

A stylized world map composed of a grid of dots. Most dots are light gray, but several are colored red, including one in the North Atlantic, one in the Caribbean, one in the Indian Ocean, and one in the South Pacific.

Parliamentary Elections in Iceland

How the Elections Could Affect Future EU Membership

INGÓLFUR V. GÍSLASON

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- After the crash of the Icelandic economy in October 2008 its restoration has in many ways been swifter than expected. The incumbent government – a coalition of the Alliance Party (social democrats) and the Left-Green Movement – managed to avoid heavy cuts in public welfare and to implement policies that have led to falling unemployment rates and eventually to positive economic growth over the past two years.
- Despite the economic recovery, the Icelandic government is currently struggling in the polls and the country is facing a possible shift in its government majority.
- The future of Iceland's EU membership negotiations, formally initiated by the incumbent government, remains uncertain if the big opposition parties with their EU-sceptic approach get into power after the election.

On 27 April a parliamentary election will be held in Iceland. This is the second parliamentary election held in the country since the onset of the financial crisis in 2008 and, judging by the opinion polls, there are going to be marked changes in the composition of the Alþingi, the Icelandic parliament.

Economic Crisis Led to Political Shifts

The Icelandic economy crashed in October 2008 when a financial bubble burst and three of the largest banks collapsed. This bubble had been in the making for a few years following the neoliberal deregulation and privatisation of banks. When it burst, the country came to the brink of bankruptcy and the prime minister called for God to bless Iceland. A confused and indecisive government seemed incapable of handling the situation and in November public protests began, demanding that the government resign and elections be held. The protests quickly gained momentum and in December and January they sometimes turned into riots. In January 2009 the government resigned and an interim government was formed until elections were held in April.

The government in power when the economy collapsed was a coalition between the then largest Icelandic political party, the Independence Party (Sjálfstæðisflokkurinn), a centre-right party which had been moving in the direction of neoliberalism, and the Alliance (Samfylkingin), a Social Democratic party formed in 2000 with the merging of four parties on the left. The Independence Party has been Iceland's largest since its founding in 1929, usually polling 35 per cent to 40 per cent of the popular vote and has been the main government party in Iceland in the twentieth and twenty-first centuries. Usually, it has ruled in coalitions with either the Progressive Party (Framsóknarflokkurinn), a centre party with agrarian origins, or the old Social Democratic party (Alþýðuflokkurinn), one of the parties that in 2000 merged into the Alliance. An additional oddity in Icelandic politics compared to the other Nordic countries is that the party to the left of the Social Democratic Party (first the Communist Party, then the Socialist Party and finally the People's Alliance) has been larger or similar in size to the Social Democratic Party. The merging of the four parties that formed the Alliance in 2000 was a way to try to form a Social Democratic Party similar in size to other Nordic social democratic parties. However, a faction of

the People's Alliance opposed this merging and formed a new party called the Left-Green Movement (Vinstri hreyfingin – grænt framboð).

The interim government that took over in January 2009, was a coalition of the Alliance and the Left-Green Movement. For the first time in 18 years the Independence Party was not in power. Parliamentary elections were held in April and resulted in a major change in the political landscape. For the first time since its founding the Independence Party was not the largest party in Iceland. It received only 23.7 per cent of the popular vote, down from 36.6 per cent in the 2007 elections. The Alliance became Iceland's largest party, with 29.8 per cent of the popular vote and the Left-Green Movement polled 21.7 per cent. Together, the two parties held 34 seats of the 63 in Alþingi and decided to continue their coalition.

The restoration of the Icelandic economy was of course the main problem facing the government, a titanic task. The restoration of the economy has in many ways been swifter than expected. In January 2013 unemployment was 5.8 per cent, down from 9 per cent in the second quarter of 2009. Economic growth was 1.6 per cent in 2012 and 2.9 per cent in 2011 after being –4.1 per cent in 2010 and –6.6 per cent in 2009. Inflation is high, however, at 4.8 per cent in February 2013, investments are low and the state is still deep in debt. The rapid economic recovery has been praised by observers (and players) such as the IMF. But what is perhaps most noteworthy is the government's emphasis on protecting low and middle-income groups, on one hand, and keeping a close watch on the gender effects of the crisis and the different austerity measures, on the other. The effects of this policy have been clear. An egalitarian policy of income redistribution has led to relief with regard to the tax burdens of the lowest income groups but an increase in those of the top income groups. Measures regarding housing debts were aimed in particular at lower and middle range income groups. This had the effect that cuts in welfare were not as great as they might otherwise have been. One effect has been that we have not seen a similar development in the gender situation in, for example, unemployment as in many other countries. The classic scenario is that at the onset of a crisis unemployment hits men harder than women as the male dominated parts of the labour market, the financial sector and the building and construction industries, experience the first effects. Then there comes a period of cuts in state expenditure

