

SOME EUROPEANS: *STOLT OG FRJÁLS FÓLK, LOS INDIGNADOS* and *OI AGANAKTISMENOI* (Part one) *

by George Venturini

ICELAND was settled in the late ninth and early tenth centuries, principally by people of Norse origin. In 930 c.e., the ruling chiefs established a republican constitution and an assembly called the *Althingi* - the oldest parliament in the world. Iceland remained independent until 1262, when it entered into a treaty establishing a union with the Norwegian monarchy. It was then passed to Denmark. In the late fourteenth century, when Norway and Denmark were united under the Danish crown, Iceland became part of that union.

The *Althingi* had been abolished in 1800 but was re-established in 1843 as a consultative assembly, and national consciousness was revived in Iceland. In 1874 Denmark granted Iceland limited home rule, which was expanded in scope in 1904. The constitution, written in 1874, was revised in 1903. The Act of Union, an agreement with Denmark signed on 1 December 1918, and valid for 25 years, recognised Iceland as a ‘fully [sovereign state](#)’, even though in a personal union with the king of Denmark. On 31 December 1943 the Act of Union Agreement expired. In a four-day plebiscite, beginning on 20 May 1944, Icelanders voted on whether to terminate the personal union with the king of Denmark or establish a republic - having experienced nothing of what former colonies did, and present ‘assets’ do, under a crude colonial power in decline such as Great Britain.

The vote was 97 per cent in favour of ending the union and 95 per cent in favour of the proposed republican constitution. Iceland formally became a republic on 17 June 1944, with Mr. [Sveinn Björnsson](#) as the first President; Icelanders - *stoltur og frjáls fólk*, a proud and free people.

Iceland is arguably the world's oldest [parliamentary democracy](#). Parliament - the *Althing* - has 63 members, elected by proportional representation for a maximum period of four years. The President is elected by popular vote for a term of four years, with no term limit. The government and local councils are elected separately from the presidential elections every four years. Happily, Iceland is the only N.A.T.O. country with no standing military of its own, and has one of the freest presses in the world. President Ólafur Ragnar Grímsson is now serving his fourth term in office. In the Icelandic tradition, the last name is a [patronymic](#), not a [family name](#). The proper way of referring to the President is by the given name Ólafur - but hereinafter President Ólafur. The Icelandic presidential election scheduled for 28 June 2008 was cancelled after no challenger registered to run against President Ólafur. The next presidential election will be held in June 2012.

Maintaining intact its Norse and Gaelic traditions, the population is remarkably homogeneous, a closely knit community where people are said not to tolerate non-islanders much. It has been said of Icelanders that if one takes them away from their ancestral terrain, they are liable to pine and even to die from homesickness. Icelanders have long prided themselves on their grit, essential for survival on a remote volcanic island devoid of lush forests or fertile prairies. They seem to do better when times are difficult than when times are good. For 1,100 years they lived in a very harsh country, desperately poor, fishing in open boats in the worst weather.

Lucky Iceland ! one is tempted to say. A relatively little island of 103,000 square kilometres and with a population of less than 320,000, it stands in the middle of the North Atlantic Ocean, a land not endowed with natural resources, except for its abundant [hydroelectric](#) and [geothermal power](#), where an industrious and fiercely proud population makes the best of agriculture and of the fishing industry, which still provides 40 per cent of the country's exports, more than 12 per cent of Gross Domestic Product, and employs 7 per cent of the work force. Seventy per cent of Iceland's energy is renewable, resulting in an environmental, economical and social advantage for the country. Ninety five per cent of Icelandic homes are heated by geothermal energy, at five times less cost than heat generated from oil. Iceland

does not import coal or oil for heating. While Iceland is a highly developed country, until the twentieth century it was among the poorest countries in Western Europe.

As a small and until recently undiversified economy, Iceland remains vulnerable to declining fish stocks and drops in world prices for its main material exports: fish and fish products, [aluminium](#), and [ferro-silicon](#). [Whaling](#) has been historically significant. Iceland still relies heavily on fishing, but its importance is diminishing from an export share of 90 per cent in the 1960s to 40 per cent in 2006. Aluminium exports exceeded marine product exports in value for the first time in 2008. Other important exports include ferro-silicon alloys, equipment and electronic machinery for fishing and fish processing, and pharmaceuticals. Iceland's economy has been diversifying into manufacturing and service industries in the last decade, particularly within the fields of software production, biotechnology, financial services and tourism. The vast majority of Iceland's exports go to the European Union and the European Free Trade Association countries, followed by the United States and Japan. The United States is by far the largest foreign investor in Iceland, primarily in the aluminium sector. In February 2011 an American company signed an investment agreement with the Government of Iceland to build a silicon metal facility in southwest Iceland. The agreement represents the largest new foreign direct investment in Iceland since the economic collapse of 2008. A Trade and Investment Framework Agreement with the United States was signed in January 2009.

The immediate period after the second world war was followed by substantial [economic growth](#), aided by industrialisation of the fishing industry and the [Marshall Plan](#).

The 1970s were marked by the 'cod war' - several disputes with Great Britain over Iceland's extension of its fishing limits.

Iceland's Scandinavian-type social-market economy combines a capitalist structure and free-market principles with relatively low taxes compared to other [Organisation for Economic Co-operation and Development](#) countries, while maintaining an extensive welfare system providing [universal health care](#) and [tertiary education](#) for its citizens. The economy, already greatly diversified and liberalised, and its relatively liberal trading policy were strengthened by accession to the World Trade Organisation, and the Uruguay Round agreement brought significantly improved market access for Iceland's exports, particularly of seafood products. The agricultural sector, however, remains heavily subsidised and protected. Iceland's [agriculture](#) industry consists mainly of [potatoes](#), green vegetables - in [greenhouses](#), [mutton](#) and dairy products. Iceland was already a full member of the European Free Trade Association since 1970 and had entered into a free trade agreement with the European Community in 1973, but accession to the European Economic Area agreement in 1994 provided a much desired free cross-border movement of capital, labour, goods and services between Iceland, the European Union and the and E.E.A. countries. That allowed the country to diversify from fishing to economic and financial services.

Yet, unlucky Iceland ! It was the first country to experience that greedy, testosterone-fuelled, male-dominated grand larceny which came to be euphemistically called Global Financial Crisis, as it was moving from the United States, where it was originated, towards Europe. Iceland fell in the long list of countries which succumbed to the G.F.C. Following the financial turmoil in the fall of 2008, movements of capital to and from Iceland would be restricted by the Rules on Foreign Exchange issued by the Central Bank of Ireland. These rules were intended to be temporary measures to strengthen and stabilise the exchange rate of the Icelandic monetary unit, the *krona* - ISK.

Despite the decision to resume commercial whale-hunting in 2006, the tourism sector is expanding, with the recent trends in [eco-tourism](#) and whale-watching. The tourism industry is the third-largest provider of foreign currency to the economy. The financial centre is [Borgartún](#) in the capital Reykjavík, hosting a large number of companies and three investment banks. Iceland's [stock market](#), the [Iceland Stock Exchange](#), was established in 1985.

In the 1990s Iceland undertook extensive free-market reforms, which initially produced strong economic growth. As a result, Iceland was rated as having one of the world's highest levels of economic freedom as well as civil freedoms.

Globalisation and privatisation were two terms with which Icelanders were not too familiar until a few years ago - and totally immune to them, just as the original inhabitants of Australia or of the Americas were to many diseases before the arrival of the various empires. Both 'reforms' would bring to Iceland the *impresarios* of neo-conservatism, with that caravan of banksters, fraudsters, *leger de main* performers and carpet-baggers which accompanies this new way of doing business. They conceived of the place as some kind of new tax haven of the Cayman Islands type. An explosion of 'new wealth', which spread like small-pox, and a passion for accumulating money, generated largely from record-high world prices for fish and aluminium exports, transformed Iceland within a generation into a country which greatly admired the immensely wealthy.

In time, such 'reforms' encouraged domestic banks to expand aggressively in foreign markets, and consumers and businesses to borrow heavily in foreign currencies, following the privatisation of the banking sector in the early 2000s.

In 2001 the conservative Icelandic Government began relinquishing control of the banking sector to allow for privatisation. One consequence was that ownership of the banks went to a few wealthy operators. They hired local bankers, who had very limited experience in international banking, to run things; they issued bonds on the international market, where institutional investors were only too happy to buy them. Money poured into the country, and the economy boomed. With the help of the banks, investors went on spending sprees, buying large stakes in foreign and domestic businesses; the prices of everything from houses to used cars soared; Iceland's stock market spiked, rising 900 percent between 2002 and 2008; and, of course, money flowed into the hands of all sorts of Icelanders.

This 'development' set the stage for banks to upload debts when foreign companies were accumulated. The crisis unfolded when banks became unable to [refinance](#) their debts. It is estimated that the three major banks held [foreign debt](#) in excess of Euro 50 [billion](#), or about Euro 160,000 per Icelandic resident, compared with Iceland's G.D.P. of Euro 8.5 billion. As early as March 2008 the cost of private [deposit insurance](#) for deposits in *Landsbanki* and *Kaupthing* was already far higher - 6-8.5 per cent of the sum deposited - than for other European banks. The *krona*, which was ranked by *The Economist* in early 2007 as the most overvalued currency in the world, had further suffered from the effects of [carry trading](#).

Privatisation began in 2002 when the conservative Icelandic Government decided to allow private organisations to grow unchecked. Corporate taxes were reduced and incentives were offered to operators to grow their businesses. New hydroelectric plants, aluminium smelting factories and other forms of industrialisation began to sprout throughout the country.

Iceland decided that it had to grow beyond fishing and grow as a global financial player. With this aim the country privatised its banks. By 2003 three large private banks were extending easy credit to the island's inhabitants. But, in a country with less than 200,000 wage earners, the banks soon ran out of prospective customers to whom they could lend and from whom to make money. Hence they decided to venture outside. They were willing to lend to speculators and borrowers - any buccaneer, really - from neighbouring countries. To attract more investors from abroad, they were offering interest rates as high as 15 per cent during peak times. This made the *krona* the preferred destination for that type of investors. People would borrow money in their native country at low rates and invest the money in Iceland at exorbitant rates. Japan was one of the nations from which the country attracted huge sums of money.

