

# Attac

Association for the Taxation of Financial Transactions for the Benefit of Citizens

And the

# tax justice network

Forward

Evidence on the Income Support Scheme and the Nordic Model Alternative to  
the Scrutiny Sub-Panel

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## **Summary**

Attac and the Tax Justice Network (TJN) are concerned that the Income Support Scheme will not meet the internationally recognised benchmarks for assessing relative poverty, leaving at least 25% of Jersey households socially and economically excluded from mainstream society.

We would argue that without the Employment and Social Security Departments budget increasing relevant to the needs of those who seek support, relative poverty may increase in Jersey. Especially in the light of the frozen income tax allowances of the last several years, 20% means 20% for middle earners and the introduction of the regressive Goods and Services Tax. According to the Income Support Scheme documentation, there is no other currently available revenue to extend social protection to our most vulnerable citizens, some of whom, have paid into the system all their working lives.

We note that from the policies of the United Kingdom and America, that economic growth is supposed to be the cure all, to social protection, although it seems not to hold water in the light of the Nordic model of social protection. We therefore have concerns that the Department of Employment and Social Security are looking at the social protection models of the United Kingdom and America as a means of eradicating relative poverty that may not

be achievable in reality.

We can see from the evidence provided in this report that Jersey does have a problem of relative poverty. To Attac and the TJN this is unacceptable considering Jersey's massive gross national income per capita, and especially with relevance to Luxembourg, which has a similar economic base to Jersey, but spends considerably more on social protection.

Both the evidence from Hart, the Employment and Social Security Department and our own analysis seems to indicate that there is a relative poverty problem in Jersey and that it may continue or intensify once the Income Support Scheme is implemented.

Although we support the move to centralisation of social protection, we are concerned about the processing time involved of said assessment and distribution of centralised benefits.

## **Introduction**

The evidence presented here is to evaluate whether the current Social Security benefits, the proposed Income Support Scheme and any future social welfare benefits from the Employment and Social Security Department would meet internationally recognised relative poverty benchmarks. The internationally accepted measure of relative poverty is 60% or less of household income or median income. This has been accepted by the relevant States of Jersey Departments.

This report will be using data from States of Jersey documents along with documents commissioned by the States of Jersey from external advisors and relevant academic material from several other sources.

With the move to a centralised social protection structure and the implementation of the Income Support Scheme and long-term Incapacity Benefit by the Employment and Social Security Department, Attac and The Tax Justice Network (TJN) consider that relative poverty may well be a reality for some, especially single or married pensioners, single parents and those on long-term invalidity, disability or long-term incapacity benefits.

As the Scrutiny Panels are extremely busy, we will endeavour to keep this report as short and to the point as possible. Attac and the TJN would like to take this opportunity to thank the Scrutiny Panel for allowing us to submit this report.

## Statistical overview

We would like to start by indicating some basic statistics from the States of Jersey Statistics Unit publication, Jersey in Figures 2005<sup>1</sup>.

- Jersey had a gross national income (GNI) for 2004 of £3.04 billion.
- Jersey's governmental expenditure for 2004 was £412 million.
- The Employment and Social Security Department's budget for 2004 was £80.2 million. This means that 17 pence in every pound of government expenditure goes to the Employment and Social Security Department.
- This means as a percentage of GNI Jersey spends less than 2.7% of the entire public expenditure on the Employment and Social Security Department Budget.
- Jersey's entire public spending budget is only approximately 13% of GNI.

This does not compare well with other developed western states that spend proportionately more on public expenditure. For example:

- The United Kingdom's (UK) entire public spending budget is 42.5% of their gross domestic product (GDP)<sup>2</sup>.
- The Nordic state of Sweden's entire public spending is 58.3% of their GDP<sup>2</sup>.
- The Nordic state of Denmark's entire public spending is 56.1% of their GDP<sup>2</sup>.
- Luxembourg's entire public spending is 45% of their GDP<sup>3</sup>.
- The European Union (EU) 15 countries average public spending is 47%<sup>3</sup>.
- The EU 25 countries average public spending is 48%<sup>3</sup>.

