Recovering from Neoliberal Disaster

Why Iceland and Latvia Won't (and Can't) Pay the EU for the Kleptocrats' Ripoffs

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Can Iceland and Latvia pay the foreign debts run up by a fairly narrow layer of their population?

The European Union and International Monetary Fund have told them to replace private debts with public obligations, and to pay by raising taxes, slashing public spending and obliging citizens to deplete their savings.

Resentment is growing not only toward those who ran up these debts – Iceland's bankrupt Kaupthing and Landsbanki with its Icesave accounts, and heavily debt-leveraged property owners and privatizers in the Baltics and Central Europe – but also toward the neoliberal foreign advisors and creditors who pressured these governments to sell off the banks and public infrastructure to insiders.

Support in Iceland for joining the EU has fallen to just over a third of the population, while Latvia's Harmony Center party, the first since independence to include a large segment of the Russian-speaking population, has gained a majority in Riga and is becoming the most popular national party. Popular protests in both countries have triggered rising political pressure to limit the debt burden to a reasonable ability to pay.

This political pressure came to a head over the weekend in Reykjavik's Parliament. The Althing agreed a deal, expected to be formalized today, which would severely restrict payments to the UK and Netherlands in compensation for their cost in bailing out their domestic Icesave depositors.

This agreement is, so far as I am aware, the first since the 1920s to subordinate foreign debt to the country's ability to pay. Iceland's payments will be limited to 6 per cent of growth in gross domestic product as of 2008. If creditors take actions that stifle the Icelandic economy with austerity and if emigration continues at current rates to escape from the debt-ridden economy, there will be no growth and they will not get paid.

A similar problem was debated eighty years ago over Germany's World War I reparations. But policy makers are still confused over the distinction between squeezing out a domestic fiscal surplus and the ability to pay foreign debts. No matter how much a government may tax its economy, there is a problem of turning the money into foreign currency. As John Maynard Keynes explained, unless debtor countries can export more, they must pay either by borrowing (German states and municipalities borrowed dollars in New York and cashed them in for domestic currency with the Reichsbank, which paid the dollars to the Allies) or by selling off domestic assets. Iceland has rejected these self-destructive policies.

There is a limit to how much foreign payment an economy can make. Higher domestic taxes do not mean that a government can turn this revenue into foreign exchange. This reality is reflected in Iceland's insistence that payments on its Icesave debts, and related obligations stemming from the failed privatization of its banking system, be limited to some percentage (say, 3 percent) of growth in gross domestic product (GDP). There is assumption that part of this growth can be reflected in exports, but if that is not the case, Iceland is insisting on "conditionalities" of its own to take its actual balance-of-payments position into account.

The foreign debt issue goes far beyond Iceland itself. Throughout Europe, political parties advocating EU membership face a problem that the Maastricht convergence criterion for membership limits public debt to 60 percent of GDP. But Iceland's external public-sector debt – excluding domestic debt – would jump to an estimated 240 percent of GDP if it agrees to UK and Dutch demands to reimburse their governments for the Icesave bailouts. Meanwhile, EU and IMF lending to the Baltics to support their foreign currency – so that mortgages can be kept current rather than defaulting – likewise threaten to derail the membership process that seemed on track just a short time ago.

The problem for the post-Soviet economies is that independence in 1991 did not bring the hoped-for Western living standards. Like Iceland, these countries remain dependent on imports for their consumer goods and capital equipment. Their trade deficits have been financed by the global property bubble – borrowing in foreign currency against property that was free of debt at the time of independence. Now these assets are fully "loaned up," the bubble has burst and payback time has arrived. No more credit is flowing to the Baltics from Swedish banks, to Hungary from Austrian banks, or to Iceland from Britain and the Netherlands. Unemployment is rising and governments are slashing healthcare and education budgets. The resulting economic shrinkage is leaving large swaths of real estate with negative equity.

