

Iceland: Government and trade unions impose IMF austerity measures

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On June 26, a comprehensive agreement was announced between Iceland's government, trade unions and employers' organisations, containing plans for sharp public spending cuts and tax hikes. The "stability pact" had been under negotiation for several weeks and is in response to pressure from the International Monetary Fund (IMF) for the government to seek a balanced budget by 2013.

Speaking at the signing of the agreement, Prime Minister and Social Democrat (SDA) leader Johanna Sigurðurdóttir commented, "Now we have a map showing the route that employers and workers in both the private and public sector, together with the state and municipalities, have agreed we should follow."

Presented as an agreement for "shared sacrifice," it will facilitate the bail-out of the financial elite at the expense of the working class. Such an approach has been endorsed fully by the Left Greens, the junior partners in the governing coalition. Finance Minister and party leader Steingrímur J. Sigfússon insisted that, given the economic climate, "this is a hard choice but unavoidable."

The government has given way entirely to the dictates of the IMF. In total, the government will save 70 billion kronur (€390 million) through spending cutbacks and reorganisation over the next three years, while at the same time increasing income taxes and charges on everyday items such as soft drinks to meet a budget gap of 170 billion kronur over the next four years. The planned tax hikes will account for up to 58 billion kronur.

Another key demand of the IMF taken up by the government is the prompt removal of capital controls, which were enacted after the financial crash to defend the krona. In the agreement, the government gave a deadline of August 1 for proposals to be finalised regarding the lifting of these restrictions. Even now, with strict controls on foreign investment, the value of the krona has slid in recent months, down by around 3 percent against the euro since June 1. When capital controls are lifted, the value of the krona is set to plummet, which will have a devastating impact on

working people through increased inflation.

A plan is to be drawn up preparing the way for the re-privatisation of Iceland's banks, which are currently in state hands. New Kaupthing, New Landsbanki and Islandsbanki (formerly Glitnir) will be under private control within five years according to the government, with special consideration given to foreign investors wishing to obtain a stake in the institutions.

A deadline of November 1 has been set for the resolution of the ownership of the banks. Currently, those banks nationalised last October have been divided into "old" and "new" entities, with foreign obligations remaining in the "old" institutions, while the "new" banks operate on a domestic basis.

The measures amount to a commitment from the government to impose the massive debts incurred by the financial elite on working people, before handing the debt-free institutions back to private interests.

As well as covering plans for the financial sector, the agreement contained details on how the government would seek to provide jobs and boost investment. The pact pledges to encourage pension funds to invest in "major projects" with the aim of increasing employment. This will expose retirees to the risk of their already depleted pensions being wiped out.

The role of the trade unions was crucial in securing the agreement. Amid rampant inflation and the possibility of a further devaluation of the krona, Iceland's unions accepted pay arrangements in the private sector until the end of 2010. The imposition of limits on pay increases means that workers' wages will fail to keep pace with inflation. Similar agreements were mooted for the public sector.

Although Iceland's economy is contracting sharply, inflation rose in June to over 12 percent.

The central bank responded to the rise by holding interest rates at 12 percent in June, in spite of pressure from the government for rate cuts. Interest rates have dropped from a high of 18 percent at the end of last year. The IMF welcomed the Central Bank's decision, insisting that interest

rates must remain high to combat the threat of inflation. The government is aiming to reduce interest rates to single figures by November.

In addition to rampant inflation, working people confront rising unemployment. Currently standing at 9 percent, it is projected to reach 10 percent by 2010. This figure would be much higher but for the fact that some 8,000 workers are reckoned to have left the country since last October.

In last month's agreement, the government announced that steps would be taken to clamp down on the "abuse" of unemployment benefits—a sign that attacks on benefits are being prepared.

Negotiations over the reimbursement of those owed money from IceSave accounts have been concluded with a deal which will impose the entire bill on the Icelandic state. IceSave was the internet banking operation of Landsbanki, which obtained extensive deposits from the UK and the Netherlands in particular. Nearly ten months after Landsbanki's collapse, its UK assets remain frozen by the British Financial Services Authority.

According to Iris Erlingsdóttir writing in the *Huffington Post*, the cost of repaying all of IceSave's outstanding debts amounts to \$16,000 for every Icelander. Birgitta Jónsdóttir of the opposition Citizens' Movement demanded that the agreement be renegotiated, while Progressive Party leader Sigmundur David Gunnlaugsson stated that "It is just unacceptable and very dangerous for the state to take on this sort of debt responsibility."

Sigfússon has warned parliamentarians that it will not be possible to begin negotiating a new deal with the UK and Netherlands governments. He has said that the remainder of Iceland's IMF loan is dependent upon the passage of the IceSave agreement.

In a separate agreement, which finalised terms on a joint loan of €1.8 billion from the Scandinavian countries, it was stipulated that failure to close the IceSave deal would result in the funds being withheld.

IceSave represents only part of the debt the state must deal with. Bloomberg has estimated that the sum which the state must repay in the matter of the three nationalised banks, Kaupthing, Landsbanki and Islandsbanki, could amount to €57.5 billion. This is a colossal sum for a country whose GDP annually stands at roughly €10 billion.

Small protests have re-emerged in Reykjavík to voice opposition to the IceSave settlement. Ordinary people are increasingly unwilling to tolerate spending cuts for basic services so that the government can divert its resources to bailing out the criminal operations of the financial elite. On June 20, several hundred people gathered outside parliament as the IceSave bill was being debated to protest their frustration at the lack of action by the government to help

those hit hard by the economic crisis. The group Voices of the People, which came to prominence in last winter's protests that forced out the previous government, has called for weekly protests outside parliament.

Figures within the financial elite have also become targets for protest, with red paint thrown at the homes of Björgólfur Gudmundsson and Hannes Smarason. Gudmundsson is a former chairman of Landsbanki, while Smarason was the head of FL Group, a financial firm which had close ties to the major political parties.

The hostility is being driven by further revelations of the criminal operations of Iceland's banks in the lead up to last year's financial crash. In 2006, Kaupthing loaned its employees a total of 47 billion kronur to purchase their own shares. Kristjan Arason, then the head of commercial banking operations, was granted a total of 893 million kronur, while the bank's head lawyer Helgi Sigurdsson received over 400 million kronur at the same time as it was announced that individual responsibility for loans used to purchase shares would be written off if necessary.

It emerged on July 7 that Gudmundsson and his son Björgólfur Thor Björgólfsson had demanded that the New Kaupthing bank write off nearly half of their debt. The pair owe an estimated 5.9 billion kronur (€34 million) to New Kaupthing, as a consequence of a loan made by Kaupthing to their holding company in 2003 to buy a 45 percent stake in the privatised Landsbanki. With the holding company having gone bust since the financial crisis last year, the two are personally responsible for the debt.

Morgunbladid has reported that New Kaupthing initiated court proceedings in March, but this was later dropped. Bearing in mind the influence enjoyed by Gudmundsson and Björgólfsson within ruling circles, it is not hard to imagine why the case was halted. Gudmundsson and Björgólfsson have now claimed they will seek to pay 500 million kronur of the debt this year, but are pushing for Kaupthing to write off 3 billion kronur. Such demands are particularly outrageous at a time when the vast majority of the population are confronted with unemployment, massive personal debt and the prospect of deep public spending cuts.



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