

The Relation Between Business Interests and the State during the Period 2010 -2020: State and Social Agents in the Period of Neoliberal Assault

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Abstract

This paper examines the relation between the political elites and business interests in Cyprus, and how the elites attempted to enhance their position during the period 2010-2020. The methodology is social-historical. Its empirical data are drawn from the major political and economic events during the period under review and are contextualised in broader systemic trends, such as the global banking crisis and the ambiguous, borderline status of the island. The banking mechanism (as a representative of finance capital) and its relation to other forms of capital (developers/construction industry, law firms and large accounting firms related to foreign capital and the ‘golden passports’ scheme as it turned out, and media owners) will be the focus in analysing business interests.

Introduction: The Socio-Historical Context

The decade of 2010-2020 was a novel period in the politics of the Republic of Cyprus.² For the first time since independence in 1960, State power was administered by a political party, DISI³ (Democratic Rally/*Dimokratikos Sinayermos*), whose leadership proposed a ‘modernization’ which included the adoption of neoliberal economic policies, i.e. de-regulation, privatisation, and a focus on free markets. The following analysis will attempt to evaluate the success or failure of this effort.

To move on with this evaluation, we need to comprehend the, until then, existing forms of macroeconomic management. In this context, this essay relies on previous historical analysis by the author, who codified the Cypriot model of the welfare State as a form of class compromise, which emerged after the bitter class conflicts of the period 1920-50. These conflicts were a reaction to a form of proletarianisation due to

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² Implying primarily the Greek Cypriot (G/C) political landscape given the de facto separation of the two communities pending a reunification solution.

³ DISI, albeit with a different leadership, had ruled also in the period 1993-2003 but, as noted below, with a much less neoliberal focus.

the impact of international economic trends on the local network of money-lending.⁴ That class compromise was based on the model of the British effort at regulating class relations and became even more entrenched after independence, and after the crisis of 1974,⁵ in both communities. The first attempt to challenge this class compromise came in the 1990s, when the right-wing DISI came to power for the first time since its establishment in 1976. But despite some timid rhetoric on the issue, nothing substantial was initiated. The major economic novelty of the period was the promotion of the stock market as a form of ‘popular capitalism’ in 1999. This popular capitalism (in which key players of the ruling party were involved) transpired to be nothing more than a scam. It was essentially a mechanism for the transfer of money from ordinary citizens, who were lured to invest, to a small group who evidently knew when to invest and when to sell.⁶ Another tentative move to a more free market economy was the ‘liberalisation’ of airplane companies, which, again, came to be associated with disaster after a plane belonging to a new Cypriot airline company, Helios, crashed in Greece in 2005 with 125 victims.

Two other ‘liberalisations’, however, which actually started in the period prior to DISI’s rise to power, were less controversial at the time, but were to prove very significant for what was to follow: banking became less introvert and progressively developed into a major vehicle for international money flows. At the same time, State control of electronic communication was relaxed and private radio and TV stations proliferated. Radio remained, to a degree, decentralised, but TV stations very soon became a powerful tool of the Right since the owners were people of money who belonged to or had interests with the Right, especially DISI, or the Centre if viewed in the context of the Cyprus Problem.

⁴ Andreas Panayiotou, ‘Business Group Strategies vis-a-vis Political Power: Invisible Dimensions of Linkage’ in G. Charalambous, C. Christophorou (eds), *Party – Society Relations in the Republic of Cyprus. Political and Societal Strategies* (London: Routledge) 93-110.

⁵ For the effort to construct a separate but still State-regulated economy, in the Turkish Cypriot community, see Nikos Moudouros *State of Exception in the Mediterranean. Turkey and the Turkish Cypriot Community* (Switzerland: Palgrave Macmillan - Spriger, 2021).

⁶ Christiana Argridou-Demetriou, Pani Karamanou Pani, Lena Petousi-Kleanthous, Application of Monetary Policy in Cyprus, 6.3.1. The Liberalization of the Financial Sector, 1996-1999, 6.3.2. The Cyprus Stockmarket Crisis in 2000 (Εφαρμογή της Νομισματικής Πολιτικής στην Κύπρο, Η ελευθεροποίηση του Χρηματοοικονομικού Τομέα 1996-1999, Η Κρίση του Χρηματιστηρίου Αξιών Κύπρου το 2000) in Athanasios Orfanides Yioryos Sirihias (eds), *The Cypriot Economy* (Κυπριακή Οικονομία) (Nicosia, Central Bank of Cyprus, 2012) 211-221 (in Greek).

