



Hannes Hólmsteinn Gissurarson

Roger Boyes: Meltdown Iceland

Many of Thjóðmal's subscribers are asked by their foreign friends and business associates what really happened in Iceland during the bank collapse and afterwards. This is the first of a series of articles where Professor Hannes H. Gissurarson corrects some errors, misconceptions and omissions in English about the collapse. This article will be available online as well.

In 2009, journalist Roger Boyes published *Meltdown Iceland*, the first full-length book in English on the Icelandic bank collapse. While the author had spent some time in Iceland writing the book, he does not speak Icelandic and does not seem to be familiar with Icelandic history or society: Although readable, his book is not reliable. Often Boyes quotes anonymous sources, but he acknowledges the help of a few Icelanders, including Professors Thorvaldur Gylfason, Gylfi Magnusson and Katrin Olafsdottir (217).¹ It is possible that they rather than Boyes himself are responsible for some of the factual errors, misconceptions and crucial omissions in the book and especially for the extreme hostility shown to David Oddsson, Iceland's Prime

Minister in 1991-2004 and Governor of the CBI, Central Bank of Iceland, in 2005-9.

Some „Dissident” Economists

The three Icelandic economists on whom Roger Boyes mainly relies, Professors Thorvaldur Gylfason, Gylfi Magnusson and Katrin Olafsdottir, were according to him amongst the “dissident economists” (221-222) uttering warnings against the expansion of the banks.

This is not entirely accurate. In the years leading up to the bank collapse, Gylfason, Magnusson and Olafsdottir could not be regarded as vocal critics of the leading businessmen in Iceland or of the owners and managers of the banks, even if they certainly were very critical of David Oddsson as a poli-



The three Icelandic economists on whom Roger Boyes mainly relies, Professors Thorvaldur Gylfason, Gylfi Magnússon and Katrín Ólafsdóttir, were according to him amongst the "dissident economists".

tician and central banker, especially Gylfason who seems to have held a long-standing grudge to him (perhaps dating all the way back to 1969 when Oddsson defeated Gylfason in elections to the president of the students' association, *inspector scholae*, at Reykjavik Grammar School). For example, shortly after Oddsson celebrated his fiftieth birthday in January 1998 with a reception followed by a large and sumptuous dinner, Gylfason wrote a newspaper article about corruption, complaining about secrecy:

This problem is gravest in the countries where politicians seek the hardest to further their own interests, and those of their personal friends and of tiny special interest groups by handing over to them on a silver platter valuable goods owned by the public (for example fishing quotas), at the same time as they refuse to reveal who are financing their private consumption, for example their anniversary celebrations.²

The reference to Oddsson's recent birthday celebrations was unmistakable. When Professor Gylfason was asked to whom he had been referring he refused to name them (having himself complained about secrecy).³ But the birthday reception had been paid for by the Independence Party, and the dinner following it was paid for by the profit made from a Festschrift for Oddsson.⁴

In the years prior to the bank collapse, Professor Gylfason was a regular columnist for Jon Asgeir Johannesson's *The Newspaper*,

distributed free of charge to almost all urban households in Iceland. Johannesson was not only the biggest debtor of the three main Icelandic banks but also, from the spring of 2007, in control of one of them, Glitnir. In the summer of 2005, when Johannesson was charged with five other businesspersons by the authorities for book-keeping irregularities and several other alleged offences, Gylfason wrote in one of his columns:

It seems that now the aim is to go after Johannesson and five other people before the courts. What is behind this? Perhaps just a lack of respect for the free market and the division of power that goes with it, and also for the necessary separation of executive, legal and judiciary powers. Who knows?⁵

The case against Johannesson will be discussed later in more detail, but in his defense of Johannesson, Gylfason ignored the fact that the case against him was initiated by a disgruntled former business associate, Jon Gerald Sullenberger, who had a strong personal motive to go against Johannesson and who was in no way connected to Oddsson or to other Independence Party leaders, having lived abroad for many years. It should also be noted that both Jon Asgeir Johannesson and Jon Gerald Sullenberger were eventually found guilty of the charges brought against them based on Sullenberger's report to the police.

Whereas Professor Gylfason strongly sup-

ported some of the businessmen who dominated the Icelandic economy in 2004–2008, he certainly was a harsh and relentless critic of the CBI. He can therefore be regarded in a sense as a “dissident economist”, as Boyes puts it. However, Gylfason did not foresee or predict the bank collapse. At the end of a paper he published in April 2008 he said: “Will Iceland go under? No! Don’t get me wrong: Iceland’s fundamentals are strong.”⁶ At the end of a paper he published three months later, in July 2008, he wrote:

[T]he LSP agenda – liberalization, stabilization, privatization – of recent years was carried out in ways that allowed the banks and their debts to grow far out of proportion to the size of the country while the Central Bank neglected to raise reserve requirements as needed instead of reducing them to accommodate the banks and neglected also to build up adequate foreign exchange reserves. These mistakes rendered the Central Bank unprepared to guarantee the stability of the financial system, let alone low inflation, as required by law. Lax fiscal policy did not help. Even so, thanks in part to its young people who keep returning home from abroad, Iceland’s medium-term prospects are bright.⁷

This statement about Iceland’s bright medium-term prospects was uttered only three months before the bank collapse. It should be noted though, that the reserve requirements were brought down in 2003 (two years before David Oddsson became CBI Governor), to the same level as in other EEA countries, so that the Icelandic banks would not be at a disadvantage in competition with other banks in the EEA. It should also be noted that in the paper earlier mentioned, Gylfason advised the CBI to build “up adequate foreign exchange reserves” which could only mean that he thought the CBI should take responsibility for the rapid growth of the banks and to bail them out if necessary, irrespective of the increasing cost of borrowing during the 2007–2008 credit crunch.

On Sunday October 5th 2008, as the banks were beginning to collapse, Professor Gylfason appeared on a television show on current affairs in Iceland. There he repeated his criticisms of the CBI and demanded that its governors should be dismissed and possibly sent to prison alongside some of the bankers. He also suggested that Reykjavik airport should be relocated and the land on which it was built on be sold, as a means to alleviate the present crisis.⁸ Quoting official reports, he said that the land was probably worth 78 billion ISK, then equivalent to \$0.9 billion or £0.5 billion.⁹ But the very suggestion that Professor Gylfason made showed that he had no awareness of the immediate collapse of the banking sector taking place and of its repercussions, one of them being, as in all such dramatic downturns, that the real estate market came to a total standstill. Moreover, Ingibjorg S. Gísladóttir, Minister of Foreign Affairs in 2007–2009 and leader of the Social Democrats, said in her testimony to the SIC (Special Investigation Commission on the bank collapse) that she had sometimes sought Gylfason’s advice on economics and that he had never suggested anything such as an imminent bank collapse.¹⁰ As an Icelandic poet, Thorarinn Eldjarn, quipped: “It was only after the collapse that everybody foresaw it.”

Nor is Professor Gylfi Magnússon entirely plausible in the role of a prescient or “dissident” economist prior to the bank collapse. In 2005–2009, at the height of the banks’ expansion abroad and during their collapse, Professor Magnússon was Chairman of the Board of the Icelandic Competition Authority where he would have been in an excellent position to work against increased concentration, for example in the media where almost all the private media was controlled by Jon Asgeir Johannesson and his business associates, and in the retail market where between one half and two thirds of the market was controlled by Johannesson and his associates. After being appointed to this position he took no initiative in that

direction, as far as is publicly known. Moreover, in 2005, Magnusson was a member of a committee for selection of a special export award.¹¹ That year, the award went to Kaupthing Bank. In a news release, Magnusson and his fellow members of the committee said that the bank “was the frontrunner in a forceful expansion abroad of Icelandic financial firms, being noted for its dynamic and profitable operations. The company, and its managers and staff, are characterized by boldness and resilience.”¹²

In a newspaper interview in 2005, Professor Magnusson welcomed the expansion of the Icelandic financial sector:

As some smaller financial firms have been established while the banks have expanded abroad, the Icelandic financial market is now flourishing and totally different from what it was 10–15 years ago. This has meant much facilitated access to credit which then has flowed into the whole economy, encouraging investments and foreign expansion which was made possible by the strength of the financial sector. This shows us the importance of the financial market as an economic sector; it creates jobs, profits and tax revenue.¹³

When a Norwegian economist, Professor Thore Johnsen, warned in early 2005 against the Icelandic banks, Professor Magnusson publicly protested. He admitted that the trade deficit and the resulting increase in foreign debts were causes for worry, but that there was nothing new in this: The CBI and the IMF, International Monetary Fund, had also warned against this. He said that the Norwegian economist was describing a worst-case scenario and not really making a prediction.¹⁴

In the spring of 2008, as the credit crunch was hitting the Icelandic banks, Professor Magnusson asserted that the Icelandic banks were profitable and well-financed, pointing out that they had not participated in the US market for subprime loan, whereas he complained about their sudden difficulty in obtaining credit abroad:

Perhaps Magnusson was a reluctant cheerleader, but these were certainly not the words of a “dissident economist”. Indeed, Professor Magnusson was, like Professor Gylfason, one of the economists who criticized the CBI for not increasing its currency reserves enough to make life easier for the banks

Despite all this, it is highly unlikely that the Icelandic banks will fail, even if they may have to write off some loans and to sell assets in adverse conditions and to shrink their operations in many other ways in order to reduce the need for capital. Because of the size of the banking sector, their problems are consequently the problems of the whole economy, for better or worse. Everybody is therefore in the same boat, and we have to cheer “our boys” on, even if we are not terribly happy with them at the moment.¹⁵

Perhaps Magnusson was a reluctant cheerleader, but these were certainly not the words of a “dissident economist”.

Indeed, Professor Magnusson was, like Professor Gylfason, one of the economists who criticized the CBI for not increasing its currency reserves enough to make life easier for the banks. On May 21st 2008, Magnusson said in an interview:

The only conclusion one can make is that the CBI committed a grave and serious error by not increasing its currency reserves in proportion to the growth of the financial sector, because the real cause of the situation we are facing is that the CBI cannot provide the banks with what they need.¹⁶

CBI Governor David Oddsson took issue with this view, both at the annual meeting of the CBI in March 2008 and at a press conference in April the same year where he said:

Also, with regard to the foreign exchange

reserves and the size of the banks, it must be borne in mind that the banks' primary task is to take care of themselves. When the banks were privatized and sold, there was no Government guarantee attached. If there had been, they would have been sold at a much higher price. So the banks' primary task is to take care of themselves, and not to expect that if they expand their operations on their own initiative, that the public is required to act swiftly to increase Central Bank's foreign exchange reserves. Such an undertaking is very expensive in itself, because of the method of investing foreign reserves. It is extremely costly to maintain very large foreign reserves. People must not forget this and speak as though the responsibility for the banks lies anywhere else than on their own shoulders. And I think they realize that, for the most part, the banks are responsible for their own operations. It is important that this not be misunderstood.¹⁷

The CBI currency reserves were relatively bigger than in most other countries. But in the credit crunch, the CBI governors encountered the problem that they could only increase the bank's currency reserves at high interest rates, and this in turn would have been a sign of weakness, alerting the already nervous international financial markets to the problems of the Icelandic banking sector. It should be added that even if Professor Magnusson criticized the CBI for not preparing adequately for bailing out the banks, he applauded the recapitalization of Glitnir at the end of September 2008, commenting in a television interview 30 September 2008 on Station Two that it was "in fact just by the textbook".¹⁸

The third economist, on whom Boyes

Olafsdottir did not register any disagreement with other members of the committee, neither in the report nor publicly. On the contrary, she was one of the speakers at a conference on the report.

mainly relies, Professor Katrin Olafsdottir, was actually a member of the committee on Iceland as a financial center, which was appointed in November 2005 by David Oddsson's successor as Prime Minister, Halldor Asgrimsson, leader of the Progressive Party. The committee, chaired by Sigurdur Einarsson, Chairman of the Board of Kaupthing bank, delivered its report in October 2006. It recommended that Iceland should try to learn from the examples of countries like Switzerland and Luxembourg, but concentrate more on onshore rather than offshore financial services.¹⁹ Olafsdottir did not register any disagreement with other members of the committee, neither in the report nor publicly. On the contrary, she was one of the speakers at a conference on the report.²⁰ She was also one of the co-authors of a special report on the growing importance and beneficial effects of the financial sector, commissioned by the Icelandic Financial Services Association.²¹ She was also one of the co-authors of a report on the 2006 visit to China by an Icelandic trade mission, commenting:

For nations such as Iceland, which are relatively remote, the need for trade is paramount. When coupled with a small population base, it should not be surprising that an active entrepreneurial effort, involving individuals, government entities, and representatives of multiple sectors of the economy would collaborate. Such are the circumstances that culminated in this large trade mission to China.²²

This is not recalled to imply that Professor Olafsdottir, by serving on a committee advocating Iceland as a financial centre, co-authoring a report on the beneficial effects of the growing financial sector and applauding efforts of Icelandic firms to extend their operations abroad, was misguided or wrong. Nevertheless it means that she can hardly pose as a "dissident economist" in discussions with foreign journalists about the bank collapse.

