

EXPLAINING THE CRISIS OF ICELAND

A Realist Approach¹

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Abstract. This article focuses on critical realist analysis of concrete processes of structure formation and realization of structural propensity. It aims to explain the reasons for the rise and fall of the neoliberal regime in Iceland that led to the extreme expansion of the Icelandic financial system and its crisis. The article argues that the neoliberal regime was actively constructed by economic and political actors within the framework of the particular structural characteristics of Iceland. It claims that rigid structural conditions due to the very small size of the economy and severe problem of oligopoly undermined the neoliberal utopia of perfect market competition. In order to develop this argument, the paper observes how power elites actively affect public opinion and establish their hegemonic position in the political system.

Key words: capotism; hegemony; morphogenetic sequences; neoliberal regime; plutocracy; power elites; structuration

Acronyms

ASI	Althydusamband Islands, Iceland's Trade Union Congress
CIE	Confederation of Icelandic Employers
EEA	European Economic Area
EFTA	European Free Trade Association
FDI	foreign direct investment

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ICC	Icelandic Chamber of Commerce
IES	Institute of Economics
IMF	International Monetary Fund
IO	interest organization
IP	Independence Party
MP	Member of Parliament
NTCC	new transnational capitalist class
PM	prime minister
PP	People's Party
PPP	purchasing power parity
PrP	Progressive Party
RU	Reykjavik University
T1	period 1979–1994
T2	period 1995–2008
T3	period 2009+

Whether social change is determined by structure or agency is an old question in social science. According to structuralist scholars, change in social relations or their reproduction is a result of structural necessity irrespective of the intentions or reflections of individuals. Structuralist views of this kind are opposed by constructivist approaches that emphasize the role of intentions of individuals, their ethics and ideology and processes in which meaning is created in symbolic interaction. I argue that social change can neither be reduced to structural necessity nor to individual intentionality. Social contexts give birth to individuals' intentions, their ideas and morals that they 'interiorize', and social structures and relations are generated by intentional actions of individuals and groups while the resulting structures are partly unintentional. This results from the fact that intentions are never fully defined and they change in the moment of the interactive practice of agents of change and, furthermore, information about contexts of change is never perfect. Moreover, social contexts of change are constituted by societal structures that constrain the range of possible alternatives for change. However, while these structures determine the range of alternatives for change, the determination is not exclusively bound to one, and only one alternative, nor are there an infinite number of voluntary choices. As a consequence, I claim that social change is characterized by morphogenetic processes³ of 'structuration'⁴ that are generated by way of active social construction and relational politics.

In this article, I approach the problem of social change by analysing the case of Iceland and its financial crisis. I consider the socio-economic development that Iceland went through in the phases of the rise of a neoliberal

³ Archer 1995, 157–8.

⁴ For a critical scrutiny of the concept of 'structuration' see Stones 2001.

regime in the 1990s, excessive globalization in the early 2000s and collapse in 2008, and I explain why the rise of an extreme version of a neoliberal regime was realized in processes of social construction and why it failed due to unintended structural constraints.

1. Methodological Considerations

The objects of study of social sciences are rarely such that they fulfil the requirements of positivism of a unity of scientific method,⁵ i.e. the experimental methodology of natural sciences that reduces criteria of scientific knowledge to predictability and technical interest.⁶ The positivist or 'successionist' view of causality presumes that causal relations can be proved by gathering data on regularities of repeated occurrences in which event *B* follows event *A*. Causal relations of this kind are only likely to occur in special conditions such as in 'closed systems' like experiments that secure consistent regularities of events.⁷ Statistical tests are based on the same successivist view of causality, as correlations reflect the likelihood of consistent regularities of events. However, the explanatory power of theories based on successionist causality is limited as it tells us only what event or result will follow if particular objects happen to collide at particular points in time in particular closed contexts. It does not tell us what made the objects collide at a particular point in time or what particular characteristics of the objects in question led to the results that I want to explain.

In order to explain the occurrence of objects (the explanandum) one has to observe the structure and powers that characterize the colliding objects or events (the explanans) that led to the explanandum. One has to observe the specific propensities of the explanans that leads to certain kinds of change, i.e. their causal and potential powers. Propensities therefore presume on the one side *causal powers* of the explanans, i.e. their capacities to behave in particular ways that lead to actual results or the explanandum. On the other hand propensities presume *potential powers* that may be activated and lead to different results in different contexts. The same objects or explanans may therefore lead to more than one result depending on the propensities of the objects they collide with and the contexts in which the collision takes place.⁸ Causal relations of this kind occur in 'open systems' such as in everyday social contexts in which agents' interrelations are characterized by strategic inten-

⁵ Kolakowski 1972, 17.

⁶ Habermas 1976.

⁷ Sayer 2000, 14.

⁸ See Sayer 2000.

tions, norms and values and in which the actors attempt to change or reproduce the social contexts, norms and values, behavioural patterns, operations of institutions and power relations between agents and institutions. In short, social agents are engaged in processes of social construction and transformation of social contexts.

However, social construction is not voluntarist by nature because social agents mediatively ‘interiorize’⁹ existing norms and values as they are socialized creatures and they are faced with social contexts of ‘sticky’ structures of social relations. Social structures, like other structures, are constituted by internally related elements whose causal powers, when combined, are emergent from those of their constituents.¹⁰ On the basis of this view of scientific explanation, I concentrate in the following analyses on explaining how a particular socio-economic structure was created and why it failed to be reproduced. My object of study will be the neoliberal regime of Iceland, its rise in the 1990s and collapse in the first decade of the twenty-first century.

2. Neoliberalism as Ideology

Neoliberalism as an ideology has some common features with other ideologies. They take for granted a set of ideas that provide pictures of how the world is and how it should be. They also provide guidance as to what actions are necessary in order to realize the promised ideals. Furthermore, they are based on knowledge that is considered to be trustworthy, such as ‘scientific’ theories or religious doxa. Ideologies are realized by force or by way of persuasion and they are actively institutionalized in a context of existing social structures that the agents of the respective ideology transform by way of gaining hegemony over existing social and political organizations and by implementing new ones. Once institutionalized, they become naturalized as a taken-for-granted way of doing things. As ideologies have materialized in consequent institutions, cultures and social and economic relations, they form constellations of institutions and relations that prevail, often for long periods, as ideological regimes that determine the distribution of resources, production and wealth among members of the society or blocs of countries.

The process of realization of ideologies is essentially a morphogenetic process of agency in which collective and individual agents reflect on the opportunities for transforming structural hindrances in the existing mate-

⁹ See Craib 1976.

¹⁰ Sayer 2000, 14.

rial context and organize resources in order to realize the opportunities identified for transforming the material context in question and create the ideologically preferred state of affairs. Consequently, although agency may be presumed to be the 'efficient cause' of change, its efficiency depends on the emergent properties that existing social structures allow. Causality can therefore neither be reduced to agent's intentions, voluntary actions and/or discourse nor to determination of their actions by structures, as structures of social relations usually are constituted by properties that can lead to different results in terms of transformed social relations.¹¹

Moreover, although different ideologies are based on a core of taken-for-granted ideas of how the world is or should be, the meaning and/or interpretation of the ideas vary among the followers of the ideology in question; they adhere to some and not necessarily to all core ideas and beliefs of the respective ideology. Furthermore, interpretations and the emphasis of different adherents change through time both due to experience of how realization of the ideology works in reality and due to external historical factors. The domination of one interpretation over other(s) will depend on the structure of ideological struggle that is pre-given, as the different agents' access to and power over different ideological apparatuses, such as media, universities, art etc., are unevenly distributed. Consequently, as ideological concepts are malleable in this sense, the intentions and discourse of the agents are influenced by power relations of ideological struggle. In short, structure has an important role together with agents in the processes of realization of ideologies. Neoliberalism is malleable in this sense and not reducible to one and only one interpretation, as I now indicate briefly.

Neoliberalism spread in the context of the crisis of Keynesian policies in the 1970s following the problem of 'stagflation'. Neoliberal ideas diffused in the 1970s and had their breakthrough in Western societies when Margaret Thatcher became the British Prime Minister in 1979 and Ronald Reagan the US President in 1980. The main roots of neoliberalism and the critique of Keynesian policies were Milton Friedman's 'monetarism' and the critique of state involvement in the economy associated with the Austrian school and in particular Friedrich von Hayek's critique of social democratic state interventionism.¹² The main concern of Friedman's monetarism was to make sound money once more the cornerstone of economic policy that would require that governments follow strict monetary targets concerning growth of the supply of money.¹³ That would require that governments give up the Keyne-

¹¹ Archer 1995, 90 and 153 and Lewis 2000, 260 and 264.

¹² Gamble 2001, 127–8 and 2009, 73–4.