At one time, the main personal income tax rate was a flat 22.75 per cent and combined with municipal taxes the total tax rate was not more than 35.72 per cent - with many deductions possible. The [corporate tax](#) rate was a flat 18 per cent - surely one of the lowest in the

world. Other taxes included a [value-added tax](#); a net [wealth tax](#) was eliminated in 2006. Employment regulations were relatively flexible. Property rights are strong and Iceland is one of the few countries where they are applied to [fishery management](#). Taxpayers paid various subsidies to each other, similar to European countries with [welfare state](#), but the spending was less than in most European countries.

In 2003 the Iceland's Government liberalised house-loan standards, in some cases lending purchasers up to 100 per cent of the value. Housing prices skyrocketed. Equity refinancing boomed, and people bought more cars, motorcycles and summer homes. Between 2003 and 2004 prices on Iceland's stock market increased 900 per cent. By 2006 the average Icelander was 300 per cent wealthier than in 2003. As the bubble bulged, Iceland's banks encouraged customers to buy bank stocks. Because of easy availability of credit, Islanders borrowed money and indulged in luxuries that they would not afford with their income.

By 2005 banks accounted for 95 per cent of the country's G.D.P. Borrowed money was the main propellant in this phenomenal growth but still the government ignored the situation and the attendant risks - and let all that continue. From 2006 onwards the economy faced problems of growing inflation and current account deficits. Partly in response, and partly as a result of earlier reforms, the financial system expanded rapidly before collapsing entirely in a sweeping [financial crisis](#).

In recent years, and under certain definitions, Iceland had become one of the wealthiest and most developed nations in the world. During the period 2003-07, Iceland developed from a nation best known for its fishing industry into a country providing sophisticated financial services. They were the years of strong economic growth spurred by economic reforms, deregulation and low inflation. The country was later to be hit hard by the 2008 G.F.C., which extended into 2009.

The economy had begun to suffer an initial setback in spring 2006 when credit rating agencies and other international financial firms released a number of reports raising questions about the activities and stability of Iceland's major banks and the state of the Icelandic economy. Sounding warnings with respect to the credit position of the island, these reports were widely covered in the international financial press, causing a marked drop in the value of shares listed on the Icelandic Stock Exchange and of the *krona*; but the market recovered temporarily.

Investors abroad were wary of Iceland's credibility and started looking at the economy watchfully. When the Bank of Japan raised interest rates in 2006, investors sold their positions in Iceland and brought money back to their country. This caused a massive outflow of funds from Iceland but still the country's financial authority claimed that the economy was in a sound position and that, for a while at least, appeased the investors and convinced the citizens that there was no need to panic.

To repair their damaged credit ratings, some Icelandic financial institutions set up online banks, attracting new retail customers and speculators, especially from Germany, but primarily from Great Britain and the Netherlands. The banks offered interest rates of more than 6 per cent, drawing thousands of British and Dutch depositors. Many British institutions - including 116 local governments, most likely the high-positioned beneficiaries of the Bank of England Nominees Ltd., and even Cambridge and Oxford Universities - invested in Icelandic banks.

When the first signs of global economic difficulties were perceived in the financial powerhouses of the European Union and of the United States, they first tightened credit to countries like Iceland which were growing on borrowed money. They then stopped cash-flows to Iceland and finally asked for repayment. The country's banks were too much exposed to debt from abroad and found themselves unable to repay. They soon defaulted, destroying Iceland's credit rating and precipitating an economic tailspin. Iceland became

linked to the subsequent decline in world financial markets. It suffered first and was deeply wounded, as were other small tax-haven countries.

The financial sector was hit hard by the global credit crisis beginning in 2007. On that year Iceland was the [seventh most productive country in the world per capita](#) (ISK 6,304,281 = US\$ 54,858), and the fifth most productive by [G.D.P. at purchasing power parity](#) (ISK 4,609,671 = US\$ 40,112). The G.D.P. was ISK 1,385,588 billion (US\$ 12,144 billion) in total. Iceland topped the list of countries ranked by the U.N. Human Development Index report for 2007-2008 and still appeared to be one of the most [egalitarian](#). Many political parties remained opposed to E.U. membership, primarily due to Icelanders' concern about losing control over their natural resources. Icelandic banks had lent hundreds of billions of pounds overseas and their position in the world's financial system far outweighed the size of Iceland's small economy. The country's banks had been under pressure for most of the year, struggling with rampant inflation, the collapsing value of the currency and fallout from an overheated economy. The [financial crisis of 2007-2010](#) produced a decline in G.D.P. and employment. Iceland, which had ranked fifth in the [Index of Economic Freedom](#) 2006, was to move to fourteenth in 2008.

Despite low tax rates, agricultural assistance was the highest among O.E.C.D. countries and a potential impediment to structural change. Also, [health care](#) and education spending showed relatively poor return by O.E.C.D. measures. The O.E.C.D. *Economic survey of Iceland 2008* highlighted Iceland's challenges in currency and macroeconomic policy.

On 25 March 2008 Iceland raised its benchmark interest rate to 15 per cent in an effort to restore confidence in its stumbling currency. Fears were growing that Iceland could have become the first country to be hit by a severe economic crisis triggered by fallout from the credit crisis. Officials of the Bank of Iceland said on 25 March 2008 that the 'deteriorating financial conditions in global markets' had contributed to the emergency move. Fears that imbalances which resulted from a boom, which prompted Icelandic companies to invest heavily overseas in recent years, might have triggered a collapse of the banking system, had pushed the *krona* down by 22 per cent in 2008. The

Central Bank was concerned that Iceland faced ‘spiralling increases in prices, wages and the price of foreign exchange.’ The rise in the interest rate triggered a gain for the *krona* of 6.3 per cent against the U.S. dollar, while the country’s benchmark stock-market index recorded its biggest rise in more than 15 years, jumping 6.2 per cent.

On 10 April 2008 the Central Bank of Iceland issued its Monetary Bulletin with a new national economic forecast and an inflation forecast.

Worsening global financial conditions throughout 2008 resulted in a sharp depreciation of the *krona vis-à-vis* other major currencies. In the first six months of 2008 the *krona* began devaluing and inflation rose to nearly 12 per cent. Difficulties increased as Icelandic banks could not obtain financing on the global market and they were forced to turn to their lender of last resort, the Central Bank of Iceland. The Icelandic banking system played a central role in the G.F.C. The banks had expanded aggressively overseas following financial deregulation. The foreign exposure of Icelandic banks, the loans and other assets of which totalled more than 10 times the country's G.D.P., became unsustainable. Iceland's three largest banks collapsed in late 2008.

Meanwhile, the *krona*, had plunged about 30 per cent against the Euro in just 10 days - and had lost more than half of its value over the previous year. The declining *krona* caused sharp spikes in the price of essential food and fuel imports to Iceland, with the country's dwindling foreign exchange reserves and the collapse of some of its key banks raising questions about Iceland's ability to service its foreign debt.

Before the crash of the three largest Icelandic commercial banks, [Glitnir](#), [Kaupthing](#) and [Landsbanki](#) and their combined debt exceeded approximately six times the nation's G.D.P. of ISK 2.300 billion (Euro 14 billion).

In September 2008 internal documents from [Kaupthing](#), the largest bank in Iceland, were made available to [WikiLeaks](#). Government officials in Reykjavik had good reason to be

spooked: Iceland's banks, which account for most of the country's stock exchange, had ballooned so rapidly that their assets - more than 80 per cent of them being foreign holdings - had been, in September 2008, worth more than eight times the country's G.D.P. Iceland, in other words, was betting very heavily not on its own economy, but on the economies of others, and when financial markets began to tank in September, setting off a global avalanche, Iceland was more cruelly exposed than most. The pain was instantly felt among ordinary Icelanders, suddenly forced to contemplate the rapidly rising cost of home, car or student loans.

On 29 September 2008 a plan was announced for the bank [Glitnir](#) to be nationalised by the Icelandic Government with the purchase of a 75 per cent stake for ISK 99 billion (Euro 600 million, US\$ 870 million). The Government stated that it did not intend to hold ownership of the bank for a long period, and that the bank was expected to carry on operating as normally. According to the Government, the bank 'would have ceased to exist' within a few weeks if there had not been intervention. It later turned out that *Glitnir* had US\$ 750 million (ISK 85, 665 billion, Euro 517 million) of debt due to mature on 15 October. However, the nationalisation of *Glitnir* never went through, as it was placed in [receivership](#) by the [Icelandic Financial Supervisory Authority](#) before the initial plan of the Icelandic Government to purchase a 75 per cent stake had been approved by shareholders.

The announced nationalisation of *Glitnir* came just as the United Kingdom Government was forced to nationalise [Bradford & Bingley](#) and to sell its retail operations and branch network to [Grupo Santander](#). Over the weekend of 4-5 October British newspapers carried many articles detailing the nationalisation of *Glitnir* and the high [leverage](#) of Iceland's other banks. [The Guardian](#) reported that "Iceland [was] on the brink of collapse. Inflation and interest rates [were] raging upwards. The *krona*, Iceland's currency, [was] in freefall." Other informed articles spooked investors discussing [Icesave](#) - the brand name of *Landsbanki* in Great Britain and the Netherlands - in online forums and many depositors started moving their savings out of the Internet bank. Problems with access to the site hinted at a run on savings.

Early in October the Icelandic Government put the country's second-biggest bank, *Landsbanki*, into receivership - effectively declaring it bankrupt - and poured Euro 500 million (US\$ 724 million) into the country's biggest bank, *Kaupthing*. Receivers were appointed by the Financial Supervisory Authority. In the view of most Icelanders the banks did not deserve saving. "If I need money I have to come up with guarantees and names to back me up." They said. "How can these people go around without guarantees?" A similar question was being asked in London, where customers of *Landsbanki* found their funds frozen on 7 October 2008, and where Icelanders were seeing the rapid shrinking of their savings. Soon after that, the same Authority placed Iceland's largest bank, *Kaupthing*, into receivership as well.

The G.F.C. intensified on 6 October 2008 and, as governments stepped up efforts on both sides of the Atlantic, market turmoil intensified with fears of a global recession rising. Iceland warned of the risk of national bankruptcy. A number of private credit facilities to Icelandic banks were shut down.