Perhaps Professor Olafsdottir should also have informed Roger Boyes that she was no

friend of David Oddsson and could not be expected to be unbiased when discussing him. In 2002, she was working as an economist at the National Institute of Economics, which was overseen by the Prime Minister's Office. She had become chairman of its association of staff members when it was decided to implement the old idea of abolishing the institute,²³ transferring most of its tasks to the economics division of the CBI. Publicly, on behalf of the staff, she strongly protested against this move.²⁴

Historical Errors

Unfortunately, Boyes' sources on Iceland were not always helpful or reliable. For example, Boyes refers several times to Icelandic history. In an ironic aside on those whom he considers to be Icelandic disciples of Milton Friedman, he says (209): "David Friedman [Milton's son] was awarded junior-hero status after writing a paper celebrating the way that Iceland had privatized the justice system in the thirteenth century." The correct version is that the private enforcement of law, which David Friedman analyzed, was in effect from 930 to 1262, during the Icelandic Commonwealth. It indeed ended in the 13th century when the Icelanders pledged allegiance to the Norwegian king.²⁵ Boyes also writes (16) that the first submarine telegraph cable to Iceland dates from 1902. This is not correct. While preparations on it started immediately after Iceland got home rule in 1904, it dates from 1906.

Again, Boyes quotes Professor Thorvaldur Gylfason (37) to the effect that the Progressive Party, mainly deriving its support from rural areas, gained a parliamentary majority in 1927. This is not correct. The Progressive Party did not gain a majority in the parliamentary elections of 1927, even if the electoral system greatly favored rural areas. It received 30.3% of the votes and 17 parliamentary seats, whereas the Conservative Party - a forerunner to the Independence Party - received 44% and 13 seats. The Social Democrats received 19% and 4 seats. There-



David Oddsson, former prime minister and governor of the Icelandic Central Bank

upon, the Progressive Party formed a minority government supported by the Social Democrats. (In 1931, however, the Progressive Party gained a majority in parliament, with only 35% of the votes, although not a sufficiently large one to command majorities in both houses of parliament.) While these historical errors may not be important, they do suggest some carelessness shown by Boyes or his sources.

Perhaps this is the place to note yet another inaccuracy in Boyes' book. He discusses the relationship between CBI Governor Oddsson and Prime Minister Geir Haarde (in office 2007 - 2009) which he believes to have been strained, even though they were old associates (153): "Sometimes the two old friends would meet for a coffee and Oddsson would stay silent for fifteen minutes; it was an obscure punishment." When asked about this by the author of this report, Oddsson said that this was untrue and absurd, adding that everybody who knew him also knew that he could not stay silent for a long time.²⁶

Anyway, Boyes' sources in Iceland would not have had any opportunity to listen in on conversations between Oddsson and Haarde.

Bush and Oddsson in the White House

Boyes briefly analyses the political situation in Iceland prior to the 2008 collapse, for example the relationship between Iceland and the US. In this context, he describes a meeting between Prime Minister David Oddsson and President George W. Bush in the White House on July 6th 2004, which happened to fall on Bush's birthday. The impression, which Boyes seems to want to leave with his readers, is that Oddsson was deferential to Bush. But Boyes leaves out several parts of the exchange, for example Bush's introduction of Oddsson in the beginning: "I remember my first NATO meeting, I walked in and the person who greeted me and made me feel most at home was my friend here. And I've never forgotten that. Iceland has been a steady friend of the United States of America, and they have been an important friend." Bush also said a few words about the meeting which Boyes edits out: "And the Prime Minister is a person who cares deeply about the security of his country and the welfare of his people, and that's why he's been such an effective leader for the good people of Iceland." Then Boyes edits out the last words in the exchange. In his version, it reads and sounds like this (26–7):

PM Oddsson: Well, I just—on this, I must say I agree with the President about Iraq ...

Pres. Bush: Thank you, Mr Prime Minister.

The reporters in the Oval Office start to sing "Happy birthday, Mr President." David Oddsson joins in.

Pres. Bush: Thanks. You actually call that singing? [Laughter] It was beautiful.

In fact, the transcript reads like this:

PRIME MINISTER ODDSSON: Well, I just — on this, I must say I agree with the President about Iraq. The future of Iraq is — the future of the world is much better because

of the undertaking that the United States, United Kingdom and their alliances took there. And without that done, the situation in that area of the world would be much more dangerous than it is now. There's hope now. There was no hope before.

PRESIDENT BUSH: Thank you, Mr Prime Minister.

(Everyone sings "Happy Birthday" to the President.)

PRESIDENT BUSH: Thanks. You actually call that singing? (Laughter.) It was beautiful.²⁷

Evidently, the exchange between Oddsson and Bush was conducted in quite a different tone and spirit from what Boyes' readers would conclude from his book alone.²⁸

The Myths about the Octopus and the Fourteen Families

Boyes discusses the Icelandic economy in the 20th Century, writing (35): "Fourteen families, the families of the Octopus, controlled all movement in and out of the island." He adds: "The Octopus was not a formal group; it was essentially an ownership pattern. The families did not own everything, it just felt that way."

This is at least misleading. The "fourteen families" is a catchphrase which American journalists invented a long time ago in El Salvador, a country historically with a much more unequal distribution of wealth and income than Iceland. It so happened that El Salvador was divided into fourteen districts.²⁹ The term was introduced into the Icelandic political debate in the early 1990s by Social Democrat Jon B. Hannibalsson, Minister of Foreign Affairs in the 1991–1995 Oddsson government.³⁰ It was never adequately explained by Hannibalsson or others who these families exactly were. But it is true that in Iceland there have been some prominent families, in politics as well as in business, unsurprisingly for such a small population. Political families have however hardly been more typical of the right than the left. Jon B. Hannibalsson himself, leader of the Social

Democrats in 1984–1996, was for example the son of Hannibal Valdimarsson, leader of the Social Democrats in 1952–1954, and of the People's Alliance in 1956–1968. Steingrímur Hermannsson, leader of the Progressive Party 1979–1994 and Prime Minister 1983–1987 and 1988–1991, was the son of Hermann Jonasson, leader of the Progressive Party 1944–1962 and Prime Minister 1934–1942 and 1956–1958. Johanna Sigurdardóttir, leader of the reorganized Social Democrats 2009–2013, was the daughter of a member of parliament for the Social Democrats, and her grandmother was a prominent labour leader. The first five leaders of the Independence Party certainly came from prominent families, two of which were also independently wealthy,³¹ but their successors, Thorsteinn Pálsson, David Oddsson and Geir H. Haarde, would not be characterized in that way in Iceland. If some families were for a while dominant in Iceland, then it would have been in the period from the 1920s to the 1980s.³²

In Iceland the term “Octopus” has not been used for exactly the same group as the “fourteen families”. Rather, it has been used about an informal group of businessmen - some, but not all, from prominent families - who, from the late 1980s to the early 1990s, controlled some of the larger private companies in the Icelandic economy, with its basis at the shipping company Eimskip. Led by Architect Halldor H. Jonsson, the group gained full control of Icelandair only in 1988.³³ Jonsson however passed away five years later, without any obvious replacement from the ranks of Icelandic businessmen.³⁴ It is therefore doubtful whether the notion of the “Octopus” serves any useful function in describing Icelandic capitalism in the latter part of the 20th century. For example, some of the richest businessmen in the country in this period, such as Björn Olafsson, director of Coca Cola Iceland, and retailer Palmi Jonsson, founder of Hagkaup stores, did not belong to this group.³⁵ More importantly, Icelandic capitalism was relatively weak for

the most of the 20th Century. For example, in an international comparative study, in 1970 Iceland had only the 28th freest economy of the 54 economies surveyed.³⁶

It is also to be kept in mind that the Cooperative Movement, strong in the rural parts of the country and closely aligned to the Progressive Party, controlled a large segment of Iceland's economy until the early 1990s. One way of demonstrating this is by looking at the biggest companies in Iceland. Of the ten biggest companies in 1980 (in terms of turnover), only two were controlled by businessmen usually associated with the “Octopus Group”: the airline Flugleidir (Icelandair) and the oil import company Skeljungur. Even then, Icelandair was not fully controlled by Jonsson's “Octopus Group”. Two companies were owned by the state: Landsbanki and the State Alcohol and Tobacco Monopoly. Three companies belonged to the Cooperative Movement: SIS, the oil company Oliufelagid and KEA; and two companies were sales organizations for seafood, mainly operating abroad.³⁷

Again, of the ten biggest companies in 1990, only one was controlled by businessmen associated with the “Octopus Group”, the airline Flugleidir. Two companies were owned by the state, the same number as in 1980. Two companies belonged to the Cooperative Movement, SIS and KEA. Two companies were sales organizations for seafood, the same as in 1980. Two new companies were on the list, Hagkaup, owned by an individual, the aforementioned Palmi Jonsson, and the newly privatized Islandsbanki, owned by several groups and companies, mostly in the fisheries.³⁸

The relative weakness of Icelandic capitalism and strength of the Cooperative Movement can also be seen from a less anecdotal set of figures. In 1980, the Federation of Icelandic Cooperative Societies had a turnover of 1.6 billion ISK; that same year, individual cooperative societies had a total turnover of 2.3 billion ISK. The Cooperative Movement as a whole therefore had a

turnover of a little less than 4 billion ISK.³⁹ By comparison, in 1980 the Icelandic GDP, Gross Domestic Product, was 16.2 billion ISK.⁴⁰ In other words, in 1980, the total turnover of the Cooperative Movement was one fourth of GDP. If there was an "Octopus" operating in Iceland - and again it should be stressed that it is doubtful whether such a term serves to inform or clarify the issues - then it was the Cooperative Movement.

No Free Lecture

Boyes mentions the influence in the 1980s of free market ideas on the leadership of the Independence Party. He tells the following anecdote (30):

In 1984, three years into Reaganomics and four years into Thatcherism, their economic guru, Milton Friedman, traveled to Reykjavik to debate his policies on television with left-ist skeptics and to deliver a public speech. In the audience he had a group of fans, including the then young mayor of Reykjavik, later to become prime minister, David Oddsson. Mayor Oddsson, surrounded by some of his young, conservative acolytes, enthusiastically applauded Friedman. The American economist was asked by an outraged Icелander why the audience had to pay an entry fee for the lecture: free education had always been an essential part of Icelandic culture at the core of its civil society. "There is no such thing as a free education," snapped Friedman. Oddsson laughed out loud and slapped his chair.

While only an anecdote, and not really important, this is not accurate. First, David Oddsson was not in Iceland during the Friedman visit in late August and early September 1984; then Mayor of Reykjavik, he was on an official visit abroad. In fact, Oddsson never met Friedman!

Secondly, Boyes mixes up the television debate in which Friedman participated in on August 31st and his lecture at the University of Iceland 1 September 1st. What happened was the following: In the television debate, one of the three intellectuals debating Friedman, Professor Stefan Olafsson, com-

plained that unfortunately he could not afford attending Friedman's lecture the next day (the fee, with lunch included, was about \$40). This was, Olafsson said, the first time in the history of the University of Iceland that a lecture was not free. Friedman replied that he objected to this use of the word "free". Of course previous lectures by speakers invited from abroad had not been "free"; airfares had to be paid, accommodation arranged, meetings advertised, meeting halls rented etc. What Olafsson meant to say was that those who did not attend the lectures ought to pay for those who did attend. Friedman added that he thought it perfectly appropriate to charge for the lecture.⁴¹ There was no audience in the television room, and this incident was actually not mentioned in Friedman's well-attended lecture the day after nor in the following discussion.⁴² In fact, the core of the true story is better than that which Boyes tells. Challenged by the leftwing intellectuals about the fee charged for his lecture, Friedman in effect answered: "There is no such thing as a free lecture."

III-Chosen Examples

Boyes argues that pre-collapse Iceland was a society where favouritism was common. He gives an example (31): "Two men who collaborated with Oddsson on devising a successful radio-show format never wanted for work; others who helped him with his literary endeavors (he wrote volumes of short stories) had their careers nudged along or were bailed out of trouble."

