

# Protests over economic crisis topple Icelandic government

**Barry Grey****28 January 2009**

The Icelandic government fell on Monday, becoming the first regime to collapse as a direct result of the global economic crisis and resulting popular opposition. Months of street protests over the devastating social impact of the collapse of the country's currency and banking system reached a crescendo last week, when thousands of demonstrators rallying outside the parliament building pelted right-wing Independence Party Prime Minister Geir Haarde with eggs, paint and rolls of toilet paper, and police responded by firing tear gas, the first time tear gas was used against the public in Iceland since 1949.

On Friday, Haarde announced that he would step down as prime minister, citing a recent diagnosis of throat cancer, and agreed to hold early elections, which he set for May 9. His coalition government with the Social Democratic Alliance Party had been scheduled to remain in power until elections in 2011.

However, Haarde insisted that his government would not resign, arguing that political instability would compound the worsening economic crisis, which has seen prices and unemployment soar and the savings of many of the country's 320,000 residents vanish. A fresh anti-government demonstration on Saturday, involving some 5,000 people, led to a fracturing of the ruling coalition and forced Haarde to reverse course. On Monday he formally announced the resignation of the government.

On Tuesday, the president, Olafur Ragnar Grimsson, asked the Social Democratic Alliance to form a new interim government, to rule until elections are held in May, or perhaps even earlier. It is expected that the Social Democrats will form a minority government in coalition with the Left-Green Movement Party, which had supported the anti-government demonstrations.

There is little prospect that a new center-left government will stabilize the economy or silence the mounting opposition of workers, youth and middle-class

people who are being impoverished by the collapse of the heavily indebted economy. The Social Democrats are fully implicated in the "free market" speculative policies that brought the country to economic ruin, and the Left-Green Movement demonstrated its loyalty to the state and the capitalist ruling elite by offering to join a national government when the country's three major banks collapsed last October.

There are also unresolved policy differences between the two parties. The Social Democrats favor closer ties to the European Union, including a possible application to join, and have endorsed the severe austerity terms of a bailout organized by the International Monetary Fund in October. The Left-Greens have called for renegotiation of the \$2.1 billion IMF loan and opposed entry into the EU. However, the head of the Left-Greens, Steingrimur Sigfusson, indicated that he would be willing to alter these positions in return for entry into government.

The collapse of the right-wing Haarde government is the sharpest expression to date of the growing social and political turmoil across Europe arising from the economic crisis. Iceland was hit hardest by the financial meltdown that followed the collapse of the Wall Street investment bank Lehman Brothers last September because nearly two decades of "free market" policies and financial speculation that transformed the country into a center for "hot money" from international investors had left its banking system highly leveraged and entirely dependent on foreign capital.

However, similar conditions prevail in many European economies and recent weeks have seen a wave of sometimes violent protests fueled by the impact of the economic breakdown. Earlier this month Greek students and youth held daily mass protests for several weeks following the police killing of a 15-year-old youth. The Greek protests were sustained by anger over conditions of mass unemployment and poverty, especially among

young people, that have been intensified by the economic crisis.

Mass demonstrations and riots have shaken a number of Eastern European countries that have been devastated by the financial crisis, including Latvia, Lithuania, the Czech Republic, Hungary and Bulgaria. Hungary and Ukraine have both resorted to IMF loans in an attempt to stave off national bankruptcy.

In all of these countries, the governments have imposed austerity policies in an attempt to slash expenditures so as to meet debt payments to international banks and creditors. In Latvia, for example, the government this month announced wage cuts and reductions in social spending combined with tax increases.

Other European countries have also seen mass protests. In Spain, which was heavily invested in the housing and credit bubbles that have now imploded, tens of thousands of workers and youth demonstrated last week in the city of Zaragoza to demand relief from soaring unemployment resulting from the collapse of the country's construction and retail industries.

Other European economies with outsized banking systems that are immediately at risk include Austria and Ireland. Even in Britain, whose currency has fallen by 30 percent in recent months, public speculation is growing over the prospect of state bankruptcy.

Simon Johnson, former chief economist at the IMF and senior fellow at the Peterson Institute for International Economics in Washington, commenting on the collapse of the Icelandic government, told the *Washington Post*, "I think it's going to spread. We're in a phase now we're beginning to see the political fallout."

A worried *New York Times* in its account of the Iceland crisis characterized the demonstrations that have broken out in Europe "in all cases" as being "anti-capitalist."

The global economic crisis has broadly discredited the ideology of the capitalist market, but perhaps nowhere more suddenly and explosively than in Iceland. The Independence Party has ruled since 1991, with David Oddsson, now the governor of the central bank, heading the government until 2004. Under Oddsson, the international operations of the major banks grew massively, building up liabilities many times the size of the country's economic output. The country's big banks borrowed \$120 billion on international markets early this decade, six times the size of Iceland's gross domestic product. The country's foreign debt peaked at ten times GDP.

The speculative policies of the government and the

banks fueled an economic boom that lifted Iceland's per capita GDP to one of the highest in the world. Iceland topped the most recent United Nations Human Development Index.

But when the credit crisis erupted, the banks could not make their payments and the central bank lacked the foreign currency to bail them out. The collapse of the banks sent the currency, the krona, into free fall. Since most consumer goods are imported, prices soared. Unemployment shot up. Government statistics show the jobless rate up by 45 percent in December from the previous month. The finance ministry forecasts a contraction of 9.6 percent in GDP for this year and 2010 and an unemployment rate of 8.6 percent next year, although this figure is widely believed to be an underestimation.

A recent survey indicated that 70 percent of Icelandic companies are technically bankrupt, raising the likelihood of an explosive growth of unemployment. The same survey put the rate of personal bankruptcies at 40 percent of the population. About a third of the population is believed to have lost all or part of their savings.

In a commentary published Monday, the *Guardian* characterized Iceland as "the world's biggest hedge fund" and noted:

"Iceland had relatively high interest rates, so investors borrowed heavily in Japanese yen and bought Icelandic bonds. Money flowed into Iceland... The financial crash has put paid to Iceland's get rich quick scheme—known as the yen carry trade—and left Iceland saddled with debts it has no hope of paying without impoverishing its people for decades to come."



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