Austerity programs were common in Third World countries from the 1970s to the 1990s, but European democracies have less tolerance for so destructive an acquiescence to foreign creditors for loans that were irresponsible at best, outright predatory at worst. Families are losing their homes and emigration is accelerating. This is not what neoliberals promised.

Populations are asking not only whether debts should be paid, but whether they can be paid! If they can't be, then trying to pay will only shrink economics further, preventing them from becoming viable. This is what has led past structural adjustment programs to fail.

Will Britain and the Netherlands accept this new reality? Or will they cling to neoliberal – that is, pro-creditor – ideology and keep on stubbornly insisting that "a debt is a debt" and that is that. Trying to squeeze out more debt service than a country could pay requires an oppressive and extractive fiscal and financial regime, Keynes warned, which in turn would inspire a nationalistic political reaction to break free of creditor-nation demands. This is what happened in the 1920s when Germany's economy was wrecked by imposing the rigid ideology of the sanctity of debt.

A similar dynamic is occurring from Iceland to the Baltics. The EU is telling Iceland that in order to join, it must pay Britain and Holland for last autumn's Icesave debts. And in Latvia, the EU and IMF have told the government to borrow foreign currency to stabilize the exchange rate to help real estate debtors pay the foreign-currency mortgages taken out from Swedish and other banks to fuel its property bubble, raise taxes, and sharply cut back public spending on education, health care and other basic needs to "absorb" income. Higher taxes are to lower import demand and also domestic prices, as if this automatically will make output more competitive in export markets.

But neither Iceland nor Latvia produce much to export. The Baltic States have not put in place much production capacity since gaining independence in 1991. Iceland has fish, but many of its quota licenses have been pledged for loans bearing interest that absorbs much of the foreign exchange from the sale of code. Interest charges also absorb most of the revenue from its aluminum exports, geothermal and hydroelectric resources.

In such conditions a pragmatic economic principle is at work: Debts that can't be paid, won't be. What remains an open question is just how they won't be paid. Will many be written off? Or will Iceland, Latvia and other debtors be plunged into austerity in an attempt to squeeze out an economic surplus to avoid default?

Failure to recognize the limited ability to pay runs the danger of driving over-indebted countries out of the Western orbit. Iceland's population is upset at the EU's backing of the bullying tactics of Britain and Holland trying to extract reimbursement for bailing out their Icesave depositors – €2.6 billion to Britain and €1.3 billion to Holland. Social Democrats won April's Althing election on a platform of joining the EU, but burdening the country with these Icesave debts would prevent it from meeting the Maastricht criteria for joining the EU. This makes it appear as if Europe is more concerned with debt collection than with getting new members.

Of most serious concern are the long-term consequences of replacing defaults by debt pyramiders and outright kleptocrats with a new public debt to international government agencies – debt that is much less easy to write off. Eva Joly, the French prosecutor brought into sort out Iceland's banking kleptocracy, warned earlier this month that if Iceland succumbs to current EU demands, "Just a few tens of thousands of retired fishermen will be left in Iceland, along with its natural resources and a key geostrategic position at the mercy of the highest bidder – Russia, for example, might well find it attractive."1 The post-Soviet countries already are seeing voters shift away from Europe in reaction to the destructive policies the EU has been supporting.

Neither Britain nor Holland, neither the EU nor IMF have provided a scenario for just how Iceland is supposed to pay the debts that are being claimed. How much will personal income and living standards have to fall? What government programs must be cut back? How many defaults on domestic mortgages and personal debts will result, and how much unemployment? How much emigration will occur? The models being employed treat these dimensions of the economic problem as "externalities," but they are central to how the economic system works in practice.

