DEPARTMENT OF SOCIAL SCIENCS

The Political Economy of Icelandic Nationalism

The Rise of the Rhetoric of 'National Interests‘

BA thesis

Author: Jon Steinar Gudmundsson
Supervisor: Francesco Macheda

(Spring – 2016)

HÁSKÓLINN Á BIFRÖST
BIFRÖST UNIVERSITY

Abstract

This thesis explores the class structure, determined by economic interests, of Icelandic nationalism. In explaining the economic factors associated with the agents involved in promoting nationalist ideology standing for nationalist rhetoric, I adopt a critical realist approach, according to which market economy embodies, transforms, and ultimately reproduces nationalism. The rise of the rhetoric of national interests in the aftermath of the financial implosion of 2008 is chosen as the event to explore this issue. Is nationalist ideology economically determined? To provide an answer, the first part of the thesis deals with the international context of financialization, beginning with the role of financialization in the international political economy, the concepts of financial expropriation and speculation are explained, and the development of the Icelandic political economy is put into context of the financializing world market. The second section is a critical comparison between orthodox and heterodox, or idealist and materialist, theories of nationalism. The thesis argues for a materialist approach, one which considers nationalism to be an expression of class interests. The final section deals with the political economy of Icelandic nationalism, or how economic factors influenced nationalist rhetoric. The conclusion is that the economic factors of high indebtedness of Icelandic households, coupled with an international dispute over repayment obligations surrounding a failed bank branch, were the material conditions out of which the rise of nationalist rhetoric can be explained. In addition, the reasons for the qualitative difference in the expression of Icelandic nationalism prior to the financial implosion is found in the hegemony of the transnational capitalist class, a class position which imploded with the banking system in 2008.

Key concepts: Financialization, class structure, nationalism, political economy, critical realism, Iceland, financial crisis.

Acknowledgements

Few things influenced my worldview, and my life-trajectory, more than the financial implosion of 2008. I probably would not have enrolled into university, and definitely not in Bifröst university. At the very least, without the financial implosion, this thesis would be about something else. I would like to thank my supervisor, Francesco Macheda, for his invaluable help. My girlfriend, Ása María, I love you. Mom and Dad, you always supported me and believed in me, I can't thank you enough, I love you.

Table of Contents

Introduction

The link between economic crisis and nationalism, a political platform around "national interests", will be explored in this thesis. The particular case of Icesave is chosen to clearly demarcate the thesis, as well as for its exemplary nature of how an economic crisis transformed the debts of private property into a heavily politicized case of national interests.

My main hypothesis is that nationalism has a class structure, determined by economic interests. The rise of the rhetoric of national interests in the aftermath of the financial implosion chosen as a way to test this hypothesis. Is nationalist ideology economically determined?

To provide an answer, the first part of the thesis deals with the international context of financialization, beginning with a broad overview of recent developments in the international political economy. Particularly, the role of financialization. This is followed with an exploration of the systemic, economic processes financial expropriation and financial speculation. The chapter ends with an overview of the development of the Icelandic political economy, and its relationship to the international developments above.

In the second section the aim of the thesis is to provide a critical comparison between orthodox and heterodox, or idealist and materialist, theories of nationalism. The thesis argues for a materialist approach, one which considers nationalism to be, in the final analysis, an expression of class interests.

The final section deals with the political economy of Icelandic nationalism, or how economic factors - financialization and the financial implosion of 2008 - influenced nationalist rhetoric.

Methodology

In exploring the political economy of nationalism in Iceland, I will employ a critical realist mode of analysis, as it is the opinion of the author that nationalism has a class character. Like any political ideology, nationalism is a form of ideology, as it defends, implicitly or explicitly, the interests of a class as if they were the interests of all classes, sometimes by denying the existence of classes. (Carchedi 2011)

In explaining the economic factors associated with the agents involved in promoting nationalist ideology standing for nationalistic rhetoric, I adopt a political economy approach, according to which market economy embodies, transforms, and ultimately reproduces nationalism.

My hypothesis is that growing reactionary nationalist tendencies must be found in the continually changing structure of the Icelandic economy. Certainly, the degree of chauvinism/inclusivity is also influenced by many other factors, such as laws, popular beliefs, social patterns custom, and so on. But the economic factors that come into play to one degree or another represents the ultimately determining element in the reproduction of nationalistic and xenophobic values.

From this point of view, the study of the complexity of forces behind 'reactionary nationalism' entails rejecting both the notion that cultures exist more-or-less independently of what states, politics and economics do because they are in some sense prior to the emergence of capitalism.

Rather, it focuses less on the intentions of individuals and more on the institutional context within which their decision-making takes place. In doing so, I will take into account the social and class structure of the society in which nationalist discourses arise.

1. The International Context of Financialization

This chapter will provide a broad overview of recent developments in the international political economy. Particularly, the role of financialization. This is followed with an exploration of the systemic, economic processes financial expropriation and financial speculation. The chapter concludes with an overview of the development of the Icelandic political economy, placing it in the international context of financialization.

The past four decades has seen a restructuring of the political economy of the mature capitalist states, involving an intensification of financial activity, or financialization. Epstein defines financialization as “the increasing importance of financial markets, financial motives, financial institutions, and financial elites in the operations of the economy and its governing institutions, both at the national and international levels" (Epstein, 2002). David Kotz, following Epstein, writes: “the changing role of finance in the economy in recent decades can [...] best be captured, not by the idea of dominance by the financial sector, but by the concept of ‘financialization’, which suggests an expanding role for finance in economic activity” (Kotz, 2008).

A short historical overview of the context of financialization is needed here. The structural changes upon which the financialization process rests include the abandonment of the Bretton Woods system, a monetary policy based on the gold standard, for a system characterized by international exchange markets based on the US dollar. (Lapavitsas, 2013). The reforms also lifted restrictions and regulations dating back to the Great Depression of 1929. A form of economic policy often dubbed supply-side economics, or neoliberalism, informed the political leadership. The principles of this policy equates market liberalization, a reduction of state ownership, and “business-friendly” tax codes with good governance. Due to its newly found freedom, finance capital was able to increase its penetration into other spheres of the economy. But soon mere opportunity turned into imperative, as the competitiveness of financial firms became dependent on increasing their market penetration (Benediktsdóttir, Daníelsson, & Zoega, 2011).

In *Profiting Without Producing* (2013) Costas Lapavitsas analyses the “change that has taken place in mature capitalist economies and societies since the late 1970s”, and emphasizes the role of financialization as an agent of transformation. Historically, mature capitalism has undergone many such changes: the 19th century rise of industrial capital in the British Empire, the early 20st century flight of capital from Britain to the United States and Germany, the post-WW2 consumerism/mass production boom. This is not to say that financialization caused them all, but only to note that – for disparate reasons – capitalism has undergone restructuring periods. Arguably, the 1970s was the beginning of one such period, which has seen a massive shift of productive capacity from the West to the "developing" economies of the East – while the institutional structure of Western finance has been massively altered (Lapavitsas, 2013).

