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Attac

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

&

tax justice network

Statement to the Corporate Services Scrutiny Panel
on
The need for Government Bonds.

15th February 2007

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Overview

Attac and the Tax Justice Network (TJN) in Jersey believe that the Jersey government's social and economic policies are interlinked, and therefore must be understood as such. We explain here the social and economic policy landscape and the need for a second revenue stream.

We consider that this statement should be read in conjunction with our Scrutiny proposal of 15 December 2006 on Government Bonds.

We ask this basic question in defense of our Scrutiny proposition of 15 December 2006: How do you raise capital for creation, expansion or modernization if you are a private company?

Taxation

Our concerns are that Jersey's current and up-coming economic policies are unsustainable which may well lead to economic instability in the short and long-term, we cite our evidence for this below.

The move to 0% corporate tax, the implementation of the Goods and Services Tax (GST) at 3%, 20% personal income tax, 20% means 20% personal income tax for middle earners, the £34,000 cap on social security contributions and the combined employer--employee social security contributions set at 12.5% means that by international standards, Jersey has very low taxes.[1]

In researching developed and developing countries with similar tax models to Jersey's, we could only find one other that was similar to Jersey, that being Guernsey, who we believe is at a similar risk to Jersey of their fiscal policies being unsustainable. Other countries had at least one of its direct, but usually indirect tax tariffs set significantly higher than that of Jersey.

For example, the eight countries we researched had personal income tax levels set between 9% and 24%, corporation tax set between 0% and 24%, value added tax set between 5% and 20% (with an average of approximately 14%) and combined employer—employee social security contributions of between 20% and 48%.[2]

As you can see, the emphasis is on indirect taxation to meet public revenue requirements. We argue that by 2015 GST will be approximately 12.5% in Jersey. Our evidence for this is that the current global trend being driven by the big 4 accountancy-audit firms (KPMG, Ernst & Young, PricewaterhouseCoopers and Deloitte Touch), is for reductions in direct taxation. Especially as corporate tax is to be replaced by value added or goods and services tax, at a significant rate to meet the lost public revenue from cutting direct taxes.

For example, KPMG in a recent report, *Corporate Tax Rate Survey,*[3] state that:

> *"from our past 14 years' tracking experience it appears to be economically and socially desirable for countries to strive for lower corporate taxes."*

In addition, PriceWaterhouseCoopers in a recent report, *Paying Taxes The global picture,*[4] state that:

> *"Tax Authorities worldwide are gradually migrating from direct taxation to the less visible indirect taxation"*

They go on to say that:

> *"Evidence suggests that simpler tax systems promote economic growth and can help achieve a win:win for governments and industry."*

Indeed, they go on to state that:

> *"VAT/GST: The win:win taxation systems of the future?"*

We find this last statement concerning, as a basic understanding of economic policy indicates that there is no such thing as a win:win policy; there are always winners and losers.

We also note that the mantra of, low taxes creates economic growth meaning that increased prosperity for those at the top pulls those at the bottom up unfounded. Evidence from a New Economics Foundation report, *Growth isn't Working,*[5] state that:

> *"Even in a relatively equal society such as the UK, the share of the poorest 10% of the population in income – or pro-poor growth – is only 2.8%, while that of the richest 10% is 28% -- ten times as much."*

Social Security

With the implementation of the Income Support Scheme due in mid 2007, and the minimum wage debate in April, where said wage may be increased to £5.40 per hour, and that the Social Security department only has a budget of slightly less than 2.7% of Jersey's gross national income[6] per annum. Moreover, Social Security's social protection policies look coercive, in that they may well force formerly economically inactive people into insecure, low-paid, part-time jobs, which may well not exist in reality, which could lead to a life in poverty. We therefore, believe that the Social Security Department is a department trying to cut expenditure.

Social Housing

Government issued bonds as surety at commercial banks for loans to fund capital projects could be used to buy land and build much needed public social housing. We believe that the Housing Department has mis-understood the genuine need for an expansion of State supplied social housing. The Social Housing Property Plan notes that 22% of States housing tenants pay the full un-abated rent,[7] and households with incomes in excess of £40,000 per annum should be seeking to become owner-occupiers. We argue that it would be very difficult for households with an income of £40,000 or less per annum to become owner-occupiers. Even with the promised 25% discount for the shared equity scheme, especially as only 30% of households in Jersey have a household income in excess of £34,000 per annum.[8] Again, we see the Housing Department as a department trying to cut expenditure.

