

# Tax avoidance scandal wracks Iceland

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Iceland's Prime Minister Sigmundur David Gunnlaugsson announced his resignation Tuesday, after he was named among the politicians and billionaires around the world as using tax avoidance mechanisms.

However, a statement later Tuesday declared that Gunnlaugsson had only temporarily stepped aside and prime ministerial duties would be taken on by Agriculture Minister Sigurður Ingi Johannson. It is unclear whether Gunnlaugsson will return. A Gallup poll published yesterday showed 81 percent of respondents in favour of his resignation.

Gunnlaugsson was exposed by the Panama Papers, a large collection of documents leaked from Panama-based law firm Mossack Fonseca. He was forced out by an angry protest of around 10,000 in Reykjavik Monday, more than 3 percent of the island's total population of 330,000. He was named in the documents as having operated Wintris Inc., a shell company based in the British Virgin Islands, with his wife, Anna Sigurlaug Palsdottir. Opposition parties tabled a no confidence vote in parliament.

Daily protests have taken place since Monday.

In an early meeting Tuesday with President Olafur Ragnar Grimsson, Gunnlaugsson urged the dissolution of parliament and the calling of new elections. But Grimsson refused the request, saying he wanted to consult with the opposition parties first.

Sunday's revelation confirmed what had been suspected for some time. On March 11, Gunnlaugsson abruptly stormed out of an interview with an investigative journalist after he was asked to say what he knew about Wintris. Then, on March 15, Palsdottir posted on Facebook to confirm the firm's existence. She claimed that all taxes had been paid in Iceland.

It emerged that Gunnlaugsson, leader of the right-wing Progressive Party, directly profited from the bailout of Iceland's banks. He jointly owned Wintris with his wife from its establishment in 2007 until 2009,

when he sold his 50 percent stake to his wife for the symbolic price of \$1. Although Gunnlaugsson was elected to parliament in April 2009, he did not sell his stake until the end of the year.

During Gunnlaugsson's tenure as prime minister, Wintris made a claim of ISK500 million (\$4 million) against the estates of the country's three failed banks. As prime minister, Gunnlaugsson played a decisive role in negotiating such settlements.

Gunnlaugsson's actions are only part of a broader crisis confronting the ruling elite, which is fully implicated in the speculative activities of the island's financial sector. Finance Minister and Independence Party leader Bjarni Benediktsson acknowledged his reluctance to assume the post of prime minister after Gunnlaugsson's resignation. This is principally because he is also named in the Panama Papers for his business dealings. A separate poll showed 69 percent of voters in favour of Benediktsson's resignation, while 63 percent back the departure of Interior Minister Ólöf Nordal, also named in the papers.

Independence is the traditional party of the financial elite in Iceland, having overseen the deregulation of the banks in the early 2000s and the speculative activities leading up to 2008.

Iceland offers one of the starkest examples of the criminality of the world's financial elite revealed by the Panama Papers. In 2008, its economy was brought down by the speculative and outright fraudulent dealings of its three largest banks, Kaupthing, Glitnir and Landsbanki. They attracted large quantities of investment by offering high interest rates, while exploiting dubious business practices to boost profitability.

This model ground to a halt with the onset of the global economic crisis. Barely two weeks after the downfall of Lehmann Brothers in the United States, Iceland's stock exchange was suspended and the banks

effectively ceased functioning. The kronur plummeted as the banks had accumulated assets around nine times that of the country's GDP.

The Independence Party-Social Democrat coalition, in power between 2007 and 2009, did all it could to protect the interests of the financial elite and offload the crisis onto the backs of workers. While it proved impossible for the state to extend a blanket guarantee for all bank assets due to its small size, it helped carry out the rebranding of the banks so they could continue their operations domestically. The assets of the old banks were administered by winding up committees with the aim of reimbursing all investors as much as possible.

Mass protest cut across these plans. In early 2009, Independence and the Social Democrats were forced from power after a series of large demonstrations in Reykjavik. The result of early elections was the coming to power of a "left" government led by the Social Democrats and supported by the Left Green Movement, an environmentalist organisation which at times employed socialist rhetoric.

The Left Greens played the decisive role in bringing the protests under control with promises of a break from the old ways of previous governments. While it prepared to enter government with the Social Democrats, who had held power in the lead-up to and during the crisis, the Left Greens allowed their MPs to participate prominently in the protests taking place regularly on Austurvalur Square in front of the parliament building.

In truth, the Left Greens provided a foretaste of the role other pseudo-left parties like Syriza would come to play across Europe. Through Finance Minister Steingrímur Sigfússon, the government loyally implemented a devastating programme of austerity dictated by the IMF, slashing funding for public services. It also maintained strict capital controls, and the weak currency hit the working class hardest of all. The Social Democrats pressed ahead with negotiations to join the EU, and while the Left Greens refused to take a firm stance on EU membership, they legitimised the process by declaring that only after talks had been concluded would it be possible to decide whether EU membership would benefit ordinary Icelanders.

The government was so unpopular that after one term, it lost half of its support and was thrown out of office.

Gunnlaugsson took advantage of the collapse in support for the government, becoming prime minister in 2013 after waging a populist and nationalist campaign as leader of the Progressive Party, including opposition to continuing negotiations to join the EU. He also pledged to protect the incomes of Icelanders, particularly in the area of housing costs. Many Icelanders bought homes prior to the crisis with foreign-denominated loans, meaning that when the kronur collapsed, their repayments exploded. In addition, the capital controls in place since 2008 enabled a property bubble to develop as foreign investors put their funds stuck in Iceland into property.

But his government has done nothing to alleviate the crisis facing workers. The Panama Papers revelations have been all the more damaging since Gunnlaugsson has repeatedly portrayed himself as a defender of the kronur as Iceland's currency. Yet he holds a substantial chunk of his family's wealth in foreign currency.

It remains unclear whether Gunnlaugsson's chosen successor will be capable of finishing the last year of the current government's term.

Fresh elections will not resolve the crisis of capitalist rule in Iceland. All of the major parties have been so thoroughly discredited that the largest party in the country for the past year has been the petty bourgeois protest Pirate Party, founded to contend the 2013 elections.

In a poll conducted in the aftermath of the Panama Papers revelations, the Pirates saw their support shoot up to 43 percent, from levels of around 35 percent over the past year. This means it has more support than the combined backing for the Progressive-Independence coalition. Other opposition parties registered minimal gains and have negligible support levels among the population, with the Social Democrats barely surpassing 10 percent and the Left Greens obtaining 11 percent.



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