The situation in the decade under review was, however, dramatically different. In 2008, the Left party, AKEL (Uplifting party of working people/*Anorthotiko Komma Eryazomenou Laou*) managed to elect its leader, Demetris Christofias, as president of the Republic. Until then, given the ambiguous status of the island,⁷ the leftist party preferred to support centrist politicians in power to avoid, or even resist, the Right, and especially the extreme Right wing which sought cover in DISI after the fiasco of 1974 when it joined a coup organised by the Greek military government, which in turn led to the Turkish invasion and de facto occupation of Northern Cyprus. The leftist leader created a coalition government with the centrist DIKO Party (Democratic Party/*Dimokratiko Komma*) and the small Socialist/Social Democratic party, EDEK (Unified Democratic party of the Centre/*Eniea Dimokratiki Enosi Kentrou*), which, however, withdrew from the government due to the compromising attitude of the president in relation to the talks on resolving the Cyprus Problem. The problem that the Left would soon face, however, was that the banking sector had expanded, especially after the Republic of Cyprus joined the EU in 2004, and the administration of economic policy was put under European surveillance due to the island joining the euro area in January 2008. Thus, the economic agenda of the Left would soon be under very close scrutiny both locally and at the European level. In that context, the Right with a new leadership had moved further to more explicitly neoliberal positions.⁸ At the same time, with the global economic crisis which originated in the USA

⁷ Indicatively, the Guarantor powers of the 1960 constitution had agreed among themselves that the leftist-communist party should be made illegal. The then president though, archbishop Makarios, refused to carry forward the pledge.

⁸ A shift to neoliberal positions occurred in part of the leadership of the centrist ally of the Left, DIKO. This party, and its historical leaders, were associated with the construction of the welfare State with the support of the Left (Peonides, 1995). In class terms, DIKO represented a section of the bourgeoisie (the other being represented by DISI). Its positions had been fluid. In the period prior to the 2010s (when the party was in alliance with the Left who helped elect DIKO's leader as president, in 2003-08) the party allied itself with Social Democracy in the European parliament and tried to mediate the confrontation between the Left and the Right locally. After its withdrawal from the government in 2011, it moved to a de facto alliance with DISI and then moved again to opposition, after 2018. Panicos Peonides, Andreas Ziartides, *Without Fear or Passion* (Χωρίς Φόβο και Πάθος) Pathos (Nicosia, 1995) (in Greek).

The causes of the role of DIKO and a section of the bourgeoisie towards more moderate positions was attributed by a historical figure of leftist trade unionism, to a 'more progressive' section of this class, after the conflicts of the 1940s. And to people from the Left who moved to the middle and upper class. See Ziartides, who, in the context of the emergence of the 'leftist employer/business man' referred to ex-workers/employees who had influential positions in the main business association, namely OEB (Employers and Industrialists Federation). See Panicos Peonides, Andreas Ziartides *Horis Fovo ke Pathos* (Nicosia, 1995) (in Greek).

in 2007, and the EU policy of ordoliberalism —the German-inspired version of neoliberalism which advocated State austerity as an answer to the spreading crisis— the time of neoliberalism seemed to have come for Cyprus.

The Assault: The Banking Crisis, Mari and the Rise of DISI to Power

The leftist government enjoyed relative popularity during its first two years of government. But the efforts of the president to move on with a solution of the Cyprus Problem started creating cracks in the coalition and reactions from the rejectionists of the Centre. Economic policy in this sense wasn't a major issue on the agenda until the beginning of 2011. During the parliamentary elections of May 2011, the Centre Left coalition had a rather impressive result reaching 48.43% of the vote, (32.67% with 19 parliamentary seats for the leftist party, AKEL, and 15.76% with nine parliamentary seats for its centrist ally, DIKO) while it was obvious that on internal policy the government could rely on the socialist party, EDEK (8.9% with five parliamentary seats), which had withdrawn from the government. In contrast, the right-wing DISI received 34.28% (and 20 parliamentary seats) and the extreme nationalist party, EVROKO, received 5.8% (with three parliamentary seats).

However, clouds were forming. The global economic crisis had spread to Greece where the EU imposed a memorandum of understanding which created a political storm, eventually leading to a crisis for the, until then, dominant socialist party, PASOK. Cyprus, in comparison, seemed relatively stable. It had a mild recession and seemed to be returning to growth. But it was becoming increasingly obvious in the spring of 2011 that the banking sector was in serious trouble, while the head of the Central Bank had allied himself clearly with the right-wing opposition in criticising the government, claiming that its economic policies were not pursuing the austerity needed, as the bankers' lobby also supported. There was in this sense a marked disagreement on economic policy, even though the finance minister of the government was in fact an ex-banker and his policies could be described as mild-Keynesianism.

On another note, Michalis Attalides raised the issue of the failure of the Greek Cypriot bourgeoisie to promote independence from which they benefitted vis-à-vis the option of annexation to Greece. It would seem in that case that business interests were served by the intervening State, and thus the Centrist, politically, section of it, relied on the State also for its interests. See Michalis Attalides, 'Factors Which Shaped Society' in *Cypriot Life and Society: Before the Independence and until 1984* (Κυπριακή Ζωή και Κοινωνία. Από Πριν την Ανεξαρτησία και Μέχρι το 1984) (Nicosia: Ekdosi Dimou Lefkosias, 1993) (in Greek).

As an independent factor of local business interests, one must also refer to the Church, which, in the period under discussion had a staunchly anti-Left archbishop.

But the underlying conflict which accompanied the political spectacle, which followed, had to do with the banking sector.

