Iceland: Social democrats and Left Greens finalise coalition agreement

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On May 10, The Social Democratic Alliance (SDA) and Left Greens announced an agreement to form a government in Reykjavik, following their victory in last month's election. The coalition controls 34 seats in the 63-seat parliament, 20 of whom are SDA members and 14 Left Green representatives.

While many have noted that the coalition represents the first "left-wing" government in the history of Iceland, the government will not represent the interests of working people. Rather, it will continue the close collaboration initiated by the former Independence party-led administration with the IMF, and seek to shift the burden for the on-going crisis on to the working class.

In its policy statement, issued on the same day, the government stated, "The government coalition of the Social Democratic Alliance and the Left-Green Movement has been formed to ensure economic and social stability, and to seek national unity on Iceland's path to reconstruction—a new stability pact."

Such calls for "national unity" and a "stability pact" are characteristic statements of a government seeking to cover over class differences and prevent the reemergence of the protests which brought down the former government in January. It can also be used as a justification for launching deep cuts in government spending for much needed services, an outcome which is now considered inevitable.

In keeping with its call for a national consensus, the coalition has agreed to allow two non-party members to continue as ministers in the twelve-member cabinet. Most significant of these is economist Gylfi Magnússon who will continue as minister for business affairs. Through the appointment of these so-called "experts", the new government will seek to implement measures deemed to be in the interests of the bourgeoisie.

Despite promising the creation of jobs and fighting for principles of "equality and social justice", government policy in the coming period will be characterised by austerity measures. The coalition made clear that its main priority was the balancing of the state budget by 2013, as well as the reconstruction of the banking system which collapsed last October.

The cost of this remains unclear, with state liabilities from the collapsed financial institutions still being quantified. One of the main challenges facing the incoming administration will be the resolution of the old banks' outstanding debts in other countries.

In this regard, negotiations with Britain continue to present problems. As Iceland's banking system collapsed last October, the Brown government in London made use of anti-terrorist legislation to freeze the assets of the UK operations of Kaupthing and Landsbanki. Many in Iceland maintain that these measures were responsible for the subsequent demise of Kaupthing, the country's largest financial institution.

As negotiations on the new coalition were finalised, Iceland's ambassador in the UK, Sverrir Haukur Gunnlaugsson, addressed a letter to all UK MPs in order to explain the opinion of the new government in Reykjavik on the issues surrounding the banking crisis.

The letter came in the wake of a Treasury Select Committee report released on April 4 which criticised the use of the Anti-Terrorism, Crime and Security Act against the Icelandic banks and called for a wider investigation into the issues surrounding banking regulation. Pointing out that the anti-terrorist legislation remains enforced against Landsbanki's assets nearly six months after the event, Gunnlaugsson wrote, "We believe that the imposition of the Act's sanctions had ramifications well beyond what seems to have been the UK Government's original intention. It had an impact on Iceland's economy, its financial system as well as on its worldwide reputation."

Then on May 7, responding to a question in Parliament about the debts incurred by a local hospital, Brown claimed that the UK was not responsible for the regulation of Kaupthing , Singer and Friedlander in spite of the fact that the institution is based in Britain. He added that the UK was in discussions with the IMF as to how Iceland could repay the funds due to all organisations who had suffered losses, totalling nearly £1 billion.

This provoked a terse response from Reykjavik, with foreign minister Ossur Scarphedinsson issuing a protest which stated that Brown's comments were "unhelpful". Finance minister Steingrimur Sigfússon told Frettabladid, "I find these comments strange and unacceptable.

"We consider this a two-sided matter (between Iceland and the UK) and expect others to do the same. This is a serious matter for the IMF if there is some truth in this."

Despite these exchanges, the new coalition is holding out hope for a resolution of the dispute within its first 100 days in office. The UK represents one of Iceland's largest trading partners, making the issue all the more crucial for the new administration.

As well as the resolution of its external debt, the new government has outlined a number of goals it will seek to achieve during its first 100 days in office. It intends to agree a new state budget, which will be based on terms agreed upon with the IMF, and reformulate the country's labour policy. Observers have noted that wages for many government workers could be slashed, with reports already circulating of short-term work for city workers in the northern town of Akurayri.

The creation of new labour laws is significant, coming in the midst of a steep economic contraction. Iceland's existing labour laws require that employers give workers three months notice before they can be dismissed. While the government has yet to make any concrete proposals on the matter, it is to be expected that calls will grow for such safeguards to be abolished.

Meanwhile, recent government predictions show that the economy will suffer a worse decline in 2009 than had been previously expected. Figures have been revised down from a 9.6 percent contraction to a 10.6 percent drop in GDP for the current year. Unemployment is seen rising above 9 percent, as opposed to the 8.6 percent previously forecast. In spite of this evidence however, the finance ministry claimed that the worst of the crisis has past, adding that the economy could see growth of up to 4 or 5 percent in 2011. Such figures appear wildly optimistic, particularly when considering the unlikelihood of any sharp upturn in the world economy any time soon.

With the economy deteriorating further, the Central Bank reduced interest rates on May 7, from 15.5 percent to 13 percent. This was the third steep reduction in less than three months and a further lowering of the rate is expected in the coming months as inflation continues to fall. Interest rates in Iceland have been high as the central bank sought to curb rampant inflation which reached a high point of 17 percent at the start of 2009. They reached 18 percent following the agreement last November with the IMF.

This is the environment within which increased focus is being given to the issue of EU membership, with many claiming it is the only way for Iceland to rebuild its economy. Both governing parties disagree on the issue, which meant negotiations on forming the coalition took longer than expected. The final agreement stated that Parliament would vote to open negotiations with the EU, but that any decision on joining would be reserved for a national referendum.

In spite of statements to the contrary, the Left Greens have clearly softened their stance to the EU. Party leader Steingrimur Sigfússon claimed that Left Green opposition to EU membership still stood, but went on to declare that the parliamentary vote on opening discussions with the bloc would be an opportunity for Left Green parliamentarians to vote as their conscience dictates.

Prime Minister and SDA chairwoman Johanna Sigurdardóttir insisted in comments at a press conference on May 10 that Iceland should move quickly towards EU membership. Referring to the parliamentary bill which will initiate negotiations with Brussels she stated, "It will be in the first days after the inaugural session. We insist that a membership application be sent to the EU before July."

While the most recent polls indicate that a majority of Icelanders are in favour of opening negotiations with the EU, the result of a referendum on joining is far from clear. Substantial opposition exists from local business and the fishing industry, who see Brussels as a threat to their survival, as well as from ordinary people who view the EU with suspicion. In spite of the vast expansion of the banking sector immediately prior to last year's financial crash, fishing remains the second largest employer with approximately 4 percent of the working population employed directly in the sector. Many of these jobs will be threatened should Iceland join the EU, a move which would see its fishing industry come under the control of Brussels.

Supporters of integrating Iceland in to the EU claim that no alternative exists for the country to come out of the current crisis. The continuing weakness of the Krona has also led sections of the ruling elite to conclude that adoption of the euro would be the best course of action.

Given the current state of the European economy as a whole, the EU does not offer any basis for economic recovery for Iceland. Any move to join the EU would entail vast public spending cuts in order to balance Iceland's budget and reduce inflation, which is still running at over 11 percent. The impact on ordinary working people would be devastating, with many much needed social services being reduced at the moment when they are required most.