A Review of “Why Iceland?”

But, as has been reported by *The New American*, the crisis in Iceland was a microcosm of the larger crisis, financially speaking. For Iceland, the "games" of the global market, and the United Kingdom’s manipulation of national security laws for service in economic warfare against an supposed ally, almost bankrupted a nation and brought to power a left-wing government that sought to exploit the crisis in an effort to drag their country into full membership in the European Union and saddle their populace with an unbearable debt for which they bore no actual legal obligation.

A valuable “window” into the Icelandic crisis is provided by one of the Icelanders who was well-positioned to understand his nation’s woes. Ásgeir Jónsson, the author of *Why Iceland?*, was chief economist for Kaupthing Bank, the largest bank in Iceland before the collapse. The perspective formed by that position must be kept in mind while reading *Why Iceland?*; nevertheless, his presentation of what he perceives to have been a coordinated effort to deny Iceland an opportunity to alleviate the crisis bears consideration — especially considering the way in which the bailout in the United States was widely perceived to have benefited banking interests.

Jónsson presents his countrymen as sharing a commonality of spirit with Americans; as he writes at one point, “The Icelandic dream is similar in character to the American dream.” This “dream,” in Jónsson’s assessment, is expressed in self-reliance: “Success is the reward for personal daring, ingenuity, improvisation, and an eye for the main chance.” Certainly, given such a self-conception, Jónsson understands that the Icelanders have a share of responsibility for the troubles that devastated their economy. Nevertheless, the image of Iceland’s banking system that emerges in his account is one of slow development, until the nation’s regulations were liberalized in 1989 and the banks became involved in the wider world of European economics. As Jónsson observes,

> Icelandic law had kept investment banking separate from retail banking, in the spirit of the United States’s Glass-Steagal Act. But once it entered the European Economic Area, the country also adopted EU banking legislation, which essentially allowed the same institutions to accept retail deposits while being engaged in investment banking activities. As the 1990s drew to a close, it was quite clear that the competition in commercial banking, especially on the corporate level, was getting bloodier, while the margins were becoming slimmer. All of the banks were monitoring investment banking activities and gearing up to transform themselves into universal banks.

Jónsson maintains that the crisis was “inevitable” for years before the emergence of the crisis: “Trouble for the Icelandic economy had been inevitable from early 2003, when it was hit with a threefold stimulus: capital-intensive power projects, quantitative easing of monetary policy, and privatization of the banking system.” The deleterious effects of “quantitative easing” (that is, the banks flooding the market with fiat money, diluting the value of the money already in circulation) has also been witnessed in the United States; the capital-intensive power projects were also of little benefit to most Icelanders, having been undertaken primarily to exploit the nation's natural resources for the benefit of foreign corporate interests.

Essentially, the Icelanders suddenly found themselves competing in the wide, wild world. The expansion of Iceland banks abroad — especially into the UK — ultimately ended in disaster.

> It [a Morgan Stanley report] observed that, although Iceland had almost no reserves, the republic was virtually debt free in foreign currency. It could easily raise between $10 billion and $11 billion and still maintain a public debt-to-GDP ratio of about 65 percent — still on the lower end of the debt level spectrum for European nations….
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> Foreign credit, then, was crucial to the prognosis, but all who assumed it was forthcoming were in error. The Central Bank of Iceland (CBI) would soon discover that three major central banks in the Western world had decided collectively not to assist Iceland.

The element of collusion which Jónsson maintains transpired to deny Iceland an opportunity to recover is one of the most important aspects of his account. It is difficult to read *Why Iceland?* and not ponder along with its author concerning the reason why this tiny nation was deprived of an opportunity to recover with the help of its allies.

Jónsson appears to place the primary responsibility on the shoulders of Prime Minister Brown's government in the UK: "In hindsight, it does seem that one thought was paramount with the British authorities: no assistance for Icelanders, in any form." Brown's treatment of Iceland using post-9/11 anti-terrorism legislation to freeze the assets of Icelandic banks needlessly exacerbated the situation. In Jónsson's words, "The application of this law to a peaceful nation or bank that was truly not involved in terrorist activities was unprecedented."

The actions of the United Kingdom and the Netherlands — nations of the European Union — almost brought Iceland even further under the sway of that union. Whether Iceland will capitulate to foreign powers which demand Icelanders repay a debt they did not accumulate remains to be seen.

Why Iceland? by Ásgeir Jónsson, New York: McGraw Hill, 2009, 230 pages, hardcover.