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International currency shifts 'killed' Iceland

Jim Brown - OneNewsNow - 4/12/2010 7:20:00 AM


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The Nordic welfare state of Iceland has a low corporate tax rate, and some free-market reforms people like it -- but economic turmoil on the small Atlantic island is prompting many young families to flee the country.

Moody's Investors Service recently lowered the government of Iceland's credit rating to "negative" from "stable" amid growing uncertainty over the country's external liquidity.

Icelanders have been rapidly emigrating from the once-wealthy country ever since the Atlantic island's economy crumbled in late 2008 after its major banks collapsed. According to *AFP*, last year marked the largest exodus from the country since 1887.

Dan Mitchell, a senior fellow at the [Cato Institute](#) in Washington, DC, says Iceland is a "Nordic-style" welfare state, but that is not its problem right now.



Mitchell

"What got Iceland in trouble, what really killed them is international currency shifts," he explains. "They had three banks. Those three banks became very internationally active. They wound up being very exposed in terms of the value of the Iceland currency versus other currencies like the British pound and the euro. And when you have the global financial crisis, all of sudden all those liabilities that Iceland banks have [become] a lot more costly. And in one fell swoop, the financial system collapsed."

Mitchell says because of things like deposit insurance, there was a new debt burden placed on Iceland's economy, and the country may never be able to recover from it.



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