

Iceland after the Fall

by Sam Knight

Financial crises and uncertainty go hand in hand; some make sacrifices and others plan on having to. But how many countries stricken by the global crisis actually feel existentially threatened?

Iceland does. Since the start of the kreppa ("catastrophe" in Icelandic) in the fall of 2008, the small island nation of 320,000 has had to contend with the serious possibility of mass migration. IMF intervention and private debt gone public galore has left the country with a grim future. Knee-deep in kreppa, it could be slim pickings for Icelanders for years to come.

Thankfully, this crisis has taught Icelanders that they don't have to put up with all this kreppa and should question their new-found debt. A popular revolt called the Kitchenware Revolution occurred in January 2009, forcing the resignation of the government that privatized Iceland's financial system, let it implode, then refused to take responsibility. A generation of Icelanders learned that democracy, sometimes, means grabbing the system by the horns.

In January this year, this spirit was displayed to the world -- somewhat ironically -- when appointed figurehead President Olafur Ragnar Grimsson used his power to veto a law passed by Parliament authorizing payments to the British and Dutch governments equal to half of the country's annual GDP; The British and Dutch guaranteed deposits lost in a private Icelandic bank called Icesave and controversially demanded restitution from Iceland. Public opinion and a petition endorsed by a quarter of the electorate convinced Grimsson to reject the unpopular deal. Laws, he said, can only be legitimized by the public they govern.

Icelanders may be wringing their hands over their future, but at least they will try to have their say in it; I discovered this when I visited Reykjavik in 2009 to see how post-crisis Iceland was managing.

Does Bjork Go to This Soup Kitchen?

If I wanted to see how the *kreppa* affected Iceland, one native advised, I should visit *Smaralind* shopping mall. I could see how little locals were concerned about their credit card bills. Remnants of the consumer frenzy remained, even if the country wasn't churning out Land Rover owners like before.

Not that I was disappointed not to see orphans roasting cats in alleyways, but I just couldn't believe that some were carrying on like nothing happened. Is the country too cool to care? *Thetta reddast*, after all -- "everything's fine" -- is the unofficial national motto.

"Of course everyone feels it, but not to the extent that people are begging on the streets," Solveig Olafsdottir, an Icelandic Red Cross representative, said when asked if there were newly impoverished Icelanders seeking Red Cross help. 8% unemployment may be high for the country but, for now, mental health issues linked to long-term unemployment are the Red Cross' main crisis concern. Its most frequented programs are classes run by volunteers, which give idle workers training, a sense of taking action, and the opportunity to help others. 3,000 -- 1% of the country -- have already sought such morale-boosting assistance.

Unemployment, explained Finance Minister and head of the Left-Green Party, Steingrimur Sigfusson, isn't as bad as it was feared because of the Icelandic krona's weakness despite the resulting rising cost of imports. Tourists took advantage during the summer, and even during the nippy autumn (getting tickets to Iceland Airwaves, a music festival that saw Reykjavik swamped with hipsters in October, was difficult). The krona's decline also had a positive effect on the country's tech, manufacturing, and fishing

sectors. "It really all goes to show that the Icelandic economy is adaptable," he said.

But all is not well in the Land of Ice.

During the boom years, Icelanders borrowed money from abroad to finance big-ticket purchases, but interest payments ballooned after the krona plummeted starting in early 2008 and ending with the imposition of emergency capital controls on a collapsing system. A moratorium on mortgage foreclosures and the capital controls have helped debtors, but Gunnar Kristinsson, a spokesperson for an indebted homeowners association, told me that 30,000 Icelanders are in danger of defaulting on mortgages by October 2010 in addition to 20,000 that have already defaulted. "A third of the country will be living in European-style poverty in twelve months," he warned, recalling the days when postwar Iceland could boast of being almost an entirely middle-class society.

