

Icelandic Cabinet

Welcome

Dear Delegates,

Welcome to the 2009 Brown University Simulation of the United Nations and the Icelandic Cabinet. I look forward to meeting all of you and discussing what is sure to be an interesting and unique subject.

My name is William Herrmann and I am from Westchester, New York. I will be acting as the chair of the Icelandic Cabinet. I am a sophomore here at Brown, studying Public Policy and Mathematics. I also have a deep background in economics that led me to my interest in this particular committee.

This committee will no doubt prove to be extremely engaging. The Icelandic Cabinet is a brand new committee for this year, established in response to the country's terrible economic crisis. So while this committee will undoubtedly be interesting, you will all be faced with a great challenge.

Economic issues are as complex as they come and it is near impossible to find a perfect solution. Take the example of the Central Bank's routine decision of whether to raise or lower interest rates; raising interest rates comes with the risk of limiting growth, while lowering interest rates comes with the risk of increasing inflation. And this is merely an oversimplified example. Iceland's crisis is, by many accounts, the worst economic crisis in the history of the modern world. For a point of perspective, Iceland's crisis is what the United States government has been rapidly trying to avoid happening to their economy. In many ways, the Icelandic crisis represents the worst-case scenario for the United States, and given the amount of trouble that the U.S. government is having in dealing with their economic crisis, one can only imagine the difficulty in solving Iceland's.

I am belaboring the complexity of these issues to reinforce the great need for research and hard work in preparing for the conference. I hope that this background guide provides a good starting point for your research and helps get you set out on the right foot.

On a final note, don't hesitate to contact me with any questions or concerns you may have, whether they be about the BUSUN conference or about life at Brown University.

See you in November!

Sincerely,

William Herrmann '12
Icelandic Cabinet Chair
Iceland.cab@busun.net

Committee History

Iceland's current cabinet consists of twelve ministers appointed by the President of Iceland. It is important to note that the President is elected and recognized as Iceland's head of state, while the Prime Minister is Iceland's head of government. There are currently twelve members of the Icelandic cabinet, including Prime Minister Jóhanna Sigurðardóttir, Minister of Finance Steingrímur J. Sigfússon, and Minister of Education, Science, and Culture Katrín Jakobsdóttir.

Iceland's most recent coalition government and cabinet disintegrated early this year under pressure from the public after the way they had handled the country's economic collapse. Former Prime Minister Geir Haarde was unable to reach agreements with the Social Democratic Alliance Party, his coalition partners, and was forced to call elections to rebuild the government. Sigurðardóttir was subsequently named new prime minister and in April, voters elected a new leftist coalition government of the Social Democrats and their partners, the Left- Green Movement.

Topic 1: Domestic Economy

Background

For a long time, Iceland was a very modest, primarily middle-class society whose economy was quite dependent historically on its fishing industry. In the early 2000s, however, Iceland, a small country of only 300,000 people that had previously done little business in financial engineering, turned into a worldwide financial powerhouse. Under the conservative government led by Prime Minister David Oddson, Iceland lowered taxes, privatized industry, freed up trade, and most significantly, deregulated its banking industry. Iceland, seeing how much profit was being made in other parts of the world and now possessing an extremely unregulated banking system, dove headfirst into the type of speculative investment that was so prosperous for other nations. From 2003 to 2007, Iceland's three largest banks, Landsbanki, Kaupthing, and Glitner, saw their assets grow from a few billion dollars to over 140 billion dollars. The assets of these three banks alone are more than fifteen times larger than Iceland's entire GDP.

This unbelievable expansion of the banking sector and increased lending led to extravagant spending by households, and in turn, inflation. To respond to inflation, the Central Bank kept local interest rates around a relatively high 15.5 percent.

These high interest rates fueled the bread and butter of the Iceland boom and bust—currency trading. With interest on krona (Icelandic currency) at nearly 16 percent and interest on foreign currencies like the Japanese yen or Swiss francs hovering at 3 percent, investors could borrow foreign currency cheaply and invest that money into krona at a much higher return. Where it went wrong is that Iceland's investors created severely overleveraged banks by overinvesting and when the krona's value dropped, their debts were much greater than before. In the end, Iceland found itself with debts that added up to about 850 percent of the country's GDP.