The underlying conflict suddenly came to the fore in July of the same year. While the government, from a position of power following the elections, invited the opposition for talks on the economy, an explosion at a military camp, in Mari, led to the death of 13 people (sailors, fire-workers, and officers). This put the government on the defensive. An impressive unanimity emerged in most of the press and TV stations, blaming the government and focusing specifically on the president. It is indeed hard to understand this looking at it from a distance and from a historical perspective. The documented information which emerged from the military camp, and which was subsequently documented by all investigations, was the following: the cause of the explosion was some containers confiscated (under pressure from the USA) by the government of Cyprus in 2009 as suspicious military material, which was destined for Lebanon-Syria. The government did not wish to keep the containers, but due to western (USA and UK) insistence via the UN, the government reluctantly agreed, despite their suggestions to hand over the confiscated containers to the UN (either in Lebanon or Malta). Subsequently, the story ran as a series of repeated failures by the military, including the local military camp, to protect the explosive materials (even, at the very least, to construct a cover over the containers, despite money allocated for it). Eventually, by February 2011, the involved ministries (defence and foreign affairs) decided to get rid of the material and assigned the army to investigate which parts should be sold and which should be destroyed. Despite clear signs of deterioration, and possible explosions, again the military did nothing. To make things worse, the local military authorities removed the guard for the containers. It was therefore possible that material was stolen.⁹

When in early July, the material in the containers showed signs of minor explosions, the local authorities continued to avoid taking any action, despite warnings from the fire department which visited the site. On the morning of 11 July, when the material was supposed to be removed,¹⁰ after instructions from the ministry, the explosion took place in the most unlikely of times, early morning before dawn, if one is

⁹ In his biographical account, Costas Papacostas, 2016, the then minister of defence, noted that there was an extreme right-wing group in the military camp which was about to be disbanded by transferring its members to other camps exactly on the day of the explosion. Whether this was a conspiracy or not, is an open, not investigated practically issue. (Kostas Papakostas, , *Wind-Battered Course (Ανεμοδαρμένη Πορεία)* (Nicosia: Fyllis, 2016) (in Greek).

¹⁰ Ibid.

to assume that the cause was summer heat. But even with the explosion taking place, nobody would have been hurt if the military rules of ordering the personnel to keep a safe distance had been observed. On the contrary, the military commander ordered a group of soldiers/sailors¹¹ to try to put out the fire with water hoses spraying the vegetation around the containers, which was supposed to have been already cut, per the advice/instructions of the fire department. Sadly, the military commander also ordered a group of firefighters to do the same, despite their documented reluctance. None of them survived.

On the basis of the above, the one-dimensional attack on the president of the Republic could be understood as an effort by the opposition to attack the government. But the unanimity of the media and obvious cases of misinformation and manipulation seemed overwhelming. Newspapers spanning the spectrum from neoliberal (*Politis* – which previously supported the government on the Cyprus Issue) to nationalists/rejectionist (*Simerini*) launched an attack based on blatant lies. For example, *Politis* claimed on its front page that the containers were put there by presidential order. But there were also two, not so hidden, subtexts: both neoliberal and nationalist media, and political blocs attacked the president for his friendly relations with the Arab countries (for example, Syria), which were not friendly with the West and Israel, and were also demanding, via the right-wing dominated media, emergency economic measures. Those measures demanded were uniformly directed towards the EU: in another strange occurrence, the opposition and the media seemed to want a memorandum which had created so much reaction in Greece and Spain. Ironically, the crowd mobilised by the Right outside the presidential palace were called “*ayanaktismeni*” (the indignant) after similar mobilisations in Greece and Spain, even though they were, in effect, allies of those who wanted a memorandum against which the original *Indignados* were protesting.

The discourse of the neoliberal Right was indeed mixing the two subtexts (geopolitical and economic) to avoid the responsibility of the banks: thus, via the right-wing controlled media, there were efforts to present the banking crisis as a public-sector crisis, i.e. the crisis was the result of high public-sector spending. Mari was presented in this context as ‘a major economic catastrophe’. Given this transfer of focus from the real causes of the crisis to a media spectacle about Mari, the ‘solution’, it was argued, must be a bailout similar to the one imposed on Greece. This was certainly

¹¹ The camp was a navy camp.

what the banking sector and other business group interests wanted,¹² and this would enable them to cover up for their scandals and failures.

The president, and the Left, held their ground on the economic demands, but fell victims to a naïve belief in the obviousness of their innocence on the causes of the explosion. Thus, given the pressure from the media and the opposition, the president appointed a lawyer, P. Poliviou, who had been for many years, and continued to be, the legal adviser to the Bank of Cyprus (at the time the largest commercial bank on the island) as investigator. Evidently, the president failed to see the connection of a coming banking crisis to the venom of the opposition. The appointment of Poliviou, a suggestion by the attorney general, seems to have been based on the fact that he had been the lawyer in the trial of the airline company in the 2005 tragedy – where he argued that the problem had to do with management during the flight and not with the broader organisation/company. However, the Bank of Cyprus lawyer would totally reverse his rhetoric in the case of the Mari explosion. In this case, he seemed focused on finding evidence that the president had received warnings about the containers so he could pin responsibility on him. Despite not getting the evidence, he presented the conclusion of his investigation in a theatrical manner, blaming the president personally in the fall of 2011.¹³

Given the paradoxes of that hysteria, we must look into the broader picture on the underlying issue of the banking crisis, which became clear almost a year later. The major banks, Laiki and Bank of Cyprus, had invested heavily in Greek State bonds. This investment continued even after the realisation of the sovereign crisis of

¹² July 2011 was indicative. In the midst of the Mari crisis, in a meeting on the economy on the 19 July, DISI demanded more measures (in addition to what had already been proposed) and the OEB issued an announcement demanding more ‘courageous’ measures, blaming problems on the public sector. This rhetoric would continue until the agreement on the memorandum in November 2012. Even in the fall of that year, the Right and the majority of the media criticised the president that he was not amenable to the demands of the Troika. Indicative of the fact that the media followed the bankers’ rhetoric of attacking the public sector and covering up for the banks, was a commentary by a journalist who noted with surprise, when eventually the memorandum was agreed, that he had discovered in the American magazine *The Atlantic* that the Cypriot bailout programme was the second biggest (in relation to GDP) in History: M. Evriviades *Fileleftheros* (9 December 2021) 5.

