STATES OF JERSEY

MINISTER FOR TREASURY AND RESOURCES: REQUEST TO CHIEF MINISTER TO LODGE PROPOSITION FOR DISMISSAL – PETITION

Lodged au Greffe on 1st February 2011
by Deputy G.P. Southern of St. Helier

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion –

to request the Chief Minister to bring a proposition asking the States to dismiss the Minister for Treasury and Resources.

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

This proposition is brought in response to a petition signed by many thousands of Island residents from a wide variety of backgrounds who are extremely concerned at the impact that the policies of the Minister for Treasury and Resources are having and will have on their standard of living and that of their families.

In response to the worldwide recession, the Council of Ministers has taken a number of actions and proposes more in 2012 which, in combination, in the opinion of the petitioners, unfairly penalise ordinary working people and their families, especially those on low to middle and fixed incomes. These actions include –

- Severe cuts to front-line public services, such as health, education and policing;
- Large-scale redundancies imposed on the public sector;
- The threat of a 2 year wage freeze and major reductions in employee terms and conditions;
- The proposed rise in GST to 5%;
- The refusal of the Minister for Treasury and Resources to use the Strategic Reserve to mitigate the impact of the recession.

By far the most important issue that was of concern to Islanders was the imposition of a 66% rise in GST from 3% to 5%, and what especially riled people was the Minister for Treasury and Resources' personal opposition to the introduction of any exemptions, despite the wishes of some other Ministers. A further point of contention was his decision to raise the rate at the earliest possible opportunity (following the ending of the moratorium on 31st May 2011), despite his categorical assurance that even in the event of a recession, he would oppose any rise. His opposition to any delay was widely commented upon. Many in the community regard his promises with outright cynicism.

But those responses could be dismissed as mere emotion. What about the fiscal and economic facts we are facing?

The Minister says that he wants fewer jobs in the public sector and wishes to transfer many to the private sector. In other words, he expects private demand to replace public in the cause of growth. So why then does he tax private demand? And why tax it at precisely the point where it must cost jobs in King Street and amongst its suppliers? In short, why increase GST? We have already seen some 70 public sector redundancies, and that figure, whether in redundancy or from other forms of job losses, will rise to around 400 over the next 2 years. Why then does he put countless other jobs at risk in local shops, hotels, restaurants and other businesses in the private sector by increasing the cost of doing business? His policy makes no sense.

It does not matter that our GST is at the lower end of the consumption tax spectrum; and there are those that would say that taxes on spending, in normal times, are preferable to taxes on incomes. But these are not normal times. The Island is struggling to come out of recession. So far, the Minister cannot point to any hard indicators that the recession is over and that even the first "green shoots" of recovery can be seen. At the time of writing, the unemployment figures have risen yet again. What price is there on a reduction after Christmas when the shops, the post and the fulfilment industry lay off temporary staff, and builders struggle with the weather?

What matters is the £80 million in GST being withdrawn from high street spending over the next 3 years, just when every Keynesian maxim says we should increase demand to lift employment. This is all the more important given the surge in food, fuel and commodity prices that is being seen worldwide. The £26 million a year in GST is a move in the wrong direction, at the wrong point in the growth cycle, and at the wrong place – at the tills.

The central truth of Jersey politics is unchanging. It is far easier to raise £26 million a year with what amounts to a stealth tax on poorer spenders than it is to abandon that fixed point in the Jersey firmament, bequeathed to us by the Germans, the sacrosanct 20% tax rate. The Minister for Treasury and Resources has tried hard, like his role model, David Cameron, to argue that GST is not regressive; that it does not have a disproportionate impact on the least well-off, whilst the highest earners pay proportionately less. Even his favourite fiscal experts, the Institute for Fiscal Studies (IFS), in their latest analysis of the UK VAT rise, states clearly that the increase has twice the impact on the bottom 10% than on the top. The Deloitte review, based on spending rather than income, has the poorest at 0.8% worse off and the top just over 1%, but they state that this is only because the poorest spend most on essentials, which in the UK are largely exempt or zero-rated. Jersey, thanks to the Minister for Treasury and Resources, does not even have exemptions on essentials such as food and heating.

The Minister has assured us that any public sector job losses will be taken up by the private sector and that recovery is on its way in 2011. And yet he cannot point to where these jobs will come from, nor to one solid indicator which points to the recovery. There are no real signs of recovery in the world economy either. Our closest trading country, the UK, on whom our economy is largely reliant, shows worsening business conditions in the service sector. There, the economy ended 2010 on a much weaker note and growth was expected to reduce from 0.7% to 0.4% in the last quarter. The Chief Economist of CIPS/Markit summed up the figures thus –

> "Since the summer, business confidence has slumped…. No imminent improvements in growth rates are signalled.".

