DRAFT STRATEGIC PLAN 2006-2011

COMMENT

Page 5. The Plan is not based on cost cutting; £20m p.a. of efficiency savings by the end of 2009 will not reduce budget deficits but spent in other departments.

Page 7. Implement Fiscal Strategy. The plan gives no figures whatsoever on administration and other costs of implementing GST, zero-ten, other taxation, nor indeed does it give any idea of the cost of all the other things which the Plan seeks to do.

Page 11. Resource Statement. In order to have a sound economy, the anti-inflation policy is to keep RPI (x) at or below 2.5%, yet we are to have a 3% GST on everything, which would immediately nullify that policy. The cost to the average household will be over £800 p.a., according to the Crown Agents.

With no transfers since 2001 and no expectation of transfers to the Strategic Reserve up to 2011 at least, the intention is to bolster it by selling the States-owned JT, JEC and JNWW utilities. These public utilities have served us well over the years. If ever sold, we must expect increasingly higher charges thereafter to pay for acquisition, directors and shareholders, very likely foreign; a great disservice to the Jersey people, indeed.

Page 12. Revenue and expense forecasts 2006-2011. Three years ago we were told that GST would be needed to partially reduce the zero-ten deficit in 2010, but we see that it is wholly needed right from its planned introduction to prevent £13m deficits in 2008/9. Furthermore, with black hole predictions of anything from £80m - £100m p.a. from 2010 onwards, what confidence can we have in deficit forecasts of only £29m in 2010 and £33m in 2011 and, with increasing States expenditure with unknown rates of inflation ahead, what deficits thereafter?

Page 14/19 Commitment One rightly says that we have a strong, internationally competitive finance industry, that we are a world-class business centre for all the reasons given therein, being totally in line with other major advantages given in the May 2002 Oxera Report, with its overall conclusion that Jersey's current tax rate appears to be sufficiently

competitive. Our finance industry continues to prosper and expand for all those reasons, despite some lower rates elsewhere, so what need is there to halve the current rate *in case* at some time in the future the loss of business more than offsets the large profits in its domestic business and major diversification elsewhere, particularly so as we are running serious deficits now.

Page 21. Monitor EU developments. With Gordon Brown having made it quite plain at a finance ministers meeting in Brussels over a year ago that he will not tolerate any interference in tax matters, unwelcome pressure from the EU is now unlikely. We are now an autonomous jurisdiction, anyway, and we will participate in the OECD global forum on taxation to safeguard our interests.

PROPOSED ZERO-TEN CORPORATE TAX

The proposed zero-ten corporate tax, said to be necessary to keep the Island's finance industry competitive and avoid pressure or sanctions from the EU/OECD, the £80-£100m shortfall to be partly made up by a 3% Goods and Service Tax in 2008 to raise £40-£45m annually. Yet we read all the time of how well the finance industry is doing, major banks increasing their presence here, funds with Jersey banks at record levels, new initiatives to bring in more business of various kinds, that Jersey has all the financial expertise required, excellent location, communications, political stability, future success and profitability assured.

The May 2002 Oxera Report, while mentioning competition from other jurisdictions, emphasised Jersey's key advantages over them. Their overall conclusion was that Jersey's current tax rates appear to be sufficiently competitive to maintain the financial services sector at its present level and this is amply borne out in our highly successful and expanding finance industry today. The hundreds of English-named companies which have gone over the last 18 months must have been mainly due to determined offshore anti-tax avoidance measures announced in the July 2004 UK budget.

A zero-ten tax regime will be far from simple or administratively easy in operation. For example, in the case of law and accountancy firms, how will net profit be split between zero rate on their domestic business and 10% on their offshore operations when they share the same partners, office buildings, communications and maintenance etc?

The same problem of dual offshore and domestic business involvement applies in large measure concerning the long-established Jersey banks with extensive local business and private deposits, loans, mortgages, insurance, etc., and now also heavily engaged in offshore banking and finance activities. Should they not be taxed separately on their domestic and offshore profits, and how could that be done?

No estimate of the loss in tax revenue and Interest thereon which will result with a zero tax rate on non-financial corporations trading in Jersey has been made known but it must be a large figure, indeed. In addition to the well-known UK names must be added A. de Gruchy, Guiton Group and Jersey Gas which no longer have Jersey shareholders, and so no tax to the Tax Office will be payable.

