



**A Speech
by
the President of Iceland
Ólafur Ragnar Grímsson
at the opening of the NFU Sector Conference**

**DANCING IN THE NEW DECADE
GENERATION NEXT AND THE FUTURE OF NORDIC FINANCIAL UNIONS**

**Reykjavík
14 April 2010**

Distinguished delegates
Ladies and gentlemen

The timing of this 12th Sector Conference of the Nordic Financial Unions is in fact quite striking. As it opens, the Icelandic people are receiving the Report by a Special Investigation Commission into the collapse of our banking system. Some would say that Fate must have arranged this – perhaps guided by the economist’s proverbial ‘invisible hand’. The Investigation Commission was set up by Parliament, headed by a Supreme Court Judge and mandated to investigate every aspect of those historic times: the chain of events, what went wrong, working methods, the regulatory mechanism, the business culture and the responsibilities of our elected representatives and the heads of the state financial institutions – the Central Bank and the Financial Supervisory Authority.

The Report is in nine volumes, totalling more than 2,000 pages. We can form an idea of what is involved from the fact that the actors at the Reykjavík City Theatre have been taking turns to read the full text out loud in one of the theatre’s auditoriums. Their reading sessions, which are open to the public, started on Monday morning when the Report was presented to the President of the Parliament, and have continued ever since, day and night, and will do so until later in the week.

So perhaps, to illustrate the nature of our times and the challenge facing the financial sector, the best thing for us to do, instead of attempting to be wise here this morning, would be to walk to the Reykjavík City Theatre, and join the audience, listen to the actors presenting the analysis of the collapse of the banking system, spoken in the language of the Vikings who came here from Norway more than a thousand years ago, primarily because they were not willing to pay the taxes introduced by King Harald Finehair. Maybe that is where it all started: when our ancestors fled to escape from royal financial regulations and seek, in this virgin land, an opportunity to create what in our times would be called a tax-haven.

Although the initiative taken by the Reykjavík City Theatre illustrates the dramatic aspect of our experience, we should not underestimate the seriousness of the challenge. Ever since Monday morning, all the media have been full of the Report. Our Parliament has held special sessions; the churches have invited their congregations for deliberations; in every workplace people have been discussing the lessons to be drawn and students in schools and universities all over the country are attempting to relate these events to the prospects for their own future.

Indeed, you are witnessing an entire nation engaged in the most extensive discussion on a financial crisis perhaps ever to have taken place in a democratic country, a process which underlines our determination to analyse the failure of the financial system in an open, comprehensive and vigorous way. I doubt if an entire nation has embarked on such a journey before this.

Although many other countries have experienced colossal crises in their banking systems, I don't know of any other that has employed such extensive democratic and judicial means to examine thoroughly, and openly, the functioning of the system, the scope of the crisis and the collapse of the banks. In addition to the Special Investigation Commission, we have established offices of Special Prosecutors and engaged Eva Joly, a world-renowned expert on financial crime, and a few of her colleagues, to assist in the investigation.

Thus, a genuine national endeavour has been undertaken to examine, analyse and discuss the financial crisis and the failure of the banking system, to make a deliberate effort to reach conclusions on the necessary reforms and how reconstruction should be handled in order to prevent the recurrence of disaster on such a scale.

At the height of this demonstration of what in the classical philosophical literature is termed 'the national will', it would be presumptuous of me, or anybody else, to attempt now to summarise the

conclusions, to present the main lessons to be learned and carried with us in our future endeavours.

But as I mentioned at the beginning, fate has placed us here this morning and told us to proceed according to the predetermined programme. I referred earlier to ‘the invisible hand’, the famous presentation of the market and its inherent guidance, the almost divine success to be gained from allowing the mechanism of the market to operate unhindered, from providing financial forces with as much leeway as possible, on the assumption that somehow such a mechanism will produce an equilibrium of supply and demand, leading to the maximum benefit for us all.

That was indeed the underlying ideology, the framework created around our financial systems, especially in recent decades. Not only was it inspired by Adam Smith’s famous maxim; it was also supported by most of the prominent economists of our times, Nobel prize winners and others, as well as a host of prestigious central bankers, spearheaded by Alan Greenspan and loyally and faithfully supported by nearly all of the prominent bankers in the Western World.

I called this an ideology because that is what it was, although most of its adherents were convinced it was a science, and consequently they acted as if inspired by a certitude more often associated with the laws of physics, or indeed of the universe. Yes, to become the Masters of the Universe — this was not just an ironic phrase, but a goal which became the trademark of many who were entrusted with power and responsibility in the financial sector.

Therefore among the underlying causes of the collapse, both here and in many other countries, was the fallacy of this intellectual tradition, an ideology which, through being taught in universities and business schools, came to be treated as science.

George Soros has already acknowledged the need to reverse this process and announced last week that he will fund a new institute in Oxford dedicated to the vigorous and critical analysis of the entire intellectual basis of modern economics — its theories, its assumptions, its teachings – in fact the fundamental validity of the discipline which has been the mental platform for most bankers, entrepreneurs, corporate chiefs, financial policy-makers and political leaders in the Western World.

