

# Iceland: Social Democratic-led coalition secures victory in early elections

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In early elections held Saturday, the ruling coalition of the Social Democrats (SDA) and Left Green Movement secured a parliamentary majority and will in all probability continue in government. The final result was less decisive than pre-election polls had suggested, with the SDA-left Green coalition winning 34 seats in the 63-seat parliament. Nonetheless, it is the first time since the foundation of Iceland as an independent state in 1944 that nominally “left” parties have held a majority in parliament.

The Left Greens were the main winners in the vote, increasing their representation in parliament from nine to 14 MPs. The party finished in third place, behind the Independence Party, which recorded an historic low of 16 MPs, and the Social Democrats, who increased their total by two to 20. The Progressives, who were in coalition with the Independence party prior to 2007, did better than expected, with nine MPs, up from seven before the poll.

The newly-formed Citizens Movement, brought together in the aftermath of the financial collapse and subsequent protests, achieved 7.2 percent of the vote and four MPs. This growth was largely at the expense of the Liberal Party, which lost all four of its MPs by failing to achieve the 5 percent of votes necessary to gain representation in parliament.

Negotiations over a continuation of the coalition will focus mainly on the issue of membership in the European Union. The SDA made it clear during the election campaign that it would push for Iceland to join the bloc, with Prime Minister Johanna Sigurdardottir commenting that this could be achieved during the next government’s term in office. The Left Greens are opposed to joining the EU, although they have begun to soften their stance and are supporting calls for a

referendum on the subject.

In the immediate aftermath of the financial collapse last October, polls indicated a majority in favour of EU membership. The numbers have since fallen back and now show that less than 50 percent would support such a move.

The incoming government will be compelled to implement drastic spending cuts as state debt continues to rise. Even before Saturday’s vote, International Monetary Fund officials made clear that no deviation from the conditions laid down under the \$10 billion rescue programme negotiated with the previous Independence party-led government would be tolerated.

Since the government led by Geir Haarde fell in January, the next installment of the IMF loan has been on hold pending the establishment of a permanent government in Reykjavik. The IMF’s Franek Rozwadowski told *Morgunbladid*, “We will be back in business right after the election. We will be waiting for a call from the new government as soon as possible and then the discussions can begin.”

Left Green leader Steingrimur Sigfusson has gone out of his way to assure international finance capital that his party will merely aim to curb the worst excesses of what he terms “neo-liberal capitalism.” Speaking to the *Financial Times* on the eve of the vote, he explained, “We want free and open markets and good relations with our trade partners but that does not mean we will drive forward with the same philosophy that has turned out to be very harmful to us.”

In seeking to offload the economic crisis onto the backs of working people, the Left Greens will play a critical role, attempting to divert widespread public hostility towards the political establishment with rhetoric about abandoning “neo-liberal” politics.

The mood amongst the population remains one of

frustration, which could quickly be transformed into outright opposition as economic conditions worsen. Far from commanding strong support, many saw the SDA and Left Greens as the only alternative available to them. As one person commented to the *Financial Times* on the eve of the vote, “The system is broken. If I vote it is for a lesser evil than what we had, not because I think politicians can fix this. I don’t see how anything can get better now.”

The outlook for the economy remains bleak, with a contraction of at least 10 percent this year expected. This has resulted in a sharp increase in unemployment, reaching 20,000 in a country with a population of just 320,000. The government is facing major concerns as to whether it will be able to meet the costs of rising benefits and social services, particularly since the extent of state liabilities resulting from the collapse of the financial system remains unclear. One estimate has suggested that the unemployment fund may run out of money by November.

Former central bank head David Oddsson was the target of many protesters during the mass demonstrations earlier this year. But investigations are bringing to light the dubious methods employed by a number of the Icelandic banks during the period prior to last year’s collapse. Fully 50 percent of all bank lending was directed to holding companies, with some cases emerging of companies with links to bank employees purchasing shares to boost balance sheets.

The Independence Party was held primarily responsible for this situation. The weeks in the lead-up to the elections had seen a number of revelations regarding Independence Party funding which pointed to the close connections it enjoyed with failed banks Landsbanki and Kaupthing, as well as the financial firm FL Group.

But the SDA received large donations from the same financial institutions when it sat in government for nearly two years with Independence.

The newly formed Citizens Movement, which grew out of the protests earlier this year, attempted to style itself as an anti-establishment party. Alluding to the substantial funding enjoyed by the main parties, a party spokesman declared that the five seats secured by the movement were “the cheapest five seats in Icelandic history.” (Results subsequently reduced the number of Citizens Movement MPs to four).

But the party’s programme offers little alternative. Pledges to clean up corruption and end the backroom deals characteristic of the old Independence Party government undoubtedly won it much of its support. But the Citizens’ Movement sees Iceland’s future as a member of the EU. Together with the SDA and Progressives, this was one of its main election promises.

EU membership would not lessen the attacks on working people. Inflation would have to be brought under control and the massive state debt reduced by severe spending cuts. Inflation is still running at over 15 percent and the capital controls that were imposed to defend the rapidly falling krona are driving many businesses abroad or into bankruptcy. A recent report indicated that three businesses are going bankrupt every day.

In this environment, even some of the original proposals made by the coalition partners in February have been quietly dropped, such as the promise to hold a constitutional convention and the pledge by the Left Greens that the terms of the IMF package would be renegotiated. Even on the issue of an investigation of the causes of the banking collapse the new government has stalled since it knows full well that it was not only the Independence Party that was guilty of dealing secretly with the banks.



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