Jersey Policy Forum

THE CAUSES OF JERSEY'S ECONOMIC PROSPERITY

Mark Boleat

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EXECUTIVE SUMMARY:

Economic prosperity depends on a complex mixture of natural resources, accessibility, external security, internal security and the rule of law, the quality of the workforce, political leadership and good governance, and regulatory and fiscal regimes. In small communities physical isolation and the cost of maintaining a political system can be constraint on economic prosperity.

By any standards Jersey is a wealthy community. Disposable income per capita for Jersey is more than a sixth greater than that of the UK and two fifths greater than the average across all OECD countries. Jersey's prosperity can be partly attributed to its natural features, it being the equivalent of a "fortress town" for much of the second millennium, and its semi-detached status, able to set its own tax rates and regulatory policies. It has used these advantages well, predominantly through having good and wise government over many years, which has meant that the Island has been a safe and attractive place to do business. Jersey has skillfully managed the delicate relationship it must inevitably have with the United Kingdom, and has avoided making the sorts of mistakes that could easily have done significant damage to Jersey's economy and to the prosperity of its people.

Seven of the 21 wealthiest territories in the world are either British Overseas Territories or British Crown Dependencies (Jersey, Guernsey, Bermuda, the Isle of Man, the Cayman Islands, the Falkland Islands and Gibraltar). With the exception of the oil producing state of Brunei, Luxembourg and Liechtenstein there are no independent states with populations of under one million that are prosperous.

The policy conclusions that follow are that Jersey should –

- Maintain and enhance its "semi-detached" status with the UK. This includes maintaining strong links with politicians and officials in London, being sensitive to British and international political issues and demonstrating Jersey's value to the UK. An excellent example of the latter is the report prepared for Jersey Finance by Capital Economics, which concluded that Jersey could be supporting in the order of 180,000 British jobs.
- Understand the value of strong two-way migration and pursue a population policy that is evidence driven.
- Ensure that there is a political system in place that understands the causes of Jersey's prosperity, and provides the leadership necessary to maintain the Island's status as a world- class, well-run international financial centre.
- Maintain Jersey's accessibility through policies to ensure that as far as possible a good network of air links is maintained and that there is a reliable ferry service. This requires transport policy to be viewed as a strategic issue for Jersey rather than simply as a commercial or licensing matter. And as electronic communication become ever more important Jersey needs to have world-class electronic communications, internally and with the rest of the world.

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THE AUTHOR

Mark Boleat is Chairman of the Policy and Resources Committee of the City of London Corporation, a position he has held since May 2012. In this capacity Mark is Deputy Chairman of TheCityUK, the promotional body for the UK financial services industry, and the International Regulatory Strategy Group, a Vice Chairman of London Councils, and a member of the boards of Central London Forward, a grouping of eight inner London Authorities, and London and Partners, the promotional body for London. He is also a board member of the Centre for London, a think tank, and Chairman of the Housing and Finance Institute.

He is Chairman of the Channel Islands Competition and Regulatory Authorities and a former Chairman of the Jersey Development Company. He is the author of *Jersey's Population – A History*, and has written reports for the States on housing, consumer policy and population policy in Jersey.

Among the previous positions he has held are Director General of the Building Societies Association (1986-93), the Council of Mortgage Lenders (1989-93) and the Association of British Insurers (1993-99). He has also been a non-executive director of a number of commercial companies and a board member of regulatory and other public bodies. From 1999 to 2012 he ran his own consulting business, Boleat Consulting, specialising in regulation, public policy and housing finance.

THE JERSEY POLICY FORUM

The Jersey Policy Forum is a not-for-profit organisation whose purpose is to: "To promote education for the benefit of all the people of Jersey on social, economic, environmental, public policy and public administration issues in the context of Jersey's status as a microstate".

The Forum is governed by a Committee comprising representatives of business, the third sector, education and public administration and includes people with significant experience in conducting and managing research.

The Forum works in the following areas: macro-economics, government, international relations, social policy, environmental policy and culture and heritage.

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Introduction

Jersey is by any standards a prosperous community – among the wealthiest states in the world. Its defining features are that it is a small, beautiful island and a British territory that is geographically part of France.

Why has Jersey, in contrast to most island communities, been able to develop and maintain a successful economy? The answer partly lies in the points made in the previous paragraph, together with two key additional points –

- For much of the second millennium Britain and France were either in a state of war or in a state of tension, and Jersey enjoyed the benefit of being the equivalent of a "fortress town".
- Jersey has successfully used its tax and political status to develop highly successful tourist and financial services industries.