Departing from the traditional regime of all Jersey corporations paying tax on annual audited results direct to the Tax Office to taxing Jersey resident (only) shareholders according to their percentage ownership will be an onerous time-consuming administrative task which will in many cases require staff at a senior level, with delays in payment for many reasons to be expected. Again, no estimated figure of collection costs under the proposed zero-ten tax regime has been made known but that too, must be a very considerable figure indeed.

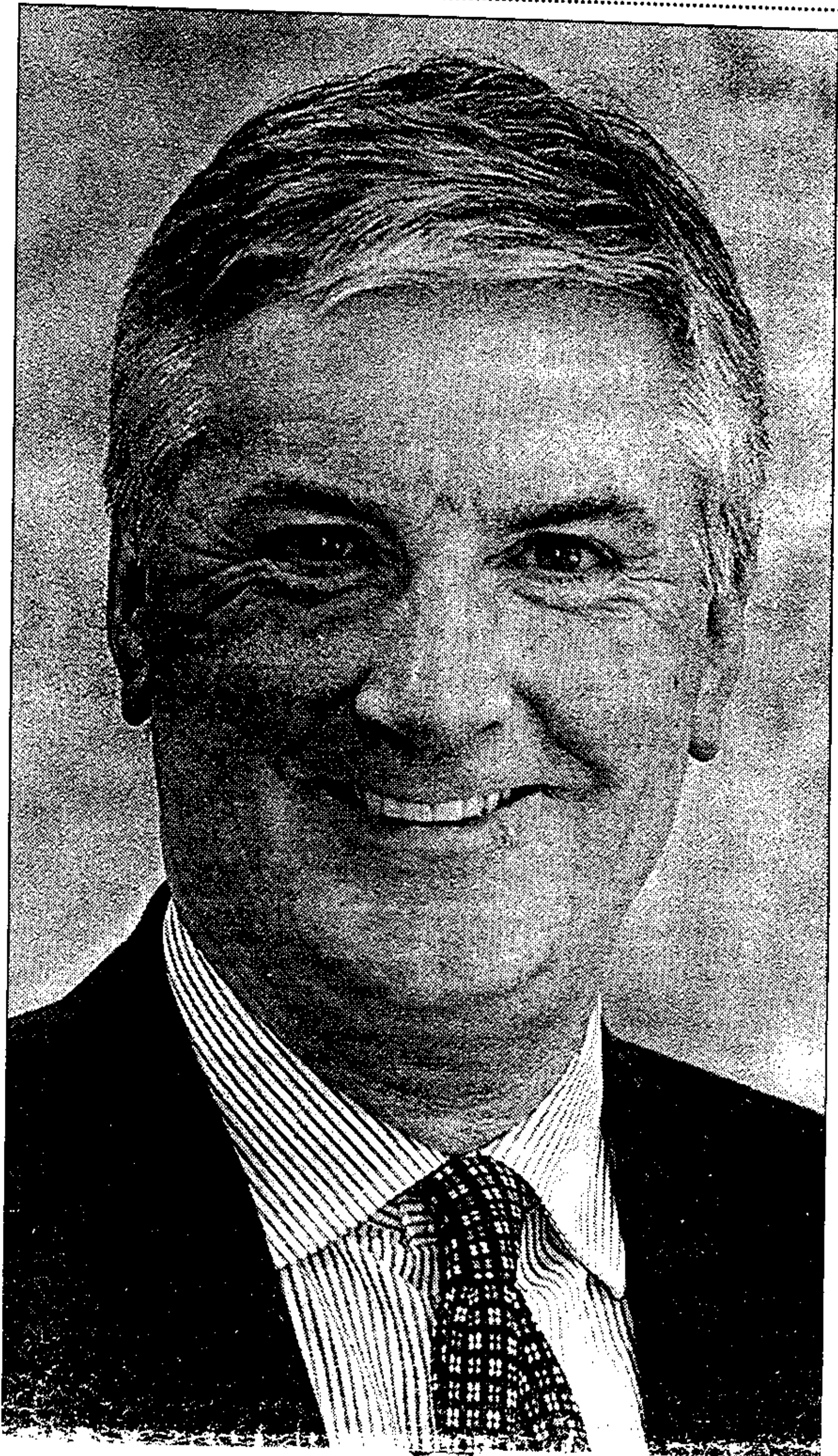
In addition to these problems, taking into consideration that for a wide range of finance-related concerns with offshore and domestic involvement a two-tier tax regime would also be difficult and costly to operate, is zero-ten even feasible?