The question is whether neoliberal ideology will give way to economic reality, or whether economic policy will retain the blinders that typically characterize short-term creditor-oriented policies? What is blocking a more reasonable pro-growth policy, Ms. Joly observed, is that "the Swedish presidency of the EU does not seem to be in a hurry to improve regulation of the financial sectors, and the committees with an economic focus in the Parliament are, more than ever, dominated by liberals, particularly British liberals." So Europe continues to impose a shortsighted economic ideology. Therefore, she concluded:

"Mr. Brown is wrong when he says that he and his government have no responsibility in the matter. Firstly, Mr. Brown has a moral responsibility, having been one of the main proponents of this model which we can now see has gone up the spout. … Could anyone realistically think that a handful of people in Reykjavik could effectively control the activities of a bank in the heart of the City? … the European directives concerning financial conglomerates seem to suggest that EU member states that allow such establishments into their territories from third countries must ensure that they are subject to the same level of control by the authorities of the country of origin as that provided for by European legislation. … a failure on the part of the British authorities on this point … would not be particularly surprising considering the 'performance' of other English banks … during the financial crisis? If so, Mr. Brown's activism in relation to this small country might be motivated by a wish to appear powerful in the eyes of his electorate and taxpayers …"

Some inconvenient financial truths and ideological blind spots

Most deposit insurance settlements for insolvent institutions are merely technical in scope: how much are depositors insured for, and how soon will they get paid? But the Icesave problem is so large in magnitude that it raises more legally convoluted economy-wide questions. The Althing's stance on Iceland's foreign debt – and the abuses of its kleptocratic domestic bank privatizers – represents a quantum leap, a phase change in global debtor/creditor relations.

No doubt this is why creditors and neoliberals will fight Iceland's brave show so vehemently, angrily, unfairly and extra-legally. For starters, Gordon Brown did not follow the proper agreed-upon legal procedures last October 6 when he closed down Landsbanki's Icesave branches and the Kaupthing affiliates. Under normal conditions Iceland would have availed itself of the right under European law to pay out depositors in an orderly manner. But Mr. Brown prevented this by directing Britain's deposit-insurance agency to pay Icesave depositors as if they were covered by UK insurance. It was a rash decision that could turn out to be one of the biggest blunders of his career. The Icesave branches were legally extensions of Landsbanki in Iceland, covered by Iceland's deposit insurance scheme, not that of Britain.

Iceland's Depositors' and Investors' Guarantee Fund (TIF) is privately funded by domestic banks, not public like America's Federal Deposit Insurance Corp. (FDIC) or Britain's Financial Services Agency (FSA). Reflecting Iceland's neoliberal philosophy at the time the banks were privatized, the TIF lacked the capital to cover the losses that ensued. It was like America's A.I.G. insurance conglomerate, whose premiums were set far too low to reflect the actual risk involved. The problem is typical of the neoliberal "rational market" idea that debts cannot create a problem, but merely reflect asset prices that in turn reflect prospective income.

In an environment that saw Northern Rock and the Royal Bank of Scotland fail, Iceland's Commerce Ministry wrote to Clive Maxwell at Britain's Treasury on October 5 to assure him that the government would stand behind the TIF in reimbursing Icesave depositors in accordance with EU directives. Yet three days later, Chancellor of the Exchequer Alistair Darling claimed that Iceland was refusing to pay. On this pretense Mr. Brown used emergency anti-terrorist laws enacted in 2001 to freeze Icelandic funds in Britain. He did so despite Iceland's promise to abide by the EU rules. Icelandic authorities were given no voice in how to resolve the matter. Britain and the Netherlands (as they acknowledge in the proposed agreement with which they confronted Icelandic negotiators on June 5, 2009) merely "informed" Icelandic authorities, without following the rules and consulting with them to get permission for their quick bailout of depositors.

This affects the question of who is legally responsible for British and Dutch reimbursement of Icesave and Kaupthing depositors. The relevant EU law gives the responsible authorities a breathing space of three months to proceed with settlement – with a further six-month period where necessary. This would have enabled Iceland to collect from British bank clients such as the retail entrepreneur (and major Kaupthing stockholder) Kevin Stanford, who borrowed billions of euros, far in excess of what was proper under banking rules. It is now known that Icelandic banks in Britain were emptying out their deposits by making improper loans to British residents. But rather than helping Iceland move in a timely manner to recover deposits that Landsbanki and Kaupthing had lent out, Britain's precipitous action plunged it into financial anarchy. The Serious Fraud team has started to help with the investigation and recovery process only in the past few weeks – now that the funds are long gone!