The oil shock of 1973-4 "signalled the end of the long post-war-boom and ushered in a long downturn punctuated by repeated economic crises". The long downturn spurred profound institutional and political changes in reaction: especially those of financial and labour market deregulation (Lapavitsas, 2009, pp. 124). The subject of this thesis cannot go into heavy detail on the causes of the 1973-74 crisis, but the author points to the work of Brenner (2006, pp. 145-187) and Kliman (2011, pp. 49-73) – where it is argued that the intensification of global competition had reduced productive profitability to unsustainable levels.

Lapavitsas points to three aspects of the post oil crisis world economy, which are of particular relevance to financialization: a stagnant productivity-growth of labour, altered work-practices, and transfers of productive capacity to emerging markets (particularly China). The first two aspects are related to technological advances in telecommunications and computing, and the deregulation of labour.[1] The third aspect is related to the rise of multinational enterprises "created through successive waves of mergers and acquisitions", which come to dominate global production and trade. Global competition between these multinationals directed foreign direct investment (FDI) away from the West and toward the developing world.

In this context financialization is to be understood. As Giovanni Arrighi (1994) pointed out, in periods of financial expansion and in an increasingly uncertain business environment, we usually witness a diversion of capital from the purchase and sale of commodities (including wage labour, plant and equipment) to borrowing, lending and speculation. Under these circumstances, a

[1] The lagging productivity growth of labour is countered by the intensification of work, and a rebalancing of paid and unpaid labour: work-intensification associated with new technology is a key reason for dissatisfaction with work in developed countries.

growing mass of capital is withdrawn from trade and production and held liquid to avoid the risks and troubles of investment. This large and growing mass of surplus capital that cannot be reinvested profitably in the purchase and sale of commodities in itself creates all kinds of profitable opportunities for financial intermediaries to borrow, lend, and speculate. These insights seem to be consistent with the historical development of Western capitalism: while productive capital has seemingly plateaued in the developed world, the finance sector has ballooned in size.[2]

The quantitative increase of financial markets has been complemented by a qualitative transformation, as the restructured institutional framework of finance supported:

a. a financial expansion based on a new form of "financial expropriation", that is, the process of extracting financial profit directly out of the personal income of workers and others (Lapavitsas, 2009).
b. a tendency towards speculative capital gains over direct investment in productive capacity, that is, a shift from the sphere of production to the sphere of financial speculation.

1.1. The new practice of 'Financial expropriation'

The term financial expropriation is chosen since it highlights it as a systematic, economic process. Lapavitsas' schema of financial expropriation (2011) involves three interrelated processes.

Firstly, the increased involvement of large international corporations on the financial markets, which both lessens their reliance on banks and increases their involvement in financial activities on their own account. Simply, the reliance of large corporations on commercial banks has been declining, instead they have been increasingly relying on their own retained profits, and the open markets.

[2] During the 1970s the amount of internationally invested financial assets corresponded to 50%-70% of worldwide GDP; by the beginning of the current decade this had risen to about 320% in industrial countries. This particular dynamic of internationalised financial assets also holds in comparison to international trade: the ratio was about 180% in 1970 and about 700% in 2004. (Huffschmid 2008: 213)

Secondly, in response to this, banks restructure and reorient themselves toward households and financial market mediation. This process was fuelled by the liberalization of financial markets, which not only reduced the restrictions of how financial capital could operate, but also reduced the privileged status of the specialized financial firm, as large multinationals could sidestep them by cutting out the middleman. Paradoxically, financial deregulation meant that "[t]he scope for conventional commercial banking narrowed even more" (Lapavitsas, 2009).

Finally, the aforementioned reorientation sustains the practices of financial expropriation, i.e. the financial involvement of workers in the form of credit. The financing of personal revenue generally aims to meet basic needs: housing, education, health care, retirement funds, insurance, consumption, etc. This becomes more important while public provision for social needs is in retreat, since it increases the dependency on financial credit.

Lapavitsas argues that the phenomenon of financial expropriation ultimately results from the asymmetric information entailed in the asymmetric relationship between economic agents, as the obligation to repay between two enterprises is likely to differ qualitatively from that between corporation and an individual. In the former case, it is reasonable to assume that it is an agreement between equals (in access to information, economic power, and social status). The corporation seeks finance in order to expand its profitability. In the latter case, there is a marked imbalance. Individual workers (and others) who turn to finance have different motives, less access to information, and less access to alternatives. As Lapavitsas (2013) pointed out:

> "The more that individual workers have been forced to rely on financial institutions, the more the inherent advantages of the latter in information, power, and motivation have allowed them to tilt transactions to their own benefit. Elements of supremacy and subordination are present in these relations, [...] financial expropriation draws on a fundamental inequality between financial institutions and working people accessing finance."

1.2. The rise of financial speculation

The shift of banks toward financial, direct, expropriation supported the rise of the technique of securitisation, that is, the conversion of bank loans into tradable securities (Rutherford, 2002) – which in turn contributed to a paroxysm of speculation. The reason why banks turned to off-balance-sheet securitized debt is clear, in view of the developments outlined above. To support their loans (such as mortgages, consumer credit, university loans, health care insurance, etc.) banks must hold significant amounts of own capital. But holding own capital is expensive and risky, and hence banks have a strong incentive to take loans off the balance sheet, sell them to others in the form of securities. These securities are 'originated', that is, effectively managed, by specialist financial institutions, typically investment banks. They are then ready for trading in open financial markets (Lapavitsas 2008: 18-19).

With little regulation or supervision of financial institutions, the spread of securitisation offered the opportunity to make substantial profits with the trade of debt securities, in the form of fees or capital gains, which ultimately come out of the personal income of debt holders. More generally, capital gains are derived from buying and reselling securities, stocks, or other financial instruments, and selling them at a higher price later on – the difference between the buying and the selling price is precisely what capital gains are.

In chapter 8 of *Finance Capital,* Rudolf Hilferding emphasized the difference between gains from production and speculative gains (capital gains). The former are profits derived from lending money, that is, from investments (dividends) and loans (interest). Dividends and interest depend on the profitability of the investee, or the repayability of the loan-taker. The latter, instead, results from merely handling monetary transactions, from trading in a huge range of financial assets, or from plain increases in the price of financial assets (capital gains).

However, let us focus on capital gains and their inherently speculative nature.

Those seeking capital gains are interested in fluctuations in the price of securities, and attempt to foresee these fluctuations. This is because they are not interested in the dividends or interest which the security entitles them to, but in the gains derived from buying these entitlements cheap and selling them dear. Thus to the speculator the productive profitability *as such* is unimportant, while relative price changes are his bread and butter. As Hilferding (1981) noted:

> "Unlike the productive capitalist the speculator does not care whether commodity prices rise or fall; all that concerns him is the price of his titles to interest. These prices depend upon the amount of profit, which can rise or fall, whether prices rise, fall, or remain stationary. The decisive factor affecting profit is not the absolute level of prices, but the

relationship between costs and prices: But it is also unimportant to the speculator whether profits rise or fall; he is only concerned with being able to foresee these fluctuations"

1.3. The financialization of the Icelandic economy

The development of the Icelandic political economy must be understood in the light of the international transformation discussed in the previous section. The Icelandic economy has, since it begun to industrialize, been historically characterized as export orientated, and thus dependent on the international markets it specialized in (seafood, overwhelmingly). Other key elements in the Icelandic economic model is both a high employment rate and low productivity per worker. The small size of the Icelandic economy shapes its productive structure, which has been characterized by a high level of concentration and centralization of capital in relatively few firms. Again due to its small size, Industrialized Iceland has always been dependent on international imports to satisfy its internal demand. The conflicting dependencies of producing for export and importing to meet consumption needs, coupled with the small scale, gives the Icelandic economy a particularly fluctuating nature. In response to recurrent turbulence in export profitability (due to international market fluctuations, resource supply, etc.) the Icelandic government often chose to devalue the currency to boost waning export profits (Jónsson 1991).

