

# **Replacing the neoliberal model with a sustainable model.**



*Presentation held at the conference: „TOGETHER we can put an end to the problems of debt and austerity in Europe !” by the European Left, April, 10<sup>th</sup>, 2014, Brussels*

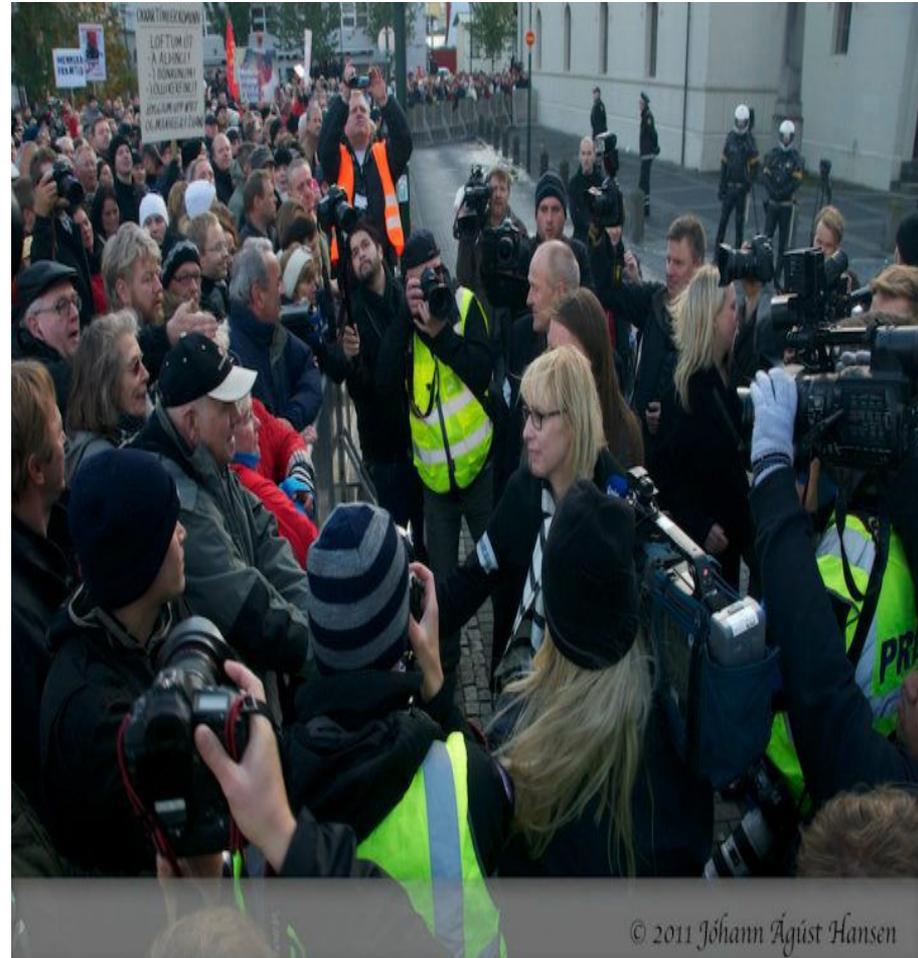
**Dr. Lilja Mósesdóttir**

**Researcher at Fafo Institute for Labour and Social Research, Norway.**

**Former MP, Iceland.**

# "Doing an Iceland"

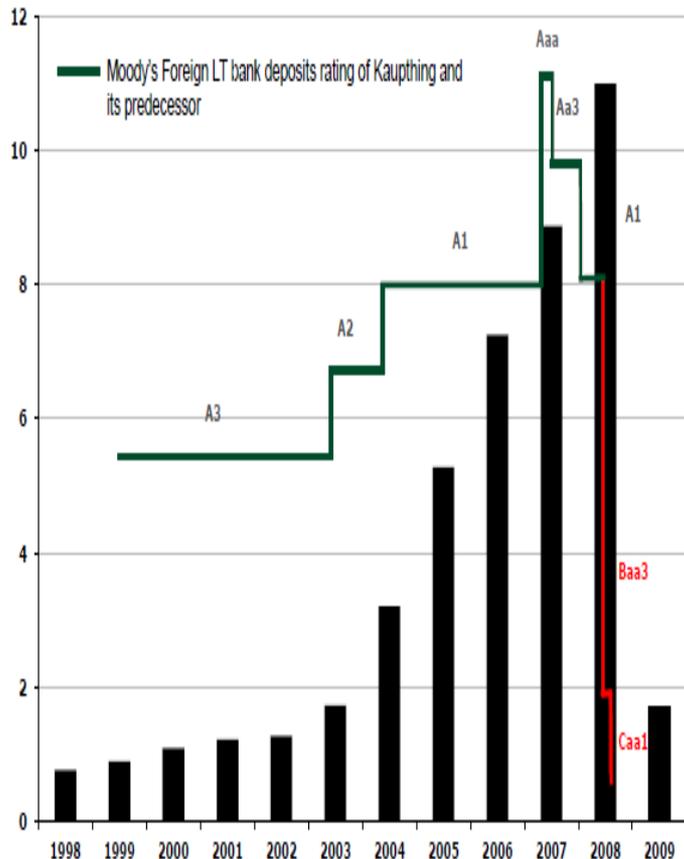
- ζ Naomi Klein (2011) ... "Iceland is proving that it is possible to resist the Shock Doctrine"
- ζ Paul Krugman (2013) recommended "doing an Iceland":
  - ψ 1. Allow your ailing banks to collapse
  - ψ 2. Devalue your currency if you can
  - ψ 3. Introduce capital controls
  - ψ **4. Try to avoid paying back foreign debts.**