On November 4, ECOFIN, the EU's financial oversight agency, held an informal ministerial meeting and "agreed, under very unusual circumstances," to examine the financial crisis into which the Icebank and Kaupthing insolvencies had plunged the country. The EU proposed that the problem be resolved by five financial officials. But Iceland worried that such individuals tend to take a hard-line creditor-oriented position. Seeing how Britain and the Netherlands had acted on their own without regard for how their actions were hurting Iceland, Finance Minister Arni Mathiesen wisely wrote on November 7 to Christine Lagarde, President of the ECOFIN Council, that Iceland's government would not participate in the review of Iceland's obligations under Directive 94/19/EC.

The EU directive dealt only with the collapse of individual banks, assuming this problem to be merely marginal in scope and hence readily affordable by signatory governments. But "the amount involved could be up to 60% of Iceland's GDP," Mr. Mathiesen explained. The directive left Iceland in legal limbo regarding "the exact scope of a State's obligations … in a situation where there is a complete meltdown of the financial system." The directive simply did not envision systemic collapse of a developed Western European economy. Such is the state of today's mainstream equilibrium theory – an ideological argument that economies automatically stabilize and hence no government policy is needed, no public oversight or regulation.

It is a set of assumptions and junk economics that kleptocrats, crooks and neoliberals love, as it has enabled them to get very, very wealthy and then run to government claiming that a Katrina-like accident has occurred that requires them to be fully bailed out or the economy will collapse without their self-serving wealth-seeking services. This "rational market" mysticism is what now passes for economic science. And it is in the name of this junk science that EU financial officials and indeed, central bankers throughout the world are indoctrinated with blinders that do indeed enable them to find every collapse of their theories "unanticipated."

The question that needed to be confronted head-on was how to take account of Iceland's "very unusual circumstances" stemming from its unwarranted faith in neoliberal theory that assumed finance and the debt overhead would never pose a structural problem, but would only serve to facilitate economic growth. At issue was the "sanctity of debt" ideology that took no account of the broad economic context and growth prospects. "Iceland has to make sure that its deposit-guarantee scheme has adequate means and is in a position to indemnify depositors," the Finance Minister wrote. The problem was macroeconomic in character, but the bank insurance scheme was only for 1% of deposits – under conditions where the country's main three banks all were driven under by the combination of bad or outright kleptocratic management and Britain's freezing of Icelandic funds in the aftermath of the Icesave collapse. On November 25 an IMF team calculated that "A further depreciation of the exchange rate of 30 percent would cause a further precipitous rise in the debt ratio (to 240 percent of GDP in 2009) and would clearly be unsustainable." 3

Gordon Brown has spent much of 2009 trying to pressure the IMF to collect for Kaupthing's insolvency as well as that of Landesbanki's Icesave accounts. In Parliament on May 6 he announced his intention to ask the IMF to pressure Iceland to reimburse depositors in Kaupthing affiliates. He was reminded that unlike the Icesave branches, these were incorporated as British entities, making their accounts the responsibility of British regulation and deposit insurance. What was improper was his crass treatment of the IMF as a debt collector for the creditor nations, using it as a supra-legal lever to pressure Iceland to pay money that its negotiators felt they did not owe under EU rules. This was the position even of the neoliberal former Prime Minister and Governor of the Central Bank, Mr. Oddson himself.