The fact is that the Minister for Treasury and Resources has ploughed ahead with a plan to cut the economy by raising taxes and shedding jobs at the wrong time, while we are still in recession. Recovery is the best way to tackle the public deficit in the long term, and that means planning for a budget deficit in the short term until the recovery is firmly under way. Cuts in public spending will only have an effect on future competitiveness and will have an impact on the most vulnerable and needy in society. As argued by David Blanchflower, respected economist and former member of the Bank of England's Monetary Policy Committee –

> **'Lesson one in a deep recession is you don't cut public spending until you are into the boom phase.'**

In acting counter to this basic tenet of economic management, the Minister is gambling with the livelihoods of the Jersey population and the chances of economic recovery.

Jersey is still a wealthy jurisdiction. Average pay is among the highest in the world, while marginal personal tax rates for the highest earners are low for a country with fully developed public services. We have been for many years, and still are, a low-tax, low-spend jurisdiction. The time has surely come for the Minister for Treasury and Resources to abandon his rigid dogma that we can continue to apply the same low-tax business model to the Jersey economy. Tax increases for the better-off will not be popular but will sooner or later be necessary, and preferable to slashing those services on which the poorest and most vulnerable rely.

The time has surely come to start to address the gap between the rich and poor. The commitment to do so was reluctantly accepted by the Council of Ministers in amendments to the Strategic Plan. This must involve due consideration of truly progressive tax and social security policies as part of the Fiscal Strategy Review. However, the Minister for Treasury and Resources cynically overlooks his commitment to creating a fairer society in the Strategic Plan, in the same way as he chooses to be extremely selective when reviewing the evidence to support his policies.

The Minister has made mistake after mistake in his handling of the economy –

Mistake 1: The single largest contributor to the deficits we face is the decision to adopt the "zero/ten" company tax policy. This was a conscious decision taken by the current Chief Minister and supported by the current Minister for Treasury and Resources to give up £80 to £100 million tax revenue from companies. A 0% rate for non-finance companies effectively allows foreign companies to trade in Jersey for free. The different treatment of local and non-local companies has resulted in the current problems we have with the EU Code on Business Taxation (EUCBT). The Minister still has no solution for this. He ignores the fact that his approach has led to a loss of £10 million to £15 million in tax revenue. In addition, the 10% rate for finance companies has reduced their contibution by half. The aim was to compete with the Isle of Man and satisfy the EU CBT. The policy has been an abject failure and he and his predecessors were told this back in 2005. We threw away £100 million in tax revenue only for the EU to reject the scheme. We have to think again.

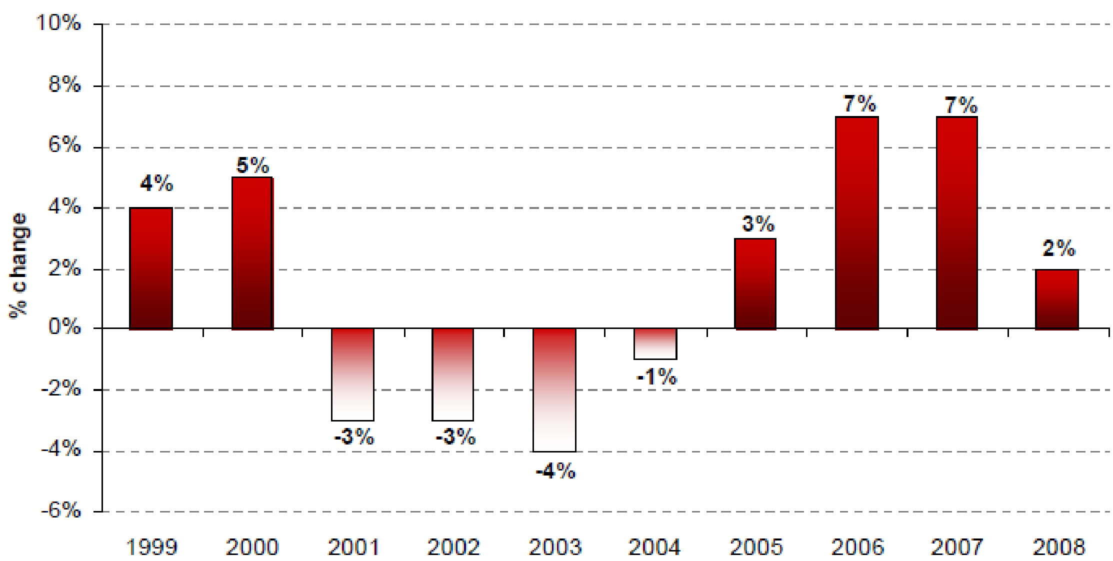
Mistake 2: The introduction of the regressive GST on all goods and services (including essentials) effectively transferred half the tax burden from companies to ordinary residents, especially the least well-off. Further tax revenues (£10 million) were to come from "20 means 20" on middle-earners; £5 million or so from ITIS and the remainder (£20 million) was to be found from growth in the economy. The Ministers gambled on the continuance of the rampant growth in the finance sector GVA (up by 20% over the years 2005 to 2008) and in profits (up by a massive 35% in those years). This proved to be an expensive gamble; it has also failed. Negative growth is now predicted at -4% in 2009 and -2% in 2010 following the world banking crisis.

