

# **Eurozone Crisis as Democratic Deficit: Expert Opinions on Austerity measures in Ireland and Cyprus**

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## **ABSTRACT**

This thesis investigates Eurozone crisis as an exemplary case of politicization of European Integration in a qualitative empirical study, by looking at the decision making processes leading to Cyprus' and Ireland's choice of austerity measures. . In doing that the thesis firstly conceptualizes austerity measures proposed during the Eurozone crises and provides a typology of the measures highlighted by the Eurogroup and the decision makers at the member state level. There is a huge debate on the drawbacks of the austerity policy; however the troubled countries are still applying the austerity program presented by the Troika. This thesis demonstrates that the Eurozone crisis provide further evidence of the politicization of the EU by applying process tracing and elite interviews technique as the chosen method for the thesis. Therefore, the acquired expert opinions on the subject in Ireland and Cyprus serve as the primary data of the thesis. Theories of the European Integration are reviewed in order to provide a theoretical framework for the thesis and to indicate the hypotheses derived from post-functionalism and liberal-intergovernmentalism theories. In light of the data collected it emerged that the Eurozone crises and its management in Ireland and Cyprus illustrate that the European Integration is politicized and there is a democratic deficit in the European Union since citizen involvement and negative public opinion were disregarded by decision makers.

**Key Words:** Austerity, Euro-zone Crisis, Elite interviews, European Integration

## ÖZ

Bu tez niteliksel ampirik bir çalışma ile Euro Bölgesi krizini, Avrupa bütünleşmesinin siyasallaştığını ıspatlayan örnek bir vaka olarak incelemektedir. Kıbrıs ve İrlanda'nın kemer sıkma tedbirleri ile ilgili yaptıkları seçimleri, karar alma mekanizmalarının işleyişi açısından inceleyerek; kamu oyu ve Avrupa Birliği üyesi ülkelerin vatandaşlarının karar alma süreçlerine katılımına imkan verilmeyişini Avrupa Birliği'ndeki Demokratik Açık ile ilgili önemli bir gösterge olarak saptamaktadır. Tez ilk aşamada, kemer sıkma politikalarını kavramsal açıdan inceleyip, Avrupa bütünleşmesi kuramlarından hipotezler çıkarsamıştır. Kuram güdümlü bu hipotezler, 'süreç izleme' (process tracing) ve uzmanlarla yapılan mülakatların sonucunda toplanan birincil verilerin ışığında test edilmiştir.

Yapılan araştırma İrlanda ve Kıbrıs'ta Euro bölgesi krizinin Avrupa Entegrasyonu açısından politize olduğunu göstermektedir. Ayrıca vatandaş katılımı ve olumsuz kamuoyu karar vericiler tarafından gözardı edilmiştir. Bu, Avrupa Birliği'nde bir demokrasi açığı olduğunu ortaya koymaktadır .

**Anahtar Kelimeler:** Kemer sıkma politikaları , Euro - bölgesi Krizi , Avrupa Entegrasyonu

## DEDICATION

*Dedicated to my late uncle Mevlit M. Avciođlu*

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# Chapter 1

## INTRODUCTION

This thesis investigates Eurozone crisis as an exemplary case of politicization of European Integration in a qualitative empirical study by looking at the decision making processes leading to Cyprus' and Ireland's choice of austerity measures. In doing that the thesis firstly conceptualizes austerity measures proposed during the Eurozone crises and provides a typology of the measures highlighted by the Eurogroup and the decision makers at the member state level. The thesis then reviews the existing literature on European integration to derive theory-guided hypotheses to test several emerging issues relating to the decision-making processes by member states. The thesis tests these hypotheses by a process tracing methodology through elite interviews of experts. The thesis also utilizes the concept of epistemic communities to understand policy evolution on the issue of Austerity Measures on Ireland and Cyprus.

The following chapter provides the justification for the research and explains the content of the thesis in detail. The chapter is divided into four sections, its purposes are to present the topic; giving general background information of the Eurozone Crisis and the current situation in the EU, explaining the research question; indicating the reasons of choosing the research question, giving general information about the method that is applied and lastly stating the outline of the thesis.

## **1.1 The Topic: Eurozone Crisis as Democratic Deficit: Expert opinions on austerity measures in Ireland and Cyprus**

The Eurozone crises and its aftermath have attracted vast academic attention and lead to a lot of empirical studies investigating the root causes of this economic and financial era of distress. Many studies highlight the economic and political variables that have led to the crises. Others attempt to evaluate alternative economic policies that were applied by the member states of the EU.

This study departs from the already existing research in several ways and provides a novel look at the Eurozone crises in several ways. Firstly, the study is one of the first in the field to investigate the importance of epistemic communities in policy formulation and highlights how experts have shaped and also viewed policy choices of two important member states, namely Cyprus and Ireland that have ended up using austerity measures. Secondly, the study tests the claims of post-functionalist school of thought by looking at the level of politicization of European integration on the Eurozone crises. Thirdly, the thesis identifies the policy impositions on the members of the Eurozone as an example of the democratic deficit of the EU. The following section aims to provide a review of the financial crises and its link with the above mentioned aims of the thesis.

The bankruptcy of Lehman Brothers and the outcomes of the Mortgage system in the USA initiated a new era of financial crisis for European countries. The current unstable economies in the member states of the European Union have affected Europe's position in a very severe way. Even though there have been several attempts to remedy the crisis at first sight, the recovery is indefinite. The financial

crisis has hit the EU member states especially the members of the Eurozone. Greece as one of the members of the Eurozone was the first country among those states that were hit by the financial crisis. The bankruptcy of Greece not only affected its own economy but also affected other members of the European Union in a negative way. Furthermore, a rise has been seen in job losses and bankruptcy of big companies and banks in EU member states which then has caused to a shift from financial crisis to the sovereign debt crisis which this has dragged the crisis into more devastating situation. From 2008, most of the European countries including Spain, Italy, Ireland, Portugal and Cyprus failed to address the situation properly. The bankruptcy of the Lehman Brothers was the last drop that triggered the crisis in Europe. According to Dadush, even before the introduction of the euro, the countries known as the periphery member states of the EU including Spain, Italy and Greece did not have a sound economic structure. After adopting the euro, the level of the interest rates came down which was a good thing at first sight. However, this situation caused an increase of debts which has become a big problem over time (Dadush, 2006). Other than this, the lack of the economic governance in EU and the shortage of the problem solving mechanisms within the area of the euro as Schmiedel and Makippa argued can be seen as one of the reasons why the crisis being deepened (Schmiedel & Makippa 2010). Of course these are not the only causes of the crisis; however as the topic of the thesis mainly regards austerity policy in the Eurozone crisis, the reasons of the current crisis will not be analyzed in further detail.

Since the financial crisis has shown its face, besides the international organizations such as the IMF and European institutions including European Central Bank (ECB), member states of the EU have been alarmed in order to find an immediate solution.

The credits given by German banks and the consumption of the periphery members of the Eurozone have led the German economy to have the leading role inside the EU. The German government had several concerns including imposing austerity measures to those periphery countries that were affected from the crisis; conserving the German banks; and not accepting the ECB to intervene in reducing the deficits. Supporting the austerity measures caused controversy. Countries which have austerity measures imposed on them, including Greece, Italy, Spain and Ireland had different economic structures, however implementing the austerity measures with the aim of restoring the economy carried out in the same way to each countries. This can be problematic not just in the economic sense but also because it can create lack of democracy both in EU and member countries (Mahnkopf, 2012).

Nevertheless, austerity not in all the troubled countries ended with a disaster. Ireland as one of those troubled countries has managed to succeed the formidable measures that have been applied. Ireland being a strong export-oriented country played a role for austerity to be useful in order to recover from the crisis (Monastiriotis, 2013). There have been several major reforms taken by the decision makers in Ireland during the austerity package period which included cuts in the public fees in order to minimize the deficit rate, extending the smallest age of the retirement, mitigating the benefits of the social welfare and lastly broaden the taxation system. (Dadush, 2010). Thus, it was not very easy for Ireland to recover from the crisis immediately; it has indeed faced with problems related with unemployment, down turn of the economy, deficit of the government got into a worse situation due to the bail-out of the banks. Nevertheless, Ireland accomplished the austerity package proposed by the IMF-Troika without a severe reaction or clash of the society (Monastiriotis, 2013).

According to a recent study, Ireland has managed to make a great progression in the ‘income taxation system’ when it is compared to other member countries within the EU (News Editor, News and Archieve, 2012). As Dadush argues the downturn of the economy and the crash of the financial system can soon or later lead to surpluses in the public budgets and a rise in the growth of the economy due to the suppleness and due to the energy and determination that a country has to succeed, which this has been the situation in Ireland (Dadush, 2010). Jabko in his article commented on Blyth’s book called ‘Austerity: The History of a Dangerous Idea’ and stated that austerity is related and has a relation with the ideological perspective that conservatives tend to promote austerity which this is has been the case in the UK. Furthermore, Blyth argued that austerity did not only advance importance in the conservative ruling governments but also conservatives in other areas of power as well. One of the reasons that austerity is doing a good job as if that is the case, it is due to the notion of the conservative and also non-conservative political leaders as a chance to implement strict austerity measures only in a times of crisis. Because austerity is not only seen as a good way to implement by the conservatives but also other different ideologies as well, this dedicates to the fact that austerity has a huge ‘bandwagon’ (Jabko, 2013:707-708).

Not all the troubled countries managed to complete the austerity package in a way that Ireland did. Unlike Ireland, the situation in Cyprus took a turn for the worst. There are various different debates on how the crisis started in Cyprus, what kind of process have Troika and Cyprus been through, the political change in Cyprus and lastly towards public opinion. There is an argument that the crisis in Cyprus had started to show its face from the beginning of 2011, however Christofias government

at that time refused to see this situation and refused to borrow money. Some claims that the behavior of the Christofias government depended on the political cost, austerity was an unpopular policy due to this the former government did not want to take such a decision and tried to delay the implementation of austerity as much as it could. However according to others the attitude of the former government was based on the ideological choice and according to the ideological view of the government wanted to protect the people because austerity has a contradictory effect on people. Not only for the attitude of the former government but there is a common argument of the different perspectives that there is a link with the ideological choice of the decision makers on the austerity measures. There are different views on the involvement of Troika. Some argue that the measure should have been implemented before the involvement of Troika; this would have prevented the crisis to be deepened. Contrary to this, it is argued that the same measures are implemented in all the troubled countries and the measures cause a rise of unemployment, poverty, contradictions in the economy and social unrest. There is a common argument that austerity measures are imposed by the Troika; there was no other option because the alternative ways which included exit from the Eurozone or from the Euro could not have been any better. On the other hand, some support the idea that the exploration of the Natural gas reserves or attempts to improve the Tourism sector can be an alternative in order to boost the economy. It is argued that, if a country has an extreme budget deficit and needs to borrow money, and then needs to follow the rules set by the Troika. Those who support this idea also state that the fiscal and sectoral reforms of the Memorandum of Understanding is going quite well. One of the facts that made the crisis in Cyprus to differ from others is that the Cypriot banking sector collapsed and this has led to bail-in of the depositors. This has caused



the crisis to become more serious because bail-in applied in Cyprus for the first time and it is hard to predict the outcome of such kind of action.

In addition to the above mentioned contradictory view on austerity measures applied in Cyprus, there also exists a debate on the public opinion. First of all, it is accepted that the Cypriot people have been mostly affected by the crisis in a severe way and the measures have caused an increase in unemployment, people losing their jobs, shutting down the shops and rise of the poverty are the evidence of the suffering of the people. On one side, it is advocated that government did not have much to do and people need to understand the situation. On the other side, Measures applied by the Troika are seen as an imposition due to lack of any other options.

Along with the member state actors, the role of the European Union institutions need to be reviewed. European institutions played the supplementary role in the crisis as a part of the decision-making mechanism in the EU. When the signs of the crisis started to appear in several periphery member countries including Greece, Portugal, Spain, Ireland and Italy; also known as GIIPS countries; fiscal compact treaty was designed to avoid crisis with the aim of stabilizing the government spending. Besides Fiscal compact, the attention has also turned to the austerity policy as well. Major Eurozone institutions recommended that the austerity measures can be a way to overcome the financial crisis through reducing the public loans and balancing the budget (Gennaro, 2012). According to the European Parliament's report on the employment and social aspects in the Annual Growth Survey, with implementing the austerity measures, there has been increase such as in the unemployment rate and in work-poverty levels. This report pointed out that due to the current complex crisis in the EU, in order to avoid further deficits and imbalances in economic area, there is a

necessity for the EU to build new European economic governance. The austerity policy has turned out to be inconsistent. This is because it tried to maintain the economic balance without properly taking into consideration employment, social and educational objectives. The European Parliament on this particular inconsistency suggested enhancing the employment rates because austerity measures are non-concurred to make improvements regarding employment issue (Annual Growth Survey, 2012). Similarly, the Presidents of the institutions like European Commission and the European Central Bank have started to quest for policies that include job opportunities and economic growth. This compromise of the ECB and the European Commission proposes to raise the level of job opportunity and the economic growth in the same position with the austerity, in order to create a new possibility regarding to overcome the crisis in Europe.

As indicated in the paragraphs above many actors both at the national level and at the EU level have debated pros and cons of applying austerity measures but despite the negative consequences of austerity in the short and long run, Germany pressures prevailed and lead to the application of strict austerity measures.

In light of the issues raised above this thesis will seek to understand the nature of the austerity measures both in Ireland and Cyprus in a ‘most different cases’ study. The differences in these two member states promise to provide an ideal comparison on the politicization of the ‘Eurozone crises’ and ‘Austerity Policy’ in the European Union. Politicization of European integration is a thesis put forward by post-functional school of thought which claims that there is no longer a ‘permissive consensus’ of the publics for the political elites to decide on their behalf about EU politics since they (the public) would not want to deal with technical nature of EU

policies. Ireland and Cyprus have had differences in terms of the reaction both of their governments as well as the public opinion on the issue. The following sections provide the details on how these cases will be analyzed and which hypotheses regarding politicization will be tested.

## **1.2 Research Question**

Despite the negative side of austerity measures elaborated above, the troubled countries are still implementing austerity. There are several dimensions to this problem. Firstly, decision-making processes leading to the choice or imposition of austerity measures should be investigated. Secondly, it needs to be determined if the existing theories are able to explain the decision making taking place at the EU level. Are member states bargaining and finding the right institutional choice like suggested by Liberal-intergovernmentalism? Or has the decision making process and the European integration as a whole been politicized as suggested by the Post-functionalism? Therefore, the general aim of this thesis is to investigate the reasons behind the choice of the austerity measures. This thesis tries to answer if the Eurozone crisis provides further evidence of politicization of European Integration and also of the democratic deficit in the decision making process and in EU. The main research question for this thesis is : *'Which factors played a role in Cyprus's and Ireland's choice of Austerity as opposed to other policy alternatives?'* In order to find the viable and objective answer for this question, dependent and independent variables are provided. Since the question investigates the factors behind the choice of these two countries, the dependent variable is 'choosing austerity'.

To explain variation in the dependent variable, a number of independent variables is seen to be in action by the existing theories of European integration. The

independent variables are; German policy, ideological stances, no alternative economic policy, inefficient of the Public Opinion. These independent variables are figured out based on the conducted interviews opinions of the experts. The thesis goes further to investigate the reasons of choosing austerity, was it a preference or an imposition, was it the only alternative way that the governments had. The research question is an overall guidance for the thesis but in itself cannot be tested. Therefore, the existing literature on European Integration theories was reviewed to provide testable hypotheses for this research to utilize. The following section summarizes the theory-guided hypotheses and the expectations of different theories on the decision making processes in the European Union and its member states.

### **1.3 Theory Guided Hypotheses**

There are three major theoretical schools of thought explaining the policy outcomes and direction of European integration. Most prevalent of these theories is Liberal Intergovernmentalism mostly developed by Andrew Moravcsik in the late 1980s and early 1990. This theory combines Hoffmann's intergovernmentalism with neo-liberal assumptions and is able to explain most policy emergences such as Common agricultural Policy (CAP) and Economic and Monetary Policy. Liberal-intergovernmentalism assumes that policies emerge as a result of interests articulated at the member state level and later through the bargaining of member state actors at the EU level. The liberal-intergovernmentalist theory further investigated in chapter 3 of this thesis provides the bases of the following hypothesis tested in this research.

*Hypothesis 1: Austerity measures applied in the Eurozone members with banking and sovereign debt problems were a result of bargaining at the EU level.*

The second prominent theory, namely Post-functionalism, was firstly coined by Liesbeth Hooghe and Gary Marks. They claim that European Integration has moved to a new era in which there is no longer an assumed consent of the people for further integration. This means that European integration is no longer seen as technical in nature and inaccessible to the general public at large but rather as any other policy issue carrying the potential to be scrutinized by public opinion. This politicization of European Integration is explained as the erosion of what used to be a ‘permissive consensus’ of the public at large. The Eurozone crises is another example to the politicization of the European Integration project and this will be tested by contestation of the experts and the public at large. In light of the Post-functionalism theory approach we purpose to test the following hypothesis:

*Hypothesis 2: Public Opinion and expert views should link negative evaluation of Austerity measures to European Union if European Integration is politicized.*

The third theoretical school of thought looking at European Integration is the Deliberative/Habermasian school of thought. They highlight whether the European Union is showing signs of becoming a democratic entity with strong institutional as well as communicative elements. Those scholars such as Erik Eriksen and John-Erik Fossum claim that there is a democratic deficit of the European Union since a European Public sphere does not exist. Others such as Richard Bellamy suggest that the disinterested public and low turnout to European Parliament elections discredits the public policy making at the EU level. In light of the above mentioned claims on democratic deficit and European Union the following hypothesis will be tested.

*Hypothesis 3: Austerity measures were imposed on Cyprus by the Troika without necessary input by the citizens and despite Public Opinion being of the opposite view.*

Since Hypothesis 1 and Hypothesis 2 are theoretically opposed to each other proving one would mean accepting the Null Hypothesis of the other; Hypothesis 1 will be dropped. Therefore the Hypotheses to be tested are:

***Politicization Hypothesis:*** *Public Opinion and expert views should link negative evaluation of Austerity measures to European Union if European Integration is politicized.*

***Democratic Deficit Hypothesis:*** *Austerity measures were imposed on Cyprus by the Troika without necessary input by the citizens and despite Public Opinion being of the opposite view.*

## **1.4 Methodology**

Since the research question is about the choice of the decision maker and political leaders, the most viable and objective way to answer this question is by making elite interviews. This technique is incorporated to serve as a part of the process tracing approach. Process tracing method is part of the qualitative research approach and gained more importance and popularity. Process tracing approach is related with the decision making process, the behavior of the actors and casual chains. In order to investigate the main goals of the thesis which it is mentioned in the paragraphs above, face to face interviews have been made mainly with the active economists/academicians in Cyprus and Ireland, in order to provide an objective and reliable primary data.

There are various advantages as well as disadvantages of the elite interview method; this will be explained in the methodology chapter (Chapter 4) in detail. The positive and negative effects and also in which methods are used will be stated in the same chapter.

Ten interviews were conducted for this research. Each interview has been recorded and then each interview was transcribed and converted to a text document. In order to analyze the interviews a codebook have been created. This will be examined in detail in chapter five which is the analysis part of the theses. The data collected from the elite interviews serves to test the theorized hypotheses. These elite interviews are not designed to replace the data that could be extracted from the public opinion surveys. Elite interviews serve to highlight the emerging views of expert communities which are also referred to as epistemic communities. Understanding the direction and thinking of Epistemic communities has helped scholars since 1990 to predict the policy behavior state actors. Therefore the interviews serve two different functions. Firstly they help this research to process trace the decision making of the political leaders in Cyprus and Ireland. Secondly, they help this research predict the overall accepted assumptions on the policy area of Austerity measures.

## **1.5 Thesis Outline**

This thesis is comprised of six chapters. The first chapter consists of introduction part. The purpose of this chapter is to give an idea to the reader about the topic and the aim of the thesis. This part includes background information about the topic, introducing the research question and providing information about the chosen method to be applied in this thesis.

In order to have a clear understanding of the research question, Chapter 2 is dedicated to the literature on the austerity policy. This chapter contains general information about the austerity policy; it gives brief comparison of the 1990's and 2008 economic crisis in the Europe in order to demonstrate the difference and the complexity of the 2008 crisis, it demonstrates a typology of the austerity policy applied in other countries around the world, focuses on the different perspectives towards to austerity policy and gives several examples of the austerity measures, lastly this chapter refers to the effects of the austerity on public opinion which this is an related matter that frequently political leaders takes into consideration in making decisions.

Chapter 3 contains the theoretical basis of the thesis. This chapter is dedicated to the theories of the European Integration. The whole parts that are examined in this thesis are derived from a theoretical framework which is explained in this chapter. Several different European Integration theories are examined in this chapter however; liberal inter-governmentalism, post-functionalism and deliberative democracy approaches are taken up for analysis and hypotheses have been created to help find answers to the research question.

The theoretical framework is followed by the methodology chapter which is written in Chapter 4. In this chapter, the method that is chosen to be applied is comprehensively introduced to the reader. This chapter entails information of other alternative research approaches and then focuses on the chosen method and technique with its positive and negative ways. Consequently, this chapter provides a framework of how the data is collected and by using which technique.



Chapter 5 is dedicated to the analysis and the conclusion part. A codebook is obtained in order to analyse the elite interviews that have been made with the active economists from Cyprus and Ireland and provide results of the analysis. In order to conclude the findings, a conclusion chapter is prepared. This chapter is dedicated to the summary of the thesis.

## **Chapter 2**

### **AUSTERITY AS ECONOMIC POLICY**

#### **2.1 Introduction**

The aim of this chapter is to present the literature on austerity as an economic policy. The chapter provides a comprehensive explanation of the definition of austerity policy and a typology of the austerity used in different cases around the world from the previous to the present along with a brief comparison between the 1990's and 2008 crisis in order to provide a better understanding of the differences between the used approaches. Another goal of this chapter is to give information about the different perspectives towards to the austerity policy. In this sense, this chapter is divided into three main parts. In the first part, general definition of the austerity policy is given from different perspectives, comparison of the two mentioned crisis and a typology of the austerity is explained in order to make a better understanding of the chapter. Different debates on the austerity measures are stated in the second part. In the last part, the impact of the austerity on the public opinion; people's reaction to the crisis is analyzed.

#### **2.2 Austerity and the Eurozone Crises**

One response to the financial crisis has been 'austerity' as an economic policy choice. In 2010, austerity policy emerged as a possible way to overcome the ongoing crisis. With debt levels unacceptably high, many countries have been forced to make dramatic cuts to avoid default; these acts of deficit cutting reduced spending and slashed public services (Callinicos, 2012). Mark Blyth in his seminal book defines

austerity as “a form of voluntary deflation in which the economy adjusts through the reduction of wages, prices and public spending to restore competitiveness, which is (supposedly) best achieved by cutting the state’s budget, debts and deficits” (Blyth, 2013:2). Blyth in his book focuses on the incompetence’s of the austerity measures during the great depression time in this sense mentioned about the main negative elements of the austerity that is valid for the current crisis. Blyth also argues that austerity policy only works in theoretical perspective; it cannot be possible to apply same austerity measures at the same time to all of the troubled countries. In order to apply this policy in practice there is a need of typical principles to be implemented according to each country’s economic conditions (Blyth, 2013). One of the main arguments that Blyth advocated is that since the start of the Eurozone crisis, the political leaders as well as economic actors within the EU have deceived the people by representing the banking crisis as a sovereign debt crisis which this had led to people pay for the crisis (Blyth, 2013). Lapavitsas in his recent book argues that austerity is a policy that refers to minimize the public debt through cutting public spending and increasing taxation. This kind of liberalisation purposed to boost the ‘competitiveness’ and the efficiency of the working people (Lapavitsas & et.al., 2012:7). It is argued that this policy was favoured by the political leaders of the core countries however faced with a contradiction of the working people as well as opposition parties from the core countries have refused to pay for the peripheral troubled countries. Austerity has been imposed on both periphery and to some part of the core member countries in the EU with the aim to rescuing the banks. Furthermore, the devastating situation in the periphery countries is not because of the faulty design of the Eurozone’s institutions, rather the overall policy itself is making the situation for the troubled countries worse and causes huge economical differences

within societies and it is unavoidably leading to social unrest (Lapavitsas & et.al., 2012). This is contrary to the Keynesian model that emerged and gained popularity among many European countries, which played the leading functioning role in fiscal policy. In a possible recession, Keynesian Model's aim comprised the expansion of aggregate demand by reducing the deficit-financed expenditures and taxes and in a possible situation of an economy that is growing very quickly, with the risk of high inflation, then the economy's pace should be slowed by increasing the taxes and at the same time reducing the government spending's and demand (Callinicos, 2012). Therefore, Austerity refers to a policy that is used to reduce the deficit level or national debt of countries, by decreasing the spending (Evans, 2012). This policy is frequently used by the governments that face with problems such as budget deficit, countries like Greece, Spain, Italy, Ireland and Portugal, are some of the Eurozone countries where governments are implementing austerity measures by taking some critical reforms; cutting from government spending, increasing the cost of living and tax rates (Traynor and Allen-The Guardian, 2010).

The European Commission prepared a report on Employment, Social Affairs and Inclusion titled the 'Social Situation Observatory: living conditions and income distribution' in 2011 (European Commission Social Situation Observatory, 2011). According to this observatory, each country implies the austerity measures depending on their own economic structure and depending on responses towards the current debt crisis. Greece which was highly affected by the crisis has made several critical alterations; decreasing the rates in VAT, lowering the public pensions and rise in tax rates. On the other hand, Portugal faced a rise in standard rate of VAT, freeze in almost all insurance pensions and benefits, pay cuts in public sector and rise

in income tax rates. UK has applied different measures as well when compared with Greece and Portugal, the measures include rise of standard rate of VAT and social insurance contributions, reducing several cash benefits and suspension of the council tax for a temporarily for some time. The observatory realized that the measures taken by the governments of the respective countries have been significantly different from each other. UK, Ireland and Estonia gave more focus to the rise of the social insurance contributions whilst Greece, Spain and Ireland preferred reducing the prices of the public sector workers more frequently. However the rise of the income taxes and the cuts in pensions and the expenditure benefits are present in all of the countries (European Commission Social Situation Observatory, 2011).

Callinicos in his study stated that according to Skidelsky and Kennedy this is a mistake. The governments repeated their mistakes in the Great Depression period by altering towards austerity and reducing the government spending (Skidelsky and Kennedy cited in Callinicos, 2012). Contrary to this perspective, Alex Callinicos indicated that the emergence of the austerity is related to the Neoliberal economic policies, because the theory supports the notion that wealth gains from the tax cuts and Neoliberals favors the cuts in social spending. In that regard, since the occurrence of the devastating financial crisis in 2008, austerity played the role of a mechanism to overcome the crisis and renovate the preceding stability of states and markets (Callinicos, 2012). In support of this view, Christoph Hermann in his article focused on the neoliberal ideology within the EU and stated that the austerity is one of the components in reconfiguring the neoliberal thinking. According to Hermann, there are four different statements of neoliberal theory that favors the austerity policy. These statements are related with taxes, inflation, unemployment and interest

rates (Hermann, 2007). Furthermore, he indicated that important policy topics of EU for instance: ‘European Monetary Union, European Employment Strategy, European Single Market Strategy, fiscal policy and European Competition Policy’ (Hermann, 2007:85) are all comprised as a fundamentals of the neoliberal thinking and these policies have led to augmentation of several factors such as austerity. Lastly, Hermann argued that European Commission insisted on applying the ‘austerity measures and price stability’ (Hermann, 2007: 78) as one of the crucial ways to overcome the crisis, however the consequences of this policy results with a rise in unemployment rates and decline in growth (Hermann, 2007). In addition to this view, Thomas Palley argued that the main reason of the eruption of the crisis is because of the shifting policies of EU from Keynesian to Neoliberal thinking which brought austerity since 1980’s. Related with the neoliberal policies, the faulty design of the euro currency and the reaction of the Germany have triggered the way for the crisis. According to Palley, the fault lies under the policy deposition in the EU. As the Eurozone crisis turned into a public debt crisis, the governments have been blamed and the public debt crisis has seen as a cause to the Eurozone crisis, however the main fault belongs to the faulty institutional formation of the euro (Palley, 2013). As stated in the section above there are very diverse attitudes among experts on political economy. Many of these views propose different examples to support their own claims. It is therefore important to understand these different examples and thus collect evidence on two different historical examples of austerity measures to reach a conclusion. The following section compares austerity measures in two different eras of financial crises.

## **2.2.1 Comparison Between 1990's and 2008 Economic Crisis in**

### **Europe**

The economic crisis of 2008 not only affected the Eurozone countries but also affected many countries around the world that made it as a global crisis. Nevertheless, this is not the only crisis that the world and Europe have faced. Over the centuries the world has been through several severe financial and economic crises. The 1990's economic crisis is one of the cases that affected Europe. Until the beginning of the 1990's, fiscal and monetary policies were highly incorporated with financial improvements in that they encouraged the banks to lend more money and lead stock and asset markets. However this situation did not last for long and started to turn upside down. The effect of the several world issues including the collapse of the USSR and Iron Curtain and the outbreak of the Gulf War dragged Europe to economic crisis (Jonung & Hagberg, 2005). Jonung argued that the rate of the stocks as well as investment to face with a dramatic decrease to the acute increase of the interest rates, these caused a rise in the budget deficit of the governments which made hikes in unemployment rates. In order to rescue the financial system, the affected governments for instance UK, Finland and Sweden compelled to overcome the crisis by endorsing the capital involvement in banks and in different precautions. When the 1990's and today's crisis are compared, the first comparison undoubtedly is the effectiveness of the crisis. Even though the crisis in 1990's had caused a dramatic economic recession and affected many countries it did not spread to countries around the world and it did not become a global issue like the on-going crisis that the world especially the EU is facing today. Both in 1990's and in today's crisis which originally occurred first in USA, the public debt and the government's budget deficit escalated. But the main differences here is that in the 1990's the

affected countries had the chance to obtain exports by counting on other countries around the world, however, in current crisis the countries do not have that chance due to the global effect that makes the crisis permeating rapidly and because of US being effected as well by the crisis. Instead, the austerity measures are applied for the effected countries in Eurozone (Jonung, 2009).

A brief comparison has been made between the previous and the current crisis within Europe in order to provide an understanding of how the two can and cannot be compared. As it is apparent from the paragraphs above the current financial crises is unprecedented and this is actually making the hands of those supporting austerity stronger.

### **2.3 Debates on Austerity During the Eurozone Crises**

Austerity policy has seen as a way to be adopted by the periphery member countries of the Eurozone, in order to overcome the crisis by increasing taxes, cutting public borrowing and expenditure. Austerity measures would be accompanied by boosting loans or reducing the commercial borrowing rates by the core member countries. In that regard, this would have been lead to a ‘structural reform’ consisting of harsher pension conditions, privatizing education and public investments and other areas, which these measures intended to bring an increase to the labor and competitive improvements (Lapavitsas et.al., 2010). However, there is an increase in the literature written on lack and insufficiency of the Austerity policy. According to Robert Boyer, the austerity policies are based on inadequate basis and there are several paralogisms about the austerity measures. Robert Boyer argued that, the crisis has been identified in a wrong way. It is the crisis of a ‘private credit-led speculative boom’ not the result of the ‘lax public spending policy’ (Boyer, 2012:286). There is a



complication with the term of “one size fits all” (Boyer, 2012:285), because each member country of the Eurozone and the EU responses to the crisis in a different way, regarding to their own economic and political structure. All twenty-seven member countries can not react; implement policies and success in the same way (Boyer, 2012). In that regard, Dubravko Radošević stated that:

*“Radical austerity measures are self-defeating; effects of radical fiscal reduction are lower growth process and higher unemployment. The resulting unemployment makes the budget deficit problem even worse. Essentially, fiscal austerity leads to higher unemployment which leads to higher deficits and more austerity. The result is bad equilibrium of the economy, recession than turns into economic depression”* (Radosevick, 2012:57).

The idea of austerity measures is supported by the Neoliberal economists and conservative politicians. The main argument proposed here is that austerity policies will assist to increase the economic growth and employment. Even though austerity measures can be a solution for improving the economy in long-term, it does not make any good sense for the short-term and could cause an increase in the unemployment rates, and causing more chaos and lessen the economic growth (Radosevick, 2012). In support of this view, in the Madariaga Report, Lennart Erixon and Achim Truger indicated that, due to the devastating short-run consequences, the austerity measures can be advisable only in a case of long-term resolution (Erixon and Truger, 2012). According to the findings of IMF, by lowering the deficits swiftly in an inadequate macroeconomic area can cause to endanger the economic improvement. Furthermore, Corla Cottarelli emphasized the relation between the ‘market behavior

and fiscal austerity' (Cottarelli, 2012) and came to a conclusion that low deficit and debt levels precipitates short-term economic improvement at the same time lowers the interest rates. However, countries depending on the fiscal austerity measures will cause the economy to decelerate which this will lead to loss of obtained fiscal basis (Cottarelli, 2012). Criticisms are also coming from the other international organizations as well, such as the UN, who is also aware of the austerity policy being not enough to overcome the problems. In a press conference UN declared that:

*“...the previous consensus, or seeming consensus in favour of fiscal austerity or consolidation, had been severely battered over the last few months. There was now strong recognition all over the world that the fiscal austerity pursued by many Governments had been the main cause for the protracted economic downturn. There was now a re-examination of those policies and much more serious reconsideration of the need for fiscal stimulus and other efforts to ensure a strong, sustained and inclusive recovery”* (UN Mid-Year Report, 2012).

There is a need to increase the international cooperation in order to have sufficient solutions (UN Mid-Year Report, 2012). There are several alternative ways to the crisis. The President of France Hollande being at the top of supporting the anti-austerity policies, rather than focusing on only austerity and the institutions and the leaders making reforms regarding economic growth. People are demanding work. The leaders and the institutions can come together and work on obtaining job opportunities for people-jobs related to tourism and industry can increase the growth of the economy of the countries to higher levels. As Radošević indicated, there is a need of a 'dynamic growth' and a 'new policy mix' in order to reinforce the

economic structure of a country (Radosevick, 2012: 57). The ‘new policy mix’ will be the mixture of ‘non-conventional monetary policy’ and ‘counter cyclical fiscal policy’ (Radosevick, 2012:57). Fiscal improvements through enhancing the spending and on the other hand reducing the taxes can play a role in increasing the growth (Radosevick, 2012). According to Gennaro Zezza, the main fact of the financial crisis is the deficiency of the European mechanisms in taking decisions on trade instability and funding the Eurozone countries. The continuation of fiscal tightening may lead to a long period of recession in the periphery region of the Eurozone or worse scenario of collapse of the Euro. Troubled countries getting financial funds from other Eurozone members will only create a spillover effect rather than bringing a solution for the crisis. Zezza suggested that, one of the simple ways to overcome the current financial crisis can be by giving permission to European Central Bank to have direct involvement in funding the government debts with low interest rates. In this way, a decline in interest levels will lead to solve the crisis straight away (Zezza, 2012).

Austerity measures have an adverse effect. No matter the form of fiscal measures will take including raising the revenues or reducing the government expenditure the consequences will be the same; increase in unemployment and reduction in the output which this will lead to high levels of deficit, and raise of debts rational to GDP (Tyson, 2012). Marcia Frangakis specified that, the austerity measures did not avoid the increase of the public deficit levels. In order to overcome this, there will be need for several alterations including policies which require economic boost and reform of the financial structures (Papadopoulou and Sakellaridis, 2012). In the second quarter of 2012, Eurostat published a news release about the government debt

of the euro area and made a comparison between the first and the second quarter of 2012 (Eurostat News Realise, December 2012). According to the Eurostat, there has been an increase in the second quarter of 2012 in the government debt of GDP in overall EU member countries from the first quarter of 2012. However more importantly when it is looked at the statistics on country to country basis (Eurostat News Realise, December 2012), the national debt to GDP have increased dramatically in Greece, Ireland, Portugal, Cyprus and Spain while countries including Bulgaria, Luxembourg and Estonia's national debts are at the lowest levels(Eurostat News Realise, December 2012). The results of the Eurostat signified that those countries who have applied austerity measures have witnessed no remedy in the government debt to GDP, adversely the debt of the governments have increased. This shows that austerity measures are not making any good and are more likely to suffer more. Xue Han argued that the austerity packages in deficit countries including Greece, Spain and Italy etc... are more acute and it is restored again than to those major surplus countries Sweden, Austria and Germany (Han, 2012). One of the differences between the core and periphery countries is that:

*“the core Euro-area countries, particularly Germany fully retain the ability to choose among alternative options and determine the course of policy according to their preferences. But for peripheral countries, the policy space and the amount of discretion have shrunk dramatically” (Armingeon and Baccaro, 2012:264).*

The periphery countries particularly Greece, Spain Italy and Portugal applied the same austerity packages without making any changes according to their own economic and political structures (Armingeon and Baccaro, 2012). Therefore, it

could be argued that “internal devaluation policy” which is forced on Greece, Ireland, Italy, Portugal and Spain is not sufficient (Armingeon and Baccaro , 2012:275). Klaus and Lucio state that the insistence on “internal devaluation” leads to a decrease in growth rates and due to the lack of the growth this causes for more austerity in order for the governments to reload their economy (Armingeon and Baccaro , 2012:275).

