

Don't doubt that austerity is an option

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The [Jersey Evening Post](#) reported yesterday that:

MINISTERS have been tasked with finding significant savings in departmental budgets to help deal with the financial impact of the Covid-19 response — with one minister saying they had been asked to see if there was scope for 20% cuts.

For the people of Jersey this is profoundly worrying. In effect, Jersey is announcing that it is heading for full-on austerity.

Is that necessary? In Jersey's case many people would say that maybe it is. After all, it has no monetary sovereignty. It has to use the pound. And, of course, it has no central bank of its own. So, in effect, it is a jurisdiction with the economic characteristics of a sub-national government. That makes it look like a council in the UK, for example.

This fact, coupled with what I have described as the [long-term black hole in its finances](#), which has long been covered by rising stock markets that have given it the opportunity to claim that it can cover its long-term pension costs when this is uncertain, could be said to make its position very difficult indeed.

However, a person in Jersey asked me if anything could be done to prevent this austerity, which will undoubtedly impose significant cost on the people of that place when, at the same time, Jersey will continue to function as a tax haven servicing the world's wealthiest people who wish to avoid their obligations to society. And the obvious answer is that something could be done.

Unless the government of Jersey really does believe that its economy is in an irreversible decline then its demand for crippling austerity does appear to be dogmatic rather than necessary. After all, there is no reason why Jersey cannot borrow to cover the costs of an utterly unforeseen nature that the coronavirus crisis has imposed upon it.

My recommendation to Jersey would be to look at the issue of a very long-dated bond. Something up to 50 years would be my suggestion. I doubt it could do a perpetual, but

it could explore it. The bond would need to be of significant amount: it looks as though Jersey's anticipated costs are of at least £200 million. A margin should be built in. At least £300 million might be raised then. And, it would need to pay a reasonable rate of interest. Something exceeding those available on the UK's [National Savings and Investments's](#) offerings would seem to be necessary to attract a consumer interest in this offering, and I happen to think at that sum that a consumer offering might make a lot of sense. Something between 1.25% and 1.5% would do, and would almost certainly attract attention, but if 2% was offered the money would come flooding in, and the marginal cost difference is small. Partner with someone like Hargreaves Lansdown and not only would the marketing based be available, but so would the aftermarket.

The consequences would be very apparent in Jersey. Firstly, it would have a debt that did not require repayment in the lifetime of most people in that place. And let's be candid, it would be rolled over after 50 years in any event. And second, even if the interest rate was 2%, the annual interest would only be £4 million, which as an alternative [to trying to find budget cuts of £150 million or more](#) makes complete sense.

So, why is Jersey choosing austerity rather than borrowing? There are three possibilities.

One is it hasn't considered debt, because it has not used it before.

The second is that it really does not believe it could repay: there really is a black hole. Refusing to borrow would be the surest indication of that.

And third, it would rather impose austerity than do so, even though the option of preserving essential services exists.

I'm not suggesting which of those is true. But what is undoubtedly true is that Jersey is not considering all its options in the face of an unprecedented crisis. And that seems both quite remarkable and deeply worrying, whilst the precedent that it sets of conservative thinkers turning to austerity as their knee-jerk reaction to this situation is deeply worrying. It suggests that it very likely that this is what we might face in the UK as well.

Debt, when used and explained appropriately, is not an issue for governments. [I have explained why this morning](#). Jersey needs to take note, and very soon.