

Iceland: First To Recover from Crisis; First To Restore Glass-Steagall?

In 2008, a financial volcano erupted in geologically active Iceland, during the onset of the global financial collapse. After an incredibly large speculative financial bubble burst in the small country (population 320,000), the three major Icelandic banks were put into receivership, after racking up liabilities of what some sources say amounted to ten times the nation's GDP. The population twice voted "No" to covering the private Icesave bank's debts to British and Dutch clients, which their respective governments had bailed out; legal cases have been brought against the responsible leading political and financial figures. The nation is starting to recover, and now, 15 Icelandic parliamentarians from parties and independents representing all but 16 of the 63 members of the parliament, Althingi, want to make sure this never happens again, by implementing a Glass-Steagall-style separation of commercial from investment banks.

On Nov. 1, 2011, during the Nordic Council meeting, EIR interviewed then-Finance Minister Steingrímur J. Sigfússon, chairman of the Left-Green Party, who stated, "I welcome the discussion that is taking place now about Glass-Steagall, or some kind of security for ordinary customer banking, and separating that from the more risk-taking investment. . . . Personally, I am very interested in that discussion, and would like it to materialize."¹



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Icelandic parliamentarian Álfheidur Ingadóttir has introduced a bill for a Glass-Steagall-style banking reorganization in the Althingi. "I hope that Iceland will not only be the first country to recover from the banking crisis, but also the first country to separate commercial and financial banking," she said.

The 15 parliamentarians want Iceland to establish a full Glass-Steagall law. After a Ministry of Economic Affairs committee issued a report in March, which many parliamentarians found not strong enough on bank separation, a parliamentary motion was introduced in April 2012, by Althingi member Álfheidur Ingadóttir, and others, which read:

"Parliament resolves to entrust the Minister of Economic Affairs with the task of appointing a committee which is to revise the framework of banking services in Iceland in order to minimize—through the separation of commercial and investment banks—the risk of disruptions within the banking sector for the national economy. The committee is to examine the policy-making of neighboring countries in this regard, and to submit its proposals before October 1, 2012."

In the motion's explanatory text, the Glass-Steagall law was specifically referred to as a model. A committee appointed by the Ministry of Economic Affairs, led since Dec. 31, 2011 by Minister Steingrímur J. Sigfússon, is preparing a new report, to be issued in the Fall, which, however, according to informed sources, will not necessarily recommend Glass-Steagall separation. In order to keep pressing for Glass-Steagall, the parliamentarians will propose the motion again during the upcoming session, which opens in September, although postponing the date for the committee report, as the motion did not come up for a vote in the last session,

1. See [EIR](#), Nov. 11, 2011.

due to lack of time. Their hope is that Iceland can help lead the way out of the crisis, by being the first country to reinstate Glass-Steagall.

Michelle Rasmussen, vice president of the Schiller Institute (SI) in Denmark, and EIR'S Copenhagen correspondent, interviewed Álfheidur Ingadótti on Aug. 15. Álfheidur represents the Reykjavík North Constituency, is the Deputy Speaker of Althingi, and the vice-chairman of the Left-Green Movement's parliamentary group, the party chaired by Minister of Economic Affairs Steingrímur J. Sigfússon.

‘We Know What Happened to the Common People’

Schiller Institute: We became aware of the Glass-Steagall motion that was introduced in the Icelandic Althingi from the recent *Bloomberg News* article. Can you tell us about the status of the motion, its support in the parliament, and about the new motion that you are planning to present?

Álfheidur Ingadótti: As the motion was not brought up for a vote before the session was over in June, I will put the motion forward again, in the beginning of the next session of Althingi in September. The only change will be that we will propose a bill of law to be presented before Feb. 1, 2013, instead of what we had hoped for, Oct. 1, 2012, when we put forward this motion in April 2012.

SI: Can you describe the original motion, and how much support it had in the parliament from the different parties?

Álfheidur: The motion for a parliamentary resolution empowers the government, and the Minister of Economic Affairs, to appoint a committee with the aim of preparing a bill, and possibly additional proposals to the parliament. The objective is to introduce a full separation of investment banking from commercial banking in Iceland; and the committee's proposals should demonstrate how and in what steps this aim can be reached. We know what happened to the bank deposits of the common people, and the households in Iceland, before the crisis, when the deposits were risked in speculative investments, and lost by the very same banks. So this is the aim of the motion.

It is supported by members of all political parties, apart from the conservative Independence Party—and I have no explanation as to why they did not join us in this motion. In addition two non-party affiliated parliamentarians support the motion.

‘We Are Tired of Waiting’

SI: One of the reasons why you are presenting a new motion is that, while the Ministry of Economics is now preparing a report, this is about a much broader question of general structural reform of the banking system. Can you say why you are specifically calling for Glass-Steagall bank separation, and how it came about that you and the other parliamentarians decided to call for this?

Álfheidur: The fact is that, right from the time of the banking crisis and collapse here in the Autumn of 2008, we have, of course, been reforming, and building up a new and better-regulated banking system in Iceland. And I hope that Iceland will not only be the first country to recover from the banking crisis, but also the first country to separate commercial and financial banking. We have been advocating for this since 2009—actually the Left-Green Party proposed this as early as 2003—and the stand of the Ministry of Economic Affairs, after the crisis and throughout 2011, was that we should not be the first. We should not be the only ones. We should not go ahead with such separation before the other European countries. You can read about this debate in the Icelandic parliament in 2010, and in statements made by the Minister and the majority of the Trade Committee.

So, in a way, the Ministry and parliament have been waiting to see what will happen in Europe, in the U.K., in the European Union, and, also, what will happen in the U.S.