Why bring such pressure to bear if the obligation is clearly specified in the contract? It looked like Mr. Brown wanted to avoid blame by paying British bank depositors and assuring them that foreigners would pay. He proved to be incorrigible, pressuring the EU to tell Iceland that it could not negotiate to join until it settled "its" Icesave debt to Britain. And the Dutch Foreign Affairs Minister Maxime Verhagen was equally explicit on July 21. In an official statement he warned his Icelandic counterpart that it was "absolutely necessary" for Iceland to approve the compensation deal agreed for people who lost savings when internet bank Icesave went bankrupt. deal. "A solution to the problems round Icesave could lead to the speedy handling of Iceland's request to join the European Union," the minister hinted. "It could show that Iceland takes EU guidelines seriously." 4 What it showed, of course, was that the EU was letting Britain and the Dutch use extortionate threats to veto membership if they did not get what they wanted: the nearly €4 billion in bailout reimbursement plus interest at 5.5%.

It would be hard to imagine what could have been more effective in deterring Icelandic desire for membership in the EU. On July 23 the Law Faculty at the University of Iceland discussed the details and criticized the confidential agreement – without even having access to it. Britain and the Netherlands insisted that the terms and details of the agreement not be published, on pain of the leakers facing prosecution. But apparently through a secretarial error it appeared on the Internet on July 27! The result was an explosion of anger, not only at Britain and the Dutch but at its own financial negotiators for not simply walking out when the authoritarian terms were dictated at political and financial gunpoint.

The flames were fanned further on July 31 when Wikileaks published a Kaupthing report from September 25, 2008, detailing the loans to insiders that had helped drive the bank into insolvency. Major stockholders had borrowed against their bank stock to bid it up in price and give the appearance of prosperity and solvency. (Evidently deciding that the time had come to take the money and run, the bank owners emptied out the coffers by making loans to themselves. This signaled the death knell for any further fantasies about "efficient markets" in today's neoliberalized jungle of financial deregulation.

Despite the fact that Kaupthing had been nationalized by Iceland's government, it sued to block Iceland's national TV network from broadcasting the details. This backfired, being the equivalent of getting a book banned in Boston – every publisher's publicity dream! The kafuffle got the entire nation fascinated, prompting so many Icelanders to go on-line to read the document that the gag order was lifted on August 4. The response was a shocked fury at the crooked behavior whose backwash threatened to engulf the nation in a bad foreign debt deal.

On August 1, Eva Joly, who had been hired as a federal prosecutor a half-year earlier, published her article in La Monde that appeared in many other countries, criticizing Britain's behavior. But most disturbing of all was publication of the hard-line draft agreement that British and Dutch negotiators had handed to Iceland's finance minister on June 5, 2009. It failed utterly to reflect the caveats that Icelandic negotiators had insist on the previous November. Bolstered by Gordon Brown's shrill rhetoric and Britain's insistence that the terms be kept secret, the EU's harsh take-it-or-leave-it stance created an atmosphere in which the Althing had little choice but to draw a line and insist that any Icesave settlement had to reflect Iceland's reasonable ability to pay. Icesave was caricatured as "Iceslave" signifying the debt peonage with which Iceland was threatened. The finance minister (a former Communist leader) seemed out of his depth in having knuckled under in the face of pressure to capitulate to unyielding British negotiators.

This episode's legal twists probably will prompt the EU to clarify its financial laws. As for economic ideology, business cycle theory has not taken proper account of changes in government, nationalist backlashes or changes in the legal and political environment. So this would seem to be the year in which the world will break out of what was viewed merely as a "cycle" within a given system (that of the post-Bretton Woods transition era) to make the system itself the issue: how to treat countries with debts beyond their ability to pay.

Icelanders for their part feel that the EU has treated them as a financial colony while backing a neoliberal kleptocracy preying on an increasingly indebted population. In many ways Iceland is the tip of the iceberg – the proverbial canary in the coalmine showing the need to better cope with over-indebted economies. The EU and IMF-style austerity programs to pay off foreign debts that corrupt insiders have run up is not what was promised in 1991 the post-Soviet economies or Third World debtors. It is not the promise of industrial capitalism. It is a financialized post-industrial dystopia, an imperial neofeudalism.