A final, related, factor is that the natural large-scale emigration that any small island community faces has been effectively counterbalanced by large-scale immigration, largely to service the successful agricultural, tourism and financial services industries.

This paper analyses these points and brings together the available data.

The determinants of economic prosperity

Economic prosperity depends on a complex mixture of naturally occurring factors, external economic and political developments, political decisions and pure chance. The weighting of these factors can change significantly over time, both among states and for particular states.

Natural resources

The further back one goes in history the more correlation can be found between the wealth of a community and the natural resources of that community. Those resources include the quality of soil, the terrain and the weather. Where these are favourable, crops can be grown and harvested more easily than where they are not. Proximity to the sea is an added natural resource because of the ability to harvest fish.

Strongly connected with natural resources is location, particularly in respect of rivers and the sea. Rivers often contribute to fertile soil and provide an easy means of transport, and similarly proximity to the sea facilitates transport links.

Natural terrain, in particular the sea, rivers and mountains, provide an element of security, which in earlier times was of critical importance. Fertile soil in an agreeable climate protected by the sea or rivers, and to a lesser extent mountains, could almost be guaranteed to provide a basis for economic prosperity for much of history, provided that the natural resources were not eroded by poor husbandry.

Accessibility

Accessibility and natural resources are connected but have become increasingly less connected over time. From the earliest times river valleys have provided key transport routes, and as maritime trade developed so natural harbours and areas where man-made harbours could be easily constructed became equally important.

More recently, man-made facilities have played a major role in increasing accessibility and therefore economic prosperity. The construction of bridges, railways, roads and airports is often the key to economic growth, and for this reason there is much pressure from communities of all sizes for improved transport links. There are many communities within national boundaries that have owed their prosperity to the railways, the road network or airports, and there are some nation states where that has also been a factor. More recently good electronic connectivity has been added to the important accessibility factors. And, as good husbandry is important for natural resources, so resilience is important for communication links.

External Security

The point has already been made that to some extent external security depends on natural factors such as rivers and the sea. Territories that can easily be invaded do not provide a good basis for investment and that investment which does occur can quickly be destroyed. More recently, this point has in some cases worked in the opposite direction with some key locations being subject to foreign interference receiving massive investment precisely to counter that interference. As will be discussed subsequently, Jersey has been in this category, as at various times have West Berlin, Hong Kong, Taiwan, Gibraltar and the Falkland Islands.

Internal security and the rule of law

Territories may be free from an external security threat, but may be unstable for internal reasons, particularly where there are deep-seated conflicts between different communities. Ireland is a good example of this, the centuries of troubles having led to large-scale emigration of some of the brightest and best people. Today, Somalia is in a similar position, internal conflict having led thousands of Somalis to seek refuge abroad and rendering much of the country unsafe in which to do business.

Related to this point, economic growth needs a stable and predictable legal system and the rule of law. Individuals will not invest in their own housing if they fear that their investment may be expropriated by the state or by other individuals. People will not invest in businesses if corruption is so endemic that they are unable satisfactorily to make a profit, and businesses will be deterred from entering into contractual arrangements if the courts cannot be relied on to enforce contracts fairly. This factor has become increasingly important as the world has become more globalised, businesses being able to shift their activities in response to changed circumstances. The poverty of much of Africa and the Caribbean can be partly attributed to the absence of a sound legal framework and endemic corruption.

Workforce

Any community seeking to attract business invariably boasts of its skilled and flexible workforce. Going back in history the natural characteristics of the native population were obviously an important factor. For reasons that are well beyond the scope of this paper some communities seem to have a higher proportion of entrepreneurial and hard-working people than others, and clearly those communities that have had a population with those characteristics have done better than others.

But for the last few hundred years this issue has been closely tied in with immigration. If a community does not have the workforce that is needed to service the industries that develop in that community then the simple solution is to import labour, a tactic used by Jersey and by other communities with great success over a long period of time. Originally, the availability of immigrant labour was largely a physical issue, that is the extent to which people could easily move from one nation state to another, although the slave trade indicates that if the economic rewards are sufficiently high then even a huge physical barrier of the Atlantic can be overcome. More recently, political attitudes to immigration have become more important. Some communities have grown rich very quickly on the back of immigration, Dubai being a good example. Even in the City of London today the British Government's attempts to restrict net immigration are being held to be detrimental to the ability of the City to maintain its pre-eminent position as the world's leading financial centre.

