Iceland: New government pledges continuation of IMF austerity programme

By Jordan Shilton
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Iceland's new coalition government between the Social Democratic Alliance and the Left-Green Party was formed February 1 after negotiations with the Progressive Party over its parliamentary support. Although the new administration came to power promising significant changes to government and the financial sector, the direction of the SDA-led government will be a continuation of previous policies.

Most significant was the pledge to stick to the IMF-backed economic programme negotiated by the outgoing Independence Party-led government. In its initial statement outlining its priorities, the new administration declared, "The Government will base itself on a very prudent and responsible policy in economic and fiscal matters…."

Earlier, Left-Green leader Steingrimur Sigfusson had stated that he intended to push for a renegotiation of Iceland's loan terms with the IMF in his new capacity as finance minister. Nonetheless, in the first line of the section on economic policy the government declared, "The economic policy of the government will be based on the programme already established by the authorities and the IMF."

This is confirmation, if it were necessary, that the SDA/Left-Green coalition will continue to implement harsh austerity measures demanded by international finance capital to shift the burden of the economic crisis on to working people. Notwithstanding its declared commitment to "social values" and "women's rights, equality and justice," many desperately needed social programmes will have to be cut if the government is to meet the programme of the IMF.

Government finances are in a bad way since many of the liabilities of the collapsed banks were taken on last October. While the exact level of government debt is not clear, many experts believe it to be well in excess of 100 percent of the country's GDP. When the full extent of the nationalised banks' liabilities become clear, the situation could prove even worse.

The government also indicated it would work towards lifting the capital controls currently in place to protect the trading of the krona (ISK), which lost two-thirds of its value against the euro last year. Such moves will further exacerbate the mounting debts and threats of personal bankruptcy facing many Icelanders. While it pledged to work towards a reduction in interest rates as soon as possible, the IMF has made clear that it would not support such a move.

Many of the government's stated priorities centre on moves to "democratise" the government and to replace the heads of the central bank and other regulators. Prime Minister Johanna Sigurdardottir sent a letter to the three central bank governors calling for a meeting to discuss their resignations. But David Oddsson, governor of the central bank and a former prime minister, has responded angrily to the call, accusing the government of instigating a "political attack" against him.

"[L]aws that are designed to guarantee the independence of the central bank and prevent political attacks on the board of governors have been violated," Oddsson stated.

Sigurdardottir had intended to appoint only one central bank governor in the future, likely to be a financial "expert," rather than following the political appointments of previous governments. The appointment of so-called experts to lead certain areas of government policy is a characteristic of the new government, with two ministers out of ten not being members of political parties. Most noteworthy is the appointment of Gylfi Magnusson, an economist from the University of Iceland, to the post of minister of business affairs. As has been seen in other European countries, such appointments are designed to insulate measures considered to be in the strategic interests of the bourgeoisie from any democratic accountability.

In the section dealing with the business sector, a statement indicated that the new administration would work to provide funds to encourage investment from private enterprise, as well as creating additional employment in the private sector. While it pledged to outline a programme of public works to stimulate employment, the real beneficiary of such projects will be big business.

For ordinary people, proposals were vague. The establishment of a “welfare watch” to “monitor the social consequences of the banking collapse and make proposals to address them” commits the government to nothing. The promise to pass measures to regulate foreign debt and postpone the forced sale of homes for up to six months will be small comfort to many, since the economic crisis facing Iceland will last much longer.

Funds to supply unemployment benefits are reportedly running dangerously low, with one official believing the fund could run out this year if current trends continue. This would leave the government faced with making more money available, or leaving thousands without unemployment coverage as the jobless rate explodes. Latest figures put those out of work at approximately 14,000 in this tiny country of 304,000 (4.6 percent) and rising.

Further proposals threaten to increase government exposure to bad debt. One such measure is the transfer of unpaid loans to the housing finance fund, a government-funded programme to aid households in obtaining loans. How this would be paid for is far from certain in the current climate, especially with Iceland facing national bankruptcy.

No commitment was given in the government programme on the issue of membership in the European Union. Nonetheless, it is clear that sections of the ruling establishment are pushing for it. On Tuesday, February 4, Sigurdardottir declared that, “the best option is still to join the EU and adopt the euro.”

While formally opposing this move, the Left-Greens have supported the calling of a referendum in the aftermath of the upcoming election on April 25. The party has also cooperated with government proposals to push for constitutional reforms to make the holding of national referenda much easier, a preparation for moves towards a vote on the EU.

Increased pressure from international financial circles will be placed on the government, particularly if the Left-Greens emerge as the largest party in the April 25 elections. As the *Financial Times* wrote, “Running an independent monetary policy in such a small and open economy was always difficult, if not futile. Today it is no longer possible.

“The best solution for Iceland is to join the European Union and adopt the euro—about half of its trade is with the Eurozone. It would be a shame if the junior coalition partner in the new government opposes this, as it has in the past.”

But the outcome of a vote on EU membership is far from certain. The latest poll puts the level of support at just 38 percent, with workers recognising that membership would demand further attacks on their livelihoods rather than provide protection. Opposition is also strong due to Iceland’s fishing industry, which has always remained independent and plays a vital role in the island’s economy. In the event of Iceland becoming an EU member, the industry would come under the control of Brussels through the Common Fisheries Policy (CFP).

Opponents of the EU, including Left-Green members, have suggested closer collaboration with Iceland’s neighbours, particularly Norway. In Norway, a recent editorial in the *Dagens Naeringsliv,* entitled “Should Iceland be helped?” cited EU opponents in Norway calling for assistance to prevent Iceland joining the bloc.

With the assumption of office by a SDA/Left-Green coalition, the lack of a political perspective on the part of the popular protests that have swept across the country in recent months has been graphically exposed. The government’s formation has been presented by organisers as a “victory” and a “celebration,” with the main demands of a change in government and the holding of early elections met.

Far from being a victory, the coming to power of a Social Democrat-led administration in Reykjavik threatens an intensification of the assault on working people through the implementation of the IMF’s economic programme. While the change in personnel may temporarily calm protests, the harsh austerity measures that the incoming government will pursue will sooner rather than later bring about further social struggles.