One thing is certain, Gordon Brown will be pleased if we have zero-ten.

Industry explores new business openings

6/7/04

PHIL AUSTIN



Chief Executive, Jersey Finance Ltd

There is growing international awareness that Jersey no longer depends solely on its low-tax status to achieve success in the all-important financial sector

THE Island's Finance Industry has emerged from a period of international negotiation and scrutiny in a confident mood.

The period since 2000 has been a transitional one for many of the leading offshore jurisdictions, including Jersey and the other British Crown Dependencies, and it is at a time when competition for quality business has also intensified. Considerable resources have been set aside to meet stringent new regulatory requirements in the wake of the increasing terrorist threat, to satisfy the external scrutiny of the international community and to negotiate new agreements on financial services issues.

Innovation

With a governmental agreement secured with the European Union on taxation, our regulatory regime further endorsed by the IMF and with the profile of Jersey enhanced by increasing marketing activity overseas, the industry is looking at product innovation to support a more confident mood.

There are a number of factors that contribute to this positive outlook. Firstly, the industry has generally welcomed the direction outlined by Policy & Resources in the new Strategic Plan and the recommendations it has made in the much debated fiscal strategy. The industry needs the backing of its government if it is going to succeed in a hugely contested financial services environment, and it feels it has got just that. The Jersey authorities have proved willing and able to defend the industry on the international stage and have ensured that the Island [illegible] is heard at government level in Europe and elsewhere.

Secondly, the industry has been encouraged by the sentiments expressed recently by the Jersey Financial Services Commission. The efforts that have been undertaken to enhance our regulatory regime, beginning with the ground breaking anti-money laundering legislation in 1999, have proved strong ammunition whenever it has been necessary to defend our industry. However, while recognising the value of strong regulation, we welcome the commission's more recent comments that regulation should not be too heavy handed and should be in tune with good market practice. We welcome the view expressed that regulation, while managing risk, can play a part in helping business to expand. This stance gives an important signal to our international clients that while we will not sacrifice the quality of our regulatory capabilities, we will be flexible in supporting business growth. The industry and its extensive network of trade association representatives, now co-ordinated under the Jersey Finance umbrella, is working more closely with the commission which we hope will help accelerate this process still further.

The introduction of the Expert Fund and the Non Jersey Domiciled Fund Guides, two [illegible] that are proving to be a catalyst for new business opportunities in the funds sector, is the most obvious example of the importance of this new, closer partnership.

Thirdly, there appears to be far more international recognition that Jersey and other similar centres are not wholly reliant on tax for their success. International tolerance of certain business practices has long gone and the Island has moved away from using such phrases as 'tax haven', which paints a wholly inaccurate picture of the range of financial services available from the jurisdiction.

Awareness

We all recognise that a tax-neutral platform remains an important element in the mix of attributes that offshore finance jurisdictions require in order to be successful. However, there is a general awareness abroad at government level and among decision makers that a successful finance centre also relies upon its reputation for probity, a mature, sound legal system, a flexible but rigorous regulatory system and an experienced and skilled workforce that can manage the work effectively.

Criticisms will inevitably arise from time to time, particularly from pressure groups opposed to all offshore finance activity and [illegible] industry is not well understood, but we are far more prepared and have a strong basis on which to defend the reputation and probity of the Industry.

While confident in our future, we are not complacent and we know many practical difficulties lie ahead, not least from the changes that have been proposed for onshore and offshore jurisdictions through the accord with the European Union.

Banking professionals are monitoring closely the timetable and implications of the EU Savings Tax Directive. Although the Swiss have reached agreement, and will withhold tax in the same way as is proposed in Jersey, it has still to be ratified by their parliament. It now appears certain that this will delay the introduction of the directive from 1 January 2005 until July next year at the earliest. The industry has geared up on the assumption that the directive is implemented from the beginning of next year so we are ready whatever the outcome. However, many uncertainties remain about the position of other jurisdictions and on some of the practical implications of implementing the new tax. One certainty is that the 'level playing field' principle applies and if the whole of Europe is not ready, Jersey will not be forced to press ahead before other jurisdic[illegible] tive position is preserved.

Our international contact programme has enabled us to focus on important regulatory and legislative developments within the industry which bode well for the future.