But we who are proposing this motion to parliament, are tired of waiting. So when a report on the “Future Structure of the Icelandic Financial System and its Regulation and Supervision” was introduced last Spring, we did not find it strong enough in this respect, so we found it necessary to put this motion forward.

And I must say that the introduction of the motion has attracted much attention and debate in the Icelandic media, and also abroad, and in this way, the idea has gained much wider support, also affecting the position of the Ministry, and the government.

SI: You mentioned that there is now a committee working out of the Economics Ministry, on a report, but that you are not sure that they will be strong enough about the need for actual separation.

Álfheidur: We want to ensure that the committee will include this matter in its work. We have been constantly changing the Icelandic banking and finan-

cial laws, since 2008. I don't know how many times we have made amendments to these laws, and we will continue to do so. We get new regulations from the European Union [which Iceland has applied to be a member of—mr] every other day. The situation in Iceland is special, in a way, and, as I said, we are one of the first to recover from the banking crisis, so we have learned our lessons, and I think we should be able to present what we have learned to other countries.

Therefore, I think that we should not wait any longer for what the EU or other countries will decide, but we should introduce a law, like the Glass-Steagall law, even though we would be the first ones to do so.

A Change in Attitudes

SI: Are you aware of the change in attitudes among some, even in the financial world, in the last few weeks, after the Libor scandal with Barclay's Bank, where the *Financial Times*, and other spokesmen in Britain, said that we now need a full Glass-Steagall? In the U.S., a couple of weeks ago, even Sanford Weill from Citigroup, who had been responsible, in large part, for the repeal of Glass-Steagall, came out saying that we now need full Glass-Steagall, which was followed up by editorials in the *New York Times*, and others. How do you see this change in the U.S. and the U.K.?

Álfheidur: I think it makes sense. I believe that when a scandal, like the Libor scandal, opens up before your eyes, people—even bankers, and those who have been protecting the banking system—must realize that something is very, very wrong. You have to separate these two—running a commercial bank is not really compatible with running an investment bank.

Yes, I have been trying to follow what has been happening, and, in this motion, we comment on and refer to the Independent Banking Commission in Britain, the Vickers Commission, and its proposals from September 2011, where it recommended a partial separation of commercial and financial banking, by the year 2019. That's a long time ahead, and I'm really glad that people are now realizing that this has to be



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In the U.S., as well as several European nations, Glass-Steagall bills have been introduced. Here, LaRouchePAC organizes in Washington, D.C. to restore the FDR-era bill.

done much faster, and in the next few years—hopefully already next year in Iceland.

SI: What are the main arguments that you are using to explain to the people why a full Glass-Steagall separation is necessary?

Álfheidur: It's twofold. Firstly, this is an opportunity we can't afford to lose. We are in the middle of reforming the banks, and we should take the full step. We can do it now when the investment banking is only about one-sixth of what it was before the crisis. It was over 30% of the banking business before the crisis; it's around 5% now, so this is an opportunity that we have to use.

But the main argument, of course, is to protect the savings and deposits of the common people, and the households, from getting into the hands of risk-taking investment banks, or bankers, and, in that way, minimize the risk the banking system now presents for the whole society. The Icelandic banking system was grossly overgrown, and the consequences were really hard for the Icelandic households and people, who lost their jobs in thousands and even their homes, and we have to prevent that from happening again. And I believe that a Glass-Steagall law is the necessary first step towards that goal.

An International Effort

SI: The Schiller Institute, and our colleagues in the U.S., in the LaRouche Political Action Committee, and our colleagues in the rest of Europe, and else-

where, have been working very hard to get other parliaments and congresses to implement Glass-Steagall. In the U.S., there is a bill now, which has been written and introduced by Rep. Marcy Kaptur [D-Ohio], H.R. 1489, which has 78 co-sponsors, but it does not have enough support, as of now, to be passed, and LaRouchePAC is working towards that. And in Europe, as far as I know, there has been Glass-Steagall legislation proposed in Italy, in both chambers, and also debated in the Swedish parliament. In Denmark, the Schiller Institute has taken this up in our latest election campaign, and has given testimony in parliament about this.

How do you see this dialogue amongst parliamentarians and congressmen in different countries, about the need to actually get this Glass-Steagall bank separation done?

Álfheidur: Well, I think that it is very important that different countries move in their own ways in reforming and building a better society, but it's also very important that we learn from each other's experience, and that we support each other, both the people of these

countries and through governments as well. Sweden, Denmark, and Iceland are members of the Nordic Council, and I think it might be useful to take the matter up there. But with the financial market more or less open, it would also be beneficial to have similar rules across Europe and in the U.S.; and therefore a broad debate is very helpful.

SI: What is the response of the population in Iceland to this proposal?

Álfheidur: I think it's positive. I think people in Iceland understand that these two things—people's savings and speculative investment—don't mix well together—it's like oil and water.

SI: Is there anything else you would like to say about this?

Álfheidur: No. I just hope, as I've already emphasized, that Iceland will not only be the first land to recover from the banking crisis, but also the first to pass a motion like the Glass-Steagall law. That would be a milestone in the development of the financial system, in the wake of the crash.

Lyndon LaRouche on Glass-Steagall and NAWAPA:

"The greatest project that mankind has ever undertaken on this planet, as an economic project, now stands before us, as the opportunity which can be set into motion by the United States now launching the NAWAPA* project, with the preliminary step of reorganizing the banking system through Glass-Steagall, and then moving on from there."

"Put Glass-Steagall through now, and I know how to deliver a victory to you."

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