Whatever may be said about favouritism or political patronage in Iceland over the years, these examples are not well-chosen. David Oddsson's two collaborators on a popular radio-show in 1971–1973 did not need any favours from him. One of them, Thorarinn Eldjarn - son of Kristjan Eldjarn, Iceland's President 1968–1980 - is generally regarded as one of Iceland's most distinguished poets and writers and not in need of any support from politicians. It should be noted that he never received the coveted and lucrative

award "Artist of the City" while Oddsson was Mayor of Reykjavik: he only received it in 2008, three years after Oddsson had left politics. The other one, film director and writer Hrafn Gunnlaugsson, a member of the Locomotive Group, may occasionally have benefited from his association with Oddsson, but possibly it also did him harm, with the Icelandic left dominating the arts and being hostile to Oddsson and to all and any of his friends. Indeed, in 1993, when Gunnlaugsson had been severely criticized by leftwing members of parliament for having received special favours by public funds and institutions, he asked the Icelandic National Audit Office to investigate the allegations. The Office did so, after the Ministry of Education and Culture had also insisted on an investigation. The Office found no breach of law or any evidence of improper political pressure.⁴³

The passage about those "who helped" Oddsson "with his literary endeavours" is even more baffling. Oddsson has published two collections of short stories.⁴⁴ His publisher was Olafur Ragnarsson, a successful businessman, neither attached to the left nor the right, and his copy editor was Petur Mar Jonsson, an expert on Icelandic literature, whose political views are unknown. Neither of them has ever received any political favours from David Oddsson. Both books sold quite well.⁴⁵ In this matter, as in many others, Boyes' Icelandic sources had not served him well.

The Quota System in the Fisheries

Boyes briefly discusses the system of individual transferable quotas gradually adopted in the Icelandic fisheries between the late 1970s and the early 1990s. With the system, only holders of quotas to a particular fish stock could harvest that fish stock in Icelandic waters. The quotas were initially allocated on the basis of catch history, which meant that if one fishing firm had been harvesting 5% of the total catch in the particular fish stock over the years prior to the adoption of the system, then it received a transferable

right to harvest 5% of the TAC, total allowable catch, in the fish stock over the fishing season. The result of the system, as anyone familiar with economic analysis could predict, was that the more efficient fishing firms bought quotas from the less efficient firms whose owners subsequently left the fisheries. Thus, excess capacity was slowly reduced and effort brought down to a profitable level. Boyes comments, however, seemingly relying on Professor Gylfi Magnusson (39): "The problem, though, was that the government was handing over something for nothing."

This is a misunderstanding of the reform when fishing in Icelandic waters was confined to quota holders. It can be demonstrated that under open access to a fishery (like other limited resources), effort - for example measured by the number of boats harvesting fish, or the total tonnage of the fishing fleet - will increase to the level where there is no more profit to be had.⁴⁶ This means that the potential gain from the resource (sometimes called the resource rent) is all, or almost all, wasted in overcapacity and excessive effort, as can actually be observed all around the world. Thus, the only right of which people who no longer could harvest fish were deprived, was the right to harvest fish with no profit, and that right, by definition, was worthless. In other words, there was no transfer of goods from the Treasury to the fishing community, only the definition of rights under which the community could in mutually agreed transactions eliminate the waste consisting in excess capacity and too much effort.⁴⁷

It is true, however, that the ITQ system added a lot of wealth to the Icelandic economy: a resource which had previously been of almost zero value, because total cost had been almost equal to total income, now became quite valuable. Boyes writes (39):

The quota fortunes were to become part of the overall crisis in Iceland. Since quotas were now regarded as property, loans could be taken out using them as security. The money, plowed into foreign adven-

tures, secured by fish that had not yet been taken out of the ocean, was lost when the banks crashed.

This explanation of, or at least factor in, the bank collapse has often been mentioned by one of Boyes' main sources, Professor Thorvaldur Gylfason.⁴⁸ This argument is however not plausible. There is nothing more unnatural with borrowing money against fish still to be harvested than it is to borrow money against grain still to be harvested, or for that matter, against houses still to be sold or rented out. Normally, people borrow against the future value stream of the property they offer as collateral for their loans. Moreover, the ITQ system started in the herring fishery already in 1975, and in the cod and other demersal fisheries in 1984, becoming a comprehensive system by law in 1990. In other words, it had started 33 years before the bank collapse and had become a comprehensive system 18 years prior to it. Of course, the quota system in the fisheries expanded the basis of possible collaterals for bank loans, but if that is the argument, then any move towards a more productive economy - and any such move would expand this basis - could be said to be a factor in the bank collapse.

Privatisation and Foreign Banks

Sometimes Boyes seems, for whatever reason, to ignore the existing evidence. He writes (43):

Oddsson and his Friedmanite friends were convinced that the financial system had to be free to grow beyond Iceland—but at the same time be bound into the political system. That meant, first of all, excluding foreign banks, even though this was against the spirit of belonging to the European Economic Area.

This is not correct. Surely Boyes' main sources about the Icelandic economy, Professors Gylfason, Magnusson and Olafsdottir, must have been aware of strenuous, but unsuccessful efforts in 2001 to sell the two government banks, Landsbanki and Bunnadarbanki, to foreign investors. The Icelandic

privatization committee hired the British bank HSBC as adviser in the sale process, and in late 2001, HSBC searched abroad for possible participants in a tender for controlling shares in the two banks. But there was no interest, partly because of the recent terrorist attack on the US, but also because the banks were too tiny to generate much interest. In particular, Prime Minister David Oddsson was keen to invite foreign banks, with their expertise and experience, to Iceland.⁴⁹

Possibly Boyes is referring to the fact that three years earlier, in 1998, the Swedish bank Skandinaviska Enskilda Banken had expressed interest in buying a third part of Landsbanki, but discussions with its representatives did not lead anywhere. Prime Minister Oddsson and other government ministers thought that it was not advisable to sell a large share in either of the two banks without some kind of tender. The Swedish bank also seemed to assume that it could get the third part for a low price. In 2001, however, Skandinaviska Enskilda Banken was apparently not interested in participating in a tender for Landsbanki when HSBC tried to set up such a tender.⁵⁰

On Bjorgolfur Gudmundsson

Boyes argues that tiny Iceland is clan-ridden and that the only way to understand Icelandic society is to unravel the many ties, sometimes invisible, between individual players in the field. As an example, Boyes mentions Bjorgolfur Gudmundsson, a major shareholder in Landsbanki in 2002-2008 (49): "His father - Thor's paternal grandfather - headed Shell Iceland. The family was thus intimately linked with the Octopus and the Independence Party." Boyes adds that Gudmundsson's wife was from the wealthy and influential Thors family, descended from entrepreneur Thor Jensen. In his book, Boyes describes problems Gudmundsson had when the shipping line Hafskip, where he was one of the two directors, went bankrupt in 1985 and how he and his son re-established themselves in Russia after the fall of

communism, with a brewery which they then sold to Heineken. After that, the father and son bought a large share in Landsbanki over the objections of some people remembering Gudmundsson's past. Boyes adds (55): "But David Oddsson wanted Bjorgolfur in place, and so did the Independence Party hierarchy."

There are several errors in this account. First, Bjorgolfur Gudmundsson did not come from a privileged background. He was one of the five children of Gudmundur Olafsson, a delivery man for a timber company. When Gudmundsson was only seven years old, his father had a stroke and was out of work for more than two years. Gudmundur Olafsson eventually recovered, but the family was far from being affluent.⁵¹ It was not Gudmundsson's father, but his father-in-law, Hallgrimur Hallgrimsson, who was director of Shell. Hallgrimsson was indeed married to a woman from the prominent Thors family, the daughter of fishing firm owner Thor Jensen. It was therefore Gudmundsson's wife who came from what could possibly be considered to be a traditional Icelandic elite. The Thors family was for some time - between 1912 and 1948 - probably the richest family in Iceland, and one of the Thors brothers, Olafur Thors, the uncle of Gudmundsson's wife, was leader of the Independence Party and five times Prime Minister.⁵²

In the second place, it is true that Bjorgolfur Gudmundsson was active in the Independence Party in the 1970s and early 1980s, but not as David Oddsson's friend and ally, but rather as one of the strongest supporters of Oddsson's main rival, Albert Gudmundsson, a popular former international soccer player, whom Oddsson narrowly defeated in the primaries before the 1982 municipal elections. Moreover, Albert Gudmundsson left the Independence Party in 1987 and established his own party, based on his great personal support. When Albert Gudmundsson retired from politics a few years later, his party went into decline and eventually disappeared. Bjorgolfur Gudmundsson also



Bjorgolfur Gudmundsson

spent most of the 1990s and early 2000s abroad. While Bjorgolfur Gudmundsson and Oddsson certainly were on talking terms, it would therefore be highly misleading to call Gudmundsson Oddsson's "crony".

The Hafskip Case

Boyes gives a short account of Bjorgolfur Gudmundsson's business career, especially the 1985 bankruptcy of Hafskip of which he was one of the two directors. Boyes says that well-known Icelandic author Illugi Jökullsson wrote a book on the Hafskip case and adds (50):

The situation, in other words, was not financially critical: it was a crude act to dispose of an Eimskip rival (which later took on Hafskip's ships). More, it was an attempt by the Progressive Party to profit from the downfall of a man who was so clearly aligned with the Independence Party. Criminal charges were pressed against him - the prosecutor and the chief of police were Progressive Party nominees - on 450 separate fraud charges. He was cleared on all but twenty relatively minor infractions. First, Illugi Jökullsson did not write any

book on the Hafskip case. He has written an annal of the 20th Century in which the Hafskip case is of course mentioned, but not in any detail. Jokulsson has never done a study of the Hafskip case. However, three books have been published in Icelandic on this very controversial case, all by people sharply critical of the way in which it was handled by the press and the authorities.⁵³

Secondly, in retrospect many feel that Bjorgolfur Gudmundsson and his co-director at Hafskip were treated unfairly in the legal case which Boyes mentions, but that may be rather because the legal system in Iceland could hardly cope with a complicated case like this than because a sinister plot had been hatched against them. There is no evidence that the Progressive Party was involved in the case; and it is indeed difficult to see what it would have gained from the downfall of Hafskip, because the managers and biggest shareholders of Eimskip - who took over most of Hafskip's assets at low prices - were also staunch supporters of the Independence Party.

The Hafskip case started in mid-1985 when a disgruntled former employee of the company, Gunnar Andersen, leaked some documents about its precarious financial status and, by the standard of the time, the lavish expense accounts of its directors, to a journalist, Halldor Halldorsson, who wrote for a weekly tabloid. Following that the politician Olafur R. Grimsson, at the time an alternate member of parliament for the leftwing People's Alliance - and one of the three leftwing intellectuals debating with Friedman on Icelandic television in 1984 - began a very public campaign against the directors, accusing them of corruption and all kinds of misdeeds. Public opinion turned against the directors and consequently bank directors became concerned, perhaps even panicked. Credit lines were closed and Hafskip had to file for bankruptcy in December 1985. The group controlling Eimskip at the time probably welcomed the downfall of a competitor, but this does not imply that the group was

active in bringing it about.

It is true that both the Chief Public Prosecutor, Hallvardur Einvarðsson, and the Reykjavik Police Chief, Bodvar Bragason, had been regarded as supporters of the Progressive Party before they took office, Einvarðsson serving in 1986–1996 and Bragason in 1985–2006. Neither of them were however known to have particularly close ties to the leadership of the Progressive Party. But in a sense, this is irrelevant because the Hafskip case was taken over by a special prosecutor who conducted his own independent investigation. This was Law Professor Jonatan Thormundsson, who had left the Progressive Party already in 1972, as a result of a disagreement with the party leadership.⁵⁴ He was definitely not in any way connected to the Progressive Party. Thormundsson abruptly resigned from the case, when in the summer of 1990 the Reykjavik District Court acquitted the Hafskip managers of most of the charges against them, convicting them of some minor infractions.⁵⁵ A year later, the Supreme Court upheld most of the acquittals, but convicted the managers, including Bjorgolfur Gudmundsson, of a few more charges than the District Court, albeit also all of them minor ones. Gudmundsson received the heaviest sentence, suspended prison for 12 months. One of the five judges dissented and wanted to acquit for almost all the charges.⁵⁶

It is still being debated whether or not Hafskip was really bankrupt when the company had to file for bankruptcy at the end of 1985.⁵⁷ Probably, a conclusive answer to that question does not exist. However, if any outsiders were partly responsible for the Hafskip bankruptcy, then most would regard them as having been the whistleblower, Gunnar Andersen, the journalist Halldor Halldorsson, and the publicity-seeking politician Olafur R. Grimsson.⁵⁸

Facts on Corporate Donations

Boyes adds to his account of the sale of Landsbanki (71): "Landsbanki was a huge

donor to the Independence Party." Standing on its own, this statement would be misleading for several reasons. Later on, however, Boyes qualifies it by observing (196): "The Social Democrats had lost some of their innocence by agreeing to be a junior partner with Geir Haarde's compromised Independence Party; both parties had, for example, received a wad of party donations from the banks in 2006."

