

Iceland's ex-prime minister on trial over role in financial crisis

By Jordan Shilton
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The trial of Geir H. Haarde, Iceland's prime minister prior to and during the financial crisis of 2008, began in Reykjavík last week.

Haarde is accused of "criminal negligence" for his role in the collapse of Iceland's banking system, a charge that could result in a prison term of up to two years.

Such a punishment does not even begin to compare with the economic and social catastrophe over which Haarde's government, together with the current Social Democratic-Left Green coalition, has presided. While virtually all of Iceland's state resources were directed to bail out the financial criminals and speculators who brought the crisis about, working people have been confronted with successive austerity budgets which have been dictated by the International Monetary Fund.

Haarde has denounced the proceedings as a "political vendetta." On the opening day, he denied that he had been negligent in the lead-up to the crisis, declaring, "I reject all accusations, and believe there is no basis for them. Nobody predicted that there would be a financial collapse in Iceland."

In reality, the trial of Haarde only emphasises how many others should be subject to the same treatment.

It was clear that a crisis was approaching in Iceland in the lead-up to 2008. The total assets of the three major banks approached 10 times that of Iceland's GDP, as a massive speculative bubble developed over years. The collapse of Lehman Brothers in September 2008 triggered a liquidity crisis for Iceland's banks, whose stocks had been heavily overvalued through a combination of criminal speculation and outright fraud.

Haarde has been backed by a number of figures from the political and financial elite. Two former central bank governors, including David Oddsson, have testified that Haarde could not have taken any measures

to prevent the collapse of Kaupthing, Landsbanki and Glitnir banks. Oddsson, who was prime minister prior to Haarde, was the main force behind the privatisation and deregulation of Iceland's banking system in the early part of the 2000s. During this time, Haarde was his finance minister and would have been well aware of the activities of Iceland's financial institutions even before he became prime minister in 2006.

Haarde undeniably played a central role in the crisis until he was forced from power by public protests in January 2009. But the attempt to prosecute him for neglecting his duties is being driven by the political considerations of a section of Iceland's ruling elite, who are seeking to draw a line under the economic crash and return to business as usual. With claims that Iceland has weathered the worst of the economic crisis and has now returned to growth, they view the prosecution of Haarde as an opportunity to distance themselves from the 2008 crash.

Consider who is not being placed on trial at the Landsdomur, a special high court which exists to prosecute leading political figures. Haarde's social democratic coalition partners at the time, amongst them then party leader Ingibjorg Solrun Gissladottir and economics minister Bjorgvin Sigurosson, have had no charges brought against them. Sigurosson was personally named as having engaged in criminal activity by the "Black report" of 2010, the findings of a parliamentary investigation into the conduct of political and financial figures during the events of 2008. Even current Prime Minister Johanna Siguroardottir was a member of Haarde's government, holding the post of social affairs minister during the crisis.

The only other figures being charged are the former heads of Kaupthing bank, Iceland's largest financial institution at the time. Last month, three leading

executives were indicted for fraud and financial manipulation for their activities at the bank in the months prior to October 2008. Kaupthing engaged in insider trading to boost the value of its failing shares, and evidence has also emerged of the use of the bank's money to fund purchases of shares by other companies.

Support for the prosecution of Haarde was confined to the current governing coalition, with the MPs of the Social Democrats and Left Greens voting in parliament to back the trial. The right-wing Independence party, which Haarde led, as well as the Progressive party, opposed the prosecution.

The news that the first political leader in the world was being charged for his role in the financial crisis has given rise to concern within ruling circles internationally as setting a dangerous precedent. But the current government is doing all it can to ensure that the prosecutions of Haarde and the Kaupthing officials are confined to questions of personal criminality alone.

The current trials are very far removed from the initial promises of a full investigation into the economic crisis made by the incoming Social Democrat-Left Green coalition in February 2009 in order to placate public anger. And while pursuing Haarde's prosecution, the government continues to implement the dictates of the IMF, whose loan programme to Iceland was concluded last August.

The programme has brought about a devastating fall in the living standards of Icelanders. The currency has seen a collapse in its value of over 92 percent since 2008—a process that has destroyed the purchasing power of working people and caused an explosion in household and business bankruptcies. Debates are ongoing regarding the future of Iceland's currency, with general agreement that the continued use of the krona is unviable.

Spending on public services like health, education and social services has been slashed, with combined spending cuts and tax hikes of close to €1 billion over the past four years. This represents a considerable sum when viewed against total government expenditure of somewhat more than €4 billion this year.

The unemployment rate has jumped dramatically to over 7 percent and would be much higher if not for the steep rise in emigration. One report noted that over 4,000 people, more than one percent of Iceland's population of 300,000, have moved to Norway alone

since 2008.

Meanwhile, the policies in relation to the financial elite begun by Haarde have been followed by the Siguroardottir government. Iceland's bankrupt financial institutions were fully recapitalised by the state, with much of the bad debts of the old banks transferred to institutions administered by the government. This has cleared the way for the recommencement of financial speculation with the re-branding of all three of Iceland's major banks into new institutions.

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