On 6 October 2008 the Icelandic Prime Minister [Geir H. Haarde](#) (properly addressed by the given name Geir) interrupted a TV broadcast and presented to the nation its grave financial adversities. The speech stunned the country. He then issued a press release to the effect that the country was bankrupt. Citizens could not comprehend that their homeland could go bankrupt. One economist later estimated that the nation was ISK 3,290 billion (Euro 20 billion) to ISK 4,900 billion (Euro 30 billion) in debt. At the personal level, the average Icelander was ISK 46,699,640 (Euro 284,000) in debt and 25 per cent of homeowners faced mortgage default. On the same day the Government suspended trading in the biggest financial institutions, while it negotiated sweeping powers for itself to take control of financial institutions, transfer bad mortgages into the publicly backed housing fund, and persuade trade unions to return their foreign pension-fund investments to Iceland.

[Prime Minister](#) Geir announced a package of new regulatory measures which were to be put to the *Althing* immediately, with the cooperation of the opposition parties. In a late-night sitting Parliament approved a Bill giving the Government wide-ranging powers over the banks, including the ability to seize their assets, force them to merge or compel them to sell off their overseas subsidiaries, many of which were in London. The *Althing* granted the [Financial Supervisory Authority](#) sweeping powers over banks. These measures included the power of the Financial Supervisory Authority to take over the running of Icelandic banks without actually nationalising them, and preferential treatment for depositors in the event that a bank had to be [liquidated](#). In a separate measure, retail deposits in Icelandic branches of Icelandic banks were guaranteed in full. Commenting on the need for emergency measures, the Prime Minister said: “There [was] a very real danger ... that the Icelandic economy, in the worst case, could be sucked with the banks into the whirlpool and the result could have been [national bankruptcy](#).” He also stated that the actions taken by the Government had ensured that the Icelandic State would not actually go bankrupt. At the end of the second quarter of 2008 Iceland's [external debt](#) was ISK 9.553 trillion (US\$ 72.5 billion, Euro 50 billion), more than 80 per cent of which was held by the banking sector. The assets of the three banks taken under the control of the Financial Supervisory Authority totalled ISK 14.437 trillion at the end of the second quarter of 2008. The emergency measures had been deemed unnecessary by the Icelandic Government less than 24 hours earlier.

Icelandic officials, including the Central Bank Governor explicitly declared that the State had no intention to take over any of the banks' foreign debts or assets. Instead, new banks would be established around the domestic operations of the banks, and the old banks would be allowed to run into bankruptcy. The Financial Supervisory Authority acted ‘to ring-fence’ the Icelandic operations of *Landsbanki* and *Glitnir*, stating its aim of “continued banking operations for Icelandic families and businesses.” A bank, originally known as *Nýi Landsbanki* was set up on 9 October with ISK 200 billion in equity and ISK 2,300 billion of assets. [Nýi Glitnir](#) was set up on 15 October with ISK 110 billion in equity and ISK 1,200 billion of assets.

On 6 October also the [Guernsey](#) subsidiary of [Landsbanki](#) went into voluntary [administration](#) with the approval of the [Guernsey Financial Services Commission](#). The administrators would later say that “The main reason for the Bank’s difficulties has been the placing of funds with its UK fellow subsidiary, [Heritable Bank](#).” [Guernsey's Chief Minister](#) stated that “the directors of [Landsbanki](#) Guernsey took appropriate steps by putting the bank into administration.”

The G.F.C. was having serious consequences for the [Icelandic economy](#). [The national currency](#) had fallen sharply in value, foreign currency transactions were virtually suspended for weeks, and the [market capitalisation](#) of the Icelandic Stock Exchange had dropped by more than 90 per cent. As a result of the crisis, Iceland was undergoing a severe [economic recession](#) - the nation's G.D.P. going to decrease by 5.5 per cent in real terms in the first six months of 2009. The full cost of the crisis cannot yet be determined, but already was estimated to exceed 75 per cent of the country’s 2007 G.D.P. Outside Iceland, more than half a million depositors - more than the entire population of Iceland - found their bank accounts frozen amid a diplomatic argument over [deposit insurance](#).

In all this, [Landsbanki](#) deserves special attention. The Financial Supervisor Authority placed the bank in receivership early on 7 October. A press release from the Authority stated that all of [Landsbanki](#)'s domestic branches, call centres, ATMs and internet operations would be open for business as usual, and that all ‘domestic deposits’ were fully guaranteed. The British Government used the [Banking \(Special Provisions\) Act 2008](#) first to transfer retail deposits from [Heritable Bank](#) to a [Treasury](#) holding company, then to sell them to [Dutch](#) bank [ING Direct](#) for 1 million pounds. The same day the Financial Supervisory Authority placed also [Glitnir](#) into receivership. That afternoon there was a telephone conversation between [Icelandic Finance Minister Árni Mathiesen](#) and British [Chancellor of the Exchequer, Alistair Darling](#). That evening one of the governors of the [Central Bank of Iceland, Davíð Oddsson](#), was interviewed on Icelandic public service broadcaster [RÚV](#) and stated that “we [the Icelandic State] do not intend to pay the debts of the banks that have been a little heedless.” He compared the Government's measures to the United States intervention at [Washington Mutual](#), and suggested that foreign creditors would “unfortunately only receive 5-10-15 per

cent of their claims.” A long standing opponent of Icelandic membership of the [European Union](#) and adoption of the Euro as national currency, he also claimed that “[i]f we were tied to the Euro, [...] we would just have to succumb to the laws of Germany and France.”

The Chancellor of the Exchequer announced that he was taking steps to freeze the assets of *Landsbanki* in the United Kingdom. The [Landsbanki Freezing Order 2008](#) was passed at 10 a.m. on 8 October 2008 and came into force ten minutes later. Under the order the British Treasury froze the assets of *Landsbanki* within the United Kingdom and introduced provisions to prevent the sale or movement of *Landsbanki* assets within the United Kingdom, even if held by the Central Bank of Iceland or the Government of Iceland. The freezing order took advantage of provisions in sections 4 and 14 and Schedule 3 of the [Anti-terrorism, Crime and Security Act 2001](#), and was issued “because the Treasury believed that action to the detriment of the UK's economy (or part of it) had been or was likely to be taken by certain persons who are the government of or resident of a country or territory outside the UK.” A second licence was issued on 13 October, when the [Bank of England](#) provided a 100 million pounds [secured loan](#) to *Landsbanki* “to help maximise the returns to UK creditors.”

Events moved rapidly. The then British [Prime Minister, Gordon Brown](#), announced that his Government would launch legal action against Iceland over concerns with compensation for the estimated 300,000 British savers. Prime Minister Geir said at a [press conference](#) on the following day that the Icelandic Government was outraged that the United Kingdom Government applied provisions of anti-terrorism legislation to it in a move which was dubbed an “unfriendly act.” The Chancellor of the Exchequer also said that the British Government would foot the entire bill to compensate British retail depositors, estimated at 4 billion pounds. It is reported that more than 4 billion pounds in Icelandic assets in the United Kingdom had been frozen by the British Government. The United Kingdom [Financial Services Authority](#) also declared [Kaupthing Singer & Friedlander](#), the UK subsidiary of *Kaupthing*, in default on its obligations, sold [Kaupthing Edge](#), its Internet bank, to *ING Direct*, and put *Kaupthing Singer & Friedlander* into administration.

The *Kaupthing* bank, with liabilities several times larger than Iceland's G.D.P., was also a key lender to some of Britain's wealthiest speculators. The Icelandic Government had desperately tried to put together a package which would restore confidence in the bank and prop up the economy of the country, which was teetering on the brink after years of over-expansion by its banks.

Most of the British depositors in *Kaupthing* were considered safe - savings of up to 50,000 pounds being guaranteed by the British Government. But in Iceland the population was panicking. People were rushing to the banks to check that their savings were still there, while stockpiling provisions in case the country's rampant inflation headed further out of control.

Over 2.5 billion pounds of deposits for 160,000 customers were sold to *ING Direct*. The scale of the [run](#) on *Kaupthing Edge* deposits had been such that many transactions were not completed until 17 October. Although Prime Minister Geir described the United Kingdom Government's actions over *Kaupthing Singer & Friedlander* as an “abuse of power” and “unprecedented”, they were the third such actions taken under the *Banking (Special Provisions) Act 2008* in less than ten days, after interventions in *Bradford & Bingley* and *Heritable Bank*.

Savers in Great Britain faced fallout from the collapse of the Icelandic banking system. Fears mounted among the 300,000 British savers holding bank accounts with *Landsbanki* that their deposits were at risk. In the event of a collapse, savers with *Kaupthing* would be entitled to compensation of up to 50,000 pounds from the British authorities - as much as depositors in any British bank - but British savers with *Landsbanki* were not.

British savers, tempted into the high-interest bank *Icesave* accounts, would have to rely on a much smaller Icelandic Government fund to guarantee their first 16,317 pounds (Euro 18,085) of savings should *Icesave* collapse, with Britain only picking up the remaining 33,483 pounds (Euro 37,112) under the Government depositor guarantees. Depositors in

Great Britain complained that they had been unable to withdraw their money from *Icesave* accounts over the Internet. But a spokesman for the bank said that *Icesave* was now operating normally and depositors could withdraw money. He added that the Icelandic Government had ample foreign reserves to cover the 4 billion pounds of British deposits in the event of any collapse.

In Reykjavik confusion reigned among a public unsure whether their savings and investments were safe, even after the Government moved to guarantee deposits. Icelandic banks had lent money to British retailing and social groups, raising fears that their collapse could lead to a fire-sale of British assets. *Baugur*, the Icelandic investment group which owned stakes in *Debenhams*, *French Connection*, *House of Fraser*, *Moss Bros*, *Woolworths*, and the supermarket chain *Iceland*, said that its British businesses were not affected. But well-placed City sources said that *Baugur* had held private discussions about selling some assets and persuading banks to lend fresh money against others. "There are covert conversations taking place," one source said. A spokesman for *Baugur* denied that there had been an increase in such conversations in the previous week.