## **2.4 Austerity and Public Opinion during the Eurozone Crises**

Not only have the countries been severely affected by the crisis and the austerity, but the European people in particular are suffering from the crisis and especially from the austerity measures taken by their countries. With huge cuts in government spending and especially with the dramatic increase in the unemployment rate a feeling of disappointment and distrust spread across the EU. There is a huge reaction of the EU citizens towards the austerity measures and the trust is declining day by day. Citizen’s reactions reverberated the electoral politics towards both national and EU institutions. People started to vote to those who support the anti-austerity measures. Austerity policy as the policy for pertaining to deflation reduces the confidence and trust towards political parties, raises the unemployment rates and invokes unsteady of institutions and political uncertainty (Radosevick, 2012). People in Greece are suffering severely from the crisis. Each day the riots and demonstrations are increasing. Not only this but also the unemployment rate and poverty are climbing higher each single day (Eurostat News Release, 2012). Similarly, Portugal is one of the countries who are facing deep recession and at the same time unemployment rate is at high level: many people have lost their jobs due to the collapse of many companies. Portugal is one of the countries who have applied austerity measures. People in Portugal are demanding an alternative approach to the

austerity policy; this is mainly due to there being too many jobless people in Portugal (The Guardian-Associated Press, 2012). When a strong country such as France is considered, people have shown their opposition to the austerity measures in the Presidential elections beginning of the 2012. The austerity measures taken in France, such as increasing the tax rates, extending the retirement age and cutting the government budget, are examples of reasons for not re-electing the Nicolas Sarkozy. People in France are willing for Hollande to open a new page by implementing anti-austerity measures (The Guardian-Associated Press, 2012). People in Italy are facing a similar situation. The Italian economy is experiencing recession and very high level of unemployment. This situation has led people in Italy to complain about the remaining austerity policies and fiscal consolidation (The Guardian-Associated Press, 2012). For instance the recent election in Italy is a good example of this situation. Beppe Grillo and his 'Five Star Movement' is a new political actor in Italy. Beppe Grillo who is a comedian and a popular activist (Fabio and Luigi, 2013:3) won the 2012 elections in Italy and has brought a new way of understanding to the country. The Five Star Movement comprises of different factors including several concepts of democracy, direct involvement of citizens, favor of growth in economic sense favor of growth and providing job occasions opportunities, and its structure differs from the former government (Fabio and Luigi, 2013). Even though the Eurozone crisis is not the main reason for Grillo's success, but the crisis has played an indirect role in people's voting (Fabio and Luigi, 2013). This systematic change in Italy reflects the impact of public opinion. The succession of Grillo's Five Star Movement is a way for the people to show their dislike and protest to the system in the country. Lastly, similar situation is present in Spain. Most of the population especially the working part is demanding to get rid of the austerity measures (The

Guardian-Associated Press, 2012). Even though to a certain point, overall financial crisis in Europe does play a role such as increase in the unemployment, as well as reducing the government expenditures and increasing the cost of living. Baroness Emma Nicholson referred to austerity as a 'bitter pill to swallow' (Nicholson, 2012:4) which has caused huge demonstrations of people in those countries who took austerity measures including Italy, Greece and Spain. Of course the anti-austerity reactions of people spread to core member countries such as UK, where young generation especially students stood against to the measures (Nicholson, 2012). According to the findings of Baroness Emma Nicholson, in 2011 the unemployment rates have increased from 7.6% to 10% (Nicholson, 2012).

The crisis and especially the austerity measures not only triggered riots and reactions of the people but also reduced the trust of people towards to institutions. Both Felix Roth and Birgit Mahnkopf argued that, since the implementation of the austerity measures, a decline is seen in peoples trust towards to national and EU institutions. In order to deal and gain back trust of people, the austerity measures need to incorporate enterprises that aim to boost growth and to make sure that employment levels in Greece, Spain and Italy will rise. The incredible increase in unemployment levels can be signified as one of the issues and anxiety of people (Roth, 2012). Birgit Mahnkopf also mentioned that those people who stood against the austerity measures also criticized the political structure of the policies which obliged by EU, due to this, trust towards to 'political institutions and parties' (Mahnkopf, 2012:481) are declining and people are claiming for institutions to make changes to their policies (Mahnkopf, 2012) .

To verify the ascending distrust and response of people towards to the austerity policy, situation in Cyprus can be the best example. Current situation in Cyprus is very complex. Recently huge demonstrations are taking place by people, banks are shut down and the parliament voted against the austerity package (Barr, 2013). According to Sam Porter the reason that economic recession took place in Cyprus is the inadequacy of the country to take loans from the 'open market' (Porter, 2013:7). Instead it has depended on Troika for the 'bailouts' (Porter, 2013:7). According to the press release of the European Parliament, the recent European Parliament Eurobarometer poll figured out that *"Almost half of the Europeans surveyed think that combining public spending cuts with measures to boost economic growth is the best way to end the current economic crisis"* (European Parliament News, 2012:1). This indicates that majority of the European people are demanding for economic growth instead of restricting austerity policies.

The debate on public opinion, having an impact on the decisions in regard of the economic crisis, has become more important nowadays. Fabio Serricchio, Lucia Quaglia and Myrto Tsakatika tried to find if the factors regarding financial crisis have an effect on the Euro-scepticism on behalf of the public opinion. According to the findings of the article, authors claimed that instead of the financial crisis, political institutions and national identity played a role in affecting to rise of Euro-scepticism. Those countries that were affected severely from the crisis faced higher levels of public Euro-scepticism. People who believe in their own national political system are less Euro-sceptic. According to the tables produced by the Euro-barometer data, rather than the economic factors, exclusive national identity is concerned with Euro-scepticism due to the limited explanatory power of the economic indicators



(Serricchio et.al. 2013). PEW Global Attitudes Survey presented that except for German people, a large portion of the French and Spanish people believe that their national economy is performing badly (Kreilinger 2012).

Simon Wren-Lewis points out even to a bigger risk about the relationship between austerity and public opinion. Wren-Lewis states that politicians use austerity to carry out ideologically driven policies such as tax cuts or spending increases without pointing out to the consequences (Lewis, 2013).

All in all, neither the public nor the indicated political economists agree with the currently imposed austerity measures. The economic evidence point out to lack of austerity being the only option rather there are alternative models including Keynesian model of boosting economic growth and providing job creation. From the perspective of the public opinion, people demand an end to joblessness and look very negatively towards politician who are pro austerity and have been electing politicians who are against austerity.

## **2.5 Conclusion**

This chapter has examined the austerity policy in four different parts. Since 2008, EU has entered into a period of economic crisis. European Institutions and member states of EU have been looking for a way in order to find an immediate solution for the crisis. As a result of these quests one response to the financial crisis has been the austerity policy.

The first part of the chapter gave a detailed background of the austerity policy; mentioning on different definitions of the austerity policy from different perspectives. Each of the definition that has been stated came up with resembling

arguments. Examples of austerity measures that have been applied in particular countries are briefly indicated. It is evident that the austerity program comprised of the same measures but the countries applied fragmented measures according to their economic structure. Comparison between the two crisis occurred in Europe indicated to the different approach used in each crises and how the outcome of 1990's crisis differed from 2008 current crisis. It is stated that Europe in a sense managed to overcome the 1990's by troubled countries having the chance to obtain exports by counting on other countries around the world, however this is not the case for the current crisis due to being a global economic crisis. The reason that the comparison made between the two crises in Europe is to demonstrate complication of the current crisis. Other than this, an typology table of the austerity measures is created to present the austerity measures used in other different cases around the world from previous to the present time.

Different debates towards to the function of the austerity as an economic policy have been analyzed in the second part of the chapter. Debates on austerity part, referred to the views and ideas of different scholars towards the austerity and in that regard suggested that austerity measures involves contradictions. Several reasons have been pointed out as follows; austerity measures causing increase in the unemployment rates, and causing more chaos and lowering the economic growth, leading to long period of economic recessions and by applying austerity measures can create a spillover effect to other countries who is affected from the crisis rather than being a solution. Other than scholars, UN's and IMF's perspective of austerity is analyzed in order to verify the lack of austerity. According to different perspectives, several

alternatives suggested for instance, having more international cooperation, providing dynamic growth, mixture of different economic policies.

The last part of the chapter dedicated to the public opinion. It is evident that there is an increase in the reactions of people over the austerity. It is seen that with various arguments, the anti-austerity has risen. Citizens of countries including Greece, Ireland, Spain, and Cyprus are making anti-austerity remarks. It is evident that the priority of people is to create jobs and to foster economy by implementing more integration, democracy and solidarity rather than exerting only austerity policy. People are looking for other alternatives rather than austerity. The voting of people for instance recent elections in Italy, succession of Grillo's Five Star Movement is a reflection of people to show their dislike of austerity. The crisis has affected people's trust towards their own national governments.

## **Chapter 3**

# **THEORIES OF EUROPEAN INTEGRATION, AUSTERITY AND EUROZONE CRISIS**

### **3.1 Introduction**

This chapter is conceived to introduce the reader to the theoretical framework of the basis of the thesis. Due to this, this chapter aims to examine the different theories of the European Integration including neo-functionalism, post-functionalism, liberal intergovernmentalism and constructivism falling under the general schools of thought of functionalism, constructivism and rationalism. It goes further to make a comparison between post-functionalism and liberal intergovernmentalism in order to provide a better understanding of each theory's ability to contribute to the aims of the thesis. In the same part two different theory guided hypotheses are presented in the light of Post-Functionalism theory approach and also in the light of the Liberal Intergovernmentalism theory. Consequently, a conclusion is provided as the last part of this chapter.

### **3.2 Theories of European Integration**

European integration is one of the most important developments that took place in past century. Since the start of the integration process, theories have interpreted and shaped integration. The first theory of the European integration was the type of the supranationalist theory called Neo-functionalism. By the time has passed, neo-functionalism was challenged by the intergovernmentalist theories. The theories of the European integration seized the politics and the policies of the European

Community, and the theories divided into two main groups as the theories that inspected institutional issues and the other set of theories which concerned with the governance and decision making processes. (Egan, et.al. 2010). One of the purpose of the European integration theories is that, these theories are useful in clarifying the policies of the European member states, the process of the nation sates shifting to the European structure and the different stages of the states that are integrated in different stages and levels which states has integrated more than other states (Egan, et.al. 2010). In order to anticipate possible consequences of the European integration process, the various theories of the integration includes different assumptions from different perspectives. (Corbey, 1995)

As it is briefly mentioned in the paragraph above, the European integration theories consisted of two main theoretical categories called supranational and intergovernmental theories. On one side, supranational theories generally argue that the creation of the intuitions by the governments flees from the control of the governments of the states by initiating self-improvement that leads to more integration. On the other hand, intergovernmental theories support the idea that the integration is in the hands of the actors within the governments of the states.

The theories of European integration can change over time and one of the reasons for this change can be the change in the theoretical view or in political events can be improved within the integration process. Moreover, supranationalist and intergovernmentalist theories are divided as 'idealism' and 'realism' related as it is in the international relations field. For instance, Neo-functionalism as the first supranational theory of the European integration focused on the organizations and cooperation. Contrary, to this view, intergovernmentalist theories drew attention to

the actions of the governments which based on the realist perspective. As the time passed, both supranational and intergovernmental theories added different forms to their understandings theoretical frameworks. During 1990's the supranational theories turned their focus onto the "historical institutionalism" in order to identify the "momentum" of the integration (Egan, et.al. 2010:37-39). On the other hand, intergovernmentalist theories especially liberal intergovernmentalism which was improved by Moravcsik, gave importance to the bargaining process which, firstly the governments bargain to bring out the interests and then come to a decision in order to guarantee their responsibilities which this means that the possible consequences of the bargaining process is the outcome of the preferences (choices) and the power of the member states. Nevertheless, the supranationalism and intergovernmentalism has an explicit difference between them. In the view of Moravcsik, the intergovernmental theory concentrates on the negotiations about presenting the policies. On the other hand, supranationalist is more concerned with the adopted agreements that regards with the alterations in the constitution and explication of the treaties (Egan, et.al. 2010)

The next three parts which is related with the theories of European Integration will explain the three basic theories including, constructivism, functionalism and rationalism in detail in order to bring a clear understanding of the different theories of the European integration and their basic arguments to provide a foundation for connecting the theories with the topic of the thesis and creating the theoretical framework for the thesis.

### **3.2.1 Constructivism**

Constructivism is originated as an International Relations theory, however over time it has expanded and involved in the European Integration process (Egan, et.al. 2010). One of the reasons of social constructivism's involvement to the EU studies in the 1990's was to fulfill the lacking parts of the other European Integration theories including neo-functionalism and liberal intergovernmentalism (Risse, 2009). March and Olsen argued that there are two main basis of the constructivism, which these are the actors and the structure. By structure, they related to the importance of the culture, norms, identity and values in the field of politics and especially to the ideas, which constructivist argued that the choices and the decisions are constructed by the ideas. Related with the second basis which it is the actors, March and Olsen argued that the actors pursued the "logic of appropriateness" (March and Olsen, 1989: 160), which it is required that in any particular social circumstance actors tries to comprehend the suitable rule (Risse, 2009). In the constructivist perspective, socialization and identity played the key factors in the integration process. European integration is the process of creating a community, which these groups within the community have batch normative beliefs, identity and common thoughts. Furthermore, according to the constructivists, integration and ideas are connected to each other by institutional integration, because of the shared beliefs and identity more integration will be spread (Egan, et.al. 2010). In order to indicate the importance of the institutions, Checkel has referred to three different types of institutionalism consisting of sociological, rational and historical institutionalism. Rational choice institutionalists did not give much attention to the institutions rather they concerned the attitudes and the preferences of the individual actors. On the other hand, historical institutionalists gave more importance to the institutions however;

this only happened in the long-term period, contrast to this, institutions remained in low-level with the key players concerning their strategies which institutions did not had much impact on the actors in the short-term compared to the long term period. In the last institutionalism type which is the sociological, institutions are the key actors in both short and long terms in constituting actors and their interests, where the core concepts of the sociological institutionalism; institutions installed by collective identity, interaction and interest were lacking in the European integration process (Checkel, 1999). Moreover, Checkel argued that the modernist social constructivist view integration and politics as a study that focuses on the interaction, interest and preferences of the constructivism has the ability to be useful/helpful in the field of the European integration in different ways by focusing onto the impact of learning and socialization approach and the normative way of Europeanization (Checkel, 1999).

According to Thomas Risse, “constructivism is based on social ontology which insists that human agents do not exist independently from their social environment and its collectively shared systems of meanings (culture in broad sense)”. (Risse, 2009: 145). Constructivists challenged the “methodological individualism” which referred to the “social phenomena” that could be explained by the involvement of only the interests and the decisions of the individual substitutes, that has played the core concept of the rationalist thinking. Contrary to rational perspective, constructivists claimed that the attitudes are occurred by “learning and dynamics of socialization” by this sense, the norms, ideas, identities and institutions has a major impact on the substitutes (Jupille et.al. 2003). Constructivists claimed that the impact of the social norms not only related with adjusting the attitudes of the actors but also



generate their identity. In order to explain the interests of the actors, constructivists considered social identity (Risse, 2009). Related with this, Thomas Risse also referred to several positive arguments of the constructivism including common constitutiveness of the structure which provides a profound apprehension of the concept Europeanization, secondly by stressing out the constitutive impact of the regulations, policies and the European law obtains people to examine how European integration forms the actor's interest and identity which these have brought a better comprehension of the EU (Risse, 2009).

Christiansen, Jorgensen and Wiener commented on John Ruggie's view on constructivism, in this sense they came out with several different outcomes. Firstly, constructivism cannot be mentioned as one of the essential theory if the European Integration. Even though constructivism has a linkage between the key assumptions such as interest, socialization approach and learning of the neo-functionalism, it would be erroneous if a comparison is made between these two theories. Secondly, constructivists challenged the view of "material reality" (Christiansen et.al. 1999: 530) and argued that social realities can only be present by the human covenant, which this can cause the human realities to be delicate, disputable and tentative. Nevertheless, social realities are concerned with domestic intensions and are terminated to a particular period of time. There are two main actuals of the constructivism when it is looked from the philosophical perspective. These include that the constructivism drives the issues into more obstruct way however on the same hand it provides various ideas in order to improve theories related with the integration. (Christiansen et.al.1999). Moreover, passing on to the economic field which it is the core focus of the thesis besides the decisions, and preferences of the

political leaders in Cyprus and in Ireland, Mamadouh and Wusten argued that the main theories of the European integration including constructivism have failed to provide appropriate estimates to the possible consequences of the current Eurozone crisis (Mamadouh and Wusten, 2010). This view leads to deduce that even though constructivism has made various contributions towards to integration as well as in economic area, this theory is not enough to explain or anticipate ultimate outcomes of the decisions of the political leaders. Therefore, does not allow us to generate a testable hypothesis.

### **3.2.2 Functionalism**

Functionalism is one of the International Relations theory, emerged from the idealism and liberal thinking. Functionalism is one of the theories that challenged the realist thinking. The core notion of the functionalism theory is the mutual requirements and interests of the states in a global integration process. (Diez, et.al. 2011). One of the core arguments of the theory is that, functionalist's claims that the states can harm the global integration process; another is that integration process is a matter that can be optimized by the liberty of human beings and in order to create the agencies elites and information are required (Diez et.al. 2011). As neo-functionalism emerged from the functionalism theory, there are similarities between functionalism and neo-functionalism theory. One of the mutual thinking is that, both of the theories consider the integration process as a counter response to the economic factuality (Metta, 2006).

Neo-functionalism is known as the first and one of the grand theories of the European Integration. One of the foundation fathers of the theory is Ernst Haas which has improved the theory in his famous publication at the end of 1950's (Cini

and Borragan, 2013). Neo-functionalism is the first theory which has embarked to explain the European integration through the concept of cooperation between states with the aim of abolishing any possible conflicts in the sense of focusing on the how and why the states by willingly shift their sovereignty to the European level. Unlike the other theories including realism, which assumes that the states are the key incorporated and only factors, neo-functionalism pays a great attention on the interest groups, non-state actors and elites (Niemann and Schmitter, 2009). Several basic assumptions of the theory made by Haas have been indicated by Neimann and Schmitter (Niemann and Schmitter, 2009). They argued that regarding to Haas's arguments the neo-functionalism challenges the idea that the games that take place between the actors are based on zero-sum games which this is one of the realist notions; instead the theory argues that the games can be structured as "positive sum-games" with "supranational decision making" (Niemann and Schmitter, 2009: 48). Another assumption is that, the interest of the actors can shape the shifting process including the prospects and events to the European level. Moreover:

*"Once established, institutions can take on a life their own and progressively escape the control of their creators. Concerned with increasing their own powers, employees of regional institutions become agents of further integration by influencing the perceptions of participating elites, and therefore governments' interest."* (Niemann and Schmitter, 2009:48).

The linkage between political and economic issues remains as the key concern of the Neo-functionalism (Metta, 2006), and the key notion of the theory is the "spill over". The concept is defined as where cooperation in one particular area requires to a new

cooperation in another area (Cini and Borragan, 2013). Because of the spillover effect, the governments acknowledged that any particular attempt regarding integration in one field influences and affects the actions of the governments in other different fields, in this sense, the economic issues oppresses the political field (Metta, 2006). This is a very important assumption that has repercussions for this research. If this is true than political conflicts should be seen less and an issue like austerity should be debated and resolved without creating political conflict.

If we are to look into the spillover assumption of the neo-functionalist theory we can see that there are two forms of spill over which are consisted of political spillover and functional spillover. A cooperation took place in one particular field brought another cooperation in other area. For instance this kind of situation occurred in the area of single market. Before single market established, the trade between the states and the movement of people were not allowed. By establishing the single market, states came to a common decision and approved the trade between the states which then this has led to taking other decisions related with other sectors including health and security. This is what functional spillover is referred to. On the other hand, political spillover is more concerned with the political issues, where interest groups and elites from national political groups demand supranational cooperation in order to come to a common decision. Both of the national elites and interest groups are concerned with European solutions. In a point, this kind of spillover type is dedicated to the thinking that considers European integration as a process that provides a shift of interdependence between elites and interest groups (Cini and Borragan, 2013). Another type of the spillover is referred to cultivated spillover, this type was inserted in order to express the function of the European Commission improving relations in

the sense of agriculture with interest groups, and domestic elites in order to make an impression on government (Bache and George, 2001).

Even though neo-functionalism theory had a great impact on European integration studies during the period of 1950-60's, when it came to 1970's European integration had seemed to be ceased and there was a need to restructure the spillover concept, these issues had caused neo-functionalism to lose of its influence and became defunct (McCormick, 2005). However, this did not remain for long, neo-functionalism turned back a decade later, with the revival of the integration process. Several theorists revised the theory. For instance, Arne Niemann, drew attention to learning, socialization and consideration in order to clarify the consequences of the decision (Niemann and Schmitter, 2009).

Just like to other theories, there are several criticisms towards to neo-functionalism. According to Corbey, the concentration of the neo-functionalists mainly to the interest groups, actors outside of the government and to the national elites, led the states to have a more inactive role, which they only aimed to meet the needs of the society (Corbey, 1995). The consideration of the interest groups thus is the inadequate point of the theory. This is because; states are more free actors than the neo-functionalist viewed. States only goal is not to meet the needs of the interest groups but it has more to do with having an impact on the integration due to it's an autonomous characteristic. By discounting the states, it causes to incapability in order to guess the consequences of the integration (Corbey, 1995).

As it is mentioned above, due to the neo-functionalist focus on the interest groups and non-state actors it is not appropriate theory to be the basis of the thesis. Since the

thesis are concerned with the decisions, bargaining process and the behavior of the political leaders. Nonetheless, as mentioned above the fact that it assumes that the political field will be oppressed by the economic field and is actually claiming the opposite of what the post-functionalist school of thought is assuming. Therefore this derivation will be tested only after the examination of post-functionalist school of thought and will be integrated into its hypothesis. The following paragraphs provide a detailed overview of the post-functionalist school of thought with the aim of deriving a theory guided hypothesis.

The post-functionalist theory's focus and perspective towards to EU and European integration differs from the neo-functionalist assumptions. Focus areas of the Post-functionalism are the preferences of the parties and the public, public opinion and politicization of the European integration. (Hooghe and Marks, 2009). In the study of Hooghe and Marks, focused on the post-functionalist theory of European Integration, they mentioned about the importance of the identity in the eyes of post-functionalism. It is argued that identity has an impact on the public opinion. Identity plays a greater role on the public opinion rather than the elites or the interest groups. The authors argued that identity have more importance and impact on the integration when is related with the politics rather than economics, public rather than individuals and populist rather than leftist parties. The strategic connections between the political parties are examined in order to figure out in which circumstances becomes politicized. (Hooghe and Marks, 2009). One of the arguments of the European integration's post-functionalism theory is that since there is a public "dissensus" that has occurred by the increase of the Euro-scepticism, it has led to the EU to be in a 'constraining dissensus' (Hooghe and Marks 2009:9). According to post-functionalist

theory, with the emergence of the politicization process in the EU caused to an alteration in the condition of “permissive consensus” of the decision makers within the European integration into “constraining dissensus” (De Wilde, 2012:1090). Generally, politicization refers to the fact of transferring apolitical issues into political aspects. The key factors of the politicization are the institutions and the decisions (De Wilde and Zürn, 2012).

Process of politicization emerged within the EU starting from the 1980's. After the collapse of the Soviet Union and a rise in the EU's power opened a new era for the EC, the elites started to define the Europe as a political topic and the major internal and external fields and the treaties that played a role in creating the EU and its constitution started to include political discussions. One of the main reactions of the EU towards the process of politicization has been an insistent exertion to create ties of allegiance among EU and European citizens through an excess of economic, constitutional and social policies. Politicization of the EU also assisted to strengthen identification with Europe and it has manifested for European citizens that the power of the EU was significantly expanded (Checkel and Katzenstein, 2009). According to De Wilde, the politicization occurred to be a trend within the EU since the 1980's. It is argued that one of the reasons that politicization has arisen is because of the rise of the authority of the EU (De Wilde and Zürn, 2012). The ‘political opportunity structure’ which includes officially institutionalized networks of opinion for instance, ‘consultation procedures’, elections and the narratives about the European integration all facilitates the politicization process (De Wilde and Zürn, 2012: 138). This structure obtains the fundamental substructure allowing the EU matters to shift from the ‘decision-making’ to politics (De Wilde and Zürn, 2012:139). This is divided into

two levels consisting of European and national level. On the European level, negotiations of the basic treaties and the recent sovereign debt crisis that the EU is facing and on the other hand, the domestic issues included on the national level are the most significant aspects of the involvement of the politicization (De Wilde and Zürn, 2012). After the disappointment of the Constitutional Treaty, the major EU institution that is European Commission and the officials of the member countries of the EU decided to address the European Integration as a political aspect and constrain the participation of the European people in the decision making process. In addition, the current sovereign debt crisis demonstrates that this issue pushes the European integration towards to political means (De Wilde and Zürn, 2012). In support of this view, Vivian Schmidt supported the idea that the Eurozone crisis is not only an economic matter but rather a political issue as well (Schmidt, 2013). It is argued that, the economic policies that concentrated on implementing “structural reforms” to the member states of the EU and stabilizing the entire economic structure of the EU that used to overcome the financial crisis are very much related with the neo-liberal and conservative thinking. Even though these policies included political thinking, it was introduced as an only option and without involving politics. The policies aimed to be used in applying austerity to each of the EU’s member countries. However, these policies implied to those countries that were facing with debt problems as a severe austerity measures which caused the countries to move towards to a more devastating situation. In this sense, the incompetence of the people to have a role in the decision making, caused to an increase in instability of the domestic politics especially within the troubled member states of the EU (Schmidt, 2013). The involvement of politics in the Eurozone crisis could not be successful in considering the competence aspects in order to deal with the problems (Mario, 2013). There can



be several ways to resolve the difficulties that the EU is facing. For instance, increase of the cooperation, improvements in the relations between the European and national level in order to increase the democracy and to have more interaction. A need of EU to make reforms in regard of economic policies of the EU in order to prevent inequality between each of the member states within the EU (Schmidt, 2013). In light of the above-mentioned assumptions it could be argued that Eurozone crises is a living example of politicization of the European Integration and as such debates in the public sphere as well as debates in epistemic communities like those of experts should show elements of division along identity lines in terms of how the European integration is viewed. Therefore, the following hypothesis is derived and will be tested in light of the expert/elite interviews.

*Politicization Hypothesis: Public Opinion and expert views should link negative evaluation of Austerity measures to European Union if European Integration is politicized.*

### **3.2.3 Rationalism**

Liberal-intergovernmentalism has arisen as a “baseline theory” of the European integration and also to challenge the neo-functionalism theory. One of the aims of the liberal intergovernmentalism is to try to make the EU politics to be understood in an easier way. Moravcsik and Schimmelfennig argued that, liberal intergovernmentalism has two main arguments related with the politics, they see the states as the actors, meaning that the states gains their needs by bargaining and negotiations and they also view the states as rational. Which this is related with the rationalism theory mentioned in the paragraphs above. In this sense the main focus of the liberal intergovernmentalism are the choices in regard of institutions, bargaining

process and the preferences of the national states. (Weiner and Diez, 2009). The following hypothesis is derived from the assumptions of liberal intergovernmentalism and will be tested in light of the elite interviews.

*Hypothesis 1: Austerity measures applied in the Eurozone members with banking and sovereign debt problems were a result of bargaining at the EU level.*

### **3.3 Democratic Deficit in EU and Deliberative Approaches**

There are various definitions of the democracy that are very close and related to each other. First of all, democracy is defined as a government structure that consists of institutions which allows the citizens of the particular country to have the right to speak in how the politics are conducted. Another definition of democracy is related with the values of the people including equality and freedom that provide cooperation among the people. Lastly democracy involves in decision making procedure that is comprised of majority principle. Nevertheless, European governance does not completely comply with inferring the various definitions of the democracy (Eriksen and Fossum, 2000). In the beginning of 2000's the presenting structure of the EU's institutions faced with political inequality. It is argued that the smaller member states of the EU represented more in the EU's major institutions. European Parliament as being the only elected institution at that time did not have adequate power, and the power that the EP had shared with the European Council and European Commission, where these two institutions had the most of the control in both political legislative fields. Furthermore, the majoritarian regulations in regard of decision making in that time only included the majority of the member countries rather than the people (Eriksen and Fossum, 2000). This has meant that "as the collective decision making mechanism, democracy inevitably places limits on the

liberty of individuals” (Eriksen and Fossum, 2000:70). When it came to 2006, the problems with the democracy continued. Andreas Follesdal and Simon Hix in their article focused on certain characteristics of the EU’s institutions that isolated the EU from the political rivalry. These features included referendums, electoral system within the institutions and the problem that occurred with the democratic politics among the major institutions of the EU and the ideas of the European people. The problem of the referendums was that the voters were only permitted to state their opinions over the insulated major constitutional matters however, not on the particular policy context. The most importantly, the institutions themselves need several reforms. For instance, need for a more transparency of the Council in the matters of permitting the people through the media, to observe what kind of procedures are taking place within the European Council during the decision-making process (Follesdal and Hix, 2006). Moreover, all of the institutions of the EU need to be more liable. Democratic deficit is not only related with the problems within the institutions, however, there is a need of EU to be in a more closer relationship with the European people, making sure that the integration process does not only controlled by the decision makers but involving European citizens to the process as well (Cini and Borrigan, 2010). Not only the European institutions have democratic deficit, another matter related with the democratic deficit of the ‘socio-psychological perspective’ is the lack of the EU’s demos and the common identity between the Europeans. Occurrence of the EU demos will provide democratic sustainability within the EU (Cini and Borrigan, 2010).

The most important of all, current financial crisis has led for further democratic deficit within the EU. There are several reasons that the Eurozone crisis further

demonstrated democratic deficit within the EU. First of all, the neoliberal policies that structured the European integration have led to face with dramatic problems with the democracy. Relying on the technocratic features without liability and national governments transferring their main parts of the economical sovereignty to the European level in order to gain mutual benefits resulted with controversial effect (Pianta, 2013). At the beginning of the crisis the leaders of the member states did not thought that an economic crisis could take place and could not come to a common decision about what kind of action to be taken as a response to the crisis. By delaying to take an action, has led to deepening the crisis. The leaders and the major institutions including the European Central Bank, European Commission and the Troika of the EU decided on to impose austerity measures to the troubled countries with the aim of to save the banks and to recover from the budget and public deficit. This imposition made by undemocratically and also without considering the country's national economic and political structure and these measures resulted mainly with further recession, downturn of the economy, and creating social unrest (Pianta, 2013). These mentioned reactions demonstrate the democratic deficit within the EU. The reaction towards the crisis is an example for demonstrating the absence of the EU's demos (Cini and Borragan, 2013). People are the ones who have suffered the most of the crisis. The rise of the unemployment, dissatisfaction of people towards to the political choices of their national governments and the risen inequality can cause to a possibility of the 'political system losing its legitimacy' (Cini and Borragan, 2013:351). The national governments that have been forced to implement these restrict measures; have caused to a drop in the democratic process of the troubled countries. Pianta states that:

*“As popular discontent with the outcome of EU policies grows, citizens are becoming aware that there are winners and losers in the process of European integration and that, for as long as a proactive demos is absent, then the ‘people’ will always be on the receiving end of top-down technocracy” (Pianta, 2013:158).*

In light of the deliberative approaches to European Integration the following hypothesis has been designed and will be tested in by the primary data collected in elite interviews.

*Hypothesis 3: Austerity measures were imposed on Cyprus by the Troika without necessary input by the citizens and despite Public Opinion being of the opposite view.*

### **3.4 Conclusion**

In this chapter the key theories that has either made huge contributions or became the grand theories, including constructivism, neo-functionalism, post-functionalism and liberal intergovernmentalism for the European integration have been indicated and examined. Each theory has important assumptions which have left more or less impact in the history of European Integration. However, this does not mean that the theories that have been explained in this chapter are suitable for our theoretical framework. Off course it is not. Starting with the constructivism, even though constructivism is a theory of International Relations, it has still made various contributions to the integration and to European studies. Since the main focus of the theory is based on norms, identity, idea, learning, socialization and institutions, they are more concerned with the constitutiveness structure of the Europeanization and

the constitutive influence on the European law, policies and regulations. Other than this, even though constructivism made contributions to the field of economy, it lacks to examine the decisions made by the political leaders and the outcomes of these choices. Moving on to the neo-functionalism, the core of the theory which it is the spill over concept is based on cooperation in one sector leads to cooperation in other sectors. Even though neo-functionalism was known as the grand theory of the integration, it has been obsolete during 1970s and then turned back with the modifications during 1980s. However neo-functionalism concentrates on to the interest groups and non-state actors. By this way it lacks to give a framework and an explanation of our topic.

Contrary to this, post-functionalism, liberal intergovernmentalism and democratic deliberation are the theories that can provide a theoretical basis for our thesis. Post-functionalism draws attention to the politicization of the European integration, public opinion and political parties (multilevel governance). In regard to the findings above, it is claim that; Public Opinion and expert views should link negative evaluation of Austerity measures to European Union if European Integration is politicized. The second hypothesis is derived by the liberal intergovernmentalism. This is due to its concern with seeing the states as the rational actors, drawing attention to the bargain process, and most importantly focusing on the national preferences. In this sense, it is argued that; Austerity measures applied in the Eurozone members with banking and sovereign debt problems were a result of bargaining at the EU level. The last hypothesis is related with the democratic deficit within the EU. There is an huge debate in the literature about the lack of the democracy in the major institutions of the EU as well as in the management of the crisis and the suffer of the people. Due to

this, the third hypothesis is composed as; Austerity measures being an imposition,; Austerity measures were imposed on Cyprus by the Troika without necessary input by the citizens and despite Public Opinion being of the opposite view.

Since Hypothesis 1 and Hypothesis 2 are theoretically opposed to each other proving one would mean accepting the Null Hypothesis of the other; Hypothesis 1 will be dropped. Therefore the Hypotheses to be tested are:

*Politicization Hypothesis: Public Opinion and expert views should link negative evaluation of Austerity measures to European Union if European Integration is politicized.*

*Democratic Deficit Hypothesis: Austerity measures were imposed on Cyprus by the Troika without necessary input by the citizens and despite Public Opinion being of the opposite view.*

## **Chapter 4**

### **METHODOLOGY**

#### **4.1 Introduction**

The purpose of this chapter is to demonstrate the type of methodology that is used in this thesis. It obtains a comprehensive explanation of the method and the data collection that is used in this thesis. In this sense, this chapter is divided into three parts. In the first part, general information of different perspectives alternative methodologies of what is understood about the methodology will be given in couple of sentences in order to make a better understanding of the chapter and to show the chosen method lies under in which type of research method. General information (literature) about the chosen method and the reasons why the chosen approach is preferred will be explained in the second part. In the last part, the way that the data has been collected and how the chosen method it is related the chosen method with my research topic will be identified.

#### **4.2 Alternative Research Methodologies Available**

Research design in general contains various different types of methodologies, approaches, methods and techniques that the researcher utilizes the selected type of method in his/her study. Each of the different type of methods assists the researcher to collect data and to produce a frame of his/her study according to the selected method and technique. Since the aim of this chapter is to introduce and explain the applied method in this study, other alternative research methodologies have been



presented as well in order to provide a clear understanding of the reason behind choosing the applied method in this thesis and not the other approaches.

