," he exclaims in the programme magazine. Perhaps he protests too much. www.metopera.org

Credit: By Martin Bernheimer

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LINKS

Report doubts saving on pension proposals

Cohen, Norma . Cohen, Norma.

ProQuest document link

FULL TEXT

Revised government proposals on pensions for public sector workers are unlikely to save much, if any, money in the long term and will even widen the advantages low-waged workers on the state payroll have over similar employees in the private sector, says a report.

Ministers recently offered to improve the terms under which public sector workers accrue retirement benefits by increasing the rate at which these are earned. But research published today by the Institute for Fiscal Studies suggests the policy would wipe out any long-term savings that would have been achieved had no changes occurred.

The move to raise retirement ages - and a decision to use the consumer prices index rather than the faster-rising retail prices index to uprate benefits - had already cut the cost of public sector benefits even before the changes unveiled last autumn were put in place. Employees will also be asked to contribute more to their pensions, a move which falls disproportionately on higher wage earners and raises pound(s)1.8bn a year from 2014/15.

In another measure that helps the low waged and hits high fliers, ministers want benefits to be calculated on career average earnings rather than earnings just before retirement.

However, in seeking agreement from unions for the changes, the government offered to improve the rate at which benefits are accrued, in exchange for a slight weakening in the rate at which these are uprated to take account of inflation.

Carl Emmerson, deputy director at the IFS and a co-author of the research, said the government's willingness to give ground on long-term costs but not to budge on contribution rates that affect the public finances in the current parliament suggests it places a higher priority on addressing the latter than the former.

"They have held on to the strengthened contributions rate to help the public finances in the long term," he said. "But these reforms are not really cost savings."

"Decisions over the rates of accrual and indexation mean that the latest reforms might not save money in the long term," the report concludes.

"Lower earners are likely on average to benefit from the reforms, while higher earners will lose somewhat. These distributional consequences enhance rather than diminish the differences between public and private sector labour markets." If wages in the UK do not rise as rapidly as in the past, the IFS notes, the savings from the changes recommended by Lord Hutton on the future of public sector pensions are much more modest.

Credit: By Norma Cohen, Economics Correspondent

DETAILS

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LINKS

Critics say rich will benefit

Neville, Sarah . Neville, Sarah.

ProQuest document link

FULL TEXT

Andrew Lansley, health secretary, has privately described the Dilnot Commission proposals as "regressive" - a view that is shared by some influential Liberal Democrats, who say that richer people stand to gain more from the proposals, writes Sarah Neville .

The reforms' progenitor, Andrew Dilnot, rejects the charge.

Although his report on long-term care shows that the top fifth by income will benefit most from the proposed arrangement, by virtue of having more substantial assets, Mr Dilnot describes that as "true but not a very interesting way of defining progressivity and regressivity".

If his proposals are funded out of general taxation, he says, "the progressivity of the tax system would naturally outweigh this". In other words, those who gain more would pay more.

However, Mr Dilnot points to other evidence that shows that those people "in the bottom half of the wealth distribution", with assets of pound(s)175,000 or below, currently lose the largest percentage of their assets when they have to go into care.

So it is that group, he says, that has most to gain from his reforms.

Credit: By Sarah Neville

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LINKS

MPs warn over cash for flood protection

Clark, Pilita . Clark, Pilita.

ProQuest document link

FULL TEXT

Property at risk

Ministers may not have set aside enough money to protect millions of English properties at risk of flooding, MPs have warned.

In a report published today, the Public Accounts Committee also warns of widespread confusion over which government body is responsible for managing flood risk.

One in six properties in England, or 5m in total, are now at risk of flood damage, which costs at least pound(s)1.1bn a year but could go up to as much as pound(s)12bn by the 2080s, a government report on climate risk predicted last week.

"Yet it is unclear where the buck stops and who is ultimately responsible for managing the risk of flooding," said Margaret Hodge, committee chair. The Department for Environment, Food and Rural Affairs had told MPs it was "not ultimately answerable" and shared responsibility with the Environment Agency and local bodies, she added.

"There is also a great deal of uncertainty about whether there will be enough money to maintain and improve flood protection in the longer term, and who will pay," she said.

Pilita Clark

Credit: By Pilita Clark, Environment Correspondent

DETAILS

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LINKS

Chinese put space-age seal on their role in Africa

Wallis, William . Wallis, William.

FULL TEXT

Addis Ababa ; The African Union's new HQ is seen by some as symbolic of another form of dependency, writes William Wallis

It would be hard to conjure up a grander gesture to mark the state of relations between China and Africa than the new $200m Chinese-built headquarters of the African Union.

It has descended in time for this year's heads of state summit like a giant spaceship dominating the skyline in Addis Ababa, a symbol of modernity among the nearby shanty towns and unpaved roads that give parts of the Ethiopian capital the flavour of a village.

"China, its amazing re-emergence and its commitments for a win-win partnership with Africa, is one of the reasons for the beginning of the African renaissance," said Meles Zenawi, Ethiopia's prime minister, in his opening remarks to the two-day summit that ended yesterday.

He was referring to the 12-fold rise in trade between China and the continent - to $120bn last year - that has accompanied a decade of accelerating African growth. "It is therefore very appropriate for China to decide to build this hall - the hall of the rise of Africa, this hall of African renaissance," the prime minister said.

Not everyone present agreed with him. It was with a mixture of bemusement and awe that delegates explored their shiny new gift, completed like so many Chinese projects on the continent with extraordinary speed in less than three years.

"This should be a symbol of Africans pulling themselves up. But instead it looks like China is doing it for us," quipped one delegate. "As much as anything, it shows what the Chinese are getting out of Africa as it does what they are putting in."

The headquarters suggested, the delegate said, a fresh form of dependency evolving in the continent's relations with the outside world, as Africa shakes off the influence of jaded and cautious former colonial powers and embraces new commercial suitors from among emerging powers.

The building also appeared to answer a question hovering over the AU as an institution since Muammer Gaddafi, the late Libyan leader, was killed in October: who will step in as the new patron of the frequently cash-strapped union? Evidently, it is the Chinese.

The building, said Jia Qinglin, a member of the Beijing politburo who was heading a delegation hundreds strong, came with a Rmb600m ($94m) cheque and Chinese technicians to ensure its maintenance in coming years.

Mr Jia reiterated China's oft-repeated doctrine of non-interference: "China will firmly support African countries in their efforts to uphold sovereignty and independence and resolve African issues on their own," he told assembled leaders. "We maintain that all countries, big or small, are equal, and we are opposed to the big, strong and rich bullying the small, weak and poor."

Three quarters of the AU's administrative costs are covered by Nigeria, South Africa, Egypt, Algeria and Libya. But Europeans, who contribute the largest part of AU project finance, appeared comprehensively upstaged at this year's event.

As delegates sat down in the voluminous conference hall at the centre of the new building, they discovered some awkward details. On radio receivers delivering simultaneous translation, Mandarin occupied channel one.

A joke circulated: the Chinese-made voting system had been rigged to deliver victory to Jean Ping, chairman of the AU seeking re-election, who as well as being Gabonese is half Chinese.
It was not to be. While hundreds of Chinese officials seemed to offer a uniform vision of Africa-China relations as one of friendship, mutual interest and respect, Africa's 53 states were struggling to find a common voice.
After a year in which the conflict in Ivory Coast and the Nato-backed rebellion in Libya split the continent, neither the South African candidate, Nkosazana Dlamini Zuma, nor Mr Ping could garner enough votes to secure the position of chairman. In defiance of the normal rules, Mr Ping will stay on in his current role until the next summit in six months.

Credit: By William Wallis in Addis Ababa

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LINKS

Banks must reclaim their proper role in the market

Tucker, Paul . Tucker, Paul.

ProQuest document link

FULL TEXT

Amid all the debates about reforming the global financial system, the two most important challenges are clear.

The first is to return banking to its rightful place in a market economy. Banking should not depend on a safety net from taxpayers. Those who most espouse the disciplines of capitalism - bankers and financiers - should live by them.

The second challenge is to take a much broader view of global finance than in the past. Looking back, regulators have to recognise that the rules of the game failed to keep up with the progressive fusion of banking, capital markets and insurance; and were not modified in response to accumulating macroeconomic imbalances.

So far, much public discussion has focused on changes in the Basel regime for bank capital requirements, and that is certainly vital. But the G20's reform programme must also go beyond traditional policy options.

First, it absolutely must solve the "too big to fail" problem - in other words, the G20 must put in place a credible regime for managing the orderly failure of financial institutions, however large, complex or international.

Where losses exceed equity but outside capital cannot be raised, any kind of business must either go into liquidation or be reconstructed. In the case of banking, liquidation entails huge costs and disorder as financial contracts are closed out and essential services - payments, credit, risk transfer - are shut down.

This is why the Financial Stability Board, the global regulators' group, has focused on so-called "resolution regimes" to spread losses across creditors through a process that aims to preserve continuity of essential functions. The G20 countries have now agreed to legislate for a common resolution regime. This is a breakthrough, and brings the end of too big to fail within reach.

A credible resolution regime will ensure that debt holders, as well as equity holders, are exposed to loss. Creditors will have a powerful incentive to monitor the risks banks run, increasing market discipline.

The second priority for reform is to ensure that regulatory regimes recognise the inter-connectedness of capital markets and their interaction with the macro-economy - the so-called "macro-prudential" agenda. Booms in credit growth and asset prices undermine stability by stretching financial firms beyond endurance. One important set of macro-prudential tools involves temporarily varying requirements on balance-sheet structures or financing terms - such as minimum capital or minimum margin requirements - to reflect the increase in risks.

Taking the punchbowl in this way may have the beneficial effect of dampening the boom but, in any case, the system would be in a better position to absorb the bust without systemic distress.

There is a further dimension to this. A stability regime focused solely on the safety and soundness of firms would be myopic. Stress in the financial system is greater the more complex and opaque the network of exposures among firms. Remedying this means enhancing the transparency of capital markets and simplifying the network of exposures among banks, dealers and funds.

Steps include moving the main over-the-counter derivatives markets on to a central infrastructure, and ensuring the structure and rules of central counterparties are safe. They could also include applying tighter controls on exposures among the largest, most complex firms.

Meanwhile, as we embark on simplifying the financial network with one hand, we need to take care not to complicate it with the other. By redrawing the social contract for banking, policymakers recognise that we are creating incentives for the riskier elements of banking to be reinvented outside the banks. Society will be ill served if risky structures are constructed beyond the perimeter of prudential supervision and of special resolution regimes.

To aid the authorities' efforts on this front, central banks should play a more active role in fostering robust practices in the short-term financing markets - repo, securities lending, commercial paper, and so on.

This is all especially important for the UK. London's capital markets are so international that threats to stability from any corner of the globe ricochet through our financial system and through our economy.

Overall, it would be foolish to declare that policymakers know enough to get all this exactly right. Indeed, because of this, some might argue that reform should wait until economic recovery is entrenched and more research has been done.

But delay would sap confidence, a crucial condition for sustained economic recovery. We need a strong financial system: the end of too big to fail, with banking resuming its proper place in a market economy.

The writer is deputy governor of the Bank of England and a member of the Financial Stability Board. A longer version of this piece appears in the book' Investing in Change', published by AFME

Credit: Paul Tucker

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LINKS

The House of Bernarda Alba: THEATRE

Shuttleworth, Ian . Shuttleworth, Ian.

ProQuest document link

FULL TEXT

Almeida Theatre, London ; *** ; Ian Shuttleworth

As the Tamasha company discovered a few years ago with its Pakistani adaptation The House of Bilquis Bibi , Lorca's final play can be used to comment on numerous social and political cultures, but actually translating its events into those cultures does not necessarily add very much.

Emily Mann's adaptation, which sets the action in rural Iran at an unidentified period between the play's composition in 1936 and today, is not radical. It changes the characters' names (apart from Bernarda herself and the youngest of her five daughters, Adela), and the oppressive religious sensibility that leads Bernarda to declare eight years of mourning for her deceased husband is now Shia Muslim rather than Spanish Catholic. But little else of substance changes, and this includes the connotations of the play. The air of segregation about this closed, all-female household may resonate with contemporary Iranian gender policies, but the matriarchy of Bernarda would appear to be at odds with them.

What remains, then, in Bijan Sheibani's production are a number of fine performances. Shohreh Aghdashloo is as poker-backed as the best Bernardas; she presides over the initial silent mourning with the quiet tyranny of a female Voldemort. Jane Bertish is excellent as the candid housekeeper Darya (alias La Poncia in the original), and Mia Soteriou has the opening minutes sewn up as an irreverent maid.

As for the five daughters, I am afraid I fell prey to the occasional danger of this play, that it may become difficult to distinguish one from another. To an extent this is built into the plot, with three of the sisters pursuing the offstage suitor Parviz Rumani (aka Pepe el Romano) and the other two similarly, though less actively, fascinated by him. It means that when cataclysm finally strikes the household, it seems to come from all directions at once. There is more here than in the original, but not as much more as one might expect. www.almeida.co.uk

Credit: By Ian Shuttleworth

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LINKS

Forget the big bonuses; a pay squeeze is coming

Tett, Gillian . Tett, Gillian.

ProQuest document link

FULL TEXT

Say the words "banker pay" to your average voter or politician and these days you will hear an angry hiss. After all, nothing stirs up so much resentment against modern capitalism as the sight of financiers still reaping fat rewards despite failing institutions. On Sunday, the public outrage at Stephen Hester's bonus persuaded the Royal Bank of Scotland chief executive to turn down a pay award (pound(s)1m) that would be considered miserly by other bank bosses in the UK and the US.

However, is it possible to imagine a world where banking pay - and banking - is radically slimmed down? Anybody living in countries such as Japan or Sweden would undoubtedly say "yes"; in those economies, foreign financiers' salaries appear bloated. But perhaps a more interesting - and relevant - intellectual exercise is to peer at the US through a long historical lens; to imagine, if you like, a banking pay version of Back to the Future .

Take a look, for example, at the work by Thomas Philippon and Ariell Reshef , two US-based economists. They have researched trends in banker pay over the past 150 years and found that, in the early 20th century, financial sector pay relative to the rest of the private sector was roughly at parity (for, crucially, employees with similar levels of education). But then it rose sharply until it hit 1.7 times in 1929, the year of the Wall Street crash.

That echoed a bigger increase in finance: the total cost of financial intermediation (all wages and profits paid to financial firms) had reached 6 per cent in 1930, up from just 2 per cent in 1870, according to separate research that Mr Philippon recently showed to the Federal Reserve Bank of New York.

After the 1929 crash, this trend did not immediately reverse: for several years, financial pay remained high because pay in other parts of the economy fell and some bankers traded cannily during and after the crash. However, in the late 1930s the ratio slumped back towards parity and stayed there for the subsequent three decades; in the years following the second world war, American bankers were paid roughly the same as other professionals. But from the the late 1970s onwards, a new cycle turned: the total cost of financial intermediation jumped to 9 per cent in 2010 from 4 per cent in 1950. The ratio of financial sector pay to pay in the rest of the private sector hit 1.7 times in 2006 - in a delicious irony, the same level as in 1929.

It is a matter of fierce dispute why banker pay swelled. Financiers are apt to blame it on the increased importance and complexity of finance: in a world of technological change and globalisation, so the argument goes, you need bright, highly skilled bankers. Many economists such as Mr Philippon, however, reject that. He reckons at least half of the pay jump represents "rent seeking" (skimming off fees), not innovation. "The technological development of the past 40 years (with IT in particular) should have disproportionately increased efficiency," he observes, noting that in companies such as Walmart, "efficiency" has reduced wages.

The crucial question, though, is whether history might repeat itself and produce a big pay swing, as in the post-war years. Right now, it seems hard to imagine; after all, the experience of the past few decades has made it seem almost normal for bankers to be highly paid.

But as this year's bonus round comes to an end, there are some hints of change. The sector is shrinking: an estimated 60,000 jobs were cut last year. Staff are being paid in stock deferred over a longer time, and pay appears to be falling. Morgan Stanley, for example, has declared plans to cap the amount of bonus that its staff can receive immediately at $125,000; Goldman Sachs has announced that it is cutting 2011 compensation by 21 per cent; JPMorgan Chase has cut the total pay pool for its investment bankers by 36 per cent year on year. Indeed, the consensus among bank executives in Davos last week was that total compensation for mid- to senior-level employees in 2011 was about 30 per cent lower than 2010 - and perhaps 60 per cent below the 2007 peak. "There is a big change now," claims one Wall Street CEO.

Now, this decline is still far too small to pacify critics. And it remains tough to calculate the precise squeeze, since banks pay their employees in different ways and - crucially - many financiers are leaving regulated banks for work in shadow banks, where pay is even more opaque.

But, what is clear is that the squeeze almost certainly has further to go, as regulation bites, deleveraging takes hold and western economies ail. Sadly, it probably will not take the pay ratio to 1950s levels; technology now enables financiers to hop across borders and around rules, skimming fees in opaque ways. But - just as 70 years ago - a cycle has turned; albeit slowly. By 2017, bank pay could look very different from 2007; and modern capitalism will look all the better for it.

The writer is the FT's US managing editor

Credit: Gillian Tett

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LINKS

New Sunday newspaper on hold after Sun arrests

Fenton, Ben . Fenton, Ben.

ProQuest document link

FULL TEXT

Tabloid plans

Plans for a new Sunday newspaper to replace the News of the World have been put on hold after the arrest of four

senior journalists from its sister paper, The Sun, according to three senior insiders.
The plans, known as Project X, had been in readiness for some weeks, though the same sources downplayed reports that a launch date of April 29 had been set.
On Saturday, police arrested four senior journalists, named by colleagues as Graham Dudman, a former managing editor, Fergus Shanahan, a former deputy editor, as well as the current head of news, Chris Pharo, and the crime editor, Mike Sullivan.
All were questioned under suspicion of corruption as defined by the 1906 Prevention of Corruption Act and aiding and abetting misconduct in a public office. A service police officer was also arrested and all five were bailed to appear before police on dates in April and May.
The insiders said News International managers had decided the adverse publicity surrounding the arrests and the suspension of the four journalists while police inquiries were going on would hamper any possible launch of a new title, which earlier reports said would be called the Sun on Sunday. "It has gone way onto the back burner since Saturday," one person said. Ben Fenton
www.ft.com/media

Credit: By Ben Fenton, Chief Media Correspondent

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LINKS

Home secretary accepts police pay reform deal

Warrell, Helen . Warrell, Helen.

ProQuest document link

FULL TEXT

Tribunal

Theresa May has accepted a compromise deal in her drive to reform police pay and conditions, which is now expected to save pound(s)150m a year.