Hundreds of jobs in the City of London were also linked to the fate of Iceland's banks. Market sources said on 6 October 2008 that *Singer & Friedlander*, the asset manager owned by *Kaupthing*, was being informally offered for sale. Other sources said that *Teather & Greenwood*, the stockbroker recently sold by *Landsbanki* to *Straumur*, another Icelandic bank, could be put up for sale again. *Straumur* said that it had no plans to sell the broker, but this was before the Icelandic Government had announced its nationalisation plans. The diplomatic row with Britain has threatened to spill over into the traditional defence links between the two countries. Iceland has no [standing army](#) of its own, and relies on [N.A.T.O.](#) - and geography - for its defence: the United Kingdom [Royal Air Force](#) was due to take its turn in patrolling Icelandic airspace from December 2008, but this was cancelled.

On 9 October *Kaupthing* was placed into receivership by the Financial Supervisory Authority, following the resignation of the entire board of directors. The bank said that it was in technical default on its loan agreements after its United Kingdom subsidiary had been placed into administration. *Kaupthing's* [Luxembourg](#) subsidiary asked for, and obtained, a [suspension of payments](#) in the Luxembourg District Court. *Kaupthing's* [Geneva](#) office, which was a branch of its Luxembourg subsidiary, was prevented from making any payments of more than 5000 [Swiss francs](#) by the [Swiss Federal Banking Commission](#). The directors of *Kaupthing's* subsidiary on the [Isle of Man](#) decided to [wind up](#) the company after consultation with the Manx authorities. The [Finnish](#) Financial Supervision Authority announced having taken control of *Kaupthing's* Helsinki branch already on 6 October, to prevent money from being sent back to Iceland.

Turmoil at the banks had sparked panic. Queues had formed at petrol stations as Icelanders rushed to fill up before reported fuel shortages, while savers who tried to withdraw money from banks or sell bank shares on the Internet found that websites were not working. Iceland's complicated financial interests were so interconnected - with a small number of investors owning cross-stakes in each other's institutions - that the worst fear was a domino effect which would lead to the collapse of the country's economic system, potentially taking with it many prominent British chains. The country's financial institutions were now rated as the least creditworthy in Europe.

While the Icelandic Government moved to placate savers about the safety of their money, a weekend of meetings between politicians, bankers and economists suggested there was deep concern behind the scenes. The Government was said to have asked the unions to repatriate billions of dollars worth of pension fund money which had been invested abroad. The situation was regarded as critical, although officials were confident and had been urging the media not to over-blow it. With inflation at 12 per cent and the *krona* at its lowest level against the big currencies since 1992, small businesses were feeling the cold. The fear was wide spread of an absolute disaster, a terrible mess in which the Government had plunged the country - and talks of it becoming some kind of 'Third World country.'

Speculation continued about the financial health of the other banks. All of the major banks were publicly listed on the Iceland Stock Exchange, though each was either wholly State-owned or merged with previously State-owned banks in the past.

On 12 October the Norwegian Government took control of *Kaupthing's* Norwegian operations, including “all of the bank's assets and liabilities in Norway.”

While the Financial Supervisory Authority took possession of the three large commercial banks, Iceland turned to the International Monetary Fund. for a US\$ 5 billion loan package which included bilateral loans from the Nordics and other countries. A letter of intent sent to the I.M.F. outlined the strategy for the recovery of the economy. Its main proposals were to stabilise the currency, establish trust in Iceland’s monetary policy, revise fiscal policy to meet the increased debt burden, and restructure the banking system. The Executive Board of the I.M.F. approved the loan package in November 2008, subject to Iceland following the proposed economic recovery programme, and subsequently disbursed the first tranche of the loans. Several reviews of the programme have been conducted as at January 2011, allowing Iceland to draw disbursements.

In time the country secured over US\$ 10 billion in loans from the I.M.F. and other countries to stabilise its currency and financial sector, and to back government guarantees for foreign deposits in Icelandic banks. The country and its economy are so small that a small sum of US\$ 20 or 25 billion could have seen it through the economic storm. Even US\$ 25 billion would have been small considering the trillions of dollars of economic relief that the United States was pumping into its economy, but unfortunately for Iceland it did not receive that money. Because of this it suffered a national crisis which affected not only financial institutions but also its citizens, and everyone else.

In the morning of 11 October 2008 Mr. Hördur Torfason and his *Raddir Fólksins* - Voices in action - turned up in *Austurvöllur* square in front of the *Althing*. By then, the country's biggest bank, the *Kaupthing*, had gone into receivership and the Icelandic financial system itself was in danger of going under. Torfason, with his guitar, stood at a microphone and invited people to talk about their dissatisfaction with the freefall of their country and to speak their minds. The following Saturday Torfason's initiative brought dozens of people back to the same place. Eventually more than 7,000 protesters, in a city of some 120,000, filled the square outside Parliament.

The 'Kitchenware revolution' - so called because of the noisy use of pots and pans - had started and would go on for the following Saturdays until 24 January 2009. According to a poll from late November 2008, 64 per cent were in favour of early elections, with only 29.3 per cent opposed. A poll from 22 November 2008 saw the Social Democratic Alliance lead with 33.6 per cent, followed by the Left-Green Alliance at 27.8 per cent and the Independence Party at 24.8 per cent; the Progressive Party and the Liberal Party were far behind, with only 6.3 per cent and 4.3 per cent, respectively.

As the *Althing* met again on 20 January 2009, there were [protests](#) with reinvigorated force and escalation of conflict between protesters and the police. On 22 January police used tear gas to disperse people on *Austurvöllur* square, the first such use since the [1949 anti-N.A.T.O. protest](#).

Rallying to the Voices in action movement led to the demand to dissolve Parliament on 23 January 2009, and to hold elections. It led to the resignation of Prime Minister Geir and his cabinet on 26 January 2009. And that was not all.

The Prime Minister would be strongly criticised in the April 2010 report of the Special Investigative Commission into the financial collapse, being accused of "negligence" along

with three other ministers of his government. At a session on 28 September 2010 the *Althing* would vote 33-30 to indict him, but not the other ministers, on charges of misconduct in office. He would stand trial before the *Landsdómur* - a special court to hear cases alleging misconduct in government office - a Court of Impeachment. It would be the first time that the *Landsdómur* would convene since it was established in the 1905 Constitution.

The Icelanders did not leave it at that. They shook the foundations of the government, went after the bankers who led them into bankruptcy and said 'No' in a referendum on repaying debts of some Euro 4 billion to Great Britain and the Netherlands. Better still: they formed an assembly of 25 citizens elected to carry out constitutional reform. The 'Kitchenware' was an entirely silent revolution which, while the media were overwhelmingly focused on the Arab uprisings, was rescued from oblivion by a web of social networks beyond the control of the State.

Iceland had tried to move too quickly from modesty to 'prosperity'. Most Icelanders complained that their country's bankers had become too rich too fast, embracing global wealth with little discipline or foresight about what they would do if the economy turned sour.

Icelanders' priority was to cope with a possible meltdown of their economy. As the country staggered, aid came from an unexpected source: Russia promised massive loans. A team of Icelandic officials arrived in Moscow on 14 October to negotiate an Euro 4 billion (US\$ 5.7 billion) loan offered by the Russian Government, perhaps in part to forge closer ties with a long-time Western ally. Russian Deputy Finance Minister Dmitri Pankin said that "The meeting took place in a friendly atmosphere. We are working thoroughly on the issue to take a final decision." On the same day, the Central Bank of Iceland drew on its [swap facilities](#) with the central banks of Denmark and Norway for Euro 200 million each. Iceland has swap facilities with the other Nordic countries for a total of 1.5 billion pounds. Iceland also sought assistance from the [European Central Bank](#). There is some precedent for the move, as the E.C.B. already has currency swap arrangements with Switzerland, another non-member of the [European Union](#).

Russia was not Iceland's first choice, of course - Reykjavick turned to Moscow only after European countries and the United States had rejected its appeals. When questioned on the matter in a press conference, Prime Minister Geir said: “We have not received the kind of support that we were requesting from our friends. So in a situation like that one has to look for new friends.” The rebuff had stung many Icelanders, the conservative Government of which had often supported the United States and until recently had hosted a U.S. military base in Iceland.

As the crisis grew, the numbers became staggering: 85 per cent of the banking system failed and more than 50,000 people lost their savings.

In October 2009 an English financial journalist told the story of the bankrupting of Iceland: the bust had left the 320,000 Icelanders with a combined public and private debt which amounted to more than US\$ 403,000 per capita, or some US\$ 1.6 million for each family of four. This is what he observed: “30 [Icelanders] (many of them living in faraway London) may have vandalised their country’s future. But tens of thousands of other Icelanders, by not questioning, by not actively insisting on their ideals, by being apathetic about politics, let them get away with it. They know that now, and know too that they need to regain control of their destiny, to deal with capitalism and shape their society on their own terms. When we look at how, in the 21st century, nation states should accommodate themselves to the blistering forces of globalisation, the world’s oldest democracy, small as it is, has lessons for all of us.”

Iceland had agreed on 18 August 2009 with the British and Dutch governments to repay almost Euro 4 billion lost in a failed Icelandic bank by 2024, paving the way for more I.M.F. aid as it struggled to restructure its economy after the dramatic economic crashed in 2008. The repayment of Euro 4 billion was a stunning blow to the population of over 300,000. British local authorities alone had deposited 900 million pounds in Icelandic banks.

The United Kingdom would now lend Iceland 2.35 billion pounds and the Netherlands would lend Euro 1.2 billion, Prime Minister Jóhanna Sigurðardóttir said on 18 October 2009. The first seven years would be interest-only, then repayments would be tied to Iceland's economic growth.

On 21 October 2009 the Central Bank of Iceland asked the remaining independent financial institutions for new [collateral](#) against their loans. This was to replace the shares in *Glitnir*, *Kaupthing* and *Landsbanki* which had been pledged as collateral previously and which were now of much lower value, if not worthless. The value of the collateral was estimated at ISK 300 billion (Euro 2 billion). One of the banks, [Sparisjóðabanki](#), SPB - also known as *Icebank* - stated the next day that it could not provide new collateral for its 68 billion (Euro 51 million) loan, and would have to turn to the government for help. "This problem won't be solved in any other way." said C.E.O. Agnar Hansson.