Mistake 3: At the end of 2008 the States exhausted itself in a long and bitter debate over the replacement of the Energy from Waste (EFW) Plant. I do not wish to revive the debate over the pros and cons of this decision here. However, the Minister for Treasury and Resources immediately brought a new proposal before the exhausted Assembly to pay for the EFW Plant all in one go, in a single payment of £110 million, instead of over a period of years. This had the effect of emptying the Consolidated Fund at a stroke. In addition to the £150 million we have in the Stabilisation Fund to contribute to assisting with the effects of the recession, how much better it would be to also have the £110 million to help cushion the blow.

In the face of all the evidence the Minister still sticks by his policies for failure.

The Minister for Treasury and Resources repeatedly refers to the deficit as structural and not cyclical. A structural deficit is more serious and requires drastic action, according to him. The fact is that the "structural" change to our economy and tax generation was the choice to adopt zero/ten. The blame for this lies entirely in the court of Senators Ozouf and Le Sueur. The economic downturn losses below are absolutely and clearly cyclical.

Figure 1.3: Annual percentage change in Gross Value Added (real terms)

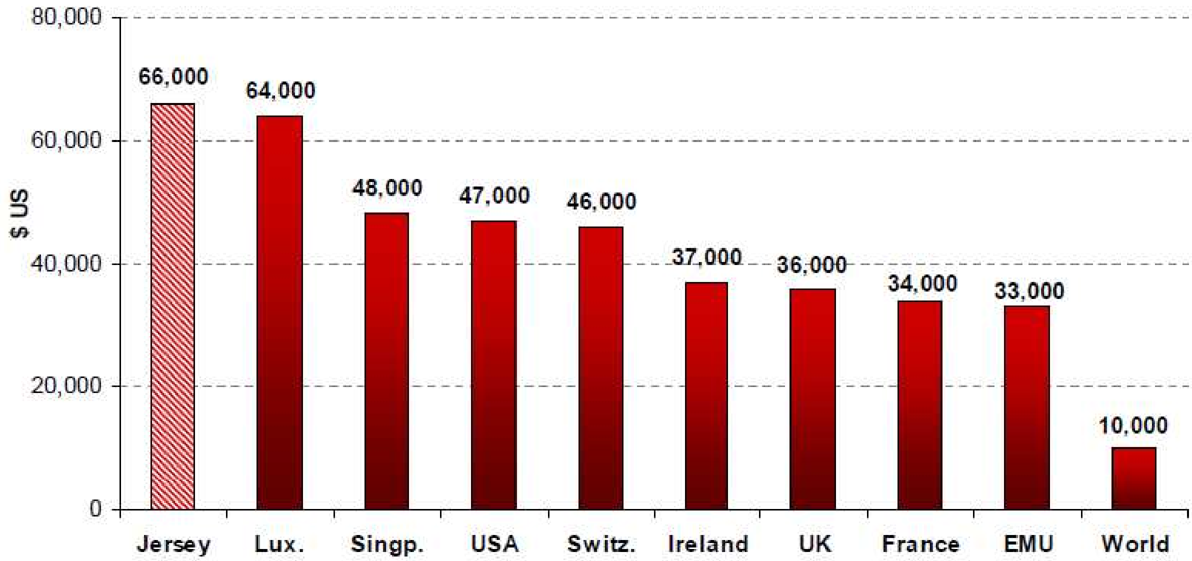


The downturn in the economy over the years 2001 to 2004 showed similar reductions in GVA to those predicted for this recession. There was no panic then to slash the public sector workforce and thereby make the downturn worse. There should not be now, despite predicted negative growth of -4% and -2% over the current 2 year period. The Minister for Treasury and Resourcess obsession to slash the public sector is driven by ideological politics and not sound economics.

