

Iceland: Social democrats and Left Greens pledge to continue coalition after elections

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18 April 2009

As Iceland prepares for early elections scheduled for April 25, the Social Democratic Alliance (SDA) looks set to emerge as the largest party. The SDA currently makes up the interim government, in coalition with the Left Green Party, which has been in office since the beginning of February. The coalition was formed in the aftermath of mass protests in late January that forced the resignation of the Independence Party-SDA coalition led by Prime Minister Geir Haarde.

The latest polls give the SDA 29 percent support, with the Left Greens on 27 percent. It is considered likely that the current coalition will continue since both parties have, for now at least, ruled out cooperation with the right-wing Independence Party.

The interim coalition has sought to present itself as a significant change from previous administrations, which have been dominated by the Independence Party for the last 18 years. Nonetheless, in key areas of policy the essential continuity between the current “red-green” coalition led by Prime Minister Jóhanna Sigurdardóttir and its predecessors has become clear.

Upon taking office the government pledged to continue with the IMF-backed programme negotiated by former finance minister Arni Mathieson. Although the new finance minister, Left Green leader Steingrímur Sigfússon, had pledged to seek changes to the austerity programme, the first statement issued by the new administration noted, “The economic policy of the government will be based on the programme already established by the authorities and the IMF.”

The Left Greens have played a critical role in offering a left fig-leaf for government policy. Its recent party conference in March declared, “It is very important during these difficult times that we support the government of this country working towards equality and justice. The Left-Greens have not spent the past few weeks shoring up a country that was left in ruins after the neo-liberalist policy of a right-wing administration to only see the Independence

Party return to the government after a short break in its 18-year stint in power.”

But Sigfússon did not rule out a future coalition with Independence Party, stating that given the current circumstances it would not be wise to cooperate with them. Far from disagreeing fundamentally with Independence Party policy, the Left Greens have merely calculated that it would not be advantageous for them to collaborate in government with Independence given the hostility felt towards them by broad sections of the population.

The SDA-Left Green government has implemented a number of cosmetic changes, including the replacement of the three governors of the central bank (Sedlabanki) by a single governor appointed by Sigurdardóttir. In addition, the coalition has been pushing for parliament to agree to the formation of a constitutional parliament to make changes to the country’s constitution.

In Iceland, changes to the constitution must be debated and approved by a constitutional parliament before they can become law. Anyone over the age of 18 can run for election to the latter body, provided he or she is not currently a sitting MP or the president of Iceland. Deliberations over these proposals have delayed the dispersal of parliament, with the result that the time available for candidates to campaign will be short.

While these proposed changes are presented as increasing democracy, their main purpose is to enable the implementation of measures that will make it easier for Iceland to join the European Union. The changes would increase the power of national referenda as well as making them easier to call, preparing the ground for a vote on the EU.

In spite of promises to the contrary, any new government will be compelled to launch massive spending cuts. The extent of state indebtedness remains unclear, but all analysts accept it is well over 100 percent of GDP. As investigations progress into the liabilities of the three main failed banks, Kaupthing, Glittnir and Landsbanki, this figure will only rise.

The main reason why the Social Democrats and Left Greens continue to enjoy public approval has less to do with genuine support for the coalition's policies than with the fact that no viable alternative exists.

But that will not continue indefinitely. Economic conditions continue to be bleak, with unemployment rising to over 9 percent. Over 17,000 were out of work in March, the largest number since records began in 1980. The latest lay-offs were announced by Straumur, another bank which was nationalized at the beginning of last month. The figure is set to rise even higher when students finish their studies at the end of May with little prospect of securing employment.

These problems are compounded by the continued weakness of the krona (ISK), which lost 6 percent of its value in the first week of April. In a country where the vast majority of commodities are imported, prices continue to be exorbitant for working people. The results can be seen in the dramatic rise in company bankruptcies in recent months, yet another factor contributing to the growing number of unemployed.

On April 1 capital controls and other restrictions were tightened by the central bank in a bid to prevent the krona's continued slide. One week later, Sedlabanki announced on April 8 a 1.5 percent interest rate cut, coming just three weeks after a 1 percent cut on March 19. This leaves interest rates now at 15.5 percent. The reduction was partly motivated by the drop in inflation in recent months, which fell by 0.6 percent in March.

Anger among the population is also being stoked by investigations which are beginning to reveal some of the criminal methods practiced by the financial elite prior to the banking crash last October. Although it began with only four members, the team of investigators looking in to the financial dealings of the country's banks has now grown to 20.

It has been revealed that up to half of all loans made by Iceland's banks were directed to holding companies which were controlled by the same banks. These companies could then use the funds to buy up bank shares thus boosting the given institution's financial position.

An example of this practice was seen in the case of Kaupthing, which just weeks before its collapse announced that an investor from Qatar had purchased 5 percent of the bank's shares. But in the wake of the downfall of Iceland's largest financial institution, it was revealed that the shares had been obtained using a loan provided by Kaupthing and that the shares were bought by a holding company which had links to a Kaupthing employee.

Eva Joly, who led an investigation into fraud at European oil company Elf Aquitaine, has been hired to carry out the inquiry. Making clear that these dealings were not limited to

Iceland alone, she stated, "Finding proof will start at home in Iceland, but my instinct is that it will spread. If there are things relevant to the UK we will get in touch with the Serious Fraud Office. If there are things relevant to Germany we will get in touch with their authorities."

Recent weeks have also shed light on the relationship between the banks, other financial institutions and political parties, with reports emerging of substantial donations being received by both the Independence Party and the SDA in 2006.

The Independence Party received a donation of 25 million ISK (147,000 euros) from Landsbanki and another 30 million ISK from investment firm FL Group just days before a law came into force which limited donations to political parties to 300,000 ISK. This has drawn considerable criticism, particularly since ex-Prime Minister Geir Haarde, who led the Independence Party at the time, initiated the bill to limit party donations.

On April 10, the party's managing director Andri Óttarsson tendered his resignation, and current party chairman Bjarni Benediktsson has vowed to repay the funds. Benediktsson took over from Haarde at the party conference last month following the latter's decision to leave politics to be treated for throat cancer.

Meanwhile, the total donated to the Social Democratic Alliance increased fivefold between 2005 and 2006, with Kaupthing, Landsbanki and FL Group making up the three largest sources of funding, at 5 million ISK, 4 million ISK and 3 million ISK, respectively. The total funding received by the party in 2006 was 45 million ISK, compared to the Independence Party's 80 million ISK.

These figures reveal the close connection between the financial and political elites in Iceland. Regardless of the outcome of the upcoming elections, the new government will seek to protect these interests whilst shifting the burden of the economic crisis on to working people.



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