Enhancements

The funds industry has been reignited by the Expert Funds Classification which introduces a new fast-track approach for Expert Funds and encourages the setting up of more hedge funds, private equity and other expert funds in the Island. The Non Jersey Domiciled Funds Guide, which is imminent, will enable funds domiciled elsewhere to be administered in the Island and should prove a further boost for business.

Corporate business, which is now probably the fastest growing sector of the business, has benefited from changes to company law which enables, for example, par value, no par value and guarantee companies to be formed, giving investors far more choice in their investment planning.

There are further enhancements on the horizon including legislation to permit Protected Cell Companies and reform of the Island's Security Interests Law, which will be a further boost to capital markets work.

[illegible] and trust sectors, the bedrock of business in the Island for 40 years, show no signs of stagnation.

Wealth management practitioners currently highlight a trend towards providing more institutional style investment products tailored to meet the needs of ever more sophisticated private clients. Meanwhile, a recent Legal Week/Bailhache Labesse Survey recorded that 87 per cent of 100 City lawyers canvassed indicated that Jersey was their preferred location for trust business.

We are bringing details of the various developments in Jersey to international audiences in London, New York, Brussels and the Gulf this year and the response to date has been extremely encouraging.

In 2004, the industry has been able to outline a vision that delivers new innovative investment solutions to both corporate and private clients, supported by a responsive legislative and regulatory framework. It has a commitment from senior figures in government to work to preserve the future of the finance industry and together these moves represent encouraging signs for its future.

The finance industry employs around 25% of the total workforce and contributes revenue to a range of businesses in inter-related industries. It also currently delivers sufficient funds in tax each year to virtually meet the annual budget for health, education and social services and it remains a strong supporter of community activities.

Therefore, indicators that point to a prosperous future for the finance industry should have a positive [illegible]

PROPOSED GOODS AND SERVICES TAX (GST)

Deeply unpopular from the start, GST only became politically possible when those who would suffer hardship were promised relief under the coming income support scheme. Strong opposition also came from the business community which would incur administration costs and also the transfer of large amounts of disposable income to the Government would affect turnover.

Even at the proposed 3% commencing rate, GST would cause hardship to many families, pensioners and others already burdened with higher gas, electricity, heating oil and travel costs. Crown Agents has estimated that GST would cost the average household over £800 p.a. With households of different sizes and circumstances, how would relief from GST be determined in the income support scheme, a flat £800 p.a. to all those below a certain income?

No details of the cost of running GST have been given other than a figure of £15m p.a., but certainly a considerable number of staff would be required which would add to the States payroll costs and future pensions liability.

Neither do we have the cost to Social Services in extra manpower and administration in adding the GST relief payments to the income support scheme, but here again that would add to the States payroll costs and future pensions liability. The actual amount of the GST relief is awaited but a figure of £9m p.a. has been mentioned. Actually, we would be paying not just 3% on everything, but also supporting the £9m or whatever GST relief payments in taxation or some other way.

GST would also make Jersey's tourism industry more expensive, and so less competitive, and could significantly reduce tourist spending in shops, restaurants, etc.

Jersey Evening Post

Poverty still coexists with wealth

IT is all too easy to become carried away by the idea that Jersey's prosperity, now founded on a highly successful offshore finance industry, extends to every part of Island society. However, a moment's intelligent reflection is enough to confirm that poverty still coexists with the great wealth that is so evident all around us.

Through the welfare and benefits systems we have a safety net which is meant to catch and protect the substantial numbers of Islanders who do not share in the bounty of finance or other buoyant sectors of the economy. In spite of this, there is evidence that some families are falling through the net and are struggling not to enjoy the luxuries of Island life but merely to survive.

Millionaire Colin Taylor, who has so generously offered to use his personal wealth to help those who genuinely cannot make ends meet, has been surprised to discover just how many people are living in poverty. His conclusion is that the welfare and benefits systems are failing to cope with an issue that is both real and reprehensible in one of the world's most prosperous communities.

Thanks to Mr Taylor, at least some of the families in difficulty will find their problems eased. However, charity cannot be a complete answer – despite this Island's remarkable record of care and good works.

If Jersey is not to slip towards becoming a two-tier society of haves and have-nots, poverty – which, only a few years ago, was targeted by the States for abolition – must once more become the focus of determined attention.

