Icelandic Taxpayers Win Key Case Against European Establishment

In a major victory for taxpayers in Iceland, an obscure transnational court ruled against the European Union and a similar supranational body last week, deciding that the tiny population of the island nation was not responsible for the massive liabilities of a private Icelandic bank that went bust during the 2008 economic meltdown. Establishment analysts blasted the decision as a "blow to global banking," but Icelanders and proponents of the free market celebrated the verdict as a big win for the people and market principles — after all, they argue, citizens should not be forced to pay for the reckless and potentially criminal actions of a few bankers, widely criticized as "banksters" in recent years.

The Luxembourg-based European Free Trade Association (EFTA) court, of which the Icelandic government is a member, issued its landmark ruling on January 28 addressing two key charges against national authorities. Despite Iceland's not being a member of the EU, one of the cases against the country was filed by the European Commission, a sort of "executive branch" in the sprawling, increasingly powerful, and out-of-control European superstate. The EFTA "Surveillance Authority" also filed a case alleging a violation of its rules.

The first complaint was that the Icelandic government failed to obey an EU directive ordering it to pay about $25,000 worth of "insurance" to every foreign depositor by extracting it from domestic taxpayers — a proposition that would have devastated the 300,000 or so Icelandic citizens and their already-ruined economy for generations to come. While the bankrupt bank's assets have been used to compensate foreign depositors, the EFTA court ruled that citizens were not responsible for the liabilities.

The EU dictate in question, which Iceland is supposed to subscribe to because of its membership in the European Economic Area (EEA), "does not lay down an obligation on the State and its authorities to ensure compensation if a deposit guarantee scheme is unable to cope with its obligations in the event of a systemic crisis," the EFTA court ruling said. The verdict is final and cannot be appealed to any other court, meaning Iceland emerged victorious after years after wrangling with authorities in Europe.

The bank in question, Landsbanki, had foreign online branches under the brand "Icesave" for depositors in Europe. The subsidiaries accepted deposits from customers in both the United Kingdom and the Netherlands. When the economic crisis struck in 2008, however, the huge Icelandic bank collapsed. The U.K. and Dutch governments stepped in to cover the lost deposits of their subjects, but both governments later sought to force Icelandic taxpayers to repay the cost of the bailouts plus huge sums of interest.

When the people of Iceland said no way, twice — over nine out of 10 voters rejected what critics had said was tantamount to "debt slavery" in a referendum — authorities on the continent would not give up. "This is a strong 'No' from the Icelandic nation," said economist Magnus Arni Skulason with InDefence, a group which rallied opposition to the bailout scheme, after the vote. "The Icelandic public understands that we are sovereign and we have to be treated like a sovereign nation — not being bullied like the British and the Dutch have been doing." (Speaking of sovereignty, Iceland recently expelled a team of FBI agents trying to investigate the activities of WikiLeaks, according to news reports.)

The banking case and the referendums, however, sparked an international diplomatic furor, with U.K. officials abusing "terror" laws to seize Icelandic assets in Britain. Finally, the international disputes ended up in the EFTA court, with Iceland defending itself from hostile European authorities demanding huge sums of cash from innocent Icelanders who had nothing to do with the privately owned failed bank.

"It is important to bear in mind that payments from the estate of the failed Landsbanki will continue regardless of the ruling of the EFTA court," the Icelandic foreign ministry said in a statement, explaining that the bankrupt bank's assets were being used to pay back depositors in Europe. Analysts cited in news reports expected that Landsbanki's remaining assets would be enough to cover all that is owed anyway.

In a separate statement, Icelandic officials also confirmed their belief that the leftover assets would be enough to pay back all of the debts. "It is expected that the Icesave claims will be paid out in full by the actual debtor, the estate of the failed Landsbanki," the Icelandic government said in a statement released last week.

Still, in Iceland, citizens and authorities were delighted with their vindication in court. "It is of considerable satisfaction that Iceland's defense has won the day in the Icesave case," the Icelandic foreign ministry statement continued. "The EFTA court ruling brings to a close an important stage in a long saga." Prominent citizens celebrated their victory over the "banksters" too.

The second complaint against Iceland alleged discrimination against foreigners. Essentially, authorities on the continent were outraged that the national government had bailed out Landsbanki's Icelandic depositors but not those from the United Kingdom or the Netherlands who had savings in the bank's subsidiaries in the EU. If Iceland had lost the case, domestic taxpayers could have been forced to pay some $2.6 billion — about 20 percent of the nation's gross domestic product.

During the 2008 economic crisis, all of Iceland's major banks collapsed, overwhelming the national deposit-insurance scheme. Considering its size, the nation had a massive banking sector — when the three major banks crumbled their total liabilities were estimated at around 10 times the size of Iceland's total GDP.

While much of the drama is now over after four years of bitter battles, however, Icelanders will not forget how they were treated after the collapse of the nation's banking sectors. Icelandic President Ólafur Ragnar Grimsson recently slammed the U.K. government's actions, telling Sky News that his people would "never forget" how they were treated by British Prime Minister Gordon Brown, a self-styled advocate of a "New World Order."

"The Brown government decided to put the Icelandic government on a list of terrorist states and terrorist phenomena. We were there together with al Qaeda and the Taliban on that list," President

Grimsson complained in an interview with the British media giant. "We have not forgotten that in Iceland."

Still, Icelandic officials, sounding upbeat after the recent ruling, said the court verdict would be positive. "This will improve our credit rating and judging by our conversations with the credit rating companies, there's no doubt that this strengthens our position," Finance Ministry Permanent Secretary Gudmundur Arnason explained. "However, the Treasury doesn't have any immediate financing needs, quite the contrary. This puts us in a comfortable position to evaluate when we should re-enter the markets."

Iceland's economy has benefited from a remarkable turnaround since it virtually imploded in 2008. However, unlike many Western governments, instead of bailing out all of the bankers at taxpayer expense, the small nation's government actually investigated and prosecuted some of the criminals responsible for fraudulent activities that contributed to the crisis.

The latest ruling was widely celebrated by Icelanders and proponents of free markets, who say that companies should stand or fall on their own merits and that taxpayers should never be forced to rescue economic actors who make poor decisions. Insurance, meanwhile, should be in the private market, and consumers must be expected to use common sense in their economic choices, whether that be what bank to deposit their money in or what car to buy.

However, in the halls of power at the Brussels-based EU, so-called "eurocrats" are already devising new schemes to ensure that citizens will be responsible for bank liabilities all across the bloc. The superstate, for instance, is currently working fiendishly to impose a "banking union" on Europe that would have serious negative implications for free markets, competition, and national sovereignty. In light of the recent court decision, advocates of even greater centralization of power are demanding that Brussels "fix" the problems immediately.

Advocates of free markets and national sovereignty have long suggested radical reforms in the banking sector — abolishing central banks and all of the inherent problems that come with them, allowing banks and consumers to make their own decisions and accept responsibility for the consequences, and more. However, while Icelanders may have been saved from massive debts and transnational decrees this time, the same flawed system remains in place, and experts say the next crisis could be just around the corner — and a lot worse than the recent one.

Photo of Icleandic man exiting Landsbanki branch in Reykjavik, Iceland: AP Images

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