Lessons and Warnings from Cyprus

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By Roberto Orsi

The news from Cyprus would have arguably struggled to reach the front page in most European nations if not for the envisaged measure of tackling the financial problems of the country by seizing part of the money deposited – both by foreigners and locals – in the banks of the island. This was of course a major step which surely should have been considered more carefully by the finance ministers of the Eurogroup in the early hours of March 16. This for at least three reasons.

Firstly, because even if experts may argue that this measure is technically possible according to current regulations, it certainly goes against the broader principle of free circulation of capitals, namely one of the pillars of the European construction.

Even more, seizing money on private deposits of people by shutting down the banks for nearly two weeks generates a sort of state of exception, a break in the overall sense of safety and rule of law which does not comply with the very idea of Europe as the association of countries which function with certain legal standards, and where sudden breaks of such order are not supposed to happen.

Most importantly, broadening the scope beyond the relatively narrow confinements of the Cypriot financial bailout, it generates a politically very relevant image of the EU, and of the Eurozone in particular, as the exact contrary of what was told for decades to every European, namely that the EU was an area of prosperity. This image is now clearly in disarray as more and more Europeans are critical against the management of the crisis at continental level, against the very way in which the euro was constructed and regulated (if not of the whole idea), and, for those who still have not joined the monetary union, doing so has become less and less appealing.

Italians may not have been taken completely by surprise when hearing what was unfolding in Cyprus, as most of them still remember that a similar levy (0.6%) on savings was imposed by the government led by Giuliano Amato in 1992, precisely in order to reach the financial targets which allowed Italy to join the euro. This original sin of the common currency in Italy has never entirely been forgotten, although the contribution was far more limited than the one requested to bank deposit holders in Cyprus. Of course, the Cypriot case sets a fresher precedent, and potentially a much more dangerous one, also precisely against the background of a less and less prosperous Europe.

The precedent does not only work according to the logic that “if it happened there, it may well happen here”, but most importantly because of a set of principles have been legitimized in the model of bailout procedures, which can and perhaps should, for sheer reasons of *aequitas*, be applied to the next bailouts. The principles which the Cyprus case has been indirectly endorsing are that of direct responsibility of the citizens for the financial destiny of their state, and the idea that private citizens’ wealth can immediately be tapped in order to compensate for the financial shortages of the public sector. The problem of equality is particularly manifest when considering how the Cypriots have been facing seizure of their private assets while Greeks, Portuguese and Irish have not. More broadly speaking, the unevenness with which the problem of bailouts has been addressed is very remarkable, considering the official status of legal equality supposedly guaranteed to all member states. Here a problem of political management may no longer remain hidden beyond the thin curtains of financial and legal technicalities.

Another front of the Cypriot situation concerns the issue of political and geopolitical management of the island within the EU. The fact itself that Cyprus has become such a big problem for Europe reveals the shortsightedness of the country's accession to the bloc, when everybody knew the true nature of financial business being operated on the island and its stakeholders, when a third of the country is militarily occupied by Turkey and when the economic contribution of Cyprus to the monetary union was certainly questionable from the start. The shortsightedness has been now again reproduced by the very measure of the bailout, which is posed to destroy the most profitable part of the Cypriot economy – the financial sector – without any clear plan for the reconstruction of the island's productive structure, so that we can rest assured that, as in the case of Greece, this first rescue will be only the first of a series, if Cyprus will not instead decide, or will have to decide, to leave the Euro and possibly the EU. Moreover, the regime of capital control imposed on the island is indeed creating the first embryo, by virtue of technocratic decisions, of a Euro-2 for Mediterranean countries, to which different rules apply. Is this somehow the will some actors, or the product of an historical accident, and the unintended consequence of the bailout? Again, the issue here is political: lack of political vision, lack of organizational method, lack of coherence, ubiquitous improvisation.

One last point is for me political-philosophical. After decades in which political leaders and intellectuals have been joyfully proclaiming the end of the nation state in the name of the "global", funnily the citizens of a nation state are now obliged to pay with their savings for the bankruptcy of the state they still, in all evidence, *belong* to. So states have to go global, and give up sovereign powers and steering capabilities to global forces. But then, paradoxically, precisely the lack of steering capabilities and instruments, the internationalisation of production chains, the elusiveness of capital flows, is generating a situation in which, despite the triumphalistic rhetoric of the global, we are all chained to the sinking ship of the state. So either we should embrace "globalistan", let the state die (accepting its consequences) and free everybody from any obligation to the state, including clearly any financial responsibility in case of state bankruptcy, or we should keep the state afloat, restoring its steering capabilities on most elements of the economic cycle (maybe at European level, with a European *Bundesstaat*). In the current situation, it seems that we are simply paving the way for increasing amounts of politically unmanageable chaos.

In conclusion, I have little doubt that, excluding future, very courageous reforms of the Eurozone and its economy (not to mention of the underlying demographic and social arrangements), the Euro in its current form has no future. The events in Cyprus have shown that the European institutions and political actors are condemned to accumulate one mistake after the other, because there is simply no long term vision of how to reform the economy of the Eurozone, more than its financial structure. However, the suspicion is that this inability to deal with the economy in a different way from the current kicking-the-can-down-the-road fashion has its roots in the broader cultural context and education of the European leadership, not to mention the very idea of "what is Europe". But this deserves at least another post.