and welfare services that lead to job losses, particularly among women. This has not happened in Iceland. Unemployment is still higher among men (6.4 per cent in 2012) than among women (5.7 per cent).

Government Challenges and EU Accession

A balanced view would be that the left-wing government has succeeded rather well in tackling the crisis and particularly in doing so without imposing severe cuts on the welfare system, implementing privatisation or adopting measures that would be difficult to reverse. The brunt of the burden has been borne by the wealthy, while low income groups have been spared as much as possible. That does not mean, of course, that these have not been difficult times for most social groups in Iceland. The Icelandic currency (króna) was drastically devalued and the cost of that fell on households. Real earnings have been severely cut through inflation and lack of wage rises. The devaluation has, however, helped the Icelandic export industries to weather the crisis and has therefore been an important factor in the recovery.

Three main issues have marred the past four years for the government. One has to do with devaluation. Since most loans in Iceland are indexed to prices they skyrocketed in the early months of the crisis. A standing demand from a number of social actors has been that there should be a general reduction in these loans, something that the government has stated is impossible and has instead concentrated on relieving the burden of those worst off.

The second is the Icesave dispute. This was a controversy between Iceland, on one hand, and the United Kingdom and the Netherlands, on the other, centred around the question of whether and to what degree the Icelandic state should guarantee the repayment of the Icelandic minimum deposit guarantees to retail depositors in United Kingdom and the Netherlands with accounts in the Icesave branch of Landsbanki operating in these countries. Three agreements were reached to solve the issue. The first was rejected by the UK and Dutch governments, but the latter two were rejected in referendums in Iceland. It was then decided to refer the case as a legal infringement dispute to the EFTA Court. To the surprise of most commentators the court cleared Iceland of all charges in January 2013, meaning that no loan agreement will be settled between the Icelandic state and the

United Kingdom and the Netherlands to guarantee their claim for repayment of Icelandic minimum guarantee deposits. The issue has deeply split Icelandic politicians and the nation and will probably play a major role in the coming elections.

The third issue has to do with possible EU membership. This was one of the issues debated in the 2009 election campaign. The Alliance has favoured membership and used it as a major issue in the elections. The Left-Green Movement, on the other hand, has been against and in some ways has based its existence on that opposition, besides environmental issues. The Independence Party has been split on the issue but shortly before the elections the party's Europe Committee called for steps to adopt the euro as Iceland's currency. The Progressive Party, prior to the elections in 2009, advocated that Iceland should begin negotiations with the EU but has since changed its position radically. In 2008 polls showed a substantial majority of the Icelandic population wanting to start negotiations in preparation for membership. This has, however, changed drastically and most polls now indicate that less than one-third of the population is in favour of membership. However, polls also show that the majority are in favour of continuing negotiations.

The coalition government decided to apply for membership, which was a very bitter pill to swallow for many supporters of the Left-Green Movement as well as some of its MPs. The party has lost three MPs in the past four years due to their disagreement with the party leadership, not least because of the decision to apply for EU membership. However, it seems clear that the government would not have been formed if the Left-Green Movement had not agreed to apply. But the party is still very much against membership.

As for the social partners on the labour market the Icelandic Federation of Labour (ASÍ) has been in favour of negotiations and influential labour leaders are in favour of membership. The employers' organisations are split on the EU issue. By far the strongest of these organisations, the Federation of Icelandic Fishing Vessel Owners (LÍÚ), is fiercely against membership, while for example the Federation of Icelandic Industries (SI) recently stated that negotiations should be concluded and a referendum held on the results. If rejected, Iceland would have to seek another currency than the euro since the króna was no good. Similarly, the chairman of the Confedera-

tion of Icelandic Employers (SA) recently stated that the negotiations needed to be concluded. This is especially interesting since he used to be President of the Federation of Icelandic Fishing Vessel Owners.

