Jersey has a future, but not in finance

Published: January 12, 2026, 9:56 pm

A couple of weeks ago I was asked by Andy Sibcy, the editor of the Jersey Evening Post, if I might write an extended east for a Saturday edition of the newspaper on what I thought the future of its economy might be.

I admired Andy's courage. I have known him for more than 15 years, in which time I have no doubt he has been one of many local journalists to describe me as 'one of the island's biggest critics'.

I think that description of me has been fair, in part. Especially in the years from about 2005 to 2012 I took the government of Jersey to task time and and again over its terrible track record in supporting what I consider to have been an abusive financial services regime at particular cost to the people of Jersey themselves, and to governments around the world.

I would add, however, that Jersey is a fantastic place. It has been profoundly damaged by its capture by finance, most of which has been imported.

Does my opinion on this issue matter? I am sure many in finance will say not. But the Jersey Evening Post went out of its way yesterday to note that my predictions have been uncomfortably accurate in some areas. I suspect many of the deniers will know that too. And this definitely matters for my friends in Jersey. They matter to me. So I think this does matter. That's why I wrote this.

It seems that the article is not online. In that case I share it here. I have a very different view of Jersey's future compared to that which the finance industry still promotes there, but I have the track record of getting these predictions right. They should at the very least engage in debate.

The First Minister of Jersey said in response to the recent G7 Finance Minister's tax deal that is intended to create a global minimum corporation tax rate that this will have remarkably little impact on the Island. The intended message was clearly one of reassurance. The message was that life in Jersey will go on as it has despite the attempts by the countries that the G7 ministers represent to rock the tax haven world.

In one sense the Chief Minister is right: this G7 deal will have little impact on Jersey. What he has failed to explain is why, and what might rock the boat instead. In doing so he exemplifies ‘the Jersey way’ of dealing with issues, which all too often requires pretending that the matter does not exist.

The reality is that Jersey has changed greatly since the time I first got to really know it in 2005. So too has the finance industry changed enormously since then. I have had a role in the process of change. Jersey, however, still pretends that all is carrying on as normal. My suggestion is that it is not, and that the process of change is going to increase, and probably quite soon.

The two sides of the coin: Jersey and its finance industry

Jersey first became aware of me when the then Senator Ted Vibert asked me to advise a shadow Scrutiny committee looking at the future tax arrangements of the Island in 2005. The appointment was not popular with then Chief Minister Frank Walker, and then Finance Minister Terry le Sueur, both of whom objected very publicly. I did, however, at the time say: ‘I'm aware that there are many in the island who think I am a firm friend of it, and I am.’ That remains the case to this day. That, however, does not change the fact that I am a severe critic of its finance industry. I stress, Jersey is about much more than finance. The point I make in this essay is that Jersey is going to have to rediscover that.

The demise of the Jersey tax haven

It’s hard to recall just how offensive tax haven activity was back in 2005. Secrecy was almost absolute. Blatant tax abuses intended to undermine the tax systems of other countries were commonly sold from all tax havens. Tax evasion was undoubtedly endemic. A total lack of co-operation from jurisdictions like Jersey was normal.

Then the EU catapulted its EU Code of Conduct on Business Taxation into this scenario and required that the UK impose this on Jersey. The code required that no country run a tax regime that offered differing tax rates to resident and non-resident companies, which was what Jersey was doing in 2005. A clash became inevitable. Reform of Jersey’s tax system was inevitable. Jersey’s GST was the consequence. The shift of the tax burden from business to ordinary people in the Island to pay for the ongoing tax abuse that Jersey’s financiers insisted that they must still be able to sell began. And I was asked to advise by a Senate Scrutiny Committee panel on the issues arising.

I suggested four things. The first was that Jersey’s plans for its new tax system, carefully crafted with what seemed like the very public support of the finance industry, would not be approved by the EU. I was right. I also suggested that the GST as proposed was deeply problematic. Again, I was right. I said Jersey would be forced to reform. Again, I was right. And I said that the then proposed tax system could not finance Jersey. This was also true. Many tax increases on the people of the Island since then are testimony to that.

However, let me be very clear. I was not arguing with the people of Jersey. I was arguing with the finance sector that then, as it does now, dominates Island life.

Jersey is an island suffering from what my friends John Christensen and Nick Shaxson call ‘the finance curse’. In other words, it was and is a place captured to serve the interests of the finance industry, who were and are intent on servicing the needs of those who are not resident in the Island, and who have nothing to do with it.

The result is that Jersey still does its utmost to make sure that those making use of its facilities can enjoy a veil of deep secrecy around doing so. That’s because much of what these people and their advisers want to achieve would not be possible in a transparent finance system, mainly because much of it would be considered illegal in the places where those making use of Jersey are really resident. Jersey remains an island peddling corrupt practices as a result. This is my complaint. Finance has destroyed a great island and its great people and reduced it to being an international pariah.

Winning ways

Jersey was one of the first tax-haven battles for me and the Tax Justice Network. We have won almost all of those battles since then.

We won on the EU Code of Conduct on Business Taxation. Then we won on the European Union Savings Tax Directive. After that we won automatic information exchange under OECD rules. And after that we won on country-by-country reporting, which undermined the remaining corporate business in Jersey. Add in our wins, beneficial ownership disclosure and almost all of the business Jersey had in 2005 was destroyed by our success as tax justice campaigners.