With the crisis of the export-led regime of accumulation between the 1980s and 1990s, this investment strategy ceased to be sustainable. (Macheda 2012: 440) Due to that crisis, the lack of profitable investment opportunities within the internal market convinced Icelandic policy makers to join the European Economic Area through the EEA treaty.

Iceland's membership of the EEA Treaty meant that Icelandic firms gained access to the newly established European Economic Area, a single market which combined the markets of the EU and EFTA. Becoming an EEA member introduced the "four freedoms" of the EU – the free movement of goods, capital, services and persons (Ólafsson, 2011). Alongside access to a much larger market, the Icelandic financial firms now enjoyed an increased freedom to invest - both inside and outside of the finance sector (Benediktsdóttir, Daníelsson, & Zoega, 2011).

As part of the treaty, various EU directives had to be implemented into Icelandic law. For instance, the European capital adequacy directive (CAD) required financial institutions to hold a minimum amount of capital, amounting to 8% of their risk-weighted assets (loans, bonds, securities, etc.). Generally, the lower the allowed minimum ratio, the greater percentage of capital can be leveraged for investment.

Despite this, the directives gave member states considerable leeway in regulating their home financial markets, as long as the minimum provisions of the treaty were satisfied. According to Benediktsdóttir, Daníelsson, & Zoega (2011), the route which the Icelandic government took was to "improve the competitive conditions of Icelandic financial institutions in the single market" by keeping its financial regulation to the legal minimum.

The Financial Supervisory Authority of Iceland (FME) operated during the boom years in a *laissez faire* manner, both as a matter of economic policy but also because the sector it was supposed to supervise had quickly become too large for its 50 employees (including janitors, etc.) to handle. To argue the point that this was a matter of policy, I point to the reticence of the government to regulate the financial sector above the bare minimum, as well the preparatory policy committee established by the Prime Minister in 2004 on "how Iceland could be turned into a new global financial centre." The FME routinely approved transactions in which banks financed loans that were intended for the purchase of its own stock, and allowed these sales to be counted as capital – a practice which is widely illegal – and in fact went against the CAD (Ibid.).

These reforms supported the program of banking privatization in Iceland. The banking sector was at first mostly left alone except for the privatization of a small investment bank. In 1998, the privatization process of Landsbanki and Búnaðarbanki (later known as Kaupþing) was started. A third bank, Íslandsbanki (later known as Glitnir), emerged from the mergers of the aforementioned small investment bank and other properties. The privatization process was complete in 2003, and the new management quickly transformed the historically risk-averse commercial banks into aggressive investment banks (Ólafsson, 2011).

The period of 2003-2007, the boom years, saw an unprecedented growth in the banking sector as well as an average GDP growth of 5.5%. During this period, the total assets of the three banks rose from about 150% to 744% of the GDP. During the crash year of 2008, the banking system peaked at 865% in August (Benediktsdóttir, Daníelsson, & Zoega, 2011). "Accounting tricks" were also a factor in the expansion, such the practice of a bank financing the purchase of its own stock in order to inflate their stock prices, and the buying and reselling stocks of holding companies which were in control by the same owners, etc. These were a source of speculative profits in the form of capital gains.

The banks were indeed immensely profitable, despite resting on shaky foundations. Stiglitz (2001: 10-11) has pointed out that the boom rested on a strong boom in international credit markets, which gave the Icelandic financial sector ample access to cheap credit to finance the internal boom in private consumption and investment. More specifically, Icelandic financial institutions took advantage from the difference between Icelandic interest rates and those within the countries they received their credit, as Icelandic financial firms borrowed foreign currency at low interest rates and invested and loaned the money in the Icelandic Króna (Macheda, 2012).

Much of banks' profit was due to their foreign investments and overseas bank subsidiaries which, for exchange rate reasons, could offer competitive savings account rates to their foreign clients (Hard-Landsberg, 2013; Howden, 2013). Hermannsdóttir, Thorstensen and Ólafsson (2007) provide us with an intriguing account of foreign investment (FDI) from Iceland.[3] Icelandic investment in foreign markets has historically been virtually non-existent, and the time period of their paper (1998-2005) serves our purposes: to show how Icelandic financial firms turned from a saturating internal market to greener foreign pastures. The authors calculated this using data from the Central Bank of Iceland, OECD, and the United Nations Conference on Trade and Development. Between 1998 and 2003, it can be seen that the FDI from Iceland slowly grew from under 100 million dollars to around 500 million. In 2004 it exploded to around 2700 million dollars,

[3] The World Trade Organization defines FDI as "when an investor based in one country (the home country) acquires an asset in another country (the host country) with the intent to manage the asset."

and in 2005 it grew to over 6000 million dollars (Hermannsdóttir, Thorstensen, & Ólafsson, 2007). It is worth noting two key points: (a) 2003 marks the year where the Icelandic banking privatization process was complete, and (b) 2005 marks the year where the Icelandic domestic economy was reaching its saturation point, as David Howden puts it: “[B]y 2005, Icelandic banks had more-or-less exhausted the opportunities for organic growth from the domestic market” (Howden, 2013). The way out of this conundrum for the Icelandic banks was to establish a number of subsidiaries, such as Icesave and Kaupthing Edge, operating in foreign countries, that provided their clients with high interest savings accounts (Johnsen, 2010).

To expand on this last point, it is important to note the structural reasons behind this change in emphasis. In the first phase of expansion (2003-2006), the banks operated an international finance market which was marked by historically low interest rates, while simultaneously operating in a domestic market with a relatively higher interest rate (Flannery, 2009). Additionally, the monetary policy of the central bank of Iceland was characterized by raising short term interest rates to combat inflation (a practice called inflation targeting), this had the effect of making Icelandic financial firms favourable in the eyes of international financial markets (Macheda, 2012). The initial growth during this phase was financed by the issuance of public bonds in foreign markets, which funded more than half of their asset growth “though the end of 2006” (Flannery, 2009).

From 2006, however, the credit ratings of the Icelandic banks took a turn for the worse, as international ratings companies such as Fitch and Merrill Lynch issued reports which raised questions about the stability of a finance sector which relied so heavily on public bonds and short-term wholesale funding. Other warning signs were when U.S. money funds declined to extend loans issued to all three banks. Landsbanki launched its Icesave subsidiary in the end of 2006, and within a year had grown to fund 20% of Landsbanki’s total assets (Flannery, 2009). Aggressively courting small depositors, Icesave offered online-only savings accounts with the highest interest rates and the lowest minimum deposit (£ 250) of comparable savings schemes (Haurant, 2006). In a July 2008 press release, a few months before the financial crash, the bank boasted: “There are now over

350,000 Icesave accounts in the UK and the Netherlands, and over 50% of Icesave UK deposits are now term deposits" (Landsbanki Íslands hf., 2008).