The poorest country in Europe in the first half of the 20th century, this crisis is particularly shocking to an isolated volcanically active arctic island no stranger to hardship. In response to the oil price spikes in the seventies, for example, the government raised the quality of life by investing in cheap, clean geothermal energy production. Replacing Iceland's remaining gas guzzlers could give the Central Bank and the environment additional relief, but the specter of the *kreppa* looms. "The government announced yesterday that taxes on just about everything will increase," Jon Bjorn Skulason, general manager of Icelandic New Energy, said ruefully. Some analysts have said that up to 40% of the government's budget will be for debt service in the near future.

This isn't to say that people aren't coping. In December, INE announced the importation of 10 Ford hydrogen fuel cell-powered Ford Focuses. Surprisingly, this gave Iceland the largest fleet of hydrogen-powered cars in Europe.

But the scandalous nature of the collapse makes these modern-day longboats and other business-as-usual stories scant comfort to the majority that considers the ruling elite -- the bankers and Independence Party politicians who ruled Iceland for the 19 years -- to be criminal failures. The privatization of the banks themselves may even be investigated. "It is a matter that will be touched upon by a parliamentary report later," said Special Prosecutor of collapse-related financial crimes Olafur Hauksson. (The report, upon its release in April, indeed rocked the establishment.)

Pyramid Scheming Bankers

No one is entirely sure how Iceland's three commercial banks, Glitnir, Kaupthing, and Landsbanki, got away with borrowing about ten times the country's GDP. Some suspect foreign investors of predatory behavior -- lending liberally to Icelandic banks to claim assets cheaply after inevitable bankruptcy -- but Icelandic bankers didn't care; they saw a world plundering itself and wanted in. They bought out companies in Britain -- primarily highly visible high street retailers -- using borrowed cash and effectively mortgaged the country, ruining its financial system in under a decade.

The Independence Party's indifference to oversight was a contributing factor to the downfall -- banks gave the party hulking campaign contributions while watchdogs played ostrich -- but regulators, too, were conned. Hauksson said the role that fraud played in the banking collapse is unclear for now, but schemes are emerging: Banks lied about the extent of their debt to borrow more; they lent to each other to inflate balance sheets; they hid assets from creditors, regulators, and shareholders, and lent to themselves to manipulate stock prices. After Lehman Brothers' failure, the banks were unable to refinance monstrous loan payments. Starting with Glitnir, they were nationalized, after the debt of major shareholders was forgiven in some cases.

The newly burdened public cried foul, especially considering the currency's collapse caused the value of debt in Icelandic krona to appreciate. A group calling itself Icegroup Holding even attacked homes and cars of prominent businessmen with paint, furious that they remain at large with assets unfrozen. Hauksson has vowed to bring them to justice, but preparing a watertight case against them is a laborious process. Either way, the nation fumes as it prepares to tighten its belt.

Exacerbating the problem, few stones were left unturned as sinking banks looked for foreign currency to keep themselves afloat. They wooed depositors abroad with banks like Icesave, which was later likened to a ponzi scheme. When it failed, the inevitable international incident ensued.

To force every man woman and child in Iceland to pay about \$17,000 (under the current deal) for Bjorgolfur Gudmundsson's failure may seem fair, considering Icelandic regulators were about as useful as a wet matchbook and that savings in EEA banks are guaranteed up to 20,000 Euros. Upon closer inspection, the deal is extremely contentious, and not only because it socializes private failure.

For one, European law is unclear about cross-border state guarantees on savings accounts; the law doesn't address systemic failure. The UK and Holland were also well aware of Iceland's shortcomings. In 2005, the British even sent an intelligence-gathering mission to Iceland to investigate the possibility of Russian money laundering, according to British journalist Robert Boyes. In spite of this, Gordon Brown even enacted anti-terror legislation to freeze all Icelandic assets in Britain -- not just those of Landsbanki -- momentarily putting Iceland on the same list as violent extremists. To add injury to insult, Iceland is being told to pay interest rates of 5.5%.