On 24 October it emerged that Norway's semi-public [export credit agency](#) *Eksportfinans* had filed a complaint with the Norwegian police concerning the alleged [embezzlement](#) of 415 million [Norwegian krona](#) (Euro 47 million) by *Glitnir* since 2006. The Icelandic bank had acted as an agent for *Eksportfinans*, administering loans to several companies: however *Eksportfinans* alleged that, when the loans were paid off early by borrowers, *Glitnir* kept the cash and merely continued with the regular payments to *Eksportfinans*, effectively taking an unauthorised loan itself.

On 24 October 2008 the International Monetary Fund announced an I.M.F. rescue package totalling US\$ 2.1 billion (Euro 1.58 billion) for Iceland to remedy the effects of the G.F.C., but the loan had still not been approved by the Executive Board of the I.M.F. on 13 November. Due to the delay Iceland found itself caught in a classic catch-22 situation: loans from other countries could not be formally secured until the I.M.F. programme had been approved. The Icelandic Government spoke of a US\$ 500 million (Euro 376 million) gap in

the funding plans. The [Dutch Finance Minister](#) announced the Netherlands would oppose the loan unless agreement was reached over [deposit insurance](#) for *Landsbanki* customers in the Netherlands.

The I.M.F.-led package of US\$ 4.6 billion would be finally agreed on 19 November, with the I.M.F. loaning US\$ 2.1 billions and another US\$ 2.5 billion of loans and currency swaps from Denmark, Finland, Norway and Sweden. In addition, Poland had offered to lend US\$ 200 million and the [Faroe Islands](#) had offered US\$ 50 million, about 3 per cent of Faroese G.D.P. The Icelandic Government also reported that Russia had offered US\$ 300 million. The next day, Germany, the Netherlands and the United Kingdom announced a joint loan of US\$ 6.3 billion (Euro 5 billion), related to the deposit insurance dispute.

On 28 October 2008 the Icelandic Government raised interest rates to 18 per cent - reduced in August 2010 to 7 per cent - a move which was forced in part by the terms of acquiring a loan from the [I.M.F.](#) The move was an attempt to support the *krona*, which had lost 70 per cent of its value during the crisis before trading in the currency halted. It was due to re-float within a matter of weeks, a development which was viewed as a key step in restoring Iceland's economy. Iceland's Government announced that the Nordic countries had declared their readiness to help Iceland in battling the current crisis. After the rate hike, trading on the *krona* finally resumed on the open market, with valuation at around 250 ISK per Euro, less than one-third the value of the 1:70 exchange rate during most of 2008, and a significant drop from the 1:150 exchange *ratio* of the week before. Iceland appealed to Nordic countries for an additional Euro 4 billion in aid to avert the continuing crisis.

The I.M.F. forecast in December 2008 that Iceland's G.D.P. could fall by 10 per cent in 2009. Iceland's Government expected inflation to average 13.1 per cent in 2009 and unemployment to average 7.8 per cent for 2009 and approach 11 per cent towards the end of the year.

Until 29 January 2009 Iceland was governed by a coalition comprising the centre-right Independence Party and the centre-left Social Democratic Alliance. That government was disbanded on 26 January 2009 following unprecedented public protests over the government's handling of the economy and the resignation of Prime Minister and leader of the Independence Party, Mr. Geir H. Haarde. Early elections were announced and the incumbent leaders said that they would not run.

On 27 January 2009 President Ólafur asked the leader of the Social Democratic Alliance, Ms. Ingibjörg Sólrún Gísladóttir, to form an interim government. This transition government, comprising the Social Democratic Alliance and the Left-Green Movement, was formed on 1 February 2009, and Ms. Jóhanna Sigurðardóttir, of the Social Democratic Alliance, was appointed as *interim* Prime Minister. She was given the heavy duty of stabilising the country's failing economy and preparing for the elections on 25 April 2009. The new government immediately set about removing the Central Bank Governor and his aides from the Bank through changes in the law. The Governor was removed on 26 February 2009.

In April 2009 Iceland's State Prosecutor retained Ms. [Eva Joly](#), the Norwegian-French investigator who led Europe's biggest ever fraud investigations into bribery and corruption at oil group [Elf Aquitaine](#), as special consultant to a 20-member 'economic crime team' "to investigate suspicions of criminal actions in the period preceding the collapse of the Icelandic banks" which may involve several Iceland's business and banking leaders. Ms. Joly stated that the investigation will require a minimum of 2-3 years to build up enough evidence to secure prosecutions. "Finding proof will start at home in Iceland, but my instinct is that it will spread." she said. "If there are things relevant to the United Kingdom we will get in touch with the Serious Fraud Office. If there are things relevant to Germany we will get in touch with their authorities. In Iceland, there is more than enough for a starting point for the investigation, given all the talk about [market manipulation](#) and unusual loans. If these are proved they are embezzlement and fraud. The priority is tracing any flow of assets from the banks and getting them back."

The investigation was expected to focus on a number of questionable financial practices engaged in by Icelandic banks, such as: 1) Almost half of all the loans made by Icelandic banks were to holdings companies, many of which were connected to those same Icelandic banks. 2) Money was allegedly lent by the banks to their employees and associates so they could buy shares in those same banks while simply using those same shares as collateral for the loans. Borrowers were then allowed to defer paying interest on the loan until the end of the period, when the whole amount plus interest accrued was due. These same loans were then allegedly written off days before the banks collapsed. 3) *Kaupthing* allowed an investor from Qatar to purchase 5 per cent of its shares. It was later revealed that the investor 'bought' the stake using a loan from *Kaupthing* itself and a holding company associated with one of its employees. The bank was, in effect, buying its own shares.

On 9 March 2011 [Robert and Vincent Tchenguiz](#) were arrested in London by the [Serious Fraud Office](#) as part of their ongoing investigation in conjunction with [Iceland's](#) Special Prosecutor's Office into the collapse of *Kaupthing*. Since the G.F.C. began, many of Iceland's business leaders, who had previously been regarded as the financial wizards who had 'greatly developed' Iceland's economy, had come under intense public scrutiny for their roles in causing the financial crisis.

At the 25 April 2009 elections the transition government won a majority of 34 out of 63 seats in the *Althing*. It would be the first time the centre-left won a majority in the Icelandic Parliament. The leader of the Social Democratic Alliance, Ms. Sigurðardóttir, continued as Prime Minister. She called for joining the European Union, and stressed Iceland's traditional virtues: modesty, hard work, respect and, in all things, moderation. Ms. Sigurðardóttir is strongly in favour of the introduction of the Euro in Iceland. A poll, released on 5 March 2010 showed that 31 per cent of respondents were in favour of adopting the Euro and 69 per cent opposed. The Icelandic Government formally applied to join the E.U. on 16 July 2009. On 17 July 2009 the *Althing* voted 33-28, with two abstentions, to approve a government plan for Iceland to apply for full European Union membership. Although Iceland already had a free trade arrangement with the E.U., it had always rejected full membership due to concerns that its independence could be compromised. However, Prime Minister [Sigurðardóttir](#) had

promised to bring Iceland into the E.U. to help stabilise its economy. E.U. Enlargement Commissioner Olli Rehn expressed support for Iceland's membership, stating that as “a country with deep democratic traditions,” Iceland will be welcome in the E.U.'s expansion plans.

G.D.P. fell 6.8 per cent in 2009, and unemployment had peaked at 9.4 per cent in February 2009. On 27 February 2009 *The Wall Street Journal* had reported that Iceland's new government was trying to raise US\$ 25 million by selling its ambassadorial residences in London, New York, Oslo and Washington. In August 2009 the Central Bank of Iceland published a strategy on how to lift the emergency financial restrictions. In November 2009 the first step of that strategy, permitting the inflow of foreign currency for new investments and the outflow of capital converted to foreign currencies from such investments, would be implemented.

In an article published in *The Financial Times* on 14 August 2009 Prime Minister Sigurðardóttir said that her government was planning a 30 per cent cut in public spending over the next 3 years, with extensive contractions in infrastructure spending and wages. She termed it “a heavy burden for our population of 300,000.” In the article, she also slammed the United Kingdom and the Netherlands for demanding compensation for payments on deposits in respect of a failed Icelandic online bank. Ms. Sigurðardóttir said that Icelanders were angry at having to take on burden of compensation for the *Icesave* savings accounts of *Landsbanki* - a failed, privately owned, commercial bank. The amount to be shouldered by Iceland was huge - about 50 per cent of Iceland's G.D.P. She said assets against this debt would have substantially lowered the net amount, but there was much uncertainty about the valuations and forecasts underpinning such calculations. *Icesave* was an online bank of Iceland's second biggest financial institution, *Landsbanki*, which was nationalised by the government in October 2008.

“The Icelandic Government have told me, believe it or not, they have no intention of honouring their obligations.” Alistair Darling, the Chancellor of the Exchequer, told B.B.C. radio. But citing “exceptional circumstances” he said: “We have decided we will stand behind those savers.”

On 11 October an agreement was reached between the Icelandic and Dutch Governments on the savings of about 120,000 Dutch citizens. Pursuant to that agreement, the Icelandic Government would have covered the first Euro 20,887 on savings accounts of Dutch citizens held by *Landsbanki* subsidiary [Icesave](#), using money lent by the Dutch Government. The total value of *Icesave* deposits in the Netherlands was Euro 1.7 billion. At the same time, Iceland and Britain seemed to have reached an agreement on the following terms: *Icesave* deposits in the United Kingdom totalled 4 billion pounds (Euro 5 billion) in 300,000 accounts. The figure of Euro 20,887 was the amount covered by the Icelandic [Depositors' and Investors' Guarantee Fund](#), however, the D.I.G.F. had [equity](#) of only ISK 8.3 billion at the end of 2007, Euro 90 million at the exchange rates of the time and far from sufficient to cover the Dutch and British claims.

The cost of deposit insurance in the United Kingdom would not be completely clear as of November 2008. The [Financial Services Compensation Scheme](#) would pay around 3 billion pounds to transfer deposits from *Heritable Bank* and *Kaupthing Singer & Friedlander* to *ING Direct*, while the British Treasury would pay an additional 600 million pounds to guarantee retail deposits that were higher than the F.S.C.S. limit. The Treasury would also pay out 800 million pounds to guarantee *Icesave* deposits which were higher than the limit. A loan of 2.2 billion pounds to the Icelandic Government was expected to cover the claims against the Icelandic D.I.G.F. relating to *Icesave*, while the exposure of the British F.S.C.S. was expected to be 1-2 billion pounds.