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# 1. Banks bail-in & re-privatisation

Bank assets – As a factor of Iceland's GDP



Source: Ásgreir Jónsson (2013)

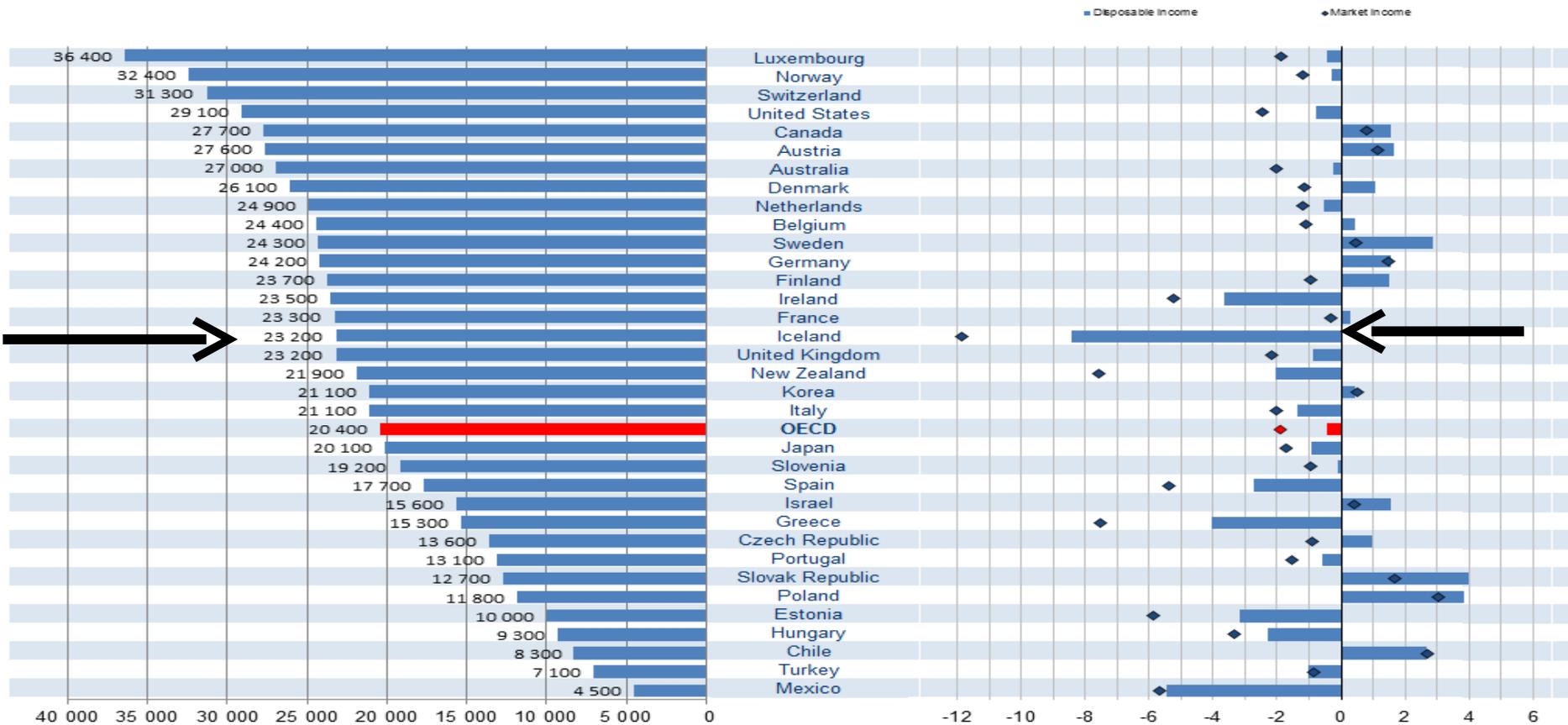
- ζ The split OLD/NEW banks (**IMF**) instead of GOOD/BAD (**Nordic solution**)
  - ψ Icelandic deposits & assets (loans) moved to the new banks at fair asset value (**54%** discount)
    - ξ 75% were nonperforming loans
  - ψ Creditors owners of banks
    - ξ Arion bank: **87%** creditors & **13%** state
    - ξ Íslandsbanki: **95%** creditors & **5%** state
    - ξ Landsbanki: **18.7%** creditors & **81.3%**
  