The facts of the matter are somewhat more complicated. The Independence Party, as a free market, pro-business party, had always enjoyed the main support, financial and otherwise of Iceland's private sector but also from many individuals. Shortly before the 2009 parliamentary elections it was leaked to the press that the Party had received a huge donation from the investment company FL Group, whereupon the Party itself disclosed that it had also received a huge donation from Landsbanki, apologizing for this as being improper and promising to return both donations. On this occasion, in the midst of the election campaign, the Social Democrats stated that in 2006 they had received a total of 45 million ISK, or \$622,000, in corporate donations. This is presumably what Boyes is referring to. After the elections, the National Audit Office investigated donations to all the political parties in 2006 and published a report about it in early 2010. The findings may have come as a surprise to some. It turned out that in 2006 the Independence Party had received a total of 104 million ISK, or \$1.4 million, in corporate donations. However, the Social Democrats had not received 45 million, as they had claimed before the elections, but 102 million ISK, also about \$1.4 million. The Social Democrats had in other words not provided accurate information about this before the elections. Needless to say, they had not promised to return any donations.

In the investigation of the National Audit Office it was revealed that companies controlled by, or connected to, the biggest debtor of the Icelandic banks, Jon Asgeir



Jon Asgeir Johannesson, donated huge sums of money to the Social Democrats. In 2006, Johannesson's companies also donated a considerable amount to the Progressive Party.

Johannesson, donated huge sums of money to the Social Democrats. In 2006, for example, the Social Democrats received the following donations from those companies:

Company	Donation ISK	Donation USD
Stodir	500,000	6,918
ISP holding company	200,000	2,7675
Baugur Group	5,000,000	69,185
Husasmidjan	300,000	4,151
Islandsbanki	5,500,000	76,104
FL-Group	8,000,000	110,696
Dagsbrun	5,000,000	69,185
Vífilfell	500,000	6,918
Teymi	1,500,000	20,755
Total	26,500,000	388,681

In 2006, Johannesson's companies also donated a considerable amount to the Progressive Party, 10,500,000 ISK (\$145,000), while his business partner, Palmi Haraldsson in Fons, a shareholder in his media company, donated 8,000,000 ISK (\$110,000) to the party. Kaupthing bank gave 11,500,000 ISK (\$159,000) to the Social Democrats, and Landsbanki 8,500,000 ISK (\$117,000).⁵⁹

The Baugur Case

Boyes describes at some length the so-called Baugur case which, as mentioned earlier, started in 2002 when Mr. Sullenberger, a former business partner of wealthy retailer and entrepreneur Jon Asgeir Johannesson

filed a charge against him. Boyes says, like Johannesson did himself, that the Baugur case was politically motivated, plotted by Prime Minister David Oddsson. Boyes writes: "David Oddsson's dearest wish was to rein in Jon Asgeir [Johannesson]." He adds (71): „All one needed was a complaisant prosecutor's Office, political friends at the helm of the police, a press that was in cahoots with the Independence Party - and enough people who felt slighted by Jon Asgeir and his family to turn publically [sic] against them."

Possibly this could be regarded as serious slander about the Icelandic police, but at least it is a great simplification. The Baugur case started in early 2002 when Jon Gerald Sullenberger fell out with Jon Asgeir Johannesson, for personal reasons as well as because of a financial conflict. Sullenberger who then lived in the US travelled to Iceland in the summer of 2002 and filed a charge against Johannesson at the economic crime unit of the police for having participated with himself in issuing a false invoice for goods. He did so, even if his lawyer warned him that he was implicating himself by the charge. It seems far-fetched that David Oddsson was behind this personal vendetta. Sullenberger himself strongly denied this: He has said that in 2002 he did not know Oddsson and that he had never met him before or during the case.⁶⁰ On the basis of Sullenberger's charge, the headquarters of Baugur were raided in August 2002. Some might argue that this was an over-reaction by the police, just like some might argue that the Competition Authority over-reacted in its investigation of the oil-import companies a year earlier where all three headquarters of those companies were raided. But there was no question either about Baugur or about the oil-import companies that the authorities had used proper legal mechanisms: This was in both cases confirmed by the Supreme Court. Moreover, after a long and complicated legal process, the Supreme Court found both Jon Gerald Sullenberger and Jon Asgeir Johannesson guilty of the original

charge filed by Sullenberger, that of issuing a false invoice for goods, giving them a suspended prison sentence of three months.

⁶¹ Later Johannesson and two of his business partners were convicted by the Supreme Court for tax evasion, Johannesson receiving a suspended prison sentence of twelve months.⁶²

On Jon S. Gunnlaugsson

Boyes regards it as significant that Jon Gerald Sullenberger's lawyer was Jon S. Gunnlaugsson, "a future chief justice of Iceland" (73) and a personal friend of Prime Minister David Oddsson. This would, he claims, support his theory that David Oddsson was behind the Baugur case.

First, Gunnlaugsson was never Icelandic chief justice: He was a Supreme Court judge in 2004–2012. In the second place, when Gunnlaugsson was a practising lawyer before being appointed to the bench, in court he represented all kinds of people with different political persuasions, including Social Democratic leader Jon Baldvin Hannibalsson and another prominent Social Democrat, Thorsur Olafsson (both of whom wrote in support of his eventual appointment as Supreme Court judge).⁶³ It would be far-fetched to say that his personal friend David Oddsson was behind their cases. It would be equally far-fetched to say that Oddsson was, because of Gunnlaugsson's part in the Baugur case, behind that case.

The Battle about the Media Law

Boyes describes the fierce political battle raging in Iceland about Prime Minister David Oddsson's proposal in spring 2004 for new amendments to laws on broadcasting and competition. He quotes both supporters and opponents, writing (108): "Oddsson was, in other words, trying to break the power of Jon Asgeir [Johannesson] at home, at the moment when he was becoming an international presence."

This is highly misleading. The facts of the matter are the following: After the August

Oddsson proposed amendments to the existing laws on broadcasting and competition, according to which no company could get a broadcasting license, for radio and television, if it mainly operated in other markets or if it already owned a newspaper or if more than a 35% share in it was held by another company or if more than a 5% share in it was held by a company dominant in other markets. One argument for the proposal was that the Icelandic media market was confined, by reason of language, to Iceland alone, so the self-regulation provided by an open and competitive international market was not possible.

2002 police raid on Baugur's headquarters, Jon Asgeir Johannesson apparently became convinced that Prime Minister David Oddsson was behind it, choosing to ignore the charge filed by Jon Gerald Sullenberger and his personal motives for it. (Sullenberger believed, rightly or wrongly, that Johannesson had made a pass at his wife. He was also upset that Johannesson and his guests had left him with a hefty unpaid bill for escort girls, after a visit to Florida.)⁶⁴ When the raid took place, Johannesson was in London, negotiating to take over the big retail company Arcadia. After hearing about the raid, his potential partners decided to leave him out of the deal. Johannesson managed nevertheless to sell his shares in Arcadia at a hefty profit. Returning to Iceland with £70 million in cash, he set out to increase his media influence. Sometime in 2002, he had secretly bought a fledgling daily, *The Newspaper* (*Frettabladid*), which relied solely on advertisement revenue, being distributed free of charge to most Icelandic urban households. In the 2003 election campaign, *The Newspaper* supported Social Democratic leader Ingibjorg S. Gisladdottir. Once, reporting on a speech by Gisladdottir, it even gushed that she "had spoken without notes and mesmerized the audience."⁶⁵ At the same time, *The Newspaper* was very critical of Oddsson. In the election campaign, Gisladdottir alleged, as Johannesson had done, that Oddsson was behind the police investigation of Baugur. The police authorities strongly denied this, and the policemen's association even sent a delegation to Gisladdottir protesting against

her allegations.⁶⁶

It was only after the 2003 elections that Johannesson admitted that he was chief owner of *The Newspaper*.⁶⁷ In the autumn of 2003, he also bought the private radio and television channels, Channel Two (*Stod 2*), and a tabloid in slow decline, *DV*. By then, he owned practically all the Icelandic media except the Icelandic Public Broadcasting Corporation and the daily Morning Paper (*Morgunbladid*), even if Boyes says that the press "was in cahoots with the Independence Party". In addition, Johannesson not only controlled one half to two thirds of the retail trade in Iceland; he also owned shares in many other companies, quite big by Icelandic standards. He was mainly interested in acquiring controlling shares in cash-rich banks and insurance companies and finally succeeded in doing so, although initial attempts were thwarted. But as a successful businessman he continued moreover to have easy access to credit in the newly privatized banks - as shown by the fact that he was the biggest single debtor in the banks at the time of their collapse in the autumn of 2008.

When Oddsson formed his fourth government - the third one in coalition with the Progressive Party - in the spring of 2003, he announced that he would step down as Prime Minister in the autumn of 2004, to be replaced by the leader of the Progressives. In spring 2004, shortly before leaving office, Oddsson proposed amendments to the existing laws on broadcasting and competition, according to which no company could get a broadcasting license, for radio and television,

The Icelandic banks did not expand rapidly because of any disputes, imaginary or real, between David Oddsson and Jon Asgeir Johannesson.

They expanded because three changes coincided in 2003-2004: Suddenly a lot of cheap credit became available in the international financial markets; Iceland had good credit ratings which made borrowing even easier than for most other financial companies; and there was a sudden change of culture in the Icelandic banks as a result of their privatization, with a generation of young managers replacing an older one.

if it mainly operated in other markets or if it already owned a newspaper or if more than a 35% share in it was held by another company or if more than a 5% share in it was held by a company dominant in other markets. One argument for the proposal was that the Icelandic media market was confined, by reason of language, to Iceland alone, so the self-regulation provided by an open and competitive international market was not possible in this field. If written into law, those amendments would doubtlessly have made it quite difficult for Johannesson to control the private media. Unsurprisingly, his media outlets campaigned hard against Oddsson's proposal which was nevertheless passed by parliament.

The amendments proposed by Oddsson and accepted by the 2004 Parliament were only to come into effect after a new Parliament had been elected in 2007. It was therefore easy for a new Parliament to annul them if it wanted to do so. This was in other words not an irreversible decision. However, in summer 2004, President Olafur R. Grimsson - the same man who had debated on television with Milton Friedman in 1984 and led a campaign against Bjorgolfur Gudmundsson and

other managers of Hafskip in 1985 - refused to sign the bill. This was the first time in the history of the Icelandic Republic that the President, traditionally regarded as being a non-political figure and having almost only formal powers, had refused to sign a bill. The widely accepted argument had been that the only bills which the President might refuse to sign would be those which would bring about irreversible and highly controversial changes. In this case, if a majority of the voters had been against the amendments proposed by Oddsson to the existing laws on broadcasting and competition, then these amendments could easily have been annulled after this next election, as they only came into effect after that election. Johannesson's critics claimed that the President's decision showed how influential Johannesson had become. They also pointed out that there was a connection between President Grimsson and Johannesson: one of Grimsson's two daughters held a managerial position at Johannesson's company, Baugur, and the director of the broadcasting company Channel Two, newly acquired by Johannesson, had been Grimsson's election manager. Be that as it may, Johannesson had without question won the media battle: The media bill was withdrawn.

After this, there were almost no constraints on wealthy businessmen and investors like Johannesson acquiring the few private media in Iceland and using them in whatever way they wanted to, for example to punish or reward people with a stake in public life, like politicians, professional writers and commentators, and to influence or even mould public opinion. The outcome of the media battle arguably had an impact on the general atmosphere in Iceland in the years 2004-2008. Concentrated wealth, slowly eliminating competition to it, had prevailed. Jon Asgeir Johannesson was the clear "winner" despite his legal problems.⁶⁸ As some saw it, the market capitalism of 1991-2004 had turned into "crony capitalism", dominant from 2004 to the bank collapse in 2008.

Who Won the Game?