Fortunately, the framework for this to happen is already being constructed. A goods and services tax will soon be added to our armoury of weapons designed to raise public revenue. It has been recognised that this new tax could have a disproportionate effect on the less well-off. As a result, there will be comprehensive reform and consolidation of our income-support measures.

What better opportunity could there be to tighten the mesh of the poverty safety net in a sincere effort to spread the benefits of Island wealth as broadly and as equitably as is practically possible?

Millionaire's shock at poverty levels

19/11/05

Calls on charitable trust show that Islanders are slipping through benefits net, says philanthropist

By Harry McRandle
hmcrandle@jerseyeveningpost.com

A MILLIONAIRE is handing out food vouchers to the needy who have apparently slipped through the Island's benefit net.

Colin Taylor has been shocked to discover the extent of poverty after the JEP published his plea for needy Islanders to contact him for help through his charitable trust.

He cannot believe the struggle some people are having just to survive. And he says cases he has encountered show there is something wrong with the social benefits system in the Island.

The Scottish-born tax exile said: 'There is real poverty here. There are gaps in the benefits system people are falling through. We are talking about people who just need a little bit of money but they don't qualify under the rules of whatever scheme it may be.'

Mr Taylor said he had received a text message recently from a woman asking for some tins of baked beans to feed her family. 'We are now handing out food vouchers to allow people to buy some shopping,' he said. 'That will continue as we try to concentrate on helping urgent individual cases. These people appear to have slipped the net and there are gaps in the system that need to be addressed.'

Mr Taylor said it was 'shocking' in

(Cont on page 2)

LIVING
Pigeon on the menu
PAGE 14

TREASURE TROVE
FREE advertising
PAGE 50

Millionaire shocked at poverty levels

(Cont from page 1)
a wealthy place like Jersey that there are people genuinely in need who do not know where to turn. 'These people have absolutely nothing,' he said.

Meanwhile, he has made a plea to those who have written asking for assistance to be patient, as the trust is trying to get round to dealing with the appeals. One project – the William Helena Taylor Trust, which is named after Mr Taylor's parents – will help elderly people to afford dental treatment. Mr Taylor said they have come across cases where people need to go to the dentists but just cannot afford to pay, so the trust is looking at contributing to an insurance scheme and is talking to dentists to see what can be achieved.

Meanwhile, the trust is closing an appeal set up only last week to help the family of a three-year-old girl waiting for a heart transplant. Honor Merchant desperately needs a new heart and is top of critical waiting lists of UK transplant centres. Her parents were suffering financially - and through an appeal launched in the JEP last Saturday, £2,350 has been raised.

'This has changed their lives,' said Mr Taylor, 'and I cannot thank everyone who has contributed enough.'

The family will be given the money in cash next week.

Honor suffers from a terminal illness and a successful transplant will give her a better quality of life. It is hoped that an operation will allow her another six years.

Honor's mum, Joanne, wrote to Mr Taylor after seeing the article about the trust in the JEP because of the financial struggle paying for medicines and living costs. The trust gave the family £500 last week and volunteered to contribute another £100 a week.

Honor has been treated regularly at both Southampton and Great Ormond Street Hospitals for the last 19 months.

OTHER ECONOMIC ASPECTS

United Kingdom

As Jersey's tourism-related and farming industries rely very much on continuing spending power in the UK, we need to monitor developments there.

There have been three Bank of England warnings recently concerning total domestic debt which is now over £1.1 trillion, larger than the entire annual output of the UK economy. This follows earlier warnings in October 2002 of debt unsustainability when debt was only £800 billion. Personal and business bankruptcies and house re-possessions are at record levels, as are bank bad debt provisions.

With the UK now a net oil and gas importer, the trade gap reached a record £6 billion last year. Government borrowing so far this year has reached £37.1 billion, close to the Chancellor's target for the year of £37 billion, so more taxation is expected.

European Union

Rejection of the draft EU Constitution by France and Holland last year reflects growing opposition to a federal European state and further meddling in member countries' domestic affairs. Confidence in the EU is collapsing, with less than half the population now trusting Brussels and there is pressure in Austria for a referendum to leave the EU. With widespread corruption, the EU accounts have not been audited for six years, if ever, and the budget chaos last year even put the survival of the euro in question.

United States

For years the US has had a huge balance of trade deficit, partly offset by invisible earnings and inward investment and the balance paid in US Treasury bills. Reluctance by some large creditor counties to go on accepting payment in treasury bills was reported a while ago and if enough bills are redeemed instead of being rolled-over the dollar could drop sharply or even crash.

