

### **5.9 Deputy G.P. Southern of the Minister for Treasury and Resources regarding the strength and depth of the recession:**

Will the Minister inform members of his latest assessment of the strength and depth of the recession and the risks of “double-dip” in particular?

#### **Senator P.F.C. Ozouf (The Minister for Treasury and Resources):**

As I have said in my previous answer, the F.P.P. (Fiscal Policy Panel) in their last report of December 2009 expected G.V.A. to fall by 5 per cent in 2009 and 2 per cent in 2010. Although they pointed out that there would be few downside risks in 2010. My assessment of the economic situation ties in with the views of our independent experts. The results, as I said in the previous answer, of the Business Tendency Survey continue to show that business activity fell in the last part of last year and there were tough trading conditions for organisations in Jersey. Jobs continued to be cut. The labour market has weakened and unemployment in terms of actively seeking work numbers is now at 1,320 in February and vacancies are at a 10-year low. With the developments at the global level there has been some encouraging news that the recovery in larger economies and in financial markets is underway but fragile. The central projections of most forecasters are not for a double-dip and I do not think the recovery at a global level will not continue but it will be weak and it will be retracted. In Jersey I would not completely rule out a double-dip. I am becoming more confident that it is an unlikely scenario, particularly if one is to be avoided at the global level. There are more positive signs from the financial services sector, as set out in the Business Tendency Survey, and there is good news in terms of more stimulus for the economy for the duration of this year.

#### **5.9.1 Deputy G.P. Southern:**

The Minister described himself as not quite as keen in another question, is he aware of the statement by David Blanchflower - former member of the Bank of England's Monetary Policy Committee - that lesson one in a deep recession is you do not cut public spending until you are into the boom phase. What evidence does the Minister have that we are in the boom phase, so that he can consider 2 per cent cuts to public spending in 2010?

#### **Senator P.F.C. Ozouf:**

First of all, if I may say, I am grateful that the Deputy has now circulated his note that he apparently sent through the media about the comments of the economy. I think it is important that we do debate economic matters in this Assembly. I would say to him that it would be unwise, I think, for anybody to take the comments of one economist out of context and one single economist in terms of the economic outlook. Economists around the world are divided it seems in terms of their observations about how governments should be responding to the downturn. I would also say that I will be responding to his note which contained a number of factual errors in relation to his observations of the economy. I would say to him that it is not in 2010, as he said in his answer, that we are cutting spending, it is in 2011 when we expect the recovery to be underway.

#### **5.9.2 Deputy G.P. Southern:**

The Minister manages to put a lot of words into his answers but does not address the question. What evidence - evidence - does he have that by 2011 we should be in recovery and not risking double-dip recession because of his moves to cut public spending?

**Senator P.F.C. Ozouf:**

First of all I do not expect that a 2 per cent cut in the efficiency of the public sector is likely to have a corresponding effect in relation to the economy. Secondly, I am optimistic that the economy will return to growth in 2011. If nothing else that is as a result of the likely return of a rise in interest rates which has a very magnifying effect on the Jersey economy. Some people are asking why the Jersey economy from a statistics point of view is falling and has fallen more sharply than, for example, Guernsey. That is simply as a result of the scale of the financial services activity that we have in Jersey. When interest rates rise we will see our economy growing and I am confident that will happen in 2011.

**5.9.3 Deputy M.R. Higgins:**

Could the Minister clarify the role of the Fiscal Policy Panel. He gives great credence to the view of the fall in G.V.A. but is it not true that they are relying for quantitative data from the economics unit and only take qualitative soundings during their infrequent visits to the Island? Therefore any view they have regarding G.V.A. is coming from the same section that provides the Minister his information, is it not totally independent in that sense?

**Senator P.F.C. Ozouf:**

I hope very much that the Deputy is not attempting to cast aspersions on the Fiscal Policy Panel and the Members. I am grateful for that, I assume he is not. The Fiscal Policy Panel is made up of eminent economists who have been appointed, among other things, to the Monetary Policy Committee at the Bank of England. These are eminent economists with a track record across Europe and they are not going to be told by anybody of how to interpret data. They have encouraged the Statistics Unit to create the Business Tendency Survey as I understand it in order that there be a better dataset in order for them to take a range of indicators in terms of what their views of the economy are.

**5.9.4 Deputy S. Pitman:**

I believe that one of the aims of Deputy Southern's challenge to the Minister in holding a public debate on this subject was so that the Minister could submit himself to questions from members of the public. Does he not see that as a vital role of his Ministerial position?

**Senator P.F.C. Ozouf:**

I absolutely agree with that and I am very much aware that there is going to have to be an extensive public engagement and public debate in terms of how we deal with the Comprehensive Spending Review and the Fiscal Strategy Review. Deputy Southern in his note circulated says that I was ruling out tax increases. I need to say, and I have some bad news for the Deputy, I am not ruling out tax increases, that is why we are running the twin strategy of the Comprehensive Spending Review and the Fiscal Strategy Review, and there will be a paper published in May on options for tax rises. It will be for this Assembly to decide what the balance is between spending cuts and tax rises. We are going through the research phase of exactly identifying what the options are, we will have a debate in this Assembly in 3 or 4 weeks' time on the balance and no doubt there will be extensive public discussions about how we deal with the challenges ahead.

