

*What distinguishes the left from the right? Is the Icelandic government a leftist government, or is it rather a de facto compassionate right-wing government, like Tony Blair's New Labour or Schroeder's SPD in the early 2000s?*

Rather than trying to give necessary and sufficient conditions of what defines the left and hence distinguishes the left from the right, it is more fruitful to discuss the context and core values of the current government in Iceland (the idea of a true left government is also slippery and dangerous). The Blair and Schroeder governments were formed in the height of the neo-liberal awakening in the West and arduously worked towards feeding the capitalist animal (especially Blair's). Britain managed to transform London into a serious financial empire by relaxing regulations, embraced the superiority of the market, had no qualms with the unequal distribution of wealth and managed to appease the fat cats (Rupert Murdoch was pro-Blair and Blair was very much post-Thatcherite). The situation is very different in the West now, and hopefully there is room for change, albeit one worries that the ideological lessons that need to be learned will not be. In Iceland the current agenda of the government is defined by the collapse of a neo-liberal experiment that all of the sudden got very sour and went seriously wrong. Iceland went probably further in the wrong direction than Britain during the boom years and in many ways was more akin to Ireland in developing its form of capitalism. To oversimplify, then the task of the current government in Iceland is twofold: 1) resurrect Iceland's economy and 2) get in line with the Nordic welfare states. Mission 1 is difficult but mission 2 is painstakingly difficult because in order to achieve it one needs to get the economy right. A modern Nordic welfare state is costly and it will take time for Iceland to get there. But already serious steps have been taken that will help towards achieving this aim.

Since at least Marx's day, left-wing theorists and activists have argued for the nationalisation of credit, i.e. securing for the State and/or public bodies actual sovereign control over the life-blood of the capitalist enterprise. The recent crisis provided a splendid opportunity for moves in this direction, e.g. by acquiring bankrupt private banks and re-establishing (good) public banks fostering development and employment (bad public banks being those that though owned by the State behave like regular for-profit private banks). How far has Iceland progressed in this sense? Has it perhaps merely anticipated the State's takeover of Amagerbank in Denmark? Can we expect anything more progressive?



As a starting point it is important to recognize that when Icelandic private banks and financial institutions indebted themselves heavily, under the guidance of the finance Vikings, there was a great consensus amongst the Icelandic electorate that the country was going in the right direction. The ideology behind the ventures had general support and the finance Vikings were greatly lauded for their business models (which later turned out to be more akin to pyramid schemes than sound business models). The government at the time did everything to support the 'finance Viking framework' and in part enjoyed general support for doing so. When the now failed Icelandic banks were privatized (only a decade ago) the move enjoyed the backing of the major political parties. Those who opposed this venture at the time, such as the Left-green Movement (one of the current two government coalition parties), were usually mocked for being old-fashioned socialists and not in tune with the new wave of successful capitalism and globalization. The aftermath, the apparent success of the Icelandic banks abroad, was then used as a further justification of their privatization and when the huge cracks began to show the financial boom peaked and a blind-eye was turned to the weaknesses of the banks. Nobody wanted to be nor listen to a party pooper, so rather than filling that role the show went on until the cracks were too many and could not be hidden anymore. The Icelandic economy collapsed under the weight of its own banks. So the expansion of private banks and there acquisition of an enormous amount of foreign credit is something that was thought of in Iceland to be clever entrepreneurship. I mean in the space of 5-7 years they managed to increase Icelandic foreign debt by thousand of billions of Icelandic Krona without any really serious questions being asked. Business communities in other countries were even mocked for being sluggish and no match for the great Icelandic finance Vikings. The story today is of course very different. After the financial crisis, State control over financial institutions has increased. When the emergency law was passed in the parliament in October 2008 the Icelandic State gained the majority of stake in the largest of the Icelandic banks, i.e. Landsbanki, large shares in Glitnir and Arion, as well as in several other smaller financial institutions. The external debt situation has also considerably improved because the old banks of the financial Viking era ended in administration. But it is difficult to see into what direction the public wants to see its banks go. Personally, I think it would be economically sensible for the State to hold its stakes in the banks and also limit the risk of any adventurous programmes being undertaken in the future.

*Is there any concrete plan for the nationalisation of strategic resources (e.g. gas, fish, etc.)*

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*and/or productive structures (e.g. failed enterprises)? If there is one, are the IMF, EFTA and the EU cooperating or are they combating such a plan?*

Currently, there is a large review being led by the government on how we ensure that the State of Iceland or the taxpayer receive a fair dividend from many of Iceland's important natural resources. This work is ongoing and will have an impact on fisheries, geo-thermal heat, water, hydro-power, etc. It is too early to say anything about the outcome out of all this but there is great popular support that the country's natural resources should remain under State control. The driving force behind that support seems to be: "Ok let's not do the same mistakes with our resources as we did with our finances. Hence, stay away from privatization." There has been considerable interest in Iceland's natural resources but I think the consensus is clear - they are not up for grabs. The government is finding ways to further enhance State control and do it in a sound manner. No international body is combating such a plan and there are several other countries that are greatly protective of their natural resources. Norway is a close example of a country that has been very progressive in these matters and there are lessons we can take from them. But more would be needed to be said here because the matter is multi-layered. One thing is the question of the direct ownership of a certain resource (for example a geo-thermal pool), another is who gets the revenue (state or private parties), and yet another is a question of leasing resources (how long is it sensible, etc.) I mention this because one cannot take it as given that even though natural resources are State controlled they give sufficient revenue to the government/tax-payer. For example, critiques of the development of a large aluminium industry in Iceland have pointed out that even though the electricity sold to the aluminium companies is by State-controlled companies, then the revenue from these electricity deals have been disgracefully low. So State control does not guarantee a satisfying return on the nation's natural resources. This is a point I find some people on the left in Iceland neglect. Indeed, even people that have fought against the State-controlled companies in selling electricity to the smelters have failed to see this.