2. Orthodox versus heterodox theories of nationalism: a critical comparison

This chapter will provide a critical comparison between orthodox and heterodox, or idealist and materialist, theories of nationalism. The thesis argues for a materialist approach: one which considers nationalism to be, in the final analysis, an expression of class interests.

Nationalism, as a field of scholarly research, has a wide range of theories and analytical frameworks. It is customary to classify the theories into three distinct groups: Primordial, Modernist, and Ethno-Symbolic. However, for my purposes, I will use another model to classify them: Idealist and Materialist. Idealist theories of nationalise argue for a conception of nationalism as an idea, a feeling, or sentiment. In an idealist framework of nationalism, the source of nationalism is located in the realm of ideas, values, and culture. For those who have a cursory knowledge of the theories of nationalism, it is easy to see that "modernist" theories can be just as idealistic as the other three customary classifications.

Ernest Renan was an influential early nineteenth century theorist of nationalism. Renan defined the nation as "a soul, a spiritual principle," a collective memory of past glories, and "a common will in the present" to live together. His definition fundamentally places the wellspring of nationalism within the mind, or as Berberoglu (2000) puts it "a subjective, idealist conception of the nation that is largely a product of the mind, an abstraction that emerges from the collective imagination." Berberoglu also notes how this conception of the nation places an "overemphasis on ethnic and cultural phenomena" to provide an explanation of its origin, and of the development of nationalism. Such a subjectivist and idealist definition of nation and nationalism "is divorced from the social basis and material reality that gives rise to the phenomenon of nationalism in the form of a collective national will."

Of course, Renan was not the sole theorist of nationalism during his time, but he serves as a good example of early orthodox theories of nationalism. Many of his contemporaries followed a similar path, as did later generations. Max Weber's nation is a "community of sentiment", and nationalism It's missionary project. Hans Kohn's nationalism is "first and foremost a state of mind, an act of consciousness." Carlton Hayes likens nationalism to a religion, echoing Weber's missionary zeal. Briefly put, the early orthodox theories conceptualized nations and nationalism in idealist, subjective ways: as feelings, ideas, values, or sentiments.

Let us turn to some of the more current theorizers of nationalism: Elie Kedourie, Ernest Gellner and Anthony D. Smith. Kedourie rejects a naturalized notion of nation, instead arguing that nationalism is "borrowed from some other nation" (Kedourie, 1993). Nations and nationalisms thus are a European invention, spread by European colonialism. This theory has great similarities to the work of Benedict Anderson, which we will return to later. While rejecting nations as a natural phenomenon, we still find familiar conceptions of nations and nationalisms as based on individual will: the individual "in pursuit of self-determination, wills himself as the member of a nation." "Such a subjectivist argument," writes Berberoglu, "divorced from the social basis that gives rise to the phenomenon of nationalism in the form of a collective national will, is a product of an idealist formulation and lacks a basis in material reality."

Gellner's theory of nations and nationalisms posits that culture, not Kedourie's individual will, is of primary importance: "nationalism, which sometimes takes pre-existing cultures and turns them into nations, sometimes invents them, and often obliterates pre-existing cultures." Gellner's theory is also a theory of modernization, one in which the role of nationalism is to ease the transition between agricultural and industrial societies, where "In the past, social structure not culture held society together; but that has now changed. That is the secret of nationalism: the new role of culture in industrial and industrialized society."

Anthony D. Smith is considered the forefather of the ethno-symbologist school of nations and nationalisms and is one of the most ardent critics of modernization theories. His approach accepts the modern invention of nation states, while emphasizing that they are rooted in the culture of ethnic (primordial, natural) communities. The nation, according to Smith, emerges out of the premodern ethnic community - its sentiments, values, and culture. Brown (1998) describes Smith's conception of the nation as "lineally descended from the ethnic community which has its own distinct origin, and this claim to common descent is politicised by the intelligentsias seeking to mobilise support."

While there are conceptual and philosophical differences between the theories of Kedourie, Gellner, and Smith – Kedourie's primacy of ideas on the one hand and Gellner's and Smith's primacy of culture (invented or "authentic") on the other. Nevertheless, the similarities are clear, all place nationalism in the realm of the mind: ideas, values, beliefs, tradition, culture, etc., and not in socio-economic structural conditions.

2.1. A Critical Realist approach to nationalism and the ideology of national interests

In contrast to the orthodox analysis of nationalism, I instead argue for a different approach based on critical realism. An analysis of nationalism which does not take into account "the social and class structure of the society in which they arise" is insufficient. Nationalism, according to Albert Szymanski (1983), is a "product of class forces." Though certainly one nationalism does not fit all, and they have wildly different political aims, "all serve some classes within a given racial or ethnic group as opposed to others." Thus, while all nationalisms proclaim an ideology that "members of a nation, ethnic group, or 'racial' minority have more in common with other than the various constituent classes of the group have with other people I similar class positions" (Berberoglu, 2000) if one still chooses not to ignore class society it is plain to see that each nationalism will favour some classes over others. To view nationalism as a form of class struggle is to view it as a struggle for state power. An analysis of any nationalism therefore has to include an analysis of the class base, and the class leadership, of the nationalist movement. Once this class character has been determined, one can tease out clues of the political character of the movement in question, and, crucially, the class forces the movement is struggling against (Ibid.).

In a critical realist approach, capitalism embodies, transforms, and ultimately reproduces nationalism**.** Thus the social and class forces involved in promoting nationalist ideology has to be identified and explained. This approach must therefore reject the assumption that cultures exist "more-or-less independently of what states, politics and economies do" because they predate capitalism in one sense or another. It also avoids the narrow focus of methodical individualism: the myopia on the prejudices, aversions, and sentiments of individuals; the methodology du-jour of neoclassical economics. Instead, the social and class structure of the society from which nationalist practices, movements, and individual patterns of behaviour arise. In addition, the approach focuses less on the intentions of individuals and more on the institutional context within which their decision-making takes place. It is worth pointing out that this is not a vulgar economic determinism, the class position of this or that individual does not determine his or her actions, as people are effected by the institutional environment which they inhabit – an environment that includes, but is not reducible to, economic structures (O'Hara & Sherman, 2004). A critical realist approach merely argues that economic structure is a privileged force, especially within capitalist societies. "Rigid economic determinism and reductionism of any sort must give way to multifarious interaction between structure and agency. In this view, history and institutions do not dominate individuals, but individuals make history only under given institutional conditions not of their choosing" (Ibid.).

Desai (2008) writes in a similar vein to Berberoglu, where she argues that the co-dependency of capitalism and the nation state, of class and nation, of "the universalism of the law of value and the particularity of the various ways in which its inexorable operation has been dammed and channelled by national political economies remains central to understanding both." With a surprised consternation, she bemoans the purely cultural analysis of nations and nationalism, as it ignores the "vast literature on national economic development and the evolution of capitalism on a world scale", which nevertheless has historically been a "(arguably the) central aspect of nationhood" (Desai, 2008). Nation-building, according to Desai, has historically more often than not revolved around questions of domestic economic development, and "its deployment and management in international activity abroad" (Desai, 2008).[4] In addition, to isolate nationalism not only from economics, but also from politics, is an absurdity: "Nationalisms are political ideologies, but of a special sort: they define and determine the nature of limits of the modern communities that are nation-states" (Desai, 2008).