The home secretary announced yesterday that she had agreed to amendments suggested by the Police Arbitration Tribunal, which was brought in to mediate after the Police Federation - which represents rank-and-file officers - fought proposals from a government-backed review.

One reform rejected by the tribunal was the abolition of pound(s)1,000 a year competency threshold payments that became known as "grab-a-grand" after criticisms that they were automatically awarded for routine work.

These will now be retained, but Ms May indicated she was still determined to make pay schemes more discerning.

"Skills, performance and successful crime fighting aren't rewarded," she said. "Time served still determines how well most police officers are paid. And I don't think that's right."

She added that despite the reforms there would be "no reduction in basic pay" and that the total savings would represent less than 2 per cent of the total police pay bill.

Paul McKeever, chair of the Police Federation, said he would also stand by the deal even though it would mean "serious financial hardship" for officers.

"In addition to what amounts to a four-year public sector pay freeze and increased pension contributions, police officers are having to contend with a range of changes to terms and conditions, the result of which is effectively a pay cut," Mr McKeever said.

Helen Warrell

www.ft.com/ukpolitics

Credit: By Helen Warrell

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Putin stands by state capitalism

Belton, Catherine . Belton, Catherine.

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FULL TEXT

PM puts faith in conglomerates ; Critics say he is 'freezing status quo'

Vladimir Putin has set out an economic vision for Russia based on state capitalism and strong, paternalistic government as he seeks to return to the presidency in the face of unprecedented protests against his rule.

In a long article in Vedomosti, the Financial Times' sister paper, the Russian prime minister gave little sign he intended to implement measures to boost economic competition demanded by his country's increasingly vocal entrepreneurial class.

Instead, he said state conglomerates had to be the drivers of a transition to a high-tech economy that Russia must make to survive a time of "fundamental change" in the global economy.

Citing China and South Korea as successful examples, Mr Putin defended the state corporations created under his rule and said only the state was in a position to ensure financing for the high-risk innovation needed to reduce Russia's dependence on commodity prices.

"For Russia, it would be inadmissible to not have an economy that can guarantee stability, sovereignty and a decent standard of living," he wrote. "We need a new economy with competitive industries and infrastructure, with a developed service sector; in short, an economy that harnesses modern technology."

Dismissing frequent criticism that the state is inefficient in fostering innovation, Mr Putin said private companies had proved unwilling to take on the risks. Although he admitted that most state-run corporations had not proved competitive so far, "we don't intend to drop what we began halfway", he said.

Analysts and critics said Mr Putin's article did little to address hopes that he could adopt a more liberal agenda to accommodate an emboldened middle class protesting against the cronyism that state capitalism has fostered so far.

"This isn't Putin 2.0. it isn't even Putin 1.0 - it's Putin 0.1," said Sergey Aleksashenko, a former deputy central banker who is now head of macroeconomic research at the Higher School of Economics in Moscow. "I can understand that in some countries innovation can be driven by state corporations, but not in Russia when the government is corrupt and state corporations are filled with the friends and relatives of officials."

"This is a step back, this is a return to the chaebols of South Korea," said Igor Yurgens, the head of a liberal think-tank that has sought to guide the more liberal policies of Dmitry Medvedev's presidency. "The main idea is to freeze the status quo."

Mr Putin admitted "systemic corruption" was hindering private business, saying the entire court and law enforcement system had to be changed while all commercial disputes had to be transferred from criminal to commercial courts to break collusion between prosecutors and judges.

And although he called for a reduction of the role of the state in the economy, repeating pledges that stakes in some state-run corporations would be sold by 2016, it was not clear whether these would be controlling stakes. He was short on any specific reforms beyond this vague pledge and a call to tinker with the tax system by enforcing a tax on luxury goods.

Putin "identified all the problems correctly. But there was contradiction," said Roland Nash, chief strategist at Verno Capital, a Moscow hedge fund. "On the one hand he said the government should get smaller, but on the other hand he is calling for it to solve a lot of problems.

"The problem is this government hasn't delivered. It has a poor track record. All the successes in Russia have been in the private sector."

Credit: By Catherine Belton in Moscow

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LINKS

Case study: Reinventing the British Museum: Rally diverse stakeholders

Jean-Louis Barsoux; Narasimhan, Anand . Jean-Louis Barsoux; Narasimhan, Anand.

ProQuest document link

FULL TEXT

The story. When Neil MacGregor became director of the British Museum in 2002, the institution was one year short of its 250th anniversary. It was also pound(s)6m in debt, viewed as one of the least user-friendly museums in the world, and struggling to justify possession of certain relics, notably the Elgin Marbles.

The British Museum's management culture was inward-looking and weighed down by rivalries between curatorial fiefdoms. Visitors were often viewed as an inconvenience, getting in the way of research and scholarship.

The challenge. Mr MacGregor had two overriding objectives: to change an entrenched yet fragmented organisational culture and to reaffirm the institution's sense of purpose, for internal and external stakeholders.

The strategy. Mr MacGregor refocused on the founding ideals of the institution. He trumpeted its role as an encyclopedic museum that encompasses everyday artefacts as well as art treasures - a collection to which any visitor from anywhere in the world could walk in for free and construct a story about their cultural history.

In his choice of themes for exhibition, Mr MacGregor forced different curatorial areas to work together. For example, Buried Treasures Unearthed , its exhibition on chance discoveries, highlighted key finds made by ordinary people rather than archaeologists.

As part of the anniversary he allowed the BBC to make a documentarythat celebrated the normally unseen work of its specialists, while also emphasising the need for openness to the outside world. Externally, Mr MacGregor forged cultural links with countries - such as Iran and China - that did not enjoy warm political relations with the west, which led to subsequent exhibition loans.

By recasting himself as a kind of "cultural diplomat", Mr MacGregor also helped make the museum's links with Britain's imperial past less problematic.

The British Museum also engaged in new types of collaboration. It made its collection available to museums from emerging markets, thus reinforcing the director's claims that it was a unique resource for the whole world and establishing what he dubbed the "lending library" model. At the same time, however, Mr MacGregor was protective of the integrity of the collection and used strong terms, such as "dismemberment", when discussing any proposed restitution of artefacts, such as the Elgin Marbles to Greece.

To reinforce the museum's claims to universal appeal, Mr MacGregor deepened its links with the BBC by devising A History of the World in 100 Objects , a radio series that showcased artefacts and civilisations that visitors might normally overlook using pieces from the collection. He chose one object from ancient Greece and two from medieval western Europe - but 11 from Africa.
The results. The debt was wiped out within 18 months. Net income quadrupled in nine years and donations and legacies have grown eightfold. Visitor numbers reached record highs (nearly 6m last year) the radio series alone drawing an estimated 250,000 extra visitors.
The museum's departments are also less siloed - curatorial staff started to speak of "the collection" in the singular.
The lessons. Over time, an organisation can lose its sense of purpose, so the leader must keep reinforcing it through constant communication as well as constantly refreshing it in a way that resonates with all stakeholders.
Mr MacGregor delivered a consistent message about the museum's distinctiveness and used the media intelligently. By emphasising the museum's role as a lender of objects, he also helped to defuse, for the time being at least, the restitution debate.
A key lesson for other executives is that just as Mr MacGregor was able to reshape his role into being a "cultural diplomat", they often have more latitude for reframing their job than they think. And this can help them to redefine and rejuvenate their organisations, too.
Jean-Louis Barsoux and Anand Narasimhan
The writers are, respectively, a senior research fellow and a professor at IMD

Credit: By Jean-Louis Barsoux and Anand Narasimhan

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LINKS

Men in Motion: DANCE

Crisp, Clement . Crisp, Clement.

ProQuest document link

FULL TEXT

Sadler's Wells, London ; ** ; Clement Crisp

It might have seemed - like Lymeswold cheese or the nylon shirt - a Good Idea at the time. But further consideration about an evening to celebrate male dancing, produced by a new boy at the game, and with a strong reliance upon Russian performers, should have counselled a certain caution. Ivan Putrov intended his Men in Motion to explore the possibilities of men dancing. What we saw was pauperish, and less than convincing.

It came with unexpected publicity, in that the dancer of the moment, Sergei Polunin - who abruptly quit the Royal Ballet last week - appeared in a brief solo. But trouble with Russian visas trimmed the casting, and a thin repertory became even more emaciated. In the event, five tremulous items hit the stage and, with a generous interval, contrived to occupy 90 minutes.

Two of the offerings seemed worthy of serious consideration. Polunin appeared, ecstatically cheered, in Narcisse , which the Soviet-era choreographer Kasyan Goleizovsky made, using a Scriabin piano prelude, for the glorious

Vladimir Vasiliev and which Vasiliev danced memorably during a Bolshoi season in London 40 years ago. Polunin gave its self-absorbed manner a vivid and splendid life, totally unlike Vasiliev (whom I saw) and totally credible. And Daniel Proietto repeated his extraordinary account of Russell Maliphant's solo for him, in which Nijinsky's mental unease is expressed (to Satie's monotonies) in the circling lines of those drawings with which that tragic figure revealed his confusion.
After that, a degringolade of inadequacies: scores (Dukas' La Peri , Weber's Invitation to the Dance) buffeted by gimcrack re-orchestration; Le Spectre de la rose denatured and unlikely in performance by Elena Glurdjidze and Igor Kolb; Putrov's view of Ashton's Dance of the Blessed Spirits lacking the grand serenity of its original interpreter, Anthony Dowell. And to close the event, Putrov's first choreographic essay, inspired by Cavafy's tremendous poem Ithaka , proposing movement banalities to numb a menage a trois while Dukas' Peri trailed past.
The sadness is that this event had good ideas, good intentions and performers. It came out of the oven too soon.
www.sadlerswells.com

Credit: By Clement Crisp

DETAILS

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The public image: Vodafone's Yoda campaign: Ad deconstructed

Thomas, Daniel . Thomas, Daniel.

FULL TEXT

Client: Vodafone Agency: RKCR/Y&R Territory: UK Verdict: ** Vodafone is the latest advertiser to borrow some of the Star Wars magic ahead of the 3D relaunch of the galactic saga. The mobile operator has snared top Jedi coach Yoda to show off a facility that allows the transfer of contacts to new phones.

Produced by Lucasfilm's visual effects facility, the ad features the diminutive verb mangler propping up the sushi bar at a Japanese restaurant - as if in his post-Jedi career, Yoda took to haunting local hostelries to show off his mind tricks.

His attempts to help a young couple transfer their phone contacts are sneeringly declined as the 900-year-old's Jedi powers prove no match for the technology of 2012.

He returns to his sashimi as the young lady ponders whether he tastes of wasabi. This wincingly awkward pay-off line apart, the brands at least marry well given the slender connection between miraculous mind control and wireless transfer.

Certainly, Yoda's brand ambassadorship makes more sense than the other recent campaign positing Darth Vader - the epitome of all Star Wars evil - as the chief executive of a high street computer seller.

Daniel Thomas

Credit: By Daniel Thomas

DETAILS

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LINKS

Canon

ProQuest document link

FULL TEXT

Only in Japan could a 70-year-old step aside ostensibly for a younger management team, but be replaced for now by a 76-year-old. Canon's "new" broom is Fujio Mitarai, who replaces Tsuneji Uchida as president in addition to already being chief executive and chairman. Investors probably won't mind; since Mr Mitarai took the helm in 1995, Canon has returned 183 per cent compared with 96 per cent for the Japanese electronics sector. But Canon is now predicting a second year of virtually no profits growth. That may be pragmatic, but it is hardly exciting.

Mr Mitarai has a reputation built on margin control, not growth. That is admirable. But Canon's prediction of 5 per cent top-line growth in 2012 becomes 0.6 per cent by the bottom line - the second year in a row that profits will barely creep higher. It is lucky inflation is non-existent.

The company's sales, though, are caught in the trend of consumers moving away from digital cameras and towards integrated smartphones. Sales of cameras - three quarters digital, the rest high-end SLR, in total account for about a third of Canon's business - are predicted to drop almost a 10th this year (half of that is currency effect). This comes on top of a 4 per cent drop last year which was bang in line with the global average, according to November data from Japan's Camera and Imaging Products Association.

But give Canon a break (for now). Cut through the waffle about eight priorities for this year (too many and too obvious; they include focusing on competitiveness and cutting costs) and this is still a company that improved operating margins (12 per cent, from 10 per cent) in spite of the Japanese earthquake and the yen's strength. That currency effect has capped Canon's shares for the past two years. Age is one thing. The reality is that Canon will be a good place to be whenever the yen does begin to weaken again.

DETAILS

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LINKS

Discipline not enough for Lisbon to decouple from Athens

Wise, Peter . Wise, Peter.

ProQuest document link

FULL TEXT

Portuguese rescue

The Portuguese government was sent a fresh reminder yesterday that painful austerity and tough economic reforms are insufficient to win back investor confidence, as bond yields hit record highs.
Concern that an impending Greek debt agreement could serve as a template for a renegotiation of Portuguese debt is hampering attempts by Lisbon to decouple from Athens by delivering reforms and cutbacks in return for its EUR78bn rescue package.
Lisbon will not need to ask "for more time or more money", insists Pedro Passos Coelho, prime minister.
Yet many economists acknowledge the need for both. Antonio Saraiva, head of the Confederation of Portuguese Industry, says he is hopeful that Lisbon can borrow an additional EUR30bn from the European Union and International Monetary Fund.
The government believes it has delivered its part of the bargain by implementing its rescue agreement, receiving positive notes in two quarterly assessments by the so-called troika - the European Commission, IMF and European Central Bank.

A labour pact involving harsh cutbacks in holidays, overtime pay and dismissal compensation has been agreed with one of the two trade union federations, reflecting a relatively low level of social tension over the bail-out.
Privatisations are also on track, including the sale of 21 per cent of Energias de Portugal, the dominant power utility, to China's Three Gorges Corporation, in a deal worth up to EUR8bn in investment and credit.
An internal EUR1.5bn financial rescue agreement was signed on Friday for Madeira, whose unreported spending upset Lisbon's fiscal planning last year. A tough austerity plan for the island involves tax increases of 20-37.5 per cent.
Vitor Gaspar, finance minister, has guaranteed that the 2011 budget deficit will be close to 4 per cent of gross domestic product - compared with about 6.8 per cent in Greece, and significantly below the target of 5.9 per cent agreed with the troika - although this was largely achieved by one-off measures.
As a result, public debt will reach 112 per cent of GDP this year, compared with 190 per cent in Greece, according to the IMF.
"Portugal is in a considerably better fiscal position than Greece," says Mr Antonio Garcia Pascual, chief southern European economist with Barclays Capital.
But a feeble outlook for growth and high external indebtedness have made it difficult for Lisbon, particularly since Standard &Poor's joined Fitch and Moody's in downgrading Portuguese debt to junk two weeks ago.
The economy is expected to contract more than 3 per cent in 2012 - Portugal's third year of recession in four years - and official forecasts of a recovery in 2013 are increasingly seen as implausible.
"The fiscal consolidation ahead is nonetheless daunting. Nearly 2 percentage points of GDP in 2011 were due to a one-off bank pension transfer, requiring additional fiscal measures in 2012," says Mr Garcia Pascual.
"It is becoming quite clear that many investors have lost confidence in Portugal's ability to return to sustainable economic growth under its current constraints," says a London-based analyst.
Economists see little realistic prospect of Portugal returning to the long-term debt market next year - as envisaged under its bailout agreement - in time to meet a EUR9bn debt repayment that falls due in September 2013.
"There is a clear funding gap, and it's justifiable from an economic point of view to doubt that Portugal will be able to access the markets next year," says Luigi Speranza, economist with BNP Paribas. Mr Passos Coelho's hope is that European leaders will seek to prevent wider contagion by agreeing to provide Lisbon with more money and time to pay - without involving private bondholders.
"A clear understanding has been given that Greece is a unique and exceptional case," says Mr Speranza. Breaking this principle by asking the private sector to participate in rescheduling Portuguese debt "would fuel the fear of even further contagion".
In political terms, Mr Passos Coelho has succeeded in aligning Portugal more closely with Ireland than Greece as a country committed to implementing tough austerity measures and meeting fiscal targets.
But deep-seated structural weaknesses continue to hold back growth and weigh heavily on market assessments of Portugal, particularly as investors grow increasingly concerned about the impact of austerity on growth.
Markets, Pages 32-34 Greek asset sales miss targets: www.ft.com/europe

Credit: By Peter Wise in Lisbon

DETAILS

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LINKS

Drought heightens Argentine fiscal hangover

Webber, Jude . Webber, Jude.

ProQuest document link

FULL TEXT

It is not just farmers in Argentina who are watching the skies, hoping the rains that have finally started to fall will continue.

A bitter drought that has ravaged corn and battered soya crops in one of the world's top food exporters could mean more than $1.3bn in lost tax revenue for the hard-up government.

After the party of 2011, an election year in which government spending rose 33 per cent and Cristina Fernandez won a second presidential term by a landslide, the axe is out as the government seeks to slash a ballooning subsidies bill.

Argentina last year racked up a 31bn peso ($7.15bn) budget deficit after debt repayments, according to official figures.

The country's debt and deficit levels are a fraction of that of a decade ago when the country plunged to default on nearly $100bn of debt. Last year, the country posted a primary surplus, before debt repayments, of 4.92bn pesos. But that was 80 per cent lower than in 2010 and came despite a year of blistering growth and buoyant prices for Argentina's farm exports.

Spending on energy and transport subsidies rose 50 per cent last year to 75bn pesos, though subsidies for social programmes, including a well-respected child benefit policy, grew by just 7 per cent, according to a report by the Argentine Budget and Public Finance Association, which scrutinises state finances.

That is well below inflation, estimated by private analysts in the absence of credible official figures to have been nearly 23 per cent last year. Ms Fernandez prefers to describe the new phase of belt-tightening as "fine tuning" of an economic model she credits with delivering economic growth of 9.2 per cent in 2011 and an unemployment rate of 6.7 per cent in the fourth quarter last year.

The government's challenge is how to keep alive a consumer boom that has been the motor of economic growth while shifting the subsidies bill to consumers.

Wage talks with unions kick off in February and the government hopes to keep salary rises to about 18 per cent this year. At the same time, it is seeking to curb imports to keep the 2012 trade surplus in line with last year's $10bn.

"Cristina's popularity is about 60 per cent in the latest polls. Negotiating lower wage settlements, cutting subsidies, increasing tariffs is a very tough road and it will lead to more conflict and more difficulties for the government," said Lucio Castro, of independent think-tank CIPPEC.

So the drought is bad news fiscally. The 2010/11 harvest earned $9bn for state coffers through export tariffs. But Gustavo Lopez, of Agritrend, a consultancy, has pencilled in a fall to $7.7bn for this season. Argentina has to find at least as much as $9bn for debt repayments in 2012.