The quality of education also comes under this heading. Immigrant labour can fill many gaps, but a key factor in determining economic success of any community is the quality of education at both school and tertiary level. Good quality education goes hand in hand with a strong work ethic. If people believe that a good education is essential in order to make progress there will be every incentive to provide and take advantage of it. Conversely, if people believe that education does not matter greatly and that someone else will provide for them then there will be a poorly educated local labour force, which in the long term will impact on economic development, even if its effects in the short term can be masked by the use of immigrant labour.

A related factor of the health of the population, which increasingly depends on health care, both in preventing ill-health and effectively dealing with it.

Political leadership and good governance

Increasingly, economic success depends not on natural resources or even factors such as the quality of education but rather on political leadership. Obviously, this is connected with other factors. For example, political leadership can play a key part in ensuring that there is an educated workforce, that there is the rule of law and that the necessary infrastructure has been built. But often leadership requires very tough decisions, particularly in respect of long-standing industries or methods of doing work. Political leadership has to promote the right sort of change at the right pace. Much of this is hard work that has to be done internally, but can also include encouraging external investment, now a critical role for political leaders in many territories, not just smaller ones.

Political leadership is also essential to give the political stability mentioned as a separate point. While some countries, such as Switzerland, have been able to achieve political stability with seemingly little political leadership, more generally the two go hand in hand. Confidence in the political leadership is a key factor in determining willingness to invest in a community.

Just taking the right decisions is not sufficient. The governance and administrative systems must be able to implement political decisions. This requires a strong public administration, capable of working to the highest private sector standards of efficiency.

Regulatory and fiscal regimes

As economic prosperity has grown over time so the importance of financial services has increased and those communities able to develop large and successful finance industries have been able to become very prosperous as a result. Only territories with an element of regulatory and fiscal autonomy are able to develop tax policies that can play a part in economic prosperity. So, for example, the Isle of Wight has no ability to have tax rates or financial regulation that are different from those in the rest of the UK and therefore it has no finance industry. The same applies to islands off the west coast of France, an integral part of the French state, to Tasmania, an integral part of Australia, and to the other Channel Islands (eight islands, covering 900 square kilometres, which are an integral part of California). Territories that are completely independent may be able to develop a fiscal and regulatory regime sufficient to encourage a finance industry, but arguably those best placed are dependencies of major states which can benefit from being part of those states for some purposes while having the autonomy to set tax rates and regulatory systems.

However, this factors needs to be qualified in the light of intensive international efforts to co-ordinate regulatory regimes and limit the scope for avoiding national taxes. Territories seeking to be finance centres now have to demonstrate that they comply with the highest international standards including the exchange of information for tax purposes, anti-money laundering mechanisms and regulatory systems.

Special factors in small communities

In addition to the factors listed in the previous section, there are a number of special factors that influence the wealth of small communities. Physical isolation tends to act as a drag on wealth. This is partly because of poor communication links together with the inability to take advantage of economies of scale, particularly in respect of the supply of services. Island communities are, by definition, isolated in terms of communication links, if not proximity, well exemplified by the relative poverty of the Isle of Wight compared with Portsmouth, just a few miles away. Gross value added (GVA) per capita in the Isle of Wight is 60% of that in Portsmouth (ONS, 2014). Similarly, the area with the lowest GVA in the UK is Anglesey, where the figure is 64% of that in neighbouring Gwynedd.

Maintaining a political system is costly for a small community that is also a state. There are huge economies of scale in the machinery of government, and the cost per head of providing public services and of running an entire government machinery are much higher in smaller communities than in larger ones. This factor has led to local authorities in England increasingly sharing services or outsourcing them to specialist providers as a means of keeping down costs. There can also be leadership problems, with an inability to attract a sufficient number of people of the right quality to hold the major political positions.

As a very broad generalisation, small communities, including islands, suffer from depopulation, as young people in particular find greater job opportunities and a more attractive lifestyle in larger communities. This means that depopulation is generally also accompanied by an ageing population and by a population that is comparatively poorer than surrounding areas.

How wealthy is Jersey?

By any standards Jersey is a wealthy community. On a purchasing power parity basis income per head is about 55% higher in Jersey than in either the UK or in France, and internationally Jersey comes eighth in the league table (CIA, 2015). However, average income per head figures may not be a fair reflection of the prosperity of the people generally. A small number of very rich people combined with a large number of relatively poor people could mean a high average figure. Because Jersey is attractive to wealthy people the distribution of both income and wealth is inevitably more uneven in the UK.