On 28 August 2009 the *Althing* voted 34-15 - with 14 abstentions - to approve a Bill - commonly referred to as the *Icesave bill* - to repay the United Kingdom and the Netherlands more than US\$ 5 billion lost in Icelandic deposit accounts. Initially opposed in June, the Bill was passed after amendments were added which set a ceiling on the repayment

based on the country's G.D.P. Opponents of the Bill argued that Icelanders, already reeling from the crisis, should not have to pay for mistakes made by private banks under the watch of other governments. However, the government argued that if the Bill failed to pass, the United Kingdom and the Netherlands might have retaliated by blocking a planned aid package for Iceland from the I.M.F. Under the deal, tentatively reached in October 2009, up to 4 per cent of Iceland's G.D.P. was to be paid to the United Kingdom, in sterling terms, from 2017-2023, while the Netherlands would receive up to 2 per cent of Iceland's G.D.P., in Euro terms, for the same period. Talks between Icelandic, British and Dutch ministers in January 2010 did not result in any specific actions being agreed upon.

G.D.P. fell again 3.4 per cent in 2010. Since the collapse of Iceland's financial sector, government economic priorities have included: stabilising the *krona*, reducing Iceland's high budget deficit, containing inflation, restructuring the financial sector, and diversifying the economy.

On 5 January 2010 Iceland's President announced that he would not sign the *Icesave bill* to compensate the British and Dutch Governments and voters would have to decide on the issue in a referendum. A March 2010 referendum on whether to support repayment would be overwhelmingly rejected by voters.

The President's decision to refuse to sign the *Icesave bill* won both plaudits and criticism overseas. There had been an unfortunate precedent: in the 1970s, in Ireland, some prominent members of the Official I.R.A. had raised the slogan 'People before profits', which had some potency during the first major recession since the end of the second world war. On 6 January, in *The Irish Independent*, an economist praised the Icelandic move, which in effect was saying that a State guarantee of depositors of foreign branches of its banks need not be observed. Iceland had agreed the previous October with the British and Dutch Governments to repay almost Euro 4 billion lost in a failed Icelandic bank by 2024. Iceland was required by E.U. rules to maintain deposit insurance for its banks and when *Landsbanki* collapsed billions of dollars in deposits had been lost by British and Dutch depositors. The deposits were

attracted by the highest interest rates in the United Kingdom and the Netherlands. The British and the Dutch Governments refunded the deposits and Prime Minister Gordon Brown's Government used the United Kingdom *Anti-terrorism, Crime and Security Act 2001* to freeze the transfer of funds from the United Kingdom. The most recent Bill passed by the *Althing* in December 2009 provided for a firm commitment within the agreed timescale.

The financial crisis had resulted in a dramatic rise in unemployment from less than 2 per cent to 9.3 per cent in March 2010, and widespread business closures and bankruptcies.

On 12 April 2010 the *Althing's* Special Investigatory Commission - known informally as the Truth Commission - released a 2,000-page report on the banking meltdown, revealing the extent of control fraud in the crisis. Consisting of independent experts, the investigative commission had been established by the Icelandic Parliament in December 2008. The report was the first comprehensive analysis of the causes of the collapse of the three largest Icelandic banks in the midst of the G.F.C. of October 2008. The report detailed the banks' questionable practices, all while the banking sector exploded exponentially in size. It provided the basis for investigation by the Special Prosecutor, who has since arrested some suspects and frozen their assets. In response to the report, three members of Parliament took temporary leaves of absence in 2010; two of them returned to Parliament in 2011. A parliamentary review committee, established to determine whether ministerial responsibilities were breached, recommended that four government ministers be indicted and tried by the Court of Impeachment. On 28 September 2010 the *Althing* voted 33-30 to indict only one, former Prime Minister Geir H. Haarde, who was to stand trial.

Iceland's real G.D.P. grew by 1.2 per cent in the July-September 2010 period from the previous quarter, the first quarterly increase since the same period in 2008. Iceland had entered a slump after its overleveraged financial sector collapsed in the wake of *Lehman Brothers'* bankruptcy. By the end of 2008, inflation was at 18.6 per cent and the currency had

depreciated by roughly 90 per cent. Inflation had since subsided to a large degree, dropping to 2.5 per cent in December 2010.

Official data published early in December 2010 showed that Iceland was emerging from recession, returning to growth for the first time since its financial system collapsed at the height of the crisis in 2008.

Like Spain, Greece and Ireland, Iceland had adopted a large dose of austerity measures to rebuild its economy. Unlike Greece and Ireland, however, Iceland allowed private banks to fail, and the *krona* to decline by about 46 per cent against the U.S. dollar since the start of 2008. By 2010 it seemed that excluding the financial system, the real economy was doing well. Retail spending was still shrinking, but the export sector, consisting mainly of fish, aluminium and tourism, was improving. In terms of the level of standard of living it seemed that Iceland had returned to the condition of 2003. The worst had been felt by younger people who borrowed at the height of the bubble and were now having difficulties to reduce their debt.

Out of Iceland's experience there was a lesson for the Euro zone as it grappled with its own crisis: if one goes through a bubble economy and subsequently needs to correct it, the answer is not to convert private debt into public debt. Rather it is to restructure the debt to the level of the assets.

An official of the I.M.F. had said in November 2010 that the Icelandic economy would most likely improve further in 2011, but that delays to investment projects, plus the need for household and corporate debt restructuring, would continue to weigh on growth. The fund and some member governments had agreed in November 2008 to provide US\$ 2.1 billion to help rebuild Iceland's finances.

Icelanders had resisted international pressure to make them fully reimburse the British and Dutch governments for US\$ 5.4 billion they spent making whole British and Dutch depositors who lost their savings in the financial collapse.

On 6 December 2010 Prime Minister Sigurdardottir told legislators in the *Althing* that she expected the *Icesave* situation to be resolved within the week. It was confidently anticipated that, within a few years Iceland should have been able to exit the I.M.F. agreement, and that because of the determination of the Icelandic people, the *Icesave* problem would be only a minor issue for the long-term outlook.

Still, the 2008-2011 Icelandic financial crisis would remain a major ongoing [economic](#) and political crisis in [Iceland](#) and the banking collapse would become the largest suffered by any country in economic history.

Iceland's financial position has steadily improved since the crash. The economic contraction and rise in unemployment appeared to have been arrested by late 2010 and with growth underway in mid-2011. Three main factors have been important in this regard.

First is the emergency legislation passed by the *Althing* in October 2008. It served to minimise the impact of the G.F.C. on the country. The Financial Supervisory Authority of Iceland used permission granted by the emergency legislation to take over the domestic operations of the three largest banks. The much larger foreign operations of the banks, however, went into receivership.

A second important factor is the success of the I.M.F. [Stand-By-Arrangement](#) in the country since November 2008. The S.B.A. includes three pillars. The first pillar is a programme of medium term fiscal consolidation, involving painful austerity measures and significant tax hikes. The result has been that government debts have been stabilised at around 80-90 percent of G.D.P. A second pillar is the revival of a viable but sharply downsized domestic banking

system on the ruins of its gargantuan international banking system that the government was unable to bail out. A third pillar is the enactment of capital controls and the work gradually to lift these to restore normal financial linkages with the outside world. An important result of the emergency legislation and the S.B.A. is that Iceland has not been seriously affected by the [European sovereign debt crisis](#) from 2010. Despite a contentious debate with United Kingdom and the Netherlands over the question of a state guarantee on the [Icesave](#) deposits of *Landsbanki* in these countries, [credit default swaps](#) on Icelandic sovereign debt have steadily declined from over 1,000 points prior to the crash in 2008 to around 200 points in June 2011. The fact that the assets of the failed *Landsbanki* branches are now estimated to cover most of the depositor claims has had an influence to ease concerns over the situation.

Finally, the third major factor behind the resolution of the financial crisis was the decision by the Iceland Government to apply for membership in the E.U. in July 2009. While views on the feasibility of E.U. membership are quite mixed in Iceland, this action has served to enhance the credibility of the country on international financial markets. One sign of the success of the above efforts is the fact that the Icelandic Government was successfully able to raise US\$ 1 billion with a bond issue on 9 June 2011. This development indicates that international investors have given the government and the new banking system, with two of the three biggest banks now in foreign hands, a clean bill of health. The first two major measures were implemented by the Government of Prime Minister [Geir H. Haarde](#) but carried out by also the Government of Prime Minister [Sigurdardottir](#), which then took the step to apply for E.U. membership.

By the end of 2010 Iceland was ranked, with a G.D.P. of US\$ 13.24 billion and a per capita income of US\$ 39,698, as the seventeenth most developed country in the world by the [United Nations' Human Development Index](#), and the fourth most productive country per capita. The inflation rate was 2.5 per cent. The country is slowly getting back on its feet just like every other nation which had suffered during the G.F.C. Because of its small size and population it was hit a bit harder than other countries and would take longer than other nations to recover.

Iceland's current government consists of a majority coalition between the centre-left Social Democratic Alliance, S.D.A. and the leftist, environmentally focused Left-Green Movement, L.G. The chair of the S.D.A., Ms. Sigurdardottir, is Iceland's first female Prime Minister and L.G.'s chair Mr. Steingrimur J. Sigfusson serves as the country's Finance Minister. The S.D.A.-L.G. coalition, which holds 34 out of the 63 seats in Parliament, was elected on 25 April 2009 in early parliamentary elections which were prompted by the country's economic crisis in the fall of 2008. The Government contributes financially to N.A.T.O.'s international overhead costs and provides support to the International Security Assistance Force operations in Afghanistan.

European Union membership was one of the top campaign issues in the 2009 parliamentary elections. The *Althing* voted in favour of applying for E.U. membership in July 2009, and Iceland was granted candidate status on 17 June 2010. Formal accession negotiations began at an intergovernmental conference in Brussels on 27 July 2010 and are expected to last several years. After the negotiations are concluded, the Icelandic people will determine by national referendum whether the country joins the E.U.