Three Themes that Will Impact the Elections

The coming election campaigns will in all probability be concentrated around three themes. One is the economy in general. The opposition claims that many opportunities for investment and growth have been missed due to the government's »hostility« to industry and the emphasis on environmental issues. They claim that the government has wasted time and energy on »pet projects«, such as a new constitution, extravagant protection of nature and a new fishery policy instead of focusing resources on getting the wheels of the economy turning and relieving the plight of households deep in debt. Both opposition parties promise major cuts in taxes, even though the state debt is still incredibly high. Neither of the government parties has mentioned anything similar, although the new chairman of the Social Democratic Party has stated that when the state debt has been further reduced the social insurance levy should be reduced.

No one denies that important gains have been made or that Iceland still faces enormously difficult economic tasks. The recovery signs are there for all to see but the opposition claims that the recovery is very weak and driven by private consumption rather than investment. But even though the economy seems to be recovering the social and political consequences of the economic collapse are far from over. This can be seen, for example, in a serious lack of trust in many of Iceland's central institutions. For example, in February 2013 only 15 per cent said that they trust the Alþingi, 23 per cent said that they trust the Central Bank and 26 per cent trust the city council of Reykjavík, the capital.

This lack of trust in political institutions is observable in other ways. One is that even though there are only a few weeks until the election, polls show that electoral support is fluctuating strongly. Another is that around 20 parties and organisations have announced that they intend to run for a seat. This is by far the largest number ever. In 1978, 11 parties competed but only five made it into the Alþingi. Usually, four or five parties are represented in the Alþingi and it seems highly unlikely that

there will be a change at this election. Polls have shown that only one of the new parties, Bright Future (Björt framtíð) has a good chance of receiving over 5 per cent of the popular vote, which is the threshold for gaining a seat. The large number of parties may make a difference in another way, however. Most of them will likely attract voters that are left leaning and might vote for either the Alliance or the Left-Green Movement. If each of the small parties receives 1 to 3 per cent, that will mean a good deal fewer votes for the parties on the left and consequently a larger majority for the centre and right parties.

The second, and closely related theme, is the housing debt situation of households, particularly those that bought their homes while the financial bubble was at its height. The Progressive Party, for example, entered the campaign with wide-ranging promises of a general debt relief which it claims can be done without increasing the public debt. The other major opposition party, the Independence Party, has been more careful in its promises but still advocates general tax cuts for those in serious debt. The government parties have not entered this game of promises of a general debt relief, continuing to claim that it is better for all to target particularly vulnerable groups with relief measures.

The third theme will be the negotiations with the EU and the closely connected issue of Iceland's currency. The parties all held their congresses recently and the resolutions seem to indicate a clear and unbridgeable split with regard to major issues. The Left-Green Party elected a new chairman, Katrín Jakobsdóttir, minister of culture and education. She is a well-spoken, charismatic and highly intelligent politician, an idealist with realistic expectations. The party's resolution regarding the EU question was very much in that spirit. The party reaffirmed its opposition to membership but voted in favour of concluding the negotiations and then having a referendum on the results.

The Alliance also recently elected a new chairman. The prior chairman and prime minister, Jóhanna Sigurðardóttir, had announced that she intended to leave politics. She is in many ways a remarkable politician and the first woman to head an Icelandic government. Also she is the first openly lesbian head of state in the world. Party members elected Árni Páll Árnason as the new chairman, an articulate, calm and reasonable man. He is sometimes said to belong to the right wing of the party but has

clearly stated that the first choice in coalition formation would be a left government. The party also reaffirmed its position regarding the EU, namely that it was in favour of membership and saw that as key to securing Iceland's future, partly because it would open up the possibility of a new currency, the euro.

Both parties have lost heavily, according to the opinion polls, and stand to receive only between a fifth and a quarter of the votes.

