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Jersey's micro-miracle

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IN May 1945 Jersey, the largest of the Channel Islands, and its sister islands, were liberated after five years of German occupation. As the first delirious joy evaporated, there came the realization of the many serious problems to be faced, especially in the economy. Of the two principal contributors to it, one, agriculture, had been devoted exclusively to trying to feed the population, with no opportunity to earn external revenue by exporting its produce. The other, tourism, had been in almost total abeyance, with many hotels taken over and badly damaged by the occupiers. The magnificent coastline had been defaced by the building of a system of concrete fortifications and a number of capital projects needed urgent implementation if the island was once more to became self-supporting. To assist with reconstruction, in March 1946 the British government gave Jersey £4,200,000 as an outright gift.

Rarely can the British taxpayers' money have been spent to better effect. Today, thirty-seven years on, this six-mile by twelve-mile island of 76,000 souls presents an image of confident prosperity, in dramatic contrast to many depressed economies in Europe.[1]

The capital, St Helier, bustles with activity and purpose. Outside the Jersey Aero Club, private aircraft are drawn up in rank upon rank as if for an international rally. Nor is this prosperity limited to a wealthy few, as is sometimes implied. The islanders as a whole enjoy an enviably high standard of living. Eighty-four per cent of households have telephones, compared with just over 50 per cent in mainland Britain, while an astonishing 55 per cent of the population own cars, compared with approximately 27·2 per cent.[2]

The gross national product (gnp) has risen at a comfortable 3·5 per cent per annum over the past ten years (the British figure for the same period is 1·2 per cent) and, had no brake been put on its momentum, would have risen still higher. There is more business eager to come to the island than it can accommodate. As Senator Ralph Vibert, President of the Finance and Economic Committee, comments, 'There's no other place in the world . . . with a law intended to damp down business activity.'[3]

[1] Although the economies of all four of the major Channel Islands—Jersey, Guernsey, Alderney and Sark—are in many respects similar, being based on financial activity (taking advantage of their low taxation), tourism, agriculture and fishing, Jersey has been chosen for this study as the biggest and most populous.

[2] British figures by courtesy of British Telecom, the Automobile Association and the Confederation of British Industry. Jersey statistics throughout from the Office of the States' Economic Adviser, the Committee of Tourism, the Department of Agriculture and Fisheries and from personal interviews.

[3] Interview with the author.

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Even at the current rate of expansion, unemployment figures are among the lowest in Europe, with a mid-winter maximum of no more than 2 per cent (UK figure: 13·3 per cent), while in summer as many as eight to ten thousand people are brought in to work in agriculture or the tourist industry. In those cases where the world recession has led to lay-offs in local industries, most of the redundant have been quickly reabsorbed. In the autumn of 1983, after an American electronics company and a bank both drastically reduced their labour forces, the press was able to report that work had been found for most of those made unemployed.[4] The island has a number of ambitious projects in hand, including the extensive redevelopment of the General Hospital and, in a place where land is at a premium, a reclamation scheme, part of which, to the east of St Helier Harbour, is almost complete providing an extra harbour for oil-tankers, a storage area for tanks themselves, a jetty and a yacht basin.

The reason why

How has this small economic miracle been achieved? Britons unfamiliar with Jersey and its people reply that it is due to its position as an 'offshore tax haven' and that it is able to maintain this because it is spared a heavy call on its revenue for defence.

Islanders regard such criticism as over-simplified and ill-informed, failing to give due weight to the island's other advantages or to the skill, flexibility and dynamism with which, all through its history, its affairs have been managed, fresh opportunities being sought whenever one line of activity seemed about to become exhausted. Tilted towards the sun and protected by the surrounding Bay of St Malo, Jersey is warmed by the Gulf Stream and possesses a soil of exceptional fertility. Corn, sheep and knitted goods—hence the word 'jersey' to describe knitted fabric—as well as its famous breed of cattle, have successively formed the basis of a thriving agriculture. Later the island farmer exploited its mild winters and protracted summers with sunshine averages among the highest in the British Isles to get his produce to market between two and three weeks earlier than his mainland counterparts. Now these climatic advantages benefit a hugely successful tourist industry which each year sees some seventeen visitors to the island for every man, woman and child of its local population.

There is, of course, no disguising the fact of low taxes. Income tax was raised to 20p in the pound in 1945, an increase regarded by most Jerseymen, accustomed to paying 2p in the pound and before 1928 no income tax at all, as extortionate. It has not been raised since. Other taxes include a corporation tax of £300 a year imposed on companies registered in Jersey but controlled outside it, a property tax assessed as half the rental value of the premises and a so-called Occupier's Rate, the rough equivalent of local authority rates, but between a third and half those paid by most British householders. Duties are levied on alcohol, petrol and tobacco goods, though these are low. A bottle of whisky costs about £3·90 of which £1·66 is duty (against £4·25 duty in the UK); a gallon of petrol costing about £1·25 bears a tax of 16p (74·1p in the

[4] See *The Jersey Evening Post*, 4 October 1983.