## Social Protection

Social Protection in Jersey: a Comparative Study by Stella Hart, University of Nottingham<sup>4</sup>.

This document was commissioned by the Department of Employment and Social Security.

Hart makes it clear that "*Jersey spends somewhat less on social protection as a percentage of its wealth than any other European Country*". She argues that this is due to "*the Island's*

*per capita GDP is high compared with the European average". Although she notes, "Luxembourg's per capita GDP is even higher yet it spends a significantly greater percentage of this on social protection".*

Total social protection expenditure as % of GDP (2001) of countries:

- Jersey 12.3%.
- Luxembourg 21.2%.
- Denmark 29.5%.
- Sweden 31.3%.
- Netherlands 27.6%.
- The EU 15 countries average of social protection expenditure 27.5%.

## **Family and Children**

Hart makes it clear that due to the *"slightly above average proportion of lone parent households, a group that have been highlighted by the European Union as suffering disproportionately from social exclusion."*

- Jersey's social benefits expenditure as a percentage of total expenditure on families and children is 3%
- The EU 15 average is 8%.

Social protection per capita expenditure on family/children in Jersey is only 22% of the EU 15 average.

New Labour, has argued that they have reduced child poverty by 700,000 from 3.13 million since 1999, based on the 60% median household income model, and are therefore making a big difference in child poverty<sup>5</sup>. However, Shelter, the organisation for the homeless, argue that families in temporary housing have risen by 60% to 110, 000 families since New Labour came to power<sup>6</sup>.

## **Pensions**

Hart also notes that social protection expenditure per capita in 2001 was 76% of the EU average. Hart notes that this *"is largely attributed to the high level and coverage of occupational pensions funded largely through the private sector"*. Hart goes on to add that *"Jersey is a comparatively low tax society"*, and that *"the Island provides a number of tax allowances."*

- Jersey spends 35% of its social protection on pensioners.
- The EU 15 average of social protection spent on pensioners is 41%.

## Disability

- Jersey spends 10% of its social protection on disability.
- The EU 15 average of social protection spent on disability is 11%.

## Risk of Poverty

Hart notes that *“Jersey has an at risk of poverty rate that exactly matches the EU 15 average.”* The risk of being in relative poverty in Jersey is 15%. Hart argues that this is caused by *“the high costs of property and high rents on the Island.”*

## Social Security Contributions

Hart notes importantly that *“Jersey is unusual in the high proportion raised from general government revenue with correspondingly small amounts provided through employee contributions and, especially, from employers.”*

## Income Support Scheme

States of Jersey Income Support System Lodged au Greffe 26<sup>th</sup> April 2005<sup>7</sup>.

This document and its interim reports R.C.47<sup>8</sup>, R.C.48<sup>9</sup> and R.C.49<sup>10</sup> contained much evidence and research from the Centre for Research in Social Policy (CRSP) based at Loughborough University that was commissioned by the Employment and Social Security Department. We will also cite data from the Income Support Law Drafting Brief<sup>11</sup>.

- 45% of single pensioners live in relative poverty in Jersey.
- 64% of single parents and their children live in relative poverty in Jersey.
- 25% of Jersey homes need support from the state to make ends meet.

The ESS department stated, *“income support will have to be afforded at the current benefit expenditure level.”*

- The ESS state on 2005 prices that a single person can live on £113 per week after housing costs.
- A married couple on 2005 prices can live on £188 per week after housing costs.
- A single parent on 2005 prices with two children under sixteen can live on £203 per week after housing costs.
- A couple on 2005 prices with three children, two between the age of sixteen and eighteen and one under sixteen, can live on £381 per week after housing costs.

However, CRSP have noted, on 2001 prices, in their report Budget Standards for Jersey: a

handbook (CRSP444)<sup>12</sup> that:

- A single person needs a weekly income of £182.
- A single parent with two children under sixteen needs a weekly income of £333.
- A couple with three children, two between the ages of sixteen and eighteen and one under the age of sixteen, need a weekly income of £460.