All last year the monthly trade deficit hovered around $50 billion, oil imports contributing to this, but fears of a dollar slump deepened when it was revealed that it hit a record $70 billion in January.

In recent years the federal government has borrowed huge amounts from foreign governments and banks to help cover budget deficits and the debt mountain is growing at a staggering $1 trillion a year. Latest figures are not to hand, but last year their total external debt was an alarming 40% of their huge GDP.

The dollar remains the focus of global uncertainty, contributing to the present high cost of oil and gas in world markets. Recent reports are that the Russian Treasury intends to switch some dollar assets into euros and that Iran plans to launch its own oil and gas bourse this year, as Iraq did before the last US-led invasion.

CONCLUSION.

Many will find it hard to believe that a serious economic downturn, let alone a crash, is likely, but all the signs are there, along with repeated Bank of England and City warnings. Another ominous sign is the record price of bullion, twice what it was. Bearing in mind that the Middle East will be a tinderbox for years, this is most certainly not the time for Jersey to embark on risky tax changes.

A nation spending its way to oblivion

With a debt mountain growing at a staggering $1 TRILLION a year, how long before the U.S. bubble bursts?

AMERICANS in January 2006 are a fat and happy race. At home, there is no mirror that doesn't flatter them, no number that doesn't encourage them, no headline that doesn't praise them.

Even when they make mistakes, the news is taken as laudatory: at least they tried!

Their warships range the seven seas. Their armies stand ready on every continent. No sparrow is so small that it can fall without setting off sensors at the Pentagon. And no country is so poor that it cannot lend the United States of America money.

Like Alice in Wonderland, the star-spangled bumpkin is expected to believe six impossible things before breakfast. The lumpenvoter goes even further; he believes another three before lunch.

He believes he can get richer by spending rather than saving. He believes he can borrow without ever paying back. He believes he can invade foreign countries and the natives will say 'thank you'. When they don't, he is genuinely surprised at their ingratitude.

Privately and unconsciously, Americans think they have defeated time itself. The historical evolution that pushed them to the top of the world stopped dead in its tracks, they believe, the very day they arrived at the summit. Henceforth, the sun will never set on America's consumer empire.

Doubts

Who doubts that the entire country is glazed in honey? Things could not be better — except that they'll surely be better next year. No conceit is too extravagant, no humbug is too preposterous; the gods must be chuckling, or maybe even rolling on the ground laughing.

If only there were no gods, and no

limits. But in economics, as in many other things, there always are: no mornings without evenings, no glasses half-empty without just as many half-full; no silver linings without clouds.

We would be as happy as the next fellow if we could borrow more and more money for ever, without having to repay it, just as we wish we could be young for ever, with two stomachs and the metabolism of a steel mill. But nature seems to be against it.

Of all the preposterous things said in 2005, perhaps the most dangerously appealing came from the man designated to be the most powerful in the world.

Ben Bernanke, picked to replace Alan Greenspan as chairman of the U.S. Federal Reserve, told Americans they were not really irresponsible spendthrifts; they were doing the world a favour by transforming a 'glut of savings' in Asia into granite countertops and personal video players in America.

Gizmos

Thank God for the grasshoppers in the West. Otherwise, what would the ants in the East do with themselves?

'They sweat; we think,' said another economist old enough to know better. But Americans cannot resist this appalling conceit. In their minds, globalisation has divided the world into two neatly symbiotic parts.

On one side, people sweat and save. On the other, they think and spend. One group makes things; the other takes them. One lends; the other borrows. One group provides toasters, automobiles and electronic gizmos; the other provides dollars.

Americans like this bipolar world. As long as Asians will work for 50 cents an hour and take dollar bills for their products, what's not to like?

The Fed chairman-designate is not exactly wrong when he talks of Asia's 'glut of savings'. He is just a bit premature. The transaction is only half-complete, like getting dressed but forgetting to

by Bill Bonner

put on your trousers; you go out and look ridiculous.

The hard part, repaying the debt, is still ahead. That is where the favour of borrowing is likely to turn into the imposition of larceny, and the sunny world of America's economy is likely to darken.

If there is an example in history of an empire that did not eventually come to grief, we have never heard of it. Britain's empire was already in decline by the end of the 19th century. By the early 20th century, America and Germany had passed it in terms of GDP.

