STATES OF JERSEY

ANNUAL BUSINESS PLAN 2009 (P.113/2008): SECOND AMENDMENT (P.113/2008 Amd.(2)) – COMMENTS

Presented to the States on 9th September 2008
by the Minister for Economic Development

STATES GREFFE

COMMENTS

The amendment is rejected.

Deputy Southern is correct in his assertion that the 'Annual Business Plan 2009 (P.113/2008): second amendment' "may appear to some as mere sophistry"; indeed it is.

The States Strategic Plan states that "Our overall aim is to achieve and maintain low inflation rates whilst improving productivity to help create real economic growth of at least 2% per annum. In this way we can fund the Island's services and provide employment for local people". It is this that guides the Minister for Economic Development's policies and not a so-called "go for growth".

The Minister for Economic Development makes no apologies for adopting a strategy that sought to maximise economic growth in Jersey in the period 2005 – 2007. During times of global economic prosperity, if the Island cannot maximise the impact of a positive economic climate, it will not be in a position to manage through the inevitable impacts global economic downturn, such as that being experienced today.

Neither the Minister for Economic Development nor the States Strategic Plan 2006 – 2011 imply that economic growth below 2% would "constitute failure" as Deputy Southern states. Indeed, levels of GVA growth below 2% are to be expected within the economic cycle and were encountered in Jersey in the period 2001 – 2004 (Figure 1). Pending the full impact of the current global economic downturn in Jersey and elsewhere, they may well be encountered in Jersey in the future.

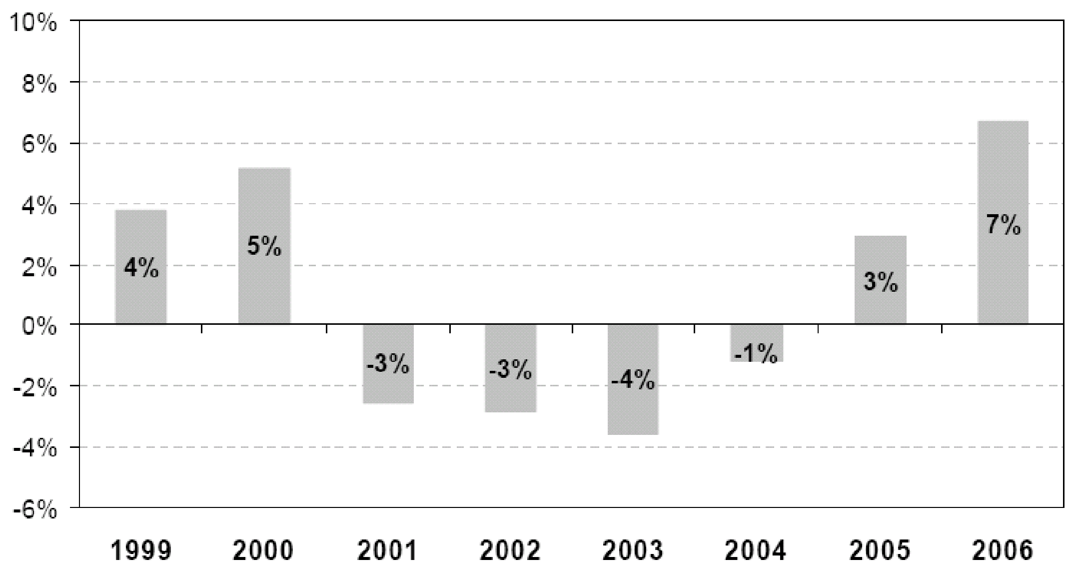

Figure 1 Percentage Change in Jersey 1999-2006
Source – States of Jersey Statistics Unit

The Minister's policies are designed, Deputy Southern also implies, so that economic growth and population growth are directly and inextricably linked – this is not the case. The Minister for Economic Development's growth policies, whilst considering all elements of economic growth, focus on productivity improvements and participation rates of locals. Indeed, much of the12% growth in GVA in the financial services sector, quoted by Deputy Southern in his report, was delivered through productivity gains and not population increase. Is Deputy Southern suggesting that if we achieve growth of greater than 2% through productivity and increased participation of locals that we stop locals getting jobs? Surely not?