The core of the prevailing ideological tenet, which was presented in the guise of a modern science, was that the more the motive of private gain was allowed to influence professional conduct, the better would be

the overall outcome. Thus, not only were the banks' profits seen as a sign of social prosperity, but the personal rewards of the employees became the main element in a corporate culture which in many cases was allowed to become the driving force of the banking and financial institutions.

This was clearly the case here in Iceland, and it led to wide-ranging changes in the relationship between those who professionally represented the banks and their customers and clients; this happened even down to the level of rural and village branches. The more successful the bank employees were in manipulating ordinary people into sophisticated financial schemes, the greater their own rewards became. At the pinnacle of this system, of course, were the elaborate bonus schemes for the top officials of the banks and other financial companies. Their annual rewards ran to hundreds and even thousands of millions of kronas, these exorbitant figures being justified by reference to the international competition within the financial sector.

It was in essence a cultural transformation which changed the guiding spirit within the banking sector from service to greed, justified by management theories and financial ideologies which turned out to be subservient to short-sighted and single-minded profit goals.

Modern information technology, elaborate software and high-powered computers played a part in enhancing the destructive capabilities of this transformation, since the speed and the scope of the action became much greater than anyone could have envisaged in the days of more traditional, paper-based banking.

The role of technology in causing the financial crisis — the fact that bankers could operate in a split second all over the world — has somehow been almost ignored in the international debate, although it is clearly one of the enabling factors, as is so clearly demonstrated by the Icesave schemes operated by an Icelandic bank, Landsbanki, both in Britain and in the Netherlands.

Landsbanki's computer division in downtown Reykjavík was instructed to design a programme for internet banking. Aided by the wonders of this new technology, the Icelandic bank gained thousands of customers in those two countries within a very short time, benefitting not just from the tools of modern computer technology but also from the European regulatory framework, which allowed a bank in one country to operate wherever it desired within the entire European market. The result was not just a dramatic collapse which has created extensive difficulties for the Authorities and the democratic institutions of our country. It has also brought into focus the paradox of the European system, which allowed the bank the freedom to operate within the entire European

market without being controlled by a corresponding European regulatory mechanism.

The 'Icesave case' has consequently brought to the forefront this fundamental question: To what extent can ordinary people – farmers, fishermen, nurses, teachers and others – be forced to shoulder, through their future taxes, responsibility for the financial failures of private banks operating outside their own country?

Or to put in another way: Which is more important, the democratic right of the people or the financial debts left behind by failed banks? When confronted with a choice between democracy and the financial market, due to the essence of our society, we are bound to choose democracy.

This was the rationale behind my decision to submit the Icesave deal, which had been negotiated with officials of the British and the Dutch Governments, to the people of Iceland in a referendum. The citizens were being asked to pay for the mistakes of private bankers and therefore it was only fair that they should have the right to make their votes count accordingly.

Western societies are not based solely on the free market system. Above all, they are the products of a democratic heritage, founded on philosophical convictions and successful revolutions in which the will of the people replaced the absolute power of Kings and Kaisers.

Iceland's experience, in the autumn of 2008 and since then, has been a stark reminder of the social and democratic responsibilities engrained in the operations of the banks and other financial institutions, responsibilities which the financial market cannot afford to neglect.

When our banks collapsed in October 2008 and in the months that followed, the anger and frustration of ordinary people led to the most widespread demonstrations and riots that our peaceful society has ever witnessed. The police had to protect the Parliament, the Central Bank and the Prime Minister's Office from outraged citizens who wanted to enter in order to take control into their own hands. It was, in fact, almost a revolutionary situation, which only calmed down when the Government resigned and parliamentary elections were called in order to give the people a chance to elect new representatives.

These dramatic events demonstrated that the failure of the financial sector can indeed threaten the very foundations of our societies, of our democratic systems. If it could happen here in Iceland, in perhaps the

most peaceful, harmonious and open society in the world, it might happen anywhere.

Thus, those who operate banks and financial institutions are subject to responsibilities that are not dictated by the market alone: they must also acknowledge the social and democratic dimensions of their activities. The market is not supreme. It is an integral part of our democratic society – and must be disciplined accordingly.

Our experience therefore also carries a warning. Our fate can serve as a lesson for others.

However, we are still a long way from a final conclusion, from seeing clearly what must be done or how our future should be constructed. The national debate is evolving here and now, changing almost within this very hour. It is a journey where the end is not yet in sight, but a journey we will long remember, perhaps for as long as we have remembered the tales of the settlers who came here from the other Nordic countries more than ten centuries ago.

Therefore, while I sincerely welcome your conference, and you all here today, perhaps your meeting now is a little bit premature. Maybe it would be wise, if I may say so, if you were to return in a few years' time in order to ask yourselves as we will continue to ask ourselves here in Iceland: How should we act in the future in order to avoid further catastrophes? In the light of all that has happened, what should be done?

Even if Iceland made a lot of mistakes in running its financial system, I certainly hope that you and other foreign observers can learn something useful both from the mistakes we made, and from the sensible things we have done and will do in the aftermath of the crisis. Maybe the key lesson is never to lose sight of the social responsibilities of financial institutions, and never to cut corners when fundamental, democratic principles are at stake.