Despite rains in recent days, it is too late for some corn, though losses in soya, Argentina's top cash crop, may be lower than feared.

The stark truth, according to Joshua Rosner, managing director of research consultancy Graham Fisher &Co, is that "even if volumes remain constant, soya prices will have to rise by about $100 per ton [for export tariff revenue] just to stay flat compared with last year".

Foreign debt was 14.1 per cent of gross domestic product last year, down from 166 per cent in 2002, according to Amado Boudou, the vice-president.

Credit: By Jude Webber in Buenos Aires

DETAILS

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LINKS

Shanghai sets out bigger stall in strategy to attract investors

Rabinovitch, Simon . Rabinovitch, Simon.

ProQuest document link

FULL TEXT

Plan to boost size of capital markets ; Goals to double trading volumes

Shanghai intends to expand greatly its capital markets and open them more widely to foreign investors by 2015. Goals for the next four years range from the concrete, such as more than doubling trading volumes, to the aspirational - "significantly increasing the international influence" of Shanghai's markets.

The government said yesterday these were steps towards the objective of making Shanghai an "international financial centre consistent with China's economic strength" by 2020.

The city's stock, bond and commodities markets are among the world's biggest. Shanghai's stock exchange was ranked sixth in terms of market capitalisation in 2010, just behind London.

But strict capital controls have cut Shanghai off from other markets, and foreign institutions can invest only small amounts in it. The latest plan offered a gradual removal of these barriers.

Kevin Lai, an economist with Daiwa Capital Markets, said China's legal and accounting systems also needed substantial improvements. "You need a platform that is market-driven and rules-based, an environment in which contracts can be enforced to international standards," he said.

Shanghai's city government and the National Development and Reform Commission, the planning agency, outlined four areas of focus in the 25-page document published yesterday.

First, they will aim for sustained, rapid growth of capital markets. China's interbank bond market was the fifth biggest in 2010 and should crack the top three by 2015, they said. They also called for China's derivatives market to be among the top five by 2015.

Second, Shanghai will be linked more tightly to international markets. They did not set targets but said more channels would be opened to foreign investors. At present, the latter can invest in China only with special quotas. According to the plan, these will be enlarged. Foreign groups would also be encouraged to issue renminbi-denominated bonds and list on the Shanghai stock exchange.

Third, the city will beef up its financial services industry. As an example, they noted there were about Rmb15tn ($2.4tn) of assets under management in Shanghai in 2010 and said this should double by 2015.

Finally, Shanghai will aim for the same taxation, legal and regulatory standards as other centres.

Hong Kong stands to lose the most but fears of its marginalisation have subsided with its emergence as the dominant offshore hub for renminbi trading.

Mr Lai said it was not a case of winner takes all. The US had multiple financial centres and China was on a similar trajectory.

"In a few years China will overtake the US to become the world's biggest economy," he said. "Hong Kong will continue to be the major international centre but Shanghai should be the next."

Credit: By Simon Rabinovitch in Beijing

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LINKS

Cyclists can be terrifying

ProQuest document link

FULL TEXT

From Mr Hugh Rippon.

Sir, I was appalled at the photograph of an evidently happy man riding a bicycle on what is obviously a pavement, which accompanied your report "Serco to cut 500 jobs" (January 27). The number of cyclists on pavements is a growing menace to pedestrians and anyway is an indictable offence under Section 72 of the Highways Act, 1835.

To those of us "of a certain age" for whom the pavement is the only choice, cyclists who come at you from in front, or silently from behind, can be terrifying. The police turn a blind eye, although penalising offenders would be a simple matter by on-the-spot fines.

What are we walkers supposed to do: walk around with rear-view mirrors or walk in the roadway braving the motor traffic?

Hugh Rippon,

Coventry, Warwicks, UK

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LINKS

The Facebook flotation: The social network's stock market launch will be the biggest test yet of whether a young company, whose rapid expansion has often struck jarring notes over issues such as user privacy, can live up to expectations. By April Dembosky

Dembosky, April . Dembosky, April.

ProQuest document link

FULL TEXT

Before lifting his head from his pillow in the morning, Sam Van Dellen reaches for his smartphone, opens Facebook and scrolls through the news headlines and personal updates his friends have posted. "Yay! Oatmeal," reads one wake-up message from a friend.

It used to be that people crawled out of bed and sat down with the newspaper. Then email became the first thing many looked at. Now, people such as Mr Van Dellen, 31, a bicycle mechanic from Chicago, are leading the next shift where the social networking site becomes the first and primary source of information - about their friends and the world. "I'd rather not read the news," he says. "I have such a broad spectrum of friends, I feel like I get a broad swath of news from them."

After insinuating itself into every corner of its users' lives, the internet phenomenon has its eyes set this week on launching the process that will lead to its long-awaited initial public offering. What began as a university dormitory stunt is evolving into a social filter that is shaping how people and businesses behave online. Now, with its impending debut on Wall Street, it is set to take the final step in its transition from precocious adolescent to mature corporate power.

What kind of adult it will turn out to be - how it will wield that power, and whether its influence will be as pervasive as supporters predict - are the questions that now loom large. Given the prodigious success of its first eight years, expectations are high: to some, it has already embedded itself into the fabric of the internet - a utility that will become a fact of life for all online users.

"Facebook is today what the telephone was 50 years ago," says Rob Coneybeer, managing director at Shasta Ventures, a Silicon Valley venture capital firm. "To say now, 'I don't use Facebook' is like saying then, 'I don't use the telephone, I only do business in person'."

Yet the pervasive influence implied by predictions of that nature is not a given. The move to Wall Street signals the biggest test yet of whether a company whose ambitious expansion has often struck jarring notes over issues such as user privacy can live up to the expectations.

At the latest count, the network had 800m active users. This year, it is on course to reach 1bn, meaning 14 per cent of the world's population will be visiting at least once a month. Facebook aims to develop new things for people to do on the site that keep them coming back and sharing more. Its most recent function turns a corner of someone's profile page into an online scrapbook, logging with just a few taps every sushi roll they eat or each U2 song they listen to.

The same network effects that it uses to keep people glued to the site have meanwhile been deployed to build a multi-billion dollar advertising business. Now, companies have almost no choice but to be on Facebook, on alert for mentions of their products and the potentially viral spread of a comment about them. "The people own your brand now," says Leslie Berland, head of social media at American Express, the card issuer. "They define the conversation and the way your company and brand are being viewed. It's critical to be part of that conversation."

As Facebook positions itself to become a public company with a possible $100bn valuation, it is still reconciling its ragtag roots with a ruleabiding adult persona that must engage with Madison Avenue advertising executives and Wall Street bankers, not to mention political leaders and officials from Washington to Brussels and beyond.

When Mark Zuckerberg and his friends founded the company in 2004, they and their team of engineering twentysomethings found success by rebelling against convention. Their modus operandi was to work fast, make mistakes, then quickly correct them. The company has endeavoured to maintain as much of that hacking culture as possible, to stay ahead of larger, wealthier rivals in the technology industry that want in on its turf.

But as the group grows into a mature business, it treads more and more into complex territory. Mistakes carry much larger consequences now, and Facebook has yet to find the sweet spot on a number of fronts.

Privacy wars with regulators and users are bound to continue, particularly as Facebook seeks to become more profitable and answer advertisers' demands for more information about users. Alliances and enmities in the technology and media worlds will harden as Facebook takes a 30 per cent cut from gaming, music and film companies that sell digital goods on its platform. And the users who embraced Facebook and turned it into an indispensable part of life must be protected from fatigue caused by intrusive ads and privacy breaches.

"Facebook's challenge is going to be to maintain that indispensability in a very, very rapidly evolving landscape," says Rebecca Lieb at Altimeter Group, an advisory company. "AOL had that level of ubiquity, Yahoo had that level of ubiquity, and they both failed to maintain it."

Early last year, Facebook invited a group of British advertising leaders to its California headquarters as part of a courtship of marketers to persuade them of the benefits and, as the company increasingly casts it, the inevitability of advertising on Facebook. The bejacketed middle-aged guests sat around a conference table as Andrew "Boz"

Bosworth, Facebook's director of engineering, stood before them in jeans, sneakers and a T-shirt, the tattoo on his left wrist flashing as he waved his hands and talked fast.
His speech, though casual, was dominated by a strain of wisdom that seemed to sway his elders. He talked about the word-of-mouth power of Facebook and its impact on truth in advertising. No longer would agencies be able to sell a bad product with a clever campaign, Mr Bosworth declared. "But for ad agencies that are good at what they do - it's Christmas," he added. "Because people will be talking about what you do and sharing it with their friends."
Facebook is so far succeeding in convincing advertisers that the social network is a place they must be. In the past year, it overtook Yahoo to become number one in online display advertising revenues, taking 16.3 per cent of the market, says EMarketer, a research firm.
But it is not just access to 800m users that makes advertisers excited. It is all the information about those people's social connections and affinities that Facebook has collected. "They have a consumer database of interests and actions and feelings and thoughts," Nicola Mendelsohn, president of the Institute of Practitioners in Advertising, an industry grouping, says about the company. "It gives us a huge amount of scope."
The ability to tailor and target marketing messages so finely is something of which advertisers had only dreamt. And as they start to itch for more definitive financial returns on their investments - something Facebook has struggled to demonstrate consistently across industries - the granular data could be the key to keeping them happy and spending.

But the more data advertisers demand, the trickier it becomes to balance the interests of its users. Facebook crossed the creepiness threshold with several of its ad products, which deliver marketing messages on behalf of a company with the name and photograph of a user's friend attached. In November, the company settled its first privacy complaint from the US Federal Trade Commission, which had accused it of improperly sharing users' information with other users and with advertisers. The deeper Facebook gets into the data business, the more careful it must be with its user base. "Will consumers feel used and abused by it?" asks Ms Lieb. "That remains to be seen."
It also remains to be seen how tolerant Wall Street and Washington will be of such mistakes once Facebook becomes a quoted company. Mr Zuckerberg, the 27-year-old chief executive who is, above all, a computer geek, has surrounded himself with an entourage of skilled business leaders to help bridge the cultural gap between the engineers at its 1 Hacker Way headquarters in Silicon Valley and the advertising giants on Madison Avenue in New York and the political insiders on Capitol Hill.
"No one can be successful on their own," says Matt Cohler, a partner at Benchmark Capital, a venture group, and a former vice-president of product management at Facebook. "Mark is extraordinary. One of the things that makes him extraordinary is he has recruited an extraordinary team."
Sheryl Sandberg, who joined the company in 2008 as chief operating officer, was his most valuable find. The former Google sales executive has not only forged Facebook's monetisation strategy but has also plundered the search company's ranks to fill top business and operational slots, from David Fischer, vice-president of advertising, right down to the head chef.
While the engineering team also has some recruits from Google - such as Bret Taylor, Facebook's chief technical officer, who was responsible for creating Google Maps - many of them are, like Mr Zuckerberg, brainy college dropouts or recent graduates in their first job. "When Facebook does go public, it will be hard to hold on to the culture," says Ms Lieb. "They will have attrition problems, they'll have newly minted millionaires that will cash out and go out into the world."
All through, Mr Zuckerberg has ensured that he maintained control. When negotiating with venture capitalists, contracts had to be clear he would never be replaced by an "adult" chief executive. Even once the company is public, Mr Zuckerberg and his allies will retain voting power.
"He doesn't want to be pushed around by Wall Street," says David Kirkpatrick, author of The Facebook Effect , a company history. "Wall Street is insistent on short-term returns. Facebook will do their best, as Google has, to disregard that and focus on the long term. But they will continually be pressured and asked and lobbied to do things that help investors make money sooner. I don't think Mark is going to like it."

Ultimately, Mr Zuckerberg's task will be to show investors that they are as beholden to Facebook's users as he is. To be a successful public company that generates returns for investors, and a successful vehicle for advertisers, Facebook must first answer to the Sam Van Dellens of the network. "Facebook is the centre of my social life online," says Mr Van Dellen. "I would consider going to another network, but there isn't one. And all my friends are on Facebook."

Lower costs and a more enduring personal relationship

Just as the ever-growing Facebook community uses the site to champion - or jeer - politicians from Barack Obama to Hosni Mubarak, so it has become a forum to complain or rave about companies, from United Airlines to Oreo cookies.

Facebook has deftly harnessed this to pioneer social media marketing, selling its platform to Madison Avenue as a must-have medium for advertisers. A sales team - run out of offices in California, Ireland, India and elsewhere - invites businesses to build a Facebook page from which they can reach 800m potential customers, and buy various forms of "social advertising", which rely on the network's wealth of data about users' interests and friend connections to tailor and target ads.

"That is of immense, immense value to advertisers," says Rebecca Lieb of Altimeter Group, a research company. "It's one great leap towards the nirvana of digital advertising, which is getting the right message to the right person at the right time."

Starbucks, the coffee retailer, created its first page a few years ago to communicate with customers and fans - and monitor discussions to discover details of what people liked or not. It then shaped paid advertising campaigns around those details - such as offering a promotion for its Pumpkin Spice Latte - to draw more people to its Facebook pages, which have 40m fans. "It has given us the ability to lower our cost of customer acquisition in terms of traditional advertising and build a more enduring, emotional relationship with our customers," Howard Schultz, Starbucks chief executive, told investors last week.

Every time Facebook showed the ad to 1,000 people, or every time a person clicked on one of the ads, Facebook got paid. Ad prices vary, but average less than $1 per click, according to recent estimates. More than 90 per cent of Facebook revenues come from advertising, according to EMarketer, a research firm.

A newer strategy involves a proprietary currency: Facebook Credits. Users purchase credits - $1 buys 10 units - to gain virtual goods in social games, such as cows and goats in FarmVille or digital products including music and films. For every sale, Facebook takes a 30 per cent transaction fee from the gaming company, label or studio.

Facebook has made credits mandatory currency for gaming companies. They remain optional for media businesses but analysts expect that to change, setting Facebook up for a battle with industries that are straining to maintain their own dwindling margins.

Credit: By April Dembosky

DETAILS

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LINKS

Wagner Dream: OPERA

Fairman, Richard . Fairman, Richard.

ProQuest document link

FULL TEXT

Barbican, London ; ** ; Richard Fairman

Opera set out to investigate the afterlife very early on, when Monteverdi dispatched Orfeo down to the underworld. Since then composers have not engaged with the idea as often as one might have expected - though in Massenet's Le Roi de Lahore and Holst's Savitri we have two operas that deal specifically with beliefs about death and the hereafter in the Indian subcontinent.

Now there is one more. It has taken a while for Jonathan Harvey's Wagner Dream , premiered in Amsterdam in 2007, to reach his homeland, but the opera arrived in style on Sunday when a concert performance formed the climax of one of the BBC's "Total Immersion" weekends . Coincidentally, Welsh National Opera has also just announced a staging in 2013.

Its premise is a good one. Wagner long contemplated writing a Buddhist opera and Harvey imagines the composer at the moment of his death having a vision, or "dream", of the opera being finished and Wagner connecting with its ideals. The historical scene of Wagner facing death in Venice is spoken by actors, while the Buddhist opera comes to life on a higher, musical plane.

Unfortunately, Jean-Claude Carriere's libretto is dead on arrival. The words put in the mouths of Wagner and those around him are toe-curlingly banal, and the sung text, static and dogged, makes heavy weather of providing a nuts-and-bolts guide to Buddhist philosophy. How much more inspiring might Wagner himself have been. It is left to Harvey's music to raise the level of discourse and he brings all his skill to bear in the personal blend of orchestral and electronic sounds. Not unlike Parsifal , the score proceeds at a very slow pace to climaxes of a luminosity that make the long haul worthwhile.

The BBC did the event proud. Although the actors could make little from their wooden material, there was some fine singing from the amplified solo voices, notaly Claire Booth, Andrew Staples and Roderick Williams. The BBC Symphony Orchestra under Martyn Brabbins showed how radiant Harvey's orchestral writing can be, even when using chamber-sized forces. But, once the scheduled performances are over, it is hard to see Wagner Dream going on to much of an afterlife. www.barbican.org.uk

Credit: By Richard Fairman

DETAILS

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ABB/Thomas &Betts

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FULL TEXT

Figuring out the ABCs of ABB is getting slightly easier. The Swiss industrial group had spent too long navel-gazing after its management crisis a decade ago. Joe Hogan's task on taking over as chief executive in 2008 was to put a strategy where there had been a vacuum. Given his General Electric background, acquisitions are now playing a central part. That makes sense for a company with annual free cash flow of $3bn. The temptation in executing it, however, is to overpay.

ABB's announcement yesterday of an agreed $3.9bn offer for Thomas &Betts, a US maker of electrical components, both fits the strategy and flirts with the temptation. For a group with such global aspirations, ABB has been light in the US. Mr Hogan is filling that gap: the T&B deal comes a year after the $4bn purchase of industrial motors maker Baldor. T&B will also increase ABB's exposure to its most profitable unit. The low-voltage business had an operating margin of 20 per cent in the third quarter of 2011, twice that of its larger power systems unit.

The $72-per-share cash offer represents a 24 per cent premium to T&B's closing price on Friday. That is on top of the 52 per cent increase in the target's shares since October when investors sniffed a deal. But the reality is that the price is reasonable. ABB is promising $200m in annual synergies from 2016, split 50/50 between cost and revenue. Assuming ABB doesn't achieve half of the latter, the synergies taxed and capitalised come to about $1bn - roughly the premium ABB is paying.

Baldor was bought for a multiple of 14 times earnings before interest, tax, depreciation and amortisation; T&B comes for an ebitda multiple of 10. Mr Hogan has shown, in pulling out of a bidding battle in 2010 for Chloride, that he can say no. Given the rationale for this deal, he might have been tempted to overpay this time - but Mr Hogan has not.

DETAILS

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LINKS

The English elephant stirs

Groom, Brian . Groom, Brian.

ProQuest document link

FULL TEXT

Rhodri Morgan, former first minister of Wales, likens the UK to " an elephant and three Celtic fleas ". As the Scottish flea bites harder, is the elephant of England finally rousing itself? According to the Institute for Public Policy Research, 40 per cent of English voters say Englishness is more important to them than Britishness, with just 16 per cent taking the contrary view.

Almost one in four want to bid farewell to the Scots, while four fifths support "devo max", giving financial autonomy to Scotland , because they think Scotland gets an unfair share of public spending.

It has always seemed a bit un-English to trumpet pride in being English. Many might have agreed with Cecil Rhodes, the Victorian imperialist, that to be born English is to have "won first prize in the lottery of life", but to say so was too vulgar. That reticence can seem like smug superiority to others. The English, with more than four fifths of the UK's population, for years regarded "English" and "British" as synonymous. They have no Shakespeare Night to match Burns Night. St George's Day is not much celebrated. There was no need: the English did not feel their identity threatened by a powerful neighbour.

