

Iceland's president vetoes IceSave law

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Ólafur Ragnar Grímsson, Iceland's president, announced Tuesday that he would not sign into law the Icesave bill, which stipulates terms for the repayment of loans to Britain and the Netherlands. Instead, a referendum will be held on the matter, with polls indicating that a substantial majority of Icelanders will reject the latest version of the measure.

The move provoked a furious response in international financial circles. Fitch immediately downgraded Iceland's long-term debt rating to junk status. British reaction was especially aggressive, with the *Times* reporting that the Treasury may consider seizing the remainder of Landsbanki's UK-based assets. Jeremy Warner began his comments in the *Telegraph*, "Right, that's it. They are definitely not going to be allowed into the European Union now. In fact they will be lucky if we don't set the gunboats on them."

Such responses typify the determination of the ruling elite that working people must be made to pay for the financial crisis. Any challenge to this diktat is met with fury, contempt and threats of ever-greater financial penalties against the population of the "offending" country.

British commentators have also rushed to blame the entire population of Iceland for the financial collapse, claiming that everyone chose to benefit from the vast expansion of the banking system. The *Guardian* wrote, "Icelanders were happy to take the profits in the boom years."

The fact that the decisions that helped precipitate the crisis were taken by a handful of international speculators, entirely insulated from the concerns and opinions of the working class, is ignored by these commentators.

In this way, the financial oligarchy and their political mouthpieces in the media seek to divert attention from the real causes of the crisis, and the billions that have been spent bailing out the financial institutions. As the novelist Einar Már Gudmundsson commented, "We were told that what these banks did abroad was nothing to do with us, but when it all went wrong the responsibility fell back on us. Profits were privatised, but losses were nationalised."

The IceSave dispute was caused by the collapse of Landsbanki at the end of 2008 following the sub-prime mortgage crisis in the United States and the resulting "credit

crunch."

IceSave was an online savings service Landsbanki provided to depositors in the UK and the Netherlands, attracting roughly 300,000 British and 100,000 Dutch savers. With Iceland's major banks having collapsed and the state facing bankruptcy, London and Amsterdam repaid a total of £3.4 billion (€3.8 billion) to IceSave depositors. Ever since, negotiations have been ongoing with Britain and the Netherlands seeking full repayment of the funds from Reykjavik.

Grímsson's move came after months of lengthy debate within the Althingi (parliament), which narrowly approved the latest version of the bill on December 30. An earlier version of the legislation, which was overwhelmingly backed by parliament and approved by Grímsson in August, would have limited repayments to 6 percent of GDP and would have also allowed Iceland to challenge the settlement in a court of law.

Britain and the Netherlands rejected the repayment cap, demanding even stricter terms with complete disregard for the consequences. That it is their rapacious demands that triggered the crisis is also passed over in the international media, which has been quick to present the situation as proof that Iceland is renegeing on its obligations.

The latest bill requires that Iceland repay the entire sum by 2024, at an interest rate of 5.5 percent. Interest will be frozen for the first seven years (until 2016), but will then run until repayment has been completed. According to estimates, repayments could rise as high as €400 million by 2020/2021. In total, the amount to be repaid is equivalent to €12,000 for every Icelander, or €44,000 for every family.

The terms have been likened to the Versailles Treaty imposed on Germany after World War I. Icelanders have shown their opposition to repaying debts on such terms when they were incurred by privately owned banks engaged in rampant speculation. Nearly 50,000 people—almost one quarter of the adult population—signed a petition urging the president to send the bill to a referendum.

The petition was organised by the InDefense group, which was formed at the end of 2008 to oppose the use of the anti-terrorism act by Britain against Kaupthing and Landsbanki

assets. The group, which is presented in the media as a grassroots organisation, is based on Icelandic nationalism and focuses its campaigns on upholding Iceland's standing within the "international community."

Progressive party leader Sigmundur David Gunnlaugsson was involved in its initial formation, until he was elected to parliament last April. The Progressives are a right-wing party, which sat in a coalition with the Independence party for more than a decade from the mid-1990s until 2007. It was during this period that Iceland's banking system was privatised and deregulated, which played a significant role in its collapse.

Polls indicate that the referendum will see the IceSave bill rejected. In an online poll conducted in December with more than 7,000 participants, 69 percent stated that they opposed Iceland being fully responsible for compensating IceSave depositors.

Independent assessments of the events of 2008 have supported the argument that it should not only be Iceland receiving the blame for the bank's failure. A recent study by Sweden's central bank (Riksbank) noted the lack of regulation by the British government on IceSave operations, concluding that the UK should assume some of the financial burden as a result.

Britain has been quick to dismiss such a suggestion, insisting that Iceland meet its international obligations. London responded tersely to the announcement that the IceSave legislation had not been accepted, with Treasury officials threatening Reykjavik with isolation.

Lord Myners, Britain's minister for financial services, declared that Iceland's relationship with the EU and the IMF was on the line, implying that Britain would use its influence to block future financial support and EU membership. Myners stated, "I don't think it's a case of us having to warn them. The Icelandic government recognised that this was the case."

Suspensions regarding British influence within the IMF being used to hold up the second part of Iceland's US\$2.1 billion (€1.46 billion) loan were expressed earlier in 2009. Though the IMF agreed to release the second installment of the loan in October, this amounted to little more than US\$150 million and will be quickly absorbed. There remain seven further installments yet to be approved, and a further US\$2.5 billion support package from the Nordic countries is also being dispersed in installments.

Finland made statements to the effect that the next installment of its loan would be placed in jeopardy in the event of a "no" vote in the referendum. Norway has confirmed that the next installment of its support will be withheld until after the referendum. The loss of financial support upon which the government is depending will once

again raise the spectre of state bankruptcy.

This will further destabilise the coalition government. Roger Boyes, writing in the *Times*, described Iceland as a society which was becoming "ungovernable." Prime Minister Johanna Sigurdardóttir, leader of the Social Democrats, reportedly commented after the president's announcement that her coalition may not survive a referendum.

Sigurdardóttir's government does not only confront debts from IceSave. The £3.4 billion sum is a small portion of Iceland's much larger public debt, which, according to a recent IMF assessment, could reach 300 percent of GDP. Should Iceland accept full responsibility for the compensation of Britain and the Netherlands, its public debt could increase by between 20 and 40 percent of GDP. During the 2008 crisis, the IMF warned that such levels of public debt would be unsustainable.

The government has already spent billions of euros recapitalising the failed banks, two of which have already been returned to private hands to recommence their speculative activities. At the same time, it has launched a massive attack on public spending in order to fund the bailout of the financial elite.

While working people in Iceland must reject the idea that they should pay for the speculative activities of a criminal financial oligarchy, a "no" vote in the referendum is an insufficient response to the current crisis. The population will still confront vast reductions in services and deep cuts in government spending, and the rejection of the current version of IceSave will bring demands for even greater penalties against the country.

Rejection of the IceSave bill must be part of a refusal by working people to pay a single euro towards helping fund the economic crisis caused by a reckless and criminal financial elite. This necessitates the adoption of socialist policies as the only means of resolving the dire circumstances facing working people, and a turn for support to workers across Europe who are in similar circumstances.



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