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Business Ethics and Crony Capitalism

Three Icelandic Examples

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Aquinas' First Example

- Merchant from Alexandria brings corn to Rhodes where there has been a famine
- He knows that other merchants are on their way
- Is he obliged to tell the islanders? No, because of uncertainty



Aquinas' Second Example

- Normally private property rights desirable:
“Good fences make good neighbours”
- “Desperate times call for drastic measures”,
e.g. in a city under siege and in danger of
starvation
- Then, inhabitants may seize privately-owned
corn, for their own survival

Hayek's and Nozick's Example

- 20 private springs in a desert oasis
- 19 of them suddenly dry up
- Can owner of 20th spring use his position to sell water to other inhabitants at exorbitant prices or on stringent terms?
- Hayek: No, because he is abusing a monopoly
- Nozick: No, because private property rights here cease to apply, Lockean proviso no longer fulfilled

Difference Between Examples

- Merchant from Alexandria mitigates desperate circumstances; he brings indispensable goods with him
- Does not have same traditional duties to Rhodos islanders as they have to one another
- Uncertain that others will indeed arrive
- But certain that fewer will arrive if their shipments are seized or appropriated at below-market prices

Iceland: Three Examples



2008 Icelandic Bank Collapse

- Acute shortage of liquidity; too big to bail out for Icelandic Central Bank and Treasury
- Nobody assisted Iceland unlike other countries (e.g. Fed making immense dollar swap deals with Switzerland, Sweden, etc.)
- Banks collapsed and resolution committees sold foreign assets
- Some places (the UK and Sweden) banks received liquidity to avert fire sales, other were denied it

Glitnir Bank Norway

- Glitnir bought two Norwegian banks for 3.4 bn NOK: Glitnir Bank ASA
- Book value of equity 2008 3.1 bn NOK
- Norwegian Central Bank rejected request for emergency loan
- Norwegian Guarantee Fund for Depositors provided 5 bn NOK loan for a few days

The Sale of the Bank

- Non-written conditions: the credit line not extended if ownership unchanged and possible buyer provides 15 bn NOK guarantees in case of loan cancellations
- 19 October sold to group of savings associations for 300 million NOK
- Credit line extended, name immediately changed back to old (Norwegian) one

Finn Haugan



Both Sides of the Table

- Haugan Chairman of Board of the Norwegian Guarantee Fund for Depositors
- Haugan leader of group of savings associations bidding for Glitnir bank
- Excused himself from a board meeting 19 October when bid was accepted
- January 2009: Book value of equity 2 bn NOK
- 2009: Haugan received a special bonus, 540,000 NOK for his activities in 2008

Glitnir Securities ASA in Norway

- Book value of equity 200 million NOK
- Group of employees led by Sveinung Hartung bought it 12 October for 50 million NOK
- Week later, sold 50% to RS Platou for 50 million NOK
- Price jumped in a week from 50 to 100 million!
- Neighbours: Glitnir Securities ASA and RS Platou on different floors in same Oslo building

Haakon VII's gate 10 in Oslo



Glitnir Pankki Oy in Finland

- 2007: Book value of equity €180 million
- Finnish Financial Supervisory Authority wanted an immediate sale of bank
- 14 October sold to group of staff members for €3,000
- Name changed, registered as a Finnish bank
- End of 2009, book value of equity €49.8 million
- 2013, sold to S-Pankki for €200 million

Buyers Retired in Full Comfort



Corn in Rhodos or Water in Oasis?

- The buyers of these assets defended themselves as being in same situation as merchant from Alexandria, saviours: “market price in circumstances”
- But they were rather owners of the only spring: all other springs of money had dried up
- The owner of the only remaining spring bought at artificially low price the Icelandic spring which had temporarily dried up

Unjust trade

- Glitnir Bank sold for 300 million NOK, three months later book value of equity 2 bn NOK
- Glitnir Securities sold for 50 million NOK, book value a week later 100 million NOK
- Glitnir Pankki sold for €3,000, year later book value of equity €49.8 million, sold in 2013 for €200 million
- The buyers commanded what was the only remaining spring in the oasis: But was the “spring” made of public money? Crony Capitalism?

Crony Capitalism?

- Central banks of Norway and Finland refused emergency loans to avert fire sale of assets
- Did the Norwegian Guarantee Fund encourage or organise Glitnir Bank's sale to the group of savings associations? Or Glitnir Securities' sale?
- Did the Finnish Financial Supervisory Authority encourage or organise the sale of Glitnir Pankki to staff members?
- Unjust without their participation; still more unjust with their participation, then not predatory, but crony capitalism

