

Krugman on secrecy jurisdiction Cyprus: the unreformed ...

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[Paul Krugman has written about Cyprus in a refreshing way, saying:](#)

A couple of years ago, the journalist Nicholas Shaxson published a fascinating, chilling book titled "[Treasure Islands](#)," which explained how international tax havens – which are also, as the author pointed out, "secrecy jurisdictions" where many rules don't apply – undermine economies around the world. Not only do they bleed revenues from cash-strapped governments and enable corruption; they distort the flow of capital, helping to feed ever-bigger financial crises.

It's good to see that he understands secrecy jurisdictions, a concept first developed on this blog, where I defined them as places that intentionally create regulation for the primary benefit and use of those not resident in their geographical domain. That regulation is designed to undermine the legislation or regulation of another jurisdiction. To facilitate its use secrecy jurisdictions also create a deliberate, legally backed veil of secrecy that ensures that those from outside the jurisdiction making use of its regulation cannot be identified to be doing so. Nick uses a slightly simplified form.

Krugman goes on to say though:

One question Mr. Shaxson didn't get into much, however, is what happens when a secrecy jurisdiction itself goes bust. That's the story of Cyprus right now. And whatever the outcome for Cyprus itself (hint: it's not likely to be happy), the Cyprus mess shows just how unreformed the world banking system remains, almost five years after the global financial crisis began.

Precisely so. That is the problem. Despite the promise of the London G20 in April 2009 nothing of substance has been done about secrecy jurisdictions /tax havens, and that is what Cyprus is. And as Krugman notes the problem is exacerbated by Cyprus itself:

But it also reflects Cyprus's own reluctance to accept the end of its money-laundering business; its leaders are still trying to limit losses to foreign depositors in the vain hope that business as usual can resume, and they were so anxious to protect the big money that they tried to limit foreigners' losses by expropriating small domestic depositors. As

it turned out, however, ordinary Cypriots were outraged, the plan was rejected, and, at this point, nobody knows what will happen.

And the Cypriots were right to do that, but to conclude:

But step back for a minute and consider the incredible fact that tax havens like Cyprus, the Cayman Islands, and many more are still operating pretty much the same way that they did before the global financial crisis. Everyone has seen the damage that runaway bankers can inflict, yet much of the world's financial business is still routed through jurisdictions that let bankers sidestep even the mild regulations we've put in place. Everyone is crying about budget deficits, yet corporations and the wealthy are still freely using tax havens to avoid paying taxes like the little people.

So don't cry for Cyprus; cry for all of us, living in a world whose leaders seem determined not to learn from disaster.

As some of use have been saying for a long time.