#### **4.2.1 Quantitative Research Methods**

A quantitative research method is based on statistics and numbers. Quantitative research explains the particular ways of phenomena; it summarizes the certain samples to search for the big picture or to ‘test causal hypotheses’ (King, Keohane, and Verba, *Designing Social Inquiry*, 1994: 4) by using measurements that is based on the numbers and by making analysis that can be easily understood (King, Keohane, and Verba, *Designing Social Inquiry*, 1994). Burke Johnson and Anthony J. Onwuegbuzie mentioned about the features of the quantitative research methods as being based on testing the hypothesis of/and theory, statistical analysis, verification and validation, estimations, collection of the standardized data, deductive variables and lastly on explanation (Johnson & Onwuegbuzie, 2004:18). Gary King, Robert O. Keohane and Sidney Verba in their book argued that the sample is important in quantitative research methods, and mentioned about several sample of quantitative research focus that is related with the political issues such as a significant alteration in regard of an election, nation, and world crisis or in a decision (King, Keohane, and Verba, *Designing Social Inquiry*, 1994). Moreover, King, Keohane and Verba argued that rather than the comparison made by the remarkable leadership or the stream of the ideas between people, the quantitative analysis are more concerned with the models and movements that takes places in economic, social or political area (King, Keohane, and Verba, *Designing Social Inquiry*, 1994). Furthermore, King, Keohane and Verba focused on the fact that by combining the quantitative and qualitative researches together can be useful in the sense of being systematic and scientific (King, Keohane, and Verba, *Designing Social Inquiry*, 1994). In contrary to this

view, James Mahoney in his article stated that in regard of the comparative politics, the quantitative methodology has not much to say about the processes that the researcher can trace in order to prepare hypotheses which generates theories that can be tested (Mahoney, 2007). However, in 'deviant case analysis' (Mahoney, 2007:125), which is a type of the comparative politics, the quantitative method can be mixed with the qualitative approach (Mahoney, 2007).

There are several advantages and disadvantages of the quantitative research method. The positive ways of the quantitative research can be listed as; the method can be used in testing and confirming theories related with how the phenomena develops and also hypothesis that are prepared before the collection of data. Quantitative research is useful in making generalization of the outcomes of an investigation that is related to the particular instance with an adequate size. In quantitative research collecting data is quite easy and takes less time, also analyzing the data do not take a lot of time as well. As the number of people, actors or events and trends increases there will be higher reliability with the outcomes of the research (Johnson and Onwuegbuzie, 2004). These were some of the advantages of the quantitative research methods. Contrary to this, there are several disadvantages of using quantitative researches as well. One of the negative ways of the quantitative research is the so called 'confirmation bias'. Another disadvantage is that, the theories produced by the researcher can be complicated to understand by the other researchers (Johnson and Onwuegbuzie, 2004). Other than these, 'selection bias' is another problem that can be occurred in quantitative research methods. Furthermore quantitative methods as well as qualitative research as well can face with 'indeterminate research designs. It

is about the lack of the computer program obtaining the predictions (King, Keohane, and Verba, *Designing Social Inquiry*, 1994:118-130).

The definition of the quantitative research from two different sources, and the advantages and disadvantages of the quantitative research briefly is explained in the paragraphs above. It is evident that the quantitative methods are more likely to be used in the larger amount of cases and instances that has numerical measurements and statistical methods. Comparing to this study, qualitative research is more appropriate method to be used in this thesis. This is because, this thesis are based on the descriptive values and inductive research.

#### **4.2.2 Qualitative Research Methods**

Qualitative research method is a kind of method that can be applied and used in different academic fields and in different traditions related with positivism and post-positivism, foundationalism, post-structuralism etc... as well as various methods including interviews which this is the type of technic that has been used in this thesis, comparative politics, case study, observation and interpreting analysis are all inclusive of the qualitative research method (Denzin and Lincoln, 2005) In order to give a more descriptive explanation of the qualitative research it can be said that, Qualitative research method is used in order to grasp and discover a problem or an issue that is related with human or social areas which is attributed by the individuals. Qualitative research comprises of making a data analysis by focusing onto specific to general subjects, gathering data by concentrating on the affiliate status, providing explanations according to what the researcher have understood of the definition of the data and lastly the method also contains ways and questions (Creswell, 2009). Moreover, Berg and Lune, gave another simple definition of the qualitative research

and they stated that the qualitative research is related with the “*definitions, concepts, meanings, symbols, characteristics and symbols of things*”(Berg and Lune, 2014:3). Contrary to this, quantitative research includes more mathematical and statistical concepts (Berg and Lune, 2014). Hennik et.al. in their book mentioned about the aims and the consequences of the qualitative research method. One of the aims of the qualitative research is to provide an understanding of issues, for instance decision making, by looking through the reasons, the facts and several other factors and also to lead to an appropriate answer by asking how and why questions. To this extend, one of the main consequences of the qualitative research is to state and designate the actions, attitude or faith by providing an incentive comprehension (Hennik et.al. 2011).

There are many researchers in the literature that has and still is using and working on the qualitative research methods in their researches. Bennet and Elman (2007), in their study focused on the literature of the qualitative research methods which have been applied in different sub-fields including American Politics, Political Science and International Relations. Bennet and Elman (2007), divided the literature of the qualitative research into three different periods of time and argued that in the first period there has been quite lot of creative and foundational studies made by different authors on the qualitative research methods. Until the mid-90’s very few new findings on the qualitative research influenced the studies made by the known authors. Starting from the beginning of the 2000, the qualitative research entered into new era of a new literature which included combination with the quantitative research methods such as statistical techniques, which this is also called as the ‘renaissance of the qualitative research (Bennet and Elman, 2007:4). A comparison is

made between the three mentioned subfields regard to the use of the different qualitative research methods. Qualitative research is an important method for the Comparative politics in the sense of providing that can be tested, absorbing and has a clear and precise expression. Comparative politics concentrated more onto the classic typologies. Case studies are important method for both of the Comparative politics and International Relations sub fields. The qualitative research methods have a great impact and play an important factor in the progression of the International Relations subfield. IR has applied explanatory typology and typological theory in order to improve their arguments. The progresses in the typological theories and explanatory typologies are one of the recent focuses of the qualitative research method. Explanatory typology involves connections within the various variables of the theory in order to provide ‘predictions’. One of the facts that separate the typological theories from others is the inclusiveness of the concept of theory. This kind of typology is frequently complemented with the process tracing and case study methods. (Bennet and Elman, 2006: 466-467). Nevertheless, American politics are tending to be closer to the quantitative research methods (Bennet and Elman, 2007). Lastly, the development of the qualitative research will be carried on however, the way that the methods being admitted will be related to the developments carried out in the subfields (Bennet and Elman, 2007).

Qualitative research methods do not only have an importance in the regard of subfields but also are involved in case study methods.

*“Qualitative methodologists have identified case study methods as having comparative advantages in developing internally valid and context-sensitive measures of concepts, heuristically identifying new*

*variables through within-case analysis of deviant or other cases, providing a potential check on spuriousness and endogeneity through within-case analysis, and testing and elaborating theories of path dependency and other types of complexity” (Bennet and Elman, 2006: 473).*

There are various case selections in the sense of case studies methodologies including ‘small-n studies’ which aims to obtain more comprehensive information and also it makes a collation between dependent and independent variables, however this type of case selection is criticized due to the depended variables providing miss-leading outcomes (Bennet and Elman, 2006:460-461). Another case selection of the case studies is the process tracing, which it is argued that the process tracing has more importance than the small-n studies because many of the ‘casual inferences’ of the small-n studies are derived by the process tracing method (Bennet and Elman, 2006:462).

There are several differences between the qualitative and quantitative research methods; one of the simple differences is that in qualitative research the descriptive explanations are involved rather than mathematical contents as it is involved in quantitative research. Another is that, which this is related with the reason of chosen method in this thesis, is the way of providing answers for particular questions. A qualitative research method provides open ended questions which this is what it is used in this thesis as well.

### 4.3 Process Tracing as a Methodology

Since the research question of the thesis is about the decisions of the political leaders, process tracing method is applied in this thesis as the most suitable method for the research question. Process tracing method is one of the basic means of the qualitative research which gained importance and popularity in recent decades. There are various studies made on process tracing on the literature. For instance, Tullia G. Falletti in her article mentioned about two simple definitions of the process tracing from two different perspectives. According to Alexander George and Timothy McKeown, the process tracing method is mainly related with the tradition of 'methodological individualism' (Falletti, 2006:3). Process tracing is used in decision process which describes decision process as to make a conclusion from the miscellaneous circumstances. Process tracing method tries to reveal the progression of the actor, decision process, the real attitude after the decision is taken, and the impact of changeable interests and institutional regulations on attitude, process and attention (Falletti, 2006). Moreover, in order to minimize the complexity that incorporates with contextual variables, process tracing tries to reveal the basic individual attitude which is related with the reasons and the consequences based on hypothesis (Falletti, 2006). On the other hand, Alexander George and Andrew Bennett which these two authors have made a lot of contributions in improving the process tracing, argued that process tracing is a *"method [that] attempts to identify the intervening causal process - the causal chain and causal mechanism - between an independent variable (or variables) and the outcome of the dependent variable."* (George and Bennet, 2005:206). Unlike the definition of George and McKowen, George and Bennet argued that due to the variation of casual mechanisms, process tracing does not have to be based on individuals nor individual tradition (Falletti,

2006). Simply, process tracing is a method that connects the different issues together in order to provide and “explain the outcome” and most importantly of all to emphasize, subtilize and to generate a “theory of politics” (Collier, 2011:823). David Collier in his study drew attention to a different aspect of process tracing. He stated that process tracing can provide determinative explanations to social and political events (Collier, 2011). He used several different hypothesized included cases from different fields such as international relations, American and comparative studies in order to demonstrate the use of the process tracing. The aim was to symbolize the use of process tracing as an important structure of the qualitative approach and also that can be useful in quantitative analysis as well (Collier, 2011). Collier came to a conclusion that, methods like process tracing can fill the gaps which is missing in quantitative research (Collier, 2011). According to Jeffrey Checkel:

*, ‘methodologically, process tracing provides the how-we-come-to-know nuts and bolts for mechanism- based accounts of social change. But it also directs one to trace the process in a very specific, theoretically informed way. The researcher looks for a series of theoretically predicted intermediate steps’’ (Checkel 2006:363).*

Process tracing is one of the most important elements of the case study research (Porta and Keating, 2008). Process Tracing can be used in improving or testing a theory by inductively. The aim of the researcher is to reveal the connections between the reasons and the consequences of an event. The researcher examines a theory by describing casual chains that incorporates the dependent and independent variables to each other. Other than these, process tracing is also used in measuring the two mentioned variables as well and in examining



decision making procedure in order to provide pertinent findings (Porta and Keating, 2008). Process tracing is useful for both positivist and interpretivist notion. By using various sources including documents and transcriptions of the interviews etc... process tracing aims to create and measure the connection between distinctive elements. Process tracing in the interpretivist view, concentrates on to investigate the reasons behind of the behavior of the actors and to examine the link between these attitudes and opinions of the actors (Porta and Keating, 2008). Furthermore, process tracing is one of the key components of the empirical case studies. This is because, it creates an aspect to find out and to measure the choices, aims and targets of the actors, in order to help the researcher to figure out what the actors' counts on, demands and knows. On the other hand there are several criticisms made on to the case studies and process tracing. It is argued that in several cases for instance taken into consideration of EU it becomes difficult to make predictions because the cases are very much connected other it is hard to separate the cases from each other. Another criticism is about the problem with empirical sources, process tracing can only be useful if the particular processes are credible (Porta and Keating, 2008).

Just like all of the other methodologies; process tracing approach also has strengths and weaknesses. Jeffrey Checkel in his study examined the positive and negative ways of the process tracing. He argued that the process tracing is essential in uncovering the casual mechanisms, and it is required in constructing a theoretic thinking of advanced arguments. Also, process tracing helps to test, to clarify the validity and reliability is of the researcher's data collection and to check if enough

data is collected by comparing the obtain inputs with other works. However, on the other hand the researcher can face with several problems in applying the process tracing approach. For instance, one of the problems lies in the time consuming, the interviews can take a lot of time of the researcher due to the necessity of tremendous information. Nevertheless, despite the several negative points which each problem can be solved, process tracing is a significant approach to be applied because it connects the theory and the information with each other (Chekel, 2006).

This mentioned and explained research method will be applied in this study. Firstly, by using the open-ended interview technique, the events will be linked to each other by analyzing and creating a code book. Outcome of these interviews will be produced; this will be done in the light of theoretical hypothesis. The outcome of the interviews will help to emphasize elaborate and reflect the theorized hypothesis.

#### **4.4 Elite Interviews as a Research Methodology**

In this thesis the primary data is collected by making elite interviews, which this is one of the techniques of the process tracing method. Collecting data by elite interviews can help to certify the data which is gathered from existing sources. By this way, elite interviews helps to affirm the validity of the information which is already gathered from different sources and the data which is collected can be cross-checked by multiplicative sources (Tansey, 2007) in order to provide more reliability of the information (Tansey, 2007). Applying elite interviews enables the researchers to collect wide and elaborate data about the views and behaviors of the political leaders who are interviewed by enabling the researcher to conduct open-ended questions (Tansey, 2007). Nevertheless, there are disadvantages of this interview

approach. For instance, policy makers might take caution in the way they talk which this may lead to question the credibility of the data (Tansey, 2007).

The reason that elite interviews have been applied as a technique in this thesis was to attain to the different opinions and perspectives of the experts on the particular issue, and then to use these opinions as a mirror reflection to the findings of the thesis. An email has been sent to sixteen economists and politicians from Cyprus, and twelve experts and politicians from Ireland. In total, ten experts have accepted to conduct an interview. The questions consist of open-ended questions and each of the experts answered the questions by dedicating to their own point of views. Even though each of the experts evaluated the questions in different outlook from each other, major common answers has emerged which this has increased the accuracy of the findings/hypothesis derived from base on the theories.

#### **4.5 Content Analysis**

Content analysis is a type of research methodologies and it is referred to textual analysing. The aim of the method is to convert the broad textual sources such as political speeches, historical documents, diplomatic messages, newspapers, journals and open-ended interviews etc... into more appropriate, practical pieces of data (Weber, 1990). Another definition of the content analysis is defined as providing implications by accurately and analytically, classifying the particular features of the communications (Holsti, 1969).

The content analysis research method has long history and evolved over time, this kind of research is used in both quantitative and qualitative approaches. The content analysis first applied in the quantitative methods as ‘quantitative newspaper analysis’ (Krippendorff, 2004), *“measuring volumes of coverage in various subject matter*

*categories-initially to radio and later to movies and television. Content analysis in subject matter categories continues today and is applied to a wide variety of printed matter, such as textbooks, comic strips, speeches, and print advertising”* (Krippendorff, 2004: 6). Later on, content analysis involved in qualitative methods as well. Rhetorical, Discourse, Conversation and Ethnographic analysis are types of the content analysis method that includes qualitative research approach (Krippendorff, 2004). Rhetorical analysis refers to defining the structural features and debates concentrating on the process of how and why the communications are carried out. Contrary to this, Discourse analysis is about focusing on signifying the specific circumstances. Conversation content analysis is related with qualitative research. Firstly the researcher records the conversations taken place for instance in an interview, then transcribes them onto the computer in order to analyse the main contents of the recordings (Krippendorff, 2004).

#### **4.6 Conclusion**

In light of the different alternatives discussed above the most suited research methodology for this thesis was decided to be a qualitative content analysis of elite interviews. This methodology will enable the research to investigate and therefore trace the processes that existed in the decision making mechanisms during the Eurozone crises and specifically during the decision making processes regarding Cyprus and Ireland.

## **Chapter 5**

### **ANALYSIS AND RESULTS**

#### **5.1 Introduction**

This chapter is designed to introduce the reader the analysis of the collected data (interviews). There are eleven tables in total. The first three of the tables refers to the research protocol and to the list of the contacts of the experts and decision makers from both Cyprus and Ireland. The rest eight tables demonstrates the different topics and actors mentioning to the top issues of the topics, top actors and the topics and the actors that have discussed along with other related topics and the actors of the code book. The aim of this chapter is to analyze the designed code book and comment on each of the tables and provide an explanation for the reader about the different subjects and issues that the experts discussed during the interviews. Lastly, it purposes to figure out which topics and actors have the experts referred to.

## 5.2 Tables and Analysis

In this part, the tables, their analysis and results will be demonstrated.

Table 1: Research Protocol

1-Interview Questions on each variable related to the research question were designed.

2-Decision makers and experts to be contacted were determined by snow-ball sampling strategy. (Irish decision makers and experts to be contacted were determined by searching through top 10 Universities in Ireland).

3-Interviews were conducted and recorded.

4-Interviews were transcribed.

5-Each interview was upload as a .docx file on to Atlas.ti 5.5

6-A Code Book was prepared by using inductive methodology.

7-Articles were coded according to the Code Book.

Table 2: List of Decision Makers and Experts Contacted

1. Dr. Alexandros Apostolides	Chair person, Lecturer Economics; <b>European University of Cyprus</b>
2. Charis Polycarpou	Economist working in <b>AKEL</b>
3. Marios Mavrides	Economist working in <b>DISY</b>
4. Alexander Michaelides	Professor of Finance; <b>Imperial College Business School</b>
5. Andreas Bieler	Professor of Political Economy, Faculty of Social Science
6. George Theocharides	Associate Professor of Finance, Director of MSc in Finance and Banking; <b>Cyprus International Institute of Management</b>
7. Nicos Trimikliniotis	Associate Professor; <b>University of Nicosia</b> , Researcher for Symfiliosi
8. Assoc. Prof. Dr. Erol Kaymak	Lecturer, Department of Political Science and International Relations; <b>Eastern Mediterranean University</b>
9. Asst. Prof. Dr. Umut Bozkurt	Lecturer, Department of Political Science and International Relations; <b>Eastern Mediterranean University</b>
10. Stefanos Stefanou	Former Government Spokesman of Cyprus
11. Nikos Grigoriou	<b>PEO Trade Union</b>
12. Nicos Moudrous	Lecturer; <b>University of Nicosia</b>
13. Katie Clerides	Commissioner for Overseas and Religious Group Affairs
14. Paraxula Antoniadou-Kyriacou	President of United Democrats (EDI)
15. Andreas Kettis	Diplomatic Office of the President of the Republic
16. Yiannakis L. Omirou	Politician, President of the EDEK since 2001, The President of the House of Representatives

Table 3: List of Decision Makers and Experts of Ireland Contacted

1.David Jacobson	Emeritus Professor of Economics; <b>Dublin City University</b>
2.Eamon Gilmore	Irish Labour Party politician, TD. <b>Tanaiste and Minister for Foreign Affairs &amp; Trade</b>
3.Prof. Gail McElroy	Department of Political Science; <b>Trinity College, Dublin</b>
4.Jim Stewart	Associate Professor in Finance, Business & Administrative Studies; <b>Trinity Collage Dublin</b>
5.Ronald B. Davies	Professor of Economics; <b>University Collage Dublin</b>
6.Alan Ahearne	Head of Economics at the <b>Cairnes School of Business</b> and Economics at the <b>National University of Ireland, Galway.</b>
7.Dr. Theresa Reidy	Lecturer; <b>University College Cork, Cork Ireland</b>
8.Niamh Hardiman	Senior Lecturer School Of Politics & International Relations; <b>Univeristy Collage Dublin</b>
9. Karl Whelan	Professor, School of Economics; <b>Univeristy Collage Dublin</b>
10. Professor John O'Hagan	Professor of Economics; <b>University of Dublin Trinity Collage Dublin</b>
11. Lane, Philip Richard	Professor of International Macroeconomics; <b>University of Dublin Trinity Collage Dublin</b>
12. Michael Noonan	Minister for Finance of Ireland

Since the topic of this thesis is related with the expert opinions on austerity measures in Ireland and Cyprus, the collection of data is made by conducting interviews with experts who are involved in this subject. This has done through several of processes.



First of all, in order to have an comprehensive knowledge about the relevant subject, an research have been made about the literature of the austerity policy including the definition of the austerity, typology (samples of austerity used in other cases around the world), different debates on austerity, austerity measures used in troubled countries, the impact on public opinion and lastly about the process which Ireland and Cyprus have been through in regard of austerity policy.

The committed research played a key role in assisting to prepare and design the interview questions on each variable. Eighteen questions related with the austerity policy and seven questions related with the democracy within the EU; in total twenty five questions are prepared. After the completion of the first process, the decision makers and experts are contacted by using two different strategies. In order to attain expert contacts in Cyprus, snow-ball sampling strategy has been used and accessed to seven contacts. Several known experts recommended other colleagues with regards to this subject. Other than snow-ball sampling, an investigation has been made through the internet by searching top 10 Universities both in Ireland and Cyprus and searching the contacts of decision makers from different branches. It is accessed to contacts of four decision makers from Cyprus and twelve contacts in total of decision makers and experts from Ireland. Other than this, two experts from the Northern part of Cyprus are contacted. An email has been sent to each of the interviewer. From Cyprus, nine experts out of sixteen replied and accepted to make an interview. From Ireland, only one expert out of twelve has accepted to make an interview by sending the interview questions through email. Some of the contacts especially politicians replied back and stated that the time schedule was not suitable; several contacts indicated that the subject was not their focus however two of the experts

recommended other names that are active in this field; other contacts especially from Ireland did not reply. It is evident that snow-ball sampling strategy has served the purpose.

The interviews are contacted by face-to-face and recorded between a time periods of August- November 2013. Each of the contacts requested different time periods, dates and places which took a lot of time in completing the interviews. Each of the experts had different views on the same subject as well as agreeing on some common issues.

Each of the recorded interviews was transcribed to the computer. Each of the interviews lasted between thirty minutes and an hour and a half. This process needed a lot of care because the recorded information had to be transcribed accurately due to this, it was very time consuming. Overall, even though a lot of time spent on the interviews it was worth the effort of finding out the different views of these experts on austerity.

In order to analyse each of the interview, Atlas.ti 5.5 program was downloaded and then each of the interview was uploaded as a .docx file on to Atlas.ti 5.5. Atlas.ti 5.5 is a sensitive and detailed program which it took some time to learn how to use the program sufficiently. A code book is prepared by using inductive methodology. First of all, a separate list of possible actors, topics and evaluation is prepared by reading each of the interviews in detail and by focusing on the aim of the thesis.

The code book is used in coding the articles according to the code book. It took several days to complete coding the articles because each of the interviews revised couple of times in order not to miss any point.

The following eight tables will indicate to the results made by the Code book.

Table 4: Topic Issues

<b>TOPIC</b>	<b>NUMBER OF TIMES MENTIONED</b>
<b>1. Negative effects of Austerity</b>	<b>48</b>
<b>2. European Integration is politicized</b>	<b>25</b>
<b>3. Austerity is an imposition</b>	<b>24</b>
<b>4. Public Opinion</b>	<b>23</b>
<b>5. Bail-in as a solution for the banking crisis</b>	<b>21</b>
<b>6. Cause of the Eurozone; EU policies</b>	<b>18</b>
<b>7. Ideological choice of the decision makers</b>	<b>14</b>
<b>8. Management of the Eurozone crisis</b>	<b>14</b>
<b>9. Positive effects of Austerity</b>	<b>14</b>
<b>10. Memorandum of Understanding</b>	<b>13</b>
<b>11. Cypriot Banking sector</b>	<b>13</b>
<b>12. Alternative economic choices</b>	<b>10</b>

The fourth table in this chapter indicates to the Top Issues within the Topics of the Code Book. There are 116 Topics in total, 74 of these remained as ‘0’ (meaning that it has not been mentioned by the experts) because these topics have been combined under similar main topics (e.g. ‘T. Rise of the unemployment’ have been placed

under ‘T. Negative effects of Austerity’ or ‘T. Eurozone is an political issue’ have been attached under ‘T. European Integration is politicized’) due to this, it has been minimized to forty two topics. The top twelve were the ones most mentioned topics. As it is displayed in column number one, ‘T. Negative effect of the Austerity’ is the most important topic discussed by the experts, Followed by the topic ‘T. European Integration is politicized’ as the second most important topic mentioned by the actors. The reason of this topic mentioned by the experts is to state that the Eurozone crisis is a political issue. It is deduced from the Table four that the top five issues of the table are very close to each other in the sense of number of times mentioned by the experts. This can refer to the fact that each of the top five issues are significant factors and have an impact regarding the Eurozone crisis and austerity policy within Cyprus and Ireland. Nevertheless, rest of the top issue topics is important variables. Each of the topics mentioned by the experts plays a role either as to describe the cause of the crisis which it is stated in the column number six or to refer to the current situation where people are the ones who are suffering from the crisis and the reaction of the people which the experts have frequently mentioned (Column number four). Besides to indicate the reason behind implementing the austerity measures; if it was an imposition or related with the ideological choice of the decision makers, in column number three and number seven states that experts have argued that the austerity is an imposition rather than a choice or a preference is higher than they have claimed that it is an ideological preference.

Moreover, the discussions of the experts which included explaining Eurozone crisis if it is managed well or not by the EU member countries is represented in the column

number eight. These factors can be the reason of why the experts have mostly discussed these topics.

Table 5: Top 7 Actors

<b>Name of the Actors</b>	<b>NUMBER OF TIMES MENTION</b>
<b>1.Greek Cypriot Expert Author</b>	<b>115</b>
<b>2.Political Scientist</b>	<b>53</b>
<b>3.Troika</b>	<b>25</b>
<b>4. Germany</b>	<b>14</b>
<b>5. IMF</b>	<b>13</b>
<b>6.Irish Expert Author</b>	<b>13</b>
<b>7.EU</b>	<b>13</b>

Table five demonstrates the list of the actors that have been discussed and issued by the experts and the political scientists during the each interview. As the Table two shows, by no surprise the most important actors are the Greek Cypriot experts and Political Scientist. Since the interviews have been made by the experts and the political scientists, rather than just pointing out to the ongoing issues, they have basically shared their own opinions and views towards to the different issues that have been asked for the experts during the each interview.

Other than these two actors, Troika as it is indicated in column number three, is one of the most mentioned actor among the list by the experts and the political scientists..

This is mainly related with the issues of Troika lending money to the troubled countries along with Germany and IMF, implementing the austerity measures ; in what kind of processes have Cyprus and Ireland been through during the negotiations with Troika, memorandum of understanding, if Austerity measures is an imposition made by the Troika or if it a choice of the governments to make a deal with the Troika. As it is shown in Table five, 'T. Austerity Measures is an imposition' is the third of the most mentioned and discussed topics by the experts and political scientist. It might not be the only actor but as the table one demonstrates, Troika is one of the actors in imposing austerity and making pressure which it is argued by the Greek Cypriot experts, Irish expert and Political Scientists. The reforms in regard of Memorandum of Understanding are criticized by the several experts as the same austerity measures are used in all troubled countries. However, the experts did not only refer to the imposition in a negative way. Several experts in their interviews focused on the subject if a country (Cyprus) needs to borrow money, and need for an assistance to reduce the budget deficit and decrease the public debts then you have to accept the procedure because there is no other way out of the crisis.

Other than Troika, Germany, IMF, Irish Expert Author and EU are within the top actors. One of the issues which have been discussed by the experts during the interviews was about the Germany's position in the EU as seeing as the driver of the EU, along with Troika, Germany played a significant role in lending money to the bail-out countries. It can be concluded from the table that Germany, IMF and Troika are mostly discussed by the experts in the matter of implementation of the austerity measures. Other than this, EU and Irish expert is one of the top actors as well.

Table 6: Negative Effects of Austerity

<b>TOPIC</b>	<b>NUMBER OF TIMES MENTION</b>
<b>1.Rise of the Unemployment</b>	<b>17</b>
<b>2.People will suffer from the crisis</b>	<b>10</b>
<b>3.Rise of the Poverty</b>	<b>5</b>
<b>4.Austerity measures are not democratic</b>	<b>5</b>
<b>5.Same austerity measures are used in all troubled countries</b>	<b>4</b>
<b>6.Austerity creates social unrest</b>	<b>2</b>
<b>7.Austerity measures are harsh</b>	<b>1</b>
<b>8.Migration</b>	<b>1</b>
<b>9.Cut back on the expenditures in education or health</b>	<b>1</b>
<b>10.Downsizing the economy</b>	<b>1</b>
<b>11.Increase of the inequality between people</b>	<b>1</b>

Table six shows the topics attached under the ‘T. Negative effects of austerity’ as a topic was placed under one of the top issues. Each expert in the interview discussed about the negative effects of austerity due to the question that have been asked. Eleven different sub topics are discussed by the experts. The most important of all is the rise of the unemployment as is displayed in column number one. It is commonly discussed mainly by all the experts being interviewed that there is an increase in the unemployment due to the crisis, however with the implementation of austerity this

issue is on the way to raise even more. The second column represents the public opinion. This indicates that, public opinion in the means of people are the ones who are effected and are most suffering by the crisis as well as austerity measures in various ways. For instance rise of unemployment and poverty, creating social unrest, austerity measures being harsh to all rich and poor people, increase of the inequality, cutting back on the expenditures in education or health among people and lastly migration, the mentioned topics are all connected with people. Even though most of these topics are mentioned by the experts only one time, still these are important factors when it is looked in the big picture.

The factors stated above are not only related with people, also several experts referred to other aspects as well. For example, in discussing the reforms of the Memorandum of Understanding; the program which is implemented by the Troika along with IMF and Germany several experts stated that the same austerity measures are used not only in Cyprus but also in all the troubled countries. Moreover, another negative effect of austerity that have been mentioned by the experts is that causes the economy to be downsized, and measures being undemocratic. The austerity measures being undemocratic were mainly discussed by the experts in issues related with austerity being an imposition, implementing the bail-in as a solution for the banking crisis.



Table 7: European Integration is Politicized

<b>TOPIC</b>	<b>NUMBER OF TIMES MENTION</b>
<b>1.Eurozone Crisis is both economic and political issue</b>	<b>9</b>
<b>2.Eurozone Crisis is a political issue</b>	<b>9</b>
<b>3.Austerity is a political cost</b>	<b>4</b>
<b>4.Eurozone Crisis is about political cost</b>	<b>1</b>
<b>5.Eurozone Crisis is an economic issue</b>	<b>1</b>
<b>6.EU is successful political union</b>	<b>1</b>

Table seven addresses the sub topics related with the main topic; ‘T. European Integration is politicized’. In the interview questions, a question was related if the Eurozone crisis and the austerity measure a political or only an economic issue. Another question was related with if the Eurozone crisis demonstrated that the European Integration is politicized. The factors that have been mentioned by the experts while referring to the European Integration is politicized are; the Eurozone Crisis is both economic and political issue which this is the most important issue discussed by the experts while answering the mentioned questions above. Many experts indicated that it is not possible to separate the political aspects from the economics. The second and the third most discussed topic is that the Eurozone along with the Austerity depends only on a political cost, meaning that the behaviour of the Troika, Germany and especially EU is all related with the politics. Only one expert indicated that the Eurozone Crisis is an economic issue and EU is successful political union. Several experts stated that the European integration was always politicized

however, all of these topics combined under the main topic clarifies that the Eurozone crisis further demonstrates and plays a role in the politicization of the European integration.

Table 8: Topics and Actors Discussed Along with Negative Aspects of Austerity

<b>Name of the Topics and Actors (T.&amp;A.)</b>	<b>NUMBER OF TIMES MENTION</b>
<b>1.A.Greek Cypriot Expert Author</b>	<b>18</b>
<b>2.T.Public Opinion</b>	<b>11</b>
<b>3.A.Political Scientist</b>	<b>6</b>
<b>4.T.Negative factors of economy in Cyprus</b>	<b>3</b>
<b>5.A.IMF</b>	<b>2</b>
<b>6.T.Outcome of the Austerity</b>	<b>2</b>
<b>7.T.Management of the Eurozone crisis</b>	<b>1</b>
<b>8.A.Government of Cyprus</b>	<b>1</b>
<b>9.T. Ideological choice of the decision makers</b>	<b>1</b>
<b>10.A.Troika</b>	<b>1</b>
<b>11.A.Christofias government</b>	<b>1</b>
<b>12.T.Memorandum of Understanding</b>	<b>1</b>
<b>13.T.Bail-in as a solution for the banking crisis</b>	<b>1</b>
<b>14.T.Communicationg Austerity measures with Public</b>	<b>1</b>
<b>15.T.Goal of the Greek Cypriot government</b>	<b>1</b>
<b>16.T.Austerity is an imposition</b>	<b>1</b>

In Table eight, all the related topics and the actors discussed along with the ‘T. Negative effects of austerity’ are stated. As it is shown in the table, there are sixteen

topics and actors in total that have been coded along with the negative effects of austerity. The column number one dedicates to the ‘A. Greek Cypriot Expert Author’ as the one who has most mentioned the negative effects of the austerity along with other topics and actors. This is obvious, because the six interviews out of ten have been made with the experts from Cyprus.

Overall, ‘T. Public Opinion’ is the second the most related topic. As the reason of this is indicated above in the Table eight, experts have discussed that the people are the ones who has been affected and suffered which still is suffering and will continue to suffer from the crisis as well as from austerity measures in many ways. Experts also referred to the ‘T. Outcomes of the Austerity’ is together with Public Opinion, indicating that the outcome of austerity will affect people in various ways including people losing their jobs, rise of further unemployment and rise of the reaction of the people.

Only three political scientist have been interviewed, due to this ‘A. Political Scientists’ is the third most important actor that has discussed the negative aspects of the austerity. In regard of the negative aspects of the austerity, the negative factors of the economy of Cyprus has along discussed with the topic of the Table five. Several experts referred to the problems of the banks in Cyprus and stated that reducing the debts through austerity can provide more contradiction to the situation. Other than this, negative impact of the GDP, the rise of the unemployment and downsizing of the economy are mentioned by several experts as negative factors of the economy in Cyprus which is mentioned along with the negative aspects of the austerity.

Furthermore, IMF as an actor is one of issue that has been discussed along with the negative aspects of the austerity. Experts referred to IMF in discussing the Memorandum of Understanding imposed by the Troika to Cyprus and which the same austerity measures are implementing to all the troubled countries for instance, Greece, Ireland and Portugal. The same measures used in all the troubled countries are related with the negative aspects of the austerity as it is indicated in table three. Also, IMF is discussed by an expert was about that when it is looked at Greece and Spain, the unemployment is on the rise it is going nowhere and economically speaking declaration of the IMF, people have confess that it is not helping growth either. This is also is related with the negative effects of the austerity.

An expert discussed about the ideological choice of the decision makers and the government of Cyprus together with the negative aspects of the austerity. It has been stated that the austerity depends on the ideological choice of the decision makers, where the Minister of Cyprus had indicated that this was the reason, however if the austerity measures were implemented before Troika, the situation in Cyprus would have been in more devastating situation with the higher rates of unemployment and poverty. This is the reason why the ideological choice and the government of Cyprus as an actor are discussed along with the negative effects.

Table 9: Topics Discussed along with the EU

<b>Name of the Topics and Actors (T.&amp;A.)</b>	<b>NUMBER OF TIMES MENTION</b>
<b>1.A.Greek Cypriot Expert Author</b>	<b>6</b>
<b>2.T. Cause of the Eurozone: EU policies</b>	<b>5</b>
<b>3.T.Bail-in as a solution for the banking crisis</b>	<b>3</b>
<b>4.T. European Integration is politicized</b>	<b>3</b>
<b>5.A.IMF</b>	<b>3</b>
<b>6.T. Management of the Eurozone crisis</b>	<b>2</b>
<b>7. T.Austerity is an imposition</b>	<b>2</b>
<b>8. A.Troika</b>	<b>2</b>
<b>9.T.Public Opinion</b>	<b>1</b>
<b>10. T.Cypus-Russia Relations as a factor for the bail-in</b>	<b>1</b>
<b>11.A.Germany</b>	<b>1</b>
<b>12.T.Austerity measure are democratic</b>	<b>1</b>
<b>13.T.Greek Cypriot Banking sector</b>	<b>1</b>
<b>14.T.Democratic deficit in EU</b>	<b>1</b>
<b>15.T.EU cannot force North to pay for the crisis</b>	<b>1</b>
<b>16. T.Goal of the Cypriot government</b>	<b>1</b>
<b>17.T.Germany is the driver of the EU</b>	<b>1</b>

The table nine represents the topics and the actors discussed by the experts along with the EU. The highest number of mentioned topic after the ‘A. Greek Cypriot Expert Author’ is the ‘T. Cause of the Eurozone: EU policies’ that is discussed along with the EU as an actor. Several experts argued that the Eurozone crisis did not managed well by the EU member states and the EU policy particularly. In regard of

this it is stated that the setup of the EU included a lot of problems and besides it was not prepared well for the crisis. Furthermore another argument which several experts talked about is that the EU policies in general or EU politics in particular is blamed for the current economic situation in Cyprus, due to that EU could not convince the Northern European countries to pay for Southern European countries to go out of the problem, which this is why it has led to the austerity, as well as the failure of the EU in promoting growth played a role in the two banks of Cyprus to Bail-in. Furthermore, it is also discussed by one of the expert that the EU and IMF thought that the Cyprus needed a bail-in rather than a bail-out due to the view of the banking sector in Cyprus being too large and the number of depositors being very high. Another prominent discussion made by an expert in regard of the 'T. Cause of the crisis: EU policies is that the reason behind that the conditionality was asked from Troika has chosen the austerity measures to be a result of IMF and EU economic policy orientation. Also it is discussed by the several experts that there was an structure problems of the EU.

