

2.11 Deputy G.P. Southern of the Minister for Treasury and Resources regarding the range of fiscal measures under consideration should the recession in the U.K. impact upon Jersey:

Will the Minister advise what fiscal measures, if any, he has under consideration should the recession in the U.K. impact upon Jersey and, if none, on what measures will he rely to support the economy; and does he expect any reduction in the U.K. inflation rates to be fully reflected in prices in Jersey and, if not, what measures will he employ to reduce local pricing?

Senator T.A. Le Sueur (The Minister for Treasury and Resources):

It is still unclear as to the extent our economy will be impacted by the events in the United Kingdom and global economies but if the economy should slow down significantly we have built-up a significant stabilisation fund by being prudent in the good times that we will use to cushion the effect of any downturn and invest as necessary. In accordance with the recently published advice of the Fiscal Policy Panel, the Treasury will as a matter of urgency develop contingency plans to be put into effect to support the economy in the event of a downturn. I have an open mind about what such measures should be but they do have to meet 3 criteria. Those criteria are that they should be timely. In other words, they should have an immediate impact. They should be targeted to provide the maximum financial and fiscal stimulus. Thirdly, they should be temporary so as not to permanently destabilise or undermine States finances. In response to the second part of the question about inflation, some of the factors that are likely to lead to a significant fall in inflation in the U.K. namely lower food and fuel prices and a slow down in global and U.K. economic growth should also help reduce inflation in Jersey. In addition the cuts in interest rates in the United Kingdom should also help reduce the R.P.I. (Retail Price Index) and, in June 2009, G.S.T. which is adding nearly 2 per cent to inflation in Jersey will fall out of the R.P.I. The most effective mechanisms to ensure the price reductions are passed on are from the policies we have been pursuing to increase competition on the Island and to use the Jersey Competition Regulator Authority to prevent abuse of monopoly power. Consumers can also help themselves by shopping around assisted by an effective Consumer Council which provides them with good information on where to buy most cheaply and effectively.

2.11.1 Deputy G.P. Southern:

Yes, there is a number of supplementaries in there, a number of shoulds that were bandied about. Firstly, though, in terms of that direct question and his answer previously to a written question submitted by me, he said: "Under such circumstances the consensus is that fiscal policy should be used to support monetary easing in the light of the absence of impact of the reduction of interest rates in the U.K." What fiscal measures, if any, does he have under consideration to boost the economy should we go into recession?

Senator T.A. Le Sueur:

Firstly, of course, in response to that, interest rates in the U.K. have come down and they appear likely to be continuing to go down in the near future. So that is the first stimulus which I think will apply in any event. Secondly, the Deputy seems to be implying that we are already in a recessionary situation: we are not. We need to be prepared for when that should happen. In terms of what fiscal measures we might introduce, which is where I think he is really interested, I am simply saying that there are a variety of those which could be on income tax, it could be on stamp duty or it could be on any range of matters provided they comply with the criteria I set out; of being timely, in other words they can have an immediate effect; and they should be temporary, in other words they should not have a permanent undermining of States finances. Thirdly, of course, they should be targeted to the right people. In the event of a recession it is the people on the lowest incomes who are likely to be suffering the greatest and any measures we take should be targeted towards those people. That is why I just suggest that it may be that rather than fiscal measures of taxation which do not affect those on the lowest income, there may be some other form of help to

be given and that is why I am not ruling out a much wider remit in the fiscal measures the Deputy refers to.

2.11.2 Deputy R.G. Le Hérissier:

What is the Minister's assessment if there were to be a slow down, a major slow down in the housing market, how does he feel in terms of fiscal policy? Does he feel he would have to introduce measures or that in the long term this could be pain for longer term gain? What is his view of that situation?

Senator T.A. Le Sueur:

My view of the situation is that it is clear that the movement in the housing market has dropped significantly in recent months due to a variety of factors. That is due to mortgage availability, interest rates, the economic climate and the desire of people in an uncertain economic climate to invest in those houses. If a stimulus is needed to the housing market it can be done in relatively short order through variations on stamp duty but that does not really stimulate the market if there was an inherent reluctance to purchase. I think it is really making sure that the economy is in a sound state to encourage people to give confidence to buy and maybe also for house prices to maybe reduce to a more realistic level that would encourage the continuing development of the housing market. Short term stimuli do not necessarily work if the underlying basic requirements and conditions are still not there.

2.11.3 Deputy G.P. Southern:

The Minister refers to competition policy being able to reduce inflationary trends. Does he recognise that in 6 of the 7 most recent quarters inflation has been higher in Jersey than in the U.K. thus pointing to the absence of the effectiveness of competition policy in delivering lower inflation?

Senator T.A. Le Sueur:

The Deputy is quite correct that for the last 2 quarters the R.P.I. in Jersey has been higher than the U.K. due to the effects of G.S.T. Other than that, over the past 3 years, in, I think it is 10 out of the last 12 quarters, the Jersey R.P.I. on a like-for-like basis has been lower in comparison than that in the U.K. I am very proud of that because I think it does show that our anti-inflation strategy is having an effect. Clearly that impact of the G.S.T. element will have a short-term impact, as the Deputy I am sure is well aware, which will fall out after 4 quarters.

2.11.4 Deputy G.P. Southern:

I must be more careful when looking at red lines as to which one is which. I accept his answer on that particular point. However, the Minister did mention that in June 2009 the impact of G.S.T. will fall out of the inflation figures. Is it not the case, however, that the wage negotiations will be based, as always, on the March 2009 figure and G.S.T. will still be in there?

Senator T.A. Le Sueur:

The Deputy is quite correct the G.S.T. will still be in the March 2009 index and that index will have some impact certainly on the wage negotiations to be held. I believe that wage negotiations should cover much wider policy issues than simply that of R.P.I. and also need to take into account the economic realities of the situation in terms of the marketplace and affordability.

The Bailiff:

Final supplementary, please.

2.11.5 Deputy G.P. Southern:

Will the Minister take on board the possibility of an absolute figure for wage rises, based on whatever percentage calculation he wishes, in order to satisfy the increasing needs of the low paid

in Jersey over the growing gap between the rich and the poor? Will he consider this as a possibility for 2009?

Senator T.A. Le Sueur:

The Deputy knows I am well prepared to consider all sorts of possibilities but I do remind him, and remind the House that the States agreed in the last Business Plan a sum of money for wage settlements for the coming year. If that sum of money is going to be increased it will not be my policy, it will be for this new House to determine the level of that additional funding required, if any. I just point out that while I have an open mind it will also be up to States Members to consider the affordability of any such increases.

Deputy G.P. Southern:

Sir, if I may, a point of correction. The question said, whatever level is set for that percentage increase, it was about the distribution of the award rather than the total sum. Could he address that?

Senator T.A. Le Sueur:

I think that is going to be an integral part of wage negotiations and there will be some give and take on both sides. At the present time, sir, I have no indication to suggest that wage increases which reflect the work being done should have any direct relationship to the States additional income support. If people are in need of additional support because of particular requirements that could be done through the income support system rather than through a wage system which only might affect those in certain sectors of employment.

The Bailiff:

An extra question by the Connétable of Grouville.

The Connétable of Grouville:

Sir, due to circumstances beyond my control the wording of my question should be slightly changed, and that is that the court case referred to is not current, but has been, was. Is that permissible?

The Bailiff:

Amend it, as long as you are not taking the Chief Minister by surprise, amend it as you see fit, Connétable.