Cyprus, or the Supreme Contradictions of Neoliberalism

The Cypriot adventures ended up demonstrating the new reality prevailing in the European Union. Namely, in this world dominated by national egoism, careerism and the Brussels technocracy, nothing advances and it is strictly impossible to progress without crisis. Bureaucracy and European inertia, coupled with petty calculations of the respective leaders of each member country can indeed only be moved under the ax of financial markets and under intense media pressure. Never mind that unnecessary crises may have to be created. As everyone now knows, the EU will not be dismembered and it will be preserved, the main actors (i.e., Germany) skillfully exploit these structural defects while using the lever of threat – or blackmail – to achieve their ends. Hence the categorical refusal to support small Cyprus without confiscation of bank deposits. Indeed only the spectra of a rise in power of the financial crisis with its lot of market liquefaction, bank failures and at the end of it all, the worsening of an already unsustainable unemployment, are proving quite effective. Because only these threats can be conveyed to the affected populations as the very bitter pill of austerity. In this respect, the Cypriot narrative perfectly illustrates this operation. This storytelling masks a hardly blameless reality for European citizens. However, the official history of blood and tears, the announced implosion of markets where we are told that it ravaged the real economy, the cataclysmic demise of the single currency, gradually badly hide the all-powerful lobby of nations which pull the strings and is obviously led by Germany. And that we stop hearing the eternal refrain of the “clash of two European models”. From this Mediterranean Europe which consumed endlessly (including German products) to Northern Europe which is ageing and which therefore is logically obsessed with preserving their savings. No! The continent is moving now to the Wagnerian score that seeks to transform us into global export machine. Which steamroller – whose ultimate goal is to unify Europe – can only move forward decisively under the pressure of dramatic events. That’s why a turn of events in the smaller European countries (representing less than 1% of EU GDP) turns into melodrama rocking the very foundations of the Euro. Which explains why a molehill becomes a mountain. If I were
the European Minister of finances, I would for sure jump on the bandwagon of this psychodrama and declare invariably serious events if you do not persevere with the rigor that is our only way out. After Cyprus, isn’t there… Slovenia which is likely to sweep us away? We owe the unprecedented intensity of “sovereign debt crises” like its past and future relics to the “Made in Germany” factory of crises. It is thanks to it that the poorly-named European Central Bank looks away while unemployment affects more than one in two young people in some of the “Club Med” countries, which are inadvertently inspired by the cicada. By stifling solidarity and stoking egos, German imperium lays the groundwork for social and identity conflagrations in Europe.

How was the European Union able to tolerate in its midst – or at its level – nations which favored such banking and financial growths? And why did it not seek to contain – when there was still time – this development, all the more morbid as the relevant countries were tiny in size? Indeed, Iceland, Ireland and Cyprus owed their meteoric prosperity to the sprawling development of their banking “refuge”, which would make so much profit that it eventually became incommensurate with respect to the size of the economy that housed it. Too massive to be saved or “too big to save”… Thus the bank deposits in the Icelandic financial institutions culminated in 980% of this small island’s GDP, i.e., proportionally ten times the bank loans in the United States. While Ireland had a large banking system, 440% of its GDP and Cyprus 800%! Iceland, however, was able to pull out of it more honorably than Ireland who suffers always from having its citizens absorb the losses of its banking system. Having actually declared default toward its foreign depositors and on its offshore accounts, Iceland was also able to benefit from a flexible currency whose fall led to the devaluation of the deposits of its investors. It is therefore only due to a financial repression in good and due form – coupled with a temporary control on capital – that Iceland was able to recover. Knowing that losses on deposits in Iceland were much more substantial than those that would be imposed on the Cypriot bank accounts, which would receive more lenient treatment. Yet Cyprus found itself at a crossroads, faced with a fundamental choice. Look fully and finally to Europe, or continue to maintain a banking system sheltering very questionable fortunes. If its past banking excesses – and its some 20 billion Euros in Russian funds deposited in its banks – enabled it up until then to tax its citizens at lower rates and avoid investing in a sustainable economy. It now became intolerable – after soon six years of financial crises – that a nation leaves its banks to metastasize, without being able to support them in case of need, let alone correct their abuse. But let’s not only stigmatize small Cyprus. Doesn’t asset under management in Singapore attain 7.7 times its GDP?
Did only the balance sheets of UBS and Credit Suisse rise to three times the Swiss GDP, whose bank balances are 6.8 times GDP?