Having described the dramas surrounding the Hafskip and Baugur cases, Boyes suggests, even more dramatically, that Iceland went under in the fight between David Oddsson and Jon Asgeir Johannesson. He writes: "Who won the game? Nobody. In the end, both men, in their stubbornness, their pettiness, steered Iceland toward the edge of a cliff" (77).

This observation does not make much sense, especially if it is offered as some kind of an explanation for the bank collapse. The Icelandic banks did not expand rapidly because of any disputes, imaginary or real, between David Oddsson and Jon Asgeir Johannesson. They expanded because three changes coincided in 2003-2004: Suddenly a lot of cheap credit became available in the international financial markets; Iceland had good credit ratings which made borrowing even easier than for most other financial companies; and there was a sudden change of culture in the Icelandic banks as a result of their privatization, with a generation of young managers replacing an older one. And even if the banks had expanded rapidly, they would not necessarily have collapsed, at least not all of them, if the CBI had not been refused the same currency swap deals by the US Federal Reserve that other European central banks got. This refusal made it impossible for the CBI to act as lender of last resort to the Icelandic banks. What happened was that suddenly other central banks decided that the Icelandic krona was not convertible any more. This brought about a crisis which turned into a collapse when the UK government closed the British banks owned by Icelanders at the same time as it bailed out all other British banks, and this, in turn, caused the demise of Kaupthing, the biggest Icelandic bank. None of this could be attributed to any fight between David Oddsson and Jon Asgeir Johannesson, even if arguably the triumph of Johannesson in the 2004 dispute on the media law created a

mood very favourable, or at least uncritical, to the bankers and businessmen dominant in Iceland between 2004 and 2008.

Devolution under Oddsson

The predominance of David Oddsson seems to be an integral part of the story Boyes wants to tell, perhaps prodded on by his sources. He writes, for example (111): "Under Oddsson, power shifted from the rural communities to Reykjavik; state institutions became more, not less, dependent on his political whim."

The truth of the matter is quite the opposite. In 1987, before Oddsson became Prime Minister, the electoral system had been reformed as such a way that rural districts were no longer predominant in parliament. While this could certainly be regarded as a shift of power from rural communities to Reykjavik, Oddsson was not even a member of parliament at that time (he was only elected to parliament in 1991). There was a general agreement among the political parties about this reform. Even the Progressive Party, which had fought vehemently against former electoral reforms, accepted it. As Prime Minister, in 1993-1995 Oddsson oversaw a large-scale transfer of responsibilities, and resources, from the state to local authorities in education and social care. At the same time, the government encouraged the amalgamation of small rural communities so that they would become financially stronger and fitter to perform their tasks.⁶⁹ Moreover, in the first years of Oddsson's tenure, laws were passed on public administration and transparency in government which served to constrain central power and make state institutions less rather than more dependent on any politician's whim.⁷⁰ Also, during Oddsson's tenure, the ITQ system in the fisheries was, as already noted, developed and strengthened which meant that rural communities benefited relative to the Reykjavik metropolitan area: The quotas were mainly held by fishing firms outside the capital city.



Gordon Brown wrongly said during the financial crisis that Iceland was bankrupt, and in parliamentary debates he did not make the crucial distinction between Kaupthing's subsidiary in the UK, KSF, which was regulated in the UK, and Landsbanki's London branch which was regulated from Iceland.

KSF: A British Bank

Boyes tells a story about a British charity which kept its assets in KSF, Kaupthing Singer & Friedlander, going on to comment (128): "It is not difficult, visiting a hospice that has been left in the lurch, to share the common British view of the Icelanders as amoral plunderers." He then speculates that perhaps some Icelanders wanted to pass their liquidity problems on to British depositors, or to relive the "Cod Wars" which were disputes between Iceland and the UK in the 1950s to 1970s about unilateral extensions of fishing limits by Iceland. He concludes, though, that probably the Icelanders were simply unrealistic.

There are two problems with the tale told by Boyes. The first one is that KSF was a British bank, registered in the UK and regulated by British authorities. It was a subsidiary, not a branch, of Kaupthing in Iceland. Possibly, Boyes' strictures might apply to the Icesave accounts which Landsbanki offered because in the UK they were operated by a Landsbanki branch and not a subsidiary, and therefore regulated by Icelandic authorities and insured by the Icelandic Depositors' and Investors' Guarantee Fund.

The case of the Icesave accounts is discussed later in this article in more detail. But

his strictures do not apply in his particular example. It is extraordinary that Boyes does not make the crucial distinction between a British bank, owned by Icelanders, and the London branch of an Icelandic bank. He, or his Icelandic sources, should have known better.

The second problem is that at the same time as the UK Labour government presented a £500 billion rescue package for British banks, October 8th 2008, it closed down only two British banks, KSF, owned by Kaupthing, and Heritable Bank, owned by Landsbanki. While British taxpayers may lose billions of pounds because of RBS and Bradford & Bingley,⁷¹ the two British banks in Icelandic ownership in resolution turned out to fully or almost fully solvent: The recovery rate for non-preferential creditors of Heritable Bank is 94p in the pound and of KSF 86p in the pound, despite the fact that the estates of both companies have had to pay enormous amounts of money to auditors and lawyers.⁷² Of course, from his vantage point in 2009 Boyes could not have known this outcome. But he should have seen that it was really the UK Labour government which left in the lurch the charity which he mentions, along with many other institutions and associations. Boyes' speculations about the

mixed motives of the Icelandic banks which operated in the UK are not supported by any evidence. The fact of the matter is that the Icelanders are mostly Anglophiles: They were for example discreetly relieved that it was the British military that occupied Iceland in April 1940 and not the Germans.⁷³

Boyes is making the same error as Prime Minister Gordon Brown who also should have known better. In the spring of 2009, Brown was asked in the House of Commons about a hospital in the north-west of England which had kept money in KSF: "Why is the Prime Minister now the one person standing in the way of compensation?" Brown replied:

The fact is that we are not the regulatory authority and that many, many more people had finances in institutions regulated by the Icelandic authorities. The first responsibility is for the Icelandic authorities to pay up, which is why we are in negotiations with the International Monetary Fund and other organizations about the rate at which Iceland can repay the losses that they are responsible for.

When Brown said that "we are not the regulatory authority", he was plainly wrong. Indeed, the British FSA was the regulatory authority of KSF, as it was a British bank. Brown's statement that the Icelanders had to "repay the losses that they are responsible for" was also highly doubtful. If anyone was responsible for possible losses, then it was the British Labour government, singling out the Icelandic-owned British banks for close-down while rescuing all other British banks.

Confusion about Warnings

In his account of the problems of the Icelandic banks in early 2008, Boyes says (144–5):

In the Oddsson version of events, the central bank submitted a memorandum to Geir Haarde on the poor state of the three Icelandic banks on February 24, 2008. Haarde, in subsequent testimony to a parliamentary committee (on December 7, 2008), said he could not recall any such

communication from David Oddsson - one of the few occasions that Haarde has publicly distanced himself from his former mentor.

Here, Boyes seems to be confusing several different issues and dates. In a testimony on December 4th 2008 to a parliamentary committee, David Oddsson said that he had already in the spring or summer of 2008, probably in June, told the government that there was a zero per cent likelihood that the banking sector would survive without help from abroad. When Geir Haarde was asked about this the same day at a press meeting, he said that Oddsson apparently had used these words in a telephone conversation between the two of them but that he had no recollection of that conversation himself.⁷⁵ In a television interview February 24th 2009, Oddsson briefly returned to the subject and said that he had recently come upon a memorandum which he had written about this conversation. He also said that he had sent a report by an international expert on financial stability to government ministers: According to the report, the banking sector could collapse in October 2008.⁷⁶ The present author who was a member of the CBI Board of Overseers in 2001-2009 can confirm that Oddsson, in a private conversation with him in August 2008, used similar words: There was a 100 per cent likelihood that the banking sector would collapse without help from abroad.

It is however a moot point whether the conversation where these exact words were used took place in June 2008 or at some other time. The crucial point is that Oddsson several times in 2008 warned the government, and the bankers, against the expansion of the banks and their lack of credibility abroad. Some of the conversations and meetings were only between Oddsson and Haarde, others had more participants.⁷⁷ Indeed, already in 2005, less than two months after he had become CBI Governor, Oddsson had mentioned to Haarde the possibility that the bank expansion might be unsustain-

Morgunbladið

Umsögn The Royal Bank of Scotland og Dresdner Kleinwort Wasserstein

Verðmæti bréfa banka- anna hefur rýrnað

In November 2005, when Morgunbladið published a news item about negative reports about Kaupthing bank by analysts in foreign banks, one of the bank directors told the editor that it was unnecessary to announce this as if Hekla, the famous Icelandic volcano, was about to erupt. Another bank director apparently cancelled his bank's advertisement contract with Morgunbladið.

able.⁷⁸ One of the best-documented meetings between Oddsson and government ministers took place on February 7th 2008. In its report, the SIC wrote: "During the meeting, the Chairman of the Board of Governors painted a very bleak picture of the state and future prospects of the Icelandic banks. The information indicated an imminent danger for the Icelandic economy."⁷⁹ The leader of the Social Democrats, Foreign Minister Ingibjörg S. Gísladóttir, testified to the SIC that she thought Oddsson was being "a little dramatic" at the meeting and that she had written in a private memorandum:

Evidently, the Governor of the CBI (DO) would not mind if Kaupthing Bank collapsed or left the country. He paints a very bleak picture of future prospects in the market and wants to use that picture to justify taking action against the bank. Plainly critical of Kaupthing Bank and Glitnir but not of Landsbanki. No advice or suggestions were offered as to what action should be taken by the government about the banks.⁸⁰

Boyes cannot be blamed, of course, for not knowing the facts related by the SIC in its report, even if they more or less confirm "the Oddsson version of events". But Boyes might have been more accurate about what was publicly known in the latter part of 2009 when he was finishing his book - or perhaps his sources should have gone into more detail with him about it.

Morgunbladið and the Other Media

A strange error creeps into Boyes' book, perhaps due to his over-reliance on his Icelandic sources. He writes (153) about public

opinion preceding the bank collapse: "And since the press, led by *Morgunbladið*, was even more upbeat than the popular mood, why should there be any doubts?" The truth about *Morgunbladið* is almost the opposite. While the newspapers and radio and television stations owned by retail magnate and media mogul Jon Asgeir Johannesson took a favourable and uncritical view of the business community and its doings in the last years before the collapse, *Morgunbladið* was much more ambivalent, under the editorship of Styrmir Gunnarsson. *Morgunbladið* certainly occasionally welcomed the new-found prosperity of Icelandic financial firms, but it was also fiercely criticized by bankers and businessmen for giving prominence to criticisms of the expansion by banks and businesses abroad.

In a book about the bank collapse published by Editor Gunnarsson the same year as Boyes came out with his book, 2009, Gunnarsson describes the pressures which bankers and businessmen tried to put on his newspaper to be more positive towards them.⁸¹ As early as November 2005, when *Morgunbladið* published a news item about negative reports about Kaupthing bank by analysts in foreign banks, one of the bank directors told the editor that it was unnecessary to announce this as if Hekla, the famous Icelandic volcano, was about to erupt.⁸² Another bank director apparently cancelled his bank's advertisement contract with *Morgunbladið*.⁸³ While Boyes' Icelandic sources - including Professors Gylfason, Magnusson and Olafsdóttir - could not be expected to know what happened behind closed doors, they certainly should have

been aware of the difference in coverage of the banks between *Morgunbladid* on the one hand and Johannesson's newspapers and radio and television stations on the other hand. This is actually commented on in a special analysis of the Icelandic media conducted by psychologist Hulda Thorisdottir for the SIC Report. She complains that most media tended to be passive and uncritical of the banks rather than active and critical, with the exception of *Morgunbladid*.⁸⁴

In his discussion about the media, Editor Gunnarsson also recalls the fierce controversy about the media law proposed in 2004 by Prime Minister David Oddsson whose purpose was to reduce the possibility of business to control the media. Even if Boyes has a long discussion about the controversy, he does not seem to make the connection between Johannesson's control over most of the private media and his own complaints about the uncritical attitude towards the banks and big business prevailing in Iceland before the collapse.