The most detailed attempt to do a comparative analysis is Jersey's Better Life Index 2013 (States of Jersey Statistics Unit, 2014). This used methodology developed by the OECD to compare material living conditions and quality of life in Jersey with comparable data for the OECD countries (broadly speaking the world's richest countries). There is room to debate whether the methodology is appropriate for Jersey. This is beyond the scope of this paper, but the analysis is the best that is available.

The principal conclusion on income is –

> "The resulting estimate of household net adjustable disposable income per capita for Jersey is $31,500 (in 2009 US dollars PPPs). The estimate for Jersey is more than a sixth greater than that of the UK ($26,550) and two fifths greater than the average across all OECD countries ($22,390). Only two countries (the USA and Luxembourg) had figures higher than Jersey."

Income inequality in Jersey was higher than the OECD average but comparable with that in the UK. The proportion of the population defined as having a relatively low income (below 60% of median equivalised net disposable income) was 12%, substantially below the OECD average of 18%, which was also the UK figure.

Jersey also scored highly on people's perception of their overall life satisfaction. Out of a total of 10 the mean score in Jersey was 7.5 compared with the OECD average of 6 and a UK figure of 6.8; only Norway and Denmark had higher figures.

The foundations of the wealth of Jersey

Using the analysis in the previous sections, it is possible to examine why Jersey has been able to develop and maintain a successful economy. As with so many other issues, it is the combination of factors that is important.

Natural features

Jersey has many physical attractions that facilitate economic prosperity. It has a favourable climate compared with neighbouring territories, a fertile soil, terrain that lends itself to farming, an ideal location between France and Britain and scenery, in particular beaches, which make it attractive as a tourist resort and as a place in which to live. Jersey has also taken care to ensure that these natural features have been preserved.

Accessibility

Islands always have an accessibility issue in that air and ferry links are needed and the smaller the community the more difficult it is for these to be viable. Jersey has been relatively fortunate in this respect. It is well situated between Jersey and France and notwithstanding a huge difference between high and low tides has had the necessary harbour facilities, aided my military expenditure in the 19th Century. It also had the foresight (or luck?) to provide an airport with a runway adequate to handle large planes.

The substantial tourist industry in the second half of the 20th century helped to develop air and sea links, which in turn have benefitted other sectors of the economy.

The fortress town

Jersey became unambiguously tied to England rather than France in 1204. For most of the next 650 years, Britain and France were either at war or in a state of tension that could escalate into war. Jersey was therefore in a strategically important position, being English, but just 15 miles from the French coast. Jersey benefited from the policies of the British Government in respect of defence. There was substantial expenditure in Jersey on the road network and also on fortifications and harbours. This all generated significant wealth for the Island. The British Government also acquiesced in the privateering industry that flourished in the 18th and early 19th Centuries, which again brought wealth to the island.

More importantly, from 1394 Jersey had enjoyed tax concessions in the form of exemption from taxes on exports to the colonies and to Britain itself. The tax concessions were to a large extent a recognition of the importance of Jersey to Britain in military terms, Britain wanting Jersey to be a strong and prosperous community with an allegiance to Britain and with capability to contribute to Britain's military objectives.

That these tax concessions have played a part in the development of a number of industries has been analysed by Boleat (2015) –

- The knitting industry, Jersey's major industry in the 16th and 17th Centuries, which benefited from the absence of duties on wool that had to be imported and stockings that were exported.
- The cider industry, which peaked in the late 18th Century, about half of production being exported.
- Cod fishing in Canadian waters – the dominant industry in the late 18th and early 19th Centuries, on the back of which were built shipping and shipbuilding industries. Typically, cod was sold in international markets the proceeds being used to buy commodities such coffee, sugar, wines and spirits, which were imported into Jersey and then re-exported free of tax. The shipping industry then generated a shipbuilding industry, which benefited from being able to import timber free of tax.

Semi-detached status

Jersey's semi-detached status as a Crown dependency, rather than as an independent state or integral part of Britain, has played a major role in its economic prosperity.

Perhaps by accident rather than design, but then certainly deliberately encouraged by the authorities in Jersey, the Island's special tax status has enabled it to attract wealthy immigrants going back to the 1830s, tourists and, most recently, a thriving finance industry. It should be noted here that small communities have the ability to use tax systems to generate revenue in a way that larger communities cannot do to the same extent. So, for example, if Britain decided to cut the basic rate of income tax, this would lead to a commensurate fall in income tax revenue, as generally people would not be inclined to earn more income by working longer hours simply because of a lower tax rate nor would more workers be attracted to come to Britain. Similarly, a modest increase in the income tax rate of, say, three percentage points, would lead to an equivalent increase in the income tax revenue. However, at the margin, even in a country like the UK, higher tax rates can actually reduce tax revenue. For example, it is widely argued that when the top rate of UK income tax was increased to 50% it resulted in little or no additional revenue being raised, as there are many people in Britain who can fairly easily shift their workplace or domicile to somewhere with a more favourable tax regime.