So many statistics indicated that there was decidedly something rotten in the kingdom of the global financial architecture. Did not the absolute freedom of movement of capital, established in the 1970s, began at the same time an era of repeated financial crises and speculative bubbles? Are the successive crises in Latin America and Asia – which were the prelude to the big implosion of Western countries which started in 2007 – not directly attributable to an abuse of leverage as a result of the free movement of capital? Both made possible due to poor banking and financial regulation? While it is clear today that the reestablishment – at least in some form – of control of international capital flows would only be effective if adopted on a global scale, or at least by the G20 countries to start. The Cypriot episode confronts a reality that should finally allow the right questions to be asked: should not the full liberalization of movement of capital be amended? If globalization was – in theory – full of hope and prosperity for some nations and regions of the world, it has also proved disastrous for the countries unable to regulate a sprawling and uncontrollable banking system designed to make profits worldwide. Ditto for the European construction: great project and ideal on the verge of sinking due to no centralization, common banking regulator and shared taxes. Birth defects with immediate consequence that a Cypriot Euro is not worth a Luxembourg Euro, because of no common deposit insurance, which cannot be agreed to without a common regulatory banking authority. As each member of the European Union has, in reality, a qualitatively different currency, despite a cosmetic or synthetic Euro which no longer deceives anyone. This European monetary union meant to stabilize material comforts to promote harmony among peoples has now been transformed into a precarious factory. Hope, however, does not seem lost, and in this respect, to pay depositors – creditors – is a giant step and a notorious intellectual effort in the right direction. If it is fundamentally unfair and unacceptable to help small savers. If it is absurd to implement such a tax for the sole purpose of balancing public accounts in order to sink your teeth into a stupid orthodoxy. To tax the wealthy – or to collect a certain portion of it – gives states an alternative that they cannot afford to overlook in a European context where the ECB refuses to use its printing press. By the end of 2011, the very influential Boston Consulting Group had predicted that nearly 30% of global wealth would gradually be absorbed by the states themselves under pressure to absorb their losses by the financial markets and the orthodoxy requiring the balance of public accounts. According to the institute, it is indeed no less than $21 trillion in debt that our Western countries should absorb by monop-
olizing 28.7% of the wealth of the affluent western classes, which amount to $74 trillion!

All countries will obviously not be housed in the same boat. The Handelsblatt cites the case of Italy where the average private wealth is 164,000 Euros, compared to Austria where it is 76,000, to deduce therefrom that – on paper – this country suffers from no debt crisis. Indeed, while the Italian individual assets (again according to the BBG) reach 173% of the GDP of this country (compared to 124% in Germany), would not it be tempting (and understandable) for the Italian authorities to take 15% of this wealth to get their public debt below the level of 100% of GDP? In an environment where austerity and lack of endemic competitiveness cripple the majority of European countries. While it is very difficult to restructure debts due to a fragile banking sector. And as it is impossible to convince Germany and the ECB to reduce further real interest rates through quantitative rate cuts. The only lifeline available to states, the only path allowing them to invest in their economies and increase their money supply to boost inflation expectations – and thus promote growth – will be confiscated, or taken by force, available cash in bank accounts. Whatever the outcome, the Cypriot case in this regard is a clear signal of this paradigm shift induced by the dominance of neo-liberalism. Thus it is tripping over its own contradictions: it is indeed a flat rejection of printing money, it is also its stubbornness to establish rigor mainly for ideological reasons that are forcing states to take money from where it is, i.e., from the wealthy. At the very ones who are the most ardent supporters – even developers – of neo-liberalism!