The *Althing* (parliament), fearing the withdrawal of assistance and a downgrade of the country's sovereign credit rating, narrowly approved to reimburse deposits in the waning moments of 2009. Under the plan, taxpayers would dole out \$5.5 billion -- half of the country's annual GDP -- by 2024, with some annual payments equaling 6% of GDP. But thanks to the movement that inspired the President's veto, leading to the March referendum that rejected the deal, it will most likely be renegotiated.

"Huge Libertarian Failure"

Sigfusson, a reluctant supporter of the bill, said in October that the debt wouldn't be as bad as it was perceived because of the same wanton acquisitions that got the country in trouble. Up to 90% of the Icesave debt will be covered by the sale of Landsbanki's old assets, he said. In that vein, overall debt may be lower than it appears: creditors of Glitnir and Kaupthing were compensated with shares in their successors, Islandsbanki and Arion. Although this may not do much to dispel the theory that these banks were predatory creditors -- despite privatization, foreign ownership of banks in Iceland was forbidden -- it could lessen the public's burden.

On the other hand, the Landsbanki assets would have to be recovered first. The government also lent hundreds of millions to recapitalize Islandsbanki and Arion. Furthermore, if Iceland actually goes through with advanced stages of the IMF assistance package as planned, it will be paying 5% interest on about \$4.6 billion in debt.



A t-shirt on sale at a store on *Laugavegur*, Reykjavik's main thoroughfare, sums up how the average Icelander feels about former British Prime Minister Gordon Brown. When Iceland collapsed, the British government enacted anti-terror legislation to freeze the assets of the entire Icelandic government, not just those of failing banks.

Regardless of the outcome, the *kreppa* has forced Icelanders to approach economics differently. The ascension of Sigfusson to finance minister and the Left-Greens to junior coalition partner reflects this; Sigfusson pinned the blame for the global crisis on neoliberalism.

"Some practices were harmful," he said. "Certain people were pointing that out, but no one listened unfortunately." Despite the credence lent to neoliberalism by *thetta reddast* consumerism, the system proved unsustainable. So-called risk managers, in an obsessive pursuit of exuberant wealth, lost financial Russian Roulette. The defeat is felt acutely in this community-sized country.

Even Independence Party supporters displayed humble self-awareness throughout my trip. The party has tried to gain from the Icesave dispute by opposing its passage, though it was at the helm when the deposits were guaranteed in the first place. "David Oddsson," the former long-ruling prime minister and architect of Iceland's privatization push, "did a lot of great things for this country," one IP supporter told me. "Like how Hitler made the trains run on time," she joked.

Andri Snaer Magnason, poet, writer and activist, summed up the Independence Party era as a "huge libertarian failure." His best-known book, *Dreamland: A Self-Help Guide for A Frightened Nation*, rattled cages when it was published in 2006. Inspired by opposition to an aluminum smelter in Eastern Iceland powered by a state-funded hydrogen dam, his manifesto lashed out against the sense of helplessness and fear Icelandic politicians instilled into citizens to browbeat them into accepting Alcoa, even though unemployment at the time was low and the company isn't known to sympathize with its workers, hosts, and the planet.

Problems wrought by the mammoth smelter, he said, resembled those brought on by the banks. Icelanders were left dependent on a few self-serving businessmen who dominated markets and silenced critics, even though it was said the country would stagnate without them. The opposite proved to be true: the banks in particular crowded other companies out of domestic labor markets, as long-term wealth creation was shelved in favor of a financial smash-and-grab.

Magnason waxed nostalgic for a simpler time. Before private banks gave Iceland the highest GDP in the world based on fictitious wealth, high living standards were built upon a highly regulated financial system. "Our economy was totally free and you could make anything you wanted, really. It's not like we were in a Soviet system," he sighed.

Did you hear that, Cato Institute? Courtesy of the banks, Iceland is now closer to a Soviet system than libertarians would like to admit. Trudging down Laugavegur, Reykjavik's main street, I saw this first hand when stumbling upon a queue forming outside of a supermarket having a clearance sale. Concerned with rising food costs (many staples are imported), people patiently waited in line to shop. Reykjavik 2009 looked more like Prague circa 1975.

