Cyprus Postmortems: Economic Depression is the "New Normal"

By Stephen Lendman
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Solutions worse than problems don't resolve them.

Cypriots face protracted hard times. Former IMF chief economist Michael Mussa explained three kinds of crises: liquidity, solvency and stupidity.

BoomBustBlog's Reggie Middleton says "economic depression is the new success." It's the new normal.

> "The danger of Cyprus' bankruptcy (and) tragic consequences for the economy and society are just getting started."

Eurocrats lied. They claim "boiling slowly in a pot of austerity flavored depression is preferable to a quick and clean exit and rebirth."

Cyprus reflects a watershed moment. Confiscating personal wealth becomes official government policy. Eurocrats and Cypriot officials bypassed parliament. Ordinary people had no say.

Euro Group head Jeroen Dijsselbloem said extracting wealth from depositors becomes a model for other troubled economies. He left no doubt what he means. He wants grand theft made official policy.

> "If there is a risk in a bank, our first question should be 'Okay, what are you in the bank going to do about that," he asked? "What can you do to recapitalize yourself?' "

> "If the bank can't do it, then we'll talk to the shareholders and the bondholders. We'll ask them to contribute in recapitalizing the bank, and if necessary the uninsured deposit holders."

> "The consequences may be that it's the end of story, and that is an approach that I think, now that we are out of the heat of the crisis, we should take." According to

According to Karl Denninger:

> "When you enter into an investment, whether you make a deposit in a bank or buy a bond or something else, you are buying into a capital structure in a given place with a given and declared level of both risk and potential reward."

> "You price that risk and your willingness to enter into the transaction with the full

understanding of where you are in that capital structure."

"When that is unilaterally changed retroactively you are being stolen from."

"Period."

It's "wrong."

It's "actionable. It remains (so) whether the courts recognize it or not, just as theft from a drug dealer is actionable even though the dealer cannot go to the police and report the fact that you stole his stash because what he's doing is illegal."

"Goodnight Europe." Cyprus established a "template." It's unprecedented. Other troubled Eurozone countries may follow. Perhaps they all will. America also. It can happen anywhere.

Financial theft today is commonplace. It's frequent and severe. Everyone's harmed directly or indirectly.

Cypriot banks won't open until March 28. Perhaps they'll stay closed longer. Bank holidays can last longer than expected.

Bank of Cyprus (BOC) is the island state's largest bank. On March 26, chairman Adreas Artemi resigned. He cited differences with central bank policy.

It relates to recapitalizing BOC. The Central Bank of Cyprus appointed an administrator without the board's knowledge. Artemi said the central bank had recapitalization plans ready in January. It didn't tell board members.

On March 26, Cyprus Mail headlined "Eurogroup deal designed to kill off Cyprus, not cure it," saying:

A so-called "best possible deal....will push us into a prolonged slump that will shrink the economy beyond recognition, as businesses will close down and the numbers of the unemployed will keep rising."

Businesses will lose considerable capital. They'll be unable to operate and pay creditors.

Confidence in Cypriot banking was "shattered." Other Eurozone countries are affected.

Months earlier, Eurocrats said Cyprus' public debt was sustainable. In July 2011, its three largest banks (BOC, Laiki and Hellenic Bank) passed an European Banking Authority (EBA) – European Central Bank (ECB) stress test.

Results were rigged to hide trouble. Nicosia's Finance Ministry said measures banks took or planned increase their solvency. Government officials stand ready to do whatever it takes to maintain financial stability.

Cypriot troubles were suppressed. "IMF, Eurogroup and Commission members" lied. Sustainability is impossible "now that they have killed off all economic prospects for the next five to ten years." Most likely it'll be much longer.

Financial Times contributor Ben Hall headlined "Six ways Cyprus has hurt the eurozone," saying:

Bailout terms did “serious harm to the eurozone, and further undermined the credibility of its crisis response.”

Deposits are no longer safe. Authorities can order them confiscated.

Capital flight is more likely. Depositors worried about safety will exit post haste.

Cyprus and other Eurozone countries have unsustainable debt. Bailouts increase it.

Troika officials are “disunited….The Commission bears responsibility for backing a levy on insured deposits.” Doing so lost trust.

Cyprus’ political process failed. “The fact that the bailout deal requires the approval of eurozone parliaments but not (Cyprus legislators) raises questions about democratic legitimacy.”

Power brokers gave Cyprus few options. Germany wants things its way. It wants its burden offloaded on ordinary people.

FT’s Lex headlined “Cyprus: crossing the green line. Ham-fisted ‘rescue’ could have serious long-term consequences.”

> “Overnight, Cyprus has become an offshore banking centre without a banking system.”

The “rescue” deal “devastate(s) the Cypriot economy.” It’s baffling how a small country “caused so much trouble.”

Capital controls make a bank run likely when lifted. Cyprus remains a Eurozone country. Angry people face disaster. They’re hung out to dry with no recourse.

PIMCO’s Mohamed El-Erian calls implementing Cyprus’s deal “very challenging.”

It may prove mission impossible. Eurocrats haven’t addressed what’s most important: “how to improve growth and employment prospects in a significant and sustainable manner.”

If fully implemented, bailout terms avoid imminent financial collapse. They do so at great cost.

Ordinary Cypriots will be harmed most. Economic conditions will contract sharply. Challenges are significant.

They won’t “be overcome easily and immediately.” They won’t “enhance Cyprus’ ability to grow and create jobs.”

Dismantling its offshore financial industry “loses an important driver of domestic activity.”

> “(N)o one should underestimate the social costs and related risk of political dysfunction and protests.”

Deal terms destroy corporate working capital and domestic wealth. Solutions do more harm than good.

It remains to be seen what follows. Long term pain is no substitute for short-term relief.

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