¹³ It should be noted that the evidence noted above was presented as documents in the Appendix, which seemed to play no significant role in his analysis. He seemed to be bent on blaming the president. The analysis strayed, interestingly enough, into a general commentary, as if it was pre-election speech. Apart from an attack on political parties, he also voiced the demand of the banking lobby: to ‘to realize that we belong to the West’. Leaving the innuendo that the problem had to do with the president’s effort at friendly relations with the Arab world.

the Greek State.¹⁴ In early July, before the Mari explosion, the consensus in Europe seemed to be that the only viable solution to the Greek crisis was a haircut of the bonds. This would mean, however, major losses for the two Cypriot banks. In the stress tests of that period:

In 2011, the European Banking Authority (EBA) carried out an EU-wide stress tests on 91 European banks, including Marfin Popular Bank (known as 'Laiki') and Bank of Cyprus. The results were published in July 2011. Both the banks passed the tests but only marginally; the passing capital ratio was set at 5% of risk-weighted assets under an adverse scenario of a 4% shock to real GDP. Banks that obtained a marginal pass, like the two Cypriot ones, were given until the end of June 2012 to raise fresh capital.¹⁵

It is interesting and analytically significant that the bankers (including their ne-liberal ally in the Central Bank, A. Orphanides) had known since July, during the 'Mari assault', that they had a problem. Thus shifting the responsibility, through the media, to the State and a leftist president who opposed covering up for the banks, was a realistic plan in front of a coming danger for the bankers' lobby and its allies. The marginal passing of the stress tests in July 2001 and the approved haircut of Greek bonds, meant, that the banks would need State assistance. Christofias was reluctant to appease the banks, especially if it meant covering up their responsibility. His first move, while under attack for the Mari explosion, was to secure a sovereign loan from Russia to avoid succumbing to a memorandum. But his move created more resentment from the banking lobby, which insisted that a memorandum was a better solution.¹⁶ In a way, the two subtexts, critique of not being pro-Western enough and

¹⁴ In an impressive testimony to this, Orfanides, the head of the Central Bank, allowed Laiki in the spring of 2011 to take over the Greek bank, Egnatia, which in effect piled its problems to the already existing problems of Laiki.

See Andreas Panagiotou, *The Banks, the Media and the Effort at Cover up, Diversion and Censorship of the Scandals (The Introduction and the Representations of the Economic Crisis in Cyprus (Οι Τράπεζες, τα ΜΜΕ και οι Προσπάθειες Συγκάλυψης, Μετατόπισης και Λογοκρισίας των Σκανδάλων (Η εισαγωγή και οι αναπαραστάσεις της οικονομικής κρίσης στην Κύπρο)*(Limassol: Πρωτοβουλία για την Λογοδοσία των Τραπεζών) 28-29 (in Greek).

¹⁵ Panicos Demetriades, *A Diary of the Euro Crisis in Cyprus* (Switzerland: Palgrave McMillan) 8.

¹⁶ The insistence that a Troika austerity memorandum was a better solution (rather than trying to protect society from strict measures for bailing out the banks) was evident from the spring of 2011 when the then head of the Central Bank, Orphanides, questioned the government economic data, thus pressing for austerity. In relation to the Russian loan, an incident recorded subsequently may be indicative. In September 2011, Rybolovlev offered to put forward half a billion (which eventually was around the sum that the Bank of Cyprus asked from the government, in June 2012) in exchange for more seats in

not being pro-bank enough, seemed to converge. They climaxed in the spring and early summer of 2012 when the two banks, Laiki and Bank of Cyprus, acknowledged that they couldn't recapitalise by the end of the EU/ECB June deadline and asked for State support. The European Central Bank practically blackmailed the Republic of Cyprus to accept a memorandum.

The Left (which was now ruling without the centrist support and thus had a minority position in parliament) was forced to accept the memorandum. But it had gained three points in the ongoing public debate:

1. It managed to make the issue of the responsibility of the banks a public issue.
2. It managed, after the expiration of the tenure of the head of the Central Bank, to appoint a more Keynesian, and more honest head, Professor Panicos Demetriadis, who launched an investigation into the banks' role.
3. And the context was now, summer 2012, more lenient than that of 2011. The climax of the Greek crisis in 2012, and the change of head at the European Central Bank, with the advent of Draghi's 'whatever it takes' (to save the euro), meant that the effort of the Cypriot leftist president to negotiate a viable agreement which would serve the interests of the working class and the public in general, was more amenable. Indeed, the memorandum negotiated by the end of November of 2012 had significant caveats, like not incorporating major privatisations and not abolishing working-class rights but freezing them, which implied that with the end of the memorandum they could be reclaimed, as it does seem to happen – especially in the public sector.