UK), while cigarettes cost about half as much as in Britain. There are no death or estate duties.

Although taxes represent only about 18 per cent of gnp against 39·5 per cent in Great Britain, the sums spent on housing, education and health are proportionate. Jersey's surprisingly comprehensive welfare system is based on the British model and the health service provides assistance with doctors' and drugs' bills. Hospital treatment is free. Pensions and the equivalent of supplementary benefit are 10 to 15 per cent higher and tax allowances more generous. A single person does not start paying tax until his or her income reaches £3,250 a year (in the UK he or she would be paying about £505), while for a married couple with two children the tax threshold is £6,500.

The value of its low-tax regime to the island economy is admitted to be considerable, though Colin Powell, the Jersey government's economic adviser, points out that the financial sector, whose growth is directly attributable to it, still represents only about half the gnp, the rest being made up by tourism, agriculture and light industry. In any case, Jerseymen argue, they did not deliberately make their island a tax-haven. Their present rights are the reward for centuries of loyalty to the Crown, the only link with Britain, recognized by Royal Charters and ratified by Parliaments. Only fourteen miles from the nearest point on the French coast, the islanders defended themselves with such fierce tenacity during five centuries of war with France that even Napoleon baulked at the idea of attempting to invade them.

These rights include that of self-government through an elected fifty-three-man legislative assembly, the Jersey States, a privilege jealously guarded by the islanders who have opposed Britain whenever they felt it threatened. This happened as recently as in the 1960s when Britain was negotiating for membership of the European Community and proposed to include the Channel Islands (under Article 227(4) of the Treaty of Rome, major countries are regarded as responsible for all offshore territories). The island governments quickly made clear they were unwilling to tolerate this and actually succeeded in persuading the EC that they were a special case.

Far from seeking to seduce the hard-pressed British taxpayers, Jersey has, on occasion, passed laws to keep their money out. This happened in the early 1960s when a loophole in British tax law made it possible to invest in the island for mortgage purposes as a way of avoiding death duty. The resulting flow of millions of pounds into local coffers was dammed by Senator Cyril Le Marquand, Senator Vibert's predecessor as Finance President and one of the architects of Jersey's present prosperity and stability.

In any case, of total deposits of some £15 billion held by the international banks and investment institutions of St Helier, about £12 bn is in foreign currencies, though much of it is destined for investment in Britain, thus benefiting its economy. If Jersey did not offer its facilities so near the City of London, others would certainly fill the gap. Against this background, the islanders see nothing wrong in enjoying the fruits of their own thrift, hard work and prudence. It is the last, more than anything else, which has kept taxes down. While it is acknowledged by local economists that the island is fortunate in not having to contribute to defence (it does not, because in conditions of modern war—as was shown in 1940—it is indefensible), even if it did so on a scale equivalent to Britain, taxes would still not reach the UK level.

The major cost of the British Exchequer comes from servicing the public debt and this Jersey has stubbornly avoided incurring. Borrowing for capital expenditure has rarely been resorted to except when the anticipated profits of the completed project were likely to be sufficient to repay capital and interest. In other cases, capitalization has come from income. This policy, scrupulously maintained by Senator Cyril Le Marquand, has at times led to the postponement of cherished plans, but has, nevertheless, saved the island interest charges which would now amount to something like £10 million a year, equal to the sum taken in duties on petrol and liquor.

Some problems

Glib criticism of the island is also resented because it ignores the severe constraints which make management of its economy an obstacle course of great intricacy. With the exception of some locally grown foodstuffs, virtually everything has to be imported; and though there is no Value Added Tax—the Channel Islands are linked with the European Community only as associate members—transport can add at least 15 per cent to costs. At the same time, the size of population limits the retail market, making it impossible for shopkeepers to place the large orders which would entitle then to substantial discounts.

Even low taxes generate problems. An increase in the standard rate could discourage financial activity, as well as leading to an exodus of those wealthy settlers whose influx has helped to raise taxable investment income from £21 m. in 1970 to £121 m. in 1980. There is only slightly more room for manoeuvre with indirect taxes: cheap drinks, petrol and cigarettes are one of the lures to holiday-makers.

On the other hand, each sector has to be controlled. The unchecked growth of finance, of the number of immigrants—no matter how wealthy—or even of tourism would put pressure on the local pool of labour which it could only meet by importation. This, in turn, would make demands on resources of housing, building land and utility services, as well as on the construction industry. Equally important, there is the need to avoid damage to the landscape by the proliferation of housing estates.

Population has risen steeply. From 50,000 in the second decade of this century, it is now up to its present 76,000, much of the increase being due to immigration, especially in the 1970s. To keep it down to a planned 80,000 by the year 2000, some of the strictest immigration laws in the world have been introduced. Even before renting accommodation, the permission of the States' Housing Department must be sought and is granted only if the applicant can prove he is taking up essential work which cannot be done by a native. Consent to purchase is given on two grounds: essential employment, in which case the local employer must buy the property and it must cost not less than £60,000; or because the applicant is regarded as being of 'economic or social benefit'. Those in the latter category are expected to acquire a property costing £200,000 and so beyond the pocket of local buyers. In addition, they should have an income in excess of £50,000 a year, bringing about £10,000 to the local treasury.