Why Iceland's move is so important for international financial restructuring

For the past decade Iceland has been a kind of controlled experiment, an extreme test case of neoliberal free-market ideology. What has been tested has been whether there is a limit to how far a population can be pushed into debt-dependency. Is there a limit, a point at which government will draw a line against by taking on public responsibility for private debts beyond any reasonable capacity to pay without drastically slashing public spending on education, health care and other basic services?

At issue is the relationship between the financial sector and the "real" economy. From the perspective of the "real" economy, the proper role of credit – that is, debt – is to fund tangible capital investment and economic growth. The objective is to create a tax system and financial regulatory system to maximize the latter.

After all, it is out of the economic surplus that interest is to be paid, if it is not to be extractive and outright predatory. But creditors have not shown much interest in economy-wide wellbeing. Bank managers and subprime mortgage brokers, corporate raiders and their bondholders, and especially the new breed of kleptocratic privatizers applauded so loudly by neoliberal economic ideologues simply (and crassly, I have found) ask how much of a surplus can be squeezed out and capitalized into debt service. From their perspective, an economy's wealth is measured by the magnitude of debt obligations – mortgages, bonds and packaged bank loans – that capitalize income and even hoped-for capital gains at the going rate of interest.

Iceland has decided that it was wrong to turn over its banking to a few domestic oligarchs without any real oversight or regulation, on the by-now discredited assumption that their self-dealing somehow will benefit the economy. From the vantage point of economic theory, was it not madness to imagine that Adam Smith's quip about not relying on the benevolence of the butcher, brewer or baker for their products but on their self-interest is applicable to bankers. Their "product" is not a tangible consumption good, but debt – indeed, interest-bearing debt. And debts are a claim on output, revenue and wealth, not wealth itself.

This is what pro-financial neoliberals fail to understand. For them, debt creation is "wealth creation" (Alan Greenspan's favorite euphemism), because it is credit – that is, debt – that bids up prices for property, stocks and bonds and thus increases financial balance sheets. The mathematically convoluted "equilibrium theory" that underlies neoliberal orthodoxy treats asset prices (wealth in the financial sense of the term) as reflecting prospective income. But in today's Bubble Economy, asset prices reflect whatever bankers will lend – and rather than being based on rational calculation their loans are based merely on what investment bankers are able to package and sell to gullible financial institutions trying to pay pensions out of the process of running economies into debt, or otherwise disposing of credit that banks freely create.

There amount of debt that can be paid is limited by the size of the economic surplus – corporate profits and personal income for the private sector, and the net fiscal revenue paid to the tax collector for the public sector. But for the past generation neither financial theory nor global practice has recognized any capacity-to-pay constraint. So debt service has been permitted to eat into capital formation and reduce living standards.

As an alternative is to such financial lawlessness, the Althing asserts the principle of sovereign debt at the outset in responding to British and Dutch demands for Iceland's government to guarantee payment of the Icesave bailout:

The preconditions for the extension of government guarantee according to this Act are:

1. That …account shall be taken of the difficult and unprecedented circumstances with which Iceland is faced with and the necessity of deciding on measures which enable it to reconstruct its financial and economic system.

This implies among other things that the contracting parties will agree to a reasoned and objective request by Iceland for a review of the agreements in accordance with their provisions.

2. That Iceland's position as a sovereign state precludes legal process against its assets which are necessary for it to discharge in an acceptable manner its functions as a sovereign state.

Instead of imposing the kind of austerity programs that devastated Third World countries from the 1970s to the 1990s and led them to avoid the IMF like a plague, the Althing is changing the rules of the financial system. It is subordinating Iceland's reimbursement of Britain and Holland to the ability of Iceland's economy to pay:

In evaluating the preconditions for a review of the agreements, account shall also be taken to the position of the national economy and government finances at any given time and the prospects in this respect, with special attention being given to foreign exchange issues, exchange rate developments and the balance on current account, economic growth and changes in gross domestic product as well as developments with respect to the size of the population and job market participation.