Jersey has attracted people to live on the Island because its basic tax rate is just 20%, less than half the higher rate of tax in the UK, currently 45%. If Jersey increased its basic rate of tax to the UK level, then the effect would probably be a reduction in tax revenue, as some people who had moved to Jersey to benefit from the low rate of tax would over time move out and fewer new people would move in. The effect would therefore be that those people remaining pay the higher rates of tax, but the Government might actually secure less income than it had previously done. The same applies to taxes on tobacco and alcohol. Indeed, in the UK the only thing preventing the British Government from increasing tax on tobacco further is the knowledge that the higher the rate of tax, the more tobacco will be smuggled into the country and the less tax revenue will be raised. In Jersey's case, the low tax rate on alcohol and tobacco has stimulated huge sales to people taking the goods out of the Island. The higher the tax rate, the less that this will occur.

Jersey's status also played a part in the development of the tourist industry, the dominant industry from the end of the war to the 1970s. Jersey's natural attractions were clearly vital to the industry but so was the semi-detached status, both in respect of tax on alcohol and tobacco, and Jersey being part of the UK financial system, which meant that it was not subject to exchange controls that severely limited competition from foreign destinations.

This position has been well understood by the Jersey authorities, who have used the ability to set their own tax rates sensibly, such that tax rates are low, but revenue is high.

There is some empirical evidence to support the idea that a semi-detached status is associated with a strong economy. In the CIA listing of gross domestic product on a per capita purchasing power parity basis (CIA, 2015), seven of the 21 wealthiest territories are either British Overseas Territories or British Crown Dependencies (Jersey, Guernsey, Bermuda, the Isle of Man, the Cayman Islands, the Falkland Islands and Gibraltar).

This can be contrasted with the position of the Isle of Wight, which is one of the poorest communities in the UK. The point was made earlier in this paper that income per head in the Isle of Wight is 60% that of neighbouring Portsmouth (ONS, 2014). The Western Isles and Anglesey similarly have a much lower income per head than the neighbouring mainland.

With the exception of the oil producing state of Brunei, Luxembourg and Liechtenstein there are no independent states with populations of under one million that are rich. The nearest is the Bahamas, which has an income per head less than half that the British Overseas Territory of Bermuda and about 55% that of Jersey (CIA, 2015).

The Appendix analyses in more detail the relationship between income per head and political status.

Migration

Jersey, like many island and other small communities, has experienced massive emigration of its young people for many centuries. Even before the 19th Century, young Jersey people left the Island to work in the Cornish tin mines, and from the 18th Century Jersey settlers established themselves in America and Canada and also in England. The motive for young people leaving the Island was consistent, that is greater opportunities to earn income than they could at home. An additional factor in Jersey was the inheritance system, whereby the eldest son inherited all of the property when a person died. There was therefore a reduced incentive for other children to remain on the Island.

More recently, as university education has increased, so a high proportion of young people have left the island, some to return, but many not.

Marion Turk (2009) reckoned that "by 1699, there were hundreds, possibly thousands, of Channel Islanders in New England". And in response to the question Why? She answered: "the islands are small and lack opportunity". She also notes that in the 1800s large numbers of Channel Islanders settled in the Gaspé peninsular in Canada. In 1906 a States Committee on Immigration (Special Committee of the States of Jersey, 1906) commented that "Emigration is carrying off a large part of the best of our young people from the island, whether they are of Jersey, English or foreign origin".

The author's own analysis (Boleat, 2015) suggests that by 1871 about 9,000 people born in Jersey were living in England, 28% of the number that was still living in Jersey. By 1921 the figures had increased to 13,000 and 37%, and today the figures are

23,500 and 40%. Forty percent of all people born in Jersey are no longer living on the Island when they are in their forties.

These rates of emigration are not uncommon in small communities and they contribute substantially to the poverty of most such areas. However, this has not been the case in Jersey, because the emigration has been counterbalanced by a steady flow of immigrants. Between the 16th and 19th Centuries, French refugees made Jersey their home, bringing with them a work ethic and entrepreneurial spirit. In the 19th Century, Jersey welcomed its first wealthy immigrants, retired civil servants and military officers who had been in the colonies and who preferred to spend their pensions in Jersey. In the first half of the 19th Century more generally, Jersey enjoyed a massive economic boom, the population increasing by 60%, as workers came into the Island from France, England, Scotland and Wales, particularly to work in the construction industry.