¹³ Friedman 1968, 16–17.

sian objectives of full employment. Moreover, public expenditure on welfare and infrastructure would have to be reduced. It was presumed that public services ‘crowd out’ private investment opportunities and low interest rate regimes limit the role markets play in eliminating ‘mal-investments’. Hayek emphasized that the problem of inflation was a matter of political balance of power. He was particularly critical of the ‘coercive power’ of trade unions that leads both to too high real wages and expansion of public services due to their grip on political parties.¹⁴

The idea of a strong state that is able to secure necessary institutional conditions for free market competition is among the core ideas of neoliberalism. However, the public sector must be minimal as it is presumed that private investment and competition are the best way to optimize economic rationality, output and individual freedom.¹⁵ Neoliberal policies have varied in different countries but they have typically appeared in programmes of privatization of public services and public property; deregulation of trade, financial markets, investment and labour markets; undermining progressive tax-systems and corporate taxes; and introduction of monetary systems with independent central banks.

Despite these similarities in neoliberal programs, the emphases on different aspects of the programmes have varied with different strands of neoliberalism. There are three main strands with different emphases: *anarcho-capitalist*; *laissez-faire*; and *social market*. The anarcho-capitalist strand is more extreme than the other two. It seeks privatization of all state functions, including defence, law enforcement and all forms of economic and financial regulation. The laissez-faire strand, or ‘market fundamentalism’ as it is sometimes called, believes that markets should be endorsed to function with as few obstacles as possible and with absolute minimal interference from governments. The role of the state should be primarily limited to removing obstacles to market competition. The social market strand accepts this role of the state, but requires more of the state. It presumes that the state must intervene with a wide range of measures in order to create the right institutional framework for the market economy to work and adjust to changing circumstances. It promotes structural adjustment, social capital and good governance in developing economies, welfare safety nets, investment in human capital, corporate social responsibility and limited forms of redistribution.¹⁶

¹⁴ von Hayek 2009, 72–3 and 93–6.

¹⁵ However, e.g. Hayek was not a dogmatic advocate of laissez-faire as he claimed that where free market competition cannot be made effective the state must exercise a wide range of activity (Hayek 2008, 85 and 88).

¹⁶ Gamble 2009, 71–2.

In the following analysis, I concentrate on Iceland and highlight how laissez-fair neoliberals have actively attempted to realize and naturalize this type of neoliberal regime in Iceland since the 1980s.

3. A Morphogenetic Transformational Model of the Rise and Fall of the Neoliberal Regime of Accumulation in Iceland

The critical realist approach presumes that the continued existence of social structures depends upon the activities of the current generation of agents; both the pattern of incentives which motivate them to seek or to oppose the transformation of those structures, and the distribution of the resources required to do so, are given to the current generation as the product of actions undertaken in the past. As such, they constitute a social structural influence on current activity that is ontologically irreducible to particular social agents. Furthermore, the (reproduced or transformed) set of social structures that emerges as the outcome of the current set of actions in turn forms the context for the next round of social activity.¹⁷

A regime like the Icelandic neoliberal regime is a social structure that is actively constructed and reproduced. It is the ‘explanans’ in the present study, i.e. an aggregate of elements with specific propensities and hence causal and potential powers that agents activate, but agency suffers from ‘structural backfire’ as actual results are sometimes largely unforeseen. Figure 1 highlights the main features of the causal dynamics of the rise and fall of the regime.

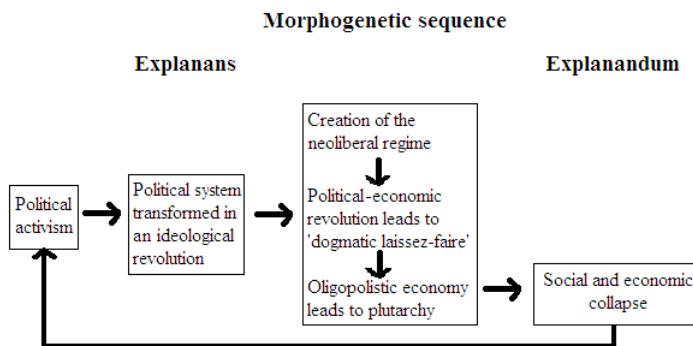


Figure 1. *Explaining the rise and fall of a regime*

¹⁷ Lewis 2000, 260.

A regime is constituted by a political system and culture on which a particular form of state governance is based. The concept of political system refers not only to formal institutions and prescriptions of division of power, such as legislative, executive and judicial powers, but also to agents and the relations of power between them, such as social movements, organized interests, corporations and political parties that influence public opinion, common understandings and public policy formation. Furthermore, media, universities and research institutions play an active role in the formation of public opinion that influences societal decision-making. A regime also has a cultural base that refers to values and traditions concerning how active the general public is in processes of policy formation and emphasis concerning individualism, altruism and consumerism.

In my analysis of the Icelandic case, I refer to three main periods, highlighted in Figure 2 as T1, T2 and T3, which reflect the interplay over time between social structures and human agency. The neoliberal regime in Iceland was realized in a particular context of interplay between agency and structures in which agents worked on immediate structures, while rigid structures generated strains that in the long run undermined the possibility of sustaining a neoliberal regime. In terms of the rising power position of the neoliberal agents and realization of their policies, there are three main periods in the development of the regime, i.e. T1 (1979–94), T2 (1995–2008) and T3 (regime crisis 2009+).

3.1. Agency: exploiting power resources

As Figure 2 highlights, agency presumes that agents apply resources to transform or reproduce structures. Before I discuss the activities of the main agents, I now analyse their uses of power resources, i.e. when influencing public opinion and the legislature.

Media and public opinion

The concept of public opinion refers to attitudes that the general public has towards particular policy issues as well as to the existing political regime at a particular time and place or country. Let's start the analysis by observing the role media played in legitimizing the neoliberal regime by delivering suitable public opinion.

Interest groups such as corporations, trade unions, employer associations and issue groups actively attempt to influence public opinion in order to legitimize their policies and/or interests so that the public will support, or at least not oppose, legislation and regulations that concern their way of doing things. On the basis of positive public opinion it will be easier for

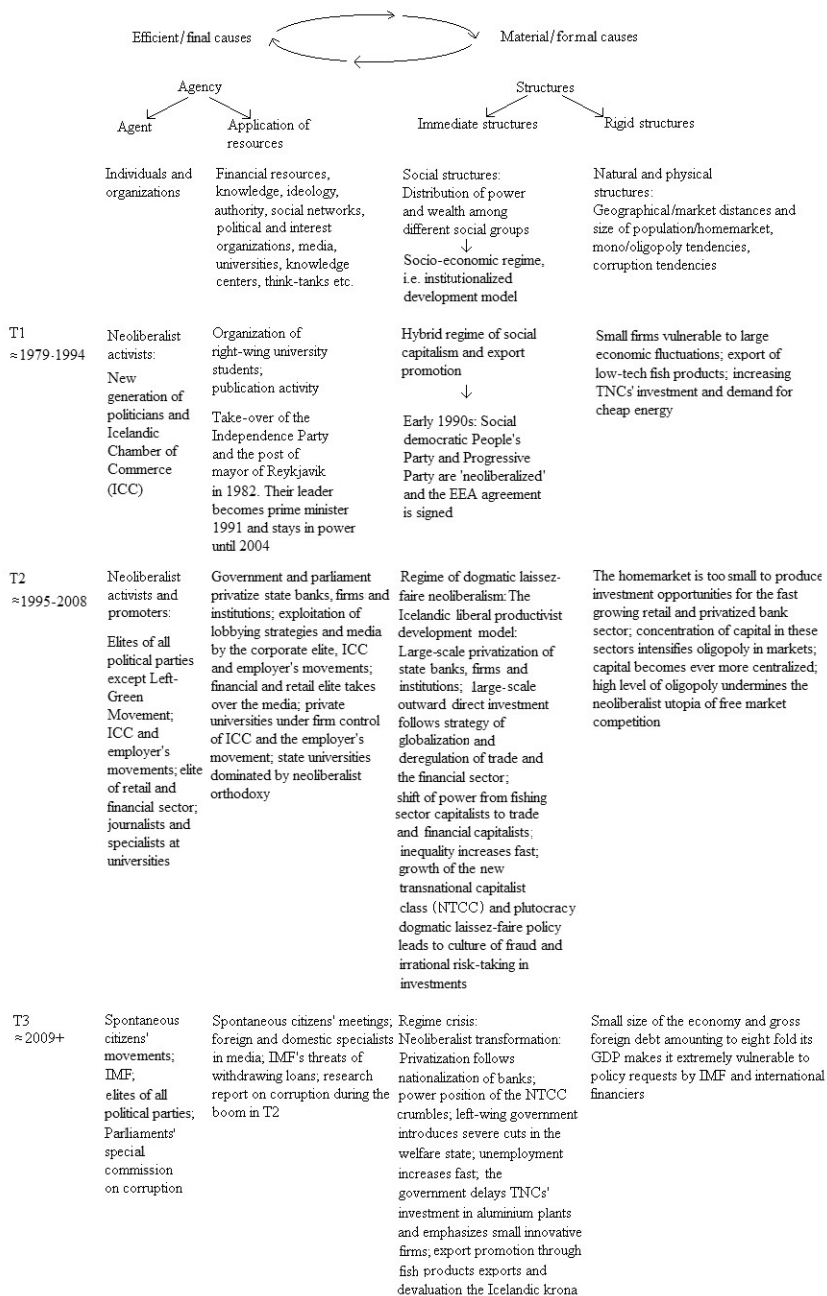


Figure 2. Main periods of morphogenetic transformation of the Icelandic neoliberal regime

them to influence political parties, legislators and the administration so that laws and regulation will realize their interests. The power resources that interest organizations (IOs) have at hand are in general terms knowledge, time and money. They will use these resources as means to take part in 'the influence production process' of society that encompasses (1) the establishment and reproduction of interest groups; (2) interaction of interest groups; (3) the exercise of influence by way of lobbying and financing campaigns that affect the political behaviour or policy decisions of legislators, political executives, judges and preferences of the public; and (4) the effects of activities by IOs on the political system as a whole concerning political participation of citizens, the operation of government and the course of public policy.¹⁸