Something is changing. According to the IPPR, 36 per cent want a devolved English parliament. Some Tory MPs no longer see the union as sacrosanct. Even on the left, long suspicious of nationalism, more are voicing pride in Englishness.

"I identify with the ancient nation of Shakespeare and Dickens and Orwell and, for that matter, Linton Kwesi Johnson, the Specials, Zadie Smith and Steve McQueen," writes the novelist Tim Lott . "I draw my sense of self from the historical and present fact of England, not the political construction that is the United Kingdom."

For all this, I sense the rise of Englishness remains a reactive phenomenon. If an English parliament ever comes about, it will probably be because constitutional moves north of the border force federalism on the rest of the UK.

England is a large country with regional divisions that is struggling for the best way to live with itself. Labour's plan for regional assemblies sank at a north-east referendum. Now more elected mayors are being put forward as a counterbalance to London and the south-east. We shall see how effective they prove.

One aspect, though, needs careful attention. Black and Asian Britons often find Britishness a preferable concept to Englishness because it is inclusive of a range of cultural identities. If Englishness is to dominate, we must ensure it is tolerant of minorities.

brian.groom@ft.com

Credit: By Brian Groom

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LINKS

Europe's refineries running on empty

Chazan, Guy; Pfeifer, Sylvia . Chazan, Guy; Pfeifer, Sylvia.

ProQuest document link

FULL TEXT

OIL &GAS ; News analysis ; Petroplus's demise is part of a slow decline in the sector, write Sylvia Pfeifer and Guy Chazan

Refineries are strange beasts. Nationally strategic assets, they are nevertheless invisible to the general public until forecourts run out of petrol or diesel.

The collapse of Petroplus, Europe's largest independent refiner by capacity and owner of among others the Coryton refinery in the UK, made front-page headlines amid fears of a fuel shortage but it is only the latest example of an industry fallen on hard times.

Overcapacity, shrinking margins and competition from Asia have conspired to prompt the current shake-out in which oil majors including BP, Royal Dutch Shell and France's Total, have divested large chunks of their refining portfolio in an attempt to focus on a smaller network of strategic plants and instead ploughed resources into more profitable operations such as exploration and production.

Since 2009, Shell has reduced its global refining capacity by 15 per cent; in Europe, it has reduced it by 30 per cent.

The immediate outlook is for more pain. Analysts are predicting that refining will be one of the weak spots during the imminent earnings season for Europe's oil majors.

"In terms of refining margins, the industry has hit rock bottom," says Volker Schultz, chief executive of Essar Oil UK, which runs the Stanlow refinery in Cheshire that was previously owned by Shell. "If these margins persist, it'll force a lot of European refineries to close."

It has been a slow decline. Most of Europe's big refineries were built in the years after the second world war when the bias was towards petrol for cars and fuel oil for power generation. Over the past two decades, demand for middle distillates such as diesel and jet fuel began to increase, and soon exceeded the supply capacity of Europe's refineries, increasing the continent's import dependency.

The mismatch in demand and supply led to a steady decline. In the UK the number of refineries has fallen from 18 in the late 1970s to eight today. Since 1990, three have closed, the most recent in 2009, and of those that are left, two changed hands in 2011 and two are for sale, the latest being Petroplus's Coryton. Total shelved plans to sell a fifth, Lindsey , after failing to find a buyer.

Andrew Owens, chief executive of Greenergy, an independent fuel supplier, says: "Older European refineries - with technology that could be 30-35 years old - typically have higher maintenance costs, higher sustaining capex costs and higher overhead costs than their newer bigger competitors in fast growth countries such as India."

Europe's refiners enjoyed a brief golden age in the mid-2000s, when China's industrial boom fuelled a huge spurt in oil demand, while in the west tightening sulphur specifications for diesel pushed up prices for middle distillates, boosting refiners' profits. Between 2004 and 2008, global surplus refining capacity fell by 3m-4m barrels, says one refining executive. Refining margins soared, reaching a peak of $10 per barrel in aggregate terms in 2007.

But the increased profitability triggered a new wave of investment in refining capacity. When in 2008-09, the global financial crisis hit, many of these new additions were just starting to come on stream. In the EU, refiners were also hit by growing curbs on carbon emissions, the rising price of crude and competition from a new generation of "super-refineries" in Asia and the Middle East.

Refining's "golden nanosecond," was over, says the industry executive. In Europe today, "there is no strong demand for refined products, at a time when operating costs are high, carbon charges are rising and there is gross structural overcapacity," says Francis Osborne, head of energy economics at KBC, a consultancy.

"Many refiners are struggling to break even."

Industry estimates suggest there are 6m barrels per day of surplus capacity globally. Demand growth, meanwhile, is a mere 1m-2m barrels per day per year - suggesting it will take two to three years to use up the surplus. To make matters worse, new capacity is coming on stream, notably in Asia and the former Soviet Union.

UBS analysts, in a note on the European refining sector titled Hard Times, warned last November that a "further 4m-5m barrels per day of capacity must close by 2015". They added: "The further necessary readjustment is likely to be a painful process for the industry."

There is room for optimism. James Zhang, commodity strategist at Standard Bank, argues the risk of foreclosure for other European refiners will come from problems they may have in terms of refinancing their debts rather than poor margins. Nor are all refineries created equal; proximity to transport infrastructure, for example, can provide protection.

New operators are also entering the market , looking for a strategic foothold in Europe. India's Essar Energy bought Stanlow, while PetroChina last year paid $1bn in cash for shares in trading and refining joint ventures with Ineos, including Scotland's Grangemouth refinery and the Lavera refinery in France. Both refineries are geographically well positioned. Located on the Firth of Forth, Grangemouth has direct access to crude oil and gas from the North Sea.

The collapse of Petroplus could presage a broader and much-needed shake-out of the sector. Traders are among potential buyers for Petroplus's assets.

"There has to be attrition in the industry, and it's more likely to happen now than it was before Petroplus went to the wall," says Mr Osborne.

"The strong will survive."

Credit: By Sylvia Pfeifer and Guy Chazan

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Peso and rupee lead EM sprinters

Ross, Alice; Wagstyl, Stefan . Ross, Alice; Wagstyl, Stefan.

ProQuest document link

FULL TEXT

Currencies bounce back from steep falls ; MSCI EM equities index up 10.2%

Emerging market currencies are on track for their best start to the year since the turn of the century as risk appetite among investors improved.

The Mexican peso, Brazilian real and Indian rupee have outstripped currencies in the world's most industrialised

nations to gain more than 5 per cent against the US dollar this year, bouncing back from sharp falls in recent months.
"It has been a spectacular start to the year for emerging market currencies," said Benoit Anne, currency analyst at Societe Generale.
The peso and the rupee have both risen 7 per cent this month against the dollar, while the real and the Russian rouble are up 6 per cent since the start of the year.
Overall, the 15 main emerging market currencies have each risen more than their historical average performance for the first month of the year this century. In contrast, the euro, yen and pound have risen less than 1.5 per cent against the dollar.
Emerging market equities have risen in tandem with currencies, as international investors' appetite for risk rose sharply and fund managers saw buying opportunities after last year's deep price declines.
Investors poured more money into emerging market equity and bond funds last week than at any time since April last year, committing $4.4bn, according to EPFR Global, a data provider.
The dollar-denominated MSCI emerging markets' equities index, which lost 21 per cent in 2011, is up 10.2 per cent this year.
Individual markets have done better still: crisis-hit Egypt is up 25 per cent in dollar terms, making it the top performer among emerging market equity markets.
It is followed by Hungary, up 21 per cent, and Turkey, up 19 per cent.
However, most emerging market currencies have still not recouped last year's losses after investors withdrew from Asian and Latin American countries in the latter half of last year , when fears of a eurozone break-up intensified.
Currency analysts at investment banks have said emerging market currencies will outperform the dollar and the euro this year. Market behaviour in recent weeks shows a lower correlation between the euro and emerging market currencies, as investors hope that global assets will continue to decouple from Europe's woes.
Global currency investors have been using the euro to fund emerging market positions , with the single currency rising in popularity as a so-called "carry" currency due to its lower interest rates.
JPMorgan has reported that many of its clients had been switching from the dollar to the euro to fund bets on the Mexican peso and the Brazilian real.
Analysts at UBS have recommended that clients borrow euros to invest in higher-yielding currencies including the South African rand and the Turkish lira.
But emerging market currencies remain at risk of central bank intervention this year.
Analysts say that policymakers are likely to take steps to limit currency appreciation to aid exports if global growth slows, while a reversal in risk appetite could see investors withdrawing funds again.

Credit: By Alice Ross and Stefan Wagstyl in London

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LINKS

Nama sells London's most famous cinema

Hammond, Ed; Smyth, Jamie . Hammond, Ed; Smyth, Jamie.

ProQuest document link

FULL TEXT

real estate ; Leicester Square site is latest disposal

Ireland's National Asset Management Agency has sold off London's most famous cinema, the latest in a string of high-profile UK disposals by the body as it tries to shed almost EUR74bn of toxic property loans.

Allsop, which has been working as receivers for the Odeon Leicester Square, confirmed yesterday that the cinema and surrounding buildings, including a pub and disused office development, had been sold to the Radisson Edwardian hotel group.

The deal is the latest indication that Nama is stepping up its disposals of European and US property assets. The agency has sold more than EUR6bn of assets during the past two years, 80 per cent of which have been outside Ireland.

But it is keen to push on with the process, and earlier this month, it appointed a panel of 16 advisers to help it dispose of the remainder of its portfolio .

The Leicester Square site, which is thought to have sold for close to pound(s)100m, has planning permission for an extensive overhaul, which would see the existing buildings demolished to make way for a two-screen cinema, a 245-bedroom hotel, 33 apartments and four restaurants.

The Odeon, which sits on the south-west corner of the square, is the largest single- screen cinema in the UK. It is also one of the most recognisable cinemas in the country, used regularly for screening film premieres.

Peter Burns of CBRE, which was joint agent on the site with Knight Frank, said the rarity value of such a large development opportunity in central London had ensured interest.

"Sites like these don't come around more than every 10 years or so and it is a really exciting opportunity for building a valuable project in the heart of London," Mr Burns said.

Nama took on the site from a trio of Irish property investors - Pat Chesser, Pat Whelan and Paul Hanby - who bought the cinema in 2006 for pound(s)28m using loans from Anglo Irish Bank, the lender at the centre of Ireland's economic crisis.

In 2008, they lodged a planning application for a new hotel, two cinemas and an apartment development on the Odeon site in a scheme that at the time was estimated to have a value of pound(s)200m.

Mr Chesser and Mr Whelan developed the 16-storey Clarion hotel on the banks of the Shannon river in Limerick.

Nama appointed receivers to Steamboat Developments Ltd, the company co-owned by Mr Whelan and Mr Chesser on March 25 2011. Nama declined to comment.

Credit: By Ed Hammond in London and Jamie Smyth in Dublin

DETAILS

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LINKS

Evraz wanes on balance sheet fears as resource stocks lead FTSE lower

Elder, Bryce . Elder, Bryce.

ProQuest document link

FULL TEXT

LONDON

Evraz was among the FTSE 100 fallers yesterday after analysts raised concerns about the strength of its balance sheet.

Troika Dialog questioned whether investors were right to expect cash returns from Russia's biggest steelmaker, which switched its main listing to London in November . The broker forecast Evraz to have ended 2011 with net debt of $7.2bn.

"The maturities do not concern us but we are unnerved by the overall debt burden," said Troika.

Evraz "cannot be allowed to go under" so "can always count on support from state banks", it said. However, the group's vulnerable funding position "presents dangers to public equity holders in case of a sustained downturn", it said.

Troika questioned the wisdom of management's recent spending, such as a greenfield iron ore project for $160m and a $100m Moscow office. At the same time, Evraz had been "overly frugal with investments in its own asset base" and needed "a substantial catch-up in maintenance spending", the broker argued.

Evraz closed 2.3 per cent weaker at 449 1/2 p. The tightly held stock, part owned by billionaire Roman Abramovich, has risen by 23 per cent since transferring its listing to London.

Other emerging market resources stocks were out of favour in the wider market, helping carry the FTSE 100 lower by 1.1 per cent or 62.36 points to 5,671.09.

Essar Energy dropped 5.7 per cent to 126 3/4 p and Vedanta Resources lost 4.1 per cent to pound(s)11.75.

Lonmin was down 5 per cent to pound(s)10.37 after Goldman Sachs added the miner to its "conviction sell" list.

Goldman forecast Lonmin would have to cut capital expenditure, and therefore growth, and may have to raise new capital if the platinum price falls further.

A recent rally in the metal's price may be unwound by poor European auto sales in the first quarter, with fading demand for diesel catalysts leaving the market in "a significant surplus" in 2012, the broker said. It kept a "neutral" stance on Aquarius Platinum , which retreated by 6.7 per cent to 179 1/4 p.

Whitbread, the hotel and restaurant business, was 2.7 per cent weaker at pound(s)16.44 after Credit Suisse turned cautious, based on concerns that growth from its UK hotels may disappoint.

Reed Elsevier retreated by 2.2 per cent to 523p as the publishing group faced a boycott of its scientific journals. Several prominent scientists have begun a protest against pricing policies at the group's Elsevier arm, which accounts for about 60 per cent of earnings.

A Merrill Lynch upgrade helped fashion retailer SuperGroup take on 2.2 per cent to 645 1/2 p.

"SuperGroup's current valuation underestimates its growth potential, especially internationally," said Merrill. "Although we expect revenues to grow at circa 30 per cent per annum over the next few years the shares currently trade at only a small premium to the mature UK general retail sector."

Dixons Retail rose 1.6 per cent to 15 1/4 p, with SocGen upgrading the stock to a "buy" stance. "We are increasingly confident in the outlook for Dixons in the UK, with evidence that the group is winning the battle for supremacy in the electrical sector as other specialists exit," it said.

Rank Group added 3.2 per cent to 131p after confirming long-running gossip that it was in talks to buy 25 casinos from Gala Coral.

Buying the sites for around pound(s)250m had the potential to enhance Rank's earnings per share by 33 per cent, according to Morgan Stanley. "The main question marks surrounding the Rank investment case are the structural maturity of bingo, and the use of cash," it said.

BTG took on 2.3 per cent to 331p on positive results in US final-stage trials of its Varisolve drug. In the first of two pivotal trials, the treatment for varicose veins met all test criteria with no unexpected adverse side effects, BTG said. Deutsche Bank reckoned on a 90 per cent chance of US approval for Varisolve, which BTG management say could generate peak sales of between $250m and $500m a year.

Among small caps, Nature Group dived 11.4 per cent to 60 1/2 p on news its insurer was refusing to pay out a claim. The waste treatment group had claimed pound(s)2.45m for property damage and loss of business following an explosion last year at a treatment facility in Gibraltar.

New World Oil &Gas lost 10.3 per cent to 9 3/4 p after the explorer said it intended to raise $35m in February.

Biggest movers, Page 29 Small caps report: www.ft.com/equities

Credit: By Bryce Elder

DETAILS

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LINKS

EU agrees tough fiscal treaty but Berlin warned over sovereign rights

Barker, Alex; Chaffin, Joshua; Spiegel, Peter . Barker, Alex; Chaffin, Joshua; Spiegel, Peter.

ProQuest document link

FULL TEXT

Twenty-five of the European Union's 27 countries have signed up to a German-inspired treaty enshrining tougher fiscal rules to help underpin the euro.

But Berlin was warned that there were limits to how much sovereignty governments could be expected to surrender for the sake of fiscal discipline.

Nicolas Sarkozy, the French president, said the German proposal for the EU to control Greece's budget decisions "would not be reasonable, not be democratic nor would it be effective". He said he had confronted Angela Merkel, his German counterpart, with his views and that she had agreed.

"The recovery process in Greece can only be enacted by the Greeks themselves, democratically," Mr Sarkozy said. "There can be no question of putting any country under tutelage. Having spoken to the chancellor, I can tell you this is exactly her position."

However, Ms Merkel said she still believed that Greece required stricter monitoring to stick to its bail-out targets, saying Athens' repeated failure to implement agreed reforms warranted more intensive intervention. "Greece is a special case in this sense," Ms Merkel said. "They have to implement the programme completely."

Senior EU officials met Lucas Papademos, the Greek prime minister, after the summit concluded to discuss new conditions for a second EUR130bn bail-out in talks that continued late into the night.

The continued debate over Greece's future came as Ms Merkel was handed a symbolic victory in her months' long drive to enforce tough budget limits for the single currency. But Berlin lost a second signatory at the summit when the Czech Republic announced it would join the UK by not agreeing to the pact.

David Cameron, the British prime minister who in December vetoed inclusion of the fiscal discipline measures in the EU treaties, said he would not block signatories from using EU-wide institutions. But he warned he would take legal action if the new treaty undermined British interests.

Ratification by Germany's most important partner in the eurozone also became more complicated as Mr Sarkozy said he would not ask the French assembly to approve the treaty before April's presidential election. Mr Sarkozy's main rival, Socialist Francois Hollande, has said he would seek to renegotiate the pact, but Ms Merkel said she did not

believe France would back away from the commitment. "Europe would not function any more if it changed course after every election."
Additional reporting by Joshua Chaffin and Alex Barker in Brussels
Eurozone turmoil, Page 2 Editorial Comment, Page 8 Philip Stephens, Page 9 www.ft.com/eurozone

Credit: By Peter Spiegel in Brussels

DETAILS

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LINKS

Equities retreat amid EU summit caution

Shellock, Dave . Shellock, Dave.

ProQuest document link

FULL TEXT

global overview ; Uncertainty reigns after German plan ; Portuguese bond yields rise again

Stocks, peripheral eurozone government bonds and the euro started the week under pressure as investors continued to wait for details of Greece's debt restructuring and European Union leaders met in Brussels for their first summit of 2012.

Global stocks were down about 0.8 per cent, the euro retreated from a seven-week high against the dollar and Italy's 10-year sovereign bond yield climbed back above 6 per cent.

While the theme of the EU gathering was ostensibly growth and jobs, that agenda was overshadowed by reports at the weekend that the size of Greece's second bail-out could need to rise to EUR145bn, from the original estimate of EUR130bn.

Analysts suggested that tensions at the meeting were also likely to have been ratcheted up after Greece rejected a German proposal to impose a budget overseer on Athens in return for fresh bail-out funds.

"While reports continued to suggest that a deal on a voluntary debt exchange between Greece and its private sector creditors was still in the pipeline this week, the persistent doubts about the size of Greece's funding gap suggest that it might still be best not to hold our breath," said Chris Scicluna at Daiwa Capital Markets.