When the Right came to power in February 2013, it decided to launch a neoliberal assault, accusing, ironically, the Left, for the memorandum, and catering to the banks, whose interests were, as it appeared, controlling most of the media. But the problem was that the Left had created, despite its isolation in the previous period, its own subtext of resistance. Thus, when the new president, Nicos Anastasiades, tried to modify the memorandum so that the predominantly foreign clients of law firms (including his own), and the foreign customers of the major banks in general, would avoid being hit by the bail negotiated with the EU, he came up against a storm. His

the Board of the Bank. His offer was declined. Obviously, if the majority of the Bank Board rejected such an offer, then the move of Christofias to seek a sovereign loan was a hindrance to the goal of seeking a bailout with austerity for society, which would have promoted, in the meantime, various interests via privatisations, wage cuts etc. Interview of the lawyer Neoclous, *Fileleftheros*, (19 May 2013) 6: "Everybody lost and first of all the Bank of Cyprus. A. Neoclous: The previous bank administration didn't allow Rybolovlev to add "fresh money".

suggestion was to spread the cost of the bail by imposing a haircut on all banks and on all depositors, thus violating the safety of the EUR 100,000 limit. It was a typical neoliberal move, which triggered a strong reaction. The government was forced to back off. Thus, the assault made the government apprehensive about facing a possible mass reaction. The Left lost but it left a lasting counter-discourse.

The Rise of the Bankers' Lobby, Their Persistent Suspicion and the Endless Problem of Non-Performing Loans

Panicos Demetriades' book, *Diary of the Euro Crisis in Cyprus* is by far the best account of what happened with the banking crisis in Cyprus. It also describes how the 'bankers' lobby' managed to assume control with the rise to power of the Right. Demetriades' book demonstrates that the root of the crisis lay in the inflow of capital, which in many ways transformed Cyprus into a money laundering centre and, in effect, put the local economy second place in relation to the interests of the foreign capital deposited in the banks. In this sense, neoliberalism in Cyprus ended up functioning as an ideology serving a 'laundry economy'.

Demetriades' experience, as head of the Central Bank, was also indicative of how the foreign controlled 'money-nexus', which involved banking interests, lawyer services, and related politicians, came to create a parallel structure, which utilised the EU memorandum in order to promote its interests by circumnavigating promises, rules, and legal frameworks.

Demetriades not only tried to investigate the causes of the crisis, but he also refused to cover up the transgressions of powerful individuals, such as the transfer of funds abroad by the family of President Anastasiades shortly before the haircut of depositors. Demetriades also insisted on checking for conflicts of interest in the government-nominated appointments to the boards of banks. He was, in effect, applying the EU rules for fit and proper checks. However, the local establishment wanted to use the EU as a legitimising reference to impose the memorandum, but had no plans for following the rules for avoiding conflicts of interest.

The political and economic elites saw Demetriades' actions as a threat to their interests and thus orchestrated an attack on him with the ultimate aim of ousting him. The attack was launched via the main instrument of the banking lobby and the Anastasiades government: the media. He was demonised as a danger and eventually forced to resign under threats. The climactic attack was launched in September 2013, when Demetriades insisted on checking for conflicts of interest in the new appoint-

ments to the board of the Bank of Cyprus (which had absorbed Laiki, despite the EU's advice for the merging of the two banks).¹⁷

The hegemony of the new government on the media rested to a large degree on the advertising expenditure and the debts of media to banks.¹⁸ Eventually, a powerful cabal consisting of law firms, politicians, banks, and the media started developing.

Yet the achievements of the new regime, which tried to demonise the Left, were comparatively small. In terms of liberalisations, it privatised the ports, and it also managed to abolish regulations on shopping hours for the benefit of malls and large-scale businesses,¹⁹ but despite its overwhelming power in setting the agenda via the media, it did not manage to privatise the two major public utilities, that is, electricity and telecommunications. We will talk in the subsequent section on the power of trade unions from multiple political wings. But in the period after 2013, the government seemed to be anxious not to provoke another reaction like the one of March 2013. This fear was evident in the slow process of addressing the issue of non-performing loans. The issue, as Demetriades noted, and as had been documented by a subsequent investigation, had to do with the banking practices before 2010, as well as with the lax Central Bank supervision/regulation.

[...] over the period 2004-2010, Cyprus banks grew dangerously large through a combination of aggressive management and weak governance, compounded by a failure of public authorities to appreciate the risks that the banks were running. And therefore to take effective measures to rein them in. At its height in 2009, the banking sector was equivalent to 9 times GDP, one of the highest in the EU.²⁰

In the new atmosphere of the memorandum, large companies and homeowners were both under pressure to repay their loans to banks, which they couldn't. The government and the banks tried to help the larger companies (via the logic of 'too big to

¹⁷ Demetriades (no 15) 130 – 131.

¹⁸ One of the most well-known cases, since it was presented as a document in court on the fact that the Bank of Cyprus tried to manipulate the public, was the case of the newspaper *Politis* censoring one of its writers, M. Olimpios, after being blackmailed by the Bank of Cyprus with an advertising package of 50,000 euros.

