Attac

Association for the Taxation of Financial Transactions for the benefit of Citizens.

&

tax justice network

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Submit a Scrutiny proposal on

Government Bonds

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The people of Jersey are continually told by our Ministerial Government that we have one of the finest offshore finance centres in the world. However, Jersey will shortly be implementing a regressive Goods and Service Tax as part of its fiscal policy to counteract the move to zero-ten corporate tax, along with frozen or reduced budgets for some critical States of Jersey Departments.

Attac and the Tax Justice Network believe that Jersey needs another source of public revenue to finance essential capital projects, and this could be in the form of government issued bonds. The logic is obvious. It makes no sense to defer capital expenditure from which the benefit will arise over many years because the entire cost has to be expensed in the year that it is incurred. The world of commerce, has of course, recognized this reality since the beginning of accruals accounting.

These bonds should be attractive. They may well attract interest from our local high value residents along with our local stock market. They could be marketed through the international connections that our finance industry has. In addition, with all our local contacts the Jersey Government should be able to Issue bonds as surety for capital loans from commercial banks to fund capital expenditure projects[1]. Obvious uses for bond finance would be to fund development at the airport, refinancing the post office and regenerating social housing, all of which, most importantly, generate income streams to cover the future cost of servicing the debt obligation.

If Jersey were to utilize government bonds as a source of funding for capital projects, we would start from the advantageous point of not having a government deficit. Unlike most countries that issue bonds. And therefore would qualify for a triple AAA bond rating[2].

For local savers these bonds could be made attractive by ensuring that interest on the bonds is paid twice a year[3] and is tax free for bond investments of less than £20,000 at redemption value. A local market in bonds could be created. They would be an ideal form of pension saving for many people, and for funds themselves, including those run by the States of Jersey.

Bond issues can be for a fixed period of 5 – 10 – 15 – 20 – 30 -- 40 or 50 years. The advantage of the long-term bonds to a government is that they can stabilize the average maturity of the public debt, and are less expensive to administrate than short-term bonds. The bond market has generally risen steadily over the last thirty-five years[4].

Bonds can be sold by a government at auction[5], which is deemed the most efficient cost effective way of issuing bonds. Group bidders may be limited to between £250,000 and £500,000 per auction. Larger amounts of bonds will usually be sold for short-term bonds and smaller amounts of bonds for long-term bonds[6]. Individuals could be encouraged to make direct applications.

Footnotes:

[1] Murphy, R. J. (2005) *Paying for Local Investment: New Finance Mechanisms for Local Government,* The Policy Exchange In association with New Economics Foundation.

[2] Dickenson, J. F., Farrington, C.H. and Litvack, D.T. (1999) *Public Finance: State Revolving Funds Bonds Provide Safe Habor*, Fitch IBCA, International Rating Agency.

[3]TreasuryDirect,www.treasurydirect.gov/indiv/research/indepth/tbonds/res_tbond.htm. accessed 01.08.2006.

[4] Bond Chart, (1999) Copyright – Professional Investments Tools Ltd, Authorised by the

Financial Securities Authority.

[5/6] Debt Management Office (2004) *A guide to the roles of the DMO and Primary Dealers in the UK Government bond market,* An Executive Agency of HM Treasury.