The More Things Change. . .

Despite the change ushered in by the Kitchenware Revolution -- a left-wing coalition partner and the first openly gay (not that it matters) head of state in modern history, Prime Minister Joanna Sigurdardottir -- the new government is sticking with the IMF program.



Evidence of a struggle: people queue patiently for a moving sale. The ubiquitous chain, *Bonus*, was offering 30% off and locals took advantage.

Sigfusson remains confident that the country needn't compromise itself. "Let's see if they can learn something from us," he pleaded, describing the process as bilateral. Iceland, an atypical candidate for IMF aid, even lobbied the fund to allow social welfare programs like debt relief to low-income households, he said. Joseph Stiglitz, a recent guest lecturer at the University of Iceland (whose appearance officially ended the Milton Friedman era; Friedman guest-lectured at the same university in the 80s), noted that the initial delay of budget austerity conditions as well as the allowance of capital controls showed a degree of flexibility not displayed by the fund in the past.

Stiglitz did, however, warn Icelanders weary of energy privatization to be on alert. The IMF loves private capital regardless of the industry or consequences of privatization; those who cringe at the thought of geothermal energy sources falling into the hands of multinationals have had little reason to believe the crisis will turn off investors. One publicly owned energy utility, HS Orka, has already been sold off by the Reykjavik City Council to Canadian Magma Energy, which somehow borrowed money from Reykjavik Energy, another public utility, to finance the deal. Rumor has it that the national government attempted to stop the deal, but grumbles from the IMF convinced it to back down.

Sigfusson did assert that Iceland reserved the right to renegotiate, questioning the size of the loan.

Despite his desire to be untethered to any assistance whatsoever, he stressed that the country needed help; even though he would have "asked Norway to lead assistance without the IMF, but that's not what the previous government chose to do."

And if continued cooperation with the IMF wasn't frustrating enough to those who thought the Left-Greens would shun traditionally neoliberal institutions, they are supporting Icesave -- affectionately called Iceslave -- to do it.

"It is interesting," one aggrieved Icelandic legal expert said. "If you look at the EU and the Deposit Insurance directive, in the letter of the law there is no state guarantee and actually state guarantee is illegal. So why are we paying?" he asked rhetorically. Besides, there have been whispers that a court case could set an enthusiasm-dampening precedent for financial liberalization in Europe. The British and Dutch, keen to avoid the mess, have used their leverage within the IMF and EU to get Iceland to accept the deal. If it doesn't, IMF assistance and EU membership may be taken off the table.

"Obviously we would have liked to get a ruling in a court, but that was denied by the other side," Sigfusson said, "and no one agreed with us."

That the government isn't using the opportunity to reject the IMF and EU membership outright is astounding considering [the public skepticism of the institutional behemoths](#). EU membership and adopting the Euro, previously political suicide, has been promoted mainly by PM Sigurdardottir's centrist Social Democrats as a remedy to the collapse, but with the weak krona providing Iceland with [its first trade surplus since 2002](#), the case for adopting the Euro has weakened. Besides, the Euro hasn't saved Greece, Ireland, and Spain from crises of equal or greater magnitude. The surplus has also diminished the need for assistance, much to the public's relief: a 2009 poll showed that [over three-quarters of the country had an overwhelmingly negative view of the IMF](#).

"International Mother Fuckers," Gustaf Gylfason, 21,



At a demonstration that greeted Parliamentarians as they returned from a late summer break, a man protests against the government's collaboration

sneered. My temporary roommate, he had been struggling to find a steady job at the time, but recently landed a fishing gig. Indebted because of a foreign currency car loan, the money has provided Gustaf with much needed relief. "Pasta is keeping us alive," he half-joked in October. Budget austerity wouldn't help. Neither would higher electricity rates and steep Icesave payments.

with the IMF, its soft stance on the Icesave dispute, and proposals that would see the country join the EU and adopt the Euro. In the background, a woman carries a placard publicizing the two-week mortgage strike. "Vid borgum ekki," the sign says. "We won't pay."

