GlobalResearch
Center for Research on Globalization

Cyprus: Savage Austerity Measures and Economic Dictatorship

By Jordan Shilton and Chris Marsden
Global Research, March 24, 2013
World Socialist Web Site

Region: Europe
Theme: Global Economy, Poverty & Social Inequality

Cyprus' fate illustrates how the European Union imposes the dictatorship of the global speculators, banks and corporations on the working class. The EU yesterday continued to demand massive austerity in Cyprus to raise €6 billion ($7.8 billion) in return for a €10 billion bank bailout.

The island country has been the centre of an escalating financial crisis, with its parliament voting Wednesday to reject proposals to raise the necessary funds by taking money from anyone with deposits in Cypriot banks.

A new vote on whether to impose a "haircut" on depositors was delayed until today. The EU and European Central Bank (ECB) dismissed proposals by Cypriot politicians—themselves wholly reactionary—to create a "solidarity fund" to raise the six billion demanded.

Cyprus's aim was to preserve its financial relations with Russia and force workers to pay the price by nationalising pension funds to pay the debts of the super-rich. Other proposals included seeking contributions from the church and selling gold reserves—all in order to avoid levying a significant one-off levy on major depositors.

However, the EU bluntly dismissed these measures as insufficient. German Chancellor Angela Merkel declared baldly after a parliamentary meeting of the Christian Democratic Union (CDU), "We want Cyprus to remain in the euro zone", but insisted that its "current business model is dead."

The ECB has insisted that the levy on investors should be re-imposed—this time with a widely-anticipated penalty of 15 percent on depositors with balances over €100,000, as initially rejected by Nicosia. If not, it was made clear that proposals had been discussed to prepare for and limit the impact of a Cypriot exit from the euro zone.

With Cyprus unable to offer Moscow any guarantees in return for an appeal for additional funds towards the bailout shortfall, the island's ruling elite has been thrown back on the tender mercies of the EU. After travelling to Moscow Tuesday, Finance Minister Michalis Sarris left on Thursday without any further funding from Russia and only an agreement to extend terms on the €2.5 billion loan first agreed in 2011 and due for repayment in 2016.

Russian Prime Minister Dmitri Medvedev said "the door had not been closed" to possible future support, after the EU and Cyprus had concluded an agreement. But the EU has done all it can to slam the door on Russia. In the process it intends to seal the fate of Cyprus's inflated banking sector to the benefit of Europe's major banks.

The troika—the EU, ECB and the International Monetary Fund—are determined to put Cyprus on rations, demanding savage cuts. On Thursday, reports had already begun to emerge of the crippling impact of the shutdown of the country's financial sector. Medication was beginning to run out in hospitals, and many businesses were demanding payment in cash for fear that credit cards would never be charged, should the banks fail to re-open.

To enforce what amounts to social warfare against the island's inhabitants, the Cypriot government is to impose draconian powers over the running of the economy.

Primarily, the Central Bank of Cyprus will be granted powers to determine whether or not transfers outside of Cyprus will be allowed. This measure is necessary from the point of view of Europe's ruling class to protect against contagion from the crisis in Cyprus, which could trigger massive losses on the markets globally and the outflow of capital from other crisis-ridden countries of the euro zone.

While power over the flow of money in and out of the island is formally held by Cyprus, Germany's leading financial publication *Handelsblatt* noted that, in reality, the ECB will exercise control. This will include controlling the payment of pensions and other state benefits. *Handelsblatt* remarked chillingly that Cypriot citizens would "receive the necessary funds to live."

Other proposals for Cyprus' banks are targeted against the country's own citizens. They include restrictions on daily withdrawals, a ban on premature termination and compulsory renewal of all time savings deposits upon maturity, the conversion of current accounts to time deposits and restrictions on use of debit, credit or prepaid debit cards and on cashing in checks.

In addition, the legislation provides for the implementation of any other measure which the Finance Minister or the Governor of Cyprus Central Bank see necessary "for reasons of public order and safety."

This is a recipe for a de facto financial dictatorship. And this must find its corollary in repressive police measures to quell social and political opposition in the working class.

The focus may now be on Cyprus, but working people across Europe confront similar prospects: an ever escalating and devastating decline in living standards, attacks on basic services, and the creation of mass poverty. In threatening the nuclear option of provoking state bankruptcy and being thrown out of the euro zone, the EU and ECB are putting Greece, Spain, Portugal, Italy and Ireland on notice that their economies, too, will face destruction if there is any let up in the imposition of austerity.

On Thursday, Dutch Finance Minister Jeroen Dijsselbloem warned the European Parliament that the Cyprus debt crisis posed a "systemic risk" to the euro zone. Even the strongest economy, Germany, is not immune. A poll published by *Der Spiegel* on Friday showed that one in two Germans feared for their bank savings and a survey of business confidence showed an unexpected fall after four months of growth, with industrial orders to German firms declining in January by 1.9 percent, mainly due to a drop in orders from Europe's crisis-hit periphery.

The spur for the downfall of Cyprus came initially from the collapse of Greece. The Greek-Cypriot-controlled south lost more than €4 billion when President Demetris Christofias agreed to a "haircut" of Greek sovereign bondholders without exempting Cyprus—increasing debts by 25 percent at a stroke.

No compromise is possible with the dictates of either the EU or the governments in its member states that act as nothing more than glorified enforcers of the rapacious demands of the super-rich. Whatever promises are made that austerity will restore the economy are lies.

Articles by: **Jordan Shilton**
and **Chris Marsden**