Simon Derrick at Bank of New York Mellon said: "Put simply, the choice currently being presented to Greece by Germany is that it either accepts a loss of economic sovereignty, or it begins to prepare for a disorderly default and the likelihood of an exit from the euro."

For many in the markets, the day's most worrying development was another sharp jump in Portuguese government bond yields and a widening of its sovereign credit default swap spreads.

"The surge in yields in Portugal reflects growing scepticism that private sector involvement in eurozone sovereign debt restructurings will only be applied in the case of Greece," said John Higgins at Capital Economics.

"Although the government in Portugal is not as indebted as it is in Greece, we think it is also likely to default before too long.

"Portugal's existing bail-out package should ensure that it is fully funded until the end of 2012. But it may have to seek a second rescue deal well before that deadline expires."

As well as renewed worries about the eurozone, there was also plenty of caution in the markets ahead of a batch of important data releases, including the crucial January US non-farm payrolls employment report and Chinese manufacturing figures.
Reports yesterday showed a modest improvement in eurozone business and consumer confidence this month, although economists once again highlighted the contrast between Germany and the rest of the region.
"Although it has a roughly 30 per cent weighting of euro area GDP, Germany won't be able to generate a strong enough positive loop to offset the negative trends at play within its euro area partners," said Francois Cabau at Barclays Capital.
In the US, December personal income and expenditure figures highlighted the fading strength of real spending at the end of last year, analysts said. Equity markets globally took a solid turn downwards, with the S&P 500 down by 0.3 per cent at closing time in New York, the FTSE Eurofirst 300 off 1 per cent, and the Nikkei 225 in Tokyo shedding 0.5 per cent.
The euro retreated from a seven-week high of $1.3230 as the broad deterioration in risk appetite helped the dollar gain ground against most leading currencies .
As investors headed for safety, the yield on the 10-year US government bond fell 5 basis points to 1.84 per cent and the German Bund yield fell 5bp to 1.80 per cent.
Industrial commodities such as copper and oil fell back, while gold slipped as the dollar firmed - although the metal held above the $1,700 an ounce mark.

Credit: By Dave Shellock

DETAILS

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LINKS

Exports of US spirits reach record high as tariffs eased

Rappeport, Alan . Rappeport, Alan.

ProQuest document link

FULL TEXT

beverages

Exports of US spirits reached a record high in 2011, as easing tariffs and a growing taste for premium liquor helped US brands gain a growing international following.

The Distilled Spirits Council of the United States (Discus) said spirits exports jumped 16.4 per cent from 2010 to $1.34bn, driven by demand for American whiskey.

The group pointed to the passage of the US-Korea Free Trade Agreement, which cuts taxes on South Korean imports of US bourbon and whiskey, as a key victory for the sector and said "super-premium" brands were outpacing value offerings.

"As countries around the world lower tariffs and other barriers, American spirits products are finding new audiences," said Peter Cressy, chief executive of Discus.

John McDonnell, chief operating officer of Patron Spirits and incoming chairman of Discus, said as tariffs continued to

fall and new trade agreements opened, the US spirits industry would make greater inroads into Laos, Cambodia, Vietnam and Myanmar.
Overall sales volume of US spirits grew by 2.7 per cent year-on-year in 2011, with liquor continuing to steal market share from beer. Super premium vodka sales were up 12.7 per cent and super premium bourbons and whiskeys up 11.4 per cent.
Alan Rappeport

Credit: By Alan Rappeport in New York

DETAILS

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LINKS

BNP Paribas falls on rating downgrade

Robinson, Duncan . Robinson, Duncan.

ProQuest document link

FULL TEXT

EUROPE

Negative broker comment knocked French lenders yesterday, as European equities endured a "risk off" start to the week.

BNP Paribas was the biggest faller on the FTSE Eurofirst 300, dropping 7.1 per cent to EUR32.18 after Bank of America Merrill Lynch reduced the bank's rating from "neutral" to "underperform". BofA also cut Societe Generale from "buy" to "neutral", sending it down 6.5 per cent to EUR19.71.

BofA cited new financial regulations proposed by Francois Hollande, French presidential candidate, including plans to separate commercial and investment banking, as the reason for the downgrades.

Overall, the FTSE Eurofirst fell 1 per cent to 1,030.43, as the bullish sentiment that pushed the index up almost 4 per cent during January continued to fade.

Steelmakers were among the worst-performing stocks. ThyssenKrupp fell 3.6 per cent to EUR21.11, while ArcelorMittal fell 4.1 per cent to EUR15.69 as fears over a drop in demand triggered a bout of selling in the sector.

French stocks were hit after the country's government cut its 2012 growth forecast to 0.5 per cent from 1 per cent, with the CAC 40 closing down 1.6 per cent at 3,265.64. Carrefour came off its recent highs, dropping 4.1 per cent to EUR17.52 after the French retailer confirmed it would replace its chief executive.

In Frankfurt, meanwhile, the Xetra Dax edged down 1 per cent to 6,444.45.

In Milan, the FTSE MIB fell 1.2 per cent to 15,753.14. Generali fell 1.7 per cent to EUR12.21 after Standard &Poor's cut the Italian insurer from A plus to A after trading closed on Friday.

Nokia extended its losses from the previous week, falling 4.1 per cent to EUR3.76, its lowest price this year.

Credit: By Duncan Robinson

DETAILS

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LINKS

RBS scrambles to revise bonuses after backlash against Hester

Jenkins, Patrick; Murphy, Megan; Parker, George; Pickard, Jim; Rigby, Elizabeth . Jenkins, Patrick; Murphy, Megan; Parker, George; Pickard, Jim; Rigby, Elizabeth.

FULL TEXT

Royal Bank of Scotland is scrambling to overhaul its pay systems to head off a repeat of its executive pay fiasco, which saw Stephen Hester, chief executive, forced to give up a pound(s)1m bonus after 10 days of political and media criticism.

Sir Philip Hampton, RBS's chairman, and Penny Hughes, head of the board's remuneration committee, are in talks over how pay and bonuses are set. "We need to start wrestling with how we stop this happening again next year," said a person close to the board.

One plan being considered would increase the transparency and objectivity of the metrics used to calculate bonuses.

However, there could be further political controversy this year when RBS announces bonuses for staff in its investment bank. Downing Street yesterday tried to avoid that argument, saying it would not "micromanage bonuses".

David Cameron, speaking in Brussels, said: "They've got to have a proper regard in terms of restraint when they have had so much money from the taxpayer and when they have made so many mistakes in the past."

Ed Miliband intends to keep up pressure by pressing ahead with a debate on February 7 calling for the reintroduction of a tax on bankers' bonuses. The Labour leader believes this is a chance to capture public anger on bonuses and fire a warning shot across the bows of Barclays ahead of its bonus round.

The bank, which last year sparked outrage when it revealed that Bob Diamond, chief executive, and two other senior executives received nearly pound(s)100m between them in 2010, is keen to head off a similar showdown with the government, according to people familiar with the bank's plans.

Mr Hester won some sympathy at Westminster yesterday. Mark Field, the Tory MP who represents the City, said the RBS chief must have been "horrified" by the "sanctimonious" press coverage of his bonus.

Business opinion was divided. Simon Walker, director-general of the Institute of Directors, said the government had not been tough enough. But John Cridland, head of the CBI employers' federation, said: "It is a sad day when a strong performance cannot be recognised."

Additional reporting by Patrick Jenkins and Elizabeth Rigby

Bonus backlash, Page 2 Chinese deal rejected, Page 17 Lombard, Page 18

Credit: By George Parker, Megan Murphy, Jim Pickard, Patrick Jenkins and Elizabeth Rigby

DETAILS

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LINKS

The dilemma of German leadership: Berlin should make more explicit offers and demands

FULL TEXT

Late last year, at the height of Europe's sovereign debt crisis, the Polish foreign minister asked for more German leadership in Europe. Nobody with a sense of history could miss the poignancy of his appeal. "I fear German power less than [its] inactivity," Radoslaw Sikorski said. At the Brussels summit yesterday, Chancellor Angela Merkel secured her crowning triumph: a new fiscal compact agreed to enforce German-style budget discipline throughout the eurozone. Yet German leadership comes at a price. The risk is that Berlin's leadership will, willy-nilly, feed perceptions of German dominance.

The latest spark to anti-German tinders is a Berlin policy document, which contemplates giving an EU commissioner the authority to overrule Athens' taxation and public spending decisions. It is far from clear that this would differ much from the power that Greece's official creditor "troika" already enjoys. Moreover, the shortcomings of the Greek rescue programme owe less to the wrong decisions being made at the top than to an inability to have those decisions implemented by Greece's dysfunctional bureaucracy. Those same bureaucrats would hardly be more eager to follow through on orders from Brussels than Athens.

None of this diminishes the damage done by the political crassness of the proposal. The reaction in the Greek press has been predictably furious. And this is only the last of several unfortunate instances that can easily stoke anti-German sentiment. A nasty war of words between German and Greek tabloids has been going on since the beginning of the Greek crisis: the EU's shoe-horning into power of two technocrats, Mario Monti and Lucas Papademos, in Italy and Greece; the Irish discovery that German parliamentarians were given drafts of Dublin's budget before the Dail; and the insistence on encasing fiscal austerity in a new treaty. Not all of these were caused by Berlin, but they are being interpreted in some capitals as a tightening German grip on other European countries' affairs.

Now we learn that Ms Merkel has agreed to campaign for Mr Sarkozy in this year's French presidential election. How exactly Mr Sarkozy came to this bizarre idea is unclear since their relationship is notoriously prickly. Cross-border European campaign alliances have been seen in EU referendum campaigns, but not in national elections. At this moment, a German chancellor should perhaps have trodden more carefully.

There is no reason to distrust the motives for Germany's eurozone policies. They are partly a function of domestic politics, as in every country, and partly flow from the German diagnosis of the problem and the best solutions.

For better or worse, many Germans feel they were duped into supporting the euro, partly as the price for German unification within a unified Europe. They have justifiable pride in the success of Germany's own economic policy over the past two decades, first in absorbing the East German wreck and later restoring the whole country's competitiveness through far-reaching labour market reforms. Talk of Germany being the "sick man of Europe" has long since disappeared. Now German politicians insist on similar sacrifices from their fellow eurozone members. This may be a handy negotiating tool for Ms Merkel, but the sentiment is heartfelt none the same.

Euro members' sense of powerlessness can only grow if their fortunes seem permanently at the mercy of the Bundestag, even if Ms Merkel ultimately comes round to providing more German help in the crisis. Better still would be an explicit quid pro quo: a stated willingness to go much further - but with clarity of what is wanted in return. Berlin should let its partners negotiate, not supplicate (and small states too, not just France). For this, Ms Merkel must make the case to her compatriots how German success has been driven in part by the introduction of the euro rather than simple traditional German Fleiss.

There is truth in the German view of fiscal discipline. But it is not the whole truth, nor nothing but the truth. Most of Europe has opted to learn from Berlin; it could now usefully consider whether others have something to offer in return. In the Greek case, the disappointing 2011 deficit figures are in large part due to the programme's contractionary effect: refusing to ask whether spending cuts can worsen debt burdens is not consistency but stubbornness.

Athens has much to answer for. But its warning against forcing a choice between help and national dignity is one all should heed.

DETAILS

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LINKS

Rank in pound(s)250m indicative bid for Gala casinos

Thompson, Christopher . Thompson, Christopher.

ProQuest document link

FULL TEXT

travel &leisure

Rank Group has launched a pound(s)250m indicative bid for Gala Coral's casino division. If successful, Rank would become the largest casino operator by number of venues in the UK.

Rank has 36 casinos, while Gala has 25. The company hopes to broaden the appeal of the Gala venues to under-35s and women, as it has been doing with its own casinos, according to a person close to the company.

"Rank is against the old idea of [a casino having] just gambling tables and a few slots - they are trying to bring casinos into the mainstream so people increasingly see it as a valid night out," the person said. "[It's] much more in the entertainment vein rather than the gambling vein."

According to Rank, about 5 per cent of British adults go to a casino, compared with 12 per cent in France and 28 per cent in the US.

Gala's casino business generated earnings before interest, tax, depreciation and amortisation of pound(s)26.7m in the year to September 2011, on revenues of pound(s)134.4m. Rank, which has about pound(s)30m in net cash, would fund the deal with a mixture of cash and debt.

Paul Leyland, analyst at Investec, said pound(s)250m was at the upper end of a "sensible" range, and that the potential acquisition would make commercial sense.

"A deal should add a lot of value in our view," he said. "Given it can be funded out of existing resources, its easy to see how it can be quickly earnings enhancing . . . there's immediate synergies in management and . . . there's investment potential."

Rank's Grosvenor casinos division, which plans to have 45 casinos by 2015, accounted for more than a third of group revenue in the first half of 2011 and two-thirds of the company's pound(s)29.5m operating profit in the period. A deal would see Rank, 74 per cent owned by Malaysia-based Guoco, leapfrog Genting, its Malaysian business rival, which has 46 UK casinos.

Gala Coral, which has net debt of pound(s)2.1bn, has been seen as vulnerable to predators since it was taken over by its creditors in a restructuring deal in 2010 . In its full-year results last September, Gala reported a post-tax loss of pound(s)643.4m, mostly due to exceptional costs.

In November, a ruling by Europe's highest court found in favour of Rank's claim that it overpaid bingo tax to the UK government by pound(s)253.4m going back to 1973. Shares in Rank closed up 4.1p at 131.1p.

Credit: By Christopher Thompson

DETAILS

Subject:	Casinos; Legalized gambling
Business indexing term:	Subject: Casinos; Industry: 71321 : Casinos (except Casino Hotels) 71329 : Other Gambling Industries
Classification:	71321: Casinos (except Casino Hotels); 71329: Other Gambling Industries
Publication title:	Financial Times; London (UK)
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Place of publication:	London (UK)
Country of publication:	United Kingdom
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Document type:	News
ProQuest document ID:	918826883
Document URL:	https://www.proquest.com/newspapers/rank-pound-s-250m-indicative-bid-gala-casinos/docview/9 18826883/se-2?accountid=14681
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LINKS

Aviva assets unit to axe jobs as it shifts focus

Burgess, Kate; Gray, Alistair . Burgess, Kate; Gray, Alistair.

ProQuest document link

FULL TEXT

LIFE ASSURANCE ; Switch from equities to fixed income ; Moves in response to economic downturn

Aviva Investors is to shed more than a tenth of its workforce as the fund manager moves away from active management of equities to focus instead on areas such as fixed income.

About 160 employees, mostly in London, are to lose their jobs when the group closes its UK-based desks focused on European, emerging markets and global equities.

It is also shutting some UK operations in what it termed "sustainable and responsible investments", which seek to avoid taking stakes in companies that exacerbate social and environmental problems.

The asset management arm of Aviva, the insurance group, said that it had taken the moves in response to the economic downturn, which had resulted in clients' "reduced appetite for riskier assets such as equities, notably in Europe".

Analysts said the retrenchment at Aviva Investors, which has about pound(s)270bn of assets under management, highlighted the difficulties that some insurers have experienced in competing with established City fund managers for third-party assets.

Marcus Barnard at Oriel Securities said: "They never really seemed to get it going properly." The division "doesn't generate a significant amount of profit, while attempts to invest and grow the business don't seem to have yielded results".

The planned cuts, which are subject to a consultation period, were announced after Alain Dromer, the chief executive of Aviva Investors, led a review of the business.

Mr Dromer said that the changes would create a "stronger, leaner" operation, focused on fixed income, real estate and "multi-asset investment".

Asked if he expected other asset managers owned by insurers to make similar moves, Mr Dromer said: "Focus is something that, when the market is tough, everyone should do . . . I would not be surprised if you see people dropping some activities to focus on their strengths."

Ben Phillips, partner at Casey Quirk, a US investment management consultancy, said: "We expect many banks and insurers, not only in Europe but worldwide, to undertake similar reviews, motivated more by strategy than simple costcutting.

"Asset management has become more competitive, with only the stronger firms able to navigate choppy markets."

Liverpool Victoria, one of the UK's largest mutual insurers, agreed last year to Threadneedle taking over the running of its investment arm , which had about pound(s)8bn of funds under management.

Eamonn Flanagan, an analyst at Shore Capital, said: "I would expect the trend to continue. The word here is focus."

Separately, Aviva announced the sale to MetLife, the US insurer, of its life and pensions operations in the Czech

Republic, Hungary and Romania.
The disposal of the businesses, with total net assets of about EUR57m, are part of Aviva's strategy under Andrew Moss, the chief executive, to refocus on core markets and its most profitable operations.
Aviva shares closed down 3.8 per cent at 342.7p.
Core strengths, Page 20

Credit: By Alistair Gray and Kate Burgess

DETAILS

Subject:	Asset management; Investors
Business indexing term:	Subject: Asset management
Publication title:	Financial Times; London (UK)
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ProQuest document ID:	918826882
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LINKS

RadioShack's shares fall following profit warning

Jopson, Barney; Thomas, Helen . Jopson, Barney; Thomas, Helen.

ProQuest document link

FULL TEXT

general retailers

Shares in RadioShack plunged 20 per cent in after-hours trading after the US electronics retailer warned that its fourth-quarter earnings would fall far short of Wall Street's expectations.

The company blamed the weak forecast on the poor performance of its partnership with Sprint, the third-largest US mobile carrier; on the lower profit margins it earned from smartphones and tablet computers; and on holiday season discounting.

As it released preliminary results, RadioShack said it expected diluted earnings per share for the last three months of 2011 to be between 11 and 13 cents, against analysts' consensus forecast of 37 cents a share. Its shares fell 20 per cent to $8.18 in after-hours trading. It said like-for-like store sales increased 2 per cent in the fourth quarter while revenues rose 6 per cent to $1.39bn.

Jim Gooch, RadioShack's chief executive, said "significant declines" in its Sprint business had overshadowed the better performance of a new partnership with Verizon Wireless, another mobile carrier, and AT&T.

In common with its larger rival Best Buy, analysts say RadioShack is also being hurt as consumers migrate to more shopping online.

It explored a sale about two years ago, according to people familiar with the matter, but ended the process without finding a buyer. While some big private equity groups considered a bid, industry advisers questioned potential buyers' appetite in taking on Radio-Shack's dubious business model amid an uncertain outlook for retail spending.

Barney Jopson and Helen Thomas

Credit: By Barney Jopson and Helen Thomas in New York

DETAILS

Subject:	Stock prices; Earnings per share; Profits; Alliances
Business indexing term:	Subject: Stock prices Earnings per share Profits
Publication title:	Financial Times; London (UK)
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LINKS

Former UBS trader denies charges

Croft, Jane . Croft, Jane.