How big is the problem? – 1

There is no doubt we are in a mess over the economy. The questions which need to be answered are how big is the mess and how do we set about clearing it up? Indeed, first we have to ask which mess are we talking about? Well, there is the mess made by the recession and the mess we were already in (the £90 million revenue deficit caused by the mistaken move to zero/ten) that the recession has simply brought to the surface. The first thing to do in attempting to deal with the issues is put the situation in context. We remain a wealthy juristiction as shown here (Jersey Economic Trends, 2009).

Figure 1.1: Jersey GNI per capita in 2008 (PPP $US)



Not only that, but we are undoubtedly a low-tax low-spend economy (Minister for Treasury and Resources, 19th May 2009).

Table 7 – Government expenditure as a percentage of GNI for Jersey and the OECD

	General Government Expenditure (GGE), 2005	**Education 2003**	**Public Health 2004**	**Social benefits 2005**
Jersey	*26%*	*3.3%*	*5.1%*	*6.9%*
OECD average	*44%*	*5.3%*	*6.4%*	*13%*
United Kingdom	*43%*	*5.1%*	*6.7%*	*12.8%*
Luxembourg^	*51%*	*3.8%*	*8.6%*	*17.3%*

Not only do we have a much lower spend overall than the OECD average, we have a lower “social” spend as well. I include Luxembourg in the comparison for those who wish to argue that our lower spend is a merely a product of our high GNI. If further proof were needed, we need only consider the comparison made by Peter Body in Business Brief of March 2010, entitled “Who’s better off?” summarised here –

Offshore Centre	*Net Government expenditure (inc. capex) as % GNI*	*Net Government expendititure (inc. capex) per head of population*	*Government payroll per head of population*
Isle of Man	33%	£7,700	10%
Guernsey	22%	£6,300	8.7%
Jersey	17%	£6,800	7.1%

The Business Editor of the Jersey Evening Post, an experienced observer of local economic issues, describes the initiatives of the Minister for Treasury and Resources and the Public Accounts Committee to slash 10% from public spending over 3 years or 2 years, respectively, in the following terms –

> "*I believe it is simply crazy to expect a large complex organisation like the States to be dramatically restructured over three years let alone two. The obvious danger is that services the public have said they want and value will be damaged irreparably. Now we have PAC, panicking even more (than the Treasury minister) …. Certainly if you look at government spending elsewhere as a proportion of GDP, Jersey's figure is very much lower than just about anywhere else.*".

The Minister for Treasury and Resources has opposed all measures which might mitigate the impact of his policies on the Jersey public. He has opposed –

- Any delay in implementing 5% GST
- Any exemptions on essentials
- Any use of the Strategic Fund
- Any borrowing
- Any progressive tax changes.

Public services are major employers and purchasers of goods and services. UK studies suggest that for every £1 spent on public services a further 64p is generated in the local economy. They create jobs, provide decent pay and pensions and set a benchmark in terms of equal opportunities. The imposition of a public sector pay freeze in 2009 may appear to have been a popular short-term expedient, but it has fostered a deep resentment amongst public sector employees which will have long-term negative implications.

The public sector pay target has been below inflation for the last 3 years. Further attacks on terms and conditions would not only reduce spending power in a key part of the economy, but also lead to recruitment and retention problems already evident in the nursing and social service sectors. And yet that is exactly what the Minister for Treasury and Resources proposes. He has set a target of £14 million savings from public sector pay and conditions as outlined in the "Tribal" report on the public sector.

Conveniently, this is the sum that would be saved by the imposition of a 2 year pay freeze. All other changes to conditions, such as pensions, overtime rates, etc., are subject to negotiation, but a pay freeze could be imposed. He has done it before and so may try it again. Whatever approach he adopts, we are likely to see a level of confrontation with public sector workers which is unprecedented in Jersey.

Siren calls for a deflationary package of public spending cuts in order to 'balance the books' are just 'knee-jerk' reaction and show no real understanding of the impact on front-line public services or indeed the potential to plunge the Island into a 'double dip' recession. There is strong evidence, as the Business Editor of the J.E.P. points out, that suggests the public is against such a strategy in any event. Senator Ozouf has set his mind firmly against any tax rises, and uses misleading figures to frighten the public into accepting massive cuts in public services which will harm the least well-off and put recovery at risk.

The Minister for Treasury and Resources makes much play of the prospect of GST rates up to 12% by 2014, a figure produced by the Comptroller and Auditor General in response to a request from the Corporate Services Scrutiny Panel. This figure is, however, totally without any grounding in reality. Nonetheless Senator Ozouf was content to use this specious figure to bolster his one-sided arguments for his failed Thatcherite policies.