'T. European Integration is politicized' is discussed along with the EU in the questions regarded if the EU is a successful political union or not and if the Eurozone crisis is a political or an economic issue. Other than this the table six also refers to the 'T. Austerity is an imposition' which it is mentioned together with the EU. The experts referred to the 'T. Austerity is an imposition' in answering the questions of the reasons behind of choosing austerity and if the Eurozone crisis is a political or an economic issue discussing that the austerity measures was the only option.

Other than these, 'A. Germany', T. 'Austerity measures are democratic' and 'T. Germanys is the driver of the EU' are all discussed together along with the EU. An

expert argued that the borrowing money is democratic. It was the choice of Cyprus to borrow the money; if it did not borrow then it could have been result with exit from the Eurozone. Also it is discussed by expert that it was also perfectly democratic for the point of view of Germany because the Germany or the European Union is giving some money and therefore they expect to get repaid and that's why they are putting these conditions.

As it is seen from the Table nine, experts have discussed and focused on various subjects in taking into consideration of EU.

Table 10: Topics Discussed along with IMF

<b>Name of the Topics and Actors (T.&amp;A.)</b>	<b>NUMBER OF TIMES MENTION</b>
<b>1.A.Troika</b>	<b>5</b>
<b>2.A.Greek Cypriot Expert Author</b>	<b>5</b>
<b>3.T.Memorandum of Understanding</b>	<b>4</b>
<b>4.T. Cause of the Eurozone: EU policies</b>	<b>3</b>
<b>5.T.Austerity is an imposition</b>	<b>3</b>
<b>6. A.European Commission</b>	<b>3</b>
<b>7.A.European Central Bank</b>	<b>3</b>
<b>8. T.Ideological choice of the decision makers</b>	<b>2</b>
<b>9.A.Political Scientist</b>	<b>2</b>
<b>10.A.Euro Group</b>	<b>2</b>
<b>11.T.Bail-in</b>	<b>2</b>
<b>12.T. European Integration is politicized</b>	<b>2</b>
<b>13.T.Negative effects of Austerity</b>	<b>2</b>
<b>14. T. Same austerity measures are used in all troubled countries</b>	<b>2</b>

<b>15.T.Goal of the Cypriot government</b>	<b>1</b>
<b>16.T.Greek Cypriot Banking sector</b>	<b>1</b>
<b>17.T.Public Opinion</b>	<b>1</b>
<b>18.A.Germany</b>	<b>1</b>
<b>19.T.Democratic deficit in EU</b>	<b>1</b>
<b>20.T.Pressure made by Troika</b>	<b>1</b>
<b>21.T.Possible effects of Austerity</b>	<b>1</b>
<b>22.T.Cyprus should implement austerity before the</b>	<b>1</b>
<b>23.A.EU</b>	<b>1</b>
<b>24. T. Management of the Eurozone crisis</b>	<b>1</b>
<b>25.T.Reasons behind implementing Austerity</b>	<b>1</b>
<b>26.A.Irish expert Author</b>	<b>1</b>

Moving on to Table ten, topics and the actors discussed together with IMF is taking into consideration. As it is shown in column number one, 'A. Troika' is the most discussed actor along with the IMF. Irish expert argued that the implementation of austerity measures relates to the prevailing dominant ideology in the disciplines of economics and finance, as well as it is related with the fact that Irish government being under pressure by the Troika along with IMF, ECB and European Commission. Another issue that the several experts discussed during the interviews is mentioning about the negotiation process of the austerity program. It is indicated that the measures are imposed on Cyprus; Troika comes up with a plan the countries that wills to borrow money sits on the table with IMF and Troika and then negotiate on the specific reforms placed under the Memorandum of Understanding. For several experts it is argued that the Memorandum of Understanding has to be succeeding. It



is also argued that the same austerity measures are used in all the troubled countries however, in order to restructure the economy through austerity in the first few years for now it is the only way to reduce the budget deficits, decrease the public debt through cutting down the government expenses. Contrast to this perspective it is discussed by other expert that the Eurozone crisis is both of economic and political issue (T. European Integration is politicized), decision does not only belong to the governments but also IMF, Troika and the EU as a whole has an impact on the decision making. However it is further argued that it is no doubt that there is a serious problem with the banking sector of Cyprus, and the Cyprus should have made it developments earlier by delaying very much the deal with the Troika, problem became a lot of worse so it has ended up with a bail-in with the worst solution. So in that sense the expert stated that the fault does not belong to the Troika but belongs to the previous government (Christofias Government) that if it had signed the treaty in summer 2011 it would have been bad but it would not have been as bad as it is now.

Another topic that is discussed along with the IMF is the ‘T. European Integration is politicized’. As it is mentioned about this topic above, another view in regard with this topic that is discussed along with the IMF is that, an expert has stated that “the politicians called austerity has nothing to do with the ideology. The way that the politicians use it has nothing to do with any economic rational or if it has something to do it is like second cousin of it. It is completely political from then on it is true that IMF has taken austerity in a technocratic economic level but if the IMF only cares about one question which is can you pay for your exports? Technically the loan that

the IMF gives you with the Troika that is to balance your exports with your imports. For them you can narrow it down to technocratic thing”.

In order to conclude, the topics and the actors that have been discussed by the experts along with the IMF have been explained in the table seven in detail.

Table 11: Topics Discussed Along with Germany

<b>Name of the Topics and Actors (T.&amp;A.)</b>	<b>NUMBER OF TIMES MENTION</b>
<b>1. T.Germany is the driver of the EU</b>	<b>10</b>
<b>2.A.Greek Cypriot Expert Author</b>	<b>6</b>
<b>3.T.Management of the Eurozone crisis</b>	<b>6</b>
<b>4.A.Troika</b>	<b>7</b>
<b>5.T.Austerity is an imposition</b>	<b>4</b>
<b>6.A.Irish Expert Author</b>	<b>3</b>
<b>7.T.Bail-out</b>	<b>2</b>
<b>8.T.Cause of the Eurozone Crisis: EU policies</b>	<b>2</b>
<b>9.A.Political Scientist</b>	<b>2</b>
<b>10.T.Democratic Deficit in EU</b>	<b>1</b>
<b>11.A.EU</b>	<b>1</b>
<b>12.T.Austerity measures are democratic</b>	<b>1</b>
<b>13.T.Cyprus-Russia Relation as a factor for the bail-in</b>	<b>1</b>
<b>14.T.European Integration is politicized</b>	<b>2</b>
<b>15.T.Hegemony of the Neo-liberal ideas</b>	<b>1</b>
<b>16.A.European Commission</b>	<b>1</b>

The last table of this chapter shows the different topics and the actors discussed along with the Germany. One of the important topics that has been discussed by the experts apart from the 'A. Troika and 'A. Greek Cypriot Expert Author is the 'T. Management of the Crisis' and 'T. Germany is the driver of the EU'. It is frequently mentioned by many experts that the Germany is one of the major player and has a lot of say in the EU. This leads to the argument of many experts that the austerity measures are not a choice it is rather imposed by Germany and Troika which this situation demonstrates the democratic deficit within the EU. Also another topic that mentioned together with the Germany was the issue of the cause of the crisis. It is discussed by the several experts that the Germany's power within the EU is very strong and it is argued that it has failed to handle the crisis in correct way. Besides, several experts argued that the neo-liberal ideas have gathered the whole politics and the polity of EU, which can be stated as one of the causes for the Eurozone crisis.

Moreover, in regard of the management of the Eurozone crisis, the Irish expert stated that if the Eurozone crisis is managed well by the EU member states or not depends on which perspective you look from. For instance, 'if it is looked from the EU and Germany perspective, the Troika and in particular Germany defended the interests of the citizens and tax payers of the non-bailout EU countries by making enforcement to Ireland and Cyprus in order to bear the main burdens of the collapse of their banks. If it is further take into consideration that banking and finance in the Eurozone was deeply international, and much of the credit ease included the banks of Germany, France, etc., then it is clear that bailing out the banks of Cyprus and especially Ireland saved the other banks of Europe from the potential domino effect of a collapse, even in the periphery. This means that by forcing the Irish citizens, for

example, to pay for the bailout of their banks, they prevented the German citizens, for example, from having to pay for the banking crisis. Is this “well managed”? Obviously if you are a German citizen you might say “yes” but if you’re a Cypriot or Irish citizen, you would probably say “no” .

Several experts referred to the positive factors of the Germany. An expert discussed that EU and Germany are the ones who are going to get Cyprus out of the crisis. Another expert mentioned that austerity is about the free will and if Germany or the European Union is giving some money therefore they expect to get repaid which this is pretty much democratic.

Table 12: Percentage of the Politicization

<b>Name of the Topics</b>	<b>NUMBER OF TIMES MENTION</b>
<b>1.European Integration is politicized</b>	<b>25</b>
<b>2.Austerity is an imposition</b>	<b>24</b>
<b>3.Public Opinion</b>	<b>23</b>
<b>4.Cause of the Eurozone Crisis: EU policies</b>	<b>22</b>
<b>5.Bail-in as a solution for the Banking crisis</b>	<b>21</b>
<b>6.Ideological choice of the political leaders</b>	<b>14</b>
<b>7.Management of the Eurozone crisis</b>	<b>14</b>
<b>8.Germany is the driver of the EU</b>	<b>10</b>
<b>9.Inequality between Northern and Southern member countries</b>	<b>9</b>
<b>10.Democratic deficit</b>	<b>6</b>
<b>11.Cyprus-Russia relation as a factor for the Bail-in</b>	<b>6</b>
<b>12.No alternative economic choice</b>	<b>3</b>
<b>13.Fear of the Political cost</b>	<b>2</b>

<b>14.EU as a political union is problematic</b>	<b>1</b>
<b>15.EU is a successful economic union</b>	<b>1</b>
<b>Number of Total Topics:</b>	<b>359</b>
<b>Total number of Politicization</b>	<b>181</b>
<b>Percentage (Treshold) of the Politicization (Total number Politicization/Total number of Topics)</b>	<b>50%</b>

There are a total of three hundred and fifty nine topics of which one hundred and eighty one was found to be related to politicization of European Integration and Eurozone crisis in general, which this has referred to fifty percentage. These topics included ‘austerity is an imposition’ which scored twenty four out of one hundred and eighty one topics. Almost all of the experts in their discussions argued that austerity measures have been imposed on Cyprus by Germany and Troika rather than the choice of the government especially Christofias government. Because in that time, Christofias’s government had refused to accept to implement austerity measures, where some of the experts claimed that Christofias was afraid of the political cost (‘fear of the political cost has scored two). On the other hand, Irish expert also argued that austerity was in a sense imposed on the bailout countries and stated that Ireland has faced with a pressure coming from the Troika and they supported the view that the Eurozone crisis in general and austerity policy in particular is not only depended only on economic issue but most importantly they claimed that it is a political issue and this imposition is also related with a political issue. Because one of the experts argued that not just the governments who decide on this austerity issue, but the Troika, ECB, IMF EU also has an impact. Most of the experts argued that even though there were several alternative choices like exist of the Eurozone, this kind of alternative economic choice would have brought the

country in a more devastating situation, due to this there was 'no alternative economic choice' (which it has been mentioned three times) other than austerity and it was the only option. Another topic is 'public opinion' which scored twenty three. One of the experts claimed that the Eurozone crisis and austerity policy is an action that it is intensively political from Cyprus point of view. The solutions given out are intensively political. Whatever people say even austerity is a political act. At the end of the day people who will decide how to solve the issue are politicians. The fourth topic of the politicization is the 'Cause of the Eurozone Crisis: EU policies' which it has scored twenty two. One of the experts stated that EU as a political union is a failure. The new masterdise versions of the institutions that the EU has are definitely not helping. Furthermore also drew attention to the structure of the Euro. In that sense indicated that the euro is political. Everybody knew that the Euro was fatally structured but no one wanted to fix the fatal errors that seem to exist in the Euro. Every country that went into the Euro was a political act. Even Estonia going in now is a political act so in this sense it is intensively political issue and the economics literature seems to be used by the politicians in a way that no economists are happy about it. In support of this view, another expert also claimed that the cause of the Eurozone crisis is the EU policies is what one of the conclusions of the crisis is. The crisis was the cause as the result of the policies and the ways, the design of the exit from the crisis is a political solution. It is highly political. It brings politics right on the heart of the economics. Following this, 'Bail-in as a solution for the Banking crisis' is another topic that falls under politicization which scored twenty one. Most of the experts supported the view that implementing bail-in for the first time as a solution for the banking crisis it is also related with the political act. In this sense one of the experts claimed that 'Cyprus was not bailed-in instead of bail-out just for the

economic reasons. Cyprus was bailed-in in order for EU leaders to have an example of a new model, because the bail-in is first time implemented on a bail-out process. So this model should be tested and it was believed that Cyprus is a good case to examine this new model. They used Cyprus to see how this model is evolved. You see after this implementation, you see EU leaders putting down directives in order to establish with a legislative procedure a bail-in procedure. So they implement a measure they tried it and then they tried to establish it with a legislative measures so it is political issue'. In support of this view other experts also argued that bail-in is a political issue because it is a new approach and they wanted to use Cyprus as a good example and at the same time it was a way to punish and hurt the Russian depositors that were putting money to Cyprus which 'Cyprus-Russia relation as a factor for the Bail-in' is also another topic that felled under Politicization with the score six. Moving on through the table, 'Ideological choice of the political leaders' (scored fourteen), 'Management of the Eurozone crisis' (scored fourteen), 'Germany is the driver of the EU' (scored ten), 'Inequality between Northern and Southern member countries' (scored nine) and 'Democratic deficit' (scored six) are the other topics that are under the list of the politicization table. In related with the politicization and management of the crisis, the majority of the experts has been argued that the crisis were not managed well by the EU member states, one of the experts stated that there were many problems like introducing the uncertainty about the government that was one problem then introducing the uncertainty about deposits was another problem managing the crisis like that actually created more problems. They did not manage well and the member states are afraid of the political cost. Regard to this, experts also focused on the inequality between the Northern and Southern member countries and argued that this is also depended on political factors. It is no doubt that almost all of

the experts agreed that the Germany has a lot of say within the EU as well as it is the driver of the EU. All of the experts in their discussions referred to Germany when talking about the imposition of the austerity, managing the crisis, Eurozone crisis as well as austerity and measures being a political issue.

The relation to the research question (Which factors played a role in Cyprus's and Ireland's choice of austerity as oppose to other economic policy alternatives?), it is seen that this table has revealed some of the independent variables and factors that played a role in Cyprus's and Ireland's choice of austerity. First of all, in regard to the ten different interviews conducted with different experts, it has been investigated that austerity policy is an imposition rather than a simple choice or a preference of the governments. Also it has been figured out that despite exist of the Eurozone as an alternative policy, still there was and still there is no convenient alternative policy to implement rather than austerity. Even though, a number of experts have supported the idea of austerity policy and claimed that austerity policy should have been applied before the involvement of Troika, still this did not change the situation instead those experts have also agreed on these factors and variables that has been stated. Most significantly, each of the fifteen topics mentioned above confirmed that the Eurozone crisis and austerity policy highly is a political issue rather than only economic. Nevertheless, ideological preference which is another component of the independent variables, this also has been revealed with this table. On one hand, it has been argued that austerity plays a role in implementing austerity because Merkel is conservative and conservatives' supports austerity as well as EU policies is dominated by the neo-liberal thinking which austerity is one of the component of the neo-liberal idea. As well as, the attitude of the Christofias has been interpreted by



some as the ideological choice which according to his ideological position he thought about his people and wanted to protect people somehow. As on the other hand it has been argued by other experts that austerity was an unpopular policy and Christofias were afraid of the political cost.

Table 13: Percentage of the Democratic Deficit

<b>Name of the Topics</b>	<b>NUMBER OF TIMES</b>
<b>1.European Integration is Politicized</b>	<b>25</b>
<b>2.Austerity is imposition</b>	<b>24</b>
<b>3.Public Opinion</b>	<b>23</b>
<b>4.Cause of the Eurozone crisis: EU policies</b>	<b>22</b>
<b>5.Bail-in as a solution for the Banking Crisis</b>	<b>21</b>
<b>6.Management of the Eurozone crisis</b>	<b>14</b>
<b>7.Germany is the driver of the EU</b>	<b>10</b>
<b>8.Inequality between Northern and Southern member countries</b>	<b>9</b>
<b>9.Democratic Deficit</b>	<b>6</b>
<b>10.Cyprus-Russia relation as a factor for the Bail-in</b>	<b>6</b>
<b>11.Pressure made by Troika</b>	<b>6</b>
<b>12.Austerity measures are not democratic</b>	<b>5</b>
<b>Number of Total Topics:</b>	<b>359</b>
<b>Total number of Democratic Deficit</b>	<b>171</b>
<b>Percentage (Treshold) of the Democratic Deficit (Total number Politicization/Total number of Topics)</b>	<b>48%</b>

Table thirteen indicates the related topics with the democratic deficit. There are twelve topics that refer to the democratic deficit and the total number of these topics is equal to one hundred and seventy one and this equals to forty eight percent. The

first two topics includes 'European Integration is Politicized' which scored twenty five and 'Austerity is imposition' scored twenty four. One of the experts stated that austerity measures are implementing by 'pressure made by the Troika' (scored 6), enforcing austerity policies, which in themselves are not the result of democratic decision-making, which undermines national democracies. In this sense, the Eurozone crisis does provide further evidence of the democratic deficit in the EU. Also another expert claimed that the imposition made on the bail-out countries including Cyprus and Ireland are by the actions mainly of the German government which this draws attention to the Eurozone crisis providing evidence for the democratic deficit. 'Public Opinion' with the score of twenty three, is another topic that underlines the democratic deficit. Some of the experts indicated that many people would not be and are not happy at the moment with these set of policies there is for instance decrease in the salaries and in the pensions etc. no one would want that, but then this is been topped down and imposed so it tells a lot about democratic deficit. Another expert argued that no referendum was held for suggestive a decision from Cypriot people. For instance when implementing a new measure; 'bail-in process as a solution for the banking crisis (which it took place under the list of democratic deficit table and scored twenty one), the only body that is publicly elected in EU; European Parliament had not even said its opinion on whether or not to implement such a measure. These measures was decided from seventeen Eurozone leaders, imagine implementing in Cyprus in every country a huge reform without parliament voting on that issue. One of the experts stated that the implementation of the austerity measures is quite the opposite of democratic ('austerity measures are not democratic' with the score of five). That is why people are reacting in such a way after announcement of the bail-in decision. It is quite the opposite of the democratic

process and this was not the first case, the haircut was enforced on Greece and from this haircut, Cyprus was vastly affected, no support no reaction from the EU side. There is a serious of decisions made without measuring the impact on different nations and different countries. Moreover, also another expert also argued that the decisions about the bail-out issue are happening in close doors where no one knows what they are doing they don't need the European parliament to be approved in any real way and the ECB is completely out of telling how they have reached to a decisions, it is becoming less democratic and no one is accountable. The democratic deficit has increased dramatically with the bail-out. 'Cause of the Eurozone crisis' and 'EU policies and Management of the Eurozone crisis' topics are also included in this table with the scores of twenty two and fourteen. According to one of the expert the occurrence of the bail-in process has been caused by the EU institution. The expert argued that this situation was not about Troika nor ECB and IMF. The expert supports that the fault belongs to the European Commission hat is completely inflexible in how it adapts its rules. It has ignored that the Cyprus is in a crisis and it does that in all countries. The expert claimed that it is complete failure of the Commissioners they are showing not only that they are weak for not convincing all Europeans to work together but they are completely disconnected from the European citizens to insist on rules that should clearly suspended when you have the mother of all the recessions. Not only this but also 'Germany being the driver of the EU' has been argued mostly by all of the experts which this topic also is included in this table with the score of fourteen followed by 'Inequality between Northern and Southern member countries' and 'Cyprus-Russia relation as a factor for the Bail-in' with the scores of nine and six. Each of these three mentioned topics reflects to the democratic deficit within the EU. Germany having a lot of say in the EU, having the

ability to impose austerity measures for the troubled countries is all an example for the democratic deficit. There were several experts that supported the attitude of the Germany, one of the experts argued that if a country needs to borrow money and Germany accepts to give money then that troubled country needs to accept of what the Germany says in this sense Germany is doing the right thing. Also one of the expert stated that if you look from the view of a German then you can say that Germany is doing the right thing and managing well the crisis because it protects the citizens of those none bail-out countries, however when it is looked from Irish or Cypriot view it is no surprise that you argue the opposite because they are the one who are paying for the crisis. Most importantly of all, one of the expert argued that the set of economic policies were implemented revealed is that Germany has a lot of say. This whole process revealed how Germany is the leader within the EU and it is not very easy to come up with any kind of policy Germany wouldn't want.

The relation to the research question (Which factors played a role in Cyprus's and Ireland's choice of austerity as oppose to other economic policy alternatives?), it is seen that this table has revealed some of the independent variables and factors that played a role in Cyprus's and Ireland's choice of austerity. The independent variables public opinion and German policy have been uncovered with this democratic deficit table. it has been argued that the management of the crisis and also the cause of the Eurozone crisis seen as the EU policies touches on the Germany's role both in EU and the crisis which as it is mentioned above, this reflects to the democratic deficit because rather than the involvement of the other EU member countries the decision making process in regard of the crisis, especially in recent times Germany is the only country who has a lot of say and has the control over the crisis. Furthermore, public opinion as an independent variable is also revealed in this table. From the conducted

interviews it has been figured out that people especially in Cyprus are not happy with this current situation and are the ones who are and still will be suffering from the crisis; however the government can do nothing about this issue.

Table 14: Percentage of the Actors

<b>Total Number of the Actors</b>	<b>114</b>
<b>1.Troika: 25/114</b>	<b>22%</b>
<b>2.Germany: 14/114</b>	<b>12%</b>
<b>3.IMF: 13/114</b>	<b>11%</b>
<b>4.EU: 13/114</b>	<b>11%</b>
<b>5.Christofias Government: 9/114</b>	<b>8%</b>
<b>6.Irish Government: 7/114</b>	<b>6%</b>
<b>7.Government of Cyprus: 6/114</b>	<b>5%</b>
<b>8.European Central Bank: 4/114</b>	<b>4%</b>
<b>9.European Commission: 4/114</b>	<b>4%</b>
<b>10.Greece: 4/114</b>	<b>4%</b>
<b>11. Euro Group: 3/114</b>	<b>3%</b>
<b>12.Greek Public: 3/114</b>	<b>3%</b>
<b>13.Northern member countries of EU: 3/114</b>	<b>3%</b>
<b>14.Southern member countries of EU: 3/114</b>	<b>3%</b>
<b>15.Spain: 1/114</b>	<b>1%</b>
<b>16.Irish Public: 1/114</b>	<b>1%</b>

The last table demonstrates each of the actors' percentages. The total number of all of the number of mentioned actors equals to one hundred and fourteen (Note: Experts are excluded from this table) the highest percentage of all the actors belongs to Troika with twenty two percentages followed by Germany (twelve percent) IMF (eleven percent) and EU (eleven percent) as the other highest mentioned actors

during the each of the conducted interviews. The topics and the issues that these four actors have been mentioned along with has been stated in the previous tables above (Table 4-Table 11). Just a shortly remind, Troika have been mentioned by all of the ten experts in the discussions of related with the austerity being an imposition or not, the negotiations made by the Troika and Cyprus, Memorandum of Understanding and implementation process of the austerity programs. IMF and Germany also mentioned along with Troika in regard of these mentioned issues however, separate to Troika, all of the ten experts mentioned about the role and the power of the Germany within the EU, where they did not mentioned about the role or the response of France or other core member countries but only Germany. EU mostly discussed in the topics related with explaining the cause of the Eurozone crisis as it is the EU's policies and the management of the crisis. However when it is looked to European Central Bank, European Commission and to Euro Group they all also played a role in this crisis however, it is been investigated that ECB and EC have been mentioned only four times and Euro Group only have mentioned three times during the interviews of all of the ten experts, whereas it is mentioned above, one of the experts have blamed the European Commission. This shows that experts mostly focused on Germany Troika and IMF and these three actors are the most important factors that have a major role in the crisis. Because when it is looked, European Parliament have been mentioned only once in indirect way but the European Council have not been even mentioned as once. Other than these other actors are included as follows; Christofias Government (eight percent), Irish Government (six percent), Government of Cyprus (five percent), Greece (four percent), Greek Public (three percent), Northern member countries of EU (three percent), Southern member countries of EU (three percent), Spain and Irish Public (one percent).

### **5.3 Conclusion**

As a conclusion, the interviews that took place with the ten experts have played a role as a mirror effect on the various issues that is debated in the literature of the austerity as an economic policy. As it is mentioned in the paragraph above, twenty five questions in total were directed to the experts. Each of the experts has answered the questions in their own point of views. Overall, there are several major issues that came into prominence as the outcome of the interviews. First of all, the majority of the experts admitted that the implementing austerity measures is an imposition due to being the only option, austerity measures are related with the ideological choice of the decision makers, the management of the crisis by the member state countries in Ireland and especially in Cyprus demonstrated that the European integration is politicized and there is a democratic deficit in the European Union. Mainly the experts who have been interviewed argued that the crisis did not manage well by the member states. They claimed that Germany has a lot of say within the EU and has a very strong power that the austerity measures, bail-out and bail-in happened mainly due to the actions of the German government. Other than the role of the Germany, it is claimed that the negotiations related with the austerity programs are all took place in closed doors which this is away from the democratic action. It is further argued that the bail-in process that is implemented in Cyprus occurred without any referendum being held. Most importantly of all it is argued by one of the experts that, the pressure by the Troika, enforcing austerity policies, are not the result of democratic decision-making, which undermines national democracies. Hence, the Eurozone crisis does provide further evidence of the democratic deficit in the EU. The austerity measures are all depended on the political act, which this argument verifies that the Eurozone crisis further demonstrates that the European integration is

politicized. However other than these aspects, other significant factors are obtained. It has been understood that the most important of all the mentioned issues, the people is the one who is and will suffer from the crisis. The rise of the unemployment, poverty, inequality among the people drags the crisis to be in a more devastating way for the people. Even though the number of interviewed experts who supported the austerity measures was higher than the number of experts who were against of the austerity measures, everyone has agreed on that people are the ones who will suffer the most from the crisis. This also clarifies that the citizen involvement and the negative public opinion were disregarded by the decision makers. None of the interviewers could give a straight answer to the question what ‘kind of decisions can be taken or has been taken in a case of people reactions to the current measures?’. This indicates that the government cannot do anything about people. These mentioned conclusions are not only depended on the conducted interviews but also Chapter 2 have demonstrated and supported the outcomes of the interviews.



## Chapter 6

### CONCLUSIONS

The last chapter concludes the findings of the previous chapters mentioned above. This chapter aims to enlighten the reader about the reasons behind of choosing this kind of research and the facts that have inspired to produce this kind of study. Further, the chapter includes a general summary of all the Chapters, the results and the accuracy of the Hypothesis testing, relevance of results to the literature, restrictions faced in conducting interviews. Lastly future dimensions will be stated followed by indicating the overall conclusion of the produced research and the answer provided for this question.

#### **6.1 Introduction**

First of all, Eurozone crisis itself is a very serious and at the same time complicated issue. The crisis that occurred within the EU differs from a crisis that can occur in a particular country. The main reason depends on EU being an organization and the need of troubled member countries to think twice before making a major decision or responding to crisis, a need to take into consideration of the common welfare of the EU as a whole as well. Since the beginning of crisis, the crucial component of the EU has been the implementation of the austerity policy that is used in a way to remedy the crisis. This makes the case even more interesting to study. Because, austerity policy is derived from the neoliberal thinking, which this thinking has dominated the EU in recent times. However austerity policy is not a especial policy emerged only in Europe. During the time of Great Depression years in 1930's

austerity measures have been used as a policy to overcome the problems faced with the economy. Furthermore, the IMF used austerity as a policy in the countries that faced with economics crisis around the world. Surprisingly austerity policy did not have a sufficient or full of successful history. (In each case, the outcomes of the crisis are pretty much resulted in a catastrophic way).

This topic becomes further interesting due to its insufficiency to solve the crisis. The austerity measures started to be used within the EU since 2010, however only one country that is Ireland out of seventeen Eurozone member countries have managed to fulfil these measures which still there are a question mark if it has totally managed to overcome the crisis. At this stage, here comes the question, why troubled member countries are still implementing and choosing austerity. Is it to do with the major institutions or the decision making mechanism of the EU? Or there are other actors that are playing role in implementing the austerity.

Above all, the main motivation for this thesis has been the article that I have personally written about the austerity policy and presented in the International Studies Association Annual Conference in April, 2013. The written article focused on the question of “If the Austerity is the answer for the Eurozone crisis?” through the use of content analysis, huge literature on the austerity as a policy has been evaluated. It has been investigated that, there is a huge debate on the drawbacks and negative effects of the austerity but most importantly the harmful impact over the public opinion. Depending on the sources that have been used, it is claimed that implementing only austerity is not a good way to overcoming the crisis. During the panel, one of the audiences asked a question; if austerity is not an answer for the crisis, then why the troubled member countries are still choosing and applying

austerity as a policy. This question has played a key role for me on deciding to make a research on this specific topic. At first sight, the topic of the thesis was named as “Why have European Leaders in Ireland and Cyprus have chosen austerity in order to overcome the Eurozone crisis?” However, after making a comprehensive research on the topic, and the answers obtained by the experts, caused to change the name of the topic to “Eurozone crisis as democratic deficit: Expert Opinions an austerity measures in Ireland and Cyprus”. Since the main purpose of this thesis was to examine the decisions of the political leaders in Ireland and Cyprus, rather than only depending on secondary data including journals, books and news articles, it was preferred to conduct face-to-face interviews with the elites in order to use these as an primary data, and to attain to different opinions and perspectives of the experts on the particular issue. After conducting interviews, other issues have arisen. For instance, Eurozone crisis, demonstrated further of democratic deficit within the EU, austerity measures being an imposition rather than a choice and Eurozone crisis further being evidence for the politicization of the European integration. This means that austerity policy does not only affect the economic structure or the public opinion but also has an impact on other major matters of the EU.

Related with the title of the topic, one question that can come up to mind is that ‘why Ireland and Cyprus is chosen?’ The main reason behind of choosing Ireland and Cyprus is that, Ireland in one hand, had accepted to implement austerity measures and at the end, it has successfully managed to complete the austerity program. However the situation in Cyprus was the controversy compared to Ireland. Since the start of the crisis in 2008, Cyprus had faced with in low level public debt and deficit however did not take any actions. In 2011, Cyprus started to be unable to borrow,

however the Christofias government somehow resisted taking an action. Until 2013, the Christofias government rejected to implement the austerity measures. Some argue that, those reason is based on the ideological view, others claim that it was related with the political cost. For all the resistance of the government, at the end Christofias government signed the austerity package with the Troika because it could no longer borrow any loan.

More interestingly, Troika, along with European Central Bank and IMF, applied a new approach to Cyprus called Bail-in of the banks. This situation has made Cyprus to be more interesting to study along with Ireland. Due to these aspects, Ireland and Cyprus are chosen to be examined.

## **6.2 The Research Background**

This study consisted of six chapters in order to examine the Eurozone crisis as an exemplary case of politicization of European integration, by using qualitative empirical approach and to investigate the bargaining process in Ireland and Cyprus which resulted by implementing the austerity either by a preference or an imposition.

Chapter one, introduced the topic, aims and the objectives of this study, explained the research question, presented three different hypothesis which derived from three different theories of the European integration, outlined the type of methodology applied in the study and lastly constructed an outline of the thesis.

Chapter two presented a review of the literature on the austerity. The chapter drew attention to different definitions about the austerity policy and briefly conducted a comparison between the 1990's and 2008 crisis within the EU; this comparison uncovered the complexity of the current sovereign debt crisis. Chapter two further

formulated the various debates towards the function of the austerity during the Eurozone crisis and the impact on the public opinion. The debates mostly covered the negative effects of the austerity on the economical field as well as on people. These negative impacts caused to down turn of the economies, rise of the unemployment, more recession, high levels of poverty and most importantly suffer of the people from the restricted measures. Lastly the chapter suggested several ways in order to promote economic growth of the countries.

Chapter three reviewed the literature of the different theories of the European integration as well as on their key assumptions and main arguments. Three relevant theories revealed three different hypotheses to be tested. One of the hypothesis derived from the Post-functionalist theory; Public Opinion and expert views should link negative evaluation of austerity measures to European Union if European integration is politicized. The other hypothesis reflected the liberal intergovernmentalist notion; the interest of the member states shaping the decisions taken in the bargaining process. In this sense, this hypothesis was the theoretical opposite of the politicization hypothesis (One hypothesis would have been the Null Hypothesis of the other hypothesis) and was thus dropped. Depending on the various debates on the democratic deficit within the EU has structured the third relevant hypothesis; Austerity measures were imposed on Cyprus by the Troika without necessary input by the citizens and despite Public Opinion being of the opposite view.

Chapter four represented the qualitative content analysis of elite interviews is applied as chosen methodology rather than other alternative research method; quantitative approach.

The conduct interviews has been analyzed and resulted through use of a code book in chapter five. The results of the analysis demonstrated that the majority of the experts admitted that the implementing austerity measures is an imposition due to being the only option, austerity measures are being related with the ideological choice of the decision makers, the management of the crisis by the member state countries in Ireland and especially in Cyprus demonstrated that the European integration is politicized and there is a democratic deficit in the European Union.

### **6.3 Hypothesis Testing**

In light of the Post-functionalism theory approach the following hypothesis is tested;

*Politicization Hypothesis: Public Opinion and expert views should link negative evaluation of Austerity measures to European Union if European Integration is politicized.*

By focusing on the examined literature, it is no doubt that European integration is politicized from the beginning, however with the outbreak of the crisis further demonstrated that the European integration is politicized. The findings of the interviews drew attention to the political factor that played a role within the Eurozone crisis. According to majority of the experts asserted that Eurozone crisis is not only an economic issue but also a political issue. According to an expert, ‘that Eurozone crisis is an action that it is intensively political from Cyprus point of view. The solutions given out are intensively political. Whatever people say even austerity is a political act. At the end of the day politicians will decide how to solve the issue. In fact the euro is political. We knew that the Euro was fatally structured no one wanted to fix the fatal errors that seem to exist in the Euro or near fatal error I mean

it hasn't died yet so let's not say fatal. That would have made it existing much harder. They said yes we fixed it later, Merkel says accepting Greece in the Euro was a mistake, I think it was not a mistake because it was a political act. Every country that went into the Euro was a political act. Even Estonia going in now is a political act so in this sense it is intensively political issue and the economics literature seems to be used by the politicians in a way that no economists are happy about it. Even the bail-in that applied in Cyprus is related with the political dimensions'. In support of this view another expert stated this is new Bail-in approach EU mechanisms wanted to use Cyprus as a good example and at the same time it was a way to punish and hurt the Russian depositors that were putting money to Cyprus. It is not matter of policy; it is matter of how EU leaders see crisis evolving in the coming years. It does not matter if you choose this kind of measure or any other measure it is matter of deciding why the countries in the south should implement austerity measures in order to keep the deficits down or is it going to be let's say a policy of intention where surplus countries would support deficit countries. This could be an alternative where let's say Germany, Netherland and Finland are actually in the moment because of the single currency manage to create surpluses could actually give a kind of financial support of not comes with austerity measures. This is not an alternative it is a policy decision, it is a decision on the level of leaders of the Eurozone. Managing the crisis like that actually created more problems. The member states of EU could not manage well the crisis and they were afraid of the political cost. The expert argued that everything is all about the political cost. Because a lot of the decisions like for example in Cyprus you have many different parties making decisions and so for example in the bail-in eventually of Cyprus you had Troika which is three different organizations the Commission, the IMF and ECB, you have this organizations having

three different groups of people in Greece and there is a Troika in Cyprus so those are different people they have to communicate and agree on everything because they care about Greece and we care about Cyprus there is some question mark who makes the decisions there have the local government in Cyprus the local central bank in Cyprus you have the local central bank in Greece you have then all the other finance ministers and prime ministers in Europe, in Germany and in France so there is a lot of people that come together and make a decision and it is very difficult, there is an accountability deficit so who makes the decision? So the Euro Group never makes a decision they say that we agree with the government decision, it is the government's decision but it is not the government's decision it is open they come together then the question mark is who makes it? If something goes wrong it is accountable so there is an accountable deficit. So is not just the governments who decides on this, the Troika, ECB, IMF EU has an impact.

