

### **3.9 Deputy G.P. Southern of the Minister for Treasury and Resources regarding the dependency of the Medium Term Financial Plan on economic growth predictions:**

Will the Minister describe for Members the extent to which the Medium-Term Financial Plan (M.T.F.P.) is dependent on his predictions for economic growth over the period concerned and what plans, if any, he has in place should these growth figures not be achieved?

#### **The Deputy Bailiff:**

Minister, you may feel that you have already answered the first part of the question, so maybe you should concentrate on the second.

#### **Senator P.F.C. Ozouf:**

I was going to answer the question in French, just as you did not call me for the last question, but I will not, Sir. We have covered this, as you say. The point that I wanted to make - which is an additional point - is that income tax forecasts are not particularly sensitive to changes in economic growth or its components.

[11:00]

For example, in the M.T.F.P. we include some sensitivity analysis that shows for every 1 per cent change in average earnings or employment, income tax revenues are estimated to fall by between £2 and £3 million. The M.T.F.P. is a medium-term document and we do not believe that as a general principle, on that the basis that we do not take short-term decisions in Jersey, we take long-term decisions. We also do not think that it should be necessarily reassessed on the basis of every single latest headline from principally the U.K. on economic performance. Particularly as the important investments, which I know the Deputy himself would probably be - and I hope - agreeing with and the important investments in our infrastructure are required, quite frankly, however the economy performs in the short term this year and next year. However, if the growth figures are not achieved, our first response will be to allow the fiscal policy to adjust through automatic stabilisers. That means that where less tax is taken because of lower earnings or fall in corporate profits and the elements that our increased spending in terms of more people on income support because of unemployment. Those are the automatic stabilisers that we allow to work. We have time to assess the impact on our economy principally as we have previously discussed because of the lags in our system that we collect tax mostly on a prior year basis. So I will take the F.P.P.'s advice on whether the balance between tax and spending does need to be reviewed. If the facts change, I change my mind, as most reasonable people do, and depending on the F.P.P. advice, there are a number of options which we already have got advance planning from, which is provide further fiscal stimulus, targeted economic growth, helping the Minister for Economic Development even more boldly than the Economic Growth Plan which he brought to the Assembly a number of months ago, and of course we also could introduce budget measures that would be directly targeted on a timely basis and not reoccurring to stimulate the economy, and of course we could use contingencies.

#### **3.9.1 Deputy G.P. Southern:**

I think that answer said that we will maintain the spending priorities contained in the Strategic Plan. Well, the question is, is that the case, and if so, is the Minister prepared even to borrow to maintain that spending or spend some of the strategic reserve to tide us over this particular period?

#### **Senator P.F.C. Ozouf:**

I am unusually perhaps more aligned with Deputy Southern on this than he may believe. I think that if the economic situation was to deteriorate, and I am not suggesting that it will, then I think the policy response might well be for more short-term spending. We would spend more on fiscal stimulus. That might mean that we may need to trim - which is going to upset the Deputy -

spending more severely in the longer term, but certainly those policy options are available to us. The United Kingdom and other heavily indebted countries cannot do that. As far as borrowing is concerned, I have always said that I am never against borrowing for infrastructure and investment, and indeed, the discussions that we are having with the Housing Department on the new plan for housing may mean that it is perfectly sensible to borrow in order to put more money in housing, and I am going to answer another question on that shortly. Also, we are looking at the funding options available for the building of the new hospital. That is going to be a very substantial bill and it may well mean that that is an option, to look at borrowing. I can say that the Treasury is now taking advice in relation to the options. I want Members to have all the options available to them. I maintain the view that the strategic reserve should be there as an emergency and should remain intact. If we can borrow because of our economic strength to invest in infrastructure, invest in housing, then that something I am going to actively consider.

### **3.9.2 Senator L.J. Farnham:**

At a recent presentation of the Medium-Term Financial Plan, I was struck, looking at a graph of income expenditure, where I noticed that without exception, expenditure had grown with income almost pound for pound, especially over the last 8 to 10 years, where income had increased significantly, yet when income sharply in 2010, expenditure did not fall with it. Why is that?

### **Senator P.F.C. Ozouf:**

The whole debate, I want to really try and raise the level of debate and the quality of debate we have on public spending. We are putting a plan to increase public spending to increase services. If we want a better health service, we are going to have to spend some upfront investment going forward. That is what I believe that our community wants to do. That comes at a cost. We are going to have to find the resources. I have always believed that the resources should come from getting economic growth and I am confident that we are going to get economic growth. There are some positive rays of sunshine in some aspects of the financial services industry; our endeavours in the Gulf and in China are working. They are bringing business to Jersey. We have got a really important debate with Economic Development next week about the digital economy, harnessing the opportunity for high-tech I.T. (Information Technology) businesses for Jersey. We must not sit on our laurels. We must act, we must go out and promote Jersey and get that economic growth. We are a small, nimble Island, and we can do that. But let us raise the level of debate about spending. Spending on capital is good in some areas. Spending on increased services is also good for our community. Making efficiencies is also one of the things that we have to do in tandem.

### **3.9.3 Deputy G.P. Southern:**

Fine. Well, that was very quick, Sir, but nonetheless, I take on...

### **The Deputy Bailiff:**

Seven minutes on average.

### **Deputy G.P. Southern:**

To take you on to a different tack, the figures suggest that 2.5 per cent growth - real growth - so that is 2.5 per cent over inflation, is achievable. The last time we achieved those sorts of figures in 2006, 2007 we saw an additional something like 6,000 immigrants into the Island. In the balance between population and economic growth, where does the Minister for Treasury place his priorities? Are we going to have population growth along with economic growth?

### **Senator P.F.C. Ozouf:**

The Treasury is not a decision-maker in relation to the population numbers. I believe that the Statistics Unit are going to be publishing on Monday their latest overall estimate of the population model, which I think is going to help all of us in terms of our decision making.

Certainly it is a factor that there has been a highest level of people working, notwithstanding high unemployment. Indeed, we got to the highest level of people in employment that we had ever had, and that is one of the factors that is the reason why our income tax forecasts have remained so buoyant and things have happened. We cannot dissolve the debate, they are one and the same, but I believe the Treasury is working within the agreed policies of the net amount of increased migration that we have. If we are going to develop things like the digital economy, we have to be open to at least allowing some I.T. experts to come to Jersey in order to start catalysing this industry. Our prior economic performance has been based on indigenous Jersey people matching skills from elsewhere and growing the economy and that is why we are in a very strong position. We need to learn the lessons from the past and do it again and I believe there are exciting opportunities in the digital economy.