Deputy Southern also ignores the fact the economic growth, measured in Jersey by the rate of increase in GVA, is a backward-looking statistical analysis. Therefore, even if we wanted to, it would be impossible to control growth in this manner. What would we do – close down flourishing, growing businesses, because they have grown too quickly?

Perhaps most worryingly, Deputy Southern has, in his interpretation, fallen foul of the old adage; lies, damn lies and statistics. The States Statistics Unit, an independent team with the highest professional standards, produce statistically robust, consistent and reliable information on the growth in Jersey's working population. The Minister for Economic Development bases his policies on the statistics produced by the States Statistics Unit and not on politically motivated interpretation of a partial set of information and statistics.

The Strategic Plan 2005 – 2010 specified a success indicator under Strategic Aim Two: "*Maximum increase in the working population of 1% per annum over the next 5 years*".

From a statistical perspective, the methodology for the measurement of this indicator requires 2 decisions, relating to –

- The calculation of the workforce size for a given calendar year should be a (1:2:1) weighting of (previous December: current June: current December) total headcount.

An appropriate methodology for calculating the size of the workforce was developed several years ago within the framework for measuring the Gross Value Added (GVA) of the Jersey economy on a calendar year basis. The size of the workforce is required in the GVA analysis as an input for determining aggregate and sectoral "Compensation of Employees" (essentially earnings multiplied by manpower).

In the GVA analysis, the size of the workforce in a given calendar year is calculated as the weighted average of 3 consecutive periods –

(previous December: current June: current December) in the ratio (1 : 2 : 1).

There is a normalising factor of ¼ (to bring to a one-year basis) such that the formula for determining the size of the workforce in year *n* is –

Workforce in year *n* = ¼ [December (*n*-1) + 2 June (*n*) + December (*n*)]

For example, the figure for calendar 2007 is derived from the total manpower figures (headcount) for December 2006, June 2007 and December 2007 using this formula.

- Measurement of the average annual percentage change in the workforce:
  - over the economic cycle: 0.5% per annum (to 2007)
  - on a rolling 5-year basis: 0.7% per annum (to 2007).

Applying the above formula to the labour force data compiled over recent years results in the calendar year figures shown in the table below.

Calendar Year	*Workforce size (total headcount)*	*Annual % change*	*Rolling 5-year Average per annum % change*
2000	51,793		
2001	51,855	0.1%	
2002	51,910	0.1%	
2003	51,588	-0.6%	
2004	51,025	-1.1%	
2005	51,620	1.2%	-0.1%
2006	52,430	1.6%	0.2%
2007	53,725	2.5%	0.7%

The average annual percentage change over an *n* year period is then derived from the n^{th} root of the ratio of workforces at the start and end points (years 0 and *n*, respectively):

Average annual percentage change =

[[Workforce(year n) / Workforce (year 0)] ^ (1/n)] - 1

The annual percentage changes and the average per annum percentage changes on a rolling 5-year basis are shown in the table. For 2007, this latter figure was 0.7% per annum, calculated for the period 2002 – 2007.

Under section 2.1 of the 2005– 2010 Strategic Plan, the timescale 2004 – 2005 is specified as that relating to the success indicator concerning the increase of the working population. If 2004 is used as the starting point, the average per annum growth of the subsequent 3-year period to 2007 is 1.7% per annum.

However, the most appropriate perspective is probably that of an economic cycle. Taking the previous peak of the cycle in calendar 2000 as the start point, the **average per annum growth to 2007 is 0.5%**. If we assume that the next peak occurs not in 2007 but in 2008, with a similar growth in workforce in 2008 as for 2007, then the annual per annum growth over the full cycle will be 0.8%, .i.e. still below the target 1% per annum.