From the late 19th Century, French farm workers came to the island, increasing their own earning capacity substantially, but more importantly enabling the new potato industry to flourish. In the inter-war and post-war periods, wealthy immigrants again brought their wealth to the island. Tourism was the mainstay of the Island's economy from about 1950 to 1990, but the industry could never have prospered without labour from Portugal and, to a lesser extent, Italy and Spain. More recently, there has been Polish immigration, again working predominantly in the hospitality industry, but also in agriculture. The finance industry is now the main contributor to Jersey's wealth, and this is manned to a large extent by immigrants to the island, mainly from Britain, but also from other territories.

As early as 1841, 30% of the Jersey population was not born on the Island. This proportion increased to 40% in 1961 and about 50% today. Many of the people on the Island who are Jersey-born have one or more parents who were themselves immigrants.

At a rather different level Jersey has a highly successful rugby club, now playing in the second highest tier of rugby in England - it suiting Jersey to be part of England for this purpose. The Jersey squad does not comprise 38 Jersey-born players coached by a locally developed manager, but rather 5 Jersey-born players and 33 born further-afield, including South Africa, New Zealand, Australia, Tonga, Samoa, Argentina, the USA and Zimbabwe, with a top quality South African coach brought to the Island to do a job that could not be done by a local person. The success of the Jersey Club over the last few years has led to a significant increase in local boys and girls taking up the game, and the best Jersey-born players have become even better by playing with top class imported players. If the Jersey team was entirely local it would not have achieved the huge success that it has over the last few years. The Jersey Evening Post summarised the position in a supplement to celebrate Jersey's first season in Division 1 in 2011-

> "No one in their right mind would deny that, without the expertise and skill of imported professionals Jersey would be several rungs down the ladder instead of just two off the Premiership peak.
>
> But it remains a Jersey club with a genuine Island identity because it wants to and recognises that needs to. Jersey is a cosmopolitan society and so is its club - hence the superb backing it gets from Island businesses and individuals."

And it can be added that the Island economy benefits from a successful rugby team through money spent by visiting teams and their supporters as well as the Rugby Club being a successful business in its own right.

Using Its Position

It is not sufficient for a community to be in a very favourable position in respect of physical location and attractiveness and ability to set its own tax rates. It must also have the ability to use these advantages, and this Jersey has done very efficiently, predominantly through having good and wise government over many years, which has meant that the Island has been a safe and attractive place to do business. The tax position has been used, rather than exploited, generally in such a way as not to incur the antagonism of Britain, on which the Island depends so heavily, although recently all low tax areas have come under political pressure. Jersey has skillfully managed the delicate relationship it must inevitably have with the United Kingdom and has avoided making the sorts of mistakes that could easily have done significant damage to Jersey's economy and to the wealth of its people.

Policy conclusions

Jersey has a successful economy because it has made good use of a very favourable position, which has depended on the hostile relations between the UK and France for 800 years, combined with Jersey's semi-detached status as a Crown dependency. Large-scale immigration has been essential to secure this wealth, compensating for the massive and continued emigration of young Jersey people. The policy conclusions that follow are that Jersey must –

- Maintain and enhance its "semi-detached" status with the UK. This includes strengthening links with politicians and officials in London, being sensitive to British and international political issues and demonstrating Jersey's value to the UK. An excellent example of the latter is the report prepared for Jersey Finance by Capital Economics (2013) which concluded: "we find that Jersey is a benefit to the United Kingdom economy, and on the basis of our broad calculations could be supporting in the order of 180,000 British jobs".
- Understand the value of strong two-way migration and pursue a population policy that is evidence driven.
- Ensure that there is a political system in place that understands the causes of Jersey's prosperity and provides the leadership necessary to maintain the Island's status as a world class, well-run international financial centre.
- Maintain Jersey's accessibility through policies to ensure that as far as possible a good network of air links is maintained and that there is a reliable ferry service. This requires transport policy to be viewed as a strategic issue for Jersey rather than simply as a commercial or licensing matter. And as electronic communication become ever more important Jersey needs to have world-class electronic communications, internally and with the rest of the world.

Appendix

The correlation between wealth and political status

The basic proposition is that Jersey owes its wealth to a significant extent to its status as "semi-detached" with the UK - that is neither an integral part of the UK nor totally independent, combined with its strategic position close to France with which Britain was intermittently at war for over 600 years. These circumstances have meant that Jersey has enjoyed the benefit of military spending and favourable tax treatment.

