

# Economies before, during and after the crisis

*By Mr. Bolli Hédinsson, Economist, Chairman of The Icelandic Savers Organisation.*

On behalf of the Icelandic Savers Organisation I welcome you all to this conference of our Organisation and the organisation of European financial users, *EuroFinUse*.

Our topic for today's meeting is "Economies before, during and after the crisis". We are all well aware of that the crisis of 2008 its affection on a whole society, Iceland was among the first countries although a few banks and insurance companies had already failed a few weeks earlier in the US. - Before the worldwide financial meltdown, the effect on an entire economy was first noticed in Iceland. At that time, in October of 2008, Iceland served as an indicator, or the bird in the mine, just to give an early notification of what was to come. It was not until a few weeks later that it became obvious to everyone that the crisis was not limited to the tiny economy of Iceland but also to Ireland to name only one and then shortly followed by the rest of the world.

This is all history and when history will be written on the crisis of 2008 the Icelandic milestone of the crisis will be the exact building we are located in right now. The conference and concert house "Harpa". Therefore it is a memorable reminder to have a meeting on the aftermath of the crisis in this building which in the minds of many Icelanders is a monument of the "not so positive pre-crisis mindset" and the way of how decisions were carried out. This is a conference and concert hall planned before the crisis; too late to abandon and therefore completed during the crisis.

## **Icelandic peculiarities.**

Before discussing the crisis in general there is an Icelandic feature of the crisis of 2008 that is worth while explaining to our foreign guests before we proceed. As you are aware of Icelanders have a currency of their own, the Icelandic króna, a minuscule currency, the one currency of a sovereign country used by the fewest number of people anywhere in the world. There are doubts about whether the Icelandic króna can exist without the capital controls introduced following the collapse of 2008.

In an inflation ridden society, as the Icelandic economy has been during the past 90 years, indexation to the Cost of Living Index have become the normal factor for financial obligations. Thus, up until the collapse most mortgages pledged were indexed to the CPI or denominated in foreign currencies or currency baskets. Due to the indexation and more than 50 percent devaluation of the Icelandic króna this caused all mortgages and loans to skyrocket causing enormous difficulties to individuals and companies. As a consequence this has been the major difficulty facing Icelandic authorities since 2008, being their major task in addition to unemployment and all the other "usual suspects" governments all over the world have been dealing with. Most other places in the world interest and the cost of money went down in contradiction to Iceland where financial costs increased very significantly.

It is of course more productive to discuss the challenges ahead than to recall the past. But without learning from the past we won't make any progress. The crisis has opened our eyes to underlying problems of our economies that have become more obvious in the latter years following the crisis. These challenges are for example the fact that the poor and middle classes in Western societies have to strive more to get their fair share of a nation's income than they did previously, - and in some places their living standards have worsened, not only in relative conditions but in absolute terms as well. Once history will be written this may be among the most interesting findings from the crisis of 2008.

### **The world of yesterday.**

For most politicians this is and should be a major concern. The middle income classes are by far the largest ones in western welfare societies and serious rethinking of how we do things is inevitable. An economist Tomas Piketty, with his book "Capitalism in the 21<sup>st</sup> Century" and a writer, George Packer with his book "The Unwinding" are at present contributing to a new and different way for us to look at the economical situation we are in. - Why we are in a situation that is unacceptable and they have raised the question whether we can return to the world as it was or "Die Welt von Gestern" as Stefan Zweig the well known Austrian author put it when he was describing the way of life that ended exactly a century ago, tomorrow, because tomorrow marks the centennial of the murder of Franz Ferdinand of Austria in Sarajevo on the 28<sup>th</sup> of June 1914.

We should pay attention to the analysis of Piketty and Packer. Piketty has put forward research showing how wealth distribution has changed and Packer has come up with thesis on what went wrong in developing our welfare society. During the past two decades we have been facing breach of social coherence by greediness and impudent behaviour towards our belief in the common goods of the general public. Since World War two the West had a conviction that created the most equal and just society mankind has ever lived. This is no longer the case and a revaluation of our existing ideology has to take place.

We have seen enormous amounts paid to individuals for little contribution on their behalf in bonuses paid by companies to their directors. In our organizations we are representing shareholders and nowhere should that be more evident that bonuses are amounts taken directly from the shareholders and given to directors in a very controversial manner.

Inequality in societies, that we have considered to be equal and fair, have now been discovered to be societies that have systematically been driving down the living standards of the middle and lower classes. Up until recently we thought we were living in societies that put value in enhancing the living standards of normal people reaching out to the poor in assisting them in improving their situations. But this has all been more or less the contrary, because while believing we were doing the right thing, the living standards of the middle class has deteriorated in a way we can't foresee where ends.

From my point of view, these are among the most important issues we have to deal with. One conference like this one is only a small contribution to the discussion and actions that need to be taken. The more organisations and individuals that realise the importance of the topics ahead of us, the further we make progress in order to make a change in our lives and the lives of our children and grandchildren.