FULL TEXT

Kweku Adoboli , the former UBS trader accused of causing the largest unauthorised trading loss in British history, has denied charges of fraud and false accounting.

Mr Adoboli, 31, entered pleas of not guilty as he appeared for a third time at Southwark Crown Court in London after being accused of unauthorised trading following revelations of a $2.25bn loss at the Swiss bank last year.

Mr Adoboli stood in the dock dressed in a grey suit to confirm his name to the courtroom, which was packed with his friends and supporters as well as the media. He replied not guilty in a clear voice to every charge as each of the four counts was read out.

The charges relate to periods between October 2008 and September 2011. The two charges of false accounting were amended in October to include reference to exchange traded funds for the first time.

Mr Justice McCreath remanded Mr Adoboli in custody and set a provisional trial date of September 3.

His pleas come after the same judge told Mr Adoboli last month that he had to enter a plea when he next appeared.

Last month, the trader's lawyer, Paul Garlick, asked the court not to arraign Mr Adoboli, who had changed his legal team.

Mr Adoboli is now represented by Bark &Co, which also specialises in fraud cases. The former trader, who has been granted legal aid, has been in custody since September. No application for bail was made during yesterday's hearing although the judge said he would hear a future application.

The not guilty plea will probably slow an investigation by the UK's Financial Services Authority of alleged regulatory and compliance failings at UBS.

The watchdog and Finma, the Swiss regulator, have jointly commissioned PwC to examine the losses and will probably receive a report next month.

But any move to bring an enforcement action will be complicated by the need to protect Mr Adoboli's right to a fair trial.

The case comes at a time when UBS is under increasing scrutiny following a tax evasion probe by US regulators and is cutting thousands of jobs in its investment bank to focus on its wealth management operations.

Trial threatens morale, Page 20

Credit: By Jane Croft, Law Courts Correspondent

DETAILS

Subject:	Court hearings &proceedings; Criminal pleas; Trials; Scandals
Business indexing term:	Corporation: UBS AG
Publication title:	Financial Times; London (UK)

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LINKS

Fidelity backs charge reforms

Vincent, Matthew . Vincent, Matthew.

ProQuest document link

FULL TEXT

general financial

Fidelity has become the first big UK fund manager to back calls for a more comprehensive measure of investment charges in an attempt to "restore trust" and end "hyperbolic" and "inconsistent comparisons".

The announcement came on the eve of the launch of a campaign for greater transparency on fees levied on retail investors. The initiative is supported by Which?, the consumer group, Lord McFall, the former Treasury select committee chairman, and Tim Jones, chairman of the National Employee Savings Trust pension scheme.

SCM Private, the wealth manager co-ordinating the campaign, is one of several smaller investment firms to argue that the current practice is misleading .

At present, fund managers are required to quote an annual management charge and a total expense ratio for all their retail funds. However, the AMC excludes administration costs, audit fees and custody charges, which are also deducted from investors' holdings. A TER will include these costs but exclude the funds' dealing commissions and stamp duty, leading some to argue it is not "total".

Last December, TCF Investments, a specialist asset manager, highlighted in a presentation to Treasury officials 16 separate charges, not all of which were detailed to investors. These were later cited by Ed Miliband, Labour leader, as justification for a watchdog to force the disclosure, or capping, of costs paid by pension savers .

At the time, David Norman, TCF founder, called on the chancellor for a review of the retail fund sector, similar to the Myners review of institutional investment, and proposed a new measure of total costs.

Fidelity is instead seeking an industry agreement on total cost of ownership, a standardised measure including all deductions, advice fees and fund platform distribution costs.

Gary Shaughnessy, Fidelity's UK managing director, said: "A consistent way of showing charges is essential to restoring investors' trust in the industry and encouraging them to feel confident to save . . . the current debate on charges is a healthy one, but many comparisons are misleading and suffer from hyperbole."

Fidelity calculates that, on top of any initial charges, the average TCO for a typical actively managed fund managed works out at 2 per cent a year - although the fund manager may charge only 0.75 per cent for running the fund.

Credit: By Matthew Vincent

DETAILS

Subject:	Investment advisors; Distribution costs; Institutional investments; Cost control; Fees &charges; Investors
Business indexing term:	Subject: Investment advisors Distribution costs Institutional investments Cost control; Industry: 52394 : Portfolio Management and Investment Advice
Classification:	52394: Portfolio Management and Investment Advice
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LINKS

Pawn lenders earn favour of analysts as recent rally slows

Makan, Ajay . Makan, Ajay.

ProQuest document link

FULL TEXT

WALL STREET

Several analysts urged investors into US pawn lenders yesterday, a group of stocks that have sat out the recent market rally but continue to exhibit strong loan growth.

EZCORP , Cash America International and First Cash Financial Services , have all fallen at least 3.5 per cent since October 3, as the S&P 500 has rallied 19 per cent. Bill Carcache at Nomura noted that the companies were "trading near the low end of their historical trading ranges", despite reporting fourth-quarter growth in pawn charges of at least 13 per cent.

Share price reaction was mixed yesterday, with EZCORP off 1.9 per cent to $26.90, Cash America International down 0.6 per cent to $43.51 and First Cash Financial Services 0.5 per cent lower at $40.49.

Elsewhere, US stocks opened sharply lower, as the latest eurozone summit exposed ongoing disagreements over Greece's austerity programme and a fiscal discipline pact.

But Wall Street pared losses throughout the day and the S&P 500 closed off just 0.3 per cent at 1,313.02.

With yesterday signalling a relative breather in the S&P 500's fourth-quarter earnings season, stocks shifted on analyst notes.

Goldman Sachs updated its large bank recommendations, with analysts downgrading Bank of America shares to "hold", citing "execution risks" as the bank seeks to reduce costs without reducing earnings power. BofA shares fell 3 per cent to $7.07 for the worst-performance in the Dow Jones Industrial Average.

The blue-chip heavy index was off 0.1 per cent to 12,653.72, while the Nasdaq Composite index fell 0.2 per cent to 2,811.94, though Apple , the most heavily weighted stock in the index, continued to rally after last week's stellar results. Apple closed up 1.3 per cent to $453.01.

Morgan Stanley fell 1.9 per cent to $18.20 as Goldman's bank analysts added their investment banking rival to a "conviction buy" list, arguing Morgan Stanley had successfully addressed "legacy issues from the financial crisis".

US Steel fell 3.9 per cent to $28.73 after announcing it would sell US Steel Serbia to the Republic of Serbia for what it called a "nominal" price. The company expects to record a loss on the deal in its results for the current quarter.

Credit: By Ajay Makan in New York

DETAILS

Subject:	Stock prices; Financial services; Earnings
Business indexing term:	Subject: Stock prices Financial services Earnings; Corporation: Morgan Stanley
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LINKS

UK retreat on accountancy standards

Mundy, Simon . Mundy, Simon.

ProQuest document link

FULL TEXT

support services ; Move prompted by cost complaints ; Changes to existing rules delayed

UK accountancy regulators have rowed back from a proposal to impose international disclosure standards on "publicly accountable" non-listed companies, after complaints that it would impose unnecessary costs on building societies and credit unions.

Under the Accounting Standards Board's original plans, published in October 2010 , entities deemed "publicly accountable" - usually taken to mean companies that lent money to individuals - would have had to use European International Financial Reporting Standards from mid-2013.
Auditors criticised the vague definition of public accountability and said that many companies would be forced to incur unacceptable costs by producing accounts with an unnecessary level of detail.
The ASB - part of the Financial Reporting Council - yesterday said that it had dropped the proposals after complaints that "the cost to certain entities could not be justified by the benefits".
The regulator will now move forward with reforms to the UK's existing accounting standards, although there will be a further delay to their implementation. The details will be published in mid-2013, with the rules coming into effect in January 2015 - 11 years after the ASB began consulting on the reforms.
The new standards, known as FRSME, are expected to be a fifth of the length of the existing rules - which run to 2,000 pages - and more in line with IFRS, the international standard . A person close to the ASB said that while there had been complaints about some details of the proposals, companies and auditors accepted the need to update current standards, which take insufficient account of innovations.
Auditors welcomed the change of heart. Ian Selfridge, a partner at PwC, said that the decision "will not impede the quality of financial reporting [but] will provide welcome relief for many companies in this economic climate, given the time and cost burden of producing accounts under full IFRS for the first time."
Other changes also found a warm reception. The ASB said that subsidiaries of listed companies could use IFRS with reduced disclosure - a "real advantage [that] will enable more consistent reporting within many UK and global groups, whilst mitigating the volume of disclosures that would be mandated under EU-endorsed IFRS", said Andrew Davies, leader of the financial accounting advisory team at Ernst &Young.
However, some industry figures were more cautious. Nigel Sleigh-Johnson, head of the financial reporting faculty at the Institute of Chartered Accountants in England and Wales, said that there was still "a lack of certainty over what will happen to the reporting requirements for small companies", pointing to the European Commission's planned simplified regime for smaller enterprises.

Credit: By Simon Mundy

DETAILS

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LINKS

RBS rejected Chinese bank's higher offer for aviation arm

Sender, Henny . Sender, Henny.

ProQuest document link

FULL TEXT

Royal Bank of Scotland rejected a higher offer from a Chinese bank for its aviation arm over concerns about the ability of the state-owned institution to close on the deal, say people familiar with the transaction.
RBS sold the division to Sumitomo Mitsui Financial Group for $7.3bn two weeks ago. China Development Bank had offered $240m more for RBS Aviation Capital, the world's seventh-largest leasing company. The rejection coincided with widespread speculation about the extent to which the Chinese might take advantage of the distress of the

European banks and buy assets in Europe and Asia.
RBS was deterred, at least partly, by concerns that the deal could fall foul of Chinese regulatory authorities, and that the CDB did not pay repeated visits to RBS Aviation Capital headquarters, said the people familiar with the matter.
"The Chinese did not show up," said one.
RBS said it picked the buyer that offered the best overall bid, taking account of ability to complete the transaction as well as the final price.
The CDB is one of China's three so-called policy banks - financial institutions that do not take retail deposits and are mandated to lend in line with government policy priorities.
As originally conceived, the CDB was meant to focus on large-scale domestic infrastructure, such as the Three Gorges dam project.
In recent years, the CDB has expanded its reach into directing multibillion-dollar loans to foreign governments, financed partly from China's $3.18tn in foreign exchange reserves.
Its highest-profile investment to date was the 3 per cent stake it took in Barclays Capital in 2007. During the financial crisis, the CDB was also keen to buy a stake in Citigroup. But regulators and senior Chinese officials, already critical of its purchase of the Barclays stake, vetoed the deal. CDB did not reply to requests for comment.
Japanese banks are likely to be among the largest beneficiaries of the difficulties of their European counterparts.
Mitsubishi UFJ Financial bought the project finance operations of RBS, while Sumitomo Mitsui bought a big portfolio of loans from Bank of Ireland at 85 cents on the dollar.
The Japanese banks, which include Mizuho and Norichukin, have also been the biggest buyers of the Asian loans that Credit Agricole has been selling in Asia.
Additional reporting by Simon Rabinovitch in Beijing
Lombard, Page 18

Credit: By Henny Sender in Hong Kong

DETAILS

Subject:	Equity stake; Aviation
Business indexing term:	Subject: Equity stake
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LINKS

RBS refused China offer for unit amid concerns over deal

Rabinovitch, Simon; Sender, Henny . Rabinovitch, Simon; Sender, Henny.

ProQuest document link

FULL TEXT

banks

Royal Bank of Scotland rejected a higher offer from a Chinese bank for its aviation arm over concerns about the ability of the state-owned institution to successfully close on the deal, according to people familiar with the transaction.
RBS sold the division to Sumitomo Mitsui Financial Group for $7.3bn two weeks ago. China Development Bank had offered to pay $240m more for RBS Aviation Capital, the world's seventh largest leasing company. The rejection comes at a time when there is widespread speculation about the extent to which the Chinese may take advantage of the distress of the European banks and buy assets in Europe and Asia.
RBS was deterred, at least partly, by concerns that the deal could fall foul of Chinese regulatory authorities, and that

CDB did not pay repeated visits to the RBS Aviation Capital headquarters, people familiar with the transaction said.
"The Chinese did not show up," said one person with knowledge of the matter. "They will struggle culturally given their command and control economy. The Communist party overlay does not travel well."
RBS said the bank could not comment on the details of the transaction.
CDB is one of the country's three "policy banks" - a financial institution that does not take retail deposits and is mandated to lend funds in accordance with the government's policy -priorities.
As originally conceived, CDB was meant to focus on large-scale domestic infrastructure, such as the Three Gorges dam project. In recent years, however, CDB has expanded its reach into directing multibillion-dollar loans to foreign governments, financed partly from China's $3.18tn in foreign exchange reserves.
Its highest-profile investment to date was the 3 per cent stake it took in Barclays Capital in 2007.
CDB was also keen to buy a stake in Citigroup, following in the footsteps of sovereign wealth funds such as the Kuwait Investment Authority. But regulators and senior Chinese officials, already critical of CDB's purchase of the Barclays stake, vetoed the Citi -transaction.
CDB did not reply to requests for comment.
The RBS setback suggests that despite their teeming coffers, the Chinese may not always be successful, even when they offer the most attractive price.
Additional reporting Simon Rabinovitch in -Beijing

Credit: By Henny Sender in Hong Kong

DETAILS

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LINKS

Publishing house Quercus plans for life after Larsson

Wembridge, Mark . Wembridge, Mark.

ProQuest document link

FULL TEXT

media ; News analysis ; Group looks to diversify output and expand its reach abroad, says Mark Wembridge

Quercus plans to further expand its international presence and lift digital book sales, as the UK publisher adapts its business model to "life after Larsson".

The Plus Market-traded publishing house scored a coup in 2007 when it secured the English language print and digital rights to Stieg Larsson's "Millennium series", the Swedish detective trilogy that became a global bestseller with 55m sales internationally, including 4.6m in the UK.

The boost to Quercus's turnover that stemmed from the series' success - revenues almost tripled from pound(s)10.9m in 2008 to pound(s)31.8m in 2010 - has provided the group with sufficient cash to diversify its portfolio.

In a sign that diversification is working, Quercus yesterday reported that turnover from "non-Larsson" titles had risen by 83 per cent year on year and comprised about 80 per cent of total revenues. Full results will not be released until later in the year.

Ebook sales rose from 3 per cent to 11 per cent of total revenues in 2011, and Quercus plans to further raise digital sales to more than one-third of total turnover within the next three years.

It has poached senior staff from rivals, including HarperCollins, Penguin, Orion and Little Brown Book Group, to diversify into cookery, science fiction and literature for women.

"We are bringing people in to take us into different areas that we weren't in previously," said Mark Smith, the Australian who established Quercus in 2004 with Wayne Davies, his former colleague at Orion.
Mr Smith acknowledged that The Girl with the Dragon Tattoo had "put Quercus on the map". The publishing house's enhanced reputation, coupled with its lucrative profit-sharing remuneration packages, helped it to poach staff who he believed would ensure the continued success of the company.
"After Larsson, we have been offered things from the author and agent community that we only could have dreamed of beforehand," he said. "It has given us the financial resources to grow the company. It has raised our profile with authors, agents and potential staff members."
New senior staff include Jo Fletcher, a science fiction expert from Gollancz Publishing, and Jenny Heller, an expert on TV brands and cookery publishing, and the group's headcount has risen by almost half to 65 over the past year.
"The group has made remarkable progress in building a sustainable post-hit business, attracting the calibre of editors and authors well above that implied by its size and maturity," Fiona Orford-Williams, an analyst at Edison Investment Research, said. However, the later-than-expected promotion for the English-language film adaptation of The Girl with the Dragon Tattoo - starring Daniel Craig and Rooney Mara - delayed sales for the tie-in book. It prompted Ms OrfordWilliams to cut her full-year revenue estimates by 10 per cent to pound(s)20.7m for 2011 and by the same percentage to pound(s)24.1m for 2012.
Mr Smith is eager to move Quercus's geographic focus away from the UK, which accounts for two-thirds of turnover.
"Geographic expansion is on the top of my list," he said. "We have already enhanced our business in Australia with a partnership with Pan Macmillan, and we have a foot in the water with a fiction joint venture in the US and we will expand our presence there.
"The US is the top of our agenda - it's the biggest market in the world and [we] need to be there."
Mr Smith, who was named Entrepreneur of the Year at the Grant Thornton Growth Company Awards in 2011, holds no misapprehensions that the Millennium series' success can be repeated in the near future, hence the diversification.
Quercus' situation echoes that of Bloomsbury, the British publishing house that was launched to prominence through J.K. Rowling's Harry Potter series of seven global bestsellers.
The group dealt with the dearth of Potter novels from 2009 onwards by expanding into academic and professional publishing in an effort to avoid the volatility that comes from fiction and non-fiction book sales.
"Our diversification gives us a lot less reliance on Larsson," said Mr Smith. "And our what we call our 'non-Larsson business' is well up on last year. Where you see Bloomsbury diversifying into education, we are firmly on the consumer side of things and will remain so."

Credit: By Mark Wembridge

DETAILS

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LINKS

Sir Stelios steps up battle over EasyJet executive pay

Jacobs, Rose . Jacobs, Rose.

ProQuest document link

FULL TEXT

Sir Stelios Haji-Ioannou, EasyJet's founder, has stepped up his battle with the budget airline's management, aligning his campaign to vote down directors' pay proposals with the broader UK debate over excessive executive pay.
Sir telios, whose family owns 37 per cent of the group, has called on fellow shareholders to reject the motion on executive remuneration at EasyJet's annual meeting next month, on the grounds that returns on capital employed did not justify the bonuses proposed.
"Hopefully our actions will restore sanity to the vicious cycle of fat cat bonuses and accelerate the adoption of business secretary Vince Cable's sensible proposals on executive pay," he said.
"If shareholders can vote down bonuses at EasyJet then bonuses will come down in all listed companies. And that is good for shareholders and pensioners whose pensions are invested in these companies." Sir Stelios last year led shareholders in turning down the proposed package for Andy Harrison, the former chief executive.
Supporters of EasyJet's board and management say that the pay packages being proposed are far from a "reward for failure", pointing to record high profits at the airline in 2011 and a strong performance in the first quarter of 2012 .

Credit: By Rose Jacobs

DETAILS

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LINKS

Analysts point to pawn shops and payday lenders as recent rally slows

Makan, Ajay . Makan, Ajay.

ProQuest document link

FULL TEXT

WALL STREET

Several analysts urged investors into US pawn lenders yesterday, a group of stocks that have sat out the recent market rally, but continue to exhibit strong loan growth.

