

**WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES BY DEPUTY G.P.
SOUTHERN OF ST. HELIER**

ANSWER TO BE TABLED ON TUESDAY 1st JULY 2008

Question

Following his written answer of 3rd June 2008, would the Minister state whether wage rates in the Island are driven by competition from the finance sector and will he explain to members the distinction he draws between productivity-based wage rises and other forms of wage increases in terms of their impact on inflation?

Answer

As Stated in the answer of 3rd June 2008 there are many factors that combine to impact on the demand and supply for labour and therefore wage rates in the Island. There is not one factor alone that determines wage rates and to suggest there is risks over simplification.

As the Council of Ministers Anti-inflation Strategy makes clear, inflationary pressure results from the overall level of demand in the economy exceeding its supply capability. Wage increases that are backed by productivity improvements have positive impacts on both demand and supply in the economy and are therefore less likely to result in a build up of inflationary pressure. In contrast, wage increases that are not accompanied by productivity improvements have a negative impact on supply and add to demand, adding to inflationary pressure in the economy.