Dealing with the financial crisis in light of developments in Cyprus: Europeanisation or Germanisation?

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The latest proposal of the Eurogroup, regarding the bail out of Cyprus has caused unprecedented unrest that has not been limited at the national or even the European level. The essence of the proposal is for Cyprus to contribute a third of the overall financial assistance required via a haircut in depositors' money, including even the average account holder whose deposits do not exceed 100,000 euros (i.e. deposits otherwise fully guaranteed). In the last Eurogroup meeting, German finance minister with the backing of his northern allies and with the blessing of countries possibly envying Cyprus's success as an international financial centre, cold-bloodedly blackmailed Cypriot officials with a 'take or leave it' deal. Cyprus had to accept the principle of haircutting deposits (a red line for Cypriot negotiators, even considered to be a 'stupid idea' by the Finance Minister) otherwise the island's second largest commercial bank would be instantly refused further emergency liquidity assistance and essentially be left to collapse, possibly taking down with it the whole economy.

The proposal of the Eurogroup resembles greatly the infamous 'golden rule', i.e. the one who has the gold makes the rules. Germany, being the leading economic power in the EU, with the support of other northern European countries that aspire to its successful export-led economic growth model, has been the country effectively setting the guidelines for EU members in need of financial assistance. Far from the European ideals which respect and promote solidarity among the European people, Germany has stubbornly refused any attempt to acknowledge the particularities of the economic growth models of those countries in need and has instead tried to enforce its own policy remedies in a 'one-size fits all' manner, without foreseeing the likely dramatic consequences of such action. Ironically, Germany has benefited greatly by sharing a common currency with these countries which has enhanced trading and allowed the country to accumulate an astonishing trade surplus.

Specifically for the case of Cyprus, it has been evident that Germany, led by its uninspiring political elite (Angela Merkel and Wolfgang Schaueble), has eyed Cyprus's economic growth model and, deliberately or not, has initiated a process of bringing it to a halt. The knock-on effects from this matchless decision targeting bank depositors cannot be calculated precisely. What many fear is that such decisions may fuel a vicious circle of economic recession from which Cyprus cannot – and will not – escape easily. Even more, fears of creating a precedent and a possible repeat of such action in other suffering South European states has further exacerbated panic, unrest and uncertainty, which essentially put at risk growth prospects in these countries as well. Germany has once again been short-sighted in proposing solutions that do not consider if and how a country's economic growth model can adjust, but which instead simply aim at getting the math correct.

Undoubtedly, those states in need of financial aid have to take painful measures of the past and adjust accordingly their growth models taking into consideration errors and inefficient practices that urgently needed reform. Yet one needs to place the measures proposed within the right context weighing, on the one hand, the fact that the rescue aid is based on European tax payers' money that cannot be spent light-heartedly and, on the other, the need not to eliminate any future growth potential for the recipient country. Germany, being the leading power and contributing the most to the ESM, certainly should have a strong say in the rescue packages discussed but it cannot exclusively and unilaterally determine the fate of the European people within a narrow-minded context, since this has up to now had a boomerang effect and has failed to rescue the states in need.

By becoming a member of the EU, any state foresees a Europeanisation process that will have multifaceted benign effects for the economy and society on the whole. What we are experiencing now is instead a process of Germanisation that, in my opinion, can by no means be the answer to the problem. It is in such times that it is more evident than ever that the EU lacks charismatic leadership that could unite Europe in its struggle out of the crisis.