Icelandic companies and their IOs have a very strong power position to transform immediate social structures. This power position strengthened drastically in period T2 (cf. Figure 2, above). The employers' movements, the privatized banks and the main retailers were the strongest advocates of globalization and outward direct investment. Their power resources increased remarkably during T2. This appears in their ownership and/or control of the main media (newspapers, TV and radio), universities and research institutions. Concerning media it is striking that all three newspapers published in Iceland were, until the crash in November 2008, owned by companies that were the main actors of outward FDI in the expansion period T2. According to a survey by Gallup, in February, March and April 2008, an average 64.9% of the Icelandic population read *Frettabladid* daily while 41.6% read *Morgunbladid*¹⁹ and 50.4% read *24 stundir* that was owned by the same company.²⁰

Interestingly, *Frettabladid* was until November 2008 owned by a company called 365 hf. whose president was J. A. Johannesson, the chairman of the board of directors of Baugur Group hf. Its editor from early 2006 to June 2009 was Th. Pálsson the former prime minister (PM) of Iceland and leader of the Independence Party (IP). He was one of the party's main neoliberal ideologists in the 1980s. In 2006 365 hf. was owned by 1,088 shareholders but the main owners were the leading companies of outward FDI, i.e. Baugur Group hf., which owned 30.7% of its shares, Milestone ehf., Reykjavík 16.8%, Fons Capital AS and related parties 14.9% and Runnur ehf. 10.8%.²¹

¹⁸ Lowery and Brasher, 2004, 18–19.

¹⁹ *Morgunbladid* was established in 1913 and has supported the right-wing Independence Party since it was established in 1930.

²⁰ Capacent Gallup 2009a.

²¹ 365 hf. 2007.

365 hf. also owns a TV station and a radio station.²² According to Gallup surveys in 2008, Stod 2 enjoyed 34.2% of the daily TV viewers while the state TV station had 44.1%.²³ Gallup surveys in 2008 showed that of all radio listening, 45.2% was to the radio stations of 365 hf., 54.8% to the state radio station.²⁴ Furthermore, the main shareholder in the company that published the newspaper DV was a company owned by the chair of the board of Baugur Group hf.²⁵ DV does not take part in Gallup media surveys. This company owned large shares in Birtingur, which shares the market for popular journals in Iceland with Edda, which was mainly owned by Bjorgolfur Gudmundsson,²⁶ the main shareholder in the company Samson, which in 2006 owned 41.7% of the shares in Landsbankinn (which was among the main agents of outward FDI).²⁷

It is apparent from this discussion that in the era of the neoliberal regime from the 1990s to 2008 the media market was dominated by a few corporations. Among them were the main companies of globalization and outward FDI. Icelandic media was accordingly strongly biased towards neoliberal ideology. Moreover, as I mentioned in the methodological chapter above, common understandings are actively created and reproduced by the 'elements' of the structures, such as organized interests, ideological apparatuses like media and educational institutions, which I now discuss.

Universities as a power resource

It is not only the media that was and still is controlled by the corporations. The corporate sector has also established a university, Reykjavik University (RU), which in 1998 started as a school of business studies and computer science. In 2005 it took over the state-owned undergraduate University of Technology. There were 17,623 students studying at university level in Iceland in 2008. Of these, 2,974 were enrolled in RU.²⁸ RU's Board of Trustees is composed of eight permanent representatives and two alternates who come from industry and are appointed by RU's owners. The members of the board are appointed

²² The TV station ran channel Stod 2 until November 2008. The radio station runs the channels Bylgjan, FM 95.7, X-id, Lettbylgjan, Gullbylgjan and Rondo.

²³ Capacent Gallup 2009b.

²⁴ Capacent Gallup 2009c.

²⁵ Hreinn Loftsson, who was the chairman of the committee that organized the privatization of state banks and state companies in the 1990s. He sold DV in 2010 mainly to its employees.

²⁶ Bjorgolfur Gudmundsson was the main shareholder in the English West Ham United football club.

²⁷ Olafsson 2008.

²⁸ Statistics Iceland 2009a.

by the Iceland Chamber of Commerce, the Confederation of Icelandic Employers and the Association of Industries. The Board of Trustees has the same status as the board of directors in private companies. In 2008 the board members included CEOs of Islandsbanki (formerly Glitnir) and Alcoa.

Besides Reykjavik University, the corporate sector also controls a smaller university, Bifrost University, which concentrates on business studies and had 727 students enrolled in 2008. Three out of five members of the Board of Governors of the Bifrost University are appointed by the Confederation of Icelandic Employers.

In short, employer associations control universities that have 21% of all university students enrolled in Iceland. Looking at the state universities in Iceland, it appears that they are weak in terms of free academic research as they are predominantly undergraduate universities and have for decades been financially weak. Critical studies and critical research are very rare in the state universities, as such research would undermine staff chances of increasing their income. The bulk of their income stems from the state budget. Critical research might even lead to cuts in the budget of the state universities. It appears that the university sector was apt to support the common neoliberal understanding that media created.

Power resources of interest organizations

Media and universities are important in the formation of public opinion in modern societies. As we have seen, interest groups and corporations emphasize their control of them as they produce and reproduce ideology and expert know-how that are important in the ideological struggle in society. The balance of power of interest groups is important in determining their ability to influence the ideology of media and decisions taken by the administration and the legislature. The power position of trade unions compared to associations of employers may be estimated indirectly by comparing their turnover. In 2005 the turnover of trade unions and their associations was 543 million kronas while the figure for employers' associations was 449 million kronas.²⁹ It appears from the figures that the trade unions have the upper hand, but if one looks at the number of experts working for the trade unions compared to the employer unions a different picture emerges. At the central offices of employers' associations there were 41 experts working in 2009, while the figure for the central offices of the trade unions was 18.³⁰ The number of staff and particularly

²⁹ Jonsson 2006.

³⁰ Employers' associations: Confederation of Icelandic Employees = 15, Federation of Iceland Industries = 16, Federation of Trade & Services = 4, Federation of Icelandic Fishing Vessel Owners = 6, total = 41; Trade unions: Iceland's Trade Union Congress = 9, Federation

experts of interest groups is especially important in relation to influence on the legislature because bills and amendments are seldom passed by parliament (Althingi) without close consultation with interest groups.

Besides influencing public opinion and the legislature via experts, IOs and corporations actively attempt to influence the policies of political parties by sponsoring campaigns and candidates and by appointing MPs as members of the board of companies. Furthermore, in addition to sponsoring the parties directly, the corporations sponsor individual candidates directly by supporting their campaigns financially and indirectly by paying them for being members of the boards of companies. Let's look more substantially into the practice of IOs in their attempts to influence societal decision making.

Organizations become IOs when their concerns intersect with public policy. They differ from social movements as they have clear organizational structures. They actively represent the interests of their members on an ongoing basis and mobilize their members in support of political candidates and issues. Their interests reflect preferences and values of their members and organize activity in order to respond to authoritative action proposed by government. IOs differ from political parties in that they do not themselves seek elective office.³¹ With reference to the definition above, I would conclude that corporations belong to the category of IOs insofar as they attempt to influence public policy in the same way as special issue groups are established for such purposes.

IOs and corporations actively influence societal decision making by, on the one hand, influencing the general public and, on the other, by influencing the legislature. The public is influenced by fluctuating *choice contexts*, *choice content* and *citizens' choices*. The legislature is influenced by impacts on the different stages of the process of legislation, the legislature itself and strategic choices.³²

Let's concentrate now on how IOs have swayed public opinion in Iceland and how they influence legislators and governments. I start by observing how they influence public opinion *by influencing choice context*, and commence with *framing strategies*.

In the early 1980s, employers' IOs were very successful in framing, i.e. influence by which issues or conditions are defined as problems that need political solutions. The Iceland Chamber of Commerce (ICC) was particularly effective in this respect. They managed to put privatization on the political agenda and the ideology that deregulation of the economy was necessary to increase eco-

of State and Municipal Employees = 6, Association of Academics = 3, total = 18 (see home-pages of the respective associations). For a more detailed study of the period 1970–1987, see Jonsson 1995, 108.