*The Icelandic government has prided itself for having pursued less austere austerity measures than other European governments: is that what is left of the left? Is there any serious chance that, say, expansionary monetary policy, public investments in schools and hospitals, and public works be utilised to foster development and employment? Or is the*



*government aiming primarily at debt repayment?*

After the crisis the Icelandic government has been facing a radical change in State finances. The pre-crisis bubble economy secured a lot of revenue for the treasury. At the time of the collapse of the Icelandic banking system it was estimated to be 10 times larger than the country's GDP. Of course that meant considerable revenue for the treasury even though the tax on these institutions was low (corporate tax was 10%). After the crises there was a large fall in revenue and a considerable increase in expenditure (due to financing the deficit and measures needed to restore the Icelandic economy), as well as heavy interest rate payments. The expansion of debt and interest rate payments have made it necessary for the government to impose some drastic measures to make the State finance sustainable. That aim is not only pursued because it is sensible to pursue sustainability, but also to minimize the cost of interest falling on the State with the end result of allocating more finances towards the welfare state. It is however important to highlight that the government has minimized the size of cuts in the welfare system. Iceland has followed a different path in austerity measures than many other countries have done in the past, especially countries in IMF programs. This is best seen in how the government has tried to tackle the deficit by trying to reach a balance between revenue and austerity measures. Iceland's path in this has been noted by eminent economists like Paul Krugman who has always criticized the austerity dogma; that the key to success in a crisis is to forget about the welfare of the populace and focus only on the fiscal side of life. That is why the Icelandic government tried to defend the country's welfare state and the lowest fiscal cuts have been within the welfare system. So the path of slashing welfare and prioritizing for capital has not been taken. Actually the government can say more than that, because in terms of how much Iceland's GDP (percentage) is allocated into public spending then there has been an increase since 2007 (the peak of the boom). Several measures have been put in place to tackle unemployment. Some of them are a joint undertakings between the government and the Icelandic pension funds, like for example the building of new National University Hospital in Reykjavík. Others, such as nursing homes and road improvements, have been initiated by the government. If one then looks at the revenue measures, then they have not only been imposed to raise revenue but have also strong and sound egalitarian and environmental principles behind them. The government has for example raised income tax on high income, raised capital gains tax, raised various environmental taxes and raised corporate tax. One of the more interesting outcomes out of this is that the tax burden of the lowest income wage



earners has decreased after the crisis. Ireland, for example, has imposed higher taxes on the lowest incomes. In the boom years the tax system in Iceland was framed around the high earners and the rich, but now that it has changed, which in my mind shows the determination of the government not only to turn the State finance around, but also to import again into Iceland's strong egalitarian principles. One of the more tragic developments in Iceland's boom years was the huge gulf that developed between the super rich and the poor. As I say, there has been considerable progress in the unwinding of that development. Here is a case whereas missions 1 and 2 mentioned in my reply to your first question go hand-in-hand.

*Do the key-members of the Icelandic cabinet believe in the ability of markets to self-regulate and of private enterprise alone to promote prosperity?*

It is the dominant view of both government parties that private enterprise does not in and of itself promote prosperity. The pivotal factor in promoting prosperity in the Nordic countries is borne to the fact that the welfare system is robust and the tax system is viewed as a means to redistribute wealth. Equality is also seen as key factor in promoting prosperity. It has been underestimated for a great number of years how costly inequality is for any society. In light of Iceland's experience I think that it has become a minority view that the markets are self-regulatory and that they are pre-programmed to find the best end result. At least the once seemingly clear boundary between public and private has become murkier. Or maybe it is correct to say that there is a strong demand for the public sphere to have something to say about the private sphere, which is a huge turnaround from the hands-off mantra; that the government should get out of the way because it interferes with the success of private enterprise.

*Is there any serious attempt going on to promote endogenous development, i.e. developing the country without peonage to foreign credit, whether labelled as "FDI" or "IMF"?*

The aim of the current government is to get Iceland's debt sustainable and minimize debt, be it fiscal, government or external. Progress has been made in all of these areas and Iceland seems to be one of the first of those countries that has had a large crisis to emerge again.



*The Icelandic government seems to consider its “international obligations” only in connection with the IMF, the WTO, EFTA and the EU-related discussions for accession. Yet Iceland is a long-time party to the UN’s ICESCR (International Covenant on Economic Social and Cultural Rights). Hospitals and education, in other words, are not a Christian or social-democratic form of charity, but a duty of the State to its citizens. Is the government aware of this set of obligations?*

Iceland takes all its international obligations seriously.