Iceland and Thailand

Boyes asserts that Governor Oddsson dismissed Professor Thorvaldur Gylfason as an alarmist when Gylfason tried to warn against the expansion of the banking sector (114; 154; cf. 212):

[Oddsson] was bored by independent economists' harping about the Icelandic parallels with the Asian meltdown of 1997–1998. This was 2005! And Iceland was far, far away. "When I raised these issues with top central-bank managers," remembers Thorvaldur Gylfason [sic], "I was told firmly, 'Iceland is not Thailand.'" ... Thorvaldur Gylfason [sic], warned that foreign short-term liabilities of the banking system had become fifteen times larger than the central bank's foreign reserves. This, he said, was gross negligence: "The government and central bank were warned, publicly and unambiguously, every step of the way." But the line had been that Iceland is not Thailand. Criticism was not welcome.

Several misleading or even wrong statements are to be found here. First, as already noted, Governor Oddsson was one of the very few Icelandic officials consistently to warn against the expansion abroad of the banks, even if he could not in his position be as frank about it as he was in private conversation. In an address to the Chamber of Commerce on December 5th 2005, only a few weeks after he had assumed his position, he said:

Of course it is perfectly normal for progressive and rapidly growing banks, which feel constrained by the small size of the Icelandic market, to be eager for foreign capital in their efforts to expand and reap profits. The financial system infrastructure and all the criteria assessed by supervisory authorities and ratings agencies are in excellent shape. All markets should therefore stand open to Icelandic banks for the foreseeable future. However, it is not necessarily certain that these important preconditions will be the only factors at work at any given time. They do so while market conditions are normal but markets can be volatile, especially in a climate of global economic imbalances.⁸⁵

At the CBI annual meeting in spring 2006, Governor Oddsson said that he had already had meetings with the management of the banks, urging them to slow down. He said:

The Icelandic banking sector must address the shortcomings that international analysts repeatedly stumble over, regardless of whether these are exaggerated and overestimated. Lending growth must be reined in as promised. Certain financial institutions need to improve their communications to a significant degree, and a joint effort by them all could be worth considering. Hype and empty phrases must be avoided.⁸⁶

In the autumn of 2007, Governor Oddsson was even more direct. He said:

For a while, cheap capital was readily available, and some were bold enough to grab the opportunity. But the flip side of expan-

sion, and the side that cannot be ignored, is that Iceland is becoming uncomfortably beleaguered by foreign debt. At a time when the Icelandic government has rapidly reduced its debt and the Central Bank's foreign and domestic assets have increased dramatically, other foreign commitments have increased so much that the first two pale into insignificance in comparison. All can still go well, but we are surely at the outer limits of what we can sustain for the long term.⁸⁷

Ironically, Oddsson was in a sense the victim of his own reforms: The CBI was not only constrained by the laws on public administration and transparency and by the strict interpretation of legal authority prevailing in Iceland,⁸⁸ but it had also had the regulatory power removed from it with the establishment of the IFSA, the Icelandic Financial Services Authority. Oddsson did not have the power to rein the banks in.

In the second place, Professor Thorvaldur Gylfason was perhaps not considered a reliable commentator on Thailand and Iceland because of his earlier pronouncements on the two countries. In November 1996 Gylfason had published in the most widely read newspaper in Iceland a glowing account of economic progress in Thailand under the name "Land of Smiles", writing:

The Thais should be praised for having, in a short time, achieved so much by their own effort and common sense. In the same way, the Icelanders are themselves solely responsible for the fact that our living standards have recently steadily worsened in comparison with many other nations, both distant and near us. This is a heavy responsibility.⁸⁹

In the next few months after Professor Gylfason wrote these words Thailand stumbled into crisis, with many other Asian countries, whereas a year earlier, in 1995, Iceland had embarked on a longer period of uninterrupted economic growth than it had seen for quite a while. In the nine years between 1995 and 2004, at least, this economic growth was

not based on accumulation of foreign debt.

Thirdly, in the spring of 2008, when Gylfason wrote the paper from which Boyes quotes, his numbers were not correct.⁹⁰ The foreign short-term liabilities of the banking system had not become fifteen times larger than the CBI's foreign reserves. What Gylfason had done was to go to the international investment accounts published by the CBI. There he had taken all short-term liabilities of the country and simply divided them by the currency reserves at the end of each year. But these were not only liabilities of the banks alone: they were all short-term liabilities of the country. Moreover, they included deposits in foreign subsidiaries of the Icelandic banks - about half of all short term liabilities. Thirdly, they included short-term liabilities in Icelandic Kronas which served as the Icelandic counterparts to so-called "glacier bonds" (bonds issued by foreigners to gain from the high interest rate in Iceland). The correct numbers were that at end of 2007 the foreign short term liabilities of the Icelandic banks had become 8.5 times larger than the CBI foreign reserves. This was certainly a problem, but a much smaller one than Gylfason suggested.

Professor Gylfason was of course right that already in 2004-2005 the banking sector had far outgrown the capacity of the CBI to act as a lender of last resort to them. The currency reserves were small in comparison to the foreign liabilities of the banks. There were two ways of responding to the problem: to increase the CBI currency reserves or to reduce the size of the banks. In fact, the CBI had in 2006 vastly increased its currency reserves, more than doubled it by borrowing from abroad, as Gylfason recognized, even if he wrongly asserted that this loan had not been included in official debt figures: It was included in those figures. But in the credit crunch starting in late 2007, both kinds of responses became difficult, almost impossible. Loans to increase the currency reserves could only be taken at unacceptable interest rates, revealing the weakness of the financial

sector; and bank assets could only be sold at unacceptable prices, also revealing the weakness of the financial sector. You are damned if you do; you are damned if you don't.

In the paper from April 2008 which Boyes quotes, Professor Gylfason tries to explain the rapid growth of the banks: "The banks appeared to believe, as did at least one international rating agency, that the state guarantees behind them while in public ownership were still in force, and the government did little to counter this impression." This is not correct as Governor Oddsson pointed clearly out in the comments quoted above at a press conference: "When the banks were privatized and sold, there was no Government guarantee attached. If there had been, they would have been sold at a much higher price." At the time Gylfason wanted to increase the CBI foreign reserves, whereas Oddsson was reluctant to do so because this would only be done at an almost unacceptable price and because he thought that the banks should not be encouraged to believe that they had any government guarantees. Gylfason also overlooks, or ignores, the fact that the banks could only grow by finding new customers for their goods and services, and that neither the CBI nor the IFSA, had the authority to prohibit their expansion abroad: It was a result of Iceland's membership in the EEA, European Economic Area, opening access by Icelandic financial firms to the whole of Europe.

In his paper, Professor Gylfason complains that the CBI did not have "sufficient credibility and power of persuasion". He is right on the matter that the Icelandic banks did not heed the many and well-documented warnings about their rapid expansion issued by the CBI governors. But partly this was because the public mood in Iceland in 2004–2008 was very favourable to the businessmen who had bought the banks and borrowed heavily from them. Indeed, Gylfason himself had contributed to this public mood. When businessman Jon Asgeir Johannesson was in 2005 indicted, with four of his



Roger Boyes takes at face value everything British politicians like Chancellor Alistair Darling say, but contemptuously dismisses almost everything what Icelandic politicians say. It turned out, however, that Darling was not always telling the truth about the Icelanders.

partners, for book-keeping irregularities, Gylfason had defended him, as already pointed out, suggesting that the police investigation of him was politically motivated.

Boyes' Pro-Labour Stance

While Boyes plausibly complains about the uncritical attitude of most of the Icelandic media towards the banks and big business before the 2008 collapse, he seems to adopt a similar uncritical attitude towards his own British Labour government. Taking almost



Icelandic toddler with a message to Brown and Darling after their government invoked the British anti-terrorist law against Iceland. Boyes also uncritically accepts the position of the British Labour government in his account of the Icesave dispute which was about who should bear the cost of reimbursing depositors in so-called Icesave accounts, which Landsbanki's London branch offered, after the bank failed.

nothing at face value from David Oddsson, Boyes takes practically everything at face value from UK government ministers. In a discussion about the disputes between Iceland and the UK during the bank collapse, culminating in the use of an anti-terrorist law against Iceland, Boyes reproduces the transcript of a conversation on October 7th 2008 between Alistair Darling, the British Chancellor of the Exchequer, and Icelandic Minister of Finance Arni Mathiesen. He then comments (173): "The conversation prompted Darling to freeze the assets of Landsbanki in Britain and set off a downward spiral that extinguished Iceland's last hope of maintaining its role as an international banking nation."

Boyes here accepts Darling's version of the story even if he admits, almost in passing (174), that the published transcript does not

support Darling's statements to the press when he was justifying invoking the British anti-terrorist law against Iceland - not only against Landsbanki, but also the CBI and the Icelandic Treasury. But it should have been quite clear from the chain of events that Darling and British officials had prepared this extreme measure before Darling spoke with Mathiesen. The conversation was a pretext, not a reason. Boyes adds (176): "Darling's reaction was understandable, especially since the failure of Northern Rock: to define the possible removal of capital as a question of national security."

Since Boyes published his book in 2009, the evidence has shown that he should have adopted a more critical attitude towards the British Labour government. First, in his book on the international financial crisis, Darling lets it slip that the use of the anti-terrorist law had been prepared before he had the conversation mentioned above with Mathiesen. Darling recalls his thoughts in the morning before he made the call to Mathiesen: "We knew we were not being told the whole story there and it was inevitable that difficult decisions, which might wrongly be interpreted as hostile acts by the Icelandic government, would have to be taken in the next day or so."⁹¹ In second place, extensive investigations have not turned up any illegal or abnormal money transfers from the UK to Iceland in the weeks before the collapse, neither from Landsbanki nor from Kaupthing's subsidiary, KSF. There was no "removal of capital". Thirdly, as already noted, Darling's over-generalization about the bad state of affairs in the British banks owned by Icelanders proved to be wrong: Their recovery rates show that they - unlike some other British banks - were solvent when closed down by the UK government.

Two more documents should be mentioned that throw further light on the matter. Fourthly, if the real purpose of invoking the anti-terrorist law was to hinder any money transfers by Landsbanki out of Britain, then this purpose would already have been

attained by a Supervisory Notice issued on October 3rd 2008, by the British FSA to Landsbanki's branch which prohibited any transfers from it out of the UK without the written permission of the FSA. Three days in advance; Barclays Bank which oversaw all transfers for Landsbanki was made aware of the Supervisory Notice.⁹² In other words, the "possible removal of capital" was, like Darling's conversation with Mathiesen, a pretext, not a reason. Fifthly, since Boyes mentions what he calls Iceland's "hope of maintaining its role as an international banking nation", it should be pointed out that recently released minutes of the Non-Executive Committee of the Bank of England suggest that the Bank viewed the idea of Iceland as a financial centre with hostility: "The number of smaller countries that promoted themselves as centres for financial services ought to reduce [sic]. Iceland was a very telling example."⁹³

The Icesave Dispute

Boyes also uncritically accepts the position of the British Labour government in his account of the Icesave dispute which was about who should bear the cost of reimbursing depositors in so-called Icesave accounts, which Landsbanki's London branch offered, after the bank failed. Boyes asserts (174): "Under the directives agreed when Iceland joined the European Economic Area in 1994, Iceland was pledged to pay 20,997 euros to each depositor."

This is not accurate. In 1994, Iceland only pledged to set up a deposit insurance scheme. Of course, in the first instance it was Landsbanki's estate which was liable for this debt. If the bank failed to meet its obligations to depositors, then the Icelandic Depositors' and Investors' Guarantee Fund, set up and financed by the banks under EEA rules and regulations, became liable for the deposits, up to 20,997 euros to each depositor, as Boyes mentions. The third move, which Boyes makes from the Guarantee Fund to the Icelandic state, was unwarranted by law or even by common sense: How could Iceland

as a state or a nation be held responsible for business transactions between individual depositors abroad in pursuit of high interest rates and a private Icelandic bank offering such high interest rates? There was never any legal rule or regulation that stipulated a government guarantee of the obligations of the Depositors' and Investors' Guarantee Fund. Landsbanki's debt to its depositors, backed up by the Guarantee Fund, was never a recognized debt of the Icelandic state.

This seemed to be a very serious issue in 2009 when it was not certain that the Landsbanki estate would cover total deposits. As Boyes notes, Landsbanki had held £4.5 billion of retail deposits in its London branch, a small sum for the UK authorities, but enormous in an Icelandic context and certainly far beyond the capacity of the Icelandic Investors' and Depositors' Fund. In the circumstances, what the UK Labour government decided to do was to close the branch, invoke the anti-terrorist law against Landsbanki - and, for a while, also the CBI and the Finance Ministry - and reimburse the Icesave depositors, then presenting the bill, with interest, to the Icelandic state. Landsbanki, the CBI and the Finance Ministry were even put on a list of terrorist organizations which the UK Treasury published on its website, alongside Al-Qaeda, the Taliban and the governments of Sudan and North Korea. (After a few days, and protests by the Icelandic government, the CBI and the Finance Ministry were removed from the list.)