EZCORP , Cash America International and First Cash Financial Services , have all fallen at least 3.5 per cent since October 3, as the S&P 500 has rallied 19 per cent. Bill Carcache at Nomura noted that the companies were "trading near the low end of their historical trading ranges", despite reporting fourth-quarter growth in pawn charges of at least 13 per cent.

Daniel Furtado at Jefferies dismissed concerns that a recovery in the US economy would hit demand for pawn loans, noting that an estimated $55bn of credit had been withdrawn from non-prime borrowers since 2009.

"As credit card companies and traditional banks continue to rein in lending we continue to see [pawn lenders] as a direct beneficiary," Mr Furtado told clients.

Both analysts warned of lingering regulatory risks: pawn companies saw their biggest one day sell-off this year on January 4, when President Barack Obama appointed Richard Cordray as a director of the Consumer Financial Protection Bureau, which is leading a review of payday lending.

Share price reaction was mixed yesterday, with EZCORP off 1.9 per cent to $26.90, Cash America International down 0.6 per cent to $43.51 and First Cash Financial Services 0.5 per cent lower at $40.49.

Elsewhere US stocks opened sharply lower, as the latest eurozone summit exposed ongoing disagreements over Greece's austerity programme, and a fiscal discipline pact.

But Wall Street pared losses throughout the day with the S&P 500 closing off just 0.3 per cent at 1,313.02. That leaves the index 50 points above its 200 day moving average - an indicator of bullish sentiment - and up 4.4 per cent for the year, despite analysts' best efforts to calm the rally.

"We suspect stocks are due for a near-term correction, driven by economic data and worsening seasonal supports," said Gina Martin Adams, a senior markets analyst at Wells Fargo, summing up the cautious mood of most analysts.

Jan Loeys at JPMorgan was a rare voice arguing the rally had further to run: "We are getting fundamental support, with improved economic data and central banks signalling even further easing. We . . . thus feel comfortable retaining a significant long in risk assets," he told clients.

With yesterday signalling a relative breather in the S&P 500's fourth-quarter earnings season, stocks shifted on analyst notes.

Goldman Sachs updated its large bank recommendations, with analysts downgrading Bank of America shares to "hold", citing "execution risks" as the bank seeks to reduce costs without reducing earnings power. BofA shares fell 3 per cent to $7.07 for the worst-performance in the Dow Jones Industrial Average.

The blue-chip heavy index was off 0.1 per cent to 12,653.72, while the Nasdaq Composite index fell 0.2 per cent to 2,811.94, though Apple , the most heavily weighted stock in the index, continued to rally after last week's stellar results. Apple closed up 1.3 per cent to $453.01, a dollar short of the all-time high hit last week.

Morgan Stanley fell 1.9 per cent to $18.20 as Goldman's bank analysts added their investment banking rival to a "conviction buy" list, arguing Morgan Stanley had successfully addressed "legacy issues from the financial crisis".

US Steel fell 3.9 per cent to $28.73 after announcing it would sell US Steel Serbia to the Republic of Serbia for what it called a "nominal" price. The company expects to record a loss on the deal in results for the current quarter.

Motorola Solutions opened sharply higher after it increased its stock buy-back programme to $3bn from $2bn. But shares pared gains to close up just 0.4 per cent at $45.72.

Nabors Industries climbed 3.5 per cent to $18.46, on strong call-buying, on reports of a possible takeover bid.

Among the few companies that did report results yesterday, shares in Gannett slumped 6.9 per cent to $14.17, as earnings at the media group fell by a third on lower advert sales.

Netflix continued to glide upwards, with shares climbing 1.3 per cent to $125.43. The stock has now rallied almost 80 per cent this year as positive fourth-quarter earnings added momentum to share price gains last week, forcing short-sellers to close out positions.

Credit: By Ajay Makan in New York

DETAILS

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LINKS

Australian law firm snaps up Russell Jones &Walker

Binham, Caroline; Croft, Jane . Binham, Caroline; Croft, Jane.

FULL TEXT

SUPPORT SERVICES

Slater &Gordon, the world's first quoted law firm, is to acquire Russell Jones &Walker for pound(s)53.8m, in a move that will bring a cash and shares windfall to the law firm's 19 equity partners.

The Australian company is taking advantage of the de-liberalisation of the UK's legal services market under the Legal

Services Act, which allows law firms to raise fresh capital by floating on the stock market or to form business structures. The UK is the second country in the world after Australia that has decided to allow the public listing of law firms.
RJW generates about 60 per cent of its revenue in personal injury litigation and has about 425 staff across 10 locations.
About 19 equity partners at RJW will share in pound(s)17.4m of Slater &Gordon shares that are subject to restraints on sale for a minimum period of four years post completion.
The Australian firm will also pay pound(s)36.4m in cash, of which pound(s)10.3m will be used to repay bank debt, and about pound(s)8.8m of the cash will be deferred for up to two years subject to performance milestones.
Andrew Grech, managing director of Slater &Gordon, said the UK was approximately four or five times the size of its target Australian market and was attractive because of its size and similarities.
He said he would not rule out investing in other UK law firms, although the primary focus would be organic growth.
The deal is dependent upon RJW being granted a licence to be an alternative business structure by the UK's Solicitors Regulatory Authority. If that comes through, the deal should be completed by as soon as April.
The deal is being closely watched in the legal sector where firms have already started to take advantage of the deregulation.
Last week, Aim-quoted company Quindell Portfolio announced its intention to acquire Liverpool-based firm Silverbeck Rymer, another personal injury specialist.
Tony Williams, founder of Jomati consultants and former managing partner of Clifford Chance, said the move by Slater &Gordon would shake people up.
"Russell Jones &Walker have made it clear for some time that they were looking for external investment of some kind. I think what's interesting is that Slater &Gordon have come in and this is their first major international move.
"I think it shows the extent to which listed entities can use share capital as currency, and that's a way of locking people in," he said.

Credit: By Jane Croft and Caroline Binham

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LINKS

And Cornwall too

Groom, Brian . Groom, Brian.

ProQuest document link

FULL TEXT

If Scotland, Wales and Northern Ireland are fleas, where does that leave Cornwall (population 535,000)? Mebyon Kernow, the Cornish nationalist party, is renewing its campaign for this "historic Celtic nation" to have an elected assembly with devolved powers from Westminster, similar to those enjoyed in Scotland.

Plaid Cymru, the Welsh nationalist party, has given the campaign its backing, with an early day motion at Westminster calling "for the formation of a democratically elected Cornish Assembly to take decisions for the benefit of the people of Cornwall".

MK (or "Sons of Cornwall") complains that UK governments have ignored a petition 10 years ago in which 50,000 people - 10 per cent of Cornwall's population - called for an assembly. Nationalists argue that Cornwall has never legally been a county of England but is a separate nation.

If Scotland's nationalists win their independence referendum, the Cornish devolution demand may look a little behind the times.

brian.groom@ft.com

Credit: By Brian Groom

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LINKS

Sany Heavy

ProQuest document link

FULL TEXT

China serves up some heebie-jeebies yet again, this time directed towards the global market for construction machinery. Sany Heavy, the country's biggest maker of such cool-sounding machines as concrete pumps, excavators and cranes, is to buy 90 per cent of German concrete pump-maker Putzmeister for EUR360m.

Sure, Putzmeister is small fry, with only a 10th of the revenues of Sany. But the deal is significant because it is Sany's first overseas acquisition and will quadruple its foreign sales overnight. Just 4 per cent of Sany's revenues came from outside China in the first half of last year. By contrast, more than four-fifths of Putzmeister's sales come from countries outside of China, Morgan Stanley estimates. Sany gets access to Putzmeister's global distribution and after-sales service channels and there are potential synergies by supplying its parts to Putzmeister's assembly plants.

With a listing in Shanghai and just a third of its shares freely floating, it is tricky for investors to cash in on Sany's global ambitions yet (it is also mulling over a Hong Kong listing). Instead, they should worry more about potential damage to market leaders Caterpillar and Komatsu. A slowdown in construction growth in China has sharpened Sany's need for overseas growth. It has already built plants in the US, Brazil, India and Germany. And Chinese heavy equipment makers such as Zoomlion, XCMG and LiuGong have been boosting sales in Brazil, in particular.

Caterpillar's revenues may be seven times that of Sany's at $60bn last year, but three quarters of them come from outside Asia. With cheaper manufacturing costs at home, Sany benefits from operating margins double those of Caterpillar's. It can, therefore, afford to be much more aggressive in expanding its share abroad. The construction machinery land grab is on.

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LINKS

Hypertension

ProQuest document link

FULL TEXT

Adieu Lars Olofsson. The outgoing chairman and chief executive of Carrefour, the world's second-largest retailer by sales, exits stage left. He leaves a company worth about 40 per cent less than when he took the job, its operating income well below pre-crisis levels. Cue the return of Carrefour veteran Georges Plassat , fresh from French clothing and footwear retailer Vivarte, owner of the Kookai brand. But there was no fanfare: Carrefour shares fell 4 per cent yesterday. And why get carried away? Carrefour blames weak economies for its woes. Instead it should hold a mirror to itself: its hypermarket-heavy format is tired.

Yet the French retailer's shares, which trade at almost 13 times earnings, hardly suggest as much. That is a 35 per cent premium to Tesco's multiple. Investors appear too optimistic, particularly as, by other metrics, Carrefour's valuation is pedestrian. Its EUR24bn enterprise value is about 0.3 times its sales, whereas more efficient rivals Tesco and Walmart boast a multiple of about double that, according to Bloomberg data.

To close that gap, Mr Plassat must tackle operational weaknesses. Sales in France, which account for about 40 per cent of the group's total, and in southern Europe are on the skids. Mr Olofsson's remodelling plan of September 2010 to boost the appeal of Carrefour's main stores has been overtaken by changing preferences of customers. They want more convenience - such as click and collect - and less traipsing around out-of-town stores. Mr Plassat needs to take Carrefour to its customers.

And the group still disappoints financially: last month, it predicted that 2011 earnings before interest and tax would be up to one-fifth lower than in 2010. Including pay-outs, Carrefour's shares have lost investors 19 per cent under Mr Olofsson. In contrast, the FTSE Eurofirst 300 general retailer index's total return has been about 140 per cent over the same period. Without an overhaul of Carrefour by Mr Plassat, investors will continue to form a queue for the exit.

DETAILS

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LINKS

Giggsy for mayor

Groom, Brian . Groom, Brian.

ProQuest document link

FULL TEXT

Now that Salford is to get a directly elected mayor, after a referendum last week, who might it be? John Merry, Labour council leader, is 7/4 favourite, according to Betfred . But you can get 100/1 on Manchester United's Ryan Giggs, 40/1 on music legend Peter Hook and 25/1 on 19-year-old Roger Hayhurst, who patrols the streets dressed as a crime-fighting superhero.
brian.groom@ft.com

Credit: By Brian Groom

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LINKS

Ryanair

ProQuest document link

FULL TEXT

You need to be grounded before you can fly. Low-cost carriers fare better than their full-service rivals in recessions, thanks partly to lower dependence on corporate travel and higher starting points for their margins. But a big part of the trick is managing capacity and, longer-term, being in the right place to pick up business as the industry shrinks.

Ryanair has been helping things along. It grounded 80 aircraft - almost 30 per cent of its fleet - this winter, with the result that its passenger traffic, year on year, fell by 2 per cent for the first time in its history. But this, in turn, helped the carrier push up its average fare by 17 per cent, to EUR40, in the third quarter to end-December . Revenue rose 13 per cent, and, with costs (excluding fuel) well controlled, the airline made a EUR15m after-tax profit compared with expectations of a EUR16m loss. Full-year guidance goes up by 9 per cent, to EUR440m.

All those jets - plus another 12 deliveries - will be flying again over the summer. But Ryanair expects to repeat the grounding strategy next winter - which is lousy for second-home owners dependent on Ryanair schedules, but bullish for pricing. And in the meantime, the carrier looks well positioned to capitalise on industry shrinkage: Spanair's demise , for example, could offer opportunities out of Barcelona, and the clouds over BMIbaby's future let it entrench further in the UK's Midlands.

The extent to which shareholders benefit is another matter. Ryanair shares, trading on a forward earnings multiple of over 11 times, have doubled from 2008 lows but are no higher than in 2002. Increasing its share of intra-European flights may, Ryanair predicts, permit longer-term annual growth of 4-5 per cent - respectable but hardly exciting. Still, there is talk of a buy-back programme and a second special dividend in 2013. For the airline business, at least, that's not bad.

DETAILS

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LINKS

Meissner takes key post after reshuffle at BofA

Murphy, Megan . Murphy, Megan.

ProQuest document link

FULL TEXT

banks

Bank of America has reshuffled the leadership of its corporate and investment banking division, handing Christian Meissner sole responsibility.

Mr Meissner, who joined BofA in April 2010 after careers at Goldman Sachs, Lehman Brothers and Nomura, is one of London's best-known bankers and has been a key figure in BofA's efforts to rebuild its European investment banking franchise following its tie-up with Merrill Lynch at the height of the financial crisis.

Dozens of senior bankers left in the aftermath of the merger, amid a perceived culture clash between the two institutions.

Under Thomas Montag, co-chief operating officer of the bank with overall supervision of its securities business, BofA has recovered ground as some European rivals faltered.

Under the new structure, Mr Meissner will have sole responsibility for BofA's global mergers and acquisitions and capital markets businesses.

He will relocate to New York this summer, and report to Mr Montag, according to an internal memo seen by the Financial Times.

Mr Meissner's two former co-heads of global corporate and investment banking, Paul Donofrio and Michael Rubinoff, are staying with the bank.

Mr Donofrio will be head of global corporate banking credit and transaction banking.

Mr Rubinoff is moving to become chairman of the division, where he will focus on deepening the corporation's most important corporate and investment banking relationships, according to the memo.

Megan Murphy

Credit: By Megan Murphy

DETAILS

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LINKS

Nasdaq OMX reassures investors over collateral

Stafford, Philip . Stafford, Philip.

ProQuest document link

FULL TEXT

general financial

Nasdaq OMX has moved to reassure investors trading on its exchange in Europe that their funds cannot be touched by administrators in the event of a broker default.

The transatlantic exchanges operator put the pledge at the heart of an overhaul of its clearing default fund. The group is switching to a memberfinanced default fund for its Nordic business on March 1 in preparation for sweeping incoming European legislation that will elevate the role of clearing houses in safeguarding the world's financial system.

The issue of segregation of investors' collateral, or insurance against trades failing, has become a key topic following last October's collapse of MF Global, the US futures broker.

Nasdaq OMX's move comes as European authorities prepare this week to complete regulation intended to strengthen financial markets.

Hans-Ole Jochumsen, president of Nasdaq OMX Nordic, said investors effectively entered into a direct legal relationship with the clearing house and could post collateral knowing it was completely protected from a clearing members' default. "There is no chance of being mixed up with unsecured creditors," Mr Jochumsen said.

Nasdaq OMX has already applied for recognised overseas clearing house status from UK authorities. Bob Greifeld, chief executive of Nasdaq OMX, told Bloomberg in Davos last week that the exchange was planning to grow organically, with a couple of small acquisitions, but he was not interested in buying the LSE.

Philip Stafford

Credit: By Philip Stafford in London

DETAILS

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LINKS

Unipol rights issue to pave way for four-way merger

Sanderson, Rachel . Sanderson, Rachel.

ProQuest document link

FULL TEXT

Non-life insurance

Unipol Gruppo Finanziario plans to raise as much as EUR1.1bn in a rights issue as it seeks to instigate a four-way

merger with rivals to become Italy's second-largest insurance group by premiums.
The deal - involving the Italian insurers Unipol, Premafin Assicurazioni, Fondiaria-SAI and Milano Assicurazioni - goes to the core of debate about governance in Italy and the powerful cliques that control swaths of business through cross-shareholdings.
Italian market regulators have forced a revision of earlier drafts of the deal after a mooted takeover offer published earlier this month favoured the Ligresti family, a keystone of Milanese financial circles, over minority shareholders.
The Ligresti family, led by patriarch Salvatore Ligresti, is the majority owner of Premafin, a debt-laden holding company, which in turn controls Fondiaria-SAI and Milano Assicurazioni.
The earlier mooted deal would have seen the Ligresti family paid a chunky premium for their lossmaking business.
Under the revised deal, Unipol will undertake a rights issue and then take control of Premafin, which in turn will undertake a EUR400m capital increase reserved for the Bologna-based insurer.
Following rights issues aimed at giving Unipol control of the Ligresti-owned groups, Premafin will then take part in a capital increase at Fondiaria-SAI expected to be worth about another EUR1.1bn, according to advisers. Lastly, Milano Assicurazioni will be absorbed into the Unipol-Premafin-Fondiaria group.
Rachel Sanderson

Credit: By Rachel Sanderson in Milan

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LINKS

Insurers question cover for big ships

Gray, Alistair . Gray, Alistair.

ProQuest document link

FULL TEXT

non-life insurance ; Industry worried by ever-larger vessels ; Costa Concordia loss highlights risks

The marine insurance market is heading for a shake-up following the Costa Concordia disaster as underwriters reconsider whether they want to provide cover for ever-larger vessels, according to industry executives.
Insurers say the incident has highlighted the risks of a recent revolution in size, not only of passenger liners but also of the more numerous container ships and carriers of dry-bulk commodities such as iron ore and coal.
As underwriters come to terms with one of the costliest ever marine accidents, some insurers are questioning whether they still want to provide cover in a fiercely competitive market from which many struggle to turn a profit.
"The question is, are these huge vessels still manageable?" said Dieter Berg, senior executive manager for marine at Munich Re, the world's biggest reinsurance company by gross written premium and among the many insurance groups exposed to the Costa Concordia.
"Imagine an accident involving a cruise ship with 8,000 people and a tanker in the dead of night in the middle of the ocean." He added: "It's a big shock for the market. The alarm clocks of marine insurers are ringing at the moment."
So-called hull insurance, which covers physical damage to vessels, has failed overall to produce an underwriting profit for 15 consecutive years, according to the International Union of Marine Insurance. Cargo insurance has fared better but it too suffered an overall underwriting loss in 2010.
Analysts estimate that once environmental damage and injuries are included, losses from the Costa Concordia could come to as much as $1bn. In absolute terms, that would make the sunken cruise ship the biggest ever marine loss.
Duncan Southcott, head of marine UK at Allianz, Europe's biggest insurer by market capitalisation, said the increasing size of ships "must be a concern . . . this is the first example of one of these very large [passenger] vessels gone wrong".

