

**WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES BY DEPUTY G.P.
SOUTHERN OF ST. HELIER
ANSWER TO BE TABLED ON TUESDAY 28th APRIL 2009**

Question

1. The most recent advice from the Fiscal Policy Panel warns against the impact of 'leakage' on the economic stimulus plan. Will the Minister
 - a) detail for members the major ways that leakage occurs in our economy, and
 - b) what impact this leakage will have on his priorities for action under the economic stimulus plan, and
 - c) what measures he will take to mitigate such leakage?

2. Does he accept that now is not the time to take money out of the economy through additional taxes or other means and does he accept that the imposition of a wage freeze in the public sector in the 2009 settlement would reduce the quantity of money in the economy by £7.4 million and therefore increase the impact of the recession?

Does he further accept that the depth of the recession would also be made worse by any redundancies in the public sector and that he will take appropriate steps to protect public sector jobs?

3. Will the Minister inform members how the figure of £2 million for the extension of transition protection on Income Support for a further year was arrived at?

Answer

1. The most recent advice from the FPP (in their 26th March 2009 letter to the Treasury and Resources Minister) is that discretionary fiscal policy is necessary, if the intention is to mitigate the adverse effects of the international crisis on the Jersey economy in the near term.
 - a. The FPP also point out in that letter that it is "worth bearing in mind that in a small open economy like Jersey there will be a risk that any stimulus put into the economy by the States will quickly leak out of the economy through spending on imports". Leakage through spending on imports is one of the major ways that leakage can occur in our economy. However, it can also occur through money intended to stimulate the economy 'leaking' into savings, not being spent and not adding to demand in the economy.
 - b. The Minister will listen to the advice of an independent Evaluation Team made up of key officers before deciding on the projects that will be funded by the money identified for discretionary fiscal stimulus. The Evaluation Team will be required to assess the business case, value for money and economic benefits of each proposal. Leakage will be a key consideration in determining the nature of the economic impact.
 - c. The rigorous evaluation process as outlined in part b will help to mitigate the extent of any leakage from the overall stimulus package.

2. In setting out the plans for the fiscal stimulus package it is clear that it is accepted now is the time to be using the Stabilisation Fund to put additional money and therefore demand into the economy. However, it is not accepted that a wage freeze in the public sector would reduce the quantity of money in the economy. The overall impact of the States finances on demand in the economy is determined by the difference between all expenditure and all income not the policy adopted for public sector pay. It follows that it is not accepted that such an approach would add to the depth of the economic downturn.

It is also not accepted that the depth of the recession would be made worse by any redundancies in the public sector. The external economic environment, the success of the global policy response and our own fiscal stimulus package will be the key to determining the depth and length of the downturn in Jersey.

3. The States have agreed transitional funding as set out in the table below:

	Original 2007 (£ Million)	Extra from BP amendment 2008 (£ million)	Revised Total 2008 (£ million)
2008	9.7		9.7
2009	5.6	2.17	7.77
2010	3.7	1.9	5.6
2011	2.2	0.95	3.15
2012	0.9	0.55	1.45
2013	0.4	0.18	0.58
2014			
Total	22.5	5.75	28.25

From the table it can be seen that the drop in funding from 2009 to 2010 is approximately £2M. Maintaining 100% protection for an additional year will therefore add approximately £2M to the 2009/2010 cost. Additional funds would also be required in future years.

It should be noted that since this funding was approved by the States in the Business Plan debate in September 2008, there have been other changes to the Income Support scheme which have an effect on the cost of transitional relief.

A full analysis of these changes and a revised estimate of the cost for each year of the transition is currently being prepared and will be included in the final bid made by Social Security Department to the Economic Stimulus panel.