CRSP state that these *“budgets do not include amounts for housing costs for Jersey because of the difficulty of estimating the cost of housing on Jersey.”*

The ESS have noted that *“at the same time, social policies in both the U.K. and U.S. are beginning to focus on changing people’s course trajectories, by emphasising the role of education and lifelong learning and also promoting work opportunities as a means of tackling poverty.”*

The current social policies enacted by the UK and America are based on ‘work-first’ ‘welfare-second’<sup>13</sup>, in that *“people have their own autonomy and opportunity for social and economic progression”* and that *“social policy is seen as making the right to welfare contingent on paid work.”*<sup>14</sup>.

ESS make it quite clear that the Income Support Scheme is *“to cover basic living costs of that particular household.”* And no more.

ESS makes many references to The Citizens Fund, although they seem not to have factored in the cost/benefit analysis in the said document. The said fund has been quoted as covering the replacement of white goods, large medical bills, funeral expenses and mortgage interest, possibly on a loan scheme.

## **Analysis of Income and Expenditure**

The States of Jersey Budget Report 2006<sup>15</sup>, states how income and expenditure are achieved.

Income:

- 82<sup>p</sup> of every pound of income will come from Income Tax.
- 10<sup>p</sup> of every pound of income will come from Impots.
- 5<sup>p</sup> of every pound of income will come from other income, including Social Security contribution from employees and employers.
- 3<sup>p</sup> of every pound of income will come from Stamp Duty.

Expenditure:

- 17<sup>p</sup> of every pound of expenditure will go to ESS.

Attac and the TJN would argue that there is a need to increase the Social Security

contributions of employees and especially employers, as noted by ESS and CRSP above.

## The Nordic Model

Appendix 1 of this report examines the poverty profiles in Europe, utilising 60% of median income. You will note from appendix 1 that the Nordic countries of Denmark and Netherlands have a 22.6% and a 22.1% chance of people living in relative poverty respectively. Whilst in the United Kingdom (UK) the chance of people living in relative poverty is 38.6%, which is above the EU average of 33.8%. The rate of being persistently poor in Denmark is 3.5%, whilst the Netherlands is 6.4%, and the UK is 14.1%<sup>16</sup>.

Appendix 2 of this report examines expenditure on social protection. High social insurance contributions in the Nordic region seem to have *“fostered social solidarity and long-term stability in labour and industrial relations.”* It also indicates that overall far less is spent on social protection in the UK and America than the Nordic region countries, especially regarding social services as a percentage of GDP. The Nordic model indicates that reductions in social protection *“are less likely to occur under”* their governments than those of the UK and America<sup>17</sup>.

In an article in the Economist magazine on the European Social Model, they note that social mobility in the Nordic region is the best in Europe. They note that social mobility in *“Nordic countries emerge as far more mobile than America”*, and that historically those living in *“Nordic countries have almost completely snapped the link between the earnings of parents and children at and near the bottom”* of the social and economic ladder. In addition, this *“is not at all true of America.”* They argue that this is achieved through *“tough redistribution policies.”*<sup>18</sup>.

## Redistributive Taxation

A report by the New Economics Foundation argues that economic growth is not working as a means of eradicating relative poverty, who go on to argue that *“even in a relatively equal society such as the UK, the share of the poorest 10 per cent of the population in income – or pro-poor growth – is only 2.8 per cent, while that of the richest 10 per cent is 28 per cent – ten times as much.”*<sup>19</sup>.

## Recommendations

Attac and the TJN recommend that ESS seriously look at increasing social security contributions from employees and especially employers as noted by Hart, especially in the light of the fact that less than 5% of governmental income comes from said contributions. We would also like to advise ESS that if they follow the UK and American models of social protection they might well increase relative poverty and that for a country with the second highest GNI per capita in the world this would seem to be unacceptable for the twenty-first century.







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