**5.9.5 Deputy S. Pitman:**

Does he not consider that views and questions from the public to the Minister are very important and will he reconsider his decision in submitting himself to the public in a public debate with Deputy Southern, because I believe that the debate will be going ahead but if the Minister is not there there will be an empty seat in his place.

**Senator P.F.C. Ozouf:**

I am not sure whether or not this is a J.D.A. (Jersey Democratic Alliance) event. I need to say to the Deputy that I do submit myself for public scrutiny and examination in relation to my policies, I am on talkback on Radio Jersey this Sunday. I am going to be explaining some issues concerning the comprehensive spending review, *et cetera*. But what I would say to the Deputy is this, she and her colleagues in the J.D.A. I think believe that it is not possible to make meaningful savings and efficiencies in the public sector. What I think they are trying to do is they are trying to stop any even discussion and options about reform and change and modernisation of the public sector before it happens. **[Interruption]**

**Deputy G.P. Southern:**

Sir, this is outrageous.

**The Bailiff:**

One moment, Deputy.

**Senator P.F.C. Ozouf:**

So therefore I am quite happy. We will have a debate first in this Assembly of the broad principles, some Members are not happy with the extent of the cuts that I am proposing. Some Members want me to go further. We will have a debate in this Assembly first, we will get the data and it will be for this Assembly to decide what the balance between cuts and taxes are.

**Deputy S. Pitman:**

Deputy Wimberley will be attending that public debate so it is not just a J.D.A. thing.

**The Bailiff:**

Deputy, please. Deputy Tadier and then a final question from Deputy Southern.

**5.9.6 Deputy M. Tadier:**

I am very interested to hear the Minister's comments on waste and I would like to ask if he has seen David Mitchell when he talks about waste, it is very incisive. But that is not the question I am going to ask. I am sure he and the public can google that if they want to. The question I would ask is that I am sure the Minister will agree that one of the main reasons for the sub-prime and the whole recession that we have been through is that people have been borrowing and also banks have been lending money that they could not pay back. We know that the Minister preaches zealously that we should be living within our means as a States Assembly, what steps will he be taking to encourage locals to live within their means and not spending money that they cannot afford to spend, and how will he level that if it means that we are going to have to back-pedal it on consumerism in the Island?

[11:00]

**Senator P.F.C. Ozouf:**

I am not sure that I can solve or attempt to solve all of the ills of the consumer society or whatever. I have got to deal with the issues of public finances and to balance the books. Jersey will exit the global recession in a far better position than most other places and the Deputy is quite right to say that the States is not beleaguered with debt and will not have the hangover of large deficits going forward. We will be able to share the proceeds of the growth, which will come, by investing in public services in the future. We do have to make some short term decisions though within the next 2-3 years and we need to close that deficit so that we do not bequeath to our successor States Assemblies debt that needs to be repaid. That is what I am trying to do. We have a £50 million recurring problem, let us work together in order to try and find solutions to that, both on the spending side and, I have to say to Deputy Southern, there will need to be some consideration of tax rises too.

**The Bailiff:**

Deputy Southern, final question.

**5.9.7 Deputy G.P. Southern:**

I am glad to hear the Minister will publish his proposals or suggestions for alternative tax treatment. Will he also agree alongside that to paint an outline of the full picture of the potential 10 per cent cuts over a 3-year period so that everyone can see what the whole package might contain, and not just the initial bit, the 2 per cent? Also will he agree once this information is made public to debate the issues in the whole before a wider audience than this body or the I.O.D. (Institute of Directors)?

**Senator P.F.C. Ozouf:**

The decisions in relation to spending constraints will be in 2 parts. Firstly the 2 per cent proposed in the business plan this year and then the 3 and 5 per cent proposals in the budget debate later on this year. I would have thought that every member of this Assembly would agree that there is scope in all departments in order to deal with a constraint in terms of inefficiency. Two per cent is not a large figure. It is a small figure compared to most households, most governments, most businesses. This is normal operational matters. We need to assist our Civil Service, we need to assist the public sector to make those, I think, easy decisions, or relatively easy decisions. The 3 and the 5 per cent, the Deputy is quite right, is going to be much more difficult and we are going to have to have a much more engaging debate about how we deal with that. It is going to require change. I certainly do not want to be part of death by 1,000 cuts at public sector. This is a chance to modernise, reform, allocate resources where they are needed.

**5.9.8 Deputy G.P. Southern:**

Will the Minister answer the question? When will he publish the potential 5 and 10 per cent figures so that we can see the debate in the whole? Because there is no point in doing 2 per cent not knowing where you are going.

**Senator P.F.C. Ozouf:**

The difficulty I have is that the Deputy ... we deal in a very transparent way in Jersey in relation to politics. People know what is being asked of them. The details of the 3 and the 5 per cent will not be available and not be published, because they are not completed, until September at the very earliest. The 2 per cent is now being reviewed by departments. What the Deputy is trying to do is he is trying say: "I know that the 3 and 5 and 2 is not possible and therefore do not even start working on it." We are

working on the proposals; they will be available and engaged in public debate in September onwards.