- ζ Problems:
  - ψ Default rates too high (13%)
  - ψ Banks owned by hedge/vulture funds
  - ψ Banks that are only concerned with maximise recovery rate (bonuses to bankers)
  - ψ Landsbanki (Icesave): State-guarantee in foreign currency if recovery rate too low.

# 2. Devaluation & higher taxes & targeted benefits

## 3.1. Household income of OECD countries varies between USD 4 500 and 36 400

Panel A. Annual median equivalised disposable household income in USD at current prices and current PPPs in 2010 (rounded at nearest 100)

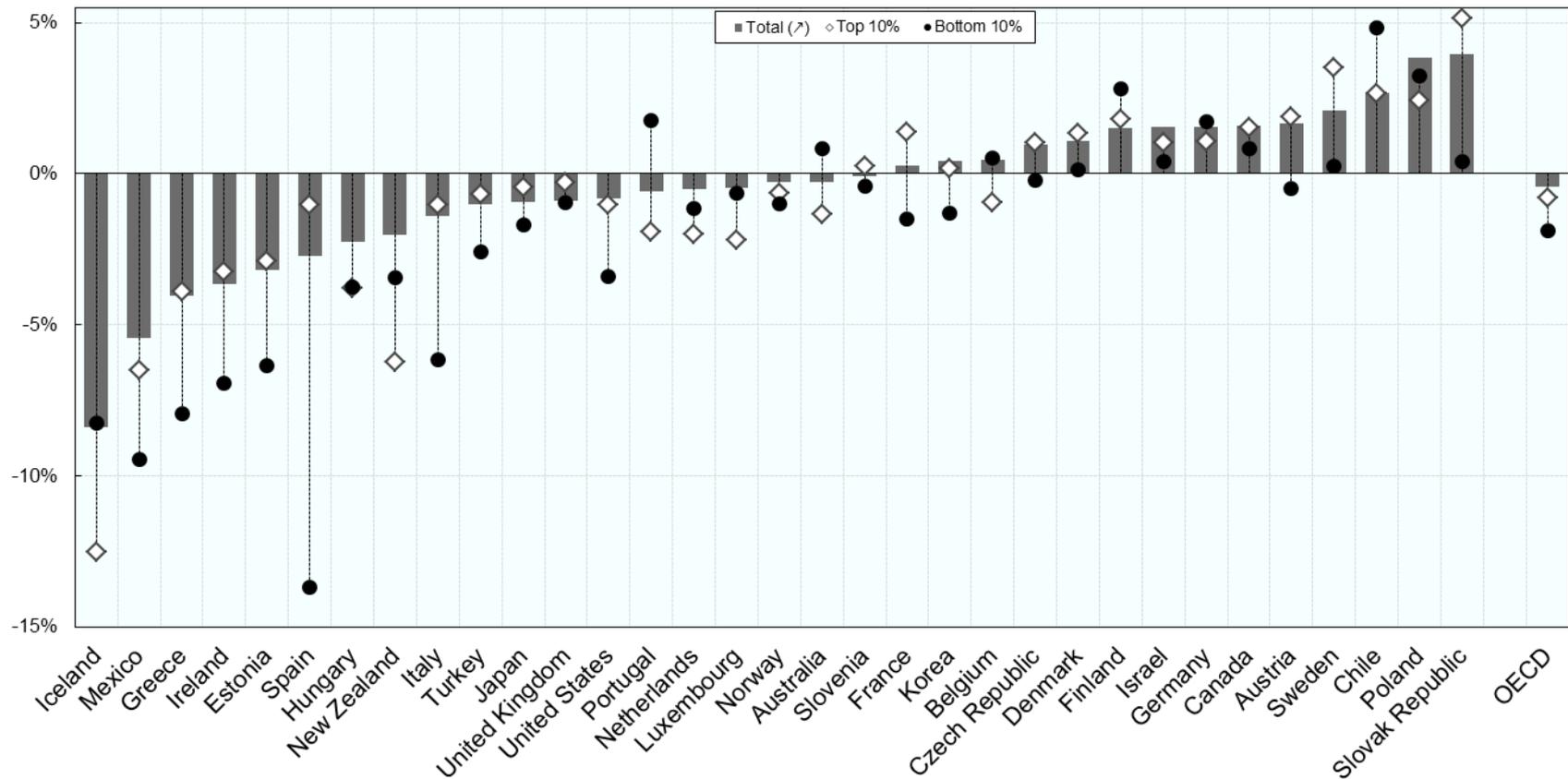
Panel B. Annual percentage changes in household equivalised disposable and market incomes between 2007 and 2010