Shared equity first time buyers

Government issued bonds as surety at commercial banks for loans to fund capital projects could be used to buy land and build shared-equity, first-time buyer homes, especially as Senator Le Main notes:

> *"That only 59% of households in Jersey are owner occupied which is low compared to Guernsey and the United Kingdom."*[9]

However, we believe that this should be achieved as a separate capital project from the proposed sale of 800 social housing units to first time buyers.

Utilities

Government issued bonds as surety at commercial banks for loans to fund capital projects could be used to modernize, expand or re-nationalize public utilities. For example, Senator Le Sueur has indicated that he wishes to sell Jersey Telecoms (JEP 16.12.06) to the private sector. However, we would argue that he take heed of advice from Professor Massimo Florio, from Milan University. Whose research is in the privatization of public utilities'.[10] Recently he gave a lecture in Jersey, where he indicated that the privatization of British Telecom and Telecom Italia, had not been as successful as first thought by the respective governments, and argued that in the case of British Telecom in private hands:

> *"There is no gain in productivity or efficiency, and there is negative impact for taxpayers, low income groups and pensioners, but advantages for shareholders."*

In the case of Telecom Italia, Professor Florio noted that:

> *"Its value and investment were on the increase, and debt was decreasing, but after privatization debt had risen, sales and investment had fallen. The Treasury and customers are net losers, and a small group of investors made substantial capital gains."*

The Economist notes that Telecom Italia:

> *"was going to split off Telecom Italia's mobile-phone arm. This was widely seen as a prelude to the sale of the mobile business to reduce the company's huge debts."* [11]

The Advantages of Bonds

We believe that the public sector can take the same advantage as private business in raising funds for capital projects. Any public utility or department with capital returns could benefit from commercial bank loans using long-term government issued bonds as surety. This means that the revenue generated by capital projects as income can cover repayment of loans from banks. In addition, governments always have a lower cost of borrowing from banks than the private sector. Another advantage to this type of policy would be that public revenue normally used for utilities and departments like housing could be diverted to departments, such as education, that do not have income streams.

In Summary

We would argue that due to Jersey's geographical size it would seem perfect for the use of government issued bonds as surety at commercial banks to fund public capital projects. For example, the New Economics Foundation notes that:

> *"Local spending provides local benefit. If capital funding is needed to secure that benefit, then it makes sense to seek to raise at least some of that funding in the area that will benefit from the spending."* [12]

We hope that the evidence we have given in this statement has demonstrated that there is a real need for a second revenue stream. Bond finance could have been used to modernize our social housing stock, keep utilities in public control, and finance capital projects at the airport, and post office for example. Therefore, public revenue normally used to fund or part fund some States Departments could be used to expand Social Securities budget, and remove thousands of people from income poverty, material deprivation and social exclusion.

The answer to the question we set in our overview is clearly: loans from commercial banks. We therefore recommend that the States of Jersey take the opportunity to use government issued bonds to raise funds for capital projects from commercial banks.

Endnotes

1 Fiscal Strategy, States of Jersey, Lodged au Greffe on 8th March 2005 by the Finance and Economics Committee.

2 Murphy, R. J. (2006) *A flat tax for the UK? The implications of simplification,* an Association of Certified Charted Accountants discussion paper.

3 KPMG (2006) *KPMG's Corporate Tax Rate Survey,* a KPMG publication.

4 PriceWaterhouseCoopers (2006) *Paying Taxes The Global Picture,* a PriceWaterhouseCoopers publication in association with the World Bank.

5 Woodward, D. and Simms, A. (2006) The New Economics Foundation, *Growth isn't Working: The unbalanced distribution of benefits and costs from economic growth,* A New Economics Foundation publication.

6 Jersey in Figures (2005) a States of Jersey Statistics Unit publication.

7 Jersey Evening Post, 16th January 2007.

8 Jersey Household Expenditure Survey (2004/05) a States of Jersey Statistics Unit publication.

9 Jersey Evening Post, 5th February 2007.

10 Florio, M. (2006) *Efficiency and Welfare Effects of the Divestiture of British Telecom and Telecom Italia.* A lecture given to the Scrutiny Panels and interested parties, 12th December 2006.

11 The Economist Magazine, 10th February 2007.

12 Murphy, R. J. (2005) *Paying for Investment: New Finance Mechanisms for Local Government,* a New Economics Foundation publication on conjunction with the Policy Exchange.