By comparison with other countries in difficulty - Ireland, for instance - the Icelandic Government was convinced that its decision two years ago to force bondholders to pay for the banking system's collapse may help it rebound faster than Ireland. Iceland's taxpayers face a smaller debt burden than their Irish counterparts, where the government's guarantee of the financial system in 2008 backfired recently, when the banks came close to insolvency. Iceland's budget deficit will be 6.3 per cent of G.D.P. this year and will vanish by 2012, compared with the 32 per cent shortfall in Ireland, according to estimates of the European Commission.

Observers expected Iceland's recession to extend into 2011, while the country's exporters could take advantage of a 28 per cent drop in the *krona* against the dollar since September 2008. The decline might have helped Iceland rebalance its economy faster than Ireland, the Euro membership of which ruled out a currency devaluation. With Iceland's Stock Exchange

share index up 17 per cent this year, the third-biggest gain in Europe after Denmark and Sweden, Nobel Prize-winning economist Paul Krugman said that Iceland could be an example of “bankrupting yourself to recovery.” “The difference is that in Iceland we allowed the banks to fail.” Iceland President Ólafur said in a 26 November 2010 television interview. “Those were private banks and we did not pump money into them in order to keep them going; the State did not shoulder the responsibility of the failed private banks.” Iceland’s bank debt remains with the failed lenders, whose creditors have yet to recoup US\$ 85 billion. Deciding who should bear the cost of banking failures is becoming a “burning” question in Europe, President Ólafur said.

Ireland and Iceland had boasted growth rates in excess of 5 per cent from 2005 to 2007 as they opened their economies to international investment. Both then succumbed to an overheated financial industry which outgrew their economies. Iceland’s recession was likely to be deeper in 2010 than Ireland’s, though Iceland was likely to overtake the Euro member in 2012, according to the Organisation for Economic Cooperation and Development report published on 18 November 2010. Iceland’s budget was expected to be in surplus by 2012, compared with Ireland’s deficit of 9.1 per cent of G.D.P., according to the European Commission estimates. Unemployment in the Euro member was likely to remain at 13.6 per cent in 2010 and 2011, compared with a 2011 peak of 8.1 per cent in Iceland, according to O.E.C.D. data.

Iceland, which had began E.U. accession talks in 2010, was experiencing a durable recovery which was forecast to pick up steam in 2011, according to an October 2010 I.M.F. report. On its part, the Icelandic Government declared that it had no choice but to let the lenders fail. Before their collapse the banks had debts equal to 10 times Iceland’s US\$ 12 billion G.D.P. “Trying to rescue a banking system that is too big is a tremendous burden.” Finance Minister Steingrímur J. Sigfússon said in an interview in Oslo. “There was not a question that we would rescue the banks; they were far too big.”

European banks had US\$ 509 billion in claims against Ireland at the end of June, according to the Bank for International Settlements data. Euro-region governments will assess how far

investors should bear potential write-offs on a case-by-case basis starting in 2013, finance ministers said on 28 November 2010. *Kaupthing*, *Landsbanki* and *Glitnir* had failed in 2008 after they were unable to secure short-term funding. *Kaupthing*'s so-called winding-up committee said on 26 November 2010 that it is dealing with 28,167 claims filed by creditors across 119 countries totalling US\$ 63 billion.

On 16 February 2011 the *Althing* voted support for a Bill confirming the latest agreement reached between Iceland, the United Kingdom and the Netherlands on the *Icesave* Euro 4 billion debt issue. The result was a strong majority of more than two-thirds approval for the new agreement: 44 members of Parliament voted in favour of the agreement, 16 opposed it and 3 abstained. The latest deal would cut the average interest rate to 3.2 per cent compared with 5.55 per cent in the rejected deal; interest payments would commence immediately and principal repayments in 2016, with repayments spread over a maximum of 37 years. Finance Minister Sigfusson said: "The result of the voting today, with such a strong majority of the Parliament approving the new agreement, is extremely important. The voting will undoubtedly have a positive impact on the Icelandic economy and help the country achieve its goals in restructuring the economy. To date much progress has been made in getting Iceland back on track and the resolution of the *Icesave* issue is a huge step in that direction."

The Bill was waiting the formal approval of Iceland's President. In excess of 30,000 people - almost a tenth of the Icelandic population - had so far supported a petition to President Ólafur to hold another referendum.

Sovereign default could seem like a panacea to some but it is not easy for countries to draw a line under international obligations, questions of morality apart. "Iceland has been able to recover because we let the private banks fail...and we could devalue." repeated President Ólafur to C.N.B.C. in Davos in January. The I.M.F. programme would probably have been over later by the end of 2011 and the country was on the road to recovery - he said. He also discussed the country's plans to join the E.U.

On 21 February 2011 the news came that, for the second time, Iceland's President had vetoed the *Althing's* bid to repay the United Kingdom and the Netherlands more than US\$ 5 billion lost by depositors in Iceland's epic 2008 banking collapse - sending the matter to a referendum by a deeply skeptical public and complicating the country's application to join the European Union. The dispute over *Icesave* had continued for more than two years, reflecting the Icelandic people's dissatisfaction with paying the price for what is almost universally regarded as the hubris of a few.

On 9 April 2011 the fiercely independent people of Iceland defeated with a referendum the Bill which would have compensated British and Dutch investors who had lost funds in *Icesave* in 2008. At the time of the bank's failure, Iceland refused to cover the losses. But the United Kingdom and the Netherlands nonetheless had demanded that Iceland repay them for the 'loan' as a condition for admission into the European Union. In response to the threat the Icelandic people told Europe: "can't pay, won't pay." The final vote was 103,207 to 69,462, or 58.9 per cent to 39.7 per cent.

A similar referendum in 2009 on the issue - although with harsher terms - had found 93.2 per cent of the Icelandic electorate rejecting a proposal to guarantee the deposits of foreign investors who had funds in the Icelandic bank. The referendum was invoked when President Ólafur vetoed legislation the *Althing* had passed to pay back the British and Dutch. "These were private banks and we did not pump money into them in order to keep them going; the State did not shoulder the responsibility of the failed private banks." Iceland President Ólafur had said.

The voters' rejection came despite threats to isolate Iceland from funding in international financial institutions. Iceland's national debt had already been downgraded by credit rating agencies, and now those same agencies had promised to do so once again as punishment for defying the will of international bankers.

This is just the latest phase in the long drama since 2008 of global institutions refusing to take losses in the G.F.C. Threats of a global economic depression and claims of being ‘too big to fail’ have equated to a loaded gun to the heads of representative governments in the United States and Europe. Iceland is of particular interest because it did not bail out its banks like Ireland did, or foreign ones like the United States did. If that fervour catches on amongst taxpayers worldwide, as it has in Iceland, the banks would have something to fear; that is, the inability to draw from limitless amounts of funding from compliant government officials and central banks. It appears that the root cause was government guarantees, whether explicit or implicit, on risk-taking by the banks. Ultimately, such guarantees are not necessary to maintain full employment or even prop up an economy with growth; they are simply designed to allow these international institutions to over-leverage and increase their profit margins in good times - and to avoid catastrophic losses in bad times.

The lesson here is instructive - and a chilling one. If any sovereign country attempts to restructure its debts, or to force private investors to accept a return which is less than optimal, especially partially to forgive a debt on their own foolish gambles, these international institutions have promised the equivalent of economic war in response. The alternative would be for representative governments to sacrifice their independence to a *cabal* of banksters who share no allegiance to any nation. It is the conflict which has already defined the beginning of the twenty-first century. The question is whether free peoples will choose to remain free, as Iceland has, or to submit.

The I.M.F. card trick has been played before in Central, South America, Africa, Asia, and was now coming home to roost in Europe, and the Americas.

Just after the ‘implosion/collapse’ of 2008 Iceland applied to join the European Union - on 16 July 2009. The application was accepted by the European Council on 27 July 2009. Iceland’s government had a target date of 2012 for joining the Union. The final decision on

entry would depend upon a referendum in Iceland. But, as part of the European Economic Area, Iceland is already a member of the E.U.'s single market. It is also a member of the Schengen Area which removes border controls between member states. And that implied a limitation to sovereignty, and autonomy.

One could now draw some lessons on what happens to economies by examining the situation in Greece ! Unable to make currency corrections, and reset the national economy, Greece was handcuffed by the international money-holders. These globalists use their financial pressure to steal from the people to funnel G.D.P.'s into their own pockets, thereby consuming real wealth in exchange for valueless loans.

Before the G.F.C. Iceland was set to become the world leader in alternative energy by using natural geothermal means to produce and stockpile hydrogen cells. Did this threaten the current power structure of the 'new world order' ? Now that Iceland is threatening to quit its co-operation with the I.M.F. punishment could be very far behind. One can only speculate in what form that may be.

By mid-June 2011 Iceland's economy continued to recover from the G.F.C., but still had a long way to go, according to a report issued on 21 June 2011 by the Organisation for Economic Cooperation and Development. The report said that Iceland has largely recovered from its deep slump in the wake of the G.F.C. Iceland has gone far in 'resolving the economic problems left by the financial crisis'. The report said that output has finally stabilised following the severe recession, but real G.D.P. lingers 11 per cent below its peak in the first quarter of 2008, which was well above sustainable levels. This decline was one of the largest in the O.E.C.D. and the largest in Iceland in recent decades. Domestic demand has levelled off, but a consumption and business investment-led recovery is projected to gather momentum over the next two years, lifting economic growth to 3 per cent by 2012. The main uncertainty to the outlook concerns the timing of large investment projects, which has increased following the recent vote on 9 April 2011 against the *Icesave* agreement with the United Kingdom and the Netherlands in respect of compensation claimed for bailing out depositors of the failed online bank.

The O.E.C.D. report explained how the Icelandic Government has made good progress in cutting the large budget deficit left by the G.F.C., but much consolidation is still required to put public finances on a sustainable path. The general government budget deficit, excluding one-off transactions, fell by 3.5 per cent of G.D.P. to 6.5 per cent in 2010 - 7.8 per cent of G.D.P. including the cost of called loan guarantees - and a similar decline is projected in 2011.

