

# Social democrats to lead new Icelandic government

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Iceland's Social Democratic Alliance is to lead the country's new government in coalition with the Left Green Party, following negotiations between the parties this week. The coalition will receive parliamentary support from the Progressive Party, giving it a total of 34 MPs out of 63 in parliament, a slim majority.

The coalition takes over from the Independence party-Social Democrat coalition, which collapsed last Monday amid mounting protests at the social crisis brought on by Iceland's economic crisis. Elections could now be brought forward from the May 9 date previously suggested by outgoing Prime Minister Geir Haarde in a bid to placate public anger.

Elections are expected to see the Independence Party and the Social Democrats lose votes. Polls indicate that support for the Social Democrats has dropped by 10 percent since the start of the crisis. The Left Green Party is predicted to become the largest party in parliament.

While the Left Greens were the only parliamentary party to show support to the demonstrations that have taken place regularly since the economic collapse, they will not offer any alternative. Party leader Steingrimur Sigfusson has already indicated that his main priority is bring an end to "political instability" as quickly as possible, hence its coalition with the Social Democrats.

Such an alliance is not surprising when considering the party's origins. The Left Greens were formed in 2000 when a number of MPs, opposing moves to unite four center-left parties to form the Social Democratic Alliance, split away to form their own party. Since its inception, the Left Greens have been based on various forms of single issue and identity politics, such as environmentalism and feminism. The Social Democratic Alliance was heavily influenced by the so-called "third way" promoted by Tony Blair and New

Labour in Britain and the Social Democrats in Germany, which claimed that the free market could be utilized to the benefit of all.

As the Social Democrats and Left Greens negotiated the terms for their coalition, a clear warning was delivered to the incoming government from international financial circles of what was expected of them. International ratings firm Fitch stated that it would not tolerate political instability in Iceland, threatening a downgrade of the country's debt rating if IMF-backed measures were not implemented as agreed.

The Financial Times had written on Monday that "A dramatic shift to the left could seriously undermine already extremely fragile international confidence in Iceland's currency and trigger massive capital flight as investors bail out."

It continued: "The absence of political stability and uncertainty over the ability of any new government to implement an economic rescue package devised by the International Monetary Fund as part of a \$6bn rescue package could encourage capital flight."

Fears have been raised that Iceland could run out of money, particularly since many commentators believe the IMF-backed loan deals to be completely inadequate to rectify the crisis. At the time of the \$10 billion package, one observer noted that at least double that figure would be required to restabilise the banks. As tax revenues drop dramatically and demand for unemployment benefits jumps, the financial constraints facing the new government are tightening. Writing on the BBC website, economist Jon Danielsson warned, "It is hard to accurately evaluate current government debt, but estimates are well in excess of the annual GDP. If government financing is not brought under control, a sovereign default may happen."

The fact that the incoming government will have the backing of the Progressive party is revealing. The Progressives, a centre-right party traditionally linked with farming interests, ruled in coalition with the Independence Party from 1994 to 2007, during which time it collaborated in the deregulation of the banking system and the opening up of Iceland's economy to the international market. Between 2004 and 2006, then-party leader Halldór Asgrímsson held the post of prime minister. In exchange for its support, the Progressives will place pressure on the government to maintain controls on public spending, as well as encourage membership in the European Union.

A move towards EU membership is likely, with prominent social democrats making clear they would support such a course. While initial polls after the economic crash in October appeared to indicate widespread support for such a move, public sentiment is far from being strongly in favour of the EU. Rather, with the skyrocketing cost of living due to the collapse of the Krona (ISK), many simply saw no alternative. But as the months have passed, the numbers in favour of EU membership have begun to fall back, now standing at only 38 percent in the latest poll.

Reports on Friday suggested that preparations for Iceland's speedy entry to the bloc are underway, provided a pro-EU government takes office in Reykjavik after the upcoming elections. If an application was submitted in the coming months, officials indicated that Iceland could be admitted to the EU as early as the end of 2010 or 2011. Olli Rehn, the EU's enlargement commissioner commented, "On Iceland, I hope I will be busier. It is one of the oldest democracies in the world and its strategic and economic positions would be an asset to the EU."

Although the Left Greens have generally remained opposed to EU membership, the party has shown itself during the negotiations to be willing to compromise on any of its policies in order to gain admission to the government. As Sigfusson stated on Wednesday, "I don't see anything big that we might disagree on in a way that might break up our attempts to form a government coalition."

This will apply no less to the domestic front. The new government will come to power confronting a rapidly escalating social crisis, the sharpest expression yet of the unfolding global economic meltdown. Figures released Wednesday showed inflation rising to 20 percent, brought about by the collapse in the value of the krona since the beginning of 2008.

A day earlier, statistics showed consumer confidence down by 80 percent from the same period last year. With Iceland forced to import the vast majority of commodities, the collapse in the currency's value has seen prices explode for working people. Many who took out loans in foreign currencies during the economic boom to avoid high interest rates at home now find it impossible to pay back their debt. Interest rates continue to be high, with the central bank maintaining the rate at 18 percent this week.

Unemployment is spiralling out of control, up 45 percent in December from the previous month. With 70 percent of Iceland's companies technically bankrupt, the number of those out of work will continue to rise. Given that pressure will mount from the IMF, the EU and international finance capital for the government to slash its spending in order to divert its resources towards economic "stabilisation", many many people will find themselves out of work with very little if any support from government.

Comments made by Social Democratic and Left Green MPs indicated that one of the new government's first moves would be to remove the board of the central bank. This has been one of the main demands of the protest organisers, with many placing the blame for the economic collapse on the central bank, and its governor David Oddsson in particular for failing to regulate financial speculation. Incoming Prime Minister Johanna Sigurdardottir, who was social affairs minister in the previous government, stated, "It is clear that one of the first things that this government will do is to replace the governor of the central bank."



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