Iceland: A portent of the future

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Iceland is facing a social and economic catastrophe. Its 300,000 people have suffered the worst and most immediate impact of the worldwide financial crisis of any advanced country.

For that reason, the events in Iceland offer a portent of developments that must inevitably unfold in much larger nations and on the international arena.

Iceland's banking system has collapsed, plunging its entire economy into an accelerating decline. In the space of seven days in October, its three major banks became insolvent and the government was forced to step in and take them over. The Brown Labour government in Britain used anti-terror laws in an effort to force the return of hundreds of millions invested there by individuals, company's pension schemes, local councils, charities and police forces—much of which will not be retrieved.

The scale of the losses was due to Iceland's efforts to become a centre for global speculative investments, primarily by linking bank rates to inflation, which exceeded 15 percent. Its banks offered rates often 50 percent higher than available elsewhere.

At its height, Iceland's banks held foreign assets worth up to ten times its gross domestic product, with much of this investment secured against international loans. It represented a huge speculative bubble built on a pyramid scheme of unsustainable debt.

Iceland is effectively bankrupt and cannot possibly repay its vast debts. The losses that have now been suffered by foreign creditors are estimated to be above $40 billion. Landsbanki's online banking unit Icesave, for example, attracted more $6.75 billion in investments in the UK and $1.5 billion in the Netherlands. Both countries are demanding these sums are returned, a debt greater than Iceland's entire GDP. As **Jon Danielsson**, reader in finance at the London School of Economics, pointed out, "By comparison, the total amount of reparations payments demanded of Germany following World War I was around 85 percent of GDP."

Iceland has only staved off default by securing $10 billion in financial assistance. A $2.1 billion loan from the IMF is the first time that a developed country has received such assistance since Britain in 1976. It will be accompanied by demands for the type of "structural adjustment programmes" suffered by many impoverished African and Asian countries so that global debts can be "serviced". In addition Sweden, Norway, Denmark and Finland have lent $2.5 billion, with additional loans agreed by other European countries fearing the impact of total economic collapse.

The economy is in meltdown. In domestic currency terms GDP has contracted by 15 percent, but due to the collapse of the krona's value this represents 65 percent in euro terms. Iceland's currency is almost impossible to trade internationally. The value of the krona has halved and inflation has reached 17.1 percent, rising by 1.74 percent in a single month. Essentials have risen even faster, with food prices rising by 30 percent.

Companies are folding every day and making thousands of workers redundant. About a third of the population are believed to have lost all or most of their savings. The situation is so bad that, in surveys, one third of respondents said they were considering emigration. Many young people, with employment skills, are already leaving.

This is the background for the political protests now taking place regularly in the capital Reykjavik—directed against both the coalition government of the Independence Party and the Social Democratic Alliance and the IMF.

The concern within the media and ruling circles for the fate of Iceland is palpable. Max Keiser wrote in the *Huffington Post* asking, "Who Could Have Predicted Revolution in Iceland?"

He reports how earlier, "I asked the Head of Research at Kaupthing Bank, if when the global debt bubble did burst, the people might 'rise up' in anger as they did in France in the 1780's. He laughed at the question: Today, the Icelandic people are calling for revolution, literally."

The investment journal *Fall Street.com* also poses the question, "Who would have ever imagined that Iceland would be in a virtual state of economic anarchy and revolution?"

However, fears extend far wider than the economic and political fate of Iceland. Danielson insists that "Europe's leaders urgently need to take steps to prevent similar things from happening to small nations with big banking sectors."

Hungary has already negotiated a $16 billion loan from the IMF and $8 billion from the European Union that demands massive cuts in services, jobs and pensions, workers suffering a wage freeze and losing a yearly bonus worth eight percent of pay. Ukraine was loaned $16.5 billion from the IMF and Belarus, Serbia, Romania, Latvia, Estonia and Lithuania are reportedly actively seeking loans.

Ireland is predicted to also follow Iceland's path. *All News Web Ireland* states that "there is a good chance that Ireland might be the next European nation to hit the skids in a big way. 'The Irish property market is severely overpriced, and the level of debt here is sky-high: as people realise they can't eat a house and as investment from the US starts drying the bubble will burst' argues Sean McCarthy, a senior economic advisor to the Irish banking sector. 'When the property bubble truly deflates here and panic takes over God help Ireland.'"

The investment blog *Credit Writedowns* notes that whereas "Ireland was the first country to offer a blanket guarantee to its banks' depositors," the "country has an outsized financial sector which could not possibly be guaranteed by the Irish government." Therefore, "It remains to be seen whether there is a sub-current of panic about the fragile Irish banking system that could lead it to Iceland's fate."

Fears of national bankruptcy leading to social and political unrest are not, moreover, confined to small nations. There is serious discussion of a similar fate awaiting the world's fifth largest economy, the UK.

Patrick Hosking asked in the November 22 edition of *Times*, "Is Britain simply a bigger version of Iceland? Certainly the City of London is starting to look a bit too much like Reykjavik, but with taller buildings and fewer cod... In essence the domestic banks are largely bust. The Government's £500 billion bailout plan is primarily designed not to keep banks lending to small firms and to homebuyers but to prevent an unimaginable financial calamity."

Hosking concludes with an ominous warning: "Banks provide the very foundations and plumbing of the entire economy. A failure of confidence in them could still bring the entire capitalist edifice tumbling down... At the risk of hyperbole, we should not be worrying about whether this is going to be a thin Christmas for retailers (it is), but whether Britain and the West are about to plunge into a years-long economic Dark Age—complete with mass unemployment and social unrest."

It is such an understanding of the implications of the unfolding global economic crisis that must now begin to inform and animate a political rebirth of the workers' movement internationally and its reorientation on a socialist programme for the abolition of the profit system.

Chris Marsden