³¹ Lowery and Brasher 2004, 5–8.

³² Lowery and Brasher 2004, chs 4–5.

nomic growth. Before the 1980s the IOs concentrated on framing the issue of free trade as the main condition for escalating economic growth.

In the 1990s the neoliberal framing took over the scene. Inflation had reached 84.3% in 1983. The Confederation of Icelandic Employers (CIE) and ICC introduced a framing strategy and started a campaign that emphasized privatization and cuts in public expenditure. The CIE and ICC had their ideological counterpart in the movement of young members of the IP that published or arranged publication of books and pamphlets on neoliberalism and monetarism in the early 1980s, e.g. books by Hayek and Friedman. The leaders of the movement, such as David Oddsson, became leaders of the IP in the 1980s. By the 1990s neoliberal framing had become common practice. In 1991–2004 Oddsson was PM and became the governor of the Central Bank of Iceland between 2006 and 2009.

Moreover, the CIE and ICC use their annual general meetings in a very successful way for framing purposes. PMs and ministers regularly participate. The meetings are celebrated in newspapers, TV and radio. In the early 1980s the CIE decided that their influence in politics had to be improved and urged its members to become active in politics. Among many members, the manager of the CIE, Thorsteinn Pálsson, became candidate for the IP in parliamentary elections in 1983 and became its MP.³³ Later in the same year he was voted the leader of the IP and became PM in 1987–1988. He belonged to the neoliberal clique at the University of Iceland together with Oddsson in the 1970s. Pálsson had been editor of the right-wing newspaper, *Visir*, largely devoted to political framing. He was the editor of *Frettabladid* between 2006 and 2009.

IOs and corporations tend to influence *choice context* by means of *issue advocacy* and *think tanks*. Icelandic employer and labour organizations and corporations do not influence choice context by way of issue advocacy. The same goes for think tanks as there are no non-profit policy research institutes in the country. However, the two private universities in Iceland are controlled by the employer organizations, as mentioned above, and their personnel are frequent commentators in the media on issues of public policy. Their staff also write reports that influence choice context. As an example, economists at the University of Reykjavik wrote a report in 2005 that failed to recognize the risks caused by the rapid expansion of the finance sector. The report, one among only few Icelandic reports on the financial sector, was celebrated in the predominantly right-wing Icelandic media.³⁴ As is to be expected, the

³³ Magnússon 2004, 212.

³⁴ The report states, e.g.: 'Within the field of economics there is consensus that the financial sector has a strong positive effect on economic growth and the more the financial market is developed, the greater the effect ... an efficient financial market is conducive to

recruitment of staff in these private universities is carefully scrutinized in terms of political ideology and their ideological control is strong.³⁵

Although there are no formal think tanks in Iceland, one should highlight that the Institute of Economic Studies at the University of Iceland had the role of a think tank between 1996 and 2006. Another institute, The Economic Institute, that was respected as a neutral state institute that analysed economic policy alternatives and economic development, was dissolved in July 2002 as it published reports that were too critical. Consequently, from then on the neoliberal-oriented Institute of Economic Studies became the leading institute of economic policy analysis. The role of this institute was particularly important as it became the main sub-contractor in this field for the office of the prime minister, and indeed was specifically hired by PM Oddsson to do most of the policy analysis for his office. The director of the Institute of Economic Studies (IES), Tryggvi Thor Herbertsson, became the economic advisor to Oddsson in August 2008, Professor at the University of Reykjavik in February 2009 and an IP member of parliament in April 2009. He was the vice-chairman of the Iceland Chamber of Commerce. In 2007 he became the CEO of Askur Capital, the investment bank. It is interesting to note that in 1997 the IES collaborated with the neoliberal Fraser Institute of Canada, and contributed to the *Economic Freedom of the World 1997 Annual Report*, which was based on contributions from 45 neoliberal or employer institutes.³⁶

Lobbying

Media lobbying is one of the methods IOs use to influence choice context. Icelandic corporations have had a strong lobbying position in relation to media. As mentioned above, until the collapse of the financial sector, the most widely read newspaper, *Frettabladid*, as well as the main TV and radio stations, were owned by the company 365, which Baugur Group owned. The second largest newspaper, *Morgunbladid*, was owned by the company Arvakur, which was owned by the main shareholder of Landsbankinn.³⁷ As a conse-

economic growth and thus enhances the standard of living' (Olafsdottir 2005). The report was widely discussed in the main newspapers, i.e. in *Morgunbladid*, on 8, 14 and 15 April and *Frettabladid* on 13 April 2005.

³⁵ See e.g. Mosesdottir 2008. Lilja Mosesdottir is a former lecturer at the University of Reykjavik and professor at the University of Bifrost. Mosesdottir was a lecturer at the Reykjavik University and professor at the University of Bifrost. She was elected a member of parliament in April 2009.

³⁶ The Fraser Institute 1997.

³⁷ After the crash, Arvakur was sold and widow Gudbjorg Mathiasdottir became its main shareholder. She is probably the richest Icelander today and owns a fishing and fish-processing company (Bjarnason 2009 and Visir 2010b).

quence, the situation in Iceland is to be characterized as an extreme case of corporate media lobbying.

Besides influencing choice context, IOs and corporations spend time and resources on influencing *choice content*. One way of doing this is by means of ‘hard money’. They often fund candidates in the early stages of elections, and tend to sponsor candidates that are likely to win. It is common for all the Icelandic parties to organize the pre-selection of candidates by their members, and sometimes the candidates are elected by the general public. At this stage, corporations sponsor particular candidates. No systematic research has taken place in order to estimate the scale and scope of such sponsoring. However, the recent bank crash, and the fact that the state took over the banks and most of the large corporations, made it possible to get a glimpse of this side of Icelandic politics. Baugur Group contributed 11.35 million kronas to the pre-election campaigns of several party candidates in the pre-parliamentary elections of 2006. On the list were the minister of health, who received 2 million kronas, and the minister of agriculture who received 300 thousand. The former mayor of Reykjavik received 2 million (DV 2009).³⁸ This is of course only the tip of the iceberg and total contributions may be much larger. The banks also contributed hard money. It appears that in 2006 Landsbankinn contributed 18.3 million kronas to party candidates and Kaupthing Bank 6.5 million.³⁹

IOs also attempt to influence *choice content* by exploiting ‘soft money’ and promoting parties generally rather than individual candidates or issues. It appears that the banks and the globalizing companies like Baugur Group and Actavis were among the most active corporations in this respect. In 2006, Landsbanki contributed 41.8 million kronas to the political parties, Kaupthing 26.5, Glitnir 11.0 and other banks and mutuals 6.5.⁴⁰ Other corporations contributed also: FL-group 40 million, Baugur Group 13, Exista 6.5, Fons 5 and Eykt 5 million kronas.⁴¹

The social democratic Alliance (Samfylkingin) received 103 million kronas in 2006 from corporate sponsors that granted half a million or more (the minimum amount that parties are obliged to register). The bulk of this amount came from the globalizing companies.⁴² Other parties have not pub-

³⁸ Contributions from Baugur Group to candidates in millions of kronas: Armann Kr. Ólafsson (IP) 0.5; Asta R. Johannessdóttir (Alliance) 0.2; Björgvin G. Sigurðsson (Alliance) 0.3; Björn I. Hrafnsson (PrP) 2; Dógg Pálsdóttir (IP) 0.2; Guðfinna Bjarnadóttir (IP) 1; Guðlaugur Th. Thordarson (IP) 2; Guðni Agustsson (PrP) 0.3; Helgi Hjörvar (Alliance) 0.9 (Vilhjalmsson 2009).

³⁹ Rannsóknarnefnd Althingis 2010, 165 and 167.

⁴⁰ Rannsóknarnefnd Althingis 2010, 164.

⁴¹ Rannsóknarnefnd Althingis 2010, 165.

⁴² Kaupthing Bank contributed 10 million kronas and Landsbankinn 8 million. FL

lished as detailed information about contributions as the Alliance. However, in the same year the right-wing IP received 30 million kronas from the airliner FL-Group and 25 million from Landsbankinn. In all the party received around 35 million from companies affiliated with Baugur Group and a similar amount from companies affiliated with Landsbankinn and Actavis.⁴³ The party has confirmed that it received 81 million kronas from corporations that contributed one million kronas or more.⁴⁴ The Progressive Party (PrP) received officially 23.5 million kronas from corporations.⁴⁵ If one assumes that the IP, the main right-wing party, received at least two times as much as the Alliance, the Progressive Party two-thirds as much as the Alliance and the Left Green Movement nothing, then the total contributions would amount to 481 million kronas in 2006. This figure is around 1604 kronas per capita or US\$ 17.44 (exchange rate 72.27 kronas per US\$ in June 2006).