Two senior underwriters, who declined to be named, said insurers were hopeful of pushing through price increases of up to 20 per cent following the accident. However, brokers said the competitive nature of the marine insurance market made a significant rise in premiums unlikely.
Losses from the Costa Concordia are spread widely among several insurance and reinsurance companies including Generali, RSA Insurance Group and XL Group.
"Will this one loss have an impact? It might be the straw that breaks the camel's back for some people - we may see some capacity withdraw," said Marcus Baker, chairman of the marine practice at Marsh, the broker.
But he added that the cruise industry was still relatively safe. "Relatively speaking, the risks have been seen by many underwriters to be quite good."

Credit: By Alistair Gray, Insurance Correspondent

DETAILS

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LINKS

British Land signs accord to build HQ for UBS

Thompson, Jennifer . Thompson, Jennifer.

ProQuest document link

FULL TEXT

real estate

Construction of one of the largest office buildings in the City of London is set to begin after an accord was finalised between UBS and British Land, the property developer.

British Land announced an unconditional agreement with the Swiss banking group to develop a 700,000 sq ft building at the Broadgate estate in London's main financial district that it co-owns with Blackstone.

The building, to be the bank's UK base, should be ready by the fourth quarter of 2014, British Land said.

UBS is set to lease it for about 18 years at an initial rent of pound(s)54.50 per sq ft, with increases in line with inflation.

While a deal for UBS to remain on the office campus was agreed in 2010 , yesterday's announcement was "another significant milestone" in the development, said Tim Roberts, head of offices for British Land.

A potential challenge had emerged when English Heritage, the conservation body, recommended that the existing 1980s office development on the site, replete with sculptures, be granted one of the strictest listing definitions, arguing that it was both architecturally and historically significant. The government rejected the recommendation last June.

Jennifer Thompson

Adoboli trial, Page 16

Credit: By Jennifer Thompson

DETAILS

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LINKS

U.S., Japan Reach Accord On Trade, Fiscal Policies --- Tokyo Vows Easier Access To Markets, While U.S. Targets Deficit, Savings

By Peter Truell . By Peter Truell.

ABSTRACT (ABSTRACT)

The U.S. and Japan reached an accord designed to make it easier for Americans and other foreigners to do business in Japan, while increasing U.S. savings and competitiveness.

The U.S., for its part, reiterated President Bush's promises to encourage savings through tax changes, improve education, expand research and development efforts, cut the federal deficit, promote exports and liberalize imports of steel and machine tools. American officials also pledged to state clearly that the U.S. welcomes foreign investment. They pointed to Washington's recent liberalization of energy exports, particularly of Alaskan crude oil and liquefied natural gas. The Commerce Department also has recently recommended a partial relaxation on the ban of exports of heavy crude oil from California. But the administration needs congressional approval for many of its pledges, including one to cut capital-gains taxes.

Just as some people in Washington question whether Japan gave enough, critics in Tokyo are complaining that Japan gave too much, particularly on retailing. The Japan Chamber of Commerce and Industry released a statement saying there could be "problems" from changing the distribution system and from toughening antitrust penalties. Mr. Kaifu, in his news conference, said Japan's measures "have been attained after undergoing a difficult domestic process, and their implementation may, in some cases, be painful." But, he said, they are "essential in furthering Japan's own national interest."

FULL TEXT

WASHINGTON -- The U.S. and Japan reached an accord designed to make it easier for Americans and other foreigners to do business in Japan, while increasing U.S. savings and competitiveness.

If fully implemented, the agreement would be a watershed in relations between the two nations. But it would require legislative changes in both countries, which may be difficult to achieve.

Japan agreed to open its retailing system, boost public works spending, loosen its clubby business practices, and strengthen antitrust legislation and patent protection. In addition, Tokyo pledged to relax restrictive land-use policies and restraints on foreign investment.

The U.S., for its part, reiterated President Bush's promises to encourage savings through tax changes, improve education, expand research and development efforts, cut the federal deficit, promote exports and liberalize imports of steel and machine tools. American officials also pledged to state clearly that the U.S. welcomes foreign investment. They pointed to Washington's recent liberalization of energy exports, particularly of Alaskan crude oil and liquefied natural gas. The Commerce Department also has recently recommended a partial relaxation on the ban of exports of heavy crude oil from California. But the administration needs congressional approval for many of its pledges, including one to cut capital-gains taxes.

The accord culminates negotiations that began last July to address "structural impediments" to the U.S.-Japan economic relationship. An interim report describing areas of agreement will be followed by a final report in July.

"I think the report demonstrates progress and hard work on both sides," U.S. Trade Representative Carla Hills said.

"It's the first time the government of Japan has gone through such a process and committed to remove barriers to trade." She said Japanese Prime Minister Toshiki Kaifu showed "courage and leadership" in following this "unique approach and report."

At a news conference this morning in Tokyo, Mr. Kaifu said, "I rate this highly as an achievement of joint exercise by the two governments." He added that talks will "benefit not only the two countries but also the whole world, serve to prevent the rise of protectionism, and thus contribute to the steady development of the world economy."

But the report already is attracting skepticism, particularly from Congress. "Put me down as a skeptic who's seen too many agreements in which the results don't match the rhetoric," said Sen. Lloyd Bentsen, (D., Texas), chairman of the Senate Finance Committee. Previous U.S.-Japan trade agreements "were like nothing so much as a drugstore cowboy -- all hat and no cattle," the senator said.

Just as some people in Washington question whether Japan gave enough, critics in Tokyo are complaining that Japan gave too much, particularly on retailing. The Japan Chamber of Commerce and Industry released a statement saying there could be "problems" from changing the distribution system and from toughening antitrust penalties. Mr. Kaifu, in his news conference, said Japan's measures "have been attained after undergoing a difficult domestic process, and their implementation may, in some cases, be painful." But, he said, they are "essential in furthering Japan's own national interest."

He acknowledged that many of the changes will require the cooperation of the opposition parties, which control the upper house of the Diet.

In the interim report, Japan promised to amend and strengthen its anti-monopoly law to combat exclusionary business practices, and also will strengthen its Fair Trade Commission. It also will speed up its patent-approval process, which frequently has frustrated foreign businessmen seeking to protect their intellectual property.

Moreover, the Japanese will increase disclosure of the close "keiretsu" links between companies, which can promote preferential group trade and anti-competitive business practices. "We believe if the people of Japan have a better understanding of this arrangement, there will be change," said Assistant Treasury Secretary Charles Dallara.

In addition, Tokyo will cut down the approval time required for licensing large retail stores to 18 months initially, and then to 12 months, from the current indefinite period that's sometimes as long as 10 years. Stores that devote roughly 1,000 square feet or more to foreign goods will be granted licenses immediately. Japan also will seek to ensure that it can clear imports any time of day; past delays -- particularly for perishable goods -- have been costly to foreign companies.

Moreover, the Japanese have said they'll speed up eight large public spending projects, including ports and airports, which could mean business for American companies. They also will abolish requirements that foreigners give notification before investing in Japan. And they pledged a full review of their land taxation system. Critics contend this system has restricted land use and pushed up prices to prohibitive levels, making it difficult for foreigners to buy into their market.

Deputy U.S. Trade Representative Linn Williams said the talks have "engendered a broad public debate in Japan" that resulted in widespread approval of many of the measures that the U.S. was requesting. "This is the first time they've acknowledged there are barriers and made an attempt to address them," he added. Michael Farren, an assistant Commerce Department secretary, said the ruling Japanese party now realizes that "the ultimate beneficiary (of the reforms the U.S. requested) is the Japanese consumer."

Some U.S. observers are dubious. "I think we've been here before," said Clyde Prestowitz, of the Economic Strategy Institute, a Washington-based think tank. "I'm reminded of Yogi Berra's comment that this is deja vu all over again," said Mr. Prestowitz, a former Commerce Department official who negotiated trade issues with Japan.

But Mrs. Hills said, "I think there are very real commitments to remove a number of structural impediments." She indicated, however, that it would be "premature" for her to decide whether to list Japan again this year as an unfair trading partner under the Super 301 designation process. A decision is expected on that issue at the end of this month.

Japan's stock market and its currency have declined sharply in recent weeks. There has been speculation that the U.S. might use Japan's desire for international support for its currency as a bargaining chip in the bilateral trade talks. But State Department Undersecretary Richard McCormack, who led the U.S. negotiating team, and Mr. Dallara denied there was any trade-off or link between these talks and other negotiations.

This weekend, the Group of Seven industrialized countries -- the U.S., Japan, West Germany, France, Britain, Italy and Canada -- are scheduled to meet in Paris to discuss the coordination of their macroeconomic policies. That meeting is expected to discuss ways to shore up the weakened yen.

In the interim report, Japan promised to amend and strengthen its anti-monopoly law to provide stronger penalties and ensure private damage remedies are effective, said James Rill, the Justice Department's antitrust chief. Japanese officials also agreed to strengthen the country's Fair Trade Commission and speed up its patent-approval process, which frequently has frustrated foreign businessmen seeking to protect their intellectual property.

Together, the U.S. and Japan account for more than one-third of world-wide economic output. Japanese exports to the U.S. totaled $93.6 billion in 1989, while U.S. exports to Japan totaled $44.6 billion, leaving a $49 billion U.S. trade deficit.

Jacob M. Schlesinger in Tokyo contributed to this story.

Credit: Staff Reporter of The Wall Street Journal

DETAILS

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LINKS

Social Security Shouldn't Drive U.S. Fiscal Policy

By Carolyn L. Weaver . By Carolyn L. Weaver.

ProQuest document link

ABSTRACT (ABSTRACT)

The members of the National Economic Commission agreed on one thing: The tail should wag the dog. Both the majority and minority reports embrace the view that the federal budget should run a surplus equal to the surplus in the Social Security trust funds. Budget balance, heretofore the goal of the Gramm-Rudman-Hollings law, should apply only to the non-Social Security portion of the budget.

While appearing to call for even greater discipline over federal spending and revenue decisions than contemplated in Gramm-Rudman, such an approach could undermine the discipline of a balanced-budget requirement, and leave fiscal policy open to the vagaries of Social Security policy making.

If the surpluses serve no other purpose than this, they do nothing to promote national saving or to reduce the burden of retirement benefits in the next century. They simply shift the cost of government to Social Security taxpayers, and shift the problem of meeting future benefits to the general fund of the Treasury, which must meet the ever-growing interest payments on the bonds issued to the trust funds. The NEC's solution, offered as a long-term strategy, is to remove Social Security from budget targets and require balance in the rest of the budget. So far, so good.

FULL TEXT

The members of the National Economic Commission agreed on one thing: The tail should wag the dog. Both the majority and minority reports embrace the view that the federal budget should run a surplus equal to the surplus in the Social Security trust funds. Budget balance, heretofore the goal of the Gramm-Rudman-Hollings law, should apply only to the non-Social Security portion of the budget.

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The NEC was wrestling with a real problem. If, as is currently the case, surplus payroll-tax receipts are invested in government bonds, they are in effect lent to the federal government and available to finance the general operations of the government.

How, then, do you ensure that Social Security surpluses promote national saving and economic growth? Surplus funds may be used to retire public debt outstanding, and thereby increase the funds available for private investment. But, then again, they may not be. As excess payroll taxes roll in, they may well end up relaxing fiscal restraint in the rest of the budget -- financing new spending programs or income-tax reductions -- and result in little or no improvement in the government's overall indebtedness.

At present, the Social Security surplus (excluding Medicare) is $50 billion to $60 billion, projected to rise to $100 billion in 1993, the year Gramm-Rudman requires budget balance. Since these surpluses are included in the government's deficit-reduction targets, they reduce the savings that must be achieved through other programs.

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But look where this leads. While economists have been engaged in a long-running debate as to the "best" way to manage fiscal policy to promote private saving and investment, and boost national income, and while Congress (and certainly the public) has concluded that budget balance should be the norm, the NEC concludes, in effect, that all of the above should be disregarded and that fiscal policy should be driven by the condition of the Social Security trust funds. In other words, the package of Social Security changes adopted in 1983, in an atmosphere of crisis, should guide U.S. fiscal policy in the years ahead.

The report of the National Commission on Social Security Reform, which formed the basis of the 1983 legislation, has been hailed as a political masterpiece, but a master plan for economic policy it was not. Neither the commission nor Congress debated the merits of moving from pay-as-you-go financing toward partial reserve funding as a way of easing the burden of financing benefits to baby-boom retirees.

Had they, they surely would have debated the question of how large a reserve fund to aim for, or how quickly to amass such a fund or how quickly to deplete it. Surely they would have debated how best to invest and manage a huge reserve fund, one projected to reach $1 trillion (in today's dollars) within 15 years. And surely they would have debated the links connecting Social Security funding, government saving and dissaving, and aggregate economic activity. One can hope they would have debated how best to control the dissipation of reserve funds through direct Social Security expansion.

Under current projections, Social Security will run surpluses for the next 30 years or so, and deficits every year thereafter. A period of government saving is thus followed by an indefinite period of government dissaving. By the year 2050, when the baby-boom generation's children are entering retirement, the program is projected to be insolvent -- despite a continuing liability on the order of 16.4% of taxable payroll in the economy, or about $1 trillion annually in today's dollars.

Should we have fewer babies or live a bit longer than the actuaries assume, the surpluses will be smaller and the reserve fund depleted more quickly. Should Congress take the now familiar route of increasing benefits or bailing out Medicare when there are a few extra dollars in the trust funds, the condition of the trust funds will be even worse. Is this really what the NEC intended to be the path of U.S. fiscal policy?

The NEC majority distinguished itself in one important respect. It recognized that controlling the federal budget and promoting economic growth is not just a matter of keeping the lid on some government programs; Social Security must be controlled as well. In recommending that Social Security be removed from the targets that apply to the rest of the budget, the NEC majority report urged the adoption of new procedures to safeguard against the use of Social Security reserves to fund Social Security expansion. This is the only rational approach to budget control. What the majority failed to address is whether Social Security's current financing arrangement, and its current structure of benefits, are compatible with long-term economic growth.

If the NEC's recommendation to move toward overall budget surplus is to be taken seriously, and I believe it should be, policy makers must rethink the way Social Security decisions are made. Social Security activists have worked hard to isolate the program from the economic policy considerations that drive the rest of the budget. First, the program was moved off-budget. Then, changes in the program were deemed "out of order" for consideration in budget bills. Now, we hear appeals to remove the program from the government's deficit-reduction targets.

Doing so, without at the same time imposing new rules on Social Security that secure its financial position and prevent the expansion of its long-range debt, would be naive at best. Social Security is the largest domestic program in the U.S. budget; for many years, it was the fastest growing. Only the sheer unavailability of resources has arrested expansion in the past decade. To further shield this program from the budget process, while at the same time elevating it to the position of linchpin for economic policy, is not only a case of the tail wagging the dog, but a recipe for fiscal disaster.

Ms. Weaver directs the American Enterprise Institute's Social Security and pension project.

DETAILS

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LINKS

BIS Report Urges Tighter Fiscal Policies In U.S., Further Growth in West Germany

By Peter Norman . By Peter Norman.

ProQuest document link

ABSTRACT (ABSTRACT)

BASEL, Switzerland -- The Bank for International Settlements pressed for tighter U.S. fiscal policies and stronger West German expansion to ensure world financial stability and continued non-inflationary growth.

As leaders of the world's seven biggest industrial democracies prepare for their annual economic summit next week in Toronto, the central bankers' bank said the U.S. and its major trading partners should resist downward pressure on the dollar. It warned that "tolerance margins for policy slippages, indecision and disagreements have become narrower."

But the bank's world view wasn't all glum. Indeed, in one of its more-positive judgments, the report argued that October's global stock-market crash likely won't be repeated. The BIS was optimistic because stock prices, except in Japan, are well below previous peaks and seem less vulnerable to bad news. Financial markets and institutions proved unusually resilient since the crash, the BIS said, and major nations showed they can manage a crisis. Meanwhile, the international debt problem eased somewhat and growth prospects in the industrial world improved.

FULL TEXT

BASEL, Switzerland -- The Bank for International Settlements pressed for tighter U.S. fiscal policies and stronger West German expansion to ensure world financial stability and continued non-inflationary growth.

Prescribing what it termed a "politically painful" remedy, the BIS's annual report warned that governments must give up some national autonomy and be willing to compromise as the world economy becomes more interdependent and integrated.

As leaders of the world's seven biggest industrial democracies prepare for their annual economic summit next week in Toronto, the central bankers' bank said the U.S. and its major trading partners should resist downward pressure on the dollar. It warned that "tolerance margins for policy slippages, indecision and disagreements have become narrower."

Looking back at the dollar's weakness and the financial-market instability of the past 18 months, the bank cautioned that failures in "policy coordination and joint exchange-rate management can quickly lead to serious market upsets with potentially damaging consequences for the stability and health of the world economy."

But the bank's world view wasn't all glum. Indeed, in one of its more-positive judgments, the report argued that October's global stock-market crash likely won't be repeated. The BIS was optimistic because stock prices, except in Japan, are well below previous peaks and seem less vulnerable to bad news. Financial markets and institutions proved unusually resilient since the crash, the BIS said, and major nations showed they can manage a crisis. Meanwhile, the international debt problem eased somewhat and growth prospects in the industrial world improved.

The BIS acts as a bank and research body for the world's non-elected central banks. Its annual reports often lack sympathy with the international economic policies of elected governments.

The latest BIS report echoed last week's report by the Organization for Economic Cooperation and Development in pinpointing the huge gap between the U.S. current-account deficit and the Japanese and West German surpluses as a major world economic threat. The current accounts, which tally trade in goods, services and certain unilateral transfers, showed a deficit of $160.7 billion for the U.S. last year against a Japanese surplus of $87 billion and a German surplus of $44.3 billion.

The bank's report acknowledged that this gap is shrinking in real terms, partly because U.S. industry's international competitiveness "has clearly much improved." Germany's trade report for March, published Friday, also provided some evidence that the German surplus may be falling. And the BIS said that last year may have marked a turning point toward reducing the current-account imbalances. "At least some further reduction in the dollar value of the imbalances is bound to take place," the report said.

But the BIS said large imbalances will persist, and suggested that "owners of financial wealth" need to see credible government policies to reduce the imbalances if they are to be encouraged to increase investment in dollar assets and so finance the U.S. current-account gap. The bank suggested that only Japan boosted domestic demand enough to underpin the process of narrowing the current-account gap.

Running through the annual report's 223 pages is the bank's thinly disguised dismay at the failure of Washington and Bonn to tackle the current-account problem through domestic economic policy changes.

In the U.S., strong domestic demand "calls for further fiscal restraint, going well beyond what has already been achieved," the BIS said. Urging greater expansion by Germany, the BIS said recent developments there "show signs of a 'growth trap,' as weak demand growth discourages capital formation." This, in turn, "reduces potential output growth and narrows the scope for expansionary policy measures," the report said.

Credit: Staff Reporter of The Wall Street Journal

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