Gellner and Hobspawm contend that nationalism declines as the nation-building industrializing project is completed, and that nation states themselves are in decline due to the 'globalization' process. In a departure from this view, Desai argues that the proliferation of nations and nationalisms has never been as intense. Instead of the decline of nationalism which globalization and modernization theories alike predicted, "nationalism seemed to acquire greater force, and not in reaction to 'globalisation'". The new form of nationalism typically had a neoliberal character, "fragrantly unequal and not primarily concerned with [...] productivity so much as with the enrichment of the [...] dominant middle, propertied and capitalist classes."

When applying a class-based analysis of nationalism, the oft-repeated call to defend and/or uphold the 'national interests' becomes especially intriguing. According to this method, the class or alliance of classes in control of the state are in a privileged position to define what are, and what aren't, in the interest of the nation. According to Veblen, business community defends their vested interests by supporting the myth of 'national integrity,' that is the idea that class power relations are something secondary in the broader context of national unity and cohesion. Veblen showed that the 'ruling class' uses nationalism to inculcate the habit of subordination among the underlying population, disciplining them to business activities by affirming that business' interests are the same as those of the 'nation'. (O'Hara and Sherman 2004: 980) As Veblen wrote (1923: 430),

[4] An Icelandic parralel: in the 1848 issue of *Ný Félagsrit*, Jón Sigurðsson wrote a polemic, *Hugvekja til Íslendinga*, a polemic which many mark as the first piece of Icelandic nationalist writing. Alongside this text (which argues for autonomy, not independence) is a variety of articles: poems, stories, economic analyses of the Icelandic domestic economy, and articles which argue for market liberalization.

“Business-as-usual and the national integrity are joint and integral factors in that complex of habits of thought that makes up the official mentality”.

Nationalism is not just an ‘imagined’ construct. Rather, it is a product of the interests of a particular class or classes who are the direct beneficiaries of this ideology which represents a class interest as a universal one, by advocating national solidarity and action over class consciousness and action. The relegation of class antagonism to a secondary role subordinated to dominant inter-national relations is functional to the adaption of the domestic business class to the worldwide inter-state system (Uemura 2006: 18-19), as the constant battle which involves the national firms against firms in foreign countries requires for the national capitalist class to appeal to the working class. The latter is called to work economically and politically with the capitalist class within the same nation. Together, they should advance their collective interests against other ‘nations,’ even against those who are in the same classes. (Szymanski 1983: 430)

As the primary conflict appears to be the one between national interest and foreign national interests, nationalism tends unify the ‘internal’, that is to incorporate the population of the state into the main body of the nation, and demarcate and distinguish it from the ‘external’, that is to differentiate through negative discrimination against whoever does not become part of the nation. (Milios and Sotiropoulos 2009: 108-109) In this view, the emphasis of an allegedly ethnic, cultural and social homogeneity along national-racial lines is nothing but an ideological weapon of the ruling classes, who artificially establish a racial system of interest identification with workers of the same nationality. Specifically, they consciously use nationalism to divide the working class and directly or indirectly reproduce the class hierarchies and the social ‘order’. If workers fight each other on the basis of race and/or nationality, then they will find it that much more difficult to unite on the basis of class to minimize capitalist exploitation. As a result, class conflict will be offset, and managerial control enhanced.

As Callinicos (2004) notes, the promotion of the idea that disparate classes “share a common interest” has the “particular virtue that it is consistent with a limited degree of social conflict.” Nationalism, bar a few extreme examples (Nazi Germany, for example), does not seek to eliminate class antagonism, it “merely insists that [it] is secondary compared with the shared identity of all citizens" (Callinicos, 2004). Nationalism is not simply an imagined ideal. Instead, they are a product and reflection of the particular interests of dominant classes – the prioritisation of national interests over class conflict functions as to channel inter-class conflict into inter-national conflict, i.e., in the economic battle of national against foreign businesses. In the metaphor of warfare, the national bourgeoisie appeals to the national working class to aid it in its battle against foreign bourgeoisies (Berberoglu, 2000).

In the absence of contrary pressures (such as politicized working class), "the constituted authorities of the democratic commonwealth come, in effect to constitute a Soviet of Business Men's Delegates, whose dutiful privilege it is to safeguard and enlarge the species advantages of the country's "absentee owners" at the cost of the underlying population (Veblen 1994).[5]

To sum up, a critical realist approach can help bring to light the extent to which material conditions, i.e. the "continually changing socio-economic structure of capitalism", produces and reproduces nationalism. Capitalist societies transition from phases of development and material expansion, from competitive to monopolistic phases, from a primary resource export focus to the expansion of financial services; all in response to internal developments as well as in response to changes in the world market. These reorientations entail not just shifts in political discourse or in cultural values. Fundamentally, these are reorientations in the political economy.

[5] According to Veblen, absentee owners, the leisure class, and those with vested interests in the existing financial system are more interested in making money than in applying technology. Members of the leisure class do not have to relate directly to work through technology. (Dugger and Sherman 2000)

3. The political economy of Icelandic nationalism: The financial implosion and the rise of the rhetoric of ´national interests'

What follows is a critical realist analysis of the political economy of Icelandic 'reactionary nationalism', which arose in response to the financial implosion. At first, it may be instructive to begin with an overview of the indebtedness of Icelandic households during the financial bubble – so as to provide a glimpse into the intensity of financialization of the Icelandic political economy.

At their heights, just before the collapse, the high interest, online-only, small-depositor savings accounts of Landsbanki's Icesave and Kaupthing's Edge had "12.5 billion euros in total deposits, 7,2 billion and 5,3 billion euros, respectively" (Johnsen, 2014). Guðrún Johnsen, in her book *Bringing Down the Banking System*, puts this into perspective: "The Icelandic State Budget at the time was just 5.5 billion euros," and "the Icelandic Central Bank's foreign reserves averaged […} about 2.2 billion euros." The situational difference between the two was an organizational one, Icesave was a branch of the Landsbanki corporation while Kaupthing Edge was a subsidiary – this meant, legally speaking, that Icesave was subject to Icelandic laws and central bank guarantees, while the Edge subsidiaries were incorporated within the jurisdictions of the countries where they operated[6]. These differences were crucial in the aftermath of the crash, as the Icesave crisis attests, but they were also important while Icesave was in operation. Running Icesave as a branch, rather than a subsidiary, allowed Landsbanki to easily transfer funds from one area to another, from the UK to Iceland: "In [a subsidiary] structure, the Icesave deposits could not have been up-streamed to Iceland at the whim of Landsbanki's management. In addition, as stipulated in European directives, a subsidiary of a foreign bank was under the supervision of the host country, while a branch was still under the financial supervision of its home country" (Johnsen, 2014).