But control must not stifle or there will be insufficient growth. Accordingly, some fifteen new settlers are allowed in each year under the economic and social benefit rule and, despite restraints on businesses, several new ones are registered each year, including, recently, an American company.

No less stringent rules are placed on tourism. Anxious to prevent what has happened in parts of Spain and Portugal being repeated on their own shores, the States have decided that there should be no increase in the island's 25,000 hotel and guest-house beds. Tourism has had to look in other directions for increased revenue, extending the season and attracting more conferences. It has been successful in both. After a peak year in 1979 with 1,427,000 arrivals, there was a worrying drop to 1,198,000 in 1981, but a recovery of about 5 per cent in the following year, while 1983 figures are estimated to be near the 1980 total of 1,340,000. Tourism has maintained its position as a major contributor to island income at something like £150 m. a year, more than making good a deficit in visible trade of about £140 m.

Of the two smallest sectors of the economy—light industry and agriculture—the first represents about 5 per cent of gnp and employs between 700 and 800 people. Recession has brought a reduction in exports which were estimated for 1981 at about £26 m. Although there is no price support, the government makes available £25,000 for assistance in overseas promotions of local products.

The island's traditional industry—agriculture—has been in decline for decades and from around 50 per cent in the 1930s is now down to 7 per cent of gnp (the UK figure is 2·2 per cent).[5] None the less, the survival of agriculture is vital for three reasons. First, because agricultural produce is a visible export, valued in 1982 at nearly £22 m. and, second, because it provides the picturesque landscape of open fields, lanes, granite farm-houses and grazing cattle which are a tourist attraction.

The third reason for keeping the agricultural sector alive is the Jerseyman's characteristic anxiety to distribute his economic eggs among as many baskets as possible. This has also led to the revival of another declining activity, fishing. The fleet of some sixty vessels includes twelve of between 30 and 40 gross registered tons. Their catch is largely crab and lobster. Another product of the sea for which Jersey was once famous has been revived with the re-laying of oyster beds which have already yielded harvests of high quality.

Instead of price support mechanisms, the government assists the farmer in a number of other ways, such as through grants to encourage co-operative marketing and a substantial publicity budget to help popularize island produce, the total annual sum being about £1 m. There has also been encourage-

[5] Figure by courtesy of National Farmers' Union.

ment to widen the types of crop grown beyond the established potatoes and tomatoes; the Jersey Royal potato retains its premier position in the British market, but cauliflower, courgettes, calabrese and parsley as well as a wide range of flowers are now exported.

The forms in which the less financially valuable components of the economy are supported demonstrate the skill of its managers in applying relatively small sums at the point where they will have most effect. It also demonstrates the determination to maintain balance.

For all this, the Economic Adviser's Report to the States warns of several incipient threats, among them the decline in profitability in most spheres and the drop in interest rates. The high rates of recent years have naturally helped to increase tax-yields from the investments which are such a significant factor in island income. Hence, he warns of the need for severe expenditure restraint if tax increases are to be avoided.

Like all communities the island has its problems, though they are, perhaps, more social than economic. For example, there is a shortage of housing, making prices so high that many young people have to save for years before they can buy a house of their own. Increasing population has put pressure on services like gas, electricity and water and to meet demand for the last, the Jersey New Waterworks Company proposes flooding an unspoilt valley in the east of the island, a plan which has aroused much hostility. The growth of bureaurcracy, too, is something which the highly individualistic Jerseyman resents and there is also the feeling that the importance given to finance is breeding an uncharacteristic materialism of outlook.

However, in assessing the island's low-tax regime, one final observation needs to be made. Not only has low tax contributed to enabling an area with one of the highest population densities in Europe (1,694 persons per square mile) to provide full employment and high living standards for its people, it has also prevented it from becoming what it might easily have become—a depressed region and a burden to others.

The exact opposite is the case. Each year, the island provides proportionally large sums in overseas aid. In 1982, these amounted to £360,000 spent on various, carefully monitored schemes. Among beneficiaries have been India, Swaziland, Zaire, Kenya, South Korea, Ethiopia and Bangladesh. Under a scheme inaugurated by a member of the Jersey States, thirty local volunteers, including craftsmen, carry out single projects in specified countries. In 1982, the island gave £5 m. to the Falklands' Fund.

Obviously, it would be absurd to try to extrapolate from small economies like those of Jersey and the other islands to larger ones, if only because size produces its own problems. Yet there are lessons to be drawn. If a willingness to adapt quickly to changing world conditions, a reluctance to resort to borrowing unless a clear prospect of return exists and a recognition of the value of outside investment are signs of economic good sense, then Jersey—and in their own, individual ways the other islands—are models worthy of attention.

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