

[Making a complete mess of Cyprus](#) [1]

Written by [Dr Madsen Pirie](#) [2] | Monday 18 March 2013



The people in charge of economic policy in the EU appear to believe that they can create economic reality by passing laws and reaching decisions through negotiation. Their knowledge of human psychology seems to be even more flawed than their understanding of how markets actually work in practice. The decision they forced upon the Cyprus government is flawed on many levels. The bank levy punishes savers but leaves the bond-holders untouched, violating the principle that small savers should be protected, while the bond-holders who knew they were taking a punt should take a hit.

It is also a wealth tax, violating one of the principles of fair taxation that it is OK to tax transactions such as making money or buying goods, but not OK to take money from someone simply because they have it. A state might claim to justify a transaction tax by saying that it provides and maintains the infrastructure that makes it possible for people to deal with each other to mutual advantage, but not a wealth tax.

If the Eurocrats had studied game theory or psychology they could have anticipated the anger and outrage that their move has provoked. People mind losses more than they value gains. They mind precipitous losses more than they mind gradual ones. They mind visible losses more than invisible ones. People do not like it if their €200 in the bank will, through inflation and currency fluctuations, only buy them €180 worth of goods in the future. But they dislike it almost infinitely more if government removes €20 from their savings account. Indeed, 'dislike' is too mild a word. They are outraged because their government has stolen their money, even though they were not responsible for the crisis.

The signals this move sends out are that it is foolish to save, and foolish to keep money in banks. These signals are spreading to countries other than Cyprus. A precedent set in one place could be followed in another. It is entirely possible that this action will set in motion runs on several banks as savers seek to place their funds beyond the reach of predatory governments. The reaction of outsiders to this move can only be one of shocked incredulity.

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