The renegotiation will offer some relief, thanks to the petition. The Kitchenware Revolution showed participants like Gustaf how organization can make strength in numbers a reality, even if the new government hasn't lived up to its ideals. "There should have been more," he told me. More protestors? More fighting the police? "Both," he said grinning.

Seeds of Change Sprout in the Arctic

"The revolution was an extremely positive force," Magnason said, stressing more peaceful qualities of the rebellion that saw tear gas fired in Iceland for the first time in over 60 years. Describing it as "democratic participation at its best" and a revolt "against an abusive father figure," he said that many friends look back on it as the most thrilling thing they've ever done.

As a country whose unofficial national motto loosely means "chill out," Iceland does not have an illustrious history of political activism. Even before banks went bust, however, years of Independence Party rule sewed the seeds of active opposition.

In 2007, 15,000 demonstrated in Reykjavik against the overbearing Alcoa smelter and the leviathan glacier-destroying *Karahnjukar* dam supporting it. In fact, more people demonstrated against the plan than out-of-work Icelanders, and even people close to the project -- the supposed beneficiaries -- protested. *Thetta reddast*, Icelanders learned the hard way, doesn't apply when multinational corporations are in need.

The Kitchenware Revolution itself started amidst the confusion of the collapse in October 2008. One man, Hordur Torfason, armed with a guitar and microphone, set up camp in the *Austurvollur*, the square adjacent to the *Althing*, encouraging people to air grievances. Those who turned up agreed to meet every Saturday until the government resigned; it simply wasn't taking responsibility. "Ninety percent of the nation wanted a new government but all we could do was bang pots and pans," Birgitta Jonsdottir, a former activist and now member of parliament, explained, alluding to the revolution's etymology. "It feels like you're in a dictatorship when you can't do anything but start a revolution."

So they did -- thousands of people swamped the *Austurvollur* and besieged parliament, eliciting Prime Minister Geir Haarde's resignation (even after the change in government in the subsequent election, however, David Oddsson remained head of the Central Bank, only leaving after the current



A liberalized energy policy has seen the country's spectacular wilderness start to disappear and dirt-cheap electricity rates increase. Anxieties over more privatization have only increased as a result of IMF intervention. Right-wing

government passed a law requiring the position to be filled by someone with a degree in economics, something the economic *wunderkind* lacked).

Icelandic politicians have long dreamed of damming nearly every river on the island.

The Revolution and emergence of Jonsdottir's party, formerly known as the Civic Movement, illustrates how civil society downstream -- like the campaign against Icesave -- evolved since the *kreppa*. "What we did was get all these groups coming together," she said, explaining the roots of the Civic Movement. "The cry from society was let's destroy this sort of power structure. So what we wanted to do was come in as a movement working mostly for democratic reform -- more power to the people -- to sort of erode the connection between the business world and the Parliament." Once the Civic Movement achieved its goals, including democratic reforms and passing a new constitution approved by referendum, Jonsdottir said, it planned on resigning. "A hit-and-run," she explained.

The message resonated with voters -- 7% of the national ballot went to the Civic Movement, who sent four members to parliament -- but the group has suffered growing pains since.

One member, Thrainn Bertlesson, left after a falling out over EU membership application. He thought that the EU membership negotiations, with the issue ultimately decided by referendum, should move forward. Jonsdottir and her colleagues -- Thor Saari and Margret Tryggvadottir -- felt that Iceland was in no position to apply, given the Icesave debacle. An unflattering email penned by Tryggvadottir about Bertlesson was also leaked to the public, hastening the break-up.

