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Property Rights and the Cyprus Problem: Insights from Economics and Social Psychology

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The issue of property rights goes to the heart of the Cyprus problem and for this reason it has been a highly contentious one. For Greek Cypriots, respect for property is an extension of the wider demand that any solution respect basic and inviolable human rights while Turkish Cypriots see property rights strictly within the confines of “bizonality” which is interpreted to mean a restricted right of restitution of Greek Cypriot property in the north (Gürel and Özersay, 2006). In this essay I will suggest that the way property rights are eventually handled in a settlement of the Cyprus issue is likely to have a direct impact on the viability of the post-solution state of affairs for specific reasons related to perceptions of fairness. To develop this idea, I will draw from work in economics and social psychology dealing with cooperative behaviour in different settings. One major finding which emerges from this literature is that the sustainability of social interaction depends on the perceptions of justice and fairness held by individuals. To understand how, consider the following three important results:

1. People tend to act according to some principle of justice or fairness in their dealings with others but will eventually abandon these principles when they believe that others act in a more selfish way (Rabin, 1998 and Fehr and Gächter, 2000).
2. People who perceive the status quo distribution of rights or entitlements to be unfair are less likely to cooperate with others or, more specifically, are less likely to play along with the rules of the game and more likely to justify the use of coercive or violent action to change the initial distribution of rights (Brennan and Buchanan, 1985).
3. People's perceptions of what is fair are not set in stone. Rather, they are flexible and can be bent to suit one's personal interests. Thus, people involved in legal disputes interpret what a “fair” resolution to the dispute would be to fit their own identifiable interests. The more people diverge in their perceptions of what is fair, the more difficult it is to achieve a settlement (Babcock and Loewenstein, 1997).

All in all these results can be summarised by saying that people prefer to act in a fair way towards others but their tendency to do this depends on: others acting in a similar manner; their perception that the social distribution of rights and entitlements is a fair one; and the extent to which their personal interest coincides with fairness-driven behaviour.

Let us take result number 1 first: people act fairly but only if others also do so. This result is relevant to the politically sanctioned appropriation of Greek Cypriot properties in the northern part of the island following the failure of the Annan Plan at the polls. The Turkish Cypriot

authorities seem to have chosen to interpret the *rejected* Annan Plan's property provisions as giving them *carte blanche* to violate these property rights in contravention of international and EU law. The treatment of Greek Cypriot properties by the authorities in the north, contrasts with that in the south where the government acts as the "custodian" of Turkish Cypriot properties (Gürel and Özersay, 2006).

The Turkish Cypriot authorities approach is likely to precipitate a violation of Greek Cypriot property rights in the north, first by individuals unconcerned with the ethical dimension of their actions, but eventually also by more law-abiding and morally primed citizens who may not want to be left behind in the rush for windfall gains through the unlawful appropriation of assets. This "race to the bottom" effect (insofar as law abiding or morally driven behaviour is concerned) has been discovered by economists who study the issue of tax compliance. In particular, it has been shown that tax evasion increases when people perceive that others engage in it with impunity (Klasko, 1992). Why should I do the right thing and pay when everybody else is not and getting away with it. One's initial feeling of indignation may eventually give way, buried if you like, under the pressure to stop being the only one who pays his taxes.

While opportunistic and non-ethical behaviour in one area is a problem, it is only the tip of the iceberg. The real danger emerges when people's selfish and unethical behaviour expands to other areas leading ultimately to a generalised reduction in law abiding and moral action (Graetz *et al.*, 1986; Frey, 1997; Kyriacou, 2009). There may eventually be little place in such a society for fairness, ethical or moral norms which dictate right from wrong. Ultimately, this leads to the deterioration of what political scientists call social capital which includes trust and is seen as the glue that binds society together (Putnam, 1993; Fukuyama, 1995). And societies with less social capital are not only poorer ones (in terms of income), they also have lower quality governments and are prone to more social conflict (Knack and Keefer, 1997; La Porta *et al.*, 1999; Knack, 2002 and Varshney, 2002).

How can this process of social deterioration be avoided or detained? By pursuing unlawful behaviour by citizens, to ensure the generalised respect for the rule of law: But who has to do the pursuing? – The public authorities, of course. And here lies the tragedy: rather than promoting the respect for the rule of law, the Turkish Cypriot authorities may be directly undermining it insofar as they foment the direct violation of internationally recognised Greek Cypriot property rights. In effect, the authorities in the north would be lighting the fuse which will inevitably lead to the serious erosion of social capital there, to the detriment of the people it purports to govern. So what should the Turkish Cypriot authorities be doing instead? They should be protecting Greek Cypriot property rights and be negotiating in "good faith" with Greek Cypriots in the search of a workable solution to the conflict.

Let us turn now to result number 2: the perceived fairness of the status quo distribution of entitlements affects the extent to which one is willing to play (cooperate) with others. Obviously this is directly related to the issue of property restitution, or in the case of non-restitution, compensation in the context of a settlement. It is patently clear that any solution that reduces the

volume of property to be returned to its original owners or that does not unambiguously ensure sufficient compensation for expropriated property owners will be less viable since it would create a status quo distribution of rights which would be perceived as unfair.

The Annan Plan envisaged leaving 29% of the island under Turkish Cypriot administration, meaning the return over five years of about 7% of the 1960 area to Greek Cypriots. This implies the relocation of 46,000 Turkish Cypriots currently residing there and would allow the return of about 86,000 Greek Cypriots and their residence under Greek Cypriot administration. Those Greek Cypriot property holders who would not benefit directly from this territorial adjustment would be entitled to 1/3 of their property in the north. The rest would be expropriated in exchange for “full and effective compensation”. In particular, those displaced persons (mostly Greek Cypriots) who were to be expropriated would receive compensation in the form of “bonds” and “appreciation certificates” payable 25 years later from a fund initially financed by the federal government (again mostly Greek Cypriots).