Current Situation

To respond to the collapsing economy, Iceland has taken two major steps. First, their three largest banks, Landsbanki, Glitnir, and Klaupthing, were fully nationalized towards the end of 2008. This was an attempt to stabilize their banking system somewhat and appears to have been marginally successful. By nationalizing the banks and taking on their debt, however, the government took the risk of national bankruptcy. Former Prime Minister Geir Haarde told the country on October 6th of last year that “there is a real danger that... in the worst case, the Icelandic economy could be sucked with the banks in the whirlpool and the result could be national bankruptcy.” It is also estimated that the country's GDP has shrunk by about ten percent in the past year.

Iceland has also sought out loans from the International Monetary Fund and other nations such as Russia and several Nordic countries. It is estimated that they have received about ten billion dollars in aid.

Questions To Consider

1. Prime Minister Sigurðardóttir has stated that she has made it a priority for Iceland to join the European Union as soon as possible. She has stated that she believes adopting the Euro will “provide a shield” for Iceland while they are recovering from the crisis. Opponents of the move are worried that Iceland could lose access to some of its natural resources as well as its exclusive control of its fishing waters off its coasts. Is joining the EU a good idea?
2. Time is often a crucial part of economic recovery. What other types of immediate steps could the Icelandic cabinet take to ease the country's problems? Would some sort of stimulus package be helpful?
3. The Icelandic government is now in control of the

country's three largest banks. How should the government deal with this responsibility and power?

4. How should the government prepare for the ‘other side’ of the crisis and what the economy will look like after the country has recovered? Will the economy revert back to what it looked like before Iceland's finance boom of 2003-2007?

Helpful Resources

- Some great news sources for this type of topic:
 - New York Times: www.nytimes.com
 - BBC: www.bbc.com
- Some sources of economic news:
 - www.cnnmoney.com
 - www.economy.com/dismal
 - www.economist.com
- Finally, an interesting and humorous article by Michael Lewis:
 - <http://www.vanityfair.com/politics/features/2009/04/iceland200904?currentPage=1>

Topic 2: A Review of the Educational System

Background

Iceland has an educational system fairly common to many other Scandinavian countries. Children ages two to six years old may attend optional playschool. Parents pay to send their children to these schools, and both private and public playschools exist. At age six, all children must enter compulsory schooling and attend until they are sixteen years old. After they have completed ten years of education, students may attend upper secondary schools for four years. All students have the right to attend upper secondary schools, and 90 percent do so. Upper secondary schools vary, from institutions that focus more on liberal-arts educations to vocational schools, as well as schools that combine the two philosophies. Finally, eight universities exist in Iceland, most notably the University of Iceland, establishing in 1911.

The current minister of Education, Science, and Culture is Katrin Jakobsdottir.

Current Situation

There are many good things to say about Iceland's current educational system. The Icelandic people, as a whole, appear to be very well- educated. The OECD, while issues a yearly report on the educational systems of 30

democratic capitalist countries (most European and North American countries are included), Iceland had the highest university graduation rate at 63%. Iceland also spent the most on education relative to their GDP. Iceland's literacy rate is 99%.

Iceland's main problem is its upper secondary school dropout rate. 82% of students obtain a general education or vocational degree, a number that could be improved. Iceland also had below-average reading scores according to the OECD's Pisa rankings.

Questions To Consider

1. Do you find the current educational system to be giving satisfactory results? If not, what changes could be made?
2. What lessons could be learned from other country's educational systems?

Helpful Resources

- Again, news sites such as the ones listed above are useful.
- CIA World Factbook
 - <https://www.cia.gov/library/publications/the-world-factbook/geos/IC.html>
- There are several official documents describing the educational system:
 - <http://bella.mrn.stjr.is/utgafur/skolenska.pdf>
 - <http://bella.stjr.is/utgafur/ummrnens.pdf>
 - <http://www.statice.is/Statistics/Education>
- The 2008 OECD 'Education at a Glance' :
 - http://www.oecd.org/document/9/0,334,3,en_2649_39263238_41266761_1_1_1_1,00.html#1