It is interesting to note that, in the year of American presidential elections in 2008, the total lobbying spending in the US amounted to US\$ 3.27 billion or US\$ 12.23 per capita.⁴⁶ The difference is even larger in terms of GDP per capita (PPP) as in 2008 the GDP per capita in Iceland was US\$ 40,025 while the figure for the US was US\$ 46,859.⁴⁷

Concerning how IOs and corporations in Iceland attempt to influence *citizens' choices*, it appears that they do not take part in campaign work or produce campaign information. They emphasize hard and soft money in their struggle to influence parties and candidates as I discussed above.

Besides influencing political parties and their candidates, IOs attempt to influence *the process and outcome of legislation*. They systematically and actively influence the different stages of legislation. Icelandic IOs invite ministers to their annual meetings in order to influence their framing and views, as discussed above. They also invite MPs to dinners and discuss policy issues.⁴⁸ However, the committee stage is probably more important in this respect. At the committee stage parliament asks IOs and stakeholders for comments

Group gave 8 million. The bank Glitnir contributed 5.5 million and so did Actavis (main shareholder is B.Th. Bjorgolfsson who is also the main shareholder of Samson, which is the main shareholder of Landsbanki). Dagsbrun, the main shareholder of the media company 365 and affiliated with Glitnir, contributed 5 million and so did Baugur (a large shareholder in Glitnir). The bank Exista and the oil distributing company Ker gave 3 million each. In all, big corporations contributed 73 million kronas, while smaller companies and individuals gave 30 million (Ragnarsson 2009).

⁴³ The companies of Bjorgolfur Gudmundsson and his son Bjorgolfur Thor Bjorgolfsson.

⁴⁴ Visir 2009.

⁴⁵ *Morgunbladid* 2009a.

⁴⁶ Center for Responsive Politics 2009 and US Census Bureau 2009.

⁴⁷ IMF 2009.

⁴⁸ Mosesdottir 2009.

on amendments and bills. As parliament has only 12 experts,⁴⁹ i.e. committee secretaries, MPs are very dependent on external comments by IOs and stakeholders and experts working in ministries. MPs have traditionally had assistants that have usually been young politicians rather than experienced experts. In 2009, parliament's expenditure was cut and since then the parties in parliament do not receive a budget to spend on expert services. In 2007 they received 65 million kronas,⁵⁰ which probably covered the salaries of approximately ten experts (roughly 0.16 experts per MP). IOs with their good resources can, consequently, easily affect how committees frame problems and what information they get. IOs staffed with many experts have therefore a strong power position relative to the committees and other IOs that have fewer resources. As I discussed above, it appears that IOs of employees and corporations, particularly the banks, overshadow other institutions and IOs in Iceland in this respect.

Voting decisions in the Icelandic parliament are characterized by a very strong whip system and majority rule. This is due to the strong power position that the party leaders have in governmental procedures. Party leaders lead negotiations when coalitions are established. They name candidates for ministerial posts and the MPs of the party in question accept the party leader's proposal *de facto*. The individual MP's career depends therefore to a large extent on the leader's goodwill concerning the chances of MPs of becoming ministers. As the party leaders have access to experts in ministries when the party in question is in government, it is difficult for individual MPs to confront policies promoted by the leader. Consequently, parliamentary oligarchy and discipline rule. Furthermore, most bills passed by parliament are government bills.⁵¹ Hence, the role of parliament in societal decision making is weak, while the administration and ministers are powerful.

Once parliament has accepted bills they do not become formal laws until the president has signed them. However, the president can put laws to a general referendum. This happened for the first time in December 2009 after parliament had passed the 'law on Icesave' (Act 96/2009) that compelled the Icelandic state to secure reimbursement of Icesave deposits in the UK and Holland. (In the referendum of 6 March 2010, 93% voted against the Act.) In April 2011 another law on Icesave (Act 13/2011) was rejected by 60% of

⁴⁹ On average there are 0.2 experts per MP.

⁵⁰ Althingi 2008, 36.

⁵¹ E.g. in the 2007/2008 parliament session the government proposed 136 bills and 114 of them became law. Government MPs proposed 28 bills and 26 became law. The opposition proposed 51 bills but none became law (Althingi 2008, 16).

the votes. This was a major revolt of the general public against the party leaders and the administration.

The power resources or *means of influencing the legislature* that IOs have are among the most important factors that affect the outcome of the legislative process. The first such factor one should mention is IOs' active production of *policy information*. They are particularly active in matters concerning alleged consequences of tax policies and backing up the policy of the right-wing IP. The IP managed to cut corporate taxes steadily from the 1990s and in particular financial income taxes that became much lower than the income tax of wage earners.⁵² In May 2001 the CIE published a report (Confederation of Icelandic Employers 2001) on taxes in Iceland and demanded that the corporate income tax be lowered to 15%. In November 2001 the Economic Studies Institute at the University of Iceland held an international conference on privatization and tax policy. PM Oddsson participated, and famous neoliberals such as Michael Walker, head of the Fraser-Institute in Canada (which publishes *Economic Freedom of the World* annually).⁵³ The conference and the report were covered extensively in the media and a bill decreasing corporate income tax to 18% was passed by parliament in December 2001.

Concerning *political information*, Icelandic IOs do not directly collect information on the electoral consequences of MPs voting on legislation. However, Gallup collects information on different political issues with surveys that observe public opinion. Gallup and other polling corporations 'sell' questions in their surveys to stakeholders. IOs can indirectly influence MPs by publishing results of such surveys if it fits their interests. It is very likely that e.g. the Althydusamband Islands (ASI, Iceland's TUC) and the Federation of Icelandic Industries buy questions related to the question of whether Iceland should join the EU as their policy is that Iceland should join. They can also present survey results when they give testimony at committee hearings or by contacting MPs directly. Furthermore, IOs can also use reports from research institutes that they support in order to influence MPs. The main confederations of labour and capital in Iceland finance the Centre for European Studies at the University of Bifrost. This institute and its director are pro-EU and publish reports on

⁵² On 1 January 1997 tax on financial income of individuals (i.e. from shares and rent) was lowered from 42–47% to 10% (Thjodhagsstofnun 2001, 28). In 2002, corporate income tax was lowered from 30% to 18%. At the same time the level of income tax of individuals was lowered from 38.76% to 38.54% (Ministry of Finance 2003). The level of income tax on income of individuals was lowered by 1% in 2005 and again in 2006. In 2006 property tax was abolished (Ministry of Finance 2002–2009).

⁵³ *Morgunbladid* 2001, 30–31.

policy issues related to the question of whether Iceland should join the EU. As an example it published a report in 2006 that came to the conclusion that Iceland should adopt the Euro and join the EMU rather than sticking to the Icelandic krona.⁵⁴

A second factor to be highlighted that IOs use to influence legislature is their way of *influencing and activating voters*. Agitation of this kind is rare in Iceland. The transnational corporations in the aluminium industry run campaigns to influence voters in order to affect municipal politics in periods when decisions concerning building factories and power plants are taken. In such cases local interests are very strong as such plants are important in creating jobs in the local communities. The financial sector and other sectors do not approach voters directly like this.

Money is an important power resource that IOs and corporations exploit to influence the legislature. They tend to emphasize *access strategy*, i.e. they contribute to incumbents, legislative leaders, and members of majority parties. It is interesting to note that the left-wing party, the Left Green Movement, did not enter government coalitions from 1999, when it was established, until 2009. Consequently, the party and its candidates did not receive hard money from corporations as the other parties did (as discussed above). Furthermore, corporations and IOs secure long-term access to legislators by inviting them to become members of the boards of corporations and IOs. As there are only 63 MPs it can be an effective way of influencing the legislature by having MPs as board members. There are many cases of such relations between the legislature and corporations. A study in 1991 showed that 16 MPs (25%) were members of boards of corporations.⁵⁵ In 2009, 11 MPs (17.5%) owned companies or substantial shares (over one million kronas) in companies or were members of boards of companies.⁵⁶

Moreover, some IOs use *money* in order to pursue *electoral strategy* as they contribute to candidates on the grounds of the candidates' ideological or policy compatibility with the IO's goals. According to this, one would expect that candidates that are outspoken on issues that are compatible with the aims of IOs or particular corporations to receive more monetary support than other candidates. Candidates and parties that are outspoken on such issues as deregulation of financial markets, support abolition of the Icelandic krona and advocate EU membership, would be supported by the banks, transnational corporations and IOs such as the Icelandic Chamber of Commerce. The generous

⁵⁴ Einarsson and Sturluson 2008.

⁵⁵ Jonsson and Jonsson 1992.

⁵⁶ This information is on the parliament homepage. However, the information is what the MPs themselves provide.

support that the IP and the Alliance have received from these actors is likely to reflect the electoral strategy that is at work in Icelandic politics, but substantial research is needed in order to observe this phenomenon in Iceland.

