

Iceland's former prime minister charged with negligence over financial crisis

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Last month, former Prime Minister Geir H. Haarde became the first leading political figure to be charged for his part in the 2008 economic collapse, which hit Iceland with particular severity. In a charge filed at the Reykjavík district court, Haarde was accused of criminal negligence in his prime ministerial duties between February 2008 and October 2008—the period preceding the downfall of Iceland's major financial institutions. If found guilty, Haarde could face two years' imprisonment.

The charges were brought by the special prosecutor's office investigating the 2008 crash, led by Olafur Hauksson. Hauksson's team has also recently brought charges against leading executives in Iceland's failed banks, Kaupthing, Glittnir and Landsbanki. At the end of June, three Kaupthing executives were acquitted of all charges against them.

Haarde has denounced his trial as a political vendetta led by hostile sections of the ruling elite. Asserting his innocence on the eve of the trial, he stated that the charges of negligence “are ridiculous, especially in light of the fact that the decisions made by my government in the run up to the crash turned out to have been the right ones. The filing of the case tomorrow means that the first politically-motivated trial in Iceland's history is about to start.”

Haarde returned to these claims in an interview with AFP last week. In comparison to Greece and Ireland, Iceland had come out of the crisis in much better shape, Haarde said. “We saved the country from going bankrupt,” he proclaimed.

In fact, Haarde's policies, and those of the Social

Democrat-Left Green government that followed him, aimed to protect the financial and political elite whose rampant speculation and criminality had led to the economic crash. While the state was too small to guarantee all bank debt—as was done in other European countries like Ireland—billions of Kronur were funnelled into newly branded financial institutions to allow them to recommence business with as little disruption as possible.

Although some of the outstanding debts of the failed institutions were paid off by the sale of their left-over assets, the state was still left responsible for reimbursing the remaining creditors.

The only thing that prevented outright state bankruptcy, Haarde's claims notwithstanding, was a multi-billion euro bailout led by the International Monetary Fund (IMF), supported by the Nordic countries and other European states.

Far from the benign record that Haarde portrays, the government in Reykjavík continues to implement devastating austerity measures on the population, which has seen its standard of living drop dramatically since 2008. In the latest state budget for 2011, over 200 million euros will be cut—a substantial sum when compared with gross domestic product of less than 10 billion euros.

Although any objective examination of the economic catastrophe that hit Iceland would have to conclude that Haarde was a significant figure in bringing it about, no trust can be placed in the prosecution against him, which is primarily being driven by political efforts to draw a line under the 2008 crisis.

When the possibility of charges was first raised last year, following the publication of the so-called “black report” in April 2010, current Prime Minister Johanna Sigurdardóttir commented, “Iceland needs closure in order to fully focus on and finish the reconstruction which lies ahead. I believe that this report with its difficult and painful truths is a crucial part of that process.”

The final decision to put Haarde on trial was made by parliament (Althingi) last September. The vote saw the governing Social Democrats and Left Greens supporting the move, while Haarde’s Independence Party opposed it. Although the “black report” had recommended that charges should be brought against Social Democrat ministers who were also in government at the time, parliament refused to take this course of action.

The failure to hold anyone else accountable confirms that the aim of the trial is to make Haarde a scapegoat, so as to protect the crimes of the ruling elite as a whole. Given the widespread public anger that still remains over the collapse, this amounts to damage control.

Ordinary Icelanders have shown time and again since 2008 that they are hostile to the bailing out of the financial elite with public money. In January 2009, mass protests in Reykjavík led to the collapse of the Independence-Social Democrat coalition—the first government to fall as a direct consequence of the financial crisis. But the government brought to power at the subsequent elections has continued along the same policy lines on all essential questions, including the recapitalisation of the banks and the strict austerity dictated by the IMF.

On two separate occasions, an overwhelming majority of people voted in national referenda to reject the terms to repay over 4 billion euros to creditors in Landsbanki’s failed savings bank IceSave. In spite of such clear opposition, the latest court decision handed down by the European Surveillance Authority (ESA) declares that the Icelandic state is ultimately responsible for covering the debts of the financial elite. Not only will the initial sum be required, but Reykjavík

could also be compelled to pay more in interest payments that have been accrued during the dispute.

The decision to limit the prosecution to examining Haarde’s conduct between February and October 2008 was particularly significant. The Social Democrats, the largest party in the current government, sat in coalition with Haarde’s Independence party between 2006 and 2009 and thus would have participated actively in all the discussions surrounding the events for which Haarde is being charged. In addition, the restricted time frame means that there will be no examination of Haarde’s role in privatising and deregulating the financial industry in Iceland, a process which he led as finance minister in the Independence-Progressive party government in the early 2000s.

Ruling circles are well aware that a wider investigation would raise uncomfortable questions for the current government, which has used vast sums of public money to re-establish privately-owned financial institutions that brought the country’s economy to the brink of collapse. With the widespread displays of public anger that brought down Haarde’s government still fresh in the memory, the government is determined to prevent the emergence of a similar movement driven by a more radical anti-capitalist perspective.



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