¹⁹ In this context one can also refer to the closing of the the State airplane company, Cyprus Airways. The closing, though, was attributed, this time, to financial problems, rather than to 'modernisation' and the whole affair was marked with suspicions that the Law Company of the president's family was involved in negotiations for the selling of the company.

²⁰ Independent Commission on the Future of the Cyprus Banking Sector, Final Report (31 October 2013); Demetriades (no 15) p. 11

fail’).²¹ But launching a free-for-all sell out of mortgaged property (in non-performing loans) of small owners, turned out to be difficult. There is a strong historical tradition of small ownership in Cyprus.²² In this context, the government moved to abolish the major alternative to commercial banks, the cooperative credit associations, by scandalously handing over performing loans guaranteed by public money against the risk of future defaults, to Hellenic Bank, a pro government bank. This helped create a banking cartel, but the reaction of the public was again negative. The attorney general set up a three-man committee, headed by a former judge, to investigate the government’s handling of the issue. The committee’s damning report revealed clientilism and incompetence. Thus, the effort of the government to appear ‘modernizing’ was backfiring, while the images which started emerging were of a government returning to a client-State regime. And the issue of non-performing loans remained hanging around.²³

In the parliamentary elections of 2016, the governing party, DISI, tried to present the end of the memorandum as its own success, when, in reality, all countries had got out of a memorandum by then. Despite its control of the media, DISI lost votes and fell to 30.7% but AKEL (still under attack and in the context of an internal conflict over the punishment of a senior party member)²⁴ lost more and scored 25.7%. The distinct characteristic of the election was the rise in abstentions to 33.2% (a rise of 11.96%) and the emergence of personality-oriented parties which drew from the two leading ones, namely Citizen’s Alliance/*Simmahia Politon* (6%) drawing large-

²¹ Some of the largest non-performing loans belonged to representatives of big capital: Shacolas, Lep-tos etc. Also, the chairman of the Bank of Cyprus leading up to the crisis was the owner of Aristos Developers. This is a typical example of conflict of interest between banks and capital.

²² See Rolandos Katsiaounis, Rolandos, *Labour, Society and Politics in Cyprus during the Second Half of the Nineteenth Century* (Cyprus Research Centre, 1996); Andreas Panayiotou ‘Lenin in the Coffee-shop: The Communist Alternative and Forms of Non-Western Modernity’ 9(3) *Postcolonial Studies*.

²³ In the ECB ‘Supervisory Banking Statistics for the Third Quarter of 2021’ in chart 5 on the ‘Non-Performing Loans Ratio by Country, Cyprus is Second After Greece’, available at <https://www.bankingsupervision.europa.eu/press/pr/date/2022/html/ssm.pr220112~618de6b7dd.en.html> (last accessed 5 May 2022).

²⁴ Nicos Katsourides was a member of the leadership of AKEL after the transition of the early 1990’s. There was, however, a distance between him and Christofias. In 2014-5 in the context of accusations that he had played a role in an ambiguous investment –and he didn’t take up the responsibility (since the investment involved an area of his party responsibilities)– he was sidelined; not expelled but not a party participant either. The trial itself was in part paradoxical; the alleged ring master was not even accused. Some saw it as a Lawfare against the Left, but as far as Katsourides’ supporters were concerned, the issue had to do with him being sidelined because he could have claimed the leadership –and, according to another narrative, because he disagreed in part with Christofias’ policy on the Cyprus Issue.

ly from AKEL and Solidarity/*Allilegii* (5.2%) drawing from DISY. But both parties, which were dubbed 'protest parties', split off and/or disappeared from parliament by the next elections. DISI failed to capitalise on the end of the memorandum and there seemed to be a broad feeling of dissatisfaction. By the time of the presidential elections of 2018, AKEL's candidate managed to obtain 30.24% of the vote in the first round and 44% in the second, while DISI's candidate, the incumbent, scored 35.51% in the first round and 56% in the second. DISI won but the neoliberal agenda didn't. DISI had to pull back from many of its most ambitious projects and be content with control of the banking sector. It was obvious that its victory had more to do with its control of the media, and the still isolated position of AKEL. But there was a feeling of disgruntlement.

The Last ttempt and the Legitimation Crisis

After the second victory by DISI in the 2018 presidential elections, there was an attempt to press forward with an attack on worker rights (or 'privileges', according to the neoliberal Right) and, thus, cutting back on public expenditure. Picking up a comment by the general auditor (usually attacked by DISI for his criticism of corruption/clientilism of DISI's connected interests), the government tried to introduce changes to the working status of State schoolteachers. DISI and its media pulled together the classic opposition between private and public employees; but it didn't work. On the contrary, it united the trade unions of different political affiliations and DISI had to confront a massive march by teachers. The government pulled back. It had an analogous experience when it attempted to confront the nurses' trade union.

The failure to defeat trade unions was decisive, and it was the fear of trade unions which kept DISI back, in addition to the fear of mass demonstrations. Historically, it was the Left which initiated and championed trade unionism (AKEL was to a large degree created by the unions in the 1940s) but the Right moved to create its own unions and so did the small socialist party. In the public sector, e.g. among Teachers and Public Utilities organisations, there were also trade unions affiliated to the Centre party, DIKO. The existence of these unions did not essentially hinder trade union activity; on the contrary, it created a more decisive/influential front. The section of DISI's leadership that represented the business associations' interests, had to think of the party's own trade unionists in pursuing a neoliberal agenda; obviously, it did no dare to do so.