One test of the proposition is to look at the comparative wealth of territories, seeking to identify any correlation between political status and wealth. It is difficult to compare the stock of wealth between countries. This analysis uses income per capita as a proxy for wealth. It is far from ideal because income is a flow rather than a stock, but in practice wealth and income are closely correlated. There is an issue in identifying which territories to look at as there is no hard and fast definition of a state. For international data this appendix uses the CIA World Factbook (CIA, 2015). This is the best source and while the data are open to question in a number of respects they are adequate for this purpose. The UK analysis uses figures from the Office of National Statistics for gross value added (ONS, 2014).

International comparison

Table 1 lists the 21 wealthiest states ranked by gross domestic product per capita on a purchasing power parity (PPP) basis, giving details of their political status and population. PPP seeks to convert figures into US dollars on the basis of purchasing power rather than prevailing exchange rates. While far from perfect it is the best available method of comparing prosperity between countries.

Table 1 States by political status and GDP per capita

State	Political Status		GDP Per Capita, PPP 2013	Popn July 2014 000s
Qatar	Independent		$102,100	2,123
Liechtenstein	Independent with ties to Switzerland	(2009)	$89,400	37
Macau	Special administrative region of China		$88,700	588
Bermuda	British overseas territory	(2011)	$86,000	70
Monaco	Independent with ties to France	(2011)	$85,500	31
Luxembourg	Independent		$77,900	521
Singapore	Independent	(2005)	$62,400	5,567
Jersey	British crown dependency		$57,000	97
Norway	Independent		$55,400	5,148
Falkland Islands	British overseas territory	(2002)	$55,400	3
Switzerland	Independent		$54,800	8,062
Brunei	Independent		$54,800	423
Isle of Man	British crown dependency	(2007)	$53,800	87
United States	Independent		$52,800	318,892
Hong Kong	Special administrative region of China		$52,700	7,113
Guernsey	British crown dependency	(2005)	$44,600	66
Cayman Islands	British overseas territory	(2004)	$43,800	55
Netherlands	Independent	(2012)	$43,300	16,877
Canada	Independent		$43,100	34,834
Gibraltar	British overseas territory	(2008)	$43,000	29
Australia	Independent		$43,000	22,508

Source: CIA, 2015.

Eight of the 21 states are either overseas territories, dependencies, protectorates or have some other special status, and seven of these are British. (For comparative purposes the Falkland Islands can be discounted as the population is tiny and the GDP figures are heavily skewed by British military expenditure.) All rank higher than the United Kingdom itself, which in 2013 had a comparable GDP per capita of $37,300. Of the other states in the top 21 Liechtenstein has close connections with Switzerland. Two of the states, Qatar, and Brunei, owe their wealth almost entirely to oil, and arguably Norway partly comes into this category.

Islands

Table 2 lists all the islands (counting Gibraltar as an island, which technically it is not) with a population of under 350,000, showing their political status and GDP per capita.

Table 2 Islands with a population of under 350,000

State	Status	GDP per capita (PPP) 2013 $	Population, July 2014, 000s
Bermuda	Overseas territory of the UK	86,000(2011)	70
Jersey	British crown dependency	57,000 (2005)	97
Isle of Man	British crown dependency	53,800 (2007)	87
Guernsey	British crown dependency	44,600 (2005)	66
Cayman Islands	Overseas territory of the UK	43,800 (2004)	55
British Virgin Islands	Overseas territory of the UK	43,300 (2010)	33
Gibraltar	Overseas territory of the UK	43,000 (2008)	29
Greenland	Self-governing division of Denmark	38,400 (2008)	58
New Caledonia	Territorial collectivity of France	37,700 (2008)	268
Bahamas	Independent	32,000 (2013)	322
Faroe Islands	Self-governing division of Denmark	30,500 (2008)	50
Turks & Caicos	Overseas territory of the UK	29,100 (2007)	49
Guam	Territory of the US	28,700 (2010)	161
Seychelles	Independent	25,900 (2013)	92
Aruba	Independent	25,300 (2011)	111
Barbados	Independent	25,100 (2013)	290
French Polynesia	French overseas collectivity	22,000 (2006)	280
Saint Martin	Territorial collectivity of France	19,300 (2005)	32
Antigua & Barbuda	Independent	18,400 (2013)	91
Saint Kitts & Nevis	Independent	16,300 (2013)	52
Sint Maarten	Autonomous territory of Netherlands	15,400 (2008)	(2013) 40
Curacao	Connected with Netherlands	15,000 (2004)	(2013) 147
Virgin Islands	Territory of the US	14,500 (2004)	104
Dominica	Independent	14,300 (2013)	73
Grenada	Independent	13,800 (2013)	110
Northern Mariana Islands	Associated with USA	13,600 (2010)	51
Saint Lucia	Independent	13,100 (2013)	163
Anguilla	Overseas territory of the UK	12,200 (2008)	16
St Vincent & Grenadines	Independent	12,100 (2013)	103
Palau	Associated with USA	10,500 (2011)	21
Marshall Islands	Associated with USA	8,700 (2013)	71
Tonga	Independent	8,200 (2013)	106
American Samoa	Associated with USA	8,000 (2007)	55
Micronesia	Associated with USA	7,300 (2013)	106
Kiribati	Independent	6,400 (2013)	104
Samoa	Independent	6,200 (2013)	197
Vanuatu	Independent	4,800 (2013)	267
Sao Tome & Principe	Independent	2,200 (2013)	190