This weekend's pushback is a quantum leap that promises (or to creditors, threatens) to change the world's financial environment. For the first time since the 1920s the capacity-to-pay principle is being made the explicit legal basis for international debt service. The amount to be paid is to be limited to a specific proportion of the growth in Iceland's GDP (on the assumption that this can indeed be converted into export earnings). After Iceland recovers, the payment that the Treasury guarantees for Britain for the period 2017-2023 will be limited to no more than 4% of the growth of GDP since 2008, plus another 2% for the Dutch. If there is no growth in GDP, there will be no debt service. This means that if creditors take punitive actions whose effect is to strangle Iceland's economy, they won't get paid.

The moral is that Newton's Third Law of motion – that every action has an equal and opposite reaction – is applicable to politics and economics as well as to physics. As the most thoroughly neoliberalized disaster area, Iceland is understandably the first economy to push back. The past two years have seen its status plunge from having the West's highest living standards (debt-financed, as matters turn out) to the most deeply debt-leveraged. In such circumstances it is natural for a population and its elected officials to experience a culture shock – in this case, an awareness of the destructive ideology of neoliberal "free market" euphemisms that led to privatization of the nation's banks and the ensuing debt binge.

Iceland promises to be merely the first sovereign nation to lead the pendulum swing away from an ostensibly "real economy" ideology of free markets to an awareness that in practice, this rhetoric turns out to be a junk economics favorable to banks and global creditors. Interest-bearing debt is the "product" that banks sell, after all. What seemed at first blush to be "wealth creation" was more accurately debt-creation, in which banks took no responsibility for the ability to pay. The resulting crash led the financial sector to suddenly believe that it did love centralized government control after all – to the extent of demanding public-sector bailouts that would reduce indebted economies to a generation of fiscal debt peonage and the resulting economic shrinkage.

As far as I am aware, this agreement is the first since the Young Plan for Germany's reparations debt to subordinate international debt obligations to the capacity-to-pay principle. The Althing's proposal spells this out in clear legal terms as an alternative to the neoliberal idea that economies must pay willy-nilly (as Keynes would say), sacrificing their future and driving their population to emigrate in what turns out to be a vain attempt to pay debts that, in the end, can't be paid but merely leave debtor economies hopelessly dependent on their creditors. In the end, democratic nations are not willing to relinquish political planning authority to an emerging financial oligarchy.

No doubt the post-Soviet countries are watching, along with Latin American, African and other sovereign debtors whose growth has been stunted by the predatory austerity programs that IMF, World Bank and EU neoliberals imposed in recent decades. The post-Bretton Woods era is over. We should all celebrate.

Notes

[1] Eva Joly, "Iceland: Lessons to be Learned from The Economic Meltdown," *Global Research*, August 7, 2009.

[2] Article 10 of Directive 94/19/EC provides that "(1) Deposit-guarantee schemes shall be in a position to pay duly verified claims by depositors in respect of unavailable deposits within three months," and "(2) In wholly exceptional circumstances and in special cases a guarantee scheme may apply to the competent authorities for an extension of the time limit. No such extension shall exceed three months. The competent authority may, at the request of the guarantee scheme, grant no more than two further extensions, neither of which shall exceed three months." In other words, Iceland had nine months in which to settle matters.

[3] http://www.imf.org/external/pubs/cat/longres.cfm?sk=22513.0

[4] "Dutch minister urges Iceland to repay loans," Radio Netherlands Worldwide, July 21, 2009,

http://www.rnw.nl/nl/node/13310, and "Netherlands warns Iceland over Icesave," Dutchnews.nl, 22 July 2009,

http://www.dutchnews.nl/news/archives/2009/07/netherlands_warns_iceland_over.php

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