Jonsdottir, who proudly describes herself as an anarchist, insists that schism arose because some wanted to abandon the "hit-and-run" idea and form a more conventional political party. "We are not left, or right, we're cross-platform, sort of above the political landscape. Our aim is to help grassroots groups connect," she said. "I cannot and absolutely will not work with a Party. I came here as part of a hit-and-run movement. I want to be an honest person, I'm not trying to be a politician." The three remaining MPs stuck with their original plan, renaming themselves The Movement.

Iceland's *enfants terribles* may not have the luxury of resigning; recent polls indicate a dramatic plunge in The Movement's approval ratings, which may have been reversed by their opposition to Icesave. Jonsdottir, the former activist, vowed to lend an ear to dissenting voices, but warned against relying on politicians as panaceas. "People have to realize they aren't going to get anything done unless they go and do it."

Power outside the Corridors

Embodying that spirit, grassroots organizations, such as the aforementioned crisis-inspired homeowners society (the *Hagsmunasamtök Heimilanna* - "call it the HH"), press on.

In October, the HH planned a two-week mortgage payment strike. Gunnar Kristinsson, one of the organizers, said a third of debtors in Iceland participated "just to show the banks we mean business." With foreclosure moratorium set to end and the inevitable removal of capital controls hanging overhead, the HH is demanding that banks detach interest payments from consumer price and foreign exchange indexes. Inflation rates are historically high in Iceland and, heavily dependent on the price of imports, could explode if capital markets are liberalized too soon. By staging the strike, the HH is hoping that the financial elites will share pain they inflicted.

But if inflation rates and foreign exchange markets are volatile, why in the name of Thor did HH members, or any Icelanders for that matter, take out loans in foreign currencies?

"It seemed to be a good deal," Kristinsson recalled, because the alternative was borrowing krona indexed solely to inflation; wage indexation -- a more just wage, albeit itself inflationary -- had been abandoned in 1990. "So you had this new opportunity to take a loan in foreign currency which had a very low interest rate. It was a dream come true for most of us."

The krona was king! It could drop 30% in value and the deal would still be worth it, bankers insisted, while bankrupting the country behind its back. They even purportedly sold the krona short when they realized the country was up fjord without a paddle.

Kristinsson, once able to make the payments comfortably by working two jobs, struggled to keep pace with interest payments, a problem exacerbated by the loss of his second job. "Reality is facing us now, and it is grim," he predicted. "The rich are still rich somewhat, but the poor have to carry the burden."

You Hate the Government, Then You Become It

On October 1st, the HH and other organizations demonstrated at Parliament's post-summer reconvening. While they may have not been there in droves like they were in January there was no lack of righteous indignation.

"We want to build up Iceland on our own terms," insisted Asta Hafberg, a demonstrator from Eastern Iceland, who, like other demonstrators had harsh words for the IMF, the EU, and financial-sector capitalism.

"It's an extortion," added Jakobina Olafsdottir, "I wouldn't call it debt because we never got a loan." In April elections, the two women unsuccessfully ran for Parliament as part of a party called The Dandelion Revolution, underlining the widening appeal of participatory democracy in a country brought to its knees by a roomful of people.

One group called the Anthill conducted an experimental National Assembly in an attempt to crowdsource a manifesto. The exercise, held on November 14th at *Laugardolshöll* sporting arena in Reykjavik, saw 0.5% of the country, 1,500 citizens -- 1,200 randomly selected from the national registry; 300 invited politicians and academics -- discuss what sort of society they wanted to foster. They broke into small groups and, through crowdsourcing technology, determined which values were cited most frequently by participants.

The groups subsequently brainstormed ways that Icelanders could strengthen these pillars of society. For example, a healthy economy was cited as a shared value; participants proposed to better the economy through "improved business ethics" and "research and innovation to create strong alternative industries" among other ideas.