Cyprus should have made its developments earlier by delaying very much the deal the problem became a lot worse so it has ended up with a bail-in with the worst solution. So in that sense it is not the Troika's fault. If they had signed the treaty in summer 2011 it would have been bad but it would not have been as bad as it is now.

Lastly another expert claimed that the crisis was the cause as the result of the policies and the ways, the design of the exit from the crisis is a political solution. It is highly political. It brings politics right on the heart of the economics.

In light of the democratic deficit and European Union the following hypothesis has been tested;



*Democratic Deficit Hypothesis: Austerity measures were imposed on Cyprus by the Troika without necessary input by the citizens and despite Public Opinion being of the opposite view.*

The findings based on the democratic deficit of the EU and the analyses provided by the answers of the experts have proved this hypothesis. In regard of the literature on the democratic deficit within the EU and the outcome of the conducted interviews with experts has covered several important issues that is related to support this hypothesis. First of all, the absence of the EU demos has pushed for further reaction of people towards to the crisis. According to the outcomes of the elite interviews, majority of the interviewers agreed on that the austerity is imposed by the Troika along with Germany and IMF. Even though several of experts have supported the idea of austerity, all of the experts agreed on that there was no any other choice apart from the austerity. It is further argued that no referendum had taken place in order to evaluate if people are willing for the austerity measures or not. As well as, mostly all the experts agreed on that people will suffer the most from the crisis, facing with severe situations including rise of unemployment, poverty, losing jobs, social unrest and rise in the inequality among people. However, the experts also added that the government does not have much thing to do with this situation. There is a lack of communicating the austerity measures with the public. One of the experts argued that in the sense that this chose for technocrat governments you want a technocrat government that is going to implement the policy package of the EU. So it tells you something about the democratic deficit definitely. Because many people would not be happy with these set of policies there is like decreasing the salaries and the

pensions etc. who would want that and then this is been topped down and imposed so it tells us a lot about democratic deficit.

## **6.4 Limitations**

The aim of the idea of the interviews was to conduct interviews with different actors that have a say in the Cypriot and in Irish government from different political parties. However this aim has faced with an important limitation. The limited time has significantly affected to attain to the contacts of major decision makers. The time of collecting data was very limited to four-five months of period. Even though this time can be seen as a long period it is very difficult to get a reply from the contacted politicians and experts due to their busy schedules. Besides it takes a lot of time for an expert to reply back than it is estimated.

The restricted time, obstructed the interview of politicians as well as experts in Ireland. If there was an adequate time for example two years to collect data, it would have resulted in a more sufficient way. If I had the adequate time of two years to collect data by conducting interviews I would have gone abroad. Firstly, I would have gone to Ireland in order to visit the ministers and experts face-to-face and obtain the interview dates verbally and thus conduct the interviews one to one. With the sufficient financial support a visit would have been made to Brussels with the aim of contacting to the officers of the European Parliament and European Commission officers in order to get their point of views, perspectives and the responses made on the related subjects. This would have increased the sufficiency, variety and reliability of the collected data.

## **6.5 Future Directions**

The future direction of this thesis will be to provide a Public Opinion survey. There is a huge criticism towards the results of the Eurobarometers on the issue of public opinion. It is evident that Public Opinion plays a very important role in the politics of governments. Public Opinion has a great impact on various issues related with the government. For example, electing a government depends on people. This is sense, this thesis brought out that people in Cyprus are suffering the most from the crisis and the government has not much to do. Due to this, for a future direction my aim is to travel around the Europe, produce questionnaires to the public and provide a public opinion survey dedicating to the needs, demands from the government and what people want from their governments, how do they see the future of their own country, what kind of reforms do they desire for an better living.

## **6.6 Conclusions**

This study has asked this question: ‘did Cyprus and in Ireland Choose Austerity as a solution to the 2010-2013 Eurozone Crisis? The answer to this question was very simple: No it is was not a choice but an imposition made by the Troika, along with the ECB, Germany and the IMF. However, the question has brought other answers as well. Through making an research over the comprehensive literature of the austerity policy during the Eurozone crisis and by collecting the primary data by conducting ten different elite interviews and then tracing them onto a code book in order to analyze the debates that took place during the interview led to provide other substantial answers. These are; Eurozone crisis demonstrating that the European integration is politicized, austerity measures relating with ideological perspective, austerity measures being undemocratic and the democratic deficit in the European

Union since citizen involvement and negative public opinion were disregarded by decision makers.

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## **APPENDICES**



## **Appendix 1: Interview Questions**

### **INTERVIEW QUESTIONS: ‘Did Cyprus and in Ireland Choose Austerity as a solution to the 2010-2013 Eurozone Crisis?’**

1. What are the reasons behind choosing austerity measures in order to overcome the financial crisis?
2. Memorandum of understanding between IMF and Cyprus: what do you think about this memorandum of understanding, will these fiscal and banking sector reforms be successful?
3. Why the austerity measures were only applied after the involvement of the Troika and not before?
4. What kind of measures have been applied or are still being applied?
5. Was the implementation of the austerity measures a preference?
6. Were there any other alternative policy choices with regards to the budget deficit or other pressing economic problems such as urgent bailout of banks?
7. Is there any linkage with ideology of decision makers and their Outlook towards austerity measures?
8. What kind of facts did the government consider in deciding to choose the austerity measures?
9. What are possible positive and negative effects of austerity measures in Cyprus (Ireland) ? In general?
10. To what extent do you think the austerity measures will succeed?
11. What kind of politics may the government follow if the austerity measures will not work?
12. To what extent has the government got advises or opinions from the economists?
13. Do you think that the implementation of the austerity measures is democratic?
14. What are or what will be the possible outcomes of the austerity measures?
15. How did these measures affect people?
16. What kind of decisions can be taken or has been taken in a case of people reactions to the current measures?

17. How do you see the future of the economic situation in Cyprus?

### **Democracy Questions**

18. Could the EU policies in general or EU politics in particular be blamed for the current economic situation in Cyprus?

19. Is the Eurozone crisis and the Cypriot bail-in a political or an economic issue?

20. Was the Eurozone crisis managed well by the EU member states? Was it managed well by the EU as a polity?

21. Is the European Union a successful political union?

22. Did the Eurozone crisis demonstrate that the European Integration is politicized?

23. Did the Eurozone crisis provide further evidence of the democratic deficit of the EU?

## Appendix 2: Interviews

### INTERVIEW WITH ANDREAS BIELER:

Professor of Political Economy, Faculty of Social Science

#### INTERVIEW QUESTIONS:

**• What are the reasons behind choosing austerity measures in Cyprus and in Ireland in order to overcome the financial crisis? Was it a preference?**

The decisions are in line with general neo-liberal thinking emphasising balanced budgets and cutting back national deficits. This type of economic policy-making has become hegemonic in the EU since the mid-1980s and is heavily pushed especially by the forces of transnational capital.

**• Do you think that the implementation of the austerity measures is democratic?**

It is democratic in that the measures are decided by democratically elected parliaments. Nevertheless, we have witnessed a move towards authoritarian governments, when first in Greece in November 2011 and then in Italy technocratic caretaker governments were put into power, i.e. governments, which had not been elected, with the main focus on carrying through austerity budgets. Moreover, one can also argue that the pressures by the Troika on peripheral countries demanding austerity in exchange for bailout packages are undermining national sovereignty and, thus, also democracy.

**• Could the EU policies in general or EU politics in particular be blamed for the current economic situation in Cyprus?**

There is more at play here than simply particular EU policies or EU institutional decision-making. As such, economic growth across the EU has been highly uneven with export countries on the one hand and debtor countries on the other, with the latter unable to compete with the more competitive former countries. See my blog posts, which I mention separately in my E-mail message.

**• Is the Eurozone crisis, the Cypriot bail-in and the Irish crisis a political or an economic issue?**

In my view, you cannot separate the two, hence my personal emphasis on political economy. The way the economy is organised and governed is a highly political issue.

**• Did the Eurozone crisis provide further evidence of the democratic deficit of the EU?**

As I mentioned above, it is the pressure by the Troika, enforcing austerity policies, which in themselves are not the result of democratic decision-making, which undermines national democracies. Hence, yes, the Eurozone crisis does provide further evidence of the democratic deficit in the EU.

**INTERVIEW WITH Alexandros Apostolides**  
**(Chair person, Lecturer Economics; European University of Cyprus)**

The first thing I want to say is that the topic is I would change around and say for 5 years Cyprus did not choose austerity, with a pretty catastrophic results, we can have a debate which I like to have what Cyprus did whether it was an alternative to austerity or not or we can have a debate whether austerity is the solution. My worries are how you phrase the question. (He showed me a graph) if you look at from 2006,2007, and 2008 you would talk about the austerity because the debt is falling but what has really happened from 2008 to 2012 a huge explosion of the government debt so really the Christofias government did not chose austerity. Let's be clear if it was a chose, when it was a chose the chose was not going to austerity. Now of course what leads to that is primary balance is important. Primary balance tells you how much does the government needs to borrow or has extra before you start paying your interest rates. You usually never see in Cyprus, almost for all the history of the Republic, we had a negative, we always needed to borrow more and more up to 2008 the first time we have a positive which means we are actually saving money for the future and look what Christofias government does, it has a consistently negative it means even if we had a zero debt this government needed to borrow every single year it wasn't living with its means. So let's be clear at least for Christofias government, there was no austerity followed in fact quite the opposite you can say very bad Keynesian policies. **Is austerity policy related with the ideology?** Clearly, but I think more with political experience. Let's actually read some Keynes I seriously doubted so let's assume he followed Keynesian, the first thing you do as a Keynesian you say this is my GDP and it is consumption plus investment plus government expenditure plus what I export minus what I import. If I want to increase my income then I spend more money as a government I spend into the productive uses and my GDP goes up, that is classic Keynesian economic. But this G here is minus welfare payment the kick for government to increase income of the country we take out what you give to people that has not worked for it. So if someone has worked for the government for 40 years and gets a penentrant he is in that G. if you believe though that country pensions need to get some money because of the problems they have that is not part of the G, so from the moment that most of this increase went to welfare expenditure clearly if it was Keynesian economics it was a poor Keynesian economics so I do not think that he followed any ideological economy. **So what he follow?** Political experiences and I think you can prove with the graph (that he showed). It shows the government that keeps borrowing and borrowing gets tougher and as your right to point up it gets tougher everyway.so this is the killing graph that tells you that the experience. This is the difference between the interest rates of Germany and of the European countries. A thousand basis point means you are ten times more expensive to borrow than Germany, there is almost a

line which is 500 so when it 5 times more expensive for you to borrow than Germany the triangle is when you ask for the bailout, so as soon as you reach this 500 mark, almost every country ask for a bail-out so Spain, Portugal, Ireland, and just over 500 Greece all asked for bailout. When you ask for a bailout officially which is displayed as triangle but the circle is when the actual negotiations are concluded and when you receive the bail-out. Every country that reaches 500, finishes the negotiations within two months, look at Cyprus, Cyprus asks for bail-out when it is 12 and a half times more expensive to borrow than Germany, they were very late and does not conclude the negotiations and allowed the economy to fall off a cliff. The economy is falling off a cliff of that period, the economy is doomed for me it shows you that there was no economic plan, there was not anti-austerity agenda that was well sod out by the previous government. It was a government that simply saw the elections coming refused to put austerity maybe for the ideological reasons, completely did not understand the problems that the economy had especially the banking sector made them worse and then just literally for its own political expediency refused to come into a bail-out program that would lead to austerity as well until it was voted out of boxes. **Did the previous government got some advises from the economists?** There was no council of economic advisors, there was no economist advising anyone and the minister of economic resigns in 2011 because exactly of the assistant refusal of the government. They consistent the refusal of the President to do austerity, when they announced austerity, the president undermines him publicly and has to resign so, there is no ideology behind, they are not listening to Groupman, if they listened to Grovemen they should have left the Euro and do un austerity ideas. My worries how you put it as being a chose that was voluntary, from the moment the economy fell off the cliff you needed a program then you needed to do this, I would change your question and ask 'why Ireland chose austerity and Cyprus did not'. As you saw Ireland accepts it very quickly and is now out of the program, its program is finished. I think that is a better question, better way of imposing the question.

Let's first define what austerity is so we can start talking. If austerity is just simple the mass reduction of G government expenditure, advance of any fall of income, like cut government expenditure more than you cut taxes or increase taxes and cut government expenditure then we agree that that's the austerity but you see these two countries you are talking about; Cyprus and Ireland and Cyprus had another issue at the same time which is the banks. The banks failed; if you were around in Northern Cyprus in 2001 you know exactly how that feels. So in the same way, maybe unlike some banks in the North, 2001 they used the depositor's money to buy Porsche Kenyans but basically the same thing, but in much more massive scale, is what the Irish and the Cypriot banks did. So what I am saying is the problem these two countries had is how far they could sort out their banks without first accepting that austerity had to happen. So I think for neither of the two countries it was a choice, neither for the two countries it was not a choice, because of their banks. Both of them had banks bigger than the nations GDP that were in very serious trouble. Both Ireland especially decided to guarantee the banks and shelter an depositor from

losses, Cyprus was trying to do the same and failed of course with the bail-in. Since from the moment that the banks were in real trouble, and they needed funds by some source to help these banks, for these two countries austerity was not even a negotiable issue it was seen in fact in funny ways the disaster that is both of their economic policy was a secondary issue to their banking problems. So for them, they really needed money for the banks, who is going to give money for the banks? The IMF and the ESM, before it was EFSF, so for them it was like yes tell us whatever you want to do for the government we will do it, all we really need to do is get an immediate money for the banks, and even in Cyprus despite the bail-in still we got 1.5 billion for the cooperative sector the bail-in would have been much bigger if we did not get them. **Why did not they apply bail-in in Ireland and only applied in Cyprus?** This is also to do with an IR question. The first thing is, it is very clear that when you went made the difference. Let's not forget that Ireland was the second country after Greece. In Greece, the bail-in of Greece was done and this is I think now publicly accepted less to help Greece but more to help European banks, because very big European banks had given substantial amount of money and if Greece defaulted of course it would have hurt Greece but it would make an infection direct infection of the problems of Greece to the banking sector of the whole of the Eurozone. So you hear a lot of big French banks were really affected, so we are not saying that the bail-out was not there to help Greece, it was but really it was also there and this is accepted now to really help big banks in Europe not to collapse and this was only coming three years after the Lehman crisis, let's take a random agreement Deutsche bank had huge losses in 2007 with the Lehman crisis in the US, so a lot of European politicians thought it was impossible that these banks could observe second big crisis. Effectively, about 75% of the Greek bail-out program went to pay bond holders in full, these banks gave Greece money and they got paid out in full with the bail-out money. Now by the time of Ireland of course Ireland has problematic banks and these banks also have inter-linkages with other banks in Europe. So again saving the Irish banks was almost synonymous at least as politicians saw it then, that is important politicians then has saving the whole of the Europe minimizing the contengare so the idea was that Ireland said that I am going to guarantee all deposits in order not to have a bail-in that is what bankrupts Ireland. The guarantees they want to give to help the banks are so huge that Ireland needs a bail-out and we are helping the Ireland effecting the Ireland not to bail-out its banks and by then this is the question of the Euro, if we don't do this you bring this risk, this infection in the Euro area. But the mentality changes by time you reach the second Greek bail-out, because by that moment there is a lot of resistance mainly also in conservative circles but mainly in I think in Northern European constituencies like conservative government of Finland, Merkel's government in Germany and many others. Whereby this is seen as like Greece needs money again? But we gave the money so it means Greece is doing something wrong, which was of course partially true but also the second Greek bail-out was there because everybody wanted to ignore the very big issue which was Greece had huge amount of debt that it could not pay, so with the second Greek bail-out they decide someone else have to take

bail-in well I mean the PSI, the PSI is the bail-in of the bond holders so the PSI voluntary exchange of Greek government bonds of private individuals and companies is part of the second bail-out they say to Greece we will help your banks, Greece's banks are dead because they helped the state so they said ok we will help your banks but still someone else will pay not only the European tax payer and that person in this case is the private people who still hold your bonds and that is where the PSI happens. Clearly by that time because now we are a year ahead they speak calculations to show the losses that the European banks have solved out most of their bonds so you are hurting people, you are hurting private companies and individuals but the cotangent effect of doing a PSI is much less than it was in the first bail-out. PSI was in the table if you want to know in the first Greek bail-out they said well why give them so much money just not Greece default in some of this but then it was seen as cotangent risk by 2012 two years later it is not a cotangent risk because these European banks sell the bonds they take the losses initially and a lot of this bonds now are around speculative another thing so even very good PR, Merkel can go and say we burnt the American speculator who thinks he can make money out of fraud something and helped the brothers in Greece. And then you come by that time to Spain and Spain does austerity own its own and seems to be able to convince them that actually our banks can still kill the Euro so Spain gets a bail-out but gives no money to the government which allows the government to tell to convince the Europeans that we don't need any money we are sorting our own mess but if you kill our banks by bail-in we are going to kill your banks too, we are important o you and then we finally reach to Cyprus. **So do you mean that at first stage they have tried to implement bail-in to other counties as well?** The idea of PSI, the PSI is the voluntary right of government debt in lower value and bail-in existed from the day one and it was actually implemented there is a bank in Holland the Minister of Holland bailed-in a small Deutch bank so bond holders were bailed-in. so the bail-in happened before just not in depositors it happened to bond holders. So the idea of the bail-in existed and there is a lot of bail-in happening but to bond holders in Spain, the bond holders of banks get hit in many other countries and I think even in Ireland the bond holders get hit, the difference is these banks had bonds but our banks (Cyprus banks) it's not on the bale when European leaders of the North are convinced by doing this the whole system might collapse but they are fine doing this in smaller cases and the small cases seems successful. So I is important they do it to a Deutch bank not a lot of .... They do it for the bond holders in a French bank nothing happens hey do it to the Spanish banks not a lot of people seems to be upset but they do it to bond holders, they do it to bond holders in Ireland not a lot of people seems to be upset so there is two difference between Cyprus and other Northern member states. In Cyprus the banks had around 133 billion at this time( showing a graph) so ten times of GDP, about ten billion of that is the depositors of the European banks what they started to do is they have started to take their money out by this time they take all their money out of Cyprus. What then happened is effectively the European markets are isolating you for being a risk to the whole of Europe. If the bail-in happened in 2011 just before Mari then still it would have been a massive shock to



the European banking system but because you delayed for two years the European banking system withdraws it takes the hit early less loss but withdraws from Cyprus. So number one, by the time there is a finally a President that wants to negotiate, Cyprus is not systemic for Europe, they can let us go to hell **Why? What is the reason?** The European banks have already withdrawn any liabilities and assets that they already isolated Cyprus and this is not a conspiracy theory, this is a market operating effectively. If I know that there is a risk and I can see the risk and I can see that there is no resolution of the risk this is correct decision to do saying ok I am going to withdraw. When I withdraw of course, then that changes the political map of the decision makers suddenly you are saying ok there is zero effect of bail-in these banks to the rest of European system there is no cotangent effect with the exception of Greece. But now you can deal with it and they did in a terrible way they forced us to sell the Greek branches, so there is from the moment that you give that amount of time the market corrects itself and suddenly the politics changes where the first bail-in where there is zero effect of the banking success for everybody else so the bail-in idea is coming they have'nt disappeared and they are becoming stronger because they seem effective and finally you reach Cyprus, they say can we do the same as Greece PSI and they couldn't because Greece was under Greek law our's is under English law which meant that we would default and default all of our debt so PSI was out of the question, so we couldn't which I disagree I think we should have but at least for the Europeans said ok people who brought Greek Cypriot government bonds they cannot be harmed. So who will take the hit, let's take it to the bond holders the bond holders was only 1.5 billion which they got the hit but that was not enough to cover what they wanted to cover, the Europeans were not willing to give more than 10billion. It is clear that number 10billion it is clear that 10billion is political number not an economic. They said what is the number we can give; 10 that what we are going to say alright how much do we need to give extra that alright who is going to pay for it? Can the Cypriot government pay for it? No, because then people of Cyprus might go into the default can the Cypriot bank bond holders pay for it? Yes, but that is only 1.5billion because our banks which this is the other problem the banks are very different from the European banks. European banks are like 30% deposits and 60% bonds we were like 90% deposits and 10% bonds it is a totally different structure, so really for us like the only choice was the depositors. If you ask me what I'm telling is there is an involving story and there is changes happening in the European level and the local specific circumstances mean that this was the first time a bail-in could have been tried in a way that everybody thought it made sense due to the combination of how the banks were structured, due to the fact that all European banks withdrew their positions from Cyprus before March 2013, and due to the fact that the idea is becoming stronger and let's not forget these are the architect of the small Dutch bank being bailed-in. new politicians come who believe that that is the right way. The idea of someone needs to pay was there, and becomes stronger as the European crisis goes down. Merkel and all the northern European Merckels need to go and say 'you will not lose a cent' and in fact all the others will lose a cent as well.

## **Is the Eurozone crises and the Cypriot bail-in a political or an economic issue?**

It is political. I am writing a book about it now with Ker Lindsey of (LSC) was a politician political scientist. For me, that is a political decision, it is an action that it is intensively political from Cyprus point of view. The solutions given out are intensively political. Whatever people say even austerity is a political act. At the end of the day people who will decide how to solve the issue are politicians. In fact the euro is political. We knew that the Euro was fatally structured no one wanted to fix the fatal errors that seem to exist in the Euro or near fatal error I mean it hasn't died yet so let's not say fatal. That would have made it existing much harder. They said yes we fixed it later, Merkel says accepting Greece in the Euro was a mistake, I think it was not a mistake because it was a political act. Every country that went into the Euro was a political act. Even Estonia going in now is a political act so in this sense it is intensively political issue and the economics literature seems to be used by the politicians in a way that no economists are happy about it. A every good example is Rynham and Rudolf wrought a very famous working paper not pre-review that is very important that says that with you have debt over threshold I think that is 90% your growth of income is massively reduced over time. You are always hobbled, a lot of debt is hobbles your ability to grow and that was intensely quoted in fact even their calculations used in European Commission document and then we find out the paper is wrong. There is an excel spread sheet error. I mean if you notice Raynham and Rudolf that is not their problem because they were not pre-reviewed in a pre-review journal. They just put it out there and that is how you should do. In a working paper understands that has not been pre-review you should not take it words from it. But the EC and the EU takes it on broad and it becomes mantrap of austerity, even the people who say budgets need to be balance which I might be part of it right now. What the politicians called austerity it has nothing to do with the ideology. The way that the politicians use it has nothing to do with any economic rational or if it has something to do it is like second cousin of it. It is completely political from then on it is true that IMF has taken austerity in a technocratic economic level but if the IMF only cares about one question which is can you pay for your exports? Technicallt the loan that the IMF gives you with the Troika that is to balance your exports with your imports. For them you can narrow it down to technocratic thing. *The problem that I have with the austerity is not the idea trying to make governments spend less it is not a bad idea in general it is a bad idea in a crisis but then the question is what happens for a country like Cyprus, Ireland Greece Portugal, Italy and Spain that were spending like crazy on good times and now need to spend to get of an recession and that is the real question. Who pays the cost? The real answer is well Europe should to allow these countries get out of the recession and then you restrict them so in good years they save and in bad years they spend. That is how I see it. The problem of austerity is starting austerity in a recession. Austerity as it is just relatively sounds financial planning the insanity of austerity is to say that you should start when you have the worst recession on the world. Because then that makes the recession worst it is a self-fulfilling cycle and look at Greece still 15<sup>th</sup> quarter of negative growth and*

of course you cannot hit it to austerity targets and it is even more austerity it is a self-fulfilling cycle of the structure so if you telling me is the idea of balance budgets or saving money in good times spending money in bad times without a doubt the issues went to started this is not the time but it is on the table because it is very clear the North is willing to borrow money to the South by not willing to pay for the South. Borrowing for the South and paying for the South are two different things. By North it refers to the countries that are not in a recession. So I mean the north of the Eurozone is willing to borrow because you now they give us the money but where do they get the money, they borrow money with low interest rates and then they give it to us in a bail-out package so they are borrowing for us willing to do that but they are not willing to pay for us an really what you need now is paying for us because that is what you are going to get you out if the growth. Austerity is an issue that should have been on the table when times were good and it should return when the times are good and I have no problem with committing governments in stricter rules about how to spend on money. But the issue now is who pays and the answer of austerity is the answer given by the North saying willing to borrow for you not willing to pay for you. For me that really is the underline debate. It is a political debate. So yes it is intensively political and austerity is found by the politicians and sold to the population as a necessary thing because they really don't want to pay for the South. Let's go a step back, maybe if I was a German politician, I would say yes why pay for the South it is not a rational thing to say. Since they are the ones that are doing well, they have every right to give the answer. **Is this the reason why the Northern countries are more in a better position than the Southern countries?** They are in a better position because they make dramatic in drastic changes when they needed to. These Northern countries did significant steps to change their economics and their structures that Southern countries seemed to be unwilling or unable to do so. **Why?** It is the politics again, politics is the solution that is why I like your area. Why did Christofias chose rather than make a 5%, in 2010 there was a proposal of dropping government wages by 5%. As you well know here the Republic of Cyprus government wages are massively over valued from the private sector. Is a 5% fall important, it now looks like a joke; they now had to commit the same government 25%, why? Because he did not think it was politically expedient. Here though, he enforces a 20% of cut end of 2013. He could borrow here, when he had a choice, cut fixing the balance between the government wages and the private sector wages, why is that to balance because it makes you expensive in abroad. He could have borrowed but he didn't, so when it came to 2013 he could not borrow that much money suddenly he needs to a 25% cut, so the fact that the political actors that includes unions that includes voters, that could everybody the polity which this is the correct word. The polity was happy to borrow and let the future pay rather than change and I think the reason why we should ask how often is a debate in any of the bail-out countries before they went to bail-out. Who pays? I mean that is the debate that intensely exists in some of the countries in the North a good example if you saw England right now they bailed-out the banks and there was one of the intense criticisms why would you pay for the bankers of course we now know from Cyprus

that it was a good decision because the bail-in is worse. Now the government is selling its shares with a little profit. If it kept to them it could make a bigger profit but who pays is a bog debate that at least I can only speak in Cyprus it does not exist and it did not exist and I think it does not exist in the North either. If you want to see the primary balance of the north it is crazy, it is minus 7%, there is an assumption that Turkey pays which went challenged by Turkey there was an intense reaction from at least original Turkish Cypriot Community, so who pays that it seems to be in the agenda and I think that is the reason, not enough infiltration of liberal ideas which can be extreme, when it exists in the political spectrum it means everyone has to talk about who pays. In Cyprus, is there a party which has a no to income tax or no to taxes policy? No, so who pays is not a big debate in our society. I don't know if it exists in Ireland or somewhere else but that is the difference. In the end of the day all the other countries where said they went through something like Thatcherism, they went through like if Germany handled the shop they were the left actually brought market reforms and the left said it is not fair to have tax payers pay for like Wauxhalvaugen, to get subsidies or staff like that so who pays it Is not part of the political agenda.

**Could the EU policies in general or EU politics in particular be blamed for the current economic situation in Cyprus?**

Of course in many ways, the first is the idea of austerity the EU cannot convince the Northern European countries to pay for Southern European countries to go out of the problem. So they take this mantra that's called the austerity now, all I am saying is the austerity in the future like an investment now. The EU needs to be blamed for that but again we have to see all the actors I failed to see why a Deutch politician should care it this outgrowth of it or not. If you had a pan European view, the answer is of course you should care but the Cypriots are not going to vote him or not he only cares about the Dautch voter so that is the one thing. The austerity now is an EU policy because the EU cannot force the North to pay which we know it will be better for everybody and also complete failure of investment targeted investment to grow the EU out of recession and for the Cyprus case incredibly insane rules that should have been suspended in this recession that makes our lives in living hell and I can give you one: Two biggest banks were bailed- in, a third bank is trying now to raise capitalize... in order not to be bailed-in and we got 1.5 billion that is 50% of the bail-out money to go to the cooperative sector in order not to be bailed-in. The EU Commission is the one that gave us help about the cooperative sector because the government said ok fair enough we will see how many assets they have, we will buy shares, we will be the major shareholder we will give them the money they will survive, people will not lose their money and everything is good and nice. More importantly, they will stick to being a cooperative/corporative society which is very different from the bank. Corporative society is not for profit, it is different idea than a bank. There is a lot of co-ops in the north as well like, the Turkish Cypriot corporative also accepted here because it was before the sixties, so the corporative

movement is very big in Cyprus in both sides. The EC came last minute and told us if you give this money it will count as a government aid therefore you will be breaking EU competition rules therefore you cannot give the money and we almost had a bail-in of the sector and in the end we had to accept humiliating terms the government will get the 1.5 and it will get the 99% of all shares of the corporative sectors. All these members, 120 thousand people who belong to the corporative will only earn 1%. That was an EC thing and also now if these members want to buy the shares back, they need to pay a penalty. They are penalized for wanting to own back our banks our corps and that came directly from the EC. It was not the Troika thing wasn't an ECB thing, it wasn't the IMF. I find the bad guy is not the IMF. The IMF is telling you listen you need to balance your books, the ECB usually tells you your banks needs to be resolve the real bad guy is the EC Commission that is completely inflexible in how it adapts its rules. Ignoring that we are in a crisis and it does that in all countries. I put the biggest blame on actually I think it is complete failure of the Commissioners they are showing not only that they are weak for not convincing all Europeans to work together but they are completely disconnected from the European citizens to insist on rules that should clearly suspended when you have the mother of all the recessions. **Do you say that there is a faulty design of the EU institutions?** The lack of accountability of EU Commissioners is showing so much about in their disconnect from what is happening. Cyprus and Greece will go through the biggest recession of their lives, it is not a recession in words it is depression. You see the far right coming back that was effectively dead and the issue Commission cares about the competition rules and substitutes to banks and all Eurozone members do not care. They understand it is a crisis so inability to move out and smell the real world wake up and smell the coffee is the biggest failure as the EU Commissioners. They should have suspended rules, they should have behaviour in a bail-out you are exempt from a, b and c and they never do it. So, do you say that the EU needs to change its policies? If the EU wants to be the government of the EU, it should behave as a government and understand that the days in crisis mode thinks get ignored suspended and that is the good thing.

**Do you see the EU as a successful Political Union?**

No. it is a disaster, it is a failure. For me, I am very pro-European but I think the treaty that the Lisbon treaty that did not pass was given us a direction and that it did not pass and it didn't pass because the referendum in Ireland. The new infrastructure put in place is really failing to act like a unifying force. Whether the Lisbon treaty could have done it I am not sure, but really the new masterdise version of the institutions that we have are definitely not helping.

**Did the Eurozone crises provide further evidence of the democratic deficit of the EU?**

In my case not only provided, it makes it bigger. All these bail-out decisions are happening in close doors where no one knows what they are doing they don't need

the European parliament to be approved in any real way and the ECB is completely out of telling us how they have reached to a decisions, it is becoming dark, it is becoming less democratic and it is becoming even more no one is accountable now and I think that is as much as an issue for the Fraud Schtefen in Germany who its country's borrowing money, which in the end they have to pay ok they are low interested but they have to pay for Southern European countries and to Southern Europeans. The democratic deficit has increased dramatically with the bail-out. **What can be done in order to overcome democratic deficit?** Well, finally resolved one issue that EU does not want to say do you want to be a United States of Europe or not? If you want to be give accountability to your actions to the citizens. Form me, when I see the Euro barometers, it is clear that the European citizens seem not want to be democratic the United States of Europe this is a general trend. If you look at the Euro barometer and you see the difference, you see that the tasks in European institutions are falling. It seems that European citizens are moving away from the idea of the United States of Europe. It is different if you ask me if you are pro or against Europe, I will say yes but if you tell me do you want a United States of Europe I will say no. these are two different questions, either the question is do you like Europe, the idea is amazing but if you ask me is it doing its job well, it is a disaster. It can only be fixed if all and non-include ..... which is completely unaccountable all European institutions are accountable for the citizens it is a joke.

**In this sense, do you think that Eurozone crisis is a product of the democratic deficit in the EU?**

I don't think it is the cause of it but I do think the consequences of it is increasing, the deficits is increasing the opening.

## INTERVIEW WITH CAHRIS POLYCARPOU

**Comment:** You said that in your topic why have political leaders chosen austerity measures actually I think it is not a matter of a choice it is a matter of a force. Both Cyprus and Ireland did not actually choose austerity measure. The answer here is quite easy because it was a clear precondition in both cases to grant the financial support to both countries. Precondition was to set up a Memorandum of Understanding otherwise no financial support will be granted so it is not a matter of chose. They did not go to negotiations and tell we have some austerity measures let's discuss it.

**Who did force Cyprus and Ireland to choose austerity?** First of all the economic situation in EU affect both economies actually in Ireland's banking sector and also Cyprus banking sector was actually been in trouble. Also the situation inside the country deficits and debt so that was the key idea that forced both countries to go in. actually in the case of Ireland, there was no actually setup mechanism European mechanism was actually been created afterwards. Ireland was the first country to ask for a financial support and because of Ireland, Greece and European mechanism also done. **Did Cyprus also asked for a financial support?** Yes Cyprus asked on the 30<sup>th</sup> of June for a financial support due to inability to meet with the capital requirements of its banks. Because the banks were not well capitalized and also to meet these requirements setup from the EU level went to European mechanism to ask for a bail-out.

**What are the reasons behind choosing austerity measures in order to overcome the financial crisis?**

Actually as I told before the conditionality was asked from the Troika to implement these measures. But also the sense that they choose austerity measures and they don't choose structural measures was a result of IMF and EU economic policy orientation. Both EU and IMF wanted to implement a complete change of economy in Cyprus. I mean the foundations of the economy, they wanted to implement a new economic model in Cyprus and they wanted also to implement new banking model in Cyprus.

**Why did EU and IMF wanted to change the economy in Cyprus?** First of all this is let's say we accepted we are discussing it with Troika for a financial support. First of all the conditionality in each country that asked for a support was based on the same principle. I mean in the case of Ireland, in the case of Greece and in the case of Cyprus, Troika wanted to diminish the public spending, they wanted to enforce privatization, they wanted to implement a tax reform, public sector restructure I mean these principles were the same in all countries and you can see that afterwards

the question if it's an ideological policy. I mean it's the way of dealing with Memorandum. If you want to have a memorandum, you should choose this path. There is no other path even if a country decides to say we are not going to implement austerity measures but we are going to implement a different model this is not the case for the Troika and in the case of also EU let's say Germany also wants to implement a new economic model in the South. **Is this democratic? I mean the way that they want to change the economies?** I think is not democratic. First of all, EU was supposed to be based on the principle of solidarity any member state that wanted to be/ to have a support this would be granted from EU. In the case of financial support, bail-out packages were came after the serious enforcements of the Northern countries especially Germany, Finland and Netherland towards South countries both in the case of Cyprus, case of Greece and Spain the financial support was given after the austerity measures were implemented. **Is there any inequality between the EU's policy or in EU's respond/reaction towards to northern countries and to periphery countries of the EU?** This is a balance of power. I think the balance of power is between the leader nations let's say Germany, France towards these smaller nations. But there is also a clear line between the North and the South and it is matter of, it's an economic prospect of North and South. North it is a region where exports are significant, there is a huge industry secondary sector in contrast with the Northern/southern countries actually have deficits not only because of their fault but because of the situation and the nature of the economy. They are not based on industry and on exports, they are based on services. When you implement a support for the case of Cyprus let's say all the financial sector the country which is the main of the country this is not based on the solidarity it is most probably based on let's say what is the target of Germany, what is the target of let's say Netherlands, Finland in the respect of their economic orientation.

### **Why the austerity measures were only applied after the involvement of the Troika and not before?**

This is not the case. The austerity measures were implemented before the Troika here. Let say for instance in Cyprus there were two economic packages in order to diminish deficits. There was a package of 2009, there was a package in 2011 both packages where aimed to improve these deficits of the country. The reason of extend of measures especially extend of measures from banking sector was that measures taking before could not in any case solve the real problem of the economy. The problem of the economy was mostly founded afterwards in the banking sector. The banking sector needed more than ten billion to capitalize, so any measures taking before will not be enough to capitalize of the banking sector. Just to say that the bail-out afterwards it become bail-in of the banking sector was the highest in percentage of GDP financial support given to banking sector worldwide so having this in mind it would not be impossible to take measures to cover this problem.