Source: OECD (2014)

# The rich lost the most in Iceland

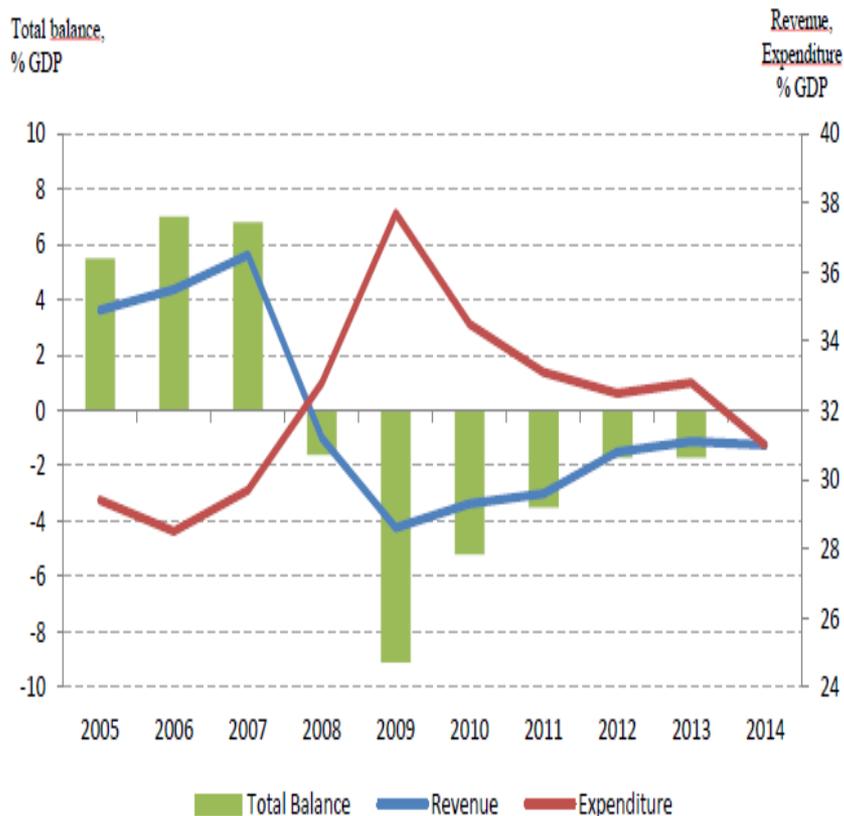
Annual percentage changes in disposable income between 2007 and 2010, by income group



Source: OECD 2014 Society at a Glance

# Austerity with a Nordic face

Figure 21: Fiscal balance 2005-2017 (estimate in 2014 budget proposal)