The future of finance in Jersey

I have to acknowledge though that Jersey adapted. First it changed its focus to China, as George Osborne did. That’s now another dead opportunity. The it focused on the Middle East and undermining the commonplace laws on inheritance in countries in that region. Give it time and that business will also die as transparency reaches that area. All that will then leave will be corruption. Tales still emerge, too often, of how Jersey handles illicit money, too often, from developing countries, who remain a market for it as the systems put in place to beat corruption elsewhere have not reached those places, as yet.

I would very strongly suggest that these remaining markets are not a viable basis for the future of finance in Jersey. The model for finance and Jersey that I have for so long associated with the late Colin Powell is now on its last legs. His vision of Jersey as a place selling secrecy to people who wanted to do shady things belongs in the past. It is time to move on.

What next for Jersey?

It's easy to say that the foundations underpinning much of an economy are collapsing, but what is next for Jersey?

I explained one option in 2011. I put forward what I called 'Plan B for Jersey' at that time. I suggested that if Jersey really believed it was solving a problem of double taxation in the world economy then it should do so with the maximum degree of openness and accountability. That way it could serve a purpose within the finance sector and hold its head up high. I stick by that suggestion, but that issue apart I see no long-term future for finance in Jersey.

If that is the case, it is clear that Jersey faces enormous challenges. Two other issues frame that. First, Covid makes clear the vulnerability of all communities, especially isolated ones, as Jersey is. Second, climate change demands a massive investment in sustainability which Jersey has not addressed, as yet.

To add to this, as finance dies there will be mass migration from the Island as the financiers leave. A house-price crash is almost as inevitable. I suggest that local people need protection from that. This is possible. The States must legislate that no bank may seek to recover more than 90% of the value of the sale proceeds of a property from the mortgage-account holder. Banks have fuelled the Jersey property boom. They must also bear much of the cost of its collapse.

With the departure of finance will also come a need to wholly rethink the government of Jersey. The massively top-heavy civil service, laden with heavily overpaid officials, will need to be trimmed to suit a much smaller and locally focused need.

Jersey's political system will also need an overhaul. Its archaic approximation to democracy has suited finance, who have got all they want from politicians more than happy to take grand-sounding ministerial and other titles, but the reality is that the people of Jersey have not engaged electorally with what has, in effect, been a one-party state. When the issues to be faced impact the future livelihoods of those who consider Jersey their true home that has to change.

So what will those livelihoods have to be based on if it is not finance? There has always been little else for remote, rural areas to sell but horticulture, tourism, and related facilities. I have thought long and hard about this and that is the future that Jersey has.

There are, of course, constraints. Brexit has left Jersey remote from France, as is painfully apparent. But then, fish apart, Jersey was not going to sell to France in any event. Its market is the UK.

Curiously, for both tourism and horticulture the timing might be right. Covid is radically changing the way we view the world. Jersey's reputation as a nearby, but quite exotic, holiday destination has, in that environment, much to commend it. But there would be much to do.

Presuming the Waterfront could not be bulldozed (and many will regret that) there would still be many properties to be converted for holiday use. A local population would need to be trained for a new type of work. And, perhaps most of all, the type of tourism to be offered would have to be considered.

Jersey does not need empty second homes. What it does need are rental holiday cottages across the whole Island, to support a tourist boom for every parish. Careful thinking is required to ensure that this will happen whilst also recognising the need of many local people. Some of that will be for affordable accommodation. Those finance offices might find a new role after all, as social housing for the population Jersey will need to service a new tourist-based economy.

Perhaps at least as important will be the need for extensive investment in training for local people, and mops especially young people. The Jersey way has always been to import labour: that has to change and homegrown talent has to be encouraged.

What else might there be? Investment in green infrastructure is vital. In fact, being a carbon-free tourist destination could be massively important to the Island. Fleets of electric hire cars could be part of that.

And horticulture needs to be encouraged and diversified to meet local demand — delivering as much added value as possible within the Jersey community.

Is this a very different future to that which many in Jersey have thought likely? I strongly suspect so, but I offer it unapologetically.

Jersey has suffered a past mired in opacity, scandal and dirty finance. Its future needs to be about Covid and carbon-free holidays, charging a premium for being the exotic destination that can be reached by boat from the UK as flying ceases to appeal, offering the most exquisite beaches, landscape, nature and hospitality. And most importantly, there is a future for the young people of Jersey in this new world of more local tourism. If the Scilly Isles, in Cornwall, and North Norfolk can make livings in this way so too can Jersey. And I'll be in the queue to visit.

Also don't ignore that this transition will also happen at the time that Jersey will have to embrace a Green New Deal. Climate change is going to be as real in the Island as it is anywhere else: there will be much work to do to build sustainability into the Island's future. Serious thought will have to be given to this issue.

How will all this be paid for? Progressive taxation will be essential. Jersey will have to make its wealthy pay more. Corporation tax will happen. So too might tourist taxes have a role, but maybe collected via land taxation. Borrowing may be inevitable, and is possible.

The reserves may need to be spent: the rainy day has arrived. And, to be candid, an appeal should be made to the UK for financial support to end the tax haven: it would only be reasonable that such support be provided. The end of tax abuse would be the price. Imagination can solve this issue.

Jersey has a future in that case. It's just that Jersey finance has not.

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