**Memorandum of understanding between IMF and Cyprus; what do you think about this memorandum of understanding, will these fiscal and banking sector reforms be successful?**

The case is not if it is going to be successful, the case is would be in the future a result that would actually give prospects to Ireland. What it is a successful measure? I mean let say if you discuss a successful measure for fiscal sector reduce the public deficit maybe you can say it is going to be successful maybe, already the public deficit is been reduced but what is the result of this reduction? It depends on what you perceive as successful result. Out of this reduction, is that you have an increase in unemployment and a huge growth in percentages. What do you perceive as a successful reduction; you would only describe the results after you implement the program and see what the result of the reform was. **Were there any other alternative ways regards with the budget deficits?** About the alternatives, as I said before, it is not the matter of alternative, in the matter of alternatives as I said before the measures were implemented before the matter is not about the alternative it is about what was the real problem. **If they did not implement austerity what would they do?** It is not about the fiscal it's about the banking if you do not solve the problem of the banking sector even if you take alternative measures it would not make any significant difference. I mean the real problem was the banking sector but the most worrying thing is that I believe that there are alternatives in the way that banking crisis was sort out. **Like what kind of alternatives?** I mean you saw that in the end what was chosen as alternative for the banking sector was the bail-in of the depositors. There were possibilities of exploring if you can use future gas reserves or if you can have a different deal in line with you can have a financial support that would not mean that you have to implement haircut but this decisions were not taking in mind when Cyprus asked for different let's say negotiation terms Troika would enforce the decision of a haircut **Here what I have understood is whatever Troika says that's what happens. Is that the situation?** It is not the matter of what the Troika says it is a matter of there is a specific economic policy orientation and that is clear not only on Cyprus in any country that we have a program to implement it, we are going to negotiate the program and you may let's say change the terms but the core of the program remains the same. Otherwise always there is the blackmail that we are not going to grant any financial support.

**What are the possible positive and negative effects of austerity measures in Cyprus?**

It is a matter of what do you think as a positive, some might argue that reducing public debt, and reducing public deficit is a positive thing. I mean what I believe matters more is what is the overall result and what actually seems to be the result of memorandum in Cyprus that you have flow growth rates, you have high unemployment, you seem to have an evolving public debt meaning that maybe public debt will not be able to be serviced from the government but in any case in every country that there was a memorandum my question was a key result of the

implementation of memorandum because it is so obvious that when you implement a policy that reduce public spending and reduces working positions in the government, this means that it affects people trying to find new jobs, affects people coming to a country to start a new enterprise so you see that people from Spain go to Germany to find job, you see people from Greece got to Australia to find jobs. Migration is a significant result in each country so it is one of the negative effect of implementing austerity and actually if you see it from let's say .....perspective, economic theory supports that if you have a two country with the same currency when the countries is on deficits in order to solve this problem you need to take people working in a country transfer them to a country that has surpluses in order to improve their production.

**To what extend do you think the austerity measures will succeed?**

In the sense that you need to present rates that are in line with other countries and you can work on this direction it can reduce public deficit on a level it may also give the ability to country to keep paying wages and pensions. But as I said before, it is the matter of overall economy, how will economy evolves in the future.

**What kind of politics may the government follow if the austerity measures will not work? Will this still depend on Troika?**

It is not matter of policy; it is matter of how EU leaders see crisis evolving in the coming years. It does not matter if you choose this kind of measure or any other measure it is matter of deciding why the countries in the south should implement austerity measures in order to keep the deficits down or is it going to be let's say a policy of intention where surplus countries would support deficit countries. This could be an alternative where let's say Germany, Netherland and Finland are actually in the moment because of the single currency manage to create surpluses could actually give a kind of financial support of not comes with austerity measures. This is not a alternative it is a policy decision, it is a decision on the level of leaders of the Eurozone.

**Is there any country or a model that the government took as an example?**

I mean MOU, if you see like the basic terms of what actually Troika wants the countries to implement is pretty much the same in each country and this is a very strange thing if you consider that not each country has the same economic background. Ireland is an export country, Cyprus is a financial service country, Greece supposed to maritime and shipping and house tourism, Spain has property selling sector, Italy depends on agriculture and despite of these different economic

structures you see a model implemented the same quite the same and this is strange in each country. **Does this create a problem?** As I said before, let's say on two levels; let's say on other ideological level, this orientation comes with an idea that you can solve economic policies by diminishing public sector welfare. If you let's say sell a private companies, if you diminish public workers, if you implement liberalisation in each country the economy you could actually have growth. This is the economic model at the moment that the Germany implements, taking as granted that Germany has the leading role in the European Troika side, implements the same model in each country which for them (Troika and Germany) this is not a problem but for us it is a problem, for Cyprus is a huge problem and for Europe as a whole. **What can be done in order to overcome this problem/situation?** That is why I said that it is a matter of political decisions. What can be done it is on two levels. In the first level, it is the policy makers. For as long as policy makers believe that in the respect of Germany and of EU elite as long as they believe that this is the way for good I think that they are not going to change the model that they implement in each country. I wanted to say before that this is a case for Germany, IMF actually if you see the way that dealing with these kind of countries does not believe that austerity is the reason that is why there is a huge debate in the Troika between IMF and Germany whether austerity measures only could solve the problems and whether we should follow a growth perspective model. IMF strongly believes that you should support the demand set of economy meaning that you should also privatize the public companies but on the other hand you should also grant financial support in the direction of growth project to country so it goes all the way to Germany and says to them put more money on growth projects for political reasons because Merkel is the leader of conservative party they cannot go the parliament and say conservative partners we should grant more money to Greece because they are going to their citizens and say ok let's give more money to the Greeks, they are going to say no you are not going to give money to the Greeks but this is the contradiction of co-principles of EU. EU was supposed to be one country helping the other that is the fundamental article in the EU treaty. **So the main problem starts in the EU itself?** one of the main problems. The other problem is economy as a whole not just in EU but in European economy goes through a crisis and as long as there is a crisis someone should pay for this crisis. Is not an asset comes for free so as long as this principle is true for the moment I don't if it is nationalistic to say this but for the moment Northern countries pay a higher debt than Southern countries this is one part. But the other part is that you see that big companies for instance **Douche** Banks the most profits banks of EU did not even suffer diminish of their profits what you see is that people going to unemployment. So also it is a balance between huge companies trying to grant their profits against people trying to keep their jobs. Also there is a significant line between these two factors. You see that there is a political level where politics makes the decision where decision making is on the level of countries like Germany against like with Northern countries also there is an axis where you can see that vast majority of people that are actually employed not just in Northern countries but in all countries are against enterprises that are trying to

perceive safe profits and I strongly also believe that this is a matter of common currency. If you see how common currency evolved through the crisis you can see that countries that should support the common currency for instance Germany has a lot of gains from currency, you don't see Germany given much in the common currency what you see is countries trying to reduce their debts in order for Germany to avoid giving extra financial support so you have a third level which is a common currency how this effects the situation in Europe. **So are you saying that common currency is another problem?** What I am saying is that how common currency is structured at the moment creates a richer North Europe against more less richer South. Does this means that inequality gap increases? So what can be done is there any ways that can prevent this? There is the way where it is the internal EU factor where EU should implement a policies that are growth oriented where money from EU budgets should be directed towards unemployment, towards restructure of Northern countries, less improve countries where a money should go to sectors of the economy that would create new jobs. This is something that a decision internally in EU. This is one thing, the other thing is that as long as you have conservative forces dealing and deciding the future of EU policy you should probably have the same results. It is a matter of ideology as long as EU is based on liberal policies and not base on more socially constructed policies, **so in this sense do you mean that liberal policies effects the crisis as well?** Offcourse, I mean what I said before and I would like to mention this is that decisions made on EU level especially on economic sector, for instance tax reforms implemented for Eurozone countries, banking reforms that eliminate the barriers through Eurozone. These kind of decisions made on Eurozone level that their root was from the conservative level of the parties and the leaders implementing these kinds of policies was one of the reasons that Eurozone faced this kind of inequality so of course policies implemented in EU level and the orientation of these policies affect crisis. This is what is become since 1992 that common currency was implemented. You see serious of economic not only economic **so this policies like Monetary Union or Single Market or common currency are all coming from Neo-liberal thinking isn't.** Yes. If you see the balance of power among parties in EU for instance, leaders in EU, most of the leaders are coming from conservative liberal background. If you see the balance of power in EU parliament you see that the majority of the party is liberal or conservative background, so you constantly have liberal ideology driving the policies and the legislation putting forward in EU. You see that you can put blame on structure issues on a certain level; you can blame structure inefficiency on a certain level. But apart from structure inefficiency, you see that some policies are not because of inefficiencies in a way that EU works and are implemented, are coming from the ideologies of conservative parties that lets say for instance you must eliminate public sector wealth.

**How did these measures affect people?**

It effects in the most significant way in the sense that people lose their jobs. **What kind of decisions can be taken or has been taken in a case of people reactions to the current measures?** To be honest what governments I mean any government would say that we are making our efforts in order to diminish, to eliminate the effects of the crisis on people. This is what any government would say you would not find a government that says we don't care of our people. What actually is done in order to overcome this crisis is matter of two things, what goes is government want to achieve and if government wants to reduce unemployment or safeguard the banks work properly and this is the decision that government was made for instance. Government has said that in the case of bank of Cyprus we should abolish 4,500 people because we want to save the future prospects of the bank. This is a public statement that we want to safeguard the public bank of Cyprus should remain viable in the coming future; we would take any measures in order to overcome this situation. This is the goal of the government. This goal tough means 4,500 people will go unemployed. So someone would say that look we are trying to save our people, because we are saving banks we are saving the economic future of the country. Someone else would argue that you may save the banks but what you actually implement it is a common rise of unemployment. So the question is what government does for the situation. I do not want to sound pessimistic but, it's not the case again on what each government on local level too. The problem is in such level that if there is no action taken on European level. Local governments could only diminish the level of increasing of unemployment instead of increasing the unemployment by 10,000 people per year, we could increase the unemployment by only 5,000. The way that EU/Eurozone is structured at the moment I think this is the only thing that I mean look at Greece, Greece at the moment is just implementing a program. Is not creating growth prospects, Spain at the moment implementing a reform program you see day by day that unemployment in Spain is coming higher and higher. You have high records of unemployment in Spain, so although governments are trying to let's say I speak for the countries that are in memorandum, at the moment all they do is implementing memorandum. **Does this means that this situation does not depend on countries but depends on EU? Does EU need to solve this?** It depends on three things. It depends on the prospects of the country. If the country has significant prospects to overcome the crisis for example in the case of Cyprus, that is a significant prospect and it is the gas reserves. For the case of Greece, there is no such a clear prospect, that is why you see day by day Greece is going down. So one thing is the prospects of the country, the other thing is the prospects of the Eurozone as a whole. If Eurozone from the policies made on the Eurozone level actually manages to deal in a better way with the crisis, you could see that the Eurozone countries could overcome the crisis in a better way and the third level is the worldwide economy. Worldwide economy is contracting at the moment apart from China and India, developing countries you do not see a growth prospect. So it's on three levels; 1-worldwide level, 2-European level and 3-local level. On each evel there is a key factor that is critical in order to overcome the crisis so each of the factors should act on its level. Let's say for instance, local leaders should act on local level, European leaders

should act on European level. For countries in memorandum the ability the extra mile that they have to go is that they don't actually govern their economic policy. When you implement a memorandum you grant a significant amount of independency an ability to implement an economic policy by your own. You are not implementing your own economic policy you implementing a given economic policy. So in this line you have you implement on the measures that you are given. On a social level, people should I mean had to take a collective action; this means that they had to form a platform against these measures. There is no other way of dealing with these measures apart from going and demonstrating against measures, otherwise you see when measures are implemented are always implemented by especial blackmail if you don't accept the measures that you are going to bankrupt. I think is not what just the government does but on how nations and people are reacting.

### **Is the Eurozone crises and the Cypriot bailout a political or an economic issue?**

I think it is 100% political and this is for three reasons. First, Cyprus was not bailed-in instead of bail-out just for the economic reasons. Cyprus was bailed-in in order for EU leaders to have an example of a new model, because the bail-in is first time implemented on a bail-out process. So this model should be tested and it was believed that Cyprus is a good case to examine this new model. They used Cyprus to see how this model is evolved. You see after this implementation, you see EU leaders putting down directives in order to establish with a legislative procedure a bail-in procedure. So they implement a measure they tried it and then they tried to establish it with a legislative measures so it is political issue. On the second level you see that Cyprus and in relation with Russians is also linked in a financial way not link but had a huge amount of transactions with Russian enterprises and Russian citizens, for Europe this could be a reason to find a way to eliminate Russia ability to affect economic policies in Cyprus. It is not about only public debts it is also about political decisions in relations to foreign policy of Cyprus and relations to what models should we implement in future in EU level in respect of banking sector. **So you say that they are trying this new model in Cyprus, if this works then they will use this model in other countries, but if not then Cyprus will be the most effected country.** Yes for sure. **So is this democratic?** Not at all, it is the quite the opposite of democratic. That is why you see people reacting in such a way after announcement of the bail-in decision. It is quite the opposite of the democratic process and this was not the first case you see the haircut was enforced on Greece and from this haircut, Cyprus was vastly affected, no support no reaction from the EU side. You see a serious of decisions made without measuring the impact on different nations, different countries.

### **Did the Eurozone crises provide further evidence of the democratic deficit of the EU?**

You observe a situation where democratic deficit exists. In the sense that for instance no referendum was held for suggestive a decision from Cypriot people. You implement a new measure; bail-in process, and the only body that is publicly elected in EU; European Parliament had not even said its opinion on whether or not to implement such a measure. These measures was decided from 17 Eurozone leaders, imagine implementing in Cyprus in every country a huge reform without parliament voting on that issue. In EU Eurozone leaders decided implementing a decision not just without a decision from the parliament but not even with giving the chance to the European parliament giving an opinion. So this is a second democratic deficit. The third, the most significant is that, you did not see a common reaction on the same problem for each country. For Cyprus, the banking sector was the main reason and because of Cyprus size, it was decided a process that it could be catastrophic because Cyprus is not a big member state. For Spain, they did not even think to implement such decision because Spain, it is systematically more important than Cyprus. It is the same problem; you have un-capitalized banks in Cyprus and in Spain, and because of the difference in each country size you see a different decision. **So do you mean that there is discrimination?** Yes it rises from the size and the significance of each member state in EU in Eurozone. So this is actually a third democratic deficit because, let's say Spain is more significant than Cyprus, can affect Germany and France in more directed way than Cyprus, and this is what actually have been said publicly, they said that we will implement bail-in in Cyprus because it is not systematically linked with other countries and Greece. So it is safe to implement a bail-in process without not even mind the consequences of people. It is a discrimination arising from the significance meaning the size of each country in EU.

### **Did the Eurozone crises demonstrated that the European Integration is politicized?**

Integration process was always politicized. For instance a technical standard that is on cars is not politicized. Technical standards on cars is all about Germany's economy it is not politicized but it is not a small issue, if you see now, France have pulled a barrier on Mercedes coming to France in order to put pressure. There are several issues that is not politicized but European integration it is the core issue, foundation on the pillar that which EU was created to put countries of Western Europe creating a common platform against Eastern countries at that time after WW2. At the moment after 1990, it is all about putting all countries of Europe under Union, so European Integration I believe was politicized and let's say it is linked with political decisions from the very first beginning of common currency of EU and a reason that you see this kind of reaction on shifting member state powers on economy towards EU level because you see directives coming eliminating the ability of member states on implementing economic measures and instead giving powers to EU institutions to draw economic policy. This kind of actions leads towards political union. It is more than ever clear that EU has set the target of a political union in the

coming years next two three years. This means that it is going to be a democratic shift from the member states towards EU level. It is not going to be all about country member states of EU it is going to be all about EU decisions and decisions made on EU level with implemented on each member state. This is why I am saying European integration was politicized and it is the core issue and a result of current situation to redesign the integration and the way that EU is working and put power instead of member state on EU level.

**To what extent has the government got advises or opinions from the economists?**

Austerity measures is a huge economic theory there are serious of economist meaning professionals and University Professors are actually saying that you sit on a table and you have representative from the government, you have representative from EU institutions and you have a representative from IMF and what they are saying is you should implement these measures and all you try to do is saying no we cannot implement these measures for these reasons. If they accept your reason it is good but if they don't accept your reason you should put forward some arguments in order to prevent the extent of the measure implemented. This is the way that the negotiation went and is in all countries. Troika is coming with a plan and all you do by the moment you sit on the table with Troika and with IMF you know all you can do is negotiate on the specific on the reforms. The outcome on the philosophy of the program I don't think there is no significant change of the philosophy in any memorandum implemented in any country. The principles are very specific it is about structure changes meaning liberalizing the economic sectors, it's all about reducing public spending meaning lets employers, less wages it is all about privatizing public companies and it is all about restructuring banking sector. These principles were the same in each memorandum it is not different in any country.



**INTERVIEW WITH DAVID JACOBSON**  
**(Emeritus Professor of Economics; Dublin City University)**

**INTERVIEW QUESTIONS:**

- **How did Ireland manage to overcome the crisis? What are the reasons?**

Not yet overcome. There is still a long way to go.

- **What kind of actions have been taken by the government where people have reacted against austerity measures?**

In Ireland there were not many protests against austerity measures, and when there were protests they were relatively mild.

- **What kind of austerity measures have been applied?**

There is a great deal of published material available to answer this question, in journals, newspapers and in the web. The answer includes reductions in government budget deficits, through both reductions in expenditure and increases in tax revenues, but mainly reduction in government expenditure. If you want to read informal discussion by Irish economists and economic geographers, in addition to the formal publications, have a look at:

[www.irisheconomy.ie/](http://www.irisheconomy.ie/)

<http://www.progressive-economy.ie/>

<http://irelandafternama.wordpress.com/>

- **Were there any other alternative policy choices with regards to the budget deficit or other pressing economic problems rather than austerity?**

This is of course a matter of opinion, but probably the correct answer is “no”. There were however alternative ways of implementing austerity. For example, it would have been possible to reduce the government budget deficit by increasing taxes to a greater extent, and reducing expenditure to a lesser extent. This is an ideological issue, relating to equality in distribution. Reducing expenditure generally impacts to a greater extent on the poor, whereas taxes are more progressive, so increasing taxes impact to a relatively greater extent on the rich. Despite the Labour Party being in

the coalition government, the route of greater reduction in expenditure was chosen and continues to be pursued. Why? This is impossible to answer definitively, but relates to the prevailing dominant ideology in the disciplines of economics and finance, and the pressures that the Irish government was under from the Troika, that is the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF).

**• Is there any linkage with ideology of decision makers and their outlook towards austerity measures?**

Yes, I think I already answered this above.

**• Do you think that the implementation of the austerity measures is democratic?**

This of course depends on how you define “democratic”. It was not democratic in the sense that different options were put to the people to vote on in referendums. It was democratic in the sense that the measures were introduced by a democratically elected government.

**• Did the Eurozone crises provide further evidence of the democratic deficit of the EU?**

Yes, I think so. Austerity was in a sense imposed on the bailout countries, including Ireland and Cyprus, by the actions mainly of the German government.

**• Could the EU policies in general or EU politics in particular be blamed for the economic situation in Ireland?**

To some extent, yes. The general easing of credit that came with the establishment of the Eurozone resulted in the over-extension of the Irish banks. However, the overly light-handed regulation of banking and finance in Ireland was a key issue, and the Irish can blame only themselves for this. One example of this is the over-generous extension of credit by banks to property developers, in the middle of a property price bubble.

**•Is the Eurozone crises and the Irish crisis a political or an economic issue?**

Both. In the way I see the world, you cannot separate political from economic issues.

**• Did the Eurozone crises demonstrate that the European Integration is politicized?**

European integration was always political, as well as economic.

**•Were the Eurozone crises managed well by the EU member states? Were they managed well by the EU as a polity?**

The bailout countries in a sense had no choice because their “solutions” were imposed upon them by the Troika and, in particular, Germany. I’m not sure what you mean by “the EU as a polity”, but there are complicated issues here. It is arguable that by forcing the Irish and Cypriot (and other) citizens to bear the main burdens of the collapse of their banks, the Troika (and in particular Germany) defended the interests of the citizens and tax payers of the non-bailout EU countries. In this sense it was well managed. If you further take into consideration that banking and finance in the Eurozone was deeply international, and much of the credit ease included the banks of Germany, France, etc., then it is clear that bailing out the banks of Cyprus and especially Ireland saved the other banks of Europe from the potential domino effect of a collapse, even in the periphery. This means that by forcing the Irish citizens, for example, to pay for the bailout of their banks, they prevented the German citizens, for example, from having to pay for the banking crisis. Is this “well managed”? Obviously if you are a German citizen you might say “yes” but if you’re a Cypriot or Irish citizen, you would probably say “no”.

If you adopt a Keynesian macro-economic perspective, then wherever you are, you’d say “no”, because you would say that there should have been a counter-cyclical policy response to the crisis, pouring money in to reduce unemployment rather than reducing expenditure through the pro-cyclical policy response of austerity.

The long-run impact on the development of the European Union remains to be seen. If unemployment declines quickly enough and economic growth resumes within a year or two, then the impact on the future trajectory of the EU will not be too negative. On the other hand if the bailout countries continue to suffer unemployment and stagnation, then the EU may well undergo some dis-integration.

## INTERVIEW WITH CAHRIS POLYCARPOU

**Comment:** You said that in your topic why have political leaders chosen austerity measures actually I think it is not a matter of a choice it is a matter of a force. Both Cyprus and Ireland did not actually choose austerity measure. The answer here is quite easy because it was a clear precondition in both cases to grant the financial support to both countries. Precondition was to set up a Memorandum of Understanding otherwise no financial support will be granted so it is not a matter of chose. They did not go to negotiations and tell we have some austerity measures let's discuss it.

**Who did force Cyprus and Ireland to choose austerity?** First of all the economic situation in EU affect both economies actually in Ireland's banking sector and also Cyprus banking sector was actually been in trouble. Also the situation inside the country deficits and debt so that was the key idea that forced both countries to go in. actually in the case of Ireland, there was no actually setup mechanism European mechanism was actually been created afterwards. Ireland was the first country to ask for a financial support and because of Ireland, Greece and European mechanism also done. **Did Cyprus also asked for a financial support?** Yes Cyprus asked on the 30<sup>th</sup> of June for a financial support due to inability to meet with the capital requirements of its banks. Because the banks were not well capitalized and also to meet these requirements setup from the EU level went to European mechanism to ask for a bail-out.

**What are the reasons behind choosing austerity measures in order to overcome the financial crisis?**

Actually as I told before the conditionality was asked from the Troika to implement these measures. But also the sense that they choose austerity measures and they don't choose structural measures was a result of IMF and EU economic policy orientation. Both EU and IMF wanted to implement a complete change of economy in Cyprus. I mean the foundations of the economy, they wanted to implement a new economic

model in Cyprus and they wanted also to implement new banking model in Cyprus. **Why did EU and IMF wanted to change the economy in Cyprus?** First of all this is let's say we accepted we are discussing it with Troika for a financial support. First of all the conditionality in each country that asked for a support was based on the same principle. I mean in the case of Ireland, in the case of Greece and in the case of Cyprus, Troika wanted to diminish the public spending, they wanted to enforce privatization, they wanted to implement a tax reform, public sector restructure I mean these principles were the same in all countries and you can see that afterwards the question if it's an ideological policy. I mean it's the way of dealing with Memorandum. If you want to have a memorandum, you should choose this path. There is no other path even if a country decides to say we are not going to implement austerity measures but we are going to implement a different model this is not the case for the Troika and in the case of also EU let's say Germany also wants to implement a new economic model in the South. **Is this democratic? I mean the way that they want to change the economies?** I think is not democratic. First of all, EU was supposed to be based on the principle of solidarity any member state that wanted to be/ to have a support this would be granted from EU. In the case of financial support, bail-out packages were came after the serious enforcements of the Northern countries especially Germany, Finland and Netherland towards South countries both in the case of Cyprus, case of Greece and Spain the financial support was given after the austerity measures were implemented. **Is there any inequality between the EU's policy or in EU's respond/reaction towards to northern countries and to periphery countries of the EU?** This is a balance of power. I think the balance of power is between the leader nations let's say Germany, France towards these smaller nations. But there is also a clear line between the North and the South and it is matter of, it's an economic prospect of North and South. North it is a region where exports are significant, there is a huge industry secondary sector in contrast with the Northern/southern countries actually have deficits not only because of their fault but because of the situation and the nature of the economy. They are not based on industry and on exports, they are based on services. When you implement a support for the case of Cyprus let's say all the financial sector the country which is the main of the country this is not based on the solidarity it is most probably based on let's say what is the target of Germany, what is the target of let's say Netherlands, Finland in the respect of their economic orientation.

**Why the austerity measures were only applied after the involvement of the Troika and not before?**

This is not the case. The austerity measures were implemented before the Troika here. Let say for instance in Cyprus there were two economic packages in order to diminish deficits. There was a package of 2009, there was a package in 2011 both packages where aimed to improve these deficits of the country. The reason of extend of measures especially extend of measures from banking sector was that measures taking before could not in any case solve the real problem of the economy. The

problem of the economy was mostly founded afterwards in the banking sector. The banking sector needed more than ten billion to capitalize, so any measures taking before will not be enough to capitalize of the banking sector. Just to say that the bail-out afterwards it become bail-in of the banking sector was the highest in percentage of GDP financial support given to banking sector worldwide so having this in mind it would not be impossible to take measures to cover this problem.

**Memorandum of understanding between IMF and Cyprus; what do you think about this memorandum of understanding, will these fiscal and banking sector reforms be successful?**

The case is not if it is going to be successful, the case is would be in the future a result that would actually give prospects to Ireland. What it is a successful measure? I mean let say if you discuss a successful measure for fiscal sector reduce the public deficit maybe you can say it is going to be successful maybe, already the public deficit is been reduced but what is the result of this reduction? It depends on what you perceive as successful result. Out of this reduction, is that you have an increase in unemployment and a huge growth in percentages. What do you perceive as a successful reduction; you would only describe the results after you implement the program and see what the result of the reform was. **Were there any other alternative ways regards with the budget deficits?** About the alternatives, as I said before, it is not the matter of alternative, in the matter of alternatives as I said before the measures were implemented before the matter is not about the alternative it is about what was the real problem. **If they did not implement austerity what would they do?** It is not about the fiscal it's about the banking if you do not solve the problem of the banking sector even if you take alternative measures it would not make any significant difference. I mean the real problem was the banking sector but the most worrying thing is that I believe that there are alternatives in the way that banking crisis was sort out. **Like what kind of alternatives?** I mean you saw that in the end what was chosen as alternative for the banking sector was the bail-in of the depositors. There were possibilities of exploring if you can use future gas reserves or if you can have a different deal in line with you can have a financial support that would not mean that you have to implement haircut but this decisions were not taking in mind when Cyprus asked for different let's say negotiation terms Troika would enforce the decision of a haircut **Here what I have understood is whatever Troika says that's what happens. Is that the situation?** It is not the matter of what the Troika says it is a matter of there is a specific economic policy orientation and that is clear not only on Cyprus in any country that we have a program to implement it, we are going to negotiate the program and you may let's say change the terms but the core of the program remains the same. Otherwise always there is the blackmail that we are not going to grant any financial support.

**What are the possible positive and negative effects of austerity measures in Cyprus?**

It is a matter of what do you think as a positive, some might argue that reducing public debt, and reducing public deficit is a positive thing. I mean what I believe matters more is what is the overall result and what actually seems to be the result of memorandum in Cyprus that you have low growth rates, you have high unemployment, you seem to have an evolving public debt meaning that maybe public debt will not be able to be serviced from the government but in any case in every country that there was a memorandum my question was a key result of the implementation of memorandum because it is so obvious that when you implement a policy that reduce public spending and reduces working positions in the government, this means that it affects people trying to find new jobs, affects people coming to a country to start a new enterprise so you see that people from Spain go to Germany to find job, you see people from Greece got to Australia to find jobs. Migration is a significant result in each country so it is one of the negative effect of implementing austerity and actually if you see it from let's say .....perspective, economic theory supports that if you have a two country with the same currency when the countries is on deficits in order to solve this problem you need to take people working in a country transfer them to a country that has surpluses in order to improve their production.

**To what extent do you think the austerity measures will succeed?**

In the sense that you need to present rates that are in line with other countries and you can work on this direction it can reduce public deficit on a level it may also give the ability to country to keep paying wages and pensions. But as I said before, it is the matter of overall economy, how will economy evolves in the future.

**What kind of politics may the government follow if the austerity measures will not work? Will this still depend on Troika?**

It is not matter of policy; it is matter of how EU leaders see crisis evolving in the coming years. It does not matter if you choose this kind of measure or any other measure it is matter of deciding why the countries in the south should implement austerity measures in order to keep the deficits down or is it going to be let's say a policy of intention where surplus countries would support deficit countries. This could be an alternative where let's say Germany, Netherland and Finland are actually in the moment because of the single currency manage to create surpluses could actually give a kind of financial support of not comes with austerity measures. This is not a alternative it is a policy decision, it is a decision on the level of leaders of the Eurozone.

**Is there any country or a model that the government took as an example?**

I mean MOU, if you see like the basic terms of what actually Troika wants the countries to implement is pretty much the same in each country and this is a very

strange thing if you consider that not each country has the same economic background. Ireland is an export country, Cyprus is a financial service country, Greece supposed to maritime and shipping and house tourism, Spain has property selling sector, Italy depends on agriculture and despite of these different economic structures you see a model implemented the same quite the same and this is strange in each country. **Does this create a problem?** As I said before, let's say on two levels; let's say on other ideological level, this orientation comes with an idea that you can solve economic policies by diminishing public sector welfare. If you let's say sell a private companies, if you diminish public workers, if you implement liberalisation in each country the economy you could actually have growth. This is the economic model at the moment that the Germany implements, taking as granted that Germany has the leading role in the European Troika side, implements the same model in each country which for them (Troika and Germany) this is not a problem but for us it is a problem, for Cyprus is a huge problem and for Europe as a whole. **What can be done in order to overcome this problem/situation?** That is why I said that it is a matter of political decisions. What can be done it is on two levels. In the first level, it is the policy makers. For as long as policy makers believe that in the respect of Germany and of EU elite as long as they believe that this is the way for good I think that they are not going to change the model that they implement in each country. I wanted to say before that this is a case for Germany, IMF actually if you see the way that dealing with these kind of countries does not believe that austerity is the reason that is why there is a huge debate in the Troika between IMF and Germany whether austerity measures only could solve the problems and whether we should follow a growth perspective model. IMF strongly believes that you should support the demand set of economy meaning that you should also privatize the public companies but on the other hand you should also grant financial support in the direction of growth project to country so it goes all the way to Germany and says to them put more money on growth projects for political reasons because Merkel is the leader of conservative party they cannot go the parliament and say conservative partners we should grant more money to Greece because they are going to their citizens and say ok let's give more money to the Greeks, they are going to say no you are not going to give money to the Greeks but this is the contradiction of co-principles of EU. EU was supposed to be one country helping the other that is the fundamental article in the EU treaty. **So the main problem starts in the EU itself?** one of the main problems. The other problem is economy as a whole not just in EU but in European economy goes through a crisis and as long as there is a crisis someone should pay for this crisis. Is not an asset comes for free so as long as this principle is true for the moment I don't if it is nationalistic to say this but for the moment Northern countries pay a higher debt than Southern countries this is one part. But the other part is that you see that big companies for instance **Douche** Banks the most profits banks of EU did not even suffer diminish of their profits what you see is that people going to unemployment. So also it is a balance between huge companies trying to grant their profits against people trying to keep their jobs. Also there is a significant line between these two factors. You see that there is a political



level where politics makes the decision where decision making is on the level of countries like Germany against like with Northern countries also there is an axis where you can see that vast majority of people that are actually employed not just in Northern countries but in all countries are against enterprises that are trying to perceive safe profits and I strongly also believe that this is a matter of common currency. If you see how common currency evolved through the crisis you can see that countries that should support the common currency for instance Germany has a lot of gains from currency, you don't see Germany given much in the common currency what you see is countries trying to reduce their debts in order for Germany to avoid giving extra financial support so you have a third level which is a common currency how this effects the situation in Europe. **So are you saying that common currency is another problem?** What I am saying is that how common currency is structured at the moment creates a richer North Europe against more less richer South. Does this means that inequality gap increases? So what can be done is there any ways that can prevent this? There is the way where it is the internal EU factor where EU should implement a policies that are growth oriented where money from EU budgets should be directed towards unemployment, towards restructure of Northern countries, less improve countries where a money should go to sectors of the economy that would create new jobs. This is something that a decision internally in EU. This is one thing, the other thing is that as long as you have conservative forces dealing and deciding the future of EU policy you should probably have the same results. It is a matter of ideology as long as EU is based on liberal policies and not base on more socially constructed policies, **so in this sense do you mean that liberal policies effects the crisis as well?** Offcourse, I mean what I said before and I would like to mention this is that decisions made on EU level especially on economic sector, for instance tax reforms implemented for Eurozone countries, banking reforms that eliminate the barriers through Eurozone. These kind of decisions made on Eurozone level that their root was from the conservative level of the parties and the leaders implementing these kinds of policies was one of the reasons that Eurozone faced this kind of inequality so of course policies implemented in EU level and the orientation of these policies affect crisis. This is what is become since 1992 that common currency was implemented. You see serious of economic not only economic **so this policies like Monetary Union or Single Market or common currency are all coming from Neo-liberal thinking isn't.** Yes. If you see the balance of power among parties in EU for instance, leaders in EU, most of the leaders are coming from conservative liberal background. If you see the balance of power in EU parliament you see that the majority of the party is liberal or conservative background, so you constantly have liberal ideology driving the policies and the legislation putting forward in EU. You see that you can put blame on structure issues on a certain level; you can blame structure inefficiency on a certain level. But apart from structure inefficiency, you see that some policies are not because of inefficiencies in a way that EU works and are implemented, are coming from the ideologies of conservative parties that lets say for instance you must eliminate public sector wealth.

### **How did these measures affect people?**

It effects in the most significant way in the sense that people lose their jobs. **What kind of decisions can be taken or has been taken in a case of people reactions to the current measures?** To be honest what governments I mean any government would say that we are making our efforts in order to diminish, to eliminate the effects of the crisis on people. This is what any government would say you would not find a government that says we don't care of our people. What actually is done in order to overcome this crisis is matter of two things, what goes is government want to achieve and if government wants to reduce unemployment or safeguard the banks work properly and this is the decision that government was made for instance. Government has said that in the case of bank of Cyprus we should abolish 4,500 people because we want to save the future prospects of the bank. This is a public statement that we want to safeguard the public bank of Cyprus should remain viable in the coming future; we would take any measures in order to overcome this situation. This is the goal of the government. This goal tough means 4,500 people will go unemployed. So someone would say that look we are trying to save our people, because we are saving banks we are saving the economic future of the country. Someone else would argue that you may save the banks but what you actually implement it is a common rise of unemployment. So the question is what government does for the situation. I do not want to sound pessimistic but, it's not the case again on what each government on local level too. The problem is in such level that if there is no action taken on European level. Local governments could only diminish the level of increasing of unemployment instead of increasing the unemployment by 10,000 people per year, we could increase the unemployment by only 5,000. The way that EU/Eurozone is structured at the moment I think this is the only thing that I mean look at Greece, Greece at the moment is just implementing a program. Is not creating growth prospects, Spain at the moment implementing a reform program you see day by day that unemployment in Spain is coming higher and higher. You have high records of unemployment in Spain, so although governments are trying to let's say I speak for the countries that are in memorandum, at the moment all they do is implementing memorandum. **Does this means that this situation does not depend on countries but depends on EU? Does EU need to solve this?** It depends on three things. It depends on the prospects of the country. If the country has significant prospects to overcome the crisis for example in the case of Cyprus, that is a significant prospect and it is the gas reserves. For the case of Greece, there is no such a clear prospect, that is why you see day by day Greece is going down. So one thing is the prospects of the country, the other thing is the prospects of the Eurozone as a whole. If Eurozone from the policies made on the Eurozone level actually manages to deal in a better way with the crisis, you could see that the Eurozone countries could overcome the crisis in a better way and the third level is the worldwide economy. Worldwide economy is contracting at the moment apart from China and India, developing countries you do not see a growth prospect. So it's on three levels; 1-worldwide level, 2-European level and 3-local level. On each evel there is a key factor that is

critical in order to overcome the crisis so each of the factors should act on its level. Let's say for instance, local leaders should act on local level, European leaders should act on European level. For countries in memorandum the ability the extra mile that they have to go is that they don't actually govern their economic policy. When you implement a memorandum you grant a significant amount of independency an ability to implement an economic policy by your own. You are not implementing your own economic policy you implementing a given economic policy. So in this line you have you implement on the measures that you are given. On a social level, people should I mean had to take a collective action; this means that they had to form a platform against these measures. There is no other way of dealing with these measures apart from going and demonstrating against measures, otherwise you see when measures are implemented are always implemented by especial blackmail if you don't accept the measures that you are going to bankrupt. I think is not what just the government does but on how nations and people are reacting.