Source: CIA, 2015.

The seven islands with the highest GDP per capita are all British crown dependencies or overseas territories. Of the 17 with the lowest GDP per capita 16 are independent or are isolated territories associated with the United States.
The wealthiest independent small island economy is the Bahamas – GDP per capita of $32,000 in 2013, just 37% that of the comparable British Overseas Territory of Bermuda. The four British Overseas Territories in the Western Atlantic – Bermuda, British Virgin Islands, Turks and Caicos and Cayman Islands, are all significantly wealthier than the former British territories that are now independent, which, other than the Bahamas, all had GDPs per capita of under $26,000 in 2013.

There are a number of other British territories which have or have had some comparison with Jersey in respect of political status and strategic importance and which partly owe their wealth to these factors.

Gibraltar has been a British enclave in Spanish territory since the beginning of the 18th century and occupies a strategic place at the entrance to the Mediterranean. It has benefited substantially from British military expenditure over the years and more recently has developed into a thriving financial centre, as, like Jersey, it is able to combine being a British territory with the ability to set its own tax rates and system of financial regulation.

Hong Kong was until 1997 a British Colony that geographically was part of China and which also benefited from huge military expenditure as well as the encouragement of an entrepreneurial economy able to take advantage of the massive resources in neighbouring China. Hong Kong now has a semi-detached status with China, as a Special Administrative Region.

The Falkland Islands are small and have little going for them in terms of geographical location, but following the Argentinian invasion in 1982 became strategically important to Britain and have benefited from substantial military expenditure. That the Falkland Islands have a GDP per capita higher than the United Kingdom is dependent entirely on this factor.

The Isle of Man has broadly the same political status in respect of the United Kingdom as do Jersey and Guernsey but with some differences. It is also largely able to set its own tax rates although it is part of the UK VAT system. However, it has no strategic importance, and therefore has not benefited from military expenditure, and its natural resources are arguably less attractive than those of Jersey and Guernsey.

Islands in the UK

The Isle of Wight is similar to Jersey in that it is an island that is a British territory, but unlike Jersey it is an integral part of the UK with no independence and it is so close to the British coast that it also has no strategic significance. The Isle of Wight has benefited from no military expenditure and is not able to have its own tax system. As a result it is significantly poorer than neighbouring Hampshire and the UK generally. Table 3 illustrates this point.

Table 3 Gross value added per head, Isle of Wight, 2013

Area	GVA per head £	Percentage of UK average
Isle of Wight	15,323	64
Portsmouth	24,955	105
Hants + IoW	24,323	102
South East	25,843	108
UK	23,755	100

Source: ONS, 2014.

Anglesey is similarly relatively poor – in fact with the lowest GVA per head in the UK – £11,368 in 2013, 64% that of neighbouring Gwynedd (£17,889) and 67% that of Wales (£16,893).

In Scotland the relative wealth of the isles is greatly influenced by proximity of the oil industry. Table 4 illustrates the position.

Table 4 Gross value added per head, Scottish Islands, 2013

Area	GVA per head £	Percentage of Scotland average
Shetlands	22,578	103
Orkneys	17,853	81
Western Isles	15,240	69
Arran, Cumbrae, Argyll & Bute	17,600	80
Highlands & Islands	18,123	82
Scotland	21,982	100

Source: ONS, 2014.

It will be seen that the oil-rich Shetlands are on a par with Scotland as a whole while the more hospitable islands off the west coast are significantly poorer.

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