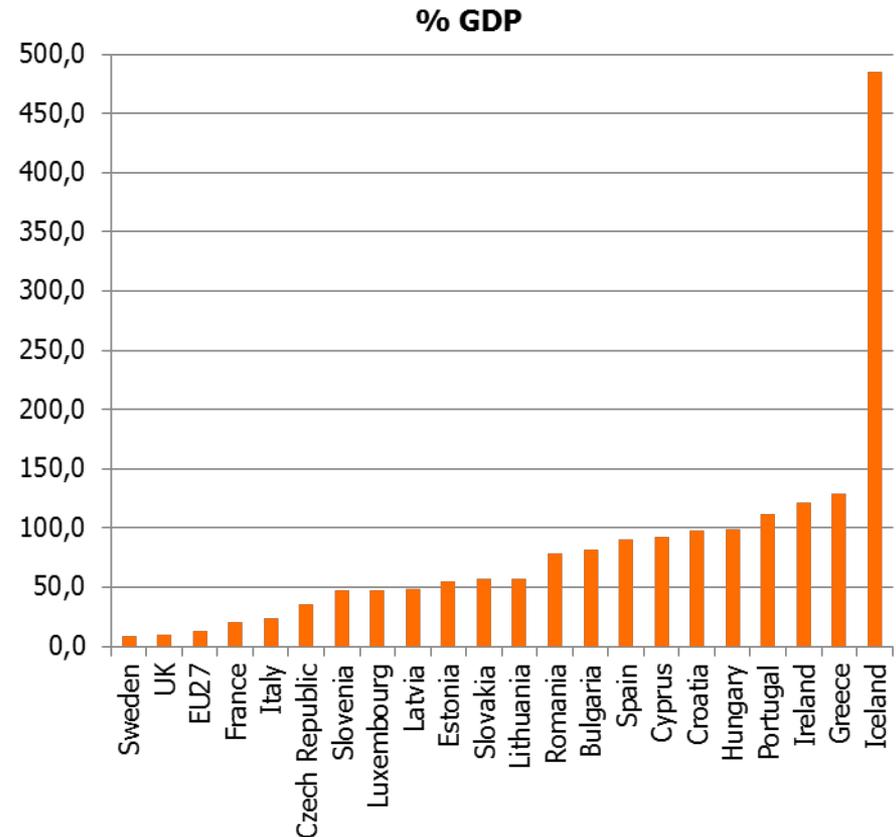
Sources: Ministry of Finance and Economic Affairs

- ζ Mixed fiscal adjustment 2009-2014
  - ψ Revenue increases: **3,5%** of GDP
  - ψ Spending cuts: **8,5%** of GDP
- ζ Austerity measures undertaken:
  - ψ Higher taxes on middle and high income
  - ψ Wealth tax, banking tax & environ. taxes
  - ψ Wage cuts/freeze, more work load, non-hiring policy, redundancies
  - ψ More targeted benefits (non-Nordic)
- ζ Austerity measures not allowed:
  - ψ Income tax revenues invested in the pension funds returned to the state
  - ψ Income tax on pension premiums
  - ψ Return loans from IMF & Nordic countries (**40% of GDP**)

# 3. Capital controls Nov. 28. 2008 – 20..

- ζ Capital controls in 2008 to stop carry-trade funds from flowing out (40% of GDP)
  - ψ High interest rate (18% - 5%)
  - ψ FX reserve fund (40% of GDP)
  - ψ FX auction to reduced carry-trade funds
- ζ The fiscal deficit & the new banks financed at a lower interest rate (QE).
- ζ Investment at low level (14%) and growth levels lower than expected (2%).
- ζ Balance of payments problem with ISK overhang amounting to 100% of GDP.
  - ψ Carry-trade funds: 20% of GDP
  - ψ Liquid assets of old banks: 50% of GDP
  - ψ Repayments of foreign debt

## Net financial liabilities of the total economy, 2012



Source: Eurostat (database)

# 4. Avoid paying back foreign debt

§ **1. Shock Therapy:** Lift capital controls and allow the overhang to flow out.

§ **2. The sovereign solution:** Join the EU and turn the overhang (private debt) into ECB loan (sovereign debt).

ψ The EEA internal capital market ignores foreign currency liquidity risk

§ **3. The sustainable solution**

ψ *The German solution in 1948*  
(From Reich mark to Deutsche Mark):

§ Wages, capital earnings: **DM 1 = 1 RM**

§ Other assets.....: **DM 1 = 10 RM**

ψ *The Icelandic solution in 2014 ?*  
(from ISK to NISK):

§ Wages, capital earnings: **NISK 1 = 1 ISK**

§ "Bubble assets".....: **NISK 1 = ?? ISK**



The pots and pans revolution 2008-2009

# Towards sustainable model

## ζ Restoring the neoliberal model with a Nordic face - Iceland

- ψ From nationalisation to re-privatisation of banks and companies (IMF)
  - ξ Restoration of the old power elite („disastrous Vikings" are back)
- ψ From de-financialisation to re-financialisation (EU)
- ψ From more equality (cf. Nordic model) to growth in inequality
- ψ Reintroduction of free market ideology (downsizing & privatising welfare state)

## ζ Socially sustainable model – a task for the European Left

- ψ Transparent ownership of firms and wealth (ownership must be registered each time it is changed for companies with activities within national borders)
- ψ Social ownership (workers, producers, consumers & community)
- ψ High taxes on disruptive capital in- and outflow of capital
- ψ Bonus-free industries (banks) and redistributive tax system
- ψ **Develop alternatives to neoliberalism** (economically, socially & ecologically sustainable models)