

Lesley Riddoch: Mock Nordics if you like, but they are survivors

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LITTLE countries have come under suspicion since Iceland's banks went belly-up. Geir Haarde, the prime minister, enraged Britain by suggesting foreign investments would not be protected. And though the war of words has abated with Haarde's assurance that "we will honour our obligations", the damage to Iceland's reputation has been done.

Clearly no-one in Britain ever really believed that a tiny country of 316,000 souls could possibly produce firms like Baugur whose rampant expansion bought over half the British high street. At least not without paying a terrible price.

Iceland is set to pay.

But is Iceland also being made to pay for its inclusion in Alex Salmond's arc of prosperity – Ireland, Norway and Iceland -- the ring of small, northern seafaring states whose prosperity, according to the First Minister, arises directly from their independent status?

Opposition politicians and commentators have used the economic woes of Reykjavik to fire a salvo across SNP bows – whaur's your arc of prosperity noo? Without Big Brother Britain to bail out Scottish banks, they argue, an independent Scotland would now be in economic meltdown just like lonely, little Iceland. Indeed, British shoppers are boycotting Iceland grocery stores in protest at the threatened loss of charity, council and individual savings – in a sad echo of the confused attack on a paediatrician's office during an anti-paedophile campaign. Ironically, Icelanders would be unlikely to make such mistakes. Blessed with the highest rates of literacy in the world, and the freedom to opt for plain Icelandic rather than archaic Latin in their public world, this part of the so-called arc of prosperity has not only enjoyed financial success. In May of this year the Economist Intelligence Unit named Iceland the world's most peaceful place based on the absence of an army and the lowest ratio of citizens in jail. The UN Human Development Index, makes Iceland the world's most developed country (male life expectancy at 81 is the highest in the world) and one of the most egalitarian (they read more books per capita).

Iceland's long been described as the "bumble-bee" economy – no-one knows how it flies – and yet its population is young and rising.

So Iceland is a success story on many levels – not just the financial one over which so many crocodile tears are currently being shed.

And anyway, one country's failed banking system doth not a failed arc make.

How have the other small countries in the arc of prosperity been doing? Actually, not too bad.

In fact, the British government appears to have used the Nordic bank nationalisations of the 1990s as a model for its own present banking bail-out. The Nordic crisis, in the early Nineties, was sparked by a property boom, deregulation of financial services and the economic crisis in neighbouring Russia. Norway

took full control of two of the country's top four banks – wiping out shareholders, and purging senior management. In Sweden, the government also took control of failed banks and created a "bad bank" for toxic assets.

Nordic banks have since been nursed back to health and assets sold when valuations improved. According to Steinar Juel, chief economist at Nordea, Scandinavia's biggest bank: "It was very, very painful, (but] taxpayers, in general, did well. All the money governments spent, they got back again."

How are the countries at the heart of the arc of prosperity faring today? Compared to the arc of materialism, they are facing no major banking crisis. Meanwhile, in the world's others envious arcs, scapegoating, denial and displacement abound.

So should the financial problems of Iceland change public perceptions of independence?

Quick thinking and opportunism are part of the Icelandic psyche. That's why they took advantage of Danish occupation by the Nazis in 1944 to declare independence.

That outlook has upsides and downsides. But does anyone think the Icelanders this week wish they had not parted company with Denmark? Do their current woes make them wish there was a large wing they could crawl under and quit the dodgy business of self determination? Iceland may have made some colossal mistakes – but I'm sure the decision to stop living in the distant shadow of Denmark is not considered one of them.

Iceland's people have long experience of adjusting to bad news. Seismologists expect a vent or chasm to open up near the massive glaciers of east Iceland anytime with viscous lava creating a cloud of dust that could reflect sunlight and cause darkness and crop failure across northern Europe. Some experts speculate the last such eruption in the 1780s caused such widespread hunger and unrest that the French revolution was the result.

Who knows when nature will deliver its own credit crunch? The Icelanders have been living more or less happily with its certainty for centuries.

If we valued a healthy outlook as highly as financial liquidity, we'd realise the Nordics are the only people getting it right in the developed world today. And applaud the Nobel Prize Committee who awarded this year's Peace Prize to the Finnish president Martti Ahtisaari. Despite that country's recent traumatic college shootings, despite nervousness over the resurgence of the tiny nation's giant neighbour Russia, Finland is still a model of prosperity and peace.

Small Nordic countries have generally outperformed Scotland in every way. But that simply proves the Scots current preference for the Union is not the product of calculation or international comparison.

Enthusiasm for constitutional change will be home-grown or still-born. And nothing in Iceland will change that.