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WRITTEN QUESTION TO THE CHIEF MINISTER
BY DEPUTY S.Y. MÉZEC OF ST. HELIER
ANSWER TO BE TABLED ON TUESDAY 20th OCTOBER 2015

Question

Following the publication of the 'Measuring Jersey's Economy: G.V.A. and G.D.P., 2014' report which shows that Jersey's Gross Value Added per head has dropped by 19% since 2007 to £38,800, what impact does the Chief Minister believe austerity measures, including the new proposed health tax, cuts to income support and a public sector pay freeze, will have on this figure? Has any official advice been sought on this matter and if not, why not?

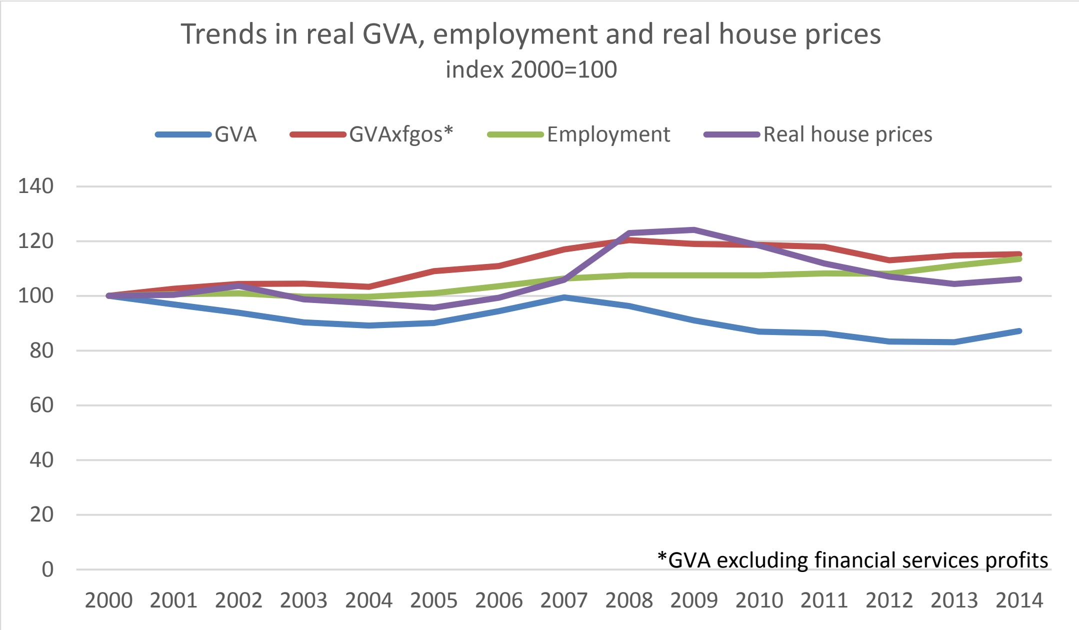
Answer

The fall in headline GDP per head since 2007 exaggerates the underlying trends in the economy because it compares things since the peak in the economic cycle and after a period when large falls in GDP and GVA were driven by sharp falls in financial services profits.

Headline GVA is informative but we need to look at underlying trends and other economic indicators to really understand the overall economic performance. Financial services profits are volatile and variations can have different implications for the wider economy, not always reflecting the underlying picture (or tax revenue). The chart below shows that excluding this part of GVA from the measure (leaving the wages bill of all employees in the Island and the profits in non-financial services) shows a different picture.

Although clearly the economy was affected by the global financial crisis this underlying measure of GVA appears to have peaked in 2008, fallen 2009-2012 (with the largest fall actually in 2012) but by much less than headline GVA. This measure of GVA began to grow again in 2013 and the position in 2014 is above that at the start of the period, not far below the peak in 2008. However, it is still below where we might have hoped to be if the global financial crisis had not been so severe and long lasting.

The trends in employment show a similar picture of a much more stable environment than headline GVA, as do trends in house prices after inflation is taken into account. Overall headline GVA in recent years appears to exaggerate the underlying trends. At first glance these trends look worse than in other economies such as the UK and Guernsey but if they were really of the scale suggested larger falls in employment and house prices would have been expected. This is not to say that we have not been impacted from the global financial crisis or that it has not led to higher unemployment or impacted on our fiscal position.



Rather than imposing austerity the Council of Ministers' Medium Term Financial Plan (MTFP) follows official economic advice from the Fiscal Policy Panel (FPP) by continuing to support the economy in the short term while working towards balanced budgets by 2019 when the economy is expected to be close to capacity. Balancing our books at the right point in the economic cycle is conducive to economic growth and the stability businesses and individuals need to make key decisions.

Public expenditure is being reprioritised so that investment in health, education and the infrastructure set out in the MTFP can support productivity improvements and help lay the foundations for future economic growth. That includes investing an extra £168 million for capital projects over the next 4 years; £96 million more for Health; £27 million more for Education and £20 million for projects that boost economic and productivity growth. Projects will be selected for helping to raise our underlying economic performance.

The approach set out by the Council of Ministers, as advised by the FPP, is the right way to create the conditions for sustainable economic growth and to improve our standard of living.