Britain's factories were old and uncompetitive, its wages high. It still bore the costs of empire, but the advantages had packed up and moved over to its rivals. In 1917, America shouldered Britain out of the way.

America has now been in the empire business for many years, but has never really got the hang of it. Empire is essentially a protection racket. You provide order and in exchange collect tribute. Empire has to pay, one way or another, or it falls apart.

America never collected tribute. Instead, like Britain, it has relied on its businessmen to draw profits from widening markets. Alas, the U.S. balance of trade went negative 30 years ago and now it finds itself in a similar position to Britain in 1900.

The U.S. pays the costs of empire — with a military budget greater than that of the rest of the world put together — while Asians gain market share.

British and American versions of this empire were built on profits from manufacturing. When manufacturing ceased to be profitable, both borrowed. Under the burden, Britain went broke in 1976. America's bankruptcy is still ahead.

Will it come in 2006? Probably not. But signs of America's decline might at least make the news. U.S. stocks, bonds, property or the dollar — any of them could begin to collapse.

During the two terms of George W. Bush, the federal government has borrowed more money from foreign governments and banks than was borrowed by all other American administrations put together, from 1776 to 2000.

According to the Bush-friendly Heritage Foundation, federal deficits are expected to rise by $1 trillion a year until the year 2017, creating a $16 trillion national debt, twice today's level. After that, deficits should grow by $2 trillion a year.

Shortfalls

Over in the private sector, the system of imperial finance has been imitated: shortfalls in income have been made up by windfalls in credit.

The savings rate in the third quarter of this year fell to a record minus 1.5 per cent, compared to plus 25 per cent in China. Student loans outstanding have risen more than 800 per cent since Ronald Reagan took office. Mortgages are up nearly 900 per cent. Credit card debt is up by more than 500 per cent.

The real source of this problem is the same as Britain's 100 years ago — the globalisation its own empire has helped to create.

Asians are ready to do the same work for less money. This makes some businesses more profitable, those that have taken advantage of lower costs in Asia. But it leaves home-grown labour struggling to make ends meet.

The only way they've been able to put the two ends of the domestic budget together has been with debt, the 'plastic safety net' for America's middle and lower classes. Average credit card debt has grown to $8,650 per family. Total personal debt has risen to $40 trillion — more than three times GDP.

If only debt could rise for ever.

But there comes a time when you have to borrow less, not more. Then you have to spend less. And when you spend less, the people who were counting on you to buy things are disappointed. And then they have to spend less, too. And then those nice people who loaned you the money when times were good get a severe look on their faces and ask for it back.

In 2006, consumers face increases in adjustable-rate mortgage payments, higher minimum credit card payments, higher costs to heat their homes (especially in the north-eastern U.S.) and smaller — or non-existent — house price increases. The bankruptcy rate is rising; last year, 1.8 million Americans went broke.

The day cannot be far off when the lenders stop lending, when they stop figuring the return on their investments and begin to wonder about the return of their investments, when they stop counting the quantity of dollars they hold and begin to wonder about the quality of them, when Americans themselves stop thinking about having money just in time to pay the bills and wish they had a little extra saved, just in case.

That time may not come in 2006, but that it will come sooner or later we have no doubt.

■ *Empire Of Debt: The Rise Of An Epic Financial Crisis by Bill Bonner and Addison Wiggin is published by John Wiley & Sons. This article first appeared in The Spectator.*

CITY COMMENT

Fears grow for US economy

Alex Brummer

WARNINGS that the United States may be heading for the economic rocks are starting to come through fast and furious. The latest person to join the gloom camp is Raghuram Rajan, the top economist at the International Monetary Fund.

In remarks posted on the IMF's website, Rajan notes that America is running a current account deficit of 6.25pc of national wealth, or 1.5pc of the total output of the world.

To finance this huge shortfall it is pulling in 70pc of the world's savings, much of it from Asia. So we have the curious position of the world's poor financing the over-consumption of the earth's richest nation.

Rajan notes that the response to an investment slowdown in the Anglo-Saxon countries has been to expand budgets and lower interest rates. In the United States and Britain easy credit has fuelled housing booms.

The IMF man believes that two changes are needed. Consumption has to give way to investment, and, to reduce current account imbalances, demand has to shift from deficit nations like our own – Britain had a record trade deficit of £6bn in November – to nations running surpluses like China.