The Independence Party held a congress which was in some ways disastrous and humiliating for its chairman and leadership. For one thing, the congress voted in favour of a resolution stating that Icelandic laws should be based on »Christian values«. After much discussion this resolution was changed but the damage had been done. The leadership also suggested that the party's line regarding the EU would be that a referendum should be held to decide whether the negotiations were to continue. However, the congress voted in favour of terminating the negotiations and closing down the EU Info Centre in Iceland. This was of course a strong message to the sizable party faction in favour of joining the EU or at least in favour of concluding the negotiations. Many of them have since criticised or lamented the resolution and accused the party of isolationism. Some have expressed doubts whether they will vote for the party in the coming elections and in fact the party is faring poorly in opinion polls.

The Progressive Party adopted a similar line at its national congress in March 2012. The congress stated that the party saw Iceland's interests best safeguarded outside the EU and that the negotiations with the EU should not be continued unless a national referendum on the issue was first held. Another of the congress's resolutions might have connections to the EU debate. This resolution called for laws stopping foreign governments or foreigners in general from conducting or supporting political propaganda in Iceland. Some political commentators believe that this relates to the EU Info Centre in Iceland. The Progressive Party is riding high in the opinion polls mainly because of the Icesave redemption. The agreement that was rejected in the referendum in March 2011 was supported by the government parties and the great majority of Independence Party MPs. The Progressive Party adopted another line and voted against the agreement. This was a risk-free position and it is tempting to call it populist. After the redemption the party greatly increased

its following in opinion polls but it remains to be seen whether these nationalistic sentiments will last.

The influential Icelandic Federation of Labour has its own agenda. The Federation has challenged the parties to reveal their stand on three issues. One is how they intend to tackle inflation; the second is in relation to investments and the struggle against unemployment; and the third is a demand for a new system of social housing. All issues open up possibilities for discussing possible EU membership since the Icelandic currency is obviously one of the reasons for slow growth in investment and high inflation. The Alliance, for example, states that an independent currency for an economic system of only around 320,000 people in a globalised economy is next to impossible. The euro would be the most natural new currency. The other parties – perhaps except the Progressive Party – also seem to realise that this will become increasingly difficult. The Independence Party has advocated looking into the possibility of changing to the Canadian dollar and the newly elected chairman of the Left-Green Movement has stated that discussions should be opened with Norway regarding some sort of cooperation on currency issues.

Possible Election Outcomes

Based on the party programmes after their congresses and the opinion polls two possible coalitions have emerged. On one hand, the sitting government would continue with the addition of the only new party likely to make it over 5 per cent, Bright Future. That would be a centre-left government that would continue membership negotiations with the EU. The other possibility is a coalition between the Independence Party and the Progressive Party. That would be a right-wing government and would in all probability withdraw Iceland's application for EU membership. The latest polls (February) show the second option to have a much better chance. However, many voters are still undecided and it also seems likely that some of those who have opted for one or another of the new parties in polls will reconsider when it becomes clear that they do not stand a chance of polling 5 per cent. In all probability, neither the Independence Party nor the Progressive Party have many followers among the undecided or those opting for one of the new parties. The third possibility is that parties with different stances towards the EU will decide to form a coalition and let a referendum decide whether the negotiations are to be



continued. For the Independence Party that would mean breaking its congress resolution.

The election campaign will be a short and sharp one and it seems likely that the outcome will be a major loss for the parties on the left, a major victory for the Progressive Party and a gain for the Independence Party, although such a small gain that it will in reality be a humiliation.

Further reading

Stefán Ólafsson (2012), The Icelandic Way Out of the Crisis – Welfareism, redistribution and austerity, WP No. 1, available at: <http://thjodmalastofnun.hi.is/>

Gunnar Helgi Kristinsson and Ólafur Þ. Harðarson (2012), Iceland, *European Journal of Political Research*, PDY, 51:1: 135–139.

Iceland

- Size: 103.000 km²
- Inhabitants: ~ 322.000
- Pop. density: 3.1/km²
- Capital: Reykjavik
- GDP/capita: 32.900 €



About the authors

Ingólfur V. Gíslason is an associate professor in sociology at the University of Iceland specialising in gender and family issues.

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Friedrich-Ebert-Stiftung | Western Europe/North America |
Hiroshimastraße 28 | 10785 Berlin | Germany

Responsible:
Anne Seyfferth, Head, Western Europe/North America

Tel.: ++49-30-269-35-7736 | Fax: ++49-30-269-35-9249
<http://www.fes.de/international/wil>

Orders/Contact:
ID-INFO-WENA@fes.de

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