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The original Jersey (cash cow)

British isle where small government has led to large financial muscle

By Richard W. Rahn

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This small island, about two-thirds the size of Washington, D.C., with only 100,000 people, is home to one of the world's largest financial centers.

Americans know of the state of New Jersey, but few know that it was named after the isle of Jersey, which is located in the English Channel about 14 miles off the coast of France. Back in the 1650s, when the English were engaged in a civil war, King Charles II took refuge in Jersey at the manor of George Carteret. After Charles regained his throne, he repaid the kindness by giving Carteret partial ownership of a large land tract in America, which Carteret then named New Jersey in honor of his homeland.

Jersey has been quasi-independent from England since 1204. It is self-governing but swears allegiance to the British Crown — however, not to the British government or Parliament. It is not only a home to global finance, but a tourist mecca as well, with its ancient forts, including some from Viking times, and more modern fortifications built by the Nazis during World War II. (It was occupied by the Germans for five years.) In addition to the fortifications, it has several splendid beaches, a mild climate, lovely pastures — with its own breed of cow, which is now raised around the world (the Jersey, of course).

Jersey has a higher per-capita income than America, and roughly twice the per-capita income of Britain and France. The globe is dotted with relatively small, prosperous places that have become rich without the benefit of natural resources. What have Jersey and the island next door, Guernsey, along with Bermuda, Cayman, Singapore, Hong Kong, and even larger places like Switzerland done right, leaving many of their larger and more richly endowed neighbors plodding along in their economic dust? In one sentence, they have kept their governments relatively small and not wasted the efforts of their citizens with counterproductive government programs and excessive regulations and high taxation.

Critics of places such as Jersey call them "tax havens," which implies that the jurisdictions have few or no taxes. All of the so-called tax havens have plenty of taxes that provide for education, infrastructure and a social safety net, often greatly superior to the big-government, high-tax jurisdictions. What they do not do is penalize capital or tax labor at job-killing rates. Jersey and the other "offshore" financial centers have been suffering increasing attacks from many in the global left, who somehow think that if these successful small-government states are forced to give up their small-government model — that, through some miracle — the big-government states would become rich. This makes no economic sense, but it is satisfying to those who think envy is a virtue rather than a sin.

Critics say that the offshores depend on the big countries for their defense, a charge which is only partially true. Jersey does depend on Britain for its defense, but it also provides Britain with military bases. The only time Jersey was threatened with a military attack in the last hundred years was when the Nazis decided to occupy it in 1940, and the British response was to retreat, with the argument they could not defend Jersey and Guernsey.

In reality, Jersey helps make Britain richer, by serving as an adjunct to London's financial center, enabling financial firms in London to offer a broader array of financial products, including those that would be tax-disadvantaged without the existence of Jersey. Most of the world's financial centers (including those in the United States) are based on British common law, because it was developed through trial and error over many centuries and evolved to deal with real-world problems in a just and understandable way.

Financial centers are places where global capital can be accumulated and then invested in their highest and best use anyplace on the planet. Some abuse does occur, but for the most part, the services offered by offshore financial centers enhance world welfare. Many of the critics of offshore financial centers engage in overheated rhetoric, while at the same time demonstrating an ignorance of how global finance operates and how excessive taxes on capital undermine economic growth and job creation.

If Bermuda, Hong Kong, Cayman, Guernsey, Singapore, Dubai, Switzerland and Jersey did not exist, would the world be more or less prosperous, and more or less nice? Only those who have never been to any of those places and are ignorant of economic reality would answer that question in the negative.

Richard W. Rahn is a senior fellow at the Cato Institute and chairman of the Institute for Global Economic Growth.