The risk is that the adjustment will be 'abrupt', taking away a major support of world growth. In plain language, the housing market in the US will crash and the shockwaves, in the shape of recession, will be felt around the world.

John Snow, the American Treasury Secretary, is doing his best to allay such fears, promising to shrink the US budget deficit by containing spending.

Quite difficult when a new study by Nobel prize winner Joseph Stiglitz places the cost of the Iraq war at $1.184bn. And that is a moderate scenario! Moreover, Snow brushes to one side fears that China may be preparing to shift some of its reserves out of US dollars. 'I'm confident the US will continue to attract the capital it needs,' he suggests, noting the solid returns on US assets.

It is Snow's job to allay suspicions that America's credit and debt mountains pose a threat to global stability. Indeed, as Rajan notes, China can play a great role in helping to smooth change by allowing the renminbi to climb against the dollar.

But the overriding worry is that the Bush government is failing to impose enough discipline on its financial affairs and it will all end in tears.

P&O questions

THE alacrity with which the board of the Penninsular & Oriental Steamship Navigation Co and its advisers bit off the hand of Dubai's DP World when they rolled up with a 443p offer is looking foolish. A bid in the hand is no doubt worth a great deal more than those in the bush. However one has to seriously question why Sir John Parker, advised by Citibank and Rothschild, felt so strongly about the Dubai offer that he even consented to a break fee of £33m of shareholders' money.

We are now starting to find out that the DP World offer was inadequate given the paucity of port and other shipping assets around the world.

In latest trading, P&O – which I hold – soared 6pc to a shade under 500p, way above the second bid from the Singapore government-controlled Temasek Holdings.

The truth of the matter is that both bidders are effectively controlled by states with bottomless reserves and no one can be sure where the take-out price will end up.

Broker Dresdner Kleinwort believes the winning offer will be in the 500p-550p region, more than a pound above where Parker and a deck heavy with knights of the realm ran up the flag of surrender.

Directors should have reflected more carefully on the price of abandoning 170 years ruling the high seas.

Poor precedents

THE record on insurance mergers in Britain is not good. NatWest's attempted merger with Legal and General in 1999 failed to find favour with the stock market. The 1996 deal between Royal Insurance and Sun Alliance is widely regarded as one of the biggest value destroyers in British corporate history and Prudential's 2001 attempt to take over American General, ended in ignominy when AIG came in and blew it out of the water.

So the idea of bringing together Britain's two largest insurers Aviva and the Prudential is unlikely to be greeted with unalloyed joy. Having only recently put together a new top team and restated the group's growth strategy, the Pru is unlikely to want to sell itself just yet. But if it does, Aviva might look an attractive partner after the success which Richard Harvey and his team have had in bedding down Norwich Union and more recently the AA.

CONCLUSION

As pointed out in a press article, annual States expenditure is now heading for £1/2 billion, a huge amount for this small island and ageing population and, with expenditure continuing to increase, quite unsustainable.

We have serious budget deficits now, no transfers to reserves since 2001, resulting from the severe imbalance between States income and expenditure, highlighted in excessive administration costs. In this regard, GST and zero-ten would require a big increase in staff numbers and administration expense, contrary to the declared intention in the Strategic Plan to reduce costs.

With much political and economic uncertainty in the world around us, should we at this time halve the offshore finance industry tax and zero tax local corporations, with the *certainty* of a £80-£100m tax loss *in case* at some time in the future the loss of business through competition more than offsets business that stays, along with its profitable domestic business and promising diversification and expansion into the Middle and Far East and other developing economies?

At the moment the Government's policy is to impose more and more taxation in futile attempts to balance budgets. The urgent need now is to reduce the excessive cost of administration, eliminate waste of money and unaffordable projects at the outset and channel resources to what is necessary and socially desirable and what we can afford.

CREDENTIALS

Working life in banking, cost and management accounting, factory financial controller, chief accountant loan and savings banks, Jersey, U.K., Canada and Bahamas. Head of Credit Department former Tozer, Kemsley & Millbourn Ltd, Millbank, London, EC2 major exports financing. Head of credit local Canadian Bank reporting to London and Toronto on up to $3.5 billion foreign credits. This work involved overview of national economies, state-owned banks and large industrial enterprises in Europe, Soviet block countries, Arabia and elsewhere. As an alternate director, attended board meetings reporting on the above. Retired 15 years, have continued to monitor (Latin monere to warn) global economies and events.