The most significant and positively received government initiative of the decade came from the EU memorandum but, ironically, it was something traditionally as-

sociated with the Left rather than the neoliberal Right. This was GESY, the national health system. The president and the leader of DISI wanted a mixed system to incorporate private interests and insurance companies. But the programme was established due to an alliance of the Minister of Health (of the populist Right), trade unions, and the Left, against the wish of the leaders of the governing party.

DISI and its president faced a reckoning. They had managed to weave their positions from 2016 to 2018 to appeal to a disgruntled electorate, hoping to mobilise their voters and keep the voters of the Left at home, but there was a strong feeling of a widespread return to client relations and ‘conflict of interests’. It was Demetriades’ opposition to this ‘conflict of interest’ which resulted in him being forced to resign. But after 2018, a series of global journalistic revelations²⁵ concerning tax havens turned the spotlight on Cyprus, again. The climax was the revelation (or ‘exposé’) of how the State programme of selling passports functioned. It was not just another scandal - it involved the presidential family. The programme came under attack from both the EU and locally, including sections of the media.²⁶ Anastasiades tried to shield himself by appointing ex-ministers of his government in the office of the attorney general. However, it was obvious that the DISI government was enmeshed in corruption.

The widespread feeling of corruption, however, was coupled with an issue of a different nature: the crisis of the negotiations for a solution to the Cyprus Problem. In this sense, one can say that the Republic of Cyprus seems to have entered a period of ‘legitimation crisis’. The term was introduced by Jürgen Habermas to describe a crisis of the socio-cultural framework upholding a polity.²⁷ To understand this type of crisis in Cyprus one must see that the legitimation of the polity in the Greek Cypriot community, which is de facto the focus of this analysis, rested on two pillars. The first one was that the State was protecting the citizens –or at least providing them for their needs. This was largely the product of the leftist influence on society. The second pillar of legitimation of the post 74 period was the belief that the Cyprus Problem

²⁵ Panama papers, Pandora Papers.

²⁶ An additional dimension to the issue of ‘Golden passports’, that of commodification, was incisively raised by T. Rakopoulos and L. Fischer. See Theodoros Rakopoulos, ‘In Cyprus. The Golden Passports Scheme Shows Us How Capitalism and Corruption Go Hand in Hand’, *Jacobin* (11 October 2020), available at <https://www.jacobinmag.com/2020/11/cyprus-golden-passports-citizenship-corruption> (last accessed . . .).

²⁷ Jürgen Habermas, *Legitimation Crisis* (USA: Beacon Press, 1973/1975).

would be resolved and the Republic of Cyprus would be a place/country for both communities.

It is evident that the leadership of DISI tried consciously to shift the first pillar in the direction of the argument that individual welfare would be better served by helping big business, banks and encouraging 'enterprise'. This dimension, as we saw, came up against reactions from the street (a broader new type of mass mobilisations, with a postmodern aesthetic, emerged in this period) and from the still strong trade union movement. But the revelations on the conflict of interests and the involvements of the presidential family in the scandal of passports, made the period appear as one of conflict of interest and regression to client relations. Increased abstentions and a drop in votes for the historical big parties may be some form of indication. There seems, however, to exist, at a deeper level, a sense of demand for change. Even the introduction of the concept of 'conflicts of interest', as major rhetorical code in public discourse, is a novelty, as is the popularity of the auditor general. Thus, one may say that the Republic of Cyprus is in a situation of a legitimisation crisis originating from a conflict of concepts on the sociocultural boundary of the political and the economic sub-systems:

The idea of joining the EU was presented as an issue of modernisation, of 'becoming modern'. And suddenly, the staunchest supporters of Europe, DISI, turns out to be a backward client State party 'shaming Cyprus' as some put it.

In addition to the above, as Gregoris Ioannou noted in his perceptive analysis of the developments on the Cyprus Issue,²⁸ a section of the political and economic elite of the Greek Cypriot community seems to have moved to the position of accepting partition, which was the historical goal of Turkish nationalism. The contradiction, with the second pillar of legitimisation noted above, is analogous to DISI supporting Europe/europeanisation and falling back on 1930s colonial client politics. Anastasiades had been involved in both the scandal of conflict of interests and allegations of having proposed partition to Turkish officials.²⁹ The crisis of the hegemonic narrative of power implies another

²⁸ Grigoris Ioannou, *Denktas in the South (Ο Ντενκτας στον Νότο)* (Thessaloniki, Psifides, 2019) (in Greek).