In Iceland, unsurprisingly, opinion was sharply divided about the Icesave claim by the UK Labour government. Some, in particular former CBI Governor David Oddsson, maintained that there was no legal obligation by the Icelandic state unless confirmed in court decisions: If the UK authorities believed that the Icelandic state owed them money, then they should refer the dispute to courts, for example the Reykjavik District Court, since Landsbanki was registered in Reykjavik.⁹⁴ This the UK authorities were however unwilling to do. Others believed

In other words, the Bank of England was lending money to a “terrorist organisation”, as defined by the UK Treasury.⁹⁶ Boyes shows very little sympathy for the Icelandic version of the Icesave dispute. But perhaps he should have listened to the famous observation by his fellow-countryman Edmund Burke rather than to stories told by his Icelandic cohorts.

that Iceland had to accept the Icesave claim by the British government. Boyes’ economic advisers in Iceland, Professors Gylfason, Magnusson and Olafsdottir, all belonged to the latter group, although on different grounds: Gylfason believed the Icelanders had a moral obligation to compensate British depositors; Magnusson predicted that Iceland would become isolated, something of a “Cuba of the North” if it did not make a deal with the UK; Olafsdottir regarded it as an obstacle to EU membership if Iceland did not meet the British demands.⁹⁵

The absurdity of invoking the anti-terrorist law against Iceland and to put it on a list with the Al-Qaeda, the Talibans and the governments of Sudan and North Korea, was not only shown by the two facts that Iceland did not even have a military and that it had been a loyal ally of the UK in NATO since the beginning, having before that tacitly support the British war effort in 1940-1945. It was also demonstrated by the fact that a few days after the Landsbanki’s branch in London was closed down and put into resolution, the Bank of England, having assured itself that the operations of the branch were not unsound, extended to it a loan of £100 million: In other words, the Bank of England was lending money to a “terrorist organisation”, as defined by the UK Treasury.⁹⁶ Boyes shows very little sympathy for the Icelandic version of the Icesave dispute. But perhaps he should have listened to the famous observation by

his fellow-countryman Edmund Burke rather than to stories told by his Icelandic cohorts: “It looks to me to be narrow and pedantic, to apply the ordinary ideas of criminal justice to this great public contest. I do not know the method of drawing up an indictment against a whole people.”⁹⁷

The Icesave deal made by the Icelandic left wing government in the fall of 2009 was overwhelmingly rejected by Icelandic voters in March 2010: 93.2% of the voters voted against it, while 1.8% took the same position as Professors Gylfason, Magnusson and Olafsdottir. Another deal was negotiated in late 2010. Oddsson was one of the leaders of the opposition to it, whereas Professors Gylfason, Magnusson and Olafsdottir supported it. In April 2011 the deal was rejected in a national referendum: 59.8% joined Oddsson in voting against the deal, and 40.2% took the same position as Boyes’ cohorts.⁹⁸ In January 2013 the EFTA Court ruled that the Icelandic state was not liable for the transactions between British depositors and the London branch of a private bank from Iceland. That was the closure of the Icesave dispute. It later turned out that Landsbanki’s estate covered all the Icesave deposits. But if the Icesave deal with the UK had been accepted, then the Icelandic state would have had to pay enormous sums by Icelandic standards in interest.

There are more inaccuracies in Boyes’ book, for example in his account of the Glitnir take-over and of the relationships between David Oddsson, Geir H. Haarde and other prominent Icelanders. But the examples above should suffice to demonstrate that Boyes’ book, even if readable and offering some scattered insights into Icelandic society, should not be relied on for any details in a serious account of the 2008 Icelandic bank collapse.

Dr. Hannes Hólmsteinn Gissurarson is a professor of political science at the University of Iceland.

Footnotes

1. Roger Boyes, *Meltdown Iceland* (London: Bloomsbury, 2009). He misspells however the name of Gylfason as being "Gylfasson".
2. Thorvaldur Gylfason, Hagur, log og sidir [Interests, Laws and Morality], *Morgunbladid* 24 May 1998
3. Vill ekki utskýra nanar [Does Not Want to Explain], *Morgunbladid* 3 June 1998.
4. David Oddsson í myndum og mali [David Oddsson in Words and Pictures] (Reykjavik: Samband ungra sjálfs-tæðismanna, 2008).
5. Thorvaldur Gylfason, Kannski tuttugu manns [Possibly Twenty People], *Frettabladid* 7 July 2005.
6. Thorvaldur Gylfason, Events in Iceland: Skating on thin ice? VoxEU.org 7 April 2008. <http://voxeu.org/article/events-iceland-skating-thin-ice>
7. Thorvaldur Gylfason, Iceland's Blend of Old and New, VoxEU.org 10 July 2008. <http://voxeu.org/article/iceland-and-its-financial-predicament-history-and-context>
8. Transcript of interview with Thorvaldur Gylfason 5 November 2008 in "Sílfur Egils" on Icelandic government television station, provided by Creditinfo.
9. Reykjavíkurlugvöllur – Uttekt á framtíðarstadsetningu [Reykjavík Airport – A Report on Its Future Location] (Reykjavík: Samgonguraduneytið and Reykjavíkurborg, April 2007). According to the report, the land on which the airport was built was worth an estimated 74 billion ISK in April 2007.
10. SIC Report, Vol. 6, Ch. 19, 140 (in English). The Report of the SIC, Special Investigation Commission on the bank collapse, is available online, with some chapters in English: <https://rna.is/eldri-nefndir/addragandi-og-orsakir-falls-islensku-bankanna-2008/skyrsla-nefndarinnar/>
11. See his biography on the website of the Icelandic Parliament, <http://www.althingi.is/altext/cv/is/?nfaerslun=735>
12. KB banki verðlaunadur [KB Bank Receives Prize], *Frettabladid* 21 April 2005. The company soon after changed its name to Kaupthing Bank and it is best known under that label.
13. Blómlegri fjarmalamarkadur [A flourishing financial sector], *Morgunbladid* 14 April 2005.
14. Malar í of sterkum litum [Exaggerations], *Morgunbladid* 16 June 2005.
15. Gylfi Magnusson, Vogunarsjóðurinn Ísland [The Hedge Fund Iceland], *Visbending*, Vol. 26 (9: 7 March 2008), 3.
16. [The editor], Ber ríkið ábyrgd á bankunum [Is the state responsible for the banks?], *Visbending*, Vol. 26 (18: 23 May 2008), 1.
17. Board of Governors' Conference Thursday April 10, 2008: an abbreviated translation of the main questions and answers. <http://www.cb.is/lisalib/getfile.aspx?itemid=5804>
18. Here after Björn Jon Bragason, Adragandi falls falls Landsbanka Íslands hf. Greinargerð í ágúst 2009 (Reykjavík: August 2009), 22.
19. Alþjóðleg fjarmalastarfsemi á Íslandi [International Financial Services in Iceland] (Reykjavík: Prime Minister's Office, October 2006). <https://www.forsaetisraduneyti.is/media/frettir/Skyrsla.pdf>
20. Allt að vinna og engu að tapa [Pure Gain and No Loss], *Morgunbladid* 11 November 2006.
21. The report does not seem to be available online. An extract is however available here: <http://www.mbl.is/media/03/703.pdf>
22. Thorlakur Karlsson, Michael R. Luthy and Katrin Olafsdóttir, Portrait of an Entrepreneurial Trade Mission: Iceland Goes to China, in *Developmental Entrepreneurship: Adversity, Risk, and Isolation*, eds. Craig S. Galbraith and Curt H. Stiles (Amsterdam: Elsevier, 2006), 248.
23. The idea did not originate from David Oddsson, and had been discussed and prepared for many years before it was implemented. Haraldur Johannesson, Sannleikurinn um orlog Thjóðhagsstofnunar [The Truth about the Abolition of the National Institute of Economics], *Thjodmal*, Vol. 1 (1: 2005), 74–8.
24. Katrin Olafsdóttir, Hvers vegna Thjóðhagsstofnun? *Morgunbladid* 4 April 2002.
25. David Friedman, Private Creation and Enforcement of Law: A Historical Case, *Journal of Legal Studies*, Vol. 8 (2: 1979), 399–415.
26. David Oddsson, interview 7 October 2013.
27. See transcript at <https://georgewbush-whitehouse.archives.gov/news/releases/2004/07/20040706-2.html>
28. The author of this report can confirm this, having been present on this occasion, in the Oval Office of the White House.
29. Jeffery M. Paige, *Coffee and Power: Revolution and the Rise of Democracy in Central America* (Cambridge, MA: Harvard University Press, 1997), 18. Probably the term was constructed with the famous, or notorious, "200 Families" of France in mind. See Malcolm Anderson, The Myth of the 200 Families, *Political Studies*, Vol. 13 (2: 1965), 163–178.
30. It was probably first used in a newspaper article, Reynir Antonsson, Vabodar úr Vesturheimi [Sinister Signals from the West], *Dagur* 6 November 1987. Cf. Fjölskyldurnar 14 [The Fourteen Families], *Pressan* 9 May 1991.
31. Those two were Ólafur Thors, party leader in 1934–61, and Geir Hallgrímsson, party leader in 1973–83.
32. Guðmundur Magnússon, *Thorsarannir: audur — vold — orlog* [The Thors Family] (Reykjavík: Almenna bókafélagið, 2005); Guðmundur Magnússon, *Íslensku ættarveldin: frá Oddaverjum til Engeyinga* [Icelandic Dynasties] (Reykjavík: Veröld, 2012).
33. Eimskip kaupir hlut Kristins Ólsens í Flugleidum [Eimskip Buys Kristinn Olsen's Share in Flugleidur], *Morgunbladid* 8 September 1988.
34. Orníólfur Arnason, Orníólfur, *A slóð kolkraðbans* [On the Path of the Octopus]. (Reykjavík: Skjaldborg, 1991).
35. Hannes H. Gissurarson, Palmi Jonsson, *Andvari*, Vol. 118 (1993), 11–61; Hannes H. Gissurarson, Björn Ólafsson, *Andvari*, Vol. 135 (2010), 13–58.
36. *Economic Freedom* (Vancouver BC: Fraser Institute). <https://www.fraserinstitute.org/economic-freedom/dataset>
37. *Friðals verslun*, Vol. 40, No. 12 (December 1981), 15.
38. *Friðals verslun*, Vol. 50, No. 9 (September 1991), 44.
39. *Hagskinna*, Ch. 9, Table 9.4. The Cooperative Movement 1915–1990.
40. *Hagskinna*, Ch. 14, Table 14.4. Gross domestic product and gross national product 1945–1990.
41. The exchange is on Youtube, <https://www.youtube.com/watch?v=StLBxt7Gfck>.