Organizers are hoping the participatory spirit is contagious. "Instead of focusing on a particular solution, I want to focus on the process," explained Gudjon Mar Gudjonson, founder of The Ministry of Ideas, one of the grassroots groups -- founded in the aftermath of the *kreppa* -- that make up The Anthill. The National Assembly, he said, could use the Linux model to garner appeal, which "competed with Windows because of its open source software. The beauty was in the process, which can scale so clever people all over the world can participate." Iceland's experiment, Gudjonson said, is something from which a crisis-stricken world can take heart, describing the country as "the testing ground for a more sustainable democracy."

Andri Snaer Magnason, a participant in the National Assembly, echoed these sentiments. "In Iceland you're always three degrees from The Pope," he explained. "You always know someone, who knows the

Prime Minister, who knows the Pope."

The government may have embraced such thinking for now -- parliamentarians from across the board were at the National Assembly -- but some are warning of an exodus if it progresses with IMF assistance and Icesave. Spending time abroad is already tradition for Icelanders. Will wanderers return to the flock if they fear a bleak future imposed from abroad? If they don't, public debt will be increasingly difficult to repay.

"By agreeing to Icesave and the IMF program, we're going to be in a decline for 20 years," Jonsdottir said. "I wouldn't come back." 1.5% of the population Icelanders left in 2009, it is being reported.

"Nasty, Greedy, Egotistic Frames"

Jonsdottir likened the IMF loans to prescribing booze to a recovering alcoholic. Instead of accepting years of interest payments and the possibility of structural adjustment, Iceland should halt debt payments.

"I never signed a contract that said I was responsible for 20,000 Euros but that is how much each one of us will have to pay for Icesave," she said, the amount discussed at the time. "I asked Stiglitz if America would do that. He said 'never.'"

"We should be talking and seeing what sort of connections we can make," she proclaimed, shrugging off fears that rejecting Icesave as it stands will directly lead a sharp decline. Whatever happens, she said, the country is headed for rough patch anyway and globalization should be used to foster cooperative relationships instead of supporting "nasty, greedy, egotistic frames."

"If Britain and Holland are threatening us, we should say goodbye to them. They are colonist nations, and it's hard for them to get out of this thinking."

A member of the NATO committee, Jonsdottir has an insider's glimpse of this mindset. The committee, she explained, was shown a video beseeching member nations -- even diminutive Iceland -- for military aid as the global economic crisis worsens "because when people get poor and hungry, there is instability." Why not spend more positively?

She wasn't too surprised; these are the same people who pull the strings at the IMF. Google IMF success stories and you may be disappointed, unless you're the CEO of Chase Manhattan.

Jonsdottir recalled the horror story of Jamaica's relationship with the IMF, who dangled assistance over its head to pry open markets, exposing nascent industries to more advanced ones from abroad. Agriculture, to name one, was ruined as a result. The program didn't succeed, unsurprisingly. Jamaica paid off its debts for a good three decades and recently announced it would be borrowing more. According to the CIA World Factbook, the economy is in such dire straits that 20% of its GDP comes from remittances.

Iceland doesn't have to go down the Jamaica route. Argentina, for example, got more favorable financing on its \$100 billion plus in foreign debt by defaulting in 2001. A few years later, it stopped its IMF program altogether by dipping into foreign reserves to cover the balance. Both these policies had a positive effect on employment; President Kirchner was tired of the IMF's meddling. The IMF's plan to combat inflation in the 1990s -- overvaluing the Peso by tying it to the greenback -- had set the stage for its panic and unemployment crisis in the first place.

But the Finance Ministry expressed little interest in default, which Sigfusson said should be borne out of

necessity. The government, "regardless of its legal obligations, should take reasonable measures" to reimburse depositors cheated by banks registered in Iceland. He stressed moral obligation to the people who lost their life savings, despite the glaring absence of clear legal responsibility as well as the depositors' own failure to exercise healthy skepticism about Icesave's high interest rates.

"Gross debt is huge but net debt is not that serious," he said. "We are creating value -- we have shares in new banks. Its not all losses." Landsbanki, after all, is back in public control; Sigfusson suggested that not even the most ardent of libertarians would try to sell Iceland's last bank at this point; characterizing it as a financial institution "with openness and fairness, no greed in salaries or extravagant bonuses," he added that Iceland now has its first state ownership policy.

