European 'Support' for Banks in Cyprus

by Simon Belt

Many in the UK will be familiar with some aspects of **Cyprus** - from family holidays there, or maybe from links through the presence of the British Forces still being stationed there. A bit of Britain in the Mediterranean may be stretching it, but the EU bailout of the failing **banking system** in Cyprus is something that will touch many Britons, and those with longer standing connections to **Spain** or **Greece** for example will be keeping a keen eye on how things play out. The consequences though stretch beyond southern Europe and represent important trends in politics.

Not only are the trends to do with banking arrangements, they seemingly highten the sense of a north/south divide within Europe. Although the EU solutions have tended to focus on antagonisms towards a more assertive Germany, the content of changes proposed are the most troubling and least commented on - both the change in who should pay for financial failure and who should decide with the the trashing of national democracy. So what should we be making of it all?

From his article on spiked, Bruno Waterfield makes some very useful points on the banking crisis as follows (read the full article at http://www.spiked-online.com/site/article/13482/):

Because it is small, and in the eyes of the Eurozone social engineers, easily contained, Cyprus has been selected to be an experiment, and if it all goes horribly wrong… well, Cyprus is small and a dodgy special case, so who cares? The EU doesn't. As a result, Cyprus is to become the test dummy for a new Eurozone rule that no country's financial sector should be bigger than the EU's average of 3.5 times the size of annual GDP. As with other Eurozone axioms, the new target is entirely arbitrary (it's based on an average of 27 countries with economies as different as apples and pears) with a bias towards the larger and wealthier nations of the EU.

Uniformly distributing the financial sector over the geographic area of the Eurozone is absurd. Financial specialisation and concentration is part of geography and the division of labour in capitalism, especially for an island in Cyprus's part of the world. Just look at Luxembourg, Switzerland, or the City of London. The financial sector is certainly big in Cyprus. Until recent events unfolded, the total consolidated assets of the Cypriot banking sector were 7.5 times the size of the island's economy, which produces about £15 billion a year. Its relatively huge financial sector was dominated by three large banks; the second biggest, Laiki, has been shut down, and the Bank of Cyprus, the largest lender, is to have losses of between 40 to 50 per cent imposed on it.

As the condition for a Eurozone/IMF bailout of €10 billion, Cyprus must more than halve the size of its banking sector by 2018, in order to match the EU average, the new 'golden rule' of a balanced economy. Notwithstanding the slurs and aspersions cast on Cypriot bankers and their Russian friends, the size of Cyprus's banking sector is a very new concern. When Cyprus was getting ready to join the EU in 2003, a European Commission report found no problems with its banking sector. Neither did the European Central Bank (ECB) when it assessed Cyprus's suitability for Eurozone membership in 2007.

The chaotic first agreement was drawn up by the Eurozone and IMF on 16 March with a plan to restructure Cypriot banks, which taxed depositors with deposits under €100,000 in flagrant breach of the spirit of EU law. Amid public outcry and market turmoil, this agreement was shot down within 24 hours, as Germany, France and the EC disavowed it before the Cyprus parliament rejected it. As the deal fell apart, an ‘appalling political mess’ created by the Eurozone further crippled Cyprus’s financial sector.

The Cyprus crisis was made in the Eurozone. It was then made worse by the bullying and threats which have become such a feature of Eurozone politics. Such imperial heavy-handedness no longer shocks observers, as many, including in the liberal New Yorker, now argue that the end justifies the means. ‘The EU and Germany are right to bully Cyprus’, opined John Cassidy. ‘In this story of David and Goliath… there is a twist. To a large extent, Goliath is in the right.’

There is an unhelthy development of anti-German sentiment, articulated stridently by the New Statesman and picked up by the Guardian yesterday in their centre page spread entitled ' **Is Germany too powerful for Europe?** '. The Munich-based sociologist Ulrich Beck is quoted as saying "The new German power in Europe is not based as in former times on force. It has no need of weapons to impose its will on other states. It has no need to invade, and yet is ubiquitous... In the countries most harshly affected by the crisis, many people think they are losers because the austerity policy pursued jointly by Berln and Brussels deprives them of their means of livelihood - and also of their dignity." In case that didn't get you going, Ulrich is then quoted as saying "Suffering purifies. The road through hell, the road through austerity, leads to a heaven of economic recovery... The Germans no longer wish to be thought of as racists and warmongers. They would prefer to become the schoolmasters and moral enlighteners of Europe."

The hostility to Germany rather misses the point about how this is a much broader European institutional problem, that undemocratically imposes its will as an institution over-riding national sovereignty.