²⁹ The first reference to the issue came from the pro-government newspaper, but also pro-compromising solution to the Cyprus Problem, *Politis*, in the fall of 2017. There, it was revealed that the President had asked several people on the issue of accepting a two-state solution. The Archbishop, an ally of the president, also referred to something analogous subsequently, as did Anastasiades' ex-advisor, Makarios Droushiotis.

need, that of redefining the goal of the polity. The UN and the EU are obviously committed to re-unification, and a significant section of the population seems to experience a form of de facto unification from below by crossing the checkpoints since their opening in 2003,³⁰ and, these days, by trying to utilise changes in prices, as in the massive move of G/C to T/C northern gas stations. The Greek Cypriot polity which presented itself as Republic of Cyprus is in crisis in this sense, both externally (as the UN keep an equal distance, according to the foreign observers, after Anastasiades , abandoned the negotiations at Crans-Montana in 2017) and internally.

Conclusion

In evaluating the results of the period from the perspective of business class interests, the banking sector is an inevitable beginning site. The banking sector survived, albeit as a cartel (in the sense that its regulating mechanism based on previous conflicts, the cooperative banking sector, has been closed down) of two Cypriot banks, which had been supported by the government of DISI in multiple forms. Yet one can hardly call this a victory for local business interests. In effect, a result of the crisis was the entry to the local economy of foreign investment, and/or speculators, who acquired a significant role and say in the Cypriot banks at the expense of local players. The banks have become an institution via which foreign interests can intervene in local society. Demetriades' description of the Archbishop in 2013 as the latter realised his losses, is indicative in a broader manner (the Archbishop was a staunch opponent of the Left on economics and the Cyprus Problem):

‘The Archbishop wasn’t a happy man. He had risked the property of the Church on bank shares and had lost out. It wasn’t just financial losses. It was also loss of power. Not only did he lose influence over the Bank of Cyprus but he had also lost control of Cyprus’ third largest bank, Hellenic.³¹

Local business interests hoped to become controllers; they ended up being local interests for foreigners who bought out their risks.

This inability to retain control of the banking sector, which still needs a rather steady State support, is indicative of something deeper structurally: right when the

³⁰ Cypriot Public Opinion Remains Open to Reunification, Survey Reveals, available at https://blogs.lse.ac.uk/greeceatlse/2022/01/06/cypriot-public-opinion-remains-open-to-reunification-survey-reveals/?fbclid=IwAR3OityiAT_37RtUyolvypCij03dJZXHd17p3-1TRWC9mx4sS-B2vPeMLCM (last accessed 5 May 2022).

³¹ Demetriades (no 15) 150.

business elites thought they had conquered the State, they realised that it was now captive to a broader regulatory control mechanism. As the Archbishop, and others realised, if Cyprus was not part of the EU, or even the euro, then managing the local crisis might have been easier for them. After all, the island managed to pull through the disaster of war after 1974. But then it was an introvert economy which accepted the class compromise of the previous decades.³² After 2004, the island became a site of capital flows, which initially appeared to local administrators (lawyers, bankers, politicians) of foreign capital, as 'becoming powerful'. However, the local economy would eventually be regulated by the EU and the 'would be powerful' would be bought up by foreign capital.

Joining the EU, and the euro economically, meant that the Republic of Cyprus would be dependent on regulations on the EU level. This put another strain in the actualisation of business interests; the practice of investigating "conflict of interests", and questioning 'under-the-table' practices, like the passport selling program, were new European norms which hindered the regime of client relations and 'under-the-table' agreements which the Right wing and its economic allies seemed to prefer.

Thus, however, the local State itself was in part delegitimised, since for a section of the population there were also principles and interests which had to be seen through an EU lense, like adhering to EU rules for defending or promoting local interests against the control of the local State by neoliberalism (as in avoiding regulation and equality before the law). This was, and still is, a major dimension of ecological activism, for example.

The other characteristic of the period (apart from outside interests or regulation) was the emergence of local forms of resistance. The trade-union resistance, especially when it united trade unions of different ideologies, had been noted. But street mobilisations acquired a new dynamic and repertoires, as the major mobilisations of 2013 against the universal haircut, and the teachers' mobilisations in 2018, testified. There were also multiple types of activism on ecological issues, women's rights, mobilisations against the construction of high buildings (linked to the interests of the passport-selling lobbies), anti-corruption mobilisations (which led to the resignation of the head of the parliament, an ex-member and current ally of DISI), etc. One may say that the new wave of indignation for the "golden passports" scandal, created more visibility for capital-State relations, in association, this time, with criminal and

³² Christodoulou, Demetrios. 1992. *Inside the Cyprus Miracle. The Labours of an Embattled Mini-Economy*. Minnesota: University of Minnesota Press

illegal activities/behaviour happening in broad daylight. In this context, the social media provided a communication platform which managed to bypass censorship by the main TV and most of the print media.

In effect, the new types of mobilisation observed in Northern Cyprus, in the Turkish Cypriot community, at the beginning of the new century, after a banking crisis, seemed to be developing in the southern part of the island also.³³ And there seemed to be a convergence of various movements beyond communal divisions.

In the context of the above, the neoliberal agenda may not have been successful, but the issues raised by the turbulence of the decade, the reactions from below and forms of de-legitimation, seem to have prepared the ground for a future which, compared to past cases with analogous symptoms in the past, will probably be different from the present.

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³³ Andreas Panayiotou, 'Border Dialectics: Cypriot Social and Historical Movements in a World Systemic Context', in Nicos Trimikliniotis, Umut Bozkurt (eds), *Beyond a Divided Cyprus: A State and Society Transformation* (New York: Palgrave MacMillan, 2012).

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