Written by **Charles Scaliger** on March 19, 2013

Will the EU Sink Cyprus?

The specter of default has reached the shores of Cyprus, the latest country in the Eurozone to require an EU bailout in order to stay afloat. The island nation in the eastern Mediterranean has one of the smallest economies in the Eurozone, but, because of close financial ties to Greece, its finances have been on the ropes since the Greek debt crisis began.

Now it's time to pay the piper — and Cypriots are shocked at the price to be exacted by the international banking cartel. In a deal hammered out in Brussels last week and announced by Cyprus' president Nicos Anastasiades, the government was planning to confiscate 10 percent of all savings in bank accounts holding more than 100,000 euros, and 6.75 percent of all savings from accounts having less than that amount. It was necessary, Anastasiades assured Cypriots, in order to prevent the "catastrophic scenario of disorderly bankruptcy." As compensation, accountholders in Cyprus' banks are being issued shares supposedly equivalent in value to the money being confiscated.

But the people of Cyprus aren't buying it. When the measure was announced, throngs of shocked Cypriots lined up at banks and ATMs to withdraw their money, only to have the banks close their doors and switch off their ATMs. One angry Cypriot threatened to break into a bank with his bulldozer. As one British expatriate in Cyprus, whose retirement savings are about to be looted, told the BBC, "This is robbery and we must get the EU to stop this. We retire and bring our savings to a bank in Cyprus and they can just take our money away without permission and then say we have shares in a bankrupt bank."

Yesterday — Monday — was already set aside as a bank holiday, with the "levy" to be carried out following a vote the following day. But things are becoming complicated. For one thing, billions of dollars held in Cypriot banks belong to Russians, including well-connected Russian oligarchs. Prior to the surprise EU deal, Moscow had agreed to help out Cyprus with a 2.5 billion euro loan of its own; now, with many of her wealthiest citizens about to be looted by the EU, Russia is furious.

An even more serious potential outcome is the long-dreaded "contagion." Now that the EU has displayed its willingness to openly and brazenly loot the wealth of the thrifty and the provident to bail out profligates, Europeans are wondering whether it could happen again — in Spain, for example, or in

Italy, if the stakes get high enough.

For the EU and the government of Cyprus have openly violated an unspoken rule of bank conduct, in force in Europe and the United States since the Great Depression: Thou shalt not take depositors' money directly. Depositors, after all, can carry out runs on banks' assets if they get too spooked, and put their money out of reach of the grasping hand of government if they are pressed hard enough. The tried and true method of bailing out the banksters has been by looting the taxpayers instead, a device that is much harder for the little people to resist or circumvent. Up until now, it is the means that the governments of Europe and the United States have used to keep the well-heeled afloat during the Great Recession.

Abashed at having so badly misplayed their hand, authorities in Brussels and Nicosia are in damage control. Several more days' worth of "bank holidays" have been declared, and the vote on the levy has been delayed at least until Tuesday evening — and possibly longer — in order to "build consensus" (Politician-ese for "arm twisting"), according to Cyprus' parliament speaker. Cyprus' central bank, predictably, is in full alarmist mode, warning of dire consequences if Cyprus' parliament balks. "The most important question is what would happen the following day if the bill isn't voted, warned Cyprus' aptly-named central bank governor Panicos Demetriades. "What would certainly happen is that our two big banks would need to be consolidated. This doesn't mean that they would be completely destroyed. We will aim for this to happen in a completely orderly way."

In point of fact, the trick of offering overvalued shares in exchange for confiscated savings about to be carried out in Cyprus has been used before, by the Argentine government in its massive financial crisis in 1999-2002. In that sorry spectacle, the government froze all bank accounts in a series of draconian moves called the "corralito." Eventually, a portion was returned to Argentines, but the balance was "paid for" with bonds backed by the dubious word of the Argentine government. And even after that expedient, Argentina ended up in a "disorderly" default, as Cyprus, and the rest of the Eurozone, will eventually experience once the savings of the EU's citizens are drained.

Long before the Argentine collapse or the Cyprus debacle, the U.S. government, during the Great Depression, confiscated privately held gold and forced Americans to accept overvalued paper money in exchange.

The lesson the Cypriots are the latest to learn is that no act of grand larceny is too underhanded for desperate governments, when they are forced to choose between paying their creditors and allowing their citizens to keep their property. The reason is that creditors, unlike taxpayers, do not balk at handing over to politicians whatever extravagant sums they require to carry out the illegitimate activities of Big Government — militarism and welfarism. Creditors require only that the interest payments continue to flow. And when, after the state's reckless borrowing has run its course and the day of reckoning arrives, as it has for Cyprus, bank doors are closed, accounts drained, foreign currency and precious metals confiscated, and property seized, and the painful reality — that governments always serve their creditors first and their constituents second — is finally laid bare.

This is the same choice our own political leaders have made in the past and will make again, to the enormous detriment of Americans, who — unless government spending is reined in, and quickly — will see their hard-earned savings and pension plans looted and their property confiscated, when the federal government can no longer pay its bills.

Photo of protesters against the EU in Nicosia, Cyprus, March 18: AP Images