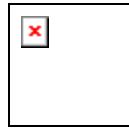


STATES MEMBERS INCOME SUPPORT AND EXPENSE ALLOWANCE: INCREASE FOR 2000

**Lodged au Greffe on 16th May 2000
by the Finance and Economics Committee**



STATES OF JERSEY

STATES GREFFE

180

2000

P.75

Price code: A

PROPOSITION

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

- (a) to agree to suspend Standing Order No. 44(1);
- (b) to agree that for paragraph 3 of the Act dated 14th July 1998 (R & 0 9275) as amended by an Act dated 8th December 1998 (R & 0 9340), with regard to the provision of an expense allowance and a minimum income for elected members of the States there should be substituted the following paragraph -

“3. The amounts of income support, allowable income and expenses allowance shall be increased with effect from 1st January 2000 by 2.5 per cent.”

FINANCE AND ECONOMICS COMMITTEE

Report

In response to the increase in the Jersey Retail Price Index in December 1999, the Presidents of the Policy and Resources, Finance and Economics and Industries Committees established a Task Force to address the Island's inflation rate. This Task Force commissioned a report on inflation in Jersey to assess whether there was a problem with inflation, and what should be done about it.

The main findings of the report are -

- It is probable that, unless action is taken, Jersey's inflation rate will continue to rise and there will be an increasing differential with the United Kingdom.
- This situation is not sustainable, as inflation is both socially divisive, increasing the gap between the "haves" and the "have nots" in our community, and economically destructive, as it erodes Jersey's competitiveness and will eventually undermine all its industries.
- There is no single cause of inflation in the Island as there are a number of contributory factors. Accordingly there is no single solution to the problem.
- Inflationary pressures have been building for some time and equally it will take time, once tough policy decisions are taken, for them to subside.

Nearly all developed countries have adopted price stability as a key policy objective, and governments and central banks are willing to take firm action to keep inflation within stated targets, usually in the range of 2-2.5 per cent.

The Finance and Economics Committee intends to bring a comprehensive package of anti-inflation measures to the States before the summer recess, and will request the States to agree an inflation target for Jersey, which will probably be 2.5 per cent.

One of the features of inflation is that it is primarily a monetary illusion: with five per cent more income, but a five per cent rise in prices you are no better off. The retail price index, however, tends to become the starting point for all increases in pay and prices in the economy. The automatic index-linking of States members' income support and expenses will tend to exacerbate this problem. If States members are entitled to index-linked pay rises, then this will set the benchmark for everyone else in the community.

To break the upward spiral of inflationary expectations, someone needs to take a lead. Setting the increase in members' income support and expense allowances below the current rate of inflation shows that the States are willing to lead by example. The 2.5 per cent increase backdated to 1st January 2000 has been proposed by the Finance and Economics Committee because it believes that the increase in members' pay should be no more than the sustainable level of inflation for the Island. This proposal will not in itself impact directly on the Retail Price Index. Nor will it save a substantial amount of money. It will, however, send a strong signal to the public, the private sector and trade unions that index-linked pay and price increases are in no-one's interests and that the States are serious about tackling inflation.