The Icelandic Government was planning to achieve a primary budget surplus of at least 3 per cent of G.D.P. in 2013 and to increase it gradually in the following years. "Reforms have been made to regulation and supervision to address shortcomings exposed by the financial crisis." The report said, also pointing out that the country had recently adopted a strategy to relax capital controls.

So, naturally, one reads the O.E.C.D. survey of Iceland with interest. The contents are surprising on two fronts. The first surprise is that Iceland is doing pretty well, all things considered; rather better than Ireland or Greece. The second surprise is that the O.E.C.D. thinks the lesson of the past few years is that Iceland ought to join the Euro. Iceland officially applied to join the E.U. in 2009 and was set to begin detailed accession talks before the end of June 2011. However, opposition to joining the bloc and the Euro zone still remains strong in the country.

As the O.E.C.D. report made clear, there are still enormous challenges ahead for Iceland. One of the largest is how it will dismantle the capital controls it imposed in 2008 to prevent foreign creditors departing the country with a large chunk of Iceland's G.D.P. But in basic economic terms, Iceland appears to have come out of the crisis better than the other two European countries which came into it with clearly unsustainable amounts of private or public debt: Ireland and Greece.

Meanwhile the steely determination of the Icelanders had reached the thousands of demonstrators who gathered in several cities around Spain on 15 May 2011: “Spain arise, another Iceland.” “Our model - Iceland” were some of the slogans from the crowds.

But officials in Iceland were warning Greece and Ireland not to copy its recovery model even though the Icelandic Government managed a return to international debt markets less than three years after letting its banks default. “People should be careful when it comes to drawing comparisons between Iceland on the one hand, and Greece, Portugal, Spain and Ireland on the other.” Finance Minister Sigfusson said in an interview in Reykjavik at mid-June. “Iceland did not have the ability to save the banks. Trying to rewrite the events that led to that eventuality as some sort of an export product is irresponsible.”

Iceland’s success in rebuilding its economy has been contrasted with the plight of Euro member Ireland by several economists including Nobel laureate Paul Krugman. Ireland, where most bank debt has been protected by a state guarantee since 2008, would have been better off using Iceland’s “bankrupting yourself to recovery” model, Krugman had argued in *The New York Times* on 24 November 2010. Finance Minister Sigfusson said the advice could be dangerous, as European leaders try to agree on how investors share the cost of a second Greek rescue. “Iceland should be humble and avoid advising other countries, especially when it comes to banking.” Mr. Sigfusson said. “What happened was an emergency situation which could not be avoided.”

Iceland’s first foreign-currency bond auction since 2006, a US\$ 1 billion debt sale, was twice oversubscribed as the island enjoys a return of “trust and respect and a certain degree of goodwill.” Mr. Sigfusson said in the 10 June interview. The economy of Iceland will grow 2.2 percent this year and 2.9 percent in 2012, the O.E.C.D. estimates. “The option is available to us” to sell more foreign- currency debt.” Mr. Sigfusson said. “We will monitor the developments in the aftermarket. We will issue again, as and if required.”

Mr. Sigfusson said that Iceland's transformation came at a cost, adding the government had no option but to allow a banking default, after the financial industry grew to 10 times the size of the economy. "This was not our free choice." Mr. Sigfusson said. "If we had not passed that legislation, the Icelandic economy would have melted down completely." Icelanders suffered an 18 per cent slump in their disposable incomes in 2009, adjusting for inflation, as the *krona*'s decline sent consumer price growth close to 20 per cent and unemployment approached 10 per cent, compared with 1 per cent before the G.F.C.. Still, after the adjustment, Mr. Sigfusson said that he sensed a "dramatic change in how the international community and investors perceive Iceland."

Iceland had a steep recession, one of the steepest, with a peak to trough decline of around 11 per cent of G.D.P. That is only apparently similar to the other two problem cases. The figure for Ireland is just over 12 per cent and the figure for Greece, if one includes the further decline expected this year, is likely to be around 10 per cent. But there is the big contrast between them: Ireland and Greece will have had three successive years of decline, and are looking at a flat or falling economy in 2011, whereas the O.E.C.D. is predicting more than 2 per cent growth for Iceland this year and in 2012. On the basis of O.E.C.D. figures, the Icelandic economy will have shrunk by an average of 0.75 per cent a year over the five years from 2008 to 2012. The average decline in Greece will have been 1.6 per cent a year, with an average decline of just under 2 per cent a year for Ireland. Iceland's long-term interest rate is just over 8 per cent, compared with over 13 per cent for Greece. It is true that unemployment is high by Icelandic standards at 5.8 per cent, but Greek joblessness stands at more than 16 per cent.

And despite the G.F.C. which has cost the government around 20 per cent of G.D.P., Iceland is expected to have a budget surplus by 2013.

Undoubtedly, the Iceland example does not hold enormous relevance to Greece, because Iceland came into this crisis with no public debt at all, and that was not the case of Greece. In fact, it turned out that Greece had a lot more debt than it had declared. The more telling comparison is with Ireland, which, like Iceland, had handled its public finances well but its financial system disastrously badly. Unlike Greece, Ireland is now looking at a tolerable recovery and has a competitive economy, so perhaps the jury on that one is still out. The private debt restructuring that Icelandic households and companies are now going through is pretty horrendous.

But it is strange that the O.E.C.D. is so uninterested in the lessons from Iceland's decision to call time on a chunk of its foreign liabilities, and put a financial wall around its economy to stop investors getting out. Presumably the authors of the report think that things would have gone better for Iceland if it had been in the single currency.

One thing is clear: Iceland had an eye on punishing the banksters responsible for the G.F.C.

Since 2008 the vast majority of the Western population has been dreaming about saying “no” to the banks, but no one has dared to do so. No one except the Icelanders, who have carried out a peaceful revolution which has managed not only to overthrow a government and draft a new constitution, but also sought to gaol those responsible for the country's economic debacle. At mid-March 2011 nine people had been arrested in London and Reykjavik for their possible responsibility for Iceland's financial collapse in 2008, a deep crisis which developed into an unprecedented public reaction which is changing the country's direction.

Iceland, the country which hosts the world's oldest democracy - since 930, and whose citizens have managed to effect change by going on demonstrations and banging pots and pans, has seen a revolution without weapons. Why have the rest of the Western countries not even heard about it?

Pressure from Icelandic citizens' has managed not only to bring down a government, but also to begin the drafting - in process - of a new constitution and is seeking to put in gaol those wealthy potentates responsible for the financial crisis in the country.

This quiet revolutionary process has its origins in 2008 when the Icelandic Government decided to nationalise the three largest banks, *Glitnir*, *Kaupthing* and *Landsbanki*, the main clients of which were mainly distant British, and North and South American depositors. After the State took over, the *krona* plummeted and the stock market suspended its activity after a 76 per cent collapse. Iceland was becoming bankrupt and to save the situation, the I.M.F. injected US\$ 2,100 million and the Nordic countries helped with another US\$ 2,500 million.

While banks and local and foreign authorities were desperately seeking economic solutions, the Icelandic people took to the streets and their persistent daily demonstrations outside the *Althing* prompted the resignation of the conservative Prime Minister Geir H. Haarde and his entire government. Citizens demanded, in addition, to convene early elections, and they succeeded. In April a coalition government was elected, formed by the Social Democratic Alliance and the Left Green Movement, headed by Prime Minister Sigurðardóttir.

Throughout 2009 the Icelandic economy continued to be in a precarious situation - at the end of the year the G.D.P. had dropped by 7 per cent - but, despite this, the *Althing* proposed to repay the debt to Britain and the Netherlands with a payment of Euro 3,500 million, a sum to be paid every month by Icelandic families for 15 years at 5.5 per cent interest. The move sparked anger again in the Icelanders, who returned to the streets demanding that, at least, that decision was put to a referendum. Another big small victory for the street protests: in March 2010 that vote was held and an overwhelming 93 per cent of the population refused to repay the debt, at least with those conditions. This forced the creditors to rethink the deal and improve it, offering 3 per cent interest and payment over 37 years. Not even that was enough. The Icelandic President, on seeing that the *Althing* approved the

agreement by a narrow margin, decided on 21 February 2011 to veto the relevant Bill and to call on the Icelandic people to vote in a referendum so that they would have the last word. On 9 April 2011 the Icelandic people approved of the President's action.

While the Icelanders were again refusing to pay a debt incurred by financial sharks without consultation, the coalition government had launched an investigation to determine legal responsibilities for the fatal economic crisis and had already arrested several bankers and top executives closely linked to high risk operations. Interpol, meanwhile, had issued an international arrest warrant against the former president of one of the banks. This situation led scared bankers and executives to leave the country *en masse*.

In this context of crisis, an assembly was elected to draft a new constitution which would reflect the lessons learned and replace the current one, inspired by the Danish constitution. To do this, instead of calling experts and politicians, Iceland decided to appeal directly to the people and to impose the people's sovereign power over the law. More than 500 Icelanders presented themselves as candidates to participate in this exercise in direct democracy and write a new constitution. Twenty five of them, without party affiliations, including lawyers, students, journalists, farmers and trade union representatives were elected. Among other developments, the new constitution will call for the protection, like no other, of freedom of information and expression in the so-called Icelandic Modern Media Initiative, in a bill which aims to make the country a safe haven for investigative journalism and freedom of information, where sources, journalists and Internet providers which host news reporting are protected.

The people, for once, will decide the future of the country while banksters and corrupt politicians witness the transformation of a nation from the sidelines.

In June 2011 former Prime Minister Geir H. Haarde became the first leading political figure to be charged for his part in the 2008 economic collapse. In a charge filed at the Reykjavík District Court, Mr. 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. The Prosecutor's team has also recently brought charges against leading executives in Iceland's failed banks, *Glitnir*, *Kaupthing* and *Landsbanki*. At the end of June, three *Kaupthing* executives were acquitted of all charges against them.

Mr. Haarde has denounced his trial as a political *vendetta* led by hostile sections of the ruling *élite*. 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."

Mr. Haarde returned to these claims in an interview with A.F.P. at the end of June. "In comparison to Greece and Ireland, Iceland had come out of the crisis in much better shape." Mr. Haarde said. "We saved the country from going bankrupt." he proclaimed.

One will have to wait for the conclusion of the trial to verify the truthfulness of that assertion.

Ó, stolt og frjáls fólk!

* mid-July 2011.

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