The IMF: Protecting the Haves since 1945

Not all of Sigfusson's colleagues are as willing to shoulder Icesave and give the IMF a chance, despite their ascension to the Prime Minister's inner circle. Former Health Minister Ogmundur Jonasson resigned his cabinet position in protest, fueling rumors throughout my trip that the government's collapse was imminent.

"Foreign state power is running against us, using the IMF as its tool," the Left-Green MP claimed, calling the institution an international debt collector. The fund, he says, presents itself as a savior, "when in actual fact it is an institution that is preventing us from receiving help from abroad," until Iceland adopts policies, such as Icesave and budget austerity, that satisfy its neoliberal bureaucrats. "It is really the police force for international capitalism."

By resigning, Jonasson is hoping to shed light on the government's complicity in the Icesave affair. The government is viewing institutions like the IMF and the EU as Iceland's only hope, which is a spurious policy when you consider the numbers. Only a fraction of the IMF loan has been used so far --- roughly \$1 billion of the \$4.6 billion in emergency credit -- and borrowing is slowing. Money is needed for exchange rate supports, but capital controls help maintain it, and with a positive trade balance, the need for foreign currency assistance has lessened. Private foreign debt has been managed thus far, too, with creditors having been given shares in new banks. What else would Icelandic taxpayers need the money for, if not to pay for billions in additional liabilities? Even conventional economic wisdom (the income effect) tells us that the assistance the IMF is threatening to withhold from Iceland for rejecting Icesave is primarily for accepting Icesave.

The Absurdity

Can't Iceland at least have its day in court? Jonasson, who also had harsh words for Icelandic banks, dismissed the idea of defaulting and said that the country should pay its share, "but we want to know what these obligations are."

Iceland is just the West's whipping boy. Having lost everything at the casino, global capitalism has come home drunk to beat its smallest child. Consider Lehman: although the British government guaranteed



Dissenting Left-Green MP Ogmundur Jonasson

Icesave deposits, some British investors in a Lehman Brothers' Capital Secure plan -- one that promised "full repayment" -- are still unsure if they will get their cash back; some even lost money that they didn't even know was invested in Lehman. Not to mention the thousand or so Londoners who lost their jobs at the firm.

"I don't remember any talk of putting the US on a terrorist list," Jonasson pointed out, referring to the anti-terror legislation used to freeze Icelandic assets. "Was it the power of friendship, or the power of bullying?" Jonasson queried. "You take the little guy and put him on the nail, and leave the others."

If the government accepts Icesave and the IMF aid lined up to pay for it, Jonasson fears that, in addition to undue obligations, the welfare state will be dismantled despite Sigfusson's efforts. Will the IMF really be so understanding if the global economy hiccups again? All the reason to wean itself off the financial morphine as soon as possible.

"When the whole financial structure of society collapses, you have to prioritize what to do in whose interests. There are all kinds of rights to consider: property rights, making sure people who had deposits in banks have compensation. But there are also human rights. There are the rights of the have-nots in society. . . . The IMF is absolutely certain how to prioritize and it's definitely in favor of the haves."

"Our task is to try to make sure that the burdens are evenly spread, and it's not just the lower class that takes it," he said. Jonasson expressed belief that the government is doing its best under the most difficult of circumstances, refuting claims that the coalition was moribund.

Whatever lies ahead for Iceland, the *kreppa* has taught Icelanders lessons about economic justice that they won't soon forget. Despite Margaret Thatcher's infamous gem of wisdom, society exists. Your neighbor's house determines the value of yours. And, despite Friedman's assertion, economic individualism won't necessarily yield the best results for society.

"We say in Iceland that when we get in trouble we all take to the oars together, but," Jonasson warned, "a precondition for doing that is being on the same boat."

[Sam Knight](#) lives in Washington, D.C., where he is the events editor for OhMyGov.com.

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