### **Is the Eurozone crises and the Cypriot bailout a political or an economic issue?**

I think it is 100% political and this is for three reasons. First, Cyprus was not bailed-in instead of bail-out just for the economic reasons. Cyprus was bailed-in in order for EU leaders to have an example of a new model, because the bail-in is first time implemented on a bail-out process. So this model should be tested and it was believed that Cyprus is a good case to examine this new model. They used Cyprus to see how this model is evolved. You see after this implementation, you see EU leaders putting down directives in order to establish with a legislative procedure a bail-in procedure. So they implement a measure they tried it and then they tried to establish it with a legislative measures so it is political issue. On the second level you see that Cyprus and in relation with Russians is also linked in a financial way not link but had a huge amount of transactions with Russian enterprises and Russian citizens, for Europe this could be a reason to find a way to eliminate Russia ability to affect economic policies in Cyprus. It is not about only public debts it is also about political decisions in relations to foreign policy of Cyprus and relations to what models should we implement in future in EU level in respect of banking sector. **So you say that they are trying this new model in Cyprus, if this works then they will use this model in other countries, but if not then Cyprus will be the most effected country.** Yes for sure. **So is this democratic?** Not at all, it is the quite the opposite of democratic. That is why you see people reacting in such a way after announcement of the bail-in decision. It is quite the opposite of the democratic process and this was not the first case you see the haircut was enforced on Greece and from this haircut, Cyprus was vastly affected, no support no reaction from the EU side. You see a serious of decisions made without measuring the impact on different nations, different countries.

### **Did the Eurozone crises provide further evidence of the democratic deficit of the EU?**

You observe a situation where democratic deficit exists. In the sense that for instance no referendum was held for suggestive a decision from Cypriot people. You implement a new measure; bail-in process, and the only body that is publicly elected in EU; European Parliament had not even said its opinion on whether or not to implement such a measure. These measures was decided from 17 Eurozone leaders, imagine implementing in Cyprus in every country a huge reform without parliament voting on that issue. In EU Eurozone leaders decided implementing a decision not just without a decision from the parliament but not even with giving the chance to the European parliament giving an opinion. So this is a second democratic deficit. The third, the most significant is that, you did not see a common reaction on the same problem for each country. For Cyprus, the banking sector was the main reason and because of Cyprus size, it was decided a process that it could be catastrophic because Cyprus is not a big member state. For Spain, they did not even think to implement such decision because Spain, it is systematically more important than Cyprus. It is the same problem; you have un-capitalized banks in Cyprus and in Spain, and because of the difference in each country size you see a different decision. **So do you mean that there is discrimination?** Yes it rises from the size and the significance of each member state in EU in Eurozone. So this is actually a third democratic deficit because, let's say Spain is more significant than Cyprus, can affect Germany and France in more directed way than Cyprus, and this is what actually have been said publicly, they said that we will implement bail-in in Cyprus because it is not systematically linked with other countries and Greece. So it is safe to implement a bail-in process without not even mind the consequences of people. It is a discrimination arising from the significance meaning the size of each country in EU.

### **Did the Eurozone crises demonstrated that the European Integration is politicized?**

Integration process was always politicized. For instance a technical standard that is on cars is not politicized. Technical standards on cars is all about Germany's economy it is not politicized but it is not a small issue, if you see now, France have pulled a barrier on Mercedes coming to France in order to put pressure. There are several issues that is not politicized but European integration it is the core issue, foundation on the pillar that which EU was created to put countries of Western Europe creating a common platform against Eastern countries at that time after WW2. At the moment after 1990, it is all about putting all countries of Europe under Union, so European Integration I believe was politicized and let's say it is linked with political decisions from the very first beginning of common currency of EU and a reason that you see this kind of reaction on shifting member state powers on economy towards EU level because you see directives coming eliminating the ability of member states on implementing economic measures and instead giving powers to EU institutions to draw economic policy. This kind of actions leads towards political union. It is more than ever clear that EU has set the target of a political union in the

coming years next two three years. This means that it is going to be a democratic shift from the member states towards EU level. It is not going to be all about country member states of EU it is going to be all about EU decisions and decisions made on EU level with implemented on each member state. This is why I am saying European integration was politicized and it is the core issue and a result of current situation to redesign the integration and the way that EU is working and put power instead of member state on EU level.

**To what extent has the government got advises or opinions from the economists?**

Austerity measures is a huge economic theory there are serious of economist meaning professionals and University Professors are actually saying that you sit on a table and you have representative from the government, you have representative from EU institutions and you have a representative from IMF and what they are saying is you should implement these measures and all you try to do is saying no we cannot implement these measures for these reasons. If they accept your reason it is good but if they don't accept your reason you should put forward some arguments in order to prevent the extent of the measure implemented. This is the way that the negotiation went and is in all countries. Troika is coming with a plan and all you do by the moment you sit on the table with Troika and with IMF you know all you can do is negotiate on the specific on the reforms. The outcome on the philosophy of the program I don't think there is no significant change of the philosophy in any memorandum implemented in any country. The principles are very specific it is about structure changes meaning liberalizing the economic sectors, it's all about reducing public spending meaning lets employers, less wages it is all about privatizing public companies and it is all about restructuring banking sector. These principles were the same in each memorandum it is not different in any country.

**INTERVIEW WITH ASSOC. PROF. EROL KAYMAK: (Lecturer,  
Department of Political Science and International Relations; Eastern  
Mediterranean University**

**What are the reasons behind choosing austerity measures in order to overcome the financial crisis?**

Lack of credit in the capital markets that these governments had to seek credit from the working partners IMF which imposed criteria, so these are not the choices because the choices of these governments for years was to get cheap credit or the role of their debt cure the capital market in private sector is when the private sector money run out and in case harden the banking crisis lead it to the collapse restate sector but they had to turn to other governments.

**Was the implementation of the austerity measures a preference?**

It's a preference in case governments always have an option of defaulting but the question is what do they do in next day? In case of Ireland or in the South they have a problem that they are part of the European Union and the European Monetary Union and they don't really believe that the best interest is in leaving the Eurozone I think that is an important factor strategically. Unlike other countries like Argentina, (cevizone) currency decade ago there of course has to be conditions in the case of Argentina the IMF I think is not as accommodating as the default so defaulting and telling the depositors that their hoping's of dollars will be cutting in half seem to be evaluable political strategy. Today what's happening is that because they are afraid of contagion in banking sector they are telling the depositors to relax, they are telling the depositors that we will somehow salvage the money in the banks this is what the German strategy is based upon this but in order to make this long term, to make this valuable instead of bailing these countries out every fiscal year, they have told these governments they must implement austerity programs so that they have a count to count balance so they don't have a budget deficit so that whatever the entitlements they have to pay the social security will be valuable 10 years from now and won't be subject to the subsidize by German tax payers indefinite. so there's a condition if there is an economic growth which there isn't right now then they say there would not be a problem because then these governments will have more revenue if these governments have more revenue then they will be able to role/roll of the debt. The bigger problem in the Eurozone in general if not the western economic system they

not generating sufficiently economic growth, they not generating jobs, if they don't do these things than they can't enhance revenue which means that whatever commitments they have to ...spending becomes less and less.....

**Were there any other alternative policy choices with regards to the budget deficit or other pressing economic problems such as urgent bailout of banks?**

Again I don't know enough, but I can say is that there seems to be this biased towards bailing out banks but not in case of Cyprus, we have to look at these all differently Cyprus used to be allegiance not to Ireland but to Iceland so in the case of Cyprus, the view of the Europeans and the IMF was that the Cypriot banking sector was too large and there were too many deposits on **bail-in** so it just seemed to them that they had to tell the Greek Cypriots that they needed a bail-in rather than bail-out so it's a partial bail-out in public sector but respect to banking sector there are a large bail-in that's how it is conceptualized and then that the bail-in you know that the offshore banking sector was targeted in particular which led to a political problem Anastasiadis who just came in power who then tried to spread the pain so that he could shrike the banking sector without destroying it that was his plan that led to a deeper crisis. So I think that probably I don't know enough but when we can look at Ireland situation it was different in terms of what was foreseen by creditors which imposed different ideas similar but different.

**Is there any linkage with ideology of decision makers and their outlook towards austerity measures?**

Yes, ideology probably matters. Right wing politicians are much more open to austerity or ideological reasons they don't believe that chronic deficits are sustainable, and they also believe that these deficits hinder economic growth and make the country less attractive to investors so probably there are lots of reasons to believe that there are ideological differences however in practice, it doesn't make much of a difference. In practice, we see that the governments are all behaving fairly similarly in that no one has defaulted.

**What kind of facts did the government consider in deciding to choose the austerity measures?**

The basic fact was that they had no option. They were told that very limited money relevant.

**What are possible positive and negative effects of austerity measures in Cyprus (Ireland) in general?**

The positive effect of austerity is that we supposed to see the bottom of the market. The problem with austerity is that is always contrasted with a counterfactual; counterfactual is something that it didn't happen. There's this ongoing debate between the proponents of austerity and the proponents of leniency and growth. So you have in one hand austerity liberal perspective it says that subsidies don't work

that subsidies ultimately lead to ..... inflation and they cannot be contained, this is the accelerationist principle that influence the neo-conservative neo-liberal perspective on austerity versus the more Keyntine perspective if you slow down the economy enough you end up in a depression so you have for instance schizophrenia, on one hand you have authorities priggging austerity telling other governments that they have to get their budget deficits under control, inflation has to be contained but at the same time economic growth has to happen so there's this problem of austerity that if you give too much medicine you kill the economy. Meanwhile, austerity in one country and global economy can be quite problematic because for instance in the European Union the austerity programs may slow down trade for instance if the Spanish get poorer and the Irish get poorer and everyone gets poorer then less people can buy German cars, then this will affect the Germany and so on. So the austerity can have a med effect of retarding economic growth. In the case of USA and in UK and in other countries as in.... austerity they have been angaging with something called quantitative easing which is actually increasing the money supply and in over past couple of years whatever the economic growth happened in the world is because of this what the Turks calls the hot money which in recent weeks the Turkish markets went down precise the big growth in increasing the fear that there's going to be less cheap credit and less cheap money. So, the idea is that through austerity eventually you will shrink and lean is like going on a diet, and then if you go on a diet then work out then you will be strongly and from there you will take on competition. So I think the idea is that Greece will get strongly and Ireland too they will find the bottom they will start to grow. This is the theory is for all the countries. The austerity theory is that austerity is medicine that you take like chemotherapy but in the end you've been weakened but in the end once you cut out the virus from your body whatever it is that was sucking your blood you take it out then you have the basis for growth. So they think it is like pruning the tree then letting it to grow again. The problem is that in a globalized economy all these economies are connected to one and other and they are based on giving credit to one another and so you can't really isolate the effect on the global economy so much and in addition there is no growth..... and of course there was a lot of speculation about who's going to be providing the money so the USA has been pumping the money into the veins of financial system and other countries have been benefiting from that. If you think of it this way, it would be more difficult for the Europeans to impose austerity if there was a global recession. As long as there is an economic growth in the world then there is a possibility that through austerity they will find markets to export their products to. Of course one of the problems is with the theory, because it is based on the things like comparative advantage it assumes that a country like Greece has a comparative advantage with in the European Union or otherwise. And because the Greeks in particular don't produce anything, they are not very attractive therefore in investment and largely service economy. They do not have heavy industry, they do not have commodities, and they essentially sell services and what services they are selling offshore banking. So once you kill offshore banking, what are they left with? What is their growth strategy? The doctor comes to them and tells them you know



you have to stop doing what you doing because this is not healthy this is not a good economic strategy. **Who plays the doctor role here?** : Well Merkel did and Sholworf. They basically in a view that they were not going to bail-out the Russian depositors, they made this conscious decision but of course at the same time they took away from the Greek Cypriots whatever the advantage they had. So the Greek Cypriots only accepted this because they had no access and they wanted Russians, they asked for a bail-out and the Russians did not gave a bail-out. When no one bailed them out the only thing was to bail-in. The question then became who is going to pay for this. And as you know what happens is that citizens pay for it. But of course politicians are afraid that they are going to lose the next election so then they have to try to give the impression that the paying isn't so great. Anastasiadis's approach was very strange in that respect. Instead of sacrificing the offshore banking, he tried to go and take the deposits from grandmothers. He said everyone is going to get tax very much. Whatever the limits there were, saving guarantees were violated by that decision.

### **Do you think that the implementation of the austerity measures is democratic?**

If you ask a clichéd question then you get a clichéd answer. It depends on what you mean by democracy. If we mean that Anastasiadis isn't elected official and he has the authority to take these decisions that is democratic. If you also say something similar of the Euro group as being represented by government appointed officials or Foreign Ministers or Finance Ministers then that is democratic. But if you ask is capitalism and democracy working well together that is a more philosophical question and the answer will be that there is a problem in the world where people who make money are not taxed that is not democratic. The offshore banking are all of these a problem, problems of the global economy which is not globally democratic. You have on the one hand people looking for tax savings and then you have governments that are trying to attract this capital because it is good for their balance sheet and it helps them to finance the debt so is it democracy that there are some rich people who don't pay tax that is a question.

It is democratic because these are democratically accountable governments and in the case of Greece, democracy was proofed; they had two elections. People are not rejecting anything. People are unhappy with the choices before because the people expect, what the people wants is they want the Germans and other people to be softer, they want some sort of, they want to spread the pain, they don't know what they want probably they either want the pain to go away or they want their children to pay for some of it. In other ways they don't want to pay the price today. As I said the depression argument will be yes destroying the economy isn't saving so this

medicine is wrong but if you are talking about democracy, democracy is something that occurs within certain rules and within the electoral system. What we see is that in Greece, despite misgivings a small majority put it that way in a virtual referendum with the current government that the austerity package has to be applied not thrown away although they have always hoped to revise it they wanted to change it. **How about in Cyprus?** : In Cyprus it remains to be seen how much democratic credibility Anastasiadis has. Because he came into office and fronted with these crises so there is an opening question about the democratic problem.

**What are or what will be the possible outcomes of the austerity measures? And to what extent do you think the austerity measures will succeed?**

I am not too optimistic because it has to do with the global economic growth. The global economic growth austerity does not make any difference.

If by success we mean that countries remain in the Eurozone, maybe they will succeed people will accept that they are poor and will just continue.

**How did these measures affect people?**

It did affect people because a lot of the economy is effectively subsidized. So when you cut the money many of these businesses will go down. I mean it is not just the austerity it is the bail-in, bail-in itself in Greek Cypriot side is collective. Many businesses have lost their savings which means that they can't finance their debts they can't make their obligations so it is the worst possible scenario.

**What kind of decisions can be taken or has been taken in a case of people reactions to the current measures?**

People's reaction doesn't matter. People vote for the government. It is not a democratic problem in fact government legitimate.

**How do you see the future of the economic situation in Cyprus?**

They are going to have to find new areas of growth. They are going to have to find new strategies in order to grow the economy.

**Could the EU policies in general or EU politics in particular be blamed for the current economic situation in Cyprus?**

I don't know. You have to look at the polls.

**Is the Eurozone crisis and the Cypriot bailout a political or an economic issue?**

Obviously it is both.

**INTERVIEW WITH Alexander Michaelides**  
**(Professor of Finance; Imperial College Business School)**

**First of all my research question is I'm investigating why the politicians, political leaders in Cyprus and in Ireland have chosen austerity because I have been making some researches and as you know there are too much debates about the drawbacks of the austerity in literature.**

The problem is ideally you don't have an austerity the problem is whether you have options. So if you have no options in specially Ireland had some options because they started from a low government debt position so therefore when they needed to bailout the banks they could just issue more debt and by basically the banks the government brought the banks essentially in order to do that you need to have the money. So they borrowed basically quite a bit they went from 35% to 40% GDP went over 100% GDP so they were in a very short period of time because they had to buy the banks and then off course if you go above the 100% then at some point you need to start repaying the debt, so you need to cut down the expenditures. Now Cyprus, on the other hand which is similar a bit to Ireland, could not borrow to bail out the banking system it became a bail-in but then also you had to cut back on the fiscal money and the other problem that is not just the banks have problem but also the government was running on average of 6% that budget deficit to GDP every year for the last 5 years so that is around one billion euros every year. So you spend one billion euros every year more than you earn then you know that cannot go to infinity, you have to start reducing it. Now if you are going to reduce the expenditure or increase basically if you are going to reduce expenditure because income cannot go up in a recession and you can call that austerity you have no option you could do this in that time when the recession came and that makes the recession worse which is about the negative effect and you have to cut back more, but unfortunately if you cannot borrow internationally and if nobody give you money or if they give you money and then want to get the money back and therefore tell you basically cut back your expenditures I don't think you have any other options but austerity.

**So this was the only options in your opinion?**

Well there were other options which a lot more drastic but they will have other potentially negative implications. **what kind of alternative ways/options?** It will be like one extreme very stark way to deal with the problem is to basically exit the

Eurozone. But that involves more lot of other problems because you don't know how to pay the public sector workers and you basically have to figure out how to import a lot of raw materials from Saudi gas into the country you don't know how to do that because you don't have the currency and in the case of Cyprus, it might have been involve exiting the European Union because there is no President of the country exiting the Eurozone that is another problem.

### **What kind of measures has been applied in Cyprus?**

Well, the reduction in wages; public sector wages, private sector wages, reduction in benefits a big thing that is also a problem in your side the pension benefits is very generous so the benefits have been reduced for the new people at least stopping work now and health there is going to be some minimum amount of a price using the hospitals it used to be free but now you need to pay some fee.

### **To what extend do you think these measures will succeed?**

That is a difficult question, because there are recessionary and when you go to a recession that is going to make the fiscal problems worse and also the banking problems worse because people will not have money to pay that loans so that will be a problem for the banks. So it is very hard to answer whether you need more measures or this is sufficient.

### **Why did not Cyprus implement these measures before Troika?**

There are two reasons. One is that I think is the fear of the political cost. Whenever you are going to take a measure that is unpopular, politicians do not want to take it and they prefer to delay as much as they can until the next political/politician comes in, so that was one major thing the political cost and the second is that probably people under estimated the risks. They did not believe the people who said this is a problem. Why did they under estimated the risks so much why were they wrong in such a big amount I think it has to do with over confidence. If you are growing economy after 1974 basically this part has been growing from between 3 to 7% every year so since there was only one recession in 1991 when there was a Gulf War, so it is very rare not to have any recession so people grew up for many years without really knowing what unemployment is and unemployment was always at 3 to 4% so maybe that contributed to have an attitude that we are different from everybody else. There is a name of a book by Rogoff and Enhald "This time is different", there is a paragraph in there that says whenever you have a growing economy or a bubble or a credit things are going well you think we are different because we have the intimate economy or because we are Cyprus and we are growing but it is not different.

### **Do you think that implementation of austerity measures a preference?**

I think there was no other option. Troika would not give the money otherwise. You either do something a lot more drastic which involves exiting the Eurozone the government decided not to exit the Eurozone the creditors said you are only going to

get the money if you do these it is a logical thing to do because you cannot keep spending more than you earn. **Like it was kind of imposition like forcing?** It is an imposition but it is a good imposition if you go to the doctor it is an imposition but it is something you do to get well. But the argument is that you should have gone to the doctor earlier or you should have done that on your own before you go to that point of no return. **So this was a bit delayed?** Very much delayed. Since May 2011 government could not borrow any international markets. May 2011 already the problems were very big because nobody would lend the country so if nobody lends the country or they need a very big high interest rates to lend the country it means that the country is in trouble so the people should have realize that something needs to be done. So May 2011 this happened than July 2011 the big explosion that power station destroyed half of the electricity producing to present of the country so in 2011 you could not borrow, **so why did they delay this?** It is the political cost lower/over confidence of the politicians and they were afraid of political cost and at that time only the few months before the presidential elections so the ruling party got loan from the Russia 25 billion so they thought we are going to get this manage to go to the next elections and then we are not going to be the ones that are going to take measures and it worked in the sense of the current government is accused of being the .....for not making the right decisions but these things have accumulated over the past so in that sense the previous government avoided the political cost at some level, they lost the elections but they kept the solid power now they can come back. **Accepting the austerity measures was a cause for Christofias to lose the elections?** Well it will have been in an additional cause because they lost the election **is it because of accepting the austerity?** It is because of people realized that the economy came a lot of worse but then at least they have managed not to take a lot of measures and they left it for the other government to come in. The loss in the elections would have been a lot more also take in and sign the treaty with the Euro Group themselves taking more measures earlier so they lost elections but they could have lost a lot more by taking more measures.

### **What are the possible positive and negative effects of austerity measures in Cyprus?**

Positive effect is that basically some expenditure was not productive for example one of the things that the IMF and even a lot of Protocol partly disagree that a lot of tax invasion and there is a lot of benefits that are given without checking whether people need them. Some people are very rich you don't need to give them aneaster check because they are very rich so you need to check whether they have money so that is not a productive expenditure by the government so that should be stopped and that is one of the goals of the new government and also the IMF said that you need to find tax evasion and also target there you give the money whether is health money so austerity forces you to think a lot of these things so you can cut a lot of things that you don't need or caused to the people that do not need them. The negative things is that along with these fact the money goes to people that don't need them the negative

thing is that you might cut back on the expenditures in education or in health and those are productive expenditures building roads doing government salaries for teachers or for schools so these things are productive expenditures and those have been cut back as well so it hit back into the economy to GDP so it will have a negative multiple effect.

**Memorandum of understanding between IMF and Cyprus; what do you think about these reforms fiscal and banking sector reforms will it be successful at the end ?**

They have to succeed otherwise we will have a problem so they have to do something. Troika whenever they will visit Cyprus every three months, and every three months they will be checking whether these timeline these targets have been met. So if you don't meet them, then they will not give you the money because every time the money was not given all at once so now that they came they left yesterday they are going to write a report and the report will go to the Euro group meeting and IMF meeting in September and at the Euro Group meeting they are going to read the report and its going to say that well doing final to now and the targets are met and because the targets are met some money will be given out of 1.5 million euros given to Cyprus part of the loan so then they will come again in October and in October when they come, again they will check what is the next item in the agenda have you done it if you haven't done it then they will not give you the next amount of money so if they don't give you the next instalment so the country cannot pay people so that is a problem.

**Do you think that implementation of the austerity is it democratic?**

When you borrow money it is democratic. No one is imposing anything, Cyprus had the free will to walk away from the deal. **What was this free will?** The free will was not going to take the money that you give me and therefore I am not going to take the conditions that you want to impose on me and I am going to do whatever I want which will mean a Eurozone exit. So it's fine the state will go bankrupt and will have no money to pay anybody you can do that as well. So in that sense Cyprus did not choose to do that on its own free wills decided to sign the agreement therefore its perfectly democratic and it is also perfectly democratic for the point of view of Germany because the Germany or the European Union is giving some money and therefore they expect to get repaid and that's why they are putting these conditions. You cannot be giving somebody who spends one billion euros in a year that is one problem. There is a bigger banking problem maybe. Somebody is spending one billion more than they earn in a year you cannot just give those loans and let them do whatever they want without putting some conditions in what they should do to be able to repay the loan that they are going to get. They are lending Cyprus 2.5% per year which is much lower interest rates that they could have gotten that they were getting even before five years ago. Therefore I think there is no problem about it.

**What will be the possible outcome of the austerity measures?**

There is going to be lower wages for many people. So this will affect people? It will affect people. People will be poorer, there will be more unemployment and there could be a reaction that might actually happen very much. **So in that regard, what kind of political decisions would the government take, if people continue to react?** It is hard to know. It will depend how events are fold. It is early to answer this question.

**To what extend has the government got advises from the economists?**

They got some but it is not clear, they could get more. It is hard to answer this question. They did not have enough time to consult with many people but I am sure they have consulted with a few people they could probably have done it a bit more but given how difficult the situation was there was not much time to go and ask for opinions from different people .

**How do you see the future of the economic situation in Cyprus?**

The future in next figures will be quite difficult because of the higher unemployment and I expect a lot of people corrupt with a lot of human capital, a lot of people will move to different places such as Europe or Dubai because they can find other opportunities there so that will not be good for the economy but in the longer run this was a necessary adjustments so it was necessary to reduce the benefits in the system reduce a bit the wages in the public sector and then try to diversified economy. Next 2-3 years will be bad. It is related to austerity measures. You have the big austerity measures so government contraction but at the same time it is quite large because in 2016 you have to find 700 million euros which is around 4% of GDP and basically it reduces the expenditure so that is negative GDP effect but at the same time you also have a big credits supply contraction because the banks need to capitalized so they will not be given out loans so you have a big money supply contraction so many loans are given out that is also bad for the economy and also people have a lot of debt already so because they have a lot of debt houses and businesses even if you give them a loan they might not take it because they have a low wage so they have already a lot of debt so they will try to reduce their existing debt so they will not take a new debt therefore that will actually also be a recessionary. So you have number of negative factors. The only positive is that the government is a bit more they are going to open new casinos in this side as well they are going to start to open casinos so that will be positive for tourist reasons and they are going to natural gas so investments are taking place on this subject and there is submarine as well tourism related staff. So they are turning back to tourism as a way to increase the economic growth? Yes in the short term.

**Can the EU policies in general or the EU politics in particular can be blamed for the current economic situation in Cyprus?**

Yes, because one thing that you can say is that when they decided to reduce debt to forgive the Greek government debt in October 2011 that is part of the reason Cyprus

is in this situation now because the banks lost around 25% of GDP in capital and that is part of the where problem started and that was the European decision to reduce the debt and they could of giving some more help which they gave it to Greek banks. So for the Greek banks they gave some help but for us they didn't but also the government did not ask. So is it because the government did not ask? Yes they should have asked. **In this sense do you see any inequality between the reaction of EU to different member countries?** There is some inequality in Cyprus there were a lot of different things that could have happened. Cyprus was treated a bit hardly for example the bail-in, the Cypriot banks had branches in Greece, but those depositors were not being touched so no bail-in to those branches where you can argue that they should have also pay because they had a lot of loan there in Greece instead those parts were sold first and then the bail-in happened on the remaining part. You did a bail-in there it was 15 billion euros deposits there you could basically reduce the amount of bail-in here.

**Is the Eurozone Crisis and the Cypriot bail-in a political or only an economic issue?**

It is both. it is economic because there is problems with the banks and problems with the growth in Europe it is not good the structure growth policies supposed to promote growth and it is also political because a lot of the decisions like for example in Cyprus you have many different parties making decisions and so for example in the bail-in eventually of Cyprus you had Troika which is three different organizations the Commission, the IMF and ECB, you have this organizations having three different groups of people in Greece and there is a Troika in Cyprus so those are different people they have to communicate and agree on everything because they care about Greece and we care about Cyprus there is some question mark who makes the decisions there have the local government in Cyprus the local central bank in Cyprus you have the local central bank in Greece you have then all the other finance ministers and prime ministers in Europe, in Germany and in France so there is a lot of people that come together and make a decision and it is very difficult, there is an accountability deficit so who makes the decision? So the Euro Group never makes a decision they say that we agree with the government decision, it is the government's decision but it is not the government's decision it is open they come together then the question mark is who makes it? If something goes wrong it is accountable so there is an accountable deficit. So is not just the governments who decides on this, the Troika, ECB, IMF EU has an impact. How do you see the role of Troika? Cyprus should have made it developments earlier by delaying very much the deal the problem became a lot of worse so it has ended up with a bail-in with the worst solution. So in that sense it is not the Troika's fault. If they had signed the treaty in summer 2011 it would have been bad but it would not have been as bad as it is now.

**Was the Eurozone crisis managed well by the EU member states?**



No. there were many problems like introducing the uncertainty about the government that was one problem then introducing the uncertainty about deposits was another problem managing the crisis like that actually created more problems. They did not manage well and they are afraid of the political cost. I think it is all about the political cost.

**Did the Eurozone crisis demonstrate that the European integration is politicized?**

Yes I guess you can say that the fact that Cyprus delayed one of the unfortunate implications of delaying to sign an agreement with the Troika is that suddenly this Cyprus problem became an issue the German election and German tax payers were a bit fed up of bailing out countries and therefore by having an issue the German election became a lot of more difficult for Cyprus to get a bail-out that's why they got a bail-in so in that sense it is politicized.

**INTERVIEW WITH MARIOS MAVRIDES:  
(Economist working in DISY)**

**"Why have Political Leaders in Power in Cyprus and in Ireland chosen Austerity as a Solution to the 2010-2013 Eurozone Crisis?"**

There is no other solution. Nobody likes austerity but we did not have any other option. If you spend too much money and you are creating debts and deficits then you have to reduce your spending to normal levels. So if you are spending too much money and you don't have a control over your finances then when you run out of money you have to reduce spending this is called austerity. If you are not spending too much money and you are always disciplined and you balance your budget then you don't have to take any austerity measures because you are ok. This depends how you look at it.

**So there was no other alternative way there is only austerity?**

Yes. There was no alternative way, except from reducing our spending.

**Was this a Preference?**

No. they were forced to choose it.

**By who?**

The government tried to borrow money from everywhere they could not borrow money. So they had to go to the mechanism. The mechanism (EU mechanism) said if you want to borrow money from us you have to discipline yourself, they didn't tell us that we should take austerity measures. They told us you have to reduce your spending. Because how else are we going to pay them back. This is what they said.

**What are the possible positive and negative effects of austerity measures?**

The positive effect is that eventually it is going to balance your budget and it is going to have discipline public finances and hopefully it could reduce your debts and bring stability to the public finance. Negative thing is that for a period of time, for a few years people will suffer. People will lose their jobs, less investments and less spending. So the positive is that it will balance our budget and it will bring discipline.

Negative effect is that it is going to get a lot of unemployment, poverty and loss income.

**Why the austerity measures were only applied after the involvement of the Troika and not before? (Why did not Cyprus implement these measures before Troika?)**

The crisis started in 2008, but they could not see it. The government could not see it. Unemployment was started to go up in 2008 but the government could not see it. And then when they saw the problem then they refused to take measures because their ideology is like that. **Is there any linkage with ideology of decision makers and their outlook towards austerity measures?** Yes. The leftist ideology does not want the austerity measures they want to spend more money and also the philosophy of the leftist is to tax the rich and give it to the poor.

**Is the Eurozone crises and the Cypriot bailout a political or an economic issue?**

It is economic issue. It is not political. Everybody says it is political but it is an economic issue. Because we needed too much money and they could not give it to us. They said you have to go through this bail-in. I guess it was the combination of economic and political decision but firstly it was economic decision because if we did not need any if we needed less money they would have given it to us as a loan. But because they were believed that we had money laundering things like that and we have big problems with foreign deposits they decided to make a political decision and then destroy the system. Because they believed it was a corrupt system.

**Could the EU policies in general or EU politics in particular blamed for the current economic situation in Cyprus?**

No way. The EU policies are the ones that are going to get us out of the crisis. I believe in memorandum. **So you believe that Germany and Troika are doing the right thing?** Exactly. Well not fully, not a 100% but more than 50%. I believe in combination of austerity measures and more spending/printing money.

**How do you see the future of the economic situation in Cyprus?**

Great. The next few years are going to be very bad. People will suffer but the economic future, if you are talking five or ten years from now it will be a great future. But for the next 3-4 years people will suffer. **What kind of decisions can be taken or has been taken in a case of people reactions to the current measures?** Nothing. They cannot do anything about it. If people need more money we don't have it. The government does not have it.

**How do you see the situation of depositors?**

I think the financial system is going to be stabilized in the next few years. It will take a couple of years.

**Memorandum of understanding between IMF and Cyprus; what do you think about this memorandum of understanding, will these fiscal and banking sector reforms be successful?**

Yes I think it is great recipe for the Cyprus economy. I think it will be successful because it cannot fail. It has to succeed.

**INTERVIEW WITH NICOS TRIMIKLINIOTIS**

**How was the decision making mechanism in Christofias time?**

The decision to apply to the Troika, to apply for the bail-out, well at that time what was happening was that it was discovered that there was a big problem essentially with the banking sector this was in 2012. It was discovered that the banks whereas before they were claiming that they were financially well it was discovered that they just not capitalize and so the banks particularly Laiki bank had a very serious problem but also Bank of Cyprus. The problem with banks the historical structure problem was well known. What I can tell you we knew that there was a structure problem with an immense with the banking sector that was too large and we also knew the problems of the bank were facing because of the explosion to the Greek debt, because they have been borrowing from Greece. These were the major reasons. The government of Christofias was faced with a dilemma on whether to allow the Laiki which is one of the major bank two largest banks in Cyprus to go down or to apply to the ESF to bailed-out. Do not forget that we are dealing with a time not with a bailed-in program and bailed-out. There are differences. You can argue that this was the beginning of the process that will allow the banks to allow the Troika to separate terms. But we are talking about the different arrangement at that time they would offer in return for a Memorandum. They would offer a bail-out program so to allow for the public sector to continue and also primarily to support the banks. So the government of Christofyas was for negotiated terms which will have been tolerable had Cyprus manage to survive. It was a major compromise from what did previously thought for the way out of the crisis was seen as adopting sort of politics of boosting local demand the dealing with severe cuts. Although some of the cuts were made but they were made in terms of to rationalize the system rather than the go through the Greek type of problem. Its questionable whether they would save the one of the dilemmas, even in November and December 2012 the government was faced with a dilemma it was considering whether to allow Laiki to go down or continue the bail-out program. It was advised that at that time if it allowed Laiki to go down then there would be three billion euros that the government had to pay because these were guaranteed deposit and had to be paid to the depositors. So they thought that it could have been better to continue to proceed the program the Troika agreed with memorandum. There were people who disagree with this, but however the official

position did not disagree with the policy, it wanted the government to impose cuts before that. It wanted the austerity measures to be accelerated in much harder. **Who wanted this?** The opposition political parties, there was no opposition to austerity, it was either austerity Troika the austerity measures agreed between the Cyprus government and the Troika, or an austerity program which was even worse proposed by the opposition. Because there were opposition by the Union, but this wasn't articulated politically. There was some misgivings and some disagreements some criticism within the left but this was very much in a groups of people who manage to impose this. So, essentially they had to decide on what to do. There was also another problem that the Christofias government was faced with and this is to do with the fact that its time was up it was going for elections the previous government Christofias was not going to stand again there was another candidate that was more center left rather than a member of the communist party. This was primarily because of the fact that Christofias set up a condition that he would stand if there was a chance to resolve the Cyprus problem, otherwise he is going to be only stand for once. After Eroglu was elected there was no chance for the resolution of the Cyprus problem. Besides the last six months in 2012 there were no negotiations because Cyprus had the Presidency of EU. In any case, the Christofias government was faced with crisis, after the major accident of explosion of Mari in 2011 that effected electricity, the coalition parties had left and it have been if it survived with very great difficulties. This was a context which forced the government of Christofias to propose the austerity measures, which again it must be distinguished from the bail-in program that was eventually imposed.

**What would have happened if Christofias did not accept austerity?** It is not easy to say. Those who say it would have been worse I don't think that we can be certain about this but it depends on how Christofias decided to allow for instance Laiki to go down rather than agree on problem. When he sink he support the idea not to agree in any case he did not sign because the Troika chose to leave as much as later to agree with next administration because they knew that Anastasiadis will be elected. Christofias made an initial memorandum but that was not signed. In any case they had already began the imposition of the austerity measures because the Troika have told them that if you don't pass the legislation n 2012 you will not be able to proceed with the Memorandum. The austerity measures were actually imposed before the signing. There wasn't much of a choice, the choice it would have been to let the banks go down, I personally support that he would have should let the bank go down because in the end this is what happened the banks did go down. He should have taken this decision then. On the other hand, it would have meant that the cost would have been immense the economy and he would have taken the place. He is blamed anyway.

**Alternative ways:** The problem with the anti-austerity program when you are within the Euro, your choices is very much restricted. There were people at that time arguing for an alternative policy. There were two alternative policy articulated. One

it would have been to stay in the Eurozone but impose some sort of bail-in program taxation so that it allows the banks to continue and impose some temporary measures. This is a position advocated by the Pantalidis they wanted to stay in the Euro but not implement austerity because it is very difficult there is so much political pressure.