42. *Lausnarordir er frelsi: Erindi Fridriks von Hayeks, James M. Buchanans og Miltons Friedmans á Íslandi* [Freedom is the Key Word: Lectures in Iceland by F. A. Hayek, J. M. Buchanan and Milton Friedman], ed. and tr. Hannes H. Gissurarson (Reykjavik: Framtidarsyn, 1994).
43. Fjarmalaleg samskipti Hrafn Gunnlaugssonar við ymsa opinbera aðila [Financial dealings between Hrafn Gunnlaugsson and some public funds and institutions], <http://rikisendurskodun.is/wp-content/uploads/2016/01/hrafn.pdf>
44. David Oddsson, *Nokkrir dagar án Guðnyjar* [A Few Good Days Without Guðny] (Reykjavik: Vaka-Helgafell, 1997); David Oddsson, *Stólið frá hofundi stafrofsins* [A Theft from the Author of the Alphabet] (Reykjavik: Vaka-Helgafell, 2002).
45. This seems to be a pure fabrication. Petur Mar Olafsson, in an email to Hannes H. Gissurarson 13 May 2016, says that he does not know even of any allegations, public or private, that he or the late publisher Olafur Ragnarsson had ever received any favours from David Oddsson.
46. H. Scott Gordon, The Economic Theory of a Common Property Resource: The Fishery, *Journal of Political Economy*, Vol. 62 (1954), 124–42; Anthony Scott, The Fishery: The Objective of Sole Ownership, *Journal of Political Economy*, Vol. 63 (1955), 116–24.
47. Hannes H. Gissurarson, *The Icelandic Fisheries: Sustainable and Profitable* (Reykjavik: University of Iceland Press, 2015). <https://books.google.com.br/books?id=j-p8CwAAQBAJ>
48. Thorvaldur Gylfason, Natural Resource Endowment: A Mixed Blessing? *Beyond the Curse: Policies to Harness the Power of Natural Resources*, eds. Rabah Arezki, Thorvaldur Gylfason and Amadeu Sy (Washington DC: IMF 2011), 7–34. https://notendur.hi.is/gylfason/Beyond_the_Curse_Arezki_Gylfason_Sy.pdf
49. SIC Report, Vol. 1, Ch. 6, 237.
50. SIC Report, Vol. 1, Ch. 6, 231. It was not revealed which banks were invited to participate in a tender process, but Skandinaviska is most likely to have been one of them.
51. Halldor Thorsteinsson and Gylfi Hallgrímsson, Guðmundur Olafsson. Minningarorð [Guðmundur Olafsson, In Memoriam], *Morgunblaðið* 29 July 1979; Björgolfur Thor Björgolfsson, Billions to Bust — and Back (London: Profile Books, 2014), 20.
52. Guðmundur Magnússon, *Thorsararnir: audur — vold — orlog* [The Thors Family] (Reykjavik: Almenna bokafélagið, 2005).
53. Helgi Magnússon, *Hafskip: gjöfningar og gaesluvarðhald* [Hafskip: Public Frenzy and Imprisonment] (Reykjavik: Frjálst framtak, 1986); Björn J. Bragason, *Hafskip í skotlinu* [Target: Hafskip] (Reykjavik: Sögn, 2008); Stefan Gunnar Sveinsson, *Afdrif Hafskips í búi hins opinbera* [Hafskip's Fate on Official Initiative] (Reykjavik: JPV, 2008).
54. Jonatan Thormundsson, professor: Segir sig ur Framsóknarflokki [Professor Jonatan Thormundsson Quits the Progressive Party], *Morgunblaðið* 30 September 1972.
55. Jonatan vill vera leystur frá malinu [Jonatan Wants to Leave the Case], *Morgunblaðið* 7 July 1990.
56. *Haestarettardomar* [Supreme Court Judgements] 1991, 936. Case 19/1991. An extract of the judgement was published on three pages in *Morgunblaðið* 7 June 1991.
57. For the view that Hafskip was bankrupt, see e. g. Larus Jonsson, Sagnfræðilegur sannleikur um afdrif Hafskips hf. [The Historical Truth about the Demise of Hafskip], *Thjóðmal*, Vol. 5 (4: Winter 2009), 62–69. Jonsson was director of the bank which did business with Hafskip. He was indicted for recklessness, but acquitted. For the opposite view on Hafskip, see the three books mentioned above on the Hafskip case, by Helgi Magnússon, Björn J. Bragason and Stefan G. Sveinsson.
58. See, again, the three books mentioned above on the Hafskip case, by Helgi Magnússon, Björn J. Bragason and Stefan G. Sveinsson.
59. Ríkisendurskodun, Fjarmal: stjórnmálastarfsemi, <http://www.rikisendurskodun.is/fileadmin/media/skyrslur/framl0206samf.pdf> Exchange rate used from 1 June 2006 (\$1=72.27 ISK).
60. Segist hvorki hafa hitt Kjartan né David [Claims that He Has Neither Met Kjartan nor David], *Morgunblaðið* 24 September 2005.
61. *Haestarettardomar* [Supreme Court Judgements], 385/2007.
62. *Haestarettardomar* [Supreme Court Judgements], 74/2012.
63. Jon B. Hannibalsson, Ad njóta sannmælis [Fair Judgements], *Morgunblaðið* 27 September 2004; Throstur Olafsson, Tilgatur radi ekki for [Innuendos Should Not Control Discussion], *Morgunblaðið* 29 September 2004.
64. On the affair of the wife, for and against Sullenberger's account: Solvi Tryggvason, *Jonína Ben* (Reykjavik: Sena 2010), 150; Armann Thorvaldsson, *Frozen Assets*, 75. On the escort girls: Roger Boyes, *Meltdown Iceland*, 72–73. Boyes' account is based on documents presented to the Circuit Court in Dade County Florida, case no. 02-29149 CA11, Gaumur v. Jon Gerald Sullenberger. Some of the documents are available on the Internet, <http://www.baugsmalid.is/skjol/062603TRIALVOLV.txt>
65. Ingibjörg Solrun í Top Shop, *Frettablaðið* 28 February 2003. Top Shop was a building where a branch of the well-known retail chain had been located; it was rented by Jon Asgeir Johannesson to the Social Democrats as election headquarters in 2003.
66. Yfirlýsing frá Landssambandi lögreglumanna [Declaration by the Icelandic Association of Policemen], *Morgunblaðið* 26 February 2003. In a comment, printed besides the Declaration, Gísladóttir stressed that she had been critical of politicians rather than policemen.
67. Hagnadur af rekstri og traustur efnahagur [Profitable Operations and Strong Financial Position], *Frettablaðið*, 2 May 2003. The information provided was that the owners of *Frettablaðið* and related media were Jon Asgeir Johannesson, his girlfriend Ingibjörg Palmadóttir, his father Johannes Jonsson, two of his business partners, Arni Hauksson of Husasmíðjan and Palmi Haraldsson of Fengur, and two of his employees or full-time advisers, editor Gunnar Smári Egilsson and lawyer Ragnar Tomasson.
68. Björn Bjarnason, *Rosabaugur yfir Íslandi. Saga Baugsmalsins* [The Shadow of Baugur Over Iceland. The Story of the Baugur Case] (Reykjavik: Ugly, 2011); Óli B. Karason, *Síðasta Vornin: Haestirettur á villigötum í eitruðu andrúmslofti* [The Last Defence: The Supreme Court on the Wrong Track in Poisoned Atmosphere] (Reykjavik: 1991).

Ugla, 2011).

69. Gretar Thor Eythorsson, Municipal Amalgamation in Iceland. Past, Present and Future, in *Remote Control: Governance Lessons for and from Small, Insular, and Remote Regions*, eds. Godfrey Baldacchino, Larry Felt and Robert M. Greenwood (St. John's: ISER Books, 2009).

70. Law no. 37/1993 (Stjórnsýslulög, Law on Public Administration); Law no. 50/1996 (Upplýsingalög, Law on Transparency).

71. *Taxpayer support for UK banks: FAQs* (London: National Audit Office, 2012), <https://www.nao.org.uk/highlights/taxpayer-support-for-uk-banks-faqs/>

72. *Heritable Bank (in Administration). Seventeenth progress report to all known creditors* (London: Ernst & Young, 29 August 2014), pp. 7–8, http://www.heritable.co.uk/Uploads/Documents/news/Heritable_Bank%20Plc_In_Administration_17th_Progress_report_final.pdf
Kaupthing Singer & Friedlander Limited (in Administration) (London: Ernst & Young, 2016), p. 2, http://www.kaupthingsingers.co.uk/media/2103/ksf_progress_report_to_7_october_2016_.pdf

73. Thor Whitehead, *The Ally Who Came In from the Cold* (Reykjavik: University of Iceland Press, 1998).

74. Hansard 6 May 2009, Column 172. Retrieved from <http://www.publications.parliament.uk/pa/cm200809/cmhansrd/cm090506/debtext/90506-0003.htm>

75. Man ekki eftir simtalínu [Does Not Remember the Conversation], *Morgunblaðið* 5 December 2008.

76. SIC Report, Vol. 6, Ch. 21, 139 (in English). The report was written by Andrew Gracie who had worked for the Bank of England. Serfraedingaskýrsla var send til ríkis [Expert's Report was Sent to Government], *Morgunblaðið* 25 February 2009; Gagnrýndi stjórn Geirs harkalega [Forcefully Criticized the Haarde Government], *Frettablaðið* 25 February 2009. The interview is available on Youtube. <https://www.youtube.com/watch?v=EhnAAEV6oOs>

77. SIC Report, Vol. 6, Ch. 18, 20–21 (31 July 2008); Ch. 19, 102 (13 January 2008), 117–124 (7 February), 124 (8 February), 136–137 (6 March), 143 (18 March), 148 (30 March), 152 (1 April), 173 (7 May), 197 (8 July), 231 (11 September). These are meetings and conversations of which there are some records. The present author knows that there were many more meetings and conversations, and he assumes that Oddsson said the same to government ministers as he said to him, warning in no uncertain terms against a possible bank collapse.

78. Styrmir Gunnarsson, *Umsatrid* (2009), 72.

79. SIC Report, Vol. 1, Ch. 2, 9 (in English).

80. SIC Report, Vol. 6, Ch. 21, 97 (in English).

81. Styrmir Gunnarsson, *Umsatrid* [The Siege] (Reykjavik: Veröld, 2009), 72, 163–75, 114–15.

82. *Ibid.*, 72. Gunnarsson is referring to a front page news item, Verðmaeti brefa bankanna hefur rýrnad, *Morgunblaðið* 24 November 2005.

83. *Ibid.*, 114.

84. SIC Report, Vol. 8, Addendum II, 277.

85. Speech by David Oddsson, Chamber of Commerce, Reykjavik, 5 December 2005, <http://www.cb.is/publications/speeches/speech/2005/12/09/Speech-by-Dav%C3%AD%C3%B0-Oddsson--Chairman-of-the-Board-of-Governors-of-the-Central-Bank-of-Iceland/>

86. Speech by David Oddsson, Annual meeting of the CBI, 31 March 2006, [http://www.bis.org/review/](http://www.bis.org/review/r060407b.pdf)

[r060407b.pdf](http://www.bis.org/review/r060407b.pdf)

87. Speech by David Oddsson, Chamber of Commerce, 6 November 2007, <http://www.bis.org/review/r071114b.pdf>

88. This was called “logmaetisreglan” (the rule of legal authority) and emphasised by the parliamentary ombudsman in several decisions: Government officials could not act without explicit legal authority. It was very important, the ombudsman stressed, that particular institutions confined themselves to their legally defined tasks and did not try to interfere with other institutions. See, for example, *Arsskýrsla umbodsmanns Althingis fyrir árid 2004* [Annual Report by the Parliamentary Ombudsman for 2004], 15.

89. Thorvaldur Gylfason, Brosandi land [Land of Smiles], *Lesbok Morgunbladsins* 23 November 1996.

90. Thorvaldur Gylfason, Events in Iceland: Skating on thin ice? VoxEU.org 7 April 2008. The correction is taken from comments posted below the paper, by Professor Fridrik M. Baldursson, whom Boyes dismisses as a “Oddsson cheerleader”. This is totally wrong. Professor Baldursson was never close to Oddsson and in fact disagreeing with him on important issues, such as membership of the EU. After the bank collapse, he was also one of the critics of the CBI.

91. Alistair Darling, *Back from the Brink* (London: Atlantic Books, 2011), 152.

92. Financial Services Authority, First Supervisory Notice, Landsbanki, 3 October 2008. <https://www.fca.org.uk/publication/supervisory-notice/landsbanki.pdf>

93. Bank of England. 2008. Committee of Non-Executive Directors (Nedco) meeting, Wednesday 15 October 2008. <http://www.bankofengland.co.uk/archive/Documents/archivedocs/codm/20072009/codm2008b2.pdf>

94. Aetla ad daema thjodina til aevarandi fataektar [Are Going to Sentence the Nation to Perpetual Poverty], *Morgunblaðið* 5 July 2009.

95. Thorvaldur Gylfason, Loglegt? Sidlegt? [Legal? Moral?]. *Frettablaðið* 25 June 2009. <http://www.visir.is/loglegt--sidlegt--article/2009196927857>. Interview with Gylfi Magnússon at Station 2 26 June 2009. https://www.youtube.com/watch?v=au_Xtkvaa1Y. Katrín Olafsdóttir, Hvar viljum við vera árid 2020? *Frettablaðið* 30 December 2009. http://timarit.is/view_page_init.jsp?pageld=5065506

96. Interviews with Mark Durrant-Sismey (fmr. director of Heritable Bank) 28 November 2014 and with Lilja B. Einarsdóttir (fmr. deputy director of Landsbanki's London Branch) 3 March 2016.

97. Speech in Parliament 22 March 1775 on the American colonies, reprinted in various editions. <http://oll.libertyfund.org/titles/burke-select-works-of-edmund-burke-vol-1--5>

98. Statice (2017). <http://statice.is/statistics/population/elections/referenda/> On the Icesave dispute, Sigurdur Mar Jonsson, *Icesave-samningarnir: Afleikur aldarinnar?* [The Icesave Deals: The Blunder of the Century?](Reykjavik: Almenna bokafélagið, 2011).