

The challenge to Jersey is much bigger than whether I w...

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The debate I have seemed to provoke in Jersey with regard to its now impending financial crisis appears to be rumbling on. Jersey's former finance minister, Senator Philip Ozouf, has apparently felt it necessary to defend himself and the whole fiscal strategy he and his predecessors have put in place despite criticism from me. The [Jersey Evening Post has reported](#) that he said, when talking to the paper with regard [to a blog a wrote a week ago](#), that:

'Without zero-ten, we would have lost our finance industry. It was the only decision for Jersey. Without it we wouldn't have the money we want to spend on the Health Service. Zero-ten made the Island competitive. I would do it all again.'

'Jersey is now an undisputed, global leader in terms of the transparency of the business we do.'

'Mr Murphy's whole premise is incorrect. There is no deficit today. It's about a future deficit, for which the States need to find money.'

'He is an opportunistic attacker of Jersey because he doesn't like our finance industry. That's fine, but do not let his views be taken seriously.'

The difficulty for Mr Ozouf, for whom I have no personal animosity, is that after a decade of ad hominem attacks on me from a succession of Jersey finance and chief ministers the fact is that I forecast Jersey would have a financial crisis as a result of its zero-ten tax policy (which exempts large parts of Jersey's non-local owned business sector from tax and charges many of the rest at low rates whilst penalising Jersey owned business) as long ago as 2005 and now it is facing it. I agree that this is later than I forecast: the GST (Jersey's version of VAT) has been increased more than I expected and more sell offs of state assets have occurred than I thought might happen when I made my predictions, but, again, the fact is that at the core of my forecast was a simple claim, which was that Jersey could not both meet the requirements of EU law and balance its books if that meant it chose not to tax a very large part of business activity taking place in the island, and that now seems to be right.

Continuing ad hominem attacks do not change the fact that I offered sound reasoning based precisely on the data Jersey made available that was quite untainted by my view of Jersey's financial services sector: I simply observed that the chosen policy could not work in the long term. Whether or not Jersey's business sector is transparent or not is irrelevant to that debate, and so I ignore the point here: the reality is that when the aim of not taxing much of the activity recorded in the island was at the heart of Jersey's strategy it was always going to be nigh on impossible for it to raise the money it needed. That was the point I made, successively, and still do, and which Mr Ozouf is not answering. I said that this was poor fiscal policy, and that has proved to be the case.

I note that the Jersey Evening Post is beginning to hear the message. They said, commenting on what Mr Ozouf had to say, that:

NOW that ministers have come clean about the size of Jersey's black hole, decisions about how we tax and spend are more pressing than ever.

Meanwhile, tax justice campaigner Richard Murphy says that he has been right all along after warning in 2005 that the zero/ten corporate tax regime would leave Jersey facing a £100m-plus black hole.

We do not know what the economic consequence would have been had zero/ten not been introduced. The question is whether senior ministers buried their heads in the sand and refused to listen to what now appears to have been a prescient voice.

And the continued:

As Jersey moves forward, it must learn the lessons of the past. Shouting down those who disagreed with zero/ten and forecasted that it would lead to an ever-increasing burden on middle and lower tax earners was a mistake because it meant Jersey failed to prepare properly for the current deficit.

I admit that the day when the Jersey Evening Post might say that of me was one I had not expected.

I would agree with their conclusion that:

Jersey's tax regime should be reviewed as part of the debate about ensuring future prosperity, but heaping an even greater burden on middle Jersey is not the answer.

I would also agree that:

Efficiencies and savings must come first.

They should start by asking why it is that the ordinary people of Jersey have to pour millions into Jersey Finance, the state funded body that promotes the Jersey financial services sector which, if the free market worked as it claimed, should surely be capable

of funding itself. I would also agree with the JEP that Jersey looks horribly over-burdened with well paid civil servants.

But, whilst such reviews may provide a little relief they do not solve the problem. That problem is that Jersey is seeking to operate in a dying market where new regulation will make it ever harder for Jersey to find customers for what it has to offer because the secrecy, which was the single critical factor that let the users of tax havens make use of the services they provided with impunity, is being stripped away from the island.

I accept responsibility for that. In 2009 [I wrote a paper for the Tax Justice Network](#) in which I argued that we had to change the language of offshore and drop the focus on tax and instead talk about the secrecy that facilitated tax abuse and all the other regulatory arbitrage that Jersey has exploited and sold. That paper changed the focus from tax havens to secrecy jurisdictions: since then we have been winning the argument on the issue of offshore abuse and continue to do so. That will not stop now.

Jersey has, however, not woken to this new reality as yet. [I warned it of what was on the way in 2010](#) and offered an alternative. It did not listen then. Maybe it should now. Because this is not a moment for Jersey to be re-arranging the deck chairs, its inaction over the last few years means that Jersey now faces a profound existentialist crisis. In the late 1990s John Christensen told Jersey that if it continued down the path of making finance its sole source of income its economy would one day collapse. That is the reality it may now face.

Jersey does not just need to sort out its civil service. It needs to work out what it might do in the future, how it might do it, for whom, and to what net benefit for the island. That requires big thinking by big thinkers.

I hope Mr Ozouf is up to the challenge. What I can say with certainty is that another sales trip to Dubai will not solve the problem. This time the answers have to be a lot closer to home and might be a little more uncomfortable than the jet-setting lifestyle of finance that has cushioned the Jersey elite for some time. But unless they're really willing to ask the difficult questions, and listen to those who might disagree with them when they offer alternative opinion Jersey is in very deep trouble.

And, for the record can I make three things clear? The first is that I wish this was not the case. The second is that there will be viable, if difficult, alternatives. And the third is that I truly wish Jersey well, but in saying that I do mean the whole of Jersey both now and in the future. Mr Ozouf has to realise that this is something much bigger than the finance industry and I am not sure as yet that he can successfully differentiate the two. And that, in a nutshell, is the definition of the problem.