Iceland holds referendum on new constitution

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A referendum in Iceland on October 21 saw voters approve several amendments that could result in the redrafting of the country's constitution. The non-binding vote was held with the support of the Social Democrat-Left Green government, which is in favour of revising the constitution.

The referendum process was hailed as a triumph for "democracy", with claims that the ability to suggest constitutional amendments via online forms and through social media sites represented a new form of "social inclusion."

Such praise is part of a broader attempt to claim that Iceland has undergone a recovery from the economic crisis of 2008-2009, when its three main banks collapsed and the economy contracted by as much as 15 percent.

In August, International Monetary Fund (IMF) head Christine Lagarde described Iceland's development as "impressive". Press commentary across Europe has claimed that Iceland represents an example to be followed for the euro zone countries dealing with high levels of state debt, as it is expecting economic growth of 3 percent this year.

The approval of the IMF has been won by the government through its ability to place the full burden of the crisis onto working people, whilst re-establishing the dominance of the banks. Although Iceland's small size meant that it was unable to carry out a full bailout of its financial institutions, which had amassed assets 10 times greater than total GDP, the policies of successive governments ensured that the interests of the finance elite were protected.

The collapsed banks were rebranded and fully recapitalised by the state with billions of kronur, allowing them to recommence their activities with their domestic operations. Business is reportedly so profitable in this area that these new banks will re-enter the stock exchange at the end of this year. The remaining assets from overseas operations were kept in the old banks and sold off to pay creditors, most of whom will have their debts fully reimbursed with interest in the coming years. This is in spite of the fact that on two separate occasions, when given the opportunity to vote on whether they wished to be made liable for the gambling debts of the financial elite, Icelanders overwhelmingly rejected this.

Funding the bailout required unprecedented attacks on social spending and the living standards of working people. In four successive years of austerity budgets, Iceland slashed its budget deficit from 14 percent of GDP to below 2 percent this year.

The consequences for ordinary people have been devastating. Social services have been undermined, with reports of broken equipment in the health service and an inability to conduct basic operations and treatments.

Between 2008 and 2012, the total active labour force dropped by more than 2,000, which equates to 0.75 percent of the population. An equivalent drop in Britain would see the loss of 450,000 from the labour force, or 2 million in the United States.

The much deeper collapse in employment opportunities—covered over thanks to a sharp rise in emigration—has impoverished broad layers of the population. Compared to a rate of 24.2 percent of households at risk of poverty in 2008, in 2011 38.3 percent of households were struggling to make ends meet.

A major cause has been the collapse in the value of the krona, under conditions where many people took out loans in foreign currencies prior to the 2008 crisis. Now, even for a family to go on holiday, they must obtain permission from the government before exchanging krona into foreign currency—a consequence of the strict capital controls that remain in place to prevent a currency meltdown.

The controls, which are only likely to be lifted by 2015 at the earliest, are preventing an estimated US$8 billion worth of investments from being withdrawn from Iceland. This is close to the total annual GDP, provoking concerns that the removal of the controls will lead to a renewed crisis. Such fears have been strengthened with the crisis in the euro zone, which accounts for 45 percent of Iceland's foreign trade.

Headed by Steingrimur Sigfússon, finance minister for three years until the start of 2012, the Left Greens brought to an end the popular mass movement that broke out at the end of 2008 in opposition to the criminal practices of the financial elite, overseen by the former right-wing Independence Party-led government of Geir Haarde. They promised a full investigation into the 2008 crisis on entering government after elections held in April 2009.

This was little more than hot air, with only Haarde placed on trial from among the political elite. Last month, Britain's serious fraud office announced it would cease further investigations into the collapse of Kaupthing bank, having prosecuted no one. Several former executives have been handed token sentences in Iceland.

The unwillingness to account for the widespread fraud and criminality in the ruling elite is driven by the fact that a layer of middle class ex-left figures like Sigfússon have done rather well for themselves. Sigfússon publishes guest commentaries in the *Financial Times*, through which he has heaped praise on the financial elite and insisted that other European states follow Reykjavík's example. In his most recent piece, "Icelandic lessons in coming back from the brink", published in August, he boasted: "From mid-2009 onwards, measures were taken to reduce the fiscal deficit by slashing expenditure and increasing revenues. Iceland's budgets in 2010, 2011 and 2012 were never likely to meet popular acclaim but their measures were unavoidable."

He added with undisguised satisfaction, "Since the crisis, Iceland has now twice successfully issued bonds in the international market."

Sigfússon and his Left Greens took the leading role in selling this agenda to the population. Their left-sounding rhetoric enabled the coalition government to at least temporarily restabilise capitalism in Iceland, while avoiding the re-emergence of the broad-based social opposition that drove the Haarde government from office.

In late 2009, a so-called "national assembly" was held with backing from the government and several business interests. Presented as "grassroots democracy", it was an exercise in manipulating the deep public anger felt after the banking collapse (see "What does Iceland's 'national assembly' represent?").