The viability of the compensation provisions ultimately depends on the evolution of property prices in the long run after a solution. Economic forecasting is a difficult exercise in the short to medium term and can be outright courageous in the long run. Unsurprisingly, both positive and negative assessments of the workability of the Plan’s compensation provisions have been advanced (see Platis *et al.*, 2006) for the former and Lordos (2009) for the latter). So the truth is that there is a degree of uncertainty as to whether the scheme set up by the Plan to attain “full and just compensation” is in fact a viable or realistic one. And this uncertainty is likely to undermine the perceived fairness of such compensation and, by extension, of the Plan’s treatment of property rights in general.

It is important to note that for any given restrictions to restitution of properties to their original owners, increasing the proportion of land placed under Greek Cypriot administration (and thus reinstated) will improve the perceived fairness of the property arrangements. It would also have the salutary effect of implying fewer expropriations thereby increasing the financial viability of any compensation scheme something which, again, should reduce uncertainties surrounding it and improve perceptions of fairness. Of course, the economic viability of the compensation scheme would also be improved by raising the ceiling applied to the properties to be returned to their original owners in the north.¹

1 As an aside, it is worth adding that the low ceilings imposed by the Plan on the proportion of land which may be reinstated to displaced persons together with the permanent restrictions on the right of establishment, are aimed at preserving overwhelming ethno-linguistic majorities in each constituent state. As a resident of multi-national Spain, I think I can fairly confidently argue that NO Spanish citizen would understand the imposition of any type of restrictions to residence, on Spanish citizens in ethno-linguistically distinct areas of Spain (such as the Basque Country or Catalonia). It would simply be perceived as something which contradicts all conceptions of what is appropriate for preserving the distinct identity of such regions.

An additional point is in order. Gürel and Özersay (2006) make a distinction between individual and collective property rights. The former are self-evident and are the ones I have dealt with above. The latter are interpreted by these authors as “the right of Cypriot Hellenism to the ancestral land” (p. 24). While fairness concerns emanating from individual property rights may be dealt with through appropriate compensation, those emanating from “collective” property rights are unlikely to be similarly responsive. These rights will always be violated by any bizonal solution to the conflict.

But, again, these violations can be mitigated through the territorial adjustments: the amount of land put under Greek Cypriot administration could be more reflective of the distribution of land ownership before the division of the island (around 23% to 26%, according to Lordos, 2009). Moreover, a bizonal solution to the conflict does not preclude the possibility of restitution of land or properties which have a special significance to either community. The ability of ethnic groups to access and administer historic and religious sites and shrines which they consider fundamental to their cultural identity but which have been “lost” as a result of inter-ethnic conflict would help remove a serious obstacle to inter-ethnic reconciliation (Gottlieb, 1994; Kyriacou, 2006). In this respect it is encouraging to see that the final version of the Annan Plan did foresee the full reinstatement to respective religious authorities, of religious sites in use in 1963 or 1974.

The discussion of the perceived fairness of the distribution of property-rights or entitlements is also pertinent to the issue of intra-community trade. Hatay *et al.*, (2008) report that inter-community trade is very limited and attribute this to each side’s psychological attitudes towards it. Greek Cypriots fear that if they trade with Turkish Cypriots they will be stigmatised by their own Community. One rationale driving this stigma is that Turkish Cypriots are selling goods produced using Greek Cypriot land. Turkish Cypriots contemplating trade with Greek Cypriots fear being treated as inferiors by the latter. In their view, Greek Cypriots see trade as a way of controlling them. The authors identify these psychological barriers to trade and argue that they must be tackled in several ways. On the one hand politicians must encourage trade openly, the practical obstacles to trade must be tackled and the dissemination of information on trade opportunities should be improved. On the other hand, we should be promoting inter-community trust through measures of reconciliation, forgiveness and revisiting historical narratives.

My discussion emphasises the difficulties faced by those wanting to promote inter-communal trade in the current status quo situation. For trade to occur and flourish in any market one first has to define property rights and these property rights must be generally accepted by others. The problem is that under the current status-quo most Greek Cypriots do not accept Turkish Cypriot property rights on Greek Cypriot land in the north, and this undermines any economic transactions which may be based (or thought to be based) on these rights. Again, to the extent that individuals do not, for some reason, consider the distribution of property rights to be fair, they are unlikely to engage in social interaction which effectively legitimises this distribution. By the same token, any solution which generates a distribution of property rights acceptable to most, is likely to

lead to a significant increase in inter-communal trade, something which is likely to benefit both communities and especially the Turkish Cypriot one whose access to larger and wealthier markets is limited under the current state of affairs.

Epilogue

In the world of Realpolitik which characterises international relations, there is little room for fairness beyond empty rhetoric. Recall the Melians who, after asking the stronger Athenians why they wanted to invade and destroy their island, basically received as an answer: because we can (Thucydides, 1954). And one reason why it is relatively easy to pay lip service to justice norms without actually adhering to them in practice lies in the third result mentioned above: what is just, is, to some extent, in the eye of the beholder. Being a subjective concept it is malleable, and an important force acting upon our idea of what is just, is our own interest.

But there is a danger here that all Cypriots earnestly seeking a viable solution to the conflict must guard against. The more we bend (or are forced to bend) our definition of justice to suit our ends (or those of others), the less likely we will be to find a settlement to the conflict. This was clearly illustrated by the overwhelming rejection of the Annan plan by Greek Cypriot voters. And, on a deeper level, we should be worried that a solution which is deemed unfair by many of us is less likely to be a viable one, ultimately because it will reduce the likelihood that people will play within the rules in the post-solution period.

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