As covered in the chapter on the financialization process, foreign credit did not only finance the investments by the banks, but also to provide loans in the domestic market – capital for other firms and credit for household consumption.

6 Kaupthing had subsidiaries in Britain, Belgium, Denmark, Finland, Germany, Norway, and Sweden.

The level of indebtedness in the Icelandic economy skyrocketed. In the early 1990s the Icelandic corporate sector was relatively debt free, in 2006 its indebtedness amounted to 277% of their GDP. In the early 1980s household debt was around 17% of GDP, in 2006 it had grown to 116% of GDP (Hermannsdóttir et al., 2007).

It is illuminating, albeit perhaps not surprising, to observe how this credit was distributed in the case of households. In figure 1 (Statistics Iceland, 2016) the debt distribution is ranked according to household income level. The leftmost row of columns represents the 10% of households with the least income, while the rightmost columns represent the wealthiest decile. Figure 2 (Statistics Iceland, 2016) displays the same data, ordered by year. The aggregate debt of the wealthiest decile amounted to 30% of the total household debt in 2003, 37% in 2008, and 43% in 2010.

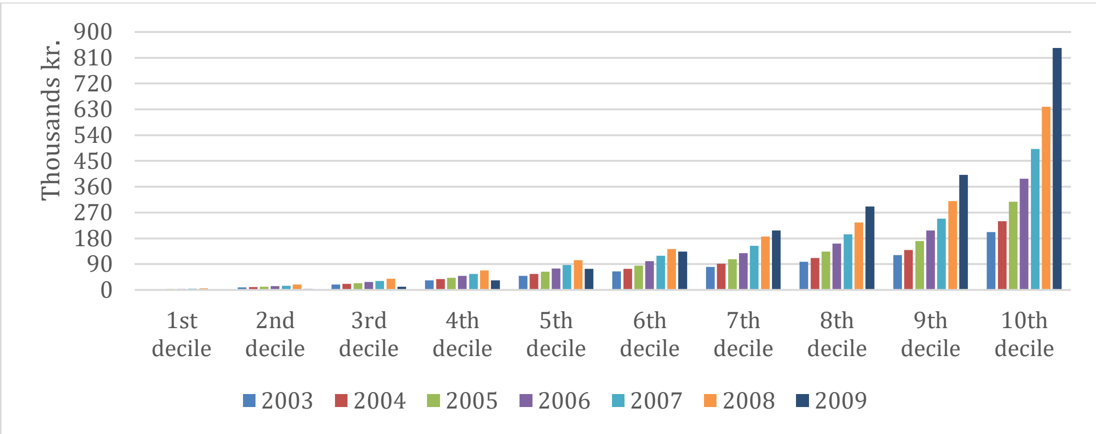

Figure 1 - Distribution of household debt 2003-2009, by income decile (ordered by decile).

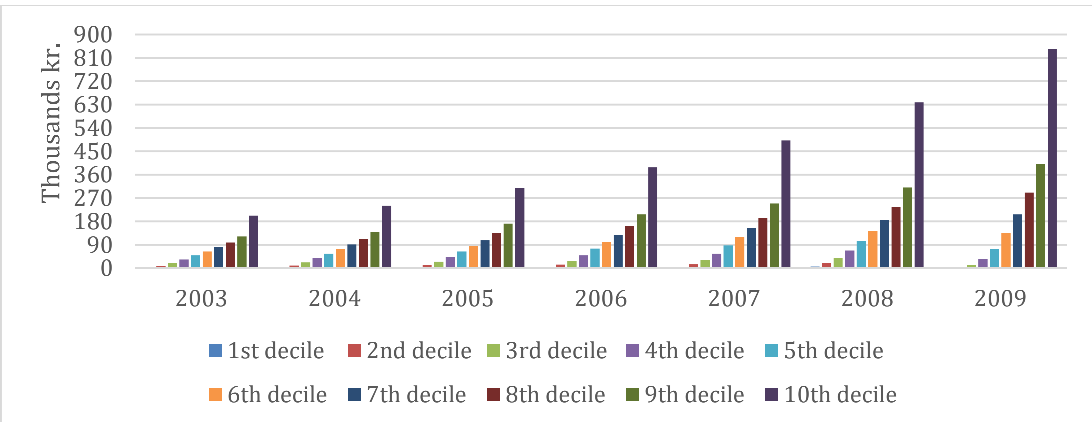

Figure 2 - Distribution of household debt 2003-2009, by income decile (ordered by year).

From 2003 and up until the financial crash, real estate purchases could be financed almost entirely by loans, and the market in equity refinancing (or second mortgages) boomed alongside it[7]. Noteworthy in figure 2 is the increasing rate of debt formation, which seems to take off in 2006. The rise correlates with the international expansion of the banks and suggests that the profits from abroad were used to increase domestic credit availability. It is also important to note that while there are vast differences to be found in the total amounts of debt incurred between the deciles, graphing the relative rates of debt accumulation shows how the year of 2007 was an interesting outlier. As figure 3 (Statistics Iceland, 2016) shows, in 2007 the rate of debt accumulation for the bottom three deciles shot up, with the 10th and 9th deciles outpacing the 1st. The obvious implication is a rise in the availability of cheap credit to households, regardless of income, as well as suggesting an increase in the financial expropriation of wage earners[8].

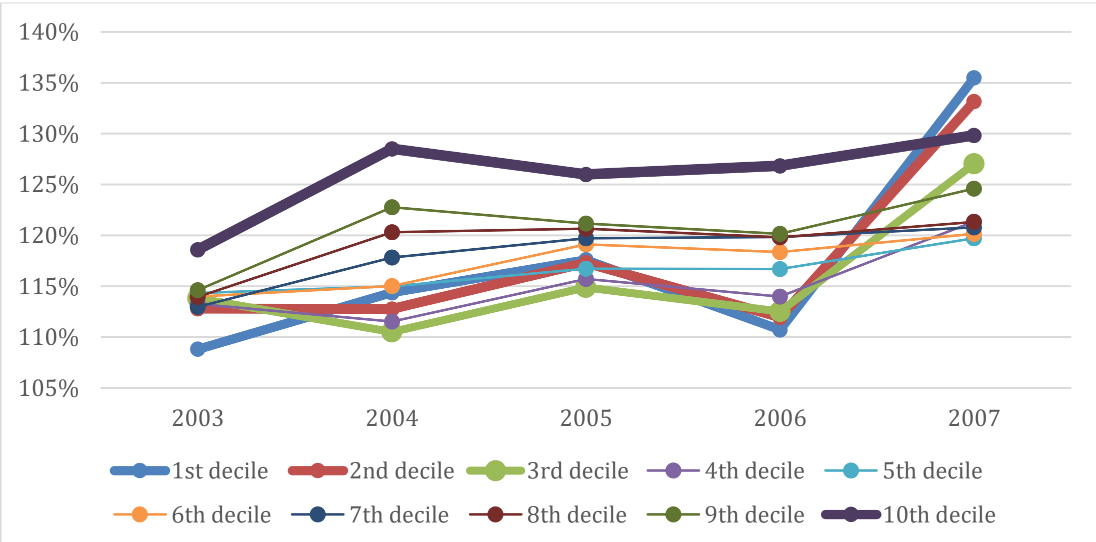

Figure 3 - Relative increase in household debt 2003-2007, by decile

Ívar Jónsson (2008) examines the rise of a new transnational capitalist class, a term which refers to capitalists, with roots in Iceland, with operations not limited to the Icelandic domestic economy. The article is noteworthy since it was finished in December 2007, "before the financial crisis set in." Jónsson describes the socio-economic structure - particularly the involvement of Icelandic finance

[7] This perhaps explains how the highest-income decile of households had such astronomical debts compared to the other 90% of households, as mortgages are proportionate to real estate values.

[8] It is reasonable to assume that the majority of the bottom deciles are members of the wage earning class.

capital within that structure - of Iceland at the apex of the boom. According to Jónsson, the bank privatization of the 1990s resulted in the systemic development of three "closely knitted webs" of ownership.[9] The central points of these webs of ownership were the three banks which became the "base of the growth of [...] related companies in the retailing and transport sectors." Through their dominant financial positions, the financialization of the domestic economy, and the financial expropriation of workers and others, intensified. Through ready access to credit in their own banks the owners were able to expand not just their domestic activities but to invest abroad "in their original branches of industry" as well. The increase in outward foreign direct investment led "to a spiral of depreciation of the local money," causing a rise in inflation and the costs of production (such as imported materials, real wages, etc.), which in turn led to "decreasing investment in domestic industries". This decline in the growth of domestic productive capital exacerbated the tendency of Icelandic financial firms to internationalize, and the tendency of the central bank to raise interest rates to keep the currency from depreciating. These two tendencies fed off each other (Jónsson, 2008).

In table 1 I have summarized Jónsson's framework of the Icelandic class system, which he applied to analyse the class compositional changes from 1970 to 2008. He emphasizes the recent formation of a class of capitalists that own significant shares in transnational firms with Icelandic headquarters, referring to the "webs of ownership" with the privatized banks as their core. Prior to this development, members of the transnational capitalist class in Iceland were predominately managers of foreign transnational plants, for example aluminium smelters, etc.

Jónsson observes that the trend of inward foreign investment during the boom years "has not been the TNCs of the aluminium industry, but investors in the financial sector,"[10] and with respects to outward foreign investment that "the

[9] Jónsson calls it a "mini-keiretzu system". Keiretzu is a Japanese term which refers to "families or networks that manage [...] corporations" (Jónsson, 2008)

[10] See Appendix 1 of Jónsson's article, where 2005 marks the year of an explosion of direct investment from abroad in financial activities.

trans-nationalization of the banks and the retailing sector has created a new group of wealthy people, who have the bulk of their income stemming from investments abroad."

Transnational Capitalist Class	
TNCC1	Significant shareholders of international companies with roots in iceland
TNCC2	Managers of TNCs' plants located in Iceland
TNCC3	Managers of governmental bodies and state apparatuses tat work on building the infrastructure of transnational capital accumulation and legitimize it ideologically
Domestic Capitalist Class	
DCC1	Domestically based classes of wholesalers, retailers, fishing & manufacturing capitalists.
DCC2	Managers of governmental bodies and state apparatuses, that work on building the infrastructure of domestic capital accumulation and legitimize it ideologically
State and Stakeholders Bureaucratic Class	
SSBC	Managers of ministries and institutions within the spheres of the welfare state, the judicial system and foreign affairs. Also includes employees of interests groups who concentrate on societial distribution of income and life chances
Wage Earning Classes	
WEC	Scientists, specialists, skilled and unskilled labor, that work in jobs that are not part of societal power centres in which social policy formation takes place.

Jónsson's third fraction of the transnational capitalist class (TNCC3), the "managers of governmental bodies and state apparatuses" relevant to building and legitimizing transnational capital accumulation, is of particular importance in relation of what kind of nationalism arise in Iceland, i.e. what class interests were embodied in it. The distinction between governmental bodies and state apparatuses is an important one – Althusser, in his On the Reproduction of Capitalism (Althusser, 2014) includes "private" institutions such as newspapers as part of the ideological state apparatus category [11]. During the expansionary phase of Icelandic finance into foreign markets the office of the presidency was a powerful beacon of ideological legitimization of the "outvasion," as Kristín Loftsdóttir (2012) points out: "The engagement of Icelanders with

[11] Althusser's theory of the state distinguishes between the Repressive and the Ideological state apparatuses. "An Ideological State Apparatus is a system of defined institutions, organizations, and the corresponding practices. Realized in the institutions, organizations, and practices of this system is all or part (generally speaking, a typical combination of certain elements) of the State Ideology. The Ideology realized in an ISA ensures its systemic unity on the basis of an 'anchoring' in material functions specific to each ISA; these functions are not reducible to that ideology, but serve it as a 'support'."

"Whereas the Repressive State Apparatus is by definition a repressive apparatus that makes direct or indirect use of *physical violence*, the Ideological State Apparatuses cannot be repressive in the same sense as the 'state apparatus', because they do not, by definition, use *physical violence*. Neither the Church nor the school nor political parties nor the press nor radio and television nor publishing nor entertainment nor sport *have recourse* to *physical violence* in order to function with their 'clientéle'." (Althusser, 2014) global markets in the 2000s […] involved an association with the unique characteristics of Icelanders as descending from Vikings," and continuing from that points she adds "Ólafur Ragnar Grímsson, the president of Iceland, […] stated in a 2006 speech that one of the leading causes for Icelandic success internationally" was an entrepreneurial spirit inherited from the Viking era (Loftsdóttir, 2012). Other governmental bodies, such as the ministry of trade and industry, the ministry of foreign affairs, the central bank, etc., also played a legitimizing role. Newspapers, such as the business-orientated *Viðskiptablaðið* and *Markaðurinn,* ran "constant news during the period celebrating the presumed surprise and admirations of other nations in regard to the Icelandic business adventure" (Loftsdóttir, 2012). International economic institutions also showed their admiration. An example of this can be found in this report by the Organisation for Economic Co-operation and Development (OECD), published just 2 years before the collapse:

> "Financial markets in Iceland are thriving and access to capital has greatly improved. A significant part of the responsibility for this development lies with government policy. Controls over the operation of financial markets have been lifted, commercial banks have been privatized and the sector has been opened up to international capital markets. This liberalization programme has succeeded admirably and should be continued." (OECD, 2006)

The historian Guðni Th. Jóhannesson remarks on the mood among his colleagues in 2006: "In the first half of the year, expansion or *útrás* was the theme of the still popular Association of Icelandic Historians lunchtime lectures," the lecture series had President Grímsson deliver an opening address, a "[guarantee of] public attention to the entire series." Grímsson's rhetoric linked the successes of the contemporary financial Vikings to the "Icelandic character," the national traits of individualism and strong leadership, apparently inheritors to "a tradition that goes all the way back to the time of the first pioneer settlers in Iceland." The importance here is not the content of the chauvinistic nationalist ideology being espoused, but the institutional context in which it occurred. While Jóhannesson's point was to highlight a "clash between a statesperson and historians," the conclusion of his account is that when it came to the interpretation of history "that historians had lost the history wars" and that the victors' hagiography of the national spirit, embodied in financial conquests, held sway (Durrenberger, Pálsson, 2016). The report on the aftermath of the financial crash, which was commissioned by the Icelandic parliament in the aftermath of the crash, also noted the frequent speeches, at home and abroad, made by the president of Iceland, which followed a similar narrative. The report also notes how the presidency performed a valuable service in public relations for the Icelandic banks in foreign markets. The chapter, on the actions of presidency during the financial expansion, collected press releases and speech transcripts in which the president. In one example, a January 2007 letter to Al Gore, vice president of the United States: "The President's Lecture will be sponsored by Glitnir Bank (www. glitnir.is) The bank has in recent years made clear energy investments one of its three main portfolios." (Hreinsson, Benediktsdóttir, Gunnarsson, 2010)

The establishment of Landsbanki's Icesave London branch in 2006 was met with some fanfare in the media, and in 2007 its coverage had become positively glowing: "no Icelandic product has ever become so widespread" (Helgason, 2007a), "the top 3 business deal of the year" (Markaðurinn, 2007b), "pure genius" (Markaðurinn, 2007c). Landsbanki's CEO emphasized it's distancing from the international wholesale credit market to a strategy of small-scale savings accounts, hinted at its future plans to open more branches around the world, and claimed that this would improve the "quality of service" at home (Markaðurinn, 2007c).

Guðmundur Oddsson, in his paper *Perceptions of Class Division in Iceland*, analysed perceptions of class awareness and divisions through a discourse analysis of Iceland's "paper of record," Morgunblaðið, and transcripts of speeches from the Icelandic parliament. Oddsson's analysis is one that seeks to quantify the amount of accounts claiming that Iceland is either class-divided or "classless" the time scale of his study spanned from 1986 to 2012, and his conclusions were that during the period 1995-2008 there was a heightened perception of class division within the political discourse, peaking in 2006-2008 and falling post-collapse. Oddsson argues that the ideology of "classlessness" is tied to orthodox, ruling class interests[12], and concludes that the rise of "perceptions of class division heightened

[12] Much like Carchedi (2011) whose conception of nationalist rhetoric includes "denying the existence of classes"

alongside increasingly polarizing inequality." It is worth pointing out that alongside the increased frequency of "Iceland is class-divided" rhetoric there also was an increase in "Iceland is classless" rhetoric – implying that in the field of political discourse a discursive battle was being held. (Oddsson, 2016).

The ready availability of mortgages, loans, and other financial services, brought (at least in the short term) an increase in Icelandic living standards, including those of the wage earning classes. While this also meant a relative increase in the financial expropriation of their incomes, for the most part these effects were not felt until the implosion of the financial system. The expansion of financial activities abroad, eagerly defended and legitimized by state apparatuses and governmental bodies, had taken on a heroic, mythical character. Veblen's theory of how the business community defend their vested interests [13] by supporting the myth of national integrity: that class power relations are secondary to national unity, that the interests of business are the interests of the 'nation'. The nation's interests, apparently, were the continuing march of rapid financial expansion into foreign markets. In the final analysis, the class to stood to gain the most from this particular status quo (until collapse, at least) was the transnational capitalist class, headquartered in Iceland. The interests of this class were in contradiction to the domestic capitalist class, as it favoured speculative capital gains over direct investments in the sphere of production – the sphere of the domestic capitalist class. The ascendancy of the transnational capitalist class in the Icelandic political economy had made that regime of accumulation almost entirely dependent on the stability of the international financial markets. The result was that Iceland was among the first causalities of the international credit crunch of 2008.

The Icelandic speculative bubble imploded in October 2008, and the effects were felt by the entire domestic economy, in its currency, wages, and unemployment levels. Just before the bubble burst, the "real interest rates in Iceland were at 15 per cent, stimulating further financial profitability, carry trade, currency appreciation and a huge level of debt". Like a car speeding off a cliff, the

[13] As covered in the chapter on a critical realist approach to nationalism, the vested interests in the current era are increasingly crystallized in the form of absentee ownership of corporate stock and securities.

situation changed rapidly: the currency depreciated by almost 50 per cent. The three, then insolvent, banks were nationalized by the Icelandic government and emergency legislation was passed in an attempt to prevent capital flight, as well as to nationalize the domestic operations of the banks – while leaving the foreign operations in the old[14]. In 2008, new registrations of corporations fell by around 30 per cent relative to 2007, while insolvencies of corporations rose by 42 per cent. Just prior to the collapse, a significant part, or almost 68 per cent, of corporate debt was in foreign denominations. (Macheda, 2009; 2012).

The hegemony of the Transnational Capitalist Class, tied up with the crumbling financial system, came apparently to an end (Jónsson, 2008). After a wave of popular protests, the coalition government between the Independence Party and the Social Democratic Alliance stepped down, an interim coalition government between the Left Greens and the Social Democratic Alliance took over until parliamentary elections could be held, the results of which were in their favour. The "left coalition"– the first purely left-of-centre majority in Icelandic history – formed a government. The government had its work cut out for it: a heavily indebted populace, historically high unemployment, an economy in ruins, and an international dispute with the United Kingdom and the Netherlands over the Icelandic liability over the Icesave accounts. This dispute "dominated political and social debate in Iceland between 2009 and 2012" (Hallgrímsdóttir, 2015) and became a lightning rod for a different kind of nationalist rhetoric which was quite unlike the chauvinistic nationalism of the boom years.

The increased public debt incurred by the state after the bank bailout (or nationalization) obviously introduced new stresses for the state. The emergency legislation prioritized its domestic economy (productive, and what was left of the financial economy) over foreign creditors, and the international dispute quickly turned into a question of national interests. How the problem was framed was not uniform. In the sphere of parliamentary politics, the government of the Social

[14] "Each of the three banks was split into a 'new bank' and an 'old bank'. The new banks consist of the domestic operations funded by local deposits. The three new banks as corporations owned by the Treasury referred to above. The old banks consist of what was left in the previously privately owned banking companies after the new banks had been split from them. They consequently comprise the activities, assets and liabilities in foreign branches and subsidiaries, mainly funded through the issuance of bonds and foreign deposits. All derivatives were left in the old banks" (Prime Ministry of Iceland, 2008)

Democratic Alliance and the Left-Greens emphasized a strategy of reaching a diplomatic agreement between Iceland and the foreign creditor nations, thus while they agreed that the debts were an issue of national interests, the "danger" looming over the nation were not the creditors themselves, but that Iceland would lose face in the international community and that the nation would be isolated from international credit, even foreign markets. In an interview with Fréttablaðið, the head of the coalition, PM Jóhanna Sigurðardóttir remarks: "It is clear in our minds that it is in the best interests of the Icelandic nation that we settle this issue [...] rather than keeping it unresolved" (Fréttablaðið, 2009).

In 2009, the Icelandic parliament passed agreement proposal to repay the Icesave debts, a proposal that was rejected by the British and Dutch governments, objecting to "a 14-year time limit" to repay. A revised agreement, with no time limits, narrowly passed the parliament. This legislation, however, was not ratified by the Presidency, and thus had by law to be decided in a plebiscite. This was the first of two Icesave plebiscites. The legislation was overwhelmingly rejected in the plebiscite (98,1