**Is this Eurozone crisis and also the situation in Cyprus the bail-in process is economic or political issue?**

It is both. Economics and politics are not separated. My main argument is that stay in the Eurozone and still is the position now of many political parties on the left. Stay in the Eurozone but impose strict control of the finance sector, keep the banks nationalized impose taxation and organize this in the system and keep this program running through for some time. There are a range of policies that have been thought about. Another policy that has been thought of is an income and prices policy freezing prices and incomes so that you don't allow for the collapse of the paying conditions. It is very difficult because it is a market economy. But there are ideas of how could this happen. So the argument is that stays within the EU, keep the euro and try and work within the system. The other alternative is to leave the Eurozone. AKEL supports that Cyprus has to leave the Eurozone and stay within the EU, which this is very difficult.

The argument is that Cyprus is going to chuck out from the Eurozone anyway because if the economy is not going to do well. We are dealing with 45% of unemployment amongst the youth; 17-18% of unemployment on the rise, the system is not working. Austerity measures are working in producing mass of unemployment, mass poverty and soon there will be homeless people losing their homes. It is liquidating middle classes; if you walk down Nicosia you can see that one in two shops are shut. Austerity is working but in destroying the working class and liquidating the middle classes which are just into the savings now. The system is not working in the sense of normalizing and returning to normal cycle where you return to growth soon. The system is normalizing in a different way. It is normalizing by raising everything all the historical victories that working people have made over years. We are talking about a transformation of the social system as we knew it is only the beginning people are diluted that they will turn to their previous situation I don't think this is the case. I think nothing will be the same after the end of this crisis.

Therefore, austerity which is very much imposed but also there are those who are benefiting from austerity. Like this current government, it was the President who proposed the bail-in program. In fact, he proposed something that was an illegal in the beginning and it was rejected by the Parliament, there was a massive position. The Troika, the Euro Group told Anastasiadis look we need to decide what you are going to do, you will find a solution for us, and we are not willing to bail you out. He came out of this idea of go in for a bail-in 10% for all including those who are 71/2%

even for the guaranteed for the depositors. This has violated the EU law but this was proposed of Anastasiadis. Anastasiadis proposed something that violated the EU law, because it would have been imposed across the board to all the banks for everyone including those who had less than 100 thousand euros, which is against the EU law as we know it, and then they compromise with this idea that there will be 100% apart from the guaranteed 100 000 of the Laiki will go and then the Bank of Cyprus lost around 40-50%. We are dealing here with a decision to accept the logic of the bail-in by the government in return for them to be given the money. Whether they did have how much of a choice, there was some choice but it was not constantly, they did not wake up in one morning and say ok let's go for the bail-in, it was after the pressure but they decided it. There is agency on the part.

EU law did not allow for this to happen that does why it had to be done with the government agree, bail-in happened with the government's agreement. **Why did the government agree on this?** The Particular government the President represents the big Russians who were his customers. The first proposal is wanted to share the cost amongst all the people so that the rich Russians are not effected and that was his policy. I am not saying this was just because of his personal interest I am saying is that we are talking about an economy structurally with a massive over blown banking sector with major problem, because of this dependence on hot money that comes in many countries Russia, UK other countries all that. Part of the explanation of what happened is to do with the competition between what Germany wanted for Europe vis-à-vis Russia. There is geo-political aspect. **Do you mean that Germany is controlling the countries?** Germany which is the driver of the Eurozone, it is the big force of the Eurozone, wanted to kind of lay the terms. He was also sending a messages to the other financial centers such as Luxemburg, London etc... **Do you think that this is democratic?** Is the world we live in democratic? It is capitalism, democracy is an attempt to sort of keep things in control but then to legitimize of course it is not democratic. It is geo-politics and geo-politics are not democratic. That is how the system is organized.

**So do you think that the implementation of Austerity is not democratic as well?**

Austerity measures are deeply undemocratic. If you look at austerity as a macro picture it is an attempt of the big forces big neoliberal elites and the ruling classes to maintain the hegemonic politically and economically, by getting the welfare states. If you look at what has happened in the many countries, in Cyprus it is the case of banking sector bailing out the banking sector by destroying welfare state, by destroying any public sector control, now they are going for privatizations to sort of restore if they can the banking sector. They are not going to succeed. Banking sector I think is finished in Cyprus.

In other countries you find similar sort of questions and their policies are same, it is an effort to get rid of welfare states the deal of the post 2<sup>nd</sup> WW which was based on this deal that there will be a welfare state, there would be an economic growth of the

state in making sure the public sector control all of that they wanted to away with by imposing this program. The austerity measures which were first tried out first in Latin American countries and then impose in the UK with Thatcher, USA with Reagan and Eastern Europe after EC wars.

### **How did Austerity worked in Ireland?**

Ireland is considered to be a successful country because it is out of the austerity measures. I don't think they have managed this. They came in, they imposed this program and if you look at to the social statistics of Ireland, the result of the Austerity measures are there in the sense that what it the level of poverty in Ireland today?, what was it before the situation?. What is the level of unemployment today? What is the social situation in Ireland with indicators to do with proper standards of living of the working classes and the middle classes in Ireland today and how does it compare to the previous. There is an increase in the poverty, more inequality, more unemployment and it is a country which is very uncertain.

### **What can government do in a case of people's reaction?**

They can impose serious of measures guaranteed income for instance, they could impose social programs that would not go away with the welfare state, they can impose much greater taxation for big companies which of course they won't because these people are presenting big business.

### **Do you think austerity measures have a link with ideology?**

Absolutely. Austerity measure is ideological. Couple of days ago the Minister of Cyprus said that the reason we are privatizing is purely philosophical a matter of principle, so essentially it is ideological. He said look this is not because of Troika, we would have done it anyway and we should have done it from the beginning. If we have imposed the austerity measures before, the crisis would have been deeper, because it would have meant that there would be more poverty, more unemployment from then.

I am not necessarily arguing that everyone likes the fact there is unemployment but many say unemployment is a great opportunity it sort of means that there is no kind of reserve labour theory where you know that these people will be cheaper and it is good because it would reduce the wages. In reality, is by design the unemployment is higher and poverty is higher. Because of the social cost is involved, there are properly would say no we don't want this to happen. It is a question of priority, for them they do not care they are not interested on the level of unemployment it is not in their economic formula. They are interested in keeping books in order; it is the finance sector that they are interested. They (politicians. Economists in Cyprus who



supports austerity) want to control the money supply, the circulation of money. It is all about the monetary economy as opposed to the real economy, they say that the real economy once we put this corset on the financial sector that is all they see, they only care about figures they are like accountants they are interested in balance of the book. It is a good thing because they know how to run the business, but how about the issue that how many people are unemployed, how many people die, how many children that cannot afford it is irrelevant. They say that because it is a short-term thing, they have a faith in the free market, eventually they say things will equalize. The disagreement is that the extent to which there is a general response in changes and wages. They believe in equilibrium whether really works, you can have long term disequilibrium. Basically because the social equation is missing from the economic situation they think that the social will follow the economic.

Ireland is a good example, it has worked for them. The figures shows that Ireland is doing economically ok, but it does not matter how many people are poor, it is eventually they will have to work more harder and everybody will be happy. That is the logic.

**Could the EU policies in general or EU politics in particular be blamed for the economic situation in Cyprus?**

Absolutely yes. The euro crisis and the crisis in Cyprus is essentially is the structure problem of the EU. It is not just the people who have no choices, they have governments who ideologically and politically have interest in this.

**Did the Eurozone crises demonstrate that the European Integration is politicized?**

Absolutely yes. There is no doubt about that I mean I think this is what the one of the conclusions of the crisis. The crisis was the cause as the result of the policies and the ways, the design of the exit from the crisis is a political solution. It is highly political. It brings politics right on the heart of the economics.

**Did the Eurozone crises managed well by the EU member states? Was it managed well by the EU as a polity?**

We know who is the strong man of the Europe; Germany. But not only Germany, EU Commission is very neo-liberal and the Central Bank is very neo-liberal there is a linear core of the EU which has been manifested in the whole politics and the polity of the EU, you can see recently the new recent decision to impose balance budgets, they change the treaty and have a check on budget of balance and number of measures that have pushing this direction, so it is very much the heart of the EU.

**Memorandum of understanding between IMF and Cyprus; what do you think about this memorandum of understanding, will these fiscal and banking sector reforms be successful?**

It depends on how you define success. If success is to destroy the any opposition, to impose neo-liberal policies if that is the aim it is going to be a long struggle we will see what will happen there is no outcome this is going to be the result of struggle. It is not certain that they will achieve. I think the targets will not be met. Even by its own terms the meeting of the target will not be met. I don't think the idea is to be targets I think the aim is something else. The aim is to change the balance of forces within each of the member states and to make Cyprus as an example.

**Do you think that there is an inequality between the Northern and Southern member states?**

There is an unequal of Europe in the out term and the periphery of Europe this is very much shown. This to a large extent corresponds to the North-South divide but not exactly because you find that Latvia, Lithuania those are the.... **Especially in the bargaining process do you think that they have made inequality or discrimination between the core and periphery?** Yes, there is and I have been arguing this for some time. This has been made much clearer since the beginning of the crisis.

**What can be done in order to prevent this inequality between Core and Periphery?**

There should be a resistance by the people of the South and seek solidarity for people in the North. I think the response should be structured on the transformation of the EU through struggles of working people throughout the EU and to break the program of austerity.

**INTERVIEW WITH GEORGE TEOCHARIDES:  
(Associate Professor of Finance, Director of MSc in Finance and  
Banking; Cyprus International Institute of Management)**

**Was the implementation of the austerity measures a preference of the government? + What are the reasons behind choosing austerity measures in order to overcome the financial crisis?**

First of all, measures are imposed on us. It is not a choice of Cyprus government. Once you asked for an assistance from Troika, then Troika comes they give you memorandum you have to sign memorandum and in the memorandum they use practice like they used in Ireland, they used in Portugal, they used in Greece it's through austerity. **So they are using the same measurements in all countries.** Yes, basically the approach that Troika using which is an approach that taking by the IMF that you have to restructure your economy through austerity in the first few years so right now the only way to reduce the budget deficits, decrease the public debt is you have to cut down your expenses. So they believe that in Cyprus the government expenses were too high and they had to cut down the government expenses and you do that through austerity. You cannot decrease the budget deficit to reduce the public debts to increase the revenue right now because even if you impose extra taxes it's not going to help at the times of crisis you do not want to impose new taxes to increase revenues because the outcome will be the opposite. So the thing that the way the approach we should be using is first austerity, which means reducing the budget deficit, reducing the government expenses, changing also because in the memorandum it's not just the fiscal discipline that we need to achieve but also correct all the long standing structural problems of the economy for example the pension reforms, privatization of the state own enterprises like the telecommunication authority or the port authority, labour reforms, health reforms these are all part of the memorandum. So the memorandum right now in Cyprus is consist of three parts, you have the fiscal reforms, you have the correction of all the structural problems of the economy and the third part is the financial services mainly the banking industry and the restructure of the banking industry. **Do you think these reforms will succeed?** Yes, I think a lot of the reforms are coming to this memorandum are on the right path because you cannot always spend more than you

earn. Countries that have continuously budget deficit year after year it is not sustainable. So I think a lot of these measures are on the right path my main criticism of the approach that Troika is using not just for Cyprus but for other countries is that it asks for too many things in too short of time. **So is it a kind of imposition made by Troika?** Yes, it is an imposition. There some type of negotiation with the government before signing the memorandum but the upper hand is definitely the one that gives you the money. They are the ones who are lending you the money they want you to turn around the situation in the country so you can pay them back.

**Were there any other alternative policy choices with regards to the budget deficit or other pressing economic problems such as urgent bailout of banks?**

Well, the alternative way that I'm thinking, austerity needs to happen but at the same time though it should be done gradually because it is standing in a very short period of time. So they are demanding too much in a short period of time. So I think it should be done gradually and at the same time you have to promote growth as well. At the same time that you are having austerity you have to promote growth. It's difficult though because you can promote growth once you have money to finance the growth. If you don't have money how can you finance the growth. They could borrow instead of giving us certain amount of money to give us little bit more in order to use extra amount of money for growth so at the same time impose the austerity measures but at the same time give you an extra portion of money so you can apply that for growth. This is not the approach that they are taking they are very serious you know the countries that have government exposures they need to choose their expenses.

**Why the austerity measures were only applied after the involvement of the Troika and not before? (Why did not Cyprus implement these measures before Troika?)**

It should have, unfortunately it's a chose basically the previous government was very much against of this type austerity reforms. So it's a chose the previous government was trying to avoid signing the memorandum not to impose these austerity measures. Because these austerity measures basically are harsh, it's harsh for everybody whether you are rich or poor. It's a communist party they are for the people then it is against of their beliefs their ideals to put these austerity measures on the people. So that's why they didn't have.

**Aljazeera interview with the former minister Sarris said that Germany bullied us:** Well Germany, on the one side I think the situation about Cyprus is that as a country whether it's a banking sector government we made number of mistakes, but

at the same time the way that they have imposed us, the decisions were taking by Euro Group last March, were also too harsh for us. It's a first time that they are doing a bail-in of depositors. Usually in the case of Ireland, in case of Portugal and Greece it was a bail-out basically so they give you money they lend you money because the financial markets are not lending any money so they were lending money they impose austerity measures on you, have a program on you for years and years, you have to pay them back in 20 years let's say. But in the case of Cyprus, it's a first time they actually used depositors money to recapitalize the banks. It hasn't been done in the past. So I think it was too harsh shutting down the main banks, Bank of Cyprus doing a massive hair-cut, I think the reason were first they wanted to punish us because I think they were waiting too long for us to do something about it and we are not doing it and also they wanted to punish Russian money or Russian oligarchs they believed that Cyprus is tax head... Russian money comes, I mean it's not true, I mean Russian money do come because we provide good financial services, we have a good tax system and we have close relationship with Russians that's why. But the Germans wanted to punish I think the Russians and they wanted to apply this new approach of solving sovereign debt crisis/this bail-in approach because they haven't used this in the past and they thought that Cyprus will be an ideal candidate to use it because it is a tiny country you cannot create any systematic risk to the Eurozone, they cannot use for Italy or for Spain but they can use it for Cyprus. **Can they use this in the future as a model if it works?** Yes, if this approach works and it also puts pressure to other countries right? If you have the same problems like Cyprus then we will do to you as well. **How will this bail-in situation affect the depositors?** I mean, depositors lost their money, ok their money became shared you know it's like you take 1euro from the depositors you can convert into a shared capital but the shared capital it's value can go up and down so they can easily loose value or they can gain more at the same time.

**Is there any linkage with ideology of decision makers and their outlook towards austerity measures?**

There is, because people that are nearer to the left parties are against of austerity communist parties are against of austerity but those on the right side/right wing they are not in favour of austerity but they understand the need of austerity they realize the need for austerity.

**What are the possible positive and negative effects of austerity measures in Cyprus?**

Well, the positive effect is that it will help us to reduce the budget deficits, decrease the public debt, so it will help us to create fiscal discipline. The negative side, the austerity in the short run will increase the unemployment, and this is one of the effects of the austerity it can create social unrest; it could create a higher unemployment rate and so on.

**What will government do if people become/gets poorer and poorer and if social unrest occurs?**

Well, I mean the government it's a communication game basically. The government needs to explain to people that this is the only solution that we have otherwise we can go bankrupt which is much much worse of what we have right now. So I think the most important thing is to be able to communicate well with the people. **Are they doing this right now?** Yes, they are doing it but because it was a huge shock for the people especially because of the banks, it's not just the austerity, austerity is one thing they lost their jobs, wages are reduced and at the same time their depositing in the banks are gone so in both sides basically so it is hard for the people to accept it right now.

**To what extent do you think the austerity measures will succeed?**

Well, I think if we follow the rules and to the memorandum I think we can succeed. I mean it has succeeded in Ireland, despite all the problems they went through after three years they were able to get out of the memorandum, so they are now back in the financial markets and they can borrow from financial markets and so on. So, I think you can succeed but it takes a lot of effort.

**What kind of politics may the government follow if the austerity measures will not work?**

If austerity does not work, it has to be a renegotiation basically with the Troika to see what else could be done. For example with Greece is not such a good example though but in Greece it wasn't working too well in memorandum, increase of unemployment, public debt was going up so they decided to do PSI, they decided to do the hair cut on Greek government debt in November 2011. So they decided to reduce an amount of Greek government debt or the ECP decided to buy the Greek government debt from the secondary market lowering their **guilt** increasing their price. There are other ways that they can help. **Like what?** Like ECP, some other ways like PSR reducing the government debt through public sector involvement or official sector involvement or basically buying the bonds of Cyprus debt from the secondary market which will lower the **guilt** on those bonds. If the austerity does not work then they can look to some other choices. **How is it going now?** Well the first report, because the Troika came for the first time to check basically how the program is working and it is going ok. I mean the slowly the banking sector is getting better.

**Do you think that the implementation of the austerity measures is democratic?**

Yes, I think it is democratic because you asked for assistance from somebody to give you a loan so the other party wants to make sure that you can repay your loan so they impose you these austerity measures. So I think it is democratic, the idea is that if you don't want to go through these austerity measures then you should have be more careful before. There is no choice.

### **How do you see the future of the economic situation in Cyprus or in Ireland?**

It might take some time for the situation to improve but I think for the first time in history of Cyprus we are actually follow the right path, we are doing the things that we should have done on our own but we haven't done it so it is the first time we are doing that so I am optimistic about it for the long run but not for the short run. **What will/or what can happen in short run?** Well, higher unemployment and we see that, **how will this affect people?** Well, people are not happy, but I think a lot of people understand that this is the only choice that we have. **What can happen if demonstration of people takes place will government do anything about this situation?** If that is the case the government has to deal with it but I'm hoping that we won't get that scenario.

### **Could the EU policies in general or EU politics in particular be blamed for the current economic situation in Cyprus?**

Yes, there is fault also. I mean the major blame is on us but there is some fault to the way that they handle us, the decisions taking last March, and the way that Europeans handled this crisis. Basically Germany is the one who makes the decisions. **I would like to ask a question, Let's say if Troika used different policy rather than austerity then Cyprus was going to use that policy isn't?** Yes, it is true it depends on what Troika decides. **So the government does not decide what policy to choose but Troika and Germany decides.** Yes, let's say Troika but the truth is that Germany has a lot of say about it.

### **Is the Eurozone crises and the Cypriot bailout a political or an economic issue?**

I think is both of economic and political issue. I think it is economic because they feel that this is an only viable solution for Cyprus to reduce the public debt in the future I mean if they lend us more money than our public debt will be unsustainable, so they think that this is a maximum they can lend us the rest of the money has to go to the depositors of the banks. But, I think it is also political because this is a new approach they wanted to use so Cyprus was a good example and at the same time it was a way to punish and hurt the Russian depositors that were putting money to Cyprus.

### **Was the Eurozone crises managed well by the EU member states? Was it managed well by the EU as a polity?**

No, I don't think it is managed very well. And I think the way that EU was setup had a lot of problems and now we are seeing the problems. So I think the crisis in Europe it wasn't managed well. **Why, what are the reasons?** Well, they were not prepared for this crisis. I mean they had the monetary union and then they realized that there is a problem with the banks and now they are trying to create a banking union and there is no fiscal union so these are main issues basically. **So there is a problem with the**

**EU's policies?** Yes. I think they are improving but there were not prepared for this crisis.

**One question came to my mind. Previously you said that they wanted to punish the Russian depositors, so in that sense is this means that they used Cyprus in order to punish Russia so is this democratic?**

Obviously it is not right and you cannot prove it in any case but I think one of the incentives that they had when deciding on this bail-in of the depositors was for the Russian money that located in our banks in Cyprus.

**Is the European Union a successful political union?**

EU is good, I think is useful, however it will take time to stabilize because it's not like the US where it has certain States and they are all Americans but here you have nationalities with different natures, so it is much more difficult.



### **INTERVIEW WITH UMUT BOZKURT:**

**(Lecturer, Department of Political Science and International Relations; Eastern Mediterranean University)**

#### **What are the reasons behind choosing austerity measures in order to overcome the financial crisis?**

Probably there is no much sense in distinguishing it where is for general purposes or for Cyprus because I think the same thing is going on every. Basically I think at the root of this is an ideological decision; there is a crisis this whole thing started with the banking crisis and then it turned into a public deficit crisis. Meaning the banks they had to be bailed out lots of money had to be poured in to save these banks so that they prevent to going bankrupt and so the government had to kind of interfere and there is this eventually turned into a public deficit crisis and why do you try to overcome these crisis through cutting on the pensions, reducing the wages etc. taxation policies is at the end of the day is a very ideological decision. Because you can also overcome this problem through other ways, like if you look at what has happened after the Second World War in Keynesianism; we are talking about an entirely different set of policies, but right now we are talking about different set of policies. So why is, I think is because of the pre-dominance of this hegemony of neoliberal ideas and that is also manifesting itself and in Cyprus these policies are imposed by the Troika, IMF, and European Central Bank.

#### **Was the implementation of the austerity measures a preference?**

A preference? You mean a preference of what? Definitely it was a preference. I don't think any policy when you say it is a must you say something like as Margaret Thatcher said what she was saying in the 1980's she was saying that there is no other alternative and she was trying to legitimise certain policies that she was pushing forward but I don't think any policies are a must there are always other ways of overcoming the crisis. I will give you an example. You have a public deficit crisis what do you do you may also try to tax the rich try to kind of get more taxes from them but yet do don't do this because it is not a must it is a preference you just decide not to do that it is an ideological preference. In Cyprus, I think that the way of Germany predominated in this case because are you asking about the deposits? the package in Cyprus and in Ireland? Well, I'll just talk strictly about Cyprus, in the case of Cyprus; I think it was the bill of the Germany that has pre-dominated. Why was it the will agreement because if you look at all those policy packages I am not only talking about the austerity which were currently implemented during the

Christofias time, that after Anastasiadis came to power in March 2013, those decisions, the most important decisions like shutting the Laiki Bank, and then they have imposed over 34% kind of tax on deposits of hundred and thousand euros. So this was something that the Greek Cypriots did not really want. Why they have tried to do this? Because they have believed that the Russians were money laundering or something, that's why they did this to punish these money launders and then in the meantime lots of people went bankrupt. So it was something that it was imposed by Germany through Troika.

### **What kind of measures has been applied or still is applying?**

There are set of austerity measures that have to do with like reducing the salaries, pensions and then I think it has two legs. One is the typical austerity measures that we see in many different parts of the world and the second thing which was very unique which is bail-in. what they mean by bail-in is basically they are going to use quite significant amount of that money that was deposited in the banks and people lost that money. So I will give you the exact figures it has to be it is very complicated but at least 37% of the money deposited or hundred thousand euros has been chopped off. There might also be a returning back to the owners in kind of shares of the bank and staff like that. But I think it has two legs basically. The austerity measures and what they did with the banking sector.

### **Were there any other alternative policy choices with regards to the budget deficit or other pressing economic problems such as urgent bailout of banks?**

Well, yes off course there were. Some people were talking about nationalizing the banks before this all thing went....there is one particular criticism that is raced to Christofias government like he has seen that the laiki bank was going down and yet he kept he tried to keep it like floating and the main problem there is how they were exposed Cypriot banks were exposed to speculative Greek bonds and it was that the basically full recommendations coming from the central bank in the south Cyprus, so that was one way of it, basically they have to take precautions before things got out of hand this much and because there are lots of speculative activities going on as well and I think the main thing that has to be done with the banking sector is that banking has to be controlled so it becomes a funding for productive activities in rather than speculative activities so it is now what they are doing they are trying to gain money rather than banking can be a way of supporting productive activities. You want to make an investment for example you want to start a factory you need credit so for those kind of activities it kind of built the industry as well but this one is too many speculative activities so basically it needed much better supervision in an earlier stage Christofias government was compelling competed to do that. They came in a moment that they could not resist austerity because there was not much they could

do. There was other alternative ways but they just did not do it before, they left it to too late they kept on resisting but they could not do anything because it was clear that the banks were exposed to this etc. so at that stage they had to accept it what the Troika was telling them. They had to take precautions beforehand.

**What kind of facts did the government consider in deciding to choose the austerity measures?**

Many people are coming up with some kind of narratives which includes the points and facts as well. One thing that is said I heard from many Greek Cypriots is that they keep on saying how the salaries and public service is quite high and how many people are getting fat salaries while they don't do too much work. There is significance difference between the public sector and the private sector. I Here you know in TRNC in private sector the working conditions are very bad they are much more organized in terms of unions in the South but there's also quite significant take out between the public sector and the private sector, so I think there are facts all the time but that is really interesting is how they were made basically in approaching these statistics and one of the things is that kept on coming over and over again to legitimize the austerity measures how public sector workers are enjoying themselves with getting paid fat salaries without doing anything without doing as much. So this was one of the things that were kind of put forward and in the case of off course Greece is also a matter of not enough taxation that was the problem.

**What are possible positive and negative effects of austerity measures in Cyprus in general?**

I will start with the negative. When you look at certain studies you can that there's going to be significant negative impact on GDP for example, unemployment will significantly increase economic growth would be stifled so we are talking about significantly downsizing the economy so these are quite significant negative impacts of austerity.

I don't see any positive coming from the austerity. Especially when you look at Greece, if you look at like poverty levels, number of people who are unemployed this is in my view is just going to be further stagnation in the case of Cyprus. Because the anti-growth economist they have their limitations and plus this is the economic downsize also I hear people having heart attacks and dying because it is very stressful if you are trying to set up a business and your money is somehow confiscated, its confiscation I don't think there is any other word for it.

For a positive effect, I am not sure with Cyprus but, like if you think about discipline in the banking sector this is happened in Turkey for example, after the banking crisis in 2001 they were trying to keep under control it little bit so that the risky lending is a problem. For example what has started of the entire crisis in the USA was on the one hand the liquidity problem suddenly the banks kept on what is called subprime lending they kept on lending money to those people who would be having difficulties

in paying back their debts mortgages etc. so, if it can somehow lead to more responsible banking in the sense that there won't be so basically what they are doing they are taking risk with other people's money who have deposited in their banks. So the only positive thing that can come out of this is somehow disciplining the banks so that there won't be so irresponsible in all the reactions and in somehow also the banks can turn into more kind of development oriented banks which adopt that what's happening right now is being the case. If I push myself too hard that's the only thing I can say about.

**To what extent do you think the austerity measures will succeed?**

Succeed in which sense? In terms of economy? Recently, there was a declaration by some quite senior in the IMF, he kind of confessed basically that he did not believe that is going to help the growth of the economy, so this means all these sufferings especially part of the poor is for nothing and frankly when I think about these austerity measures I have serious difficulties in confessing like how is going to in the long term benefit, contribute to anything. Because it is kind of stifling the economy, who are the consumers well they have to have a purchasing power and these people they don't have purchasing power because they are unemployed. Anyway youth and employment is quite significant in the South and after the crisis it get really significant. I have difficulties in understanding what it would do for the economy. Even if you look all the other human dimensions only in terms of economic growth or whatever it is, it is so anti-growth so GDP is going to be low on decline unemployment will be on the rise and I don't know how it is going to be worked out.

**What kind of politics may the government follow if the austerity measures will not work?**

This is a very difficult question. The only thing that comes to my mind and I am aware that it does have limitations as well is some forms of Keynesian politics that was carried out after the Second World War, I mean of course this is also difficult in many ways but what they did at the time it kind of worked but what I believe is capitalism is punter crisis. It always postpones the crisis because these are systemic crisis whether is from banking crisis whether s from something else there are deeper reasons behind these crisis. So it is just going to be postponed for other 30 years and it will be cut down surface in another time. But maybe just like what has happened after 1945 it could be postponed little bit through Keynesian policies but there is no perfect queue for this I think.

**Is there any country or a model that the government took as an example?**

In terms of austerity, measures it is quite universal but what they did with the banking sector reforms to my knowledge there is no other example the bail-in. what they did here was quite unique. These austerity measures are nothing new. They were imposed on third world countries to structure adjustment policies in throughout 1980's. what is now happening is interesting because it is coming into European

countries. Beforehand, it was the West imposing these policy measures to the third world countries but now it came back to Europe. In that sense nothing to normal or new about austerity measures. They have been there since the 80's. It is not one model only. I think every country one or other is taking some of the package.

**Do you think that the implementation of the austerity measures is democratic?**

No. there is a significant democratic deficit in the way these things are implemented. Why there is a democratic deficit because you know a group of technocrats from representatives of Turkey or Nigeria or whatever it is they go and meet IMF or in this case Troika members and then these technocrats and Troika members they come up with a set of policies and obviously in the Cyprus case this pass through the parliament and Nikos Anastadiadis he gave this from the start that he will be implementing these policies and the electoral obviously elected him, but often these policies are very top down very much toped down and you can't even challenge this. In Cypriot case lets be a little fair the electoral knowingly because they realized that there was a crisis but I don't think they were aware of what happened in banking deposits. If they knew that I doubt they will be electing him because this was something that never foreseen and I know that many people are in serious economic difficulty now because of this whole thing.

**What are or what will be the possible outcomes of the austerity measures?**

Well poverty, unemployment; many people especially young people because youth unemployment is very significant. I mean you can understand what is going to be happen in Cyprus by looking at Greece, I mean obviously it is not as bad as Greece at the moment but maybe. If you look at also in terms of general implications of this in terms of the impact on the children is very bad. For example many women in Greece the women unemployment is a bit more and many women because they don't work are completely depended either on father or husband, domestic violent is on the rise many children they can't look after to their children so they have to leave them. So I think socially is very destructive all these settle policies you know when you look at the human dimensions on austerity measures it is just so immune and you need to really think about is it really worth it because they are doing it at the expense of huge destruction in the society.

**What kind of decisions can be taken or has been taken in a case of people reactions to the current measures?**

In the case of Cyprus I think they have ignored them already. Because there were some strikes especially after March, people gathered in the streets yet they went to head with it because they were under the pressure of Troika, because what is the other alternative is that they might have to leave the Eurozone so they don't want to leave the Eurozone either I mean this was the pressure on Greece as well previously period of time. Basically leave the Eurozone adopt your own currency which it is a drama. In the case of Cyprus pound, of course Cyprus pound was much stronger;

there would be also other kind of complications so basically the government feels very helpless at this stage. Yes people are not happy without it, and if you think about what happened many people from the government they kept on getting afraid letters because people were saying you are ruining my business, yet they had to go ahead with it, there was a reaction but they are not in a position to listen anymore because they were under pressure of Troika and the public deficit is significant you have to somehow reduce it. Troika is the one who imposes these measures.

### **How do you see the future of the economic situation in Cyprus and in Ireland?**

It is very difficult to foresee but in the short term I don't think it is good but in the long term of course you have to look at the natural gas discoveries will come out I mean that is significant revenue but still they do not know how much would be export it can be quite significant. On the one hand, if you just look at the economic measures the GDP, unemployment all those indicators it does not look very good for the next six years or maybe more, but then in the long term we have to see what happens with the natural gas discoveries maybe there will be such as natural gas discovery that somehow going to and also depends on the political settlement. My personal view there could be political settlement the chances of providing peace regarding Cyprus issue they could also have access to the Turkish Market that can also boost the economy.

### **Could the EU policies in general or EU politics in particular be blamed for the current economic situation in Cyprus?**

Well, partially yes, it has to do with the policies that implemented in the Republic of Cyprus, all this things how Cypriot banks were exposed to Greek speculative forms etc. that is one part of the story, but how you could criticize EU is through Troika. EU is represented in the Troika and you can say that policies that are indicated by the Troika, EADU, are destructive they are trying to impose austerity measures. It is basically Germany saying I don't want my tax payers to pay for the mess of Greece or to pay for the mess of Cyprus. That is why they keep on imposing these austerity measures on the countries. So I would say partially the Troika's policies of course quite significantly to do with this picture but if some other precautions could be taking beforehand, this situation could have been averted. I meant basically the supervision of the banking sector system, speculative activities of the banking sector especially what they criticize is really these wrong decisions of the Central Bank for these banks to be exposed to Greek bonds they must not do that, but I think it is some kind of economic nationalism thing like Greek to Greek, so this is one of the things that they are criticizing. Another thing that they criticize is they kept on putting a lot of money to Laiki Bank even though they have realized that the bank was going down, so they did not try to take any precautions about that. They took a lot of money from the EU as well in Christofias period and they basically kept on spending all these tax payers money on these banks even though they realize it was not going to survive.

### **Is the Eurozone crises and the Cypriot bailout a political or an economic issue?**

It is economic policy that has political dimensions. It is significant political dimensions in the sense that every economic decision is political in the sense that it is related to the distribution in the sense that every in every economic decision you create winners and losers. So you have to look at who are the winners in this policy and who are the losers then you realize it has significant political dimensions. For example one thing that they were criticizing after 2007 golden crisis in the USA, all these banks they were very responsible and there is also lots of speculative banking over the counter deliberative it is quite complicate but at the end what happened, these banks started going bankrupt because of the liquidity problems. The governments kind of intervened and saved them from going down, but then what happened this turned into public deficit crisis salaries went down, unemployment etc. but then people started to asking why is it that we are losing out it is the banks and these like top directed of the banks they are paid very high salaries and at the end of the day its those people who has no say in this whole crisis that tare paying for the crisis so that shows you why every economic decision and austerity measures are so political events because there are winners and losers.

### **Was the Eurozone crises managed well by the EU member states? Was it managed well by the EU as a polity?**

I don't think so. It depends on what you mean by managed well. Managed well by which perspective, even if you look at it from entirely economic I think there is agreement dimension in terms of human dimension they ruined up really big time. Look at Greece, Spain all these countries unemployment is on the rise it is going nowhere and I think economically speaking declaration of one of the IMF people, they have confess that it is not helping growth either. So if it is not helping economic growth, so why implementing these policies. They want the workers to pay for the crisis, they want them to pay for it. You can question what kind of democracy this is. This is one of the problems of the global governments, IMF, Wold Bank all these international institutions they are so topped down technocrats decide for it and then these decisions are imposed on you and you cannot stop these decisions from being taken but it makes a significant impact for your life.

### **Is the European Union a successful political union?**

I always seen EU as a successful economic project, but when it comes to political union of course there are some significant aspects for example countries like Germany and France that were fighting in the WW2, I think this is very important thing in itself you bring all these countries together that had a long experience of war etc. essentially if you look at the EU economically speaking it is very good union they call it negative integration in the sense that they opened the borders, and abled capital, labour movement in the EU. But when it comes to political union, things changes of course European Parliament especially is an international actor I think there are clashing interests within the EU. So I think it still trying to become an

integrated political body but it is not easy because of the clashing interest of the constituent states. So I think it is only partially successful project as a political union, economic union definitely but political union also EU as an international actor I think it is still problematic and are still trying to figure it out. When you say economic union I meant things like European Central Bank, adopting Euro, adopting similar kind of inflation rates and staff like that. Yes, now being in the Euro is anything but an advantage it is like a curse. So you can say that those things that used to be an advantage before the crisis but mind you it is only the Eurozone that is being effected by that, even the emerging marketing economies but the thing is if Cyprus or Greece was not part of the Eurozone they could be a member of the EU just like Britain they were using their own money, it might be a bit more easier maybe through devaluation and staff to kind of overcome the crisis but right now it is very difficult to go from Euro to your own national currency because it is going to invite the new set of problems, it is not an easy decision to give.

**Did the Eurozone crises demonstrated that the European Integration is politicized?**

One thing that they kept on saying was, what this whole crisis the set of economic policies were implemented revealed is that Germany has a lot of say. I think more than anything else this whole process revealed how Germany is the leader within the EU and it is not very easy to come up with any kind of policy Germany wouldn't want. So in that sense yes.

**Did the Eurozone crises provide further evidence of the democratic deficit of the EU?**

Yes, it is related to what I have just said. Many people were saying why are they doing this in Greece because, like German tax payers but they can also do other things. Even the IMF was critical, all the way Germany was handling things at some point can you imagine. Because they were doing this for years and now they said you are doing it too much it is not good for the economy just like the case of Greece, so kind of shows democratic deficit, in the sense that this chose for technocrat governments you want a technocrat government that is going to implement the policy package of the EU. So it tells you something about the democratic deficit definitely. Because many people would not be happy with these set of policies there is like decreasing the salaries and the pensions etc. who would want that and then this is been topped down and imposed so it tells us a lot about democratic deficit.

**What kind of prospects does the EU have in terms of further integration and perhaps creation of a 'fiscal union'?**

Further integration perhaps creation of fiscal union, well I mean I am not sure if this is the good period talking about the further integration rather than dis-integration for a very long period of time they were talking about the possibility of Greece exiting



the Eurozone and also for Cyprus. I am not sure at this stage this is a good time for fiscal integration.