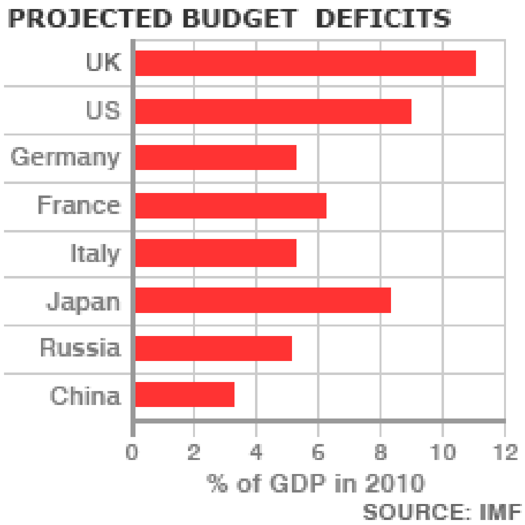
He is equally unashamed by his repeated selective use of the facts and figures. For example, he states accurately that States spending has risen by 30% over the past 5 years. He conveniently fails to put this apparently shocking fact in its proper perspective. He pointedly fails to mention the following significant changes in the economy over the same period –

Change in government spend	**GVA current year values**	**GVA real terms**	**RPI**	**Finance Sector profits**	**Income tax revenues total**	**Public Sector payroll**
30%	37%	18%	21%	30.5%	21%	+160 2.4%

Put into the context of an economy in growth mode with banking profits and overall GVA on the rise, a growth in public spending is to be expected. As John Clennett (a previous Treasurer of the States) stated in his recent contribution to the tax and spend debate: "States revenues and expenditure have been broadly in line and budgets have been balanced". Interestingly, the 21% growth in income tax revenues over the period 2003 – 2007 is made up of a 51% increase in personal tax and zero growth of company tax. In 2008, GST, most of which is paid by individuals,was added to further exacerbate this shift away from company tax on to the individual resident.

How big is the problem? – 2

We have all been immersed in tales of total doom and gloom in the UK media regarding the size of projected deficits in the UK and elsewhere. These are given for selected economies below. Note that the UK leads the way with nearly 12% of GDP in 2010. Whilst Philip Ozouf concentrates on the misleading 30% increase in spending and the spectre of 12% GST, the reality is far different. Far from being 12% or even 6% in terms of GDP our deficit, taking the latest projection of £64 million and GNI around £4,000 million, is running at 1.6% of GNI. This is hardly the stuff of catastrophe that others are undergoing, requiring massive reductions in the public sector. No wonder the Minister for Treasury and Resources alternates between describing our position as “serious” and “fantastic”.



If we are in a “fantastic” position as the Minister says, then why does he insist that draconian cuts to spending are the only way forward? He says to a sympathetic gathering of businessmen: “I am not afraid to make bold moves to cut spending and keep Jersey working.”. The problem is that his cuts may well stop the recovery and worsen the recession.

Borrowing unashamedly from David Blanchflower, I have a question for Senators Philip Ozouf, Terry Le Sueur and Alan Maclean; but most particularly directed at the Minister for Treasury and Resources: “*What plans do you have to get unemployment down any time soon*?”

If you want to transform a recession into a depression, go ahead and cut public spending. I would advise against it and so, I believe, would John Maynard Keynes. Voters want jobs, not cuts and unfair taxes. The policies of the Minister for Treasury and Resources are misdirected, ill-thought through and ill-timed. The Chief Minister and the States Assembly should have no confidence in them, and should say so now.

Financial and manpower implications

There are no direct financial or manpower consequences for the States arising from this proposition.

APPENDIX

PETITION

TO THE PRESIDENT AND MEMBERS OF THE STATES OF JERSEY

Name of person(s) or body responsible for this petition –

The Jersey Democratic Alliance

These are the reasons for this petition – (*or* The background to this petition is as follows –)

In response to the worldwide recession, the Council of Ministers has taken a number of actions and proposes more in 2012 which in combination, in the opinion of the petitioners, unfairly penalise ordinary working people and their families, especially those on low to middle and fixed incomes. These actions, include:

- Severe cuts to front-line public services, such as health, education & policing
- Mass redundancies imposed on the public sector
- The threat of a 2-year wage freeze and major reductions in employee terms & conditions
- The proposed rise in GST to 5%
- The refusal of the Treasury Minister to use the Strategic Reserve to mitigate the impact of the recession

We, the undersigned, petition the States of Jersey as follows –

To request the Chief Minister to bring a proposition asking the States to dismiss the Minister for Treasury and Resources

Full name (please print)	Full postal address	Signature

10,413 signatures