The third main factor we should mention that affects the ability of IOs and corporations to influence the legislature concerns how they use their power resources. Mastering these resources involves *strategic choice*. Strategies chosen depend on the nature of the issue in question. Issues can be analysed as being particularistic, *conflictual* or *unifying*. In relation to the financial crisis in Iceland and the process of de-regulation and globalization, the strategic situation has been characterized by both *conflictual issues* and *particularistic issues*. The fishing sector has particular interests in reproducing the fishing quota system that was introduced in the early 1980s. The IOs in this sector fear that if Iceland were to join the EU then they would lose their quotas, and Brussels instead of the Icelandic government will decide on fishing policies for Iceland. Candidates in the constituencies outside the area of the capital that are dominated by the fishing industry tend to oppose EU membership and follow the policy of employers' associations in the fishing sector. Many MPs from these constituencies tend to be owners of fishing corporations, high-ranking staff of such companies or captains of fishing vessels. The fish-sector IOs have been successful in using tools such as technical policy information and influencing party positions via constituency candidates. This is particularly the case concerning the IP. The social democratic party, Alliance, has its stronghold in constituencies in the Greater-Reykjavík area, where the private and public service sectors are concentrated. This party has, since the late 1990s, had a clear policy that favours EU membership. It has been successful in gaining support from the 'transnational financial and retail complex'. The level of oligopoly is high in the financial sector and particularistic issues are characteristic for this sector. As discussed above, the financial corporations concentrate their efforts on a few MPs and use money and direct contacts based on long-standing relationships such as monetary support for candidates and board membership in companies.

The final tool to be mentioned in relation to how IOs influence legislature is coalitions. By means of *establishing coalitions* IOs can more effectively use their resources, and their image is strengthened as it is more likely that people will presume that they represent the interests of a larger part of the population in question. Coalitions of IOs are rare in Iceland, but the organizations of both labour and capital have collaborated in order to influence public opinion on the issue of EU membership. This happened when they established the pro-EU membership Institute of European Studies at the Uni-

versity of Bifrost, as observed above. By influencing public opinion via media discussion concerning the institute's reports and its director's frequent political articles in newspapers and interviews on radio and television, the IOs manage to influence the legislature indirectly. They manage also to influence it directly, as the institute reports directly to committees of parliament on issues related to EU and foreign affairs.

3.2. Agency: agents of the formation of the neoliberal regime

It appears from the above discussion that corporations and IOs used their power resources to promote the creation of a neoliberal regime by systematically creating common understandings and influencing public opinion, politicians and the legislature. The small size of the economy, high level of oligopoly and concentration of capital generated a power system that during the 1990s and until the crash in 2008 was characterized by the increasing dominance of financial capital and transnational corporations that had their origin in Iceland. In terms of policy formation these agents were highly successful in reducing taxes, and promoting deregulation and globalization of the economy. In short, corporations and IOs systematically transformed the potential powers of the political system in their interests. I now turn to tracing the historical formation of the neoliberal power elite that generated the institutional conditions for the neoliberal regime that created the 'financial-transnational-industrial-complex' in Iceland, constituted by close relationship between governments and the corporations in the financial and retailing sectors. This is a policy relationship that secured political support for the transformation of institutional frameworks and implementation of laws and regulations that created the situation in which there was almost no governmental control of the financial sector and outward direct foreign investment in Iceland.

In keeping with Figure 2, above, there are three main phases in this development to be observed. First, T1, the phase of the formation of the power base of the neoliberals. Within this phase, two sub-periods can be detected: (a) 1979–1991: the formation and take-over of the IP by the neoliberal elite; (b) 1990–1994: the neoliberalization of other parties. Second, T2, the phase of the rise of the new ruling class, the new transnational capitalist class (NTCC). Within this phase there are also two periods: (a) 1995–2000: the degeneration of the power base of the IP due to the decline of the class of wholesalers and the rise of the financial-transnational power elite; and (b) 2001–2008: the era of plutocracy. Finally there is the third phase: T3, 2009+: the phase of regime crisis in which the power base of the NTCC collapses. Let's have a brief look at these phases.

T1: the phase of the formation of the power base of the neoliberals 1979–94

i. 1979–1991: *The take-over of the Independence Party by the neoliberal elite.* In his path-breaking book, *The Power Elite*, sociologist C. Wright Mills defines the power elite as

men whose positions enable them to transcend the ordinary environments of ordinary men and women; they are in positions to make decisions having major consequences ... they are in command of major hierarchies and organizations of modern society. They rule the big corporations. They run the machinery of the state and claim its prerogatives. They direct the military establishment. They occupy the strategic command posts of the social structure, in which are now centred the effective means of the power and the wealth and the celebrity which they enjoy.⁵⁷

In the 1980s a shift in the political role of the power elite in Iceland took place. The IP suffered severe conflicts in the 1970s between rival leaders of the party. A stalemate between the followers of two rival party leaders, Geir Hallgrímsson and Gunnar Thoróddsen, made the party ineffective in dealing with the impacts of the two oil crises of 1970s and consequent hyper-inflation. Growing leadership crisis in the IP created a vacuum that neoliberals in the party's youth organization, Heimdallur, were able to exploit. Most of these young neoliberals had their power base in Vaka, the organization of right-wing students at the University of Iceland. This group formed a well-organized group of activists that promoted Friedman's monetarism and Hayek's individualism. However, the bulk of these young neoliberals were law and philosophy students that uncritically applied their ideas in a very naïve way, presuming that the tiny, oligopolistic economy of Iceland would be a great battleground for the ideal of perfect competition. They endorsed privatization as the cure for private enterprises that had been 'crowded out' of markets. Furthermore, they promoted lower taxes so that private investment would rise and they endorsed deregulation so that it would flourish.⁵⁸

The condition for take-over by the neoliberals was created when David Oddsson became the mayor of the capital Reykjavík in 1982. This post was a safe ticket to the post of leader of the IP and consequently PM of Iceland. He became PM in 1991, as discussed above, and held that post until September 2004. He was minister of foreign affairs from 2004 to 2006 and governor of the Central Bank of Iceland from 2006 to 2009.

⁵⁷ Mills 1974, 3–4.

⁵⁸ See Gunnarsson 1979.

ii. *1990–1994: the neoliberalization of other parties.* The neoliberal take-over of the IP was completed in 1991. However, as the Icelandic governmental system is a coalition system the neoliberals needed a political partner that would follow their leadership. The social democratic party, the People's Party (PP), played that role as it followed the suit of Britain's neoliberalized 'New Labour' and the North European social democratic parties. The IP and PP established a government in 1991 that managed to squeeze Iceland's membership of the European Economic Area through parliament in January 1993. The membership of the EEA gradually 'liberalized' all sectors of the economy in the following years except agriculture and fishing (these are still largely protected against foreign investment).

The PrP opposed membership of the EEA in parliament but failed. In the following years the party took on board the international wave of neoliberalism in the form of the ideology of globalization and close collaboration with the EU. Moreover, the party elite consequently emphasized 'urbanizing' the party, i.e. aiming at voters in towns and villages rather than in rural areas.

The neoliberalized party elites formed coalition governments that put privatization on the agenda, the cornerstone of which was the selling of the state banks;⁵⁹ this created the conditions for a new power elite in Icelandic society.

T2: the phase of the rise of the new ruling class, the new transnational capitalist class 1995–2008

i. *1995–2000: rise of the financial-transnational power elite.* The power base of the pre-neoliberal (i.e. social liberal) elite of the IP was for decades the balanced relationship between employers in the fishing sector and in the wholesale and retailing sectors. In the 1990s, following the establishment of the retailing company Bonus in 1989 and its expansion into the wholesale business, the power base of the IP in the class of wholesalers was undermined. Johannes Jonsson, the founder of Bonus, described the development as the collapse of the 'two aristocratic classes' that had for decades shared the retailing and wholesale sectors, i.e. those who belonged to the owners and managers of private firms and the co-operative firms in these sectors. According to Jonsson, these two classes had built their existence on oligopoly and monopoly, but Bonus had in the period 1989–2004 crushed these classes with a new oligopoly of Bonus. The advantage of the Bonus oligopoly, according to Jonsson, was that retailing prices had decreased drastically.⁶⁰

⁵⁹ See Framkvaemdanefnd um einkavæðingu. 2007 and Ríkisendurskodun 2003 and 2005.

⁶⁰ Jonsson 2004.

The transformation of class relations had began: the immediate structures (cf. Figure 2, above) of power relations between classes were changing. Bonus was the cornerstone of Baugur and a new ruling class was rising that had weak relations with the IP and its power elite. This rising class was the new transnational capitalist class (NTCC)⁶¹ that grew fast after the privatization of the banks. It was constituted by the Bonus family, owners of the banks and owners of fish quotas that invested in the banks and companies that invested abroad. The managers of the voluminous Icelandic pension funds joined the new power elite as well and steered investment of the funds into the financial sector and the main corporations of outward FDI. This new elite became so powerful that it caused the crash of the entire financial sector in Iceland and with it the bulk of other sectors as well by creating asset bubbles and expanding outward FDI.

Baugur had by 2000 gained 43–44% of the Icelandic grocery sector with its supermarkets (Bonus, Hagkaup, Nykaup and 10-11).⁶² Another private corporation Kaupas (Noatun, 11-11, Kaupfelag Arnesinga, Kostakaup (Kronan)) controlled 22–23% of the market and co-operatives 19–22%.⁶³ In the Greater-Reykjavik area, Baugur controlled 59–60% of the grocery market, Kaupas (Noatun, 11-11) 26–27%. The co-ops controlled 4–5% of the market. By 2004 the market share of Hagkaup, Bonus and 10-11 was 47% of the Icelandic grocery sector. The market share of Noatun, Kronan and 11-11 was 21%. There were two companies, i.e. Adfong and Bur, that supplied the stores with inputs. They were owned respectively by Hagar (main owner Baugur) and the co-operatives. The two companies controlled 80% of the inputs supplied in the grocery sector.⁶⁴

The level of oligopoly was already high in the financial sector of the economy. The development of the trade sector had strengthened further the oligopolistic character of the Icelandic economy.

The old power base of the IP in the retail and wholesale sectors had crumbled as concentration in the sector had increased very rapidly and the new ‘plutocrats’ did not limit their relations with the political system to the IP, but built up strong relations with the neoliberalized social democratic Alliance and the Progressive Party, as we saw above in relation to corporations’ financial support for parties and MPs. The neoliberal IP had lost its hegemonic

⁶¹ Sklair 2003, 4.

⁶² By 2008, the number of Baugur’s employees worldwide was 75,000, while the total number of employed persons in Iceland was 178,600. Baugur was a major investor in corporations like Iceland, House of Fraser, Mosaic Fashions, Hamley’s, Magasin du Nord, Illum, Saks and Landed Property.

⁶³ Verðlagsstofnun 2001.

⁶⁴ Samkeppniseftirlitid 2005.

position and the political influence of the very rich of the NTCC had gained the hegemonic position in the power elite and in Icelandic society at large.

As was highlighted in Figure 2 above, the constraints of rigid structures, i.e. the very small size of the economy, had created a severe situation of oligopoly that destroyed the neoliberal utopia of free market competition. The neoliberals had dug their own grave.

ii. 2001–2008: ‘capotism’ and the era of plutocracy. Plutocracy, or rule by the wealthy, was intensified after the privatization of the banks. The government stuck to a policy of ‘dogmatic laissez faire’,⁶⁵ and control of the financial market became a mere lip-service. Inequality increased extremely fast in the decade before the crash. As the following diagram shows, inequality increased faster in Iceland than in countries such as the US and UK. The Gini-Index increased from 0.30 to 0.34 between 1999 to 2005 when it nearly reached the level of the US.

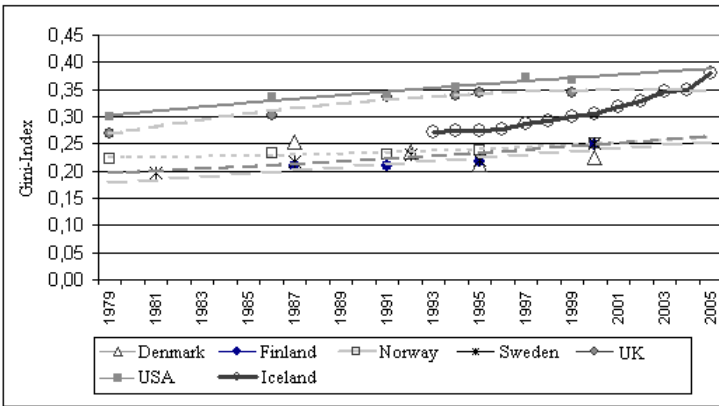


Figure 3. Increasing inequality in Iceland 1983–2005 compared with selected countries. Source: S. Olafsson 2006

Directly related to increased inequality, the NTCC adopted the lifestyle of a new ‘leisure class’,⁶⁶ characterized by extreme and wasteful consumption, i.e. ‘conspicuous consumption’ that underlines the wealth and status of the persons in question. Private jets, Bentley cars, extremely expensive summer houses, yachts, flats worth millions of pounds in London, New York etc. and birthday parties in which musicians like Elton John entertain the guests

⁶⁵ von Hayek 2008, 85.

⁶⁶ See Veblen 2008.

emphasized the status of plutocrats.⁶⁷ Sometimes the president of the republic of Iceland and/or his wife ‘had a lift’ in Jon Asgeir Johannesson’s (chairman of Baugur) jet when travelling to and from London. The champion of the NTCC, Bjorgolfur Thor Bjorgolfsson of Actavis etc. was number 307 on the Forbes list of richest persons of the world in 2008. His wealth was estimated to be around US\$ 3.5 billion. In 2009 he was put in 701–793rd place, with US\$ 0.1 billion.⁶⁸ In 2010 he didn’t make the list.

The power of the plutocrats was evident in extensive lobbying and control of the media and culminated in financial monuments such as the uncontrolled expansion of the banks abroad that resulted in national indebtedness on the scale of 851% of GDP at the end of 2008. However, the most notorious individual project was the ‘Icesave’ accounts that the Landsbanki arranged in the UK, Holland and Germany that helped to crash the banks and might cost taxpayers 700 billion kronas or approximately 40% of GDP according to the most pessimistic predictions of economists.

Icelandic society is characterized by tight nepotism in which relationships among relatives and social and political friends are important when decisions concerning recruitment and payoffs are taken. Insofar as principles of nepotism rather than market competition prevails, one should characterize Icelandic society as ‘capotist’ and analyse it in terms of ‘capotism’ (i.e. a mixture of nepotism and capitalism) rather than ‘capitalism’ (i.e. an economy characterized by private ownership of the means of production rather than competitive markets). In the period after the privatization of the banks, plutocrats, i.e. managers and owners of shares in the banks and related companies, used their position to direct investment funded by loans from their own banks into buying shares in their firms so that share prices increased constantly. Furthermore, they paid into their own pockets bonuses and shares in the companies so that within only a few years their wealth increased by many hundred per cent. The concept of ‘plutocracy’ refers to societies in which power structures and societal decision-making are characterized by a concentration of power in the hands of a small group of wealthy persons that are able to exploit the economy and increase their own wealth by reaching beyond their own realm of money and control politics and government. When money finds its way into politics corruption becomes the rule of the game. Plutocracy thrives on corrupt politics and corrupt politics thrive on plutocracy. At the height of the financial boom in Iceland and with the non-supervising Financial Supervisory Authority of Iceland and the government playing a passive role in regulating financial markets, the financial institutions became ever more corrupt.

⁶⁷ *Morgunbladid* 2009c.

⁶⁸ *Morgunbladid* 2009b.

The speculative mania in Iceland appeared in the form of insider investments. The managers of the banks were allocated loans from the banks to buy shares in the banks and these loans were secured in the shares bought and not in other assets owned. As in a Ponzi swindle, the more often and extensively this was done, the more the prices of the shares rose and with higher share prices the assets of banks became more valuable and they were able to get more loans to lend to firms and employees, who bought shares in the banks, etc. Politicians and even ministers were involved in the process. The best known case is Thorgerdur K. Gunnarsdottir, the minister of education, whose husband was manager at Kaupthing Bank and who received loans worth 893 million kronas (5.8 million Euros)⁶⁹ to buy shares in Kaupthing Bank.⁷⁰ Besides organizing share price spirals of this kind, the plutocrats established shadow firms abroad in tax-havens such as the Isle of Man, Jersey, the British Virgin Islands, Cayman Islands, etc., to make their investments less traceable for tax authorities. This appears to have taken place following signs of a possible crash of the US housing bubble in 2006. Panic characterized the activities of the plutocrats. Following the crisis and bankruptcy of the banks, Baugur and other companies are suspected of fraudulent activities, an investigation into which by an international team led by expert Eva Joly got under way in the spring of 2009.

4. Game Over: Rigid Structures Blow the Whistle

The Collapse in October 2008

The period from the 1950s to the 1980s in Iceland was characterized by a shifting hegemonic position of fishing and trading capitalists and the rise of the respective development strategies of 'import substitution' and 'export promotion'.⁷¹ When the European Free Trade Association (EFTA) and the European Union established the European Economic Area (EEA) in 1992, Iceland became part of EU's single market. The EEA Agreement came into effect in 1994. Following deregulation of goods, financial and labour markets and privatization of the three state banks in the late 1990s and early 2000s, outward FDI increased rapidly. The total assets of the subsidiaries of the three main Icelandic banks, Glitnir, Landsbankinn and Kaupthing, grew from 3,942 billion kronas in 2004 to 11,354 billion kronas in 2007 or from 424% of GDP to 868%. In 2005 and 2006 the ratio of assets of foreign subsidiaries

⁶⁹ Exchange rate in November 2010.

⁷⁰ Reynisson 2009.

⁷¹ See Jonsson 1991, 1993 and 1995.

and branches owned by the banks amounted to roughly 45% of their total assets while in 2007 the ratio slipped to roughly 41%.⁷² However, the expansion was based on foreign debt that mounted to 870% of GDP, i.e. 12.886 billion kronas⁷³ at the end of 2008.⁷⁴ The debt burden was severe for the very small economy of Iceland. As a percentage of GDP the interest rate payments increased from 3% in 2003 to 21% in 2008 and 11% in 2009.⁷⁵

The economy of Iceland had become very vulnerable due to its indebtedness in 2008. In addition to the expansion of the financial sector, the retailing sector had also expanded quickly overseas. The business model on which the expansion was founded emphasized exploitation of easy access to loans on the international financial market and relatively low interest rates. These loans were spent, on the one hand, on aggressive take-overs of firms that would become profitable through restructuring (the strategy of the retailing company Baugur Group) and, on the other hand, on takeovers of firms that opened avenues to new markets and/or cheap labour and raw materials (the strategy of Actavis, Novator, Bakkavor and Norvik).

The neoliberal governments in the early 2000s had counteracted the inflationary pressures from the Karahnjúkar power plant and Alcoa aluminium plant projects and the expansion of the financial sector by (a) keeping labour costs down by opening the labour market to foreign workers; (b) issuing state bonds that were mainly sold to foreign investors; and (c) keeping the Central Bank's interest rates high.

With the crash of the international financial markets in 2008 the grounds for the business model of the corporate sector and government strategy were swept away. The banks were unable to finance their own activities and consequently unable to finance the corporate sector. The Icelandic banks were nationalized and, in collaboration with the IMF, an austerity policy was implemented that aimed at defending the Icelandic krona by keeping interest rates high. Furthermore, foreign exchange controls were implemented. Iceland was promised a conditional loan of US\$ 2.1 billion from the IMF. US\$ 861 million of the loan was received in November 2008 and was put into a bank account in New York. The rest was supposed to be paid after a three months' interval, depending on new evaluation of the status of the Icelandic economy.⁷⁶ However, the IMF did not make the first payment until October

⁷² Central Bank of Iceland 2005–2008.

⁷³ I.e. monetary authorities' debt was 371 billion kronas, general government 534 billion, deposit money banks 10,598 billion, other sectors 11.36 billion and direct investment 247 billion (Central Bank of Iceland 2009a).

⁷⁴ Central Bank of Iceland 2009a.

⁷⁵ Central Bank of Iceland 2009b and 2010.

⁷⁶ IMF 2008.

2009, after repeated delays due to reluctance of the Icelandic people to pay Icesave; the second payment was made in April 2010.

The economic policy measures did not work in the short run. Unemployment increased rapidly, i.e. from 2.5% in the third quarter of 2008 to 7.1% in the first quarter of 2009 and 7.6% in the first quarter of 2010.⁷⁷ Housing prices fell even faster than they did in 2007 and many families became heavily indebted as the exchange rate of the krona fell⁷⁸ and their mortgages were linked to the exchange rate of the krona. Inflation increased quickly and the Central Bank kept to its policy of high interest rates in order to undermine the inflation.⁷⁹ However, with the high interest rates, expectations of the corporate sector became negative so that investment plunged and unemployment intensified. By December 2008 the economy was locked in a vicious circle and in January 2009 riots forced the government to resign. A new minority government of the Alliance and the Left-Green Movement was established in early February with the support of the Progressive Party, and parliamentary elections were held on 25 April.

Following the elections a coalition government of the Left-Green Movement and the Alliance came to power in May 2009. Due to the large debt burden discussed above and decreasing tax revenues, the government planned to cut state expenditure by 100 billion kronas, or 6.7% of GDP in 2009–2013. These cuts are in addition to real-value cuts of state expenditure due to inflation that is likely to be around 28% over the period. The real-value cuts will be around 187 billion kronas or 12.5% of GDP. Consequently, as state expenditure was 669 billion kronas in 2008, the real cuts will be 287 billion or 43% over the period. The bulk of the cuts will be to the welfare system. Moreover, 65% of corporations⁸⁰ and 39% of households were technically bankrupt.⁸¹ Around 13% of households were due to go through foreclosure in October 2010, but fear of riots forced the government to suspend the process of foreclosure for six months.

This situation may lead to increased social unrest and riots as trust in the institutions of democracy is decreasing. According to a Gallup survey in Feb-

⁷⁷ Statistics Iceland 2009b and 2010.

⁷⁸ The exchange rate of the krona against the Euro fell from 84 on 29 June 2008 to 183 at the end of November. Inflation measured in terms of 12-month changes of the consumer price index increased from 3.4% in July 2007 to 18.6% in January 2009 and decreased to 11.9% in April 2009.

⁷⁹ In June 2007 the policy rate of the Central Bank was 13.3%. In October 2008 it reached 18%. In May 2009 the rate was lowered to 13%. At the same time the European Central Bank set its rate at 1%.

⁸⁰ Pressan 2009.

⁸¹ Visir 2010a.

ruary 2011, only 11% of Icelanders have much trust in parliament, 37% in the judicial system, 41% in the state prosecutor and 6% in the banking system.⁸²

T3, 2009+: the phase of regime crisis

The hegemonic position of the NTCC crumbled with the crash of the financial system and a large part of the wholesale and retail sectors in late 2008 and early 2009. In parliamentary elections in April 2009, the IP got 23.7% of the votes compared to 36.6% in 2007. The party had been in government since 1991. The power elite of the IP and the NTCC had lost its political and economic base. Following the elections in April the Left-Green Movement and Alliance established a coalition that nationalized the banks, and a large number of technically bankrupt corporations came under the control of the banks. However, with help from Islandsbanki,⁸³ Baugur kept its ownership of the media corporation, 365, and the second largest newspaper, *Morgunbladið*, was largely taken over by plutocrats who control large fishing quotas.⁸⁴ In the present transitional situation the position of the banks in the power elite is weak, and it is likely that the fishing and retailing sectors will gradually gain the hegemonic position, and a new fishing and retailing power bloc will emerge.

As the present 'left-wing' coalition government has decided to cut state expenditure and public services drastically, it is likely that the opposition parties, the IP, the Progressive Party and the Citizens' Movement will increase their support in the next parliamentary elections. As a consequence, the power elite of the IP and fishing and retailing sectors will regain the position they had before the boom of the financial sector.

5. Conclusion

Taking the case of Iceland and its socio-economic development since the 1980s, I have examined the rise and fall of a neoliberal regime that implemented policies that led to the collapse of almost its entire financial system, as well as a social and economic crisis that has been called 'one of the great economic disaster stories of all time'.⁸⁵ My aim has been to find explanations of the emergence and fall of this regime in causal relations that stem from the dynamics of agency and structural constraints.

⁸² Capacent Gallup 2011.

⁸³ The bank Glitnir was nationalized following the crash, but it was privatized in October 2008 as Islandsbanki.

⁸⁴ Bjarnason 2009.

⁸⁵ Krugman 2010.

Iceland experienced gradual implementation of free trade policies following its membership of EFTA in the 1970s and EEA in the 1990s. Furthermore, fundamental structural change transformed the economy following privatization of the state banks and the rise of the hegemonic position of the financial capitalist class as well as the massive expansion of outward FDI in the financial and retailing sectors in the early 2000s. The boom in these sectors and the intensified oligopoly of the domestic economy contradicted the neoliberal ideology of free market competition and generated a new kind of plutocratic transnational capitalist class. The mode of governance that followed, dogmatic laissez-faire, fostered practically uncontrolled financial markets that, by way of Ponzi swindle and fed by easy access to international financial markets, generated housing and share price bubbles that finally ended in the collapse of the economy in 2008.

After indicating the background of the crisis, I explained its causes by analysing the nature of governance that characterized the neoliberal regime. This regime came about due to the active transformation of the political system by realizing its propensities and causal powers. The propensities of the political system were realized through the takeover of the right-wing party, the IP, by a well-organized group of young neoliberal university students. External factors helped establish the regime, as the social democratic party aped the neoliberalization of UK's Labour Party and Scandinavian social democrats. The centre party, the PrP, followed the trend and the IP and PrP coalition government reigned from 1995–2007. The neoliberal regime was characterized by the tight grip that the neoliberal politicians, associations of employers and particularly the globalized banks and retailing corporations had on media, universities and research institutions. This was essential for ideological legitimization of the regime, control of public opinion and creation of common understanding.

Dogmatic laissez-faire and deregulation were the modes of governance of the regime. However, due to the very small size of the economy, concentration and centralization of capital increased at a great rate and undermined the power base of the IP. This was a structural constraint unforeseen by the neoliberal elite, which presumed that deregulation would lead to a state of perfect competition. The expansion of the globalized corporations fostered the new power elite of the NTCC that steered the country into a situation of unheard-of indebtedness. Following the international financial crisis in 2008 the economy of Iceland collapsed and plunged the society into crisis.

By way of summary, the case of the neoliberal regime in Iceland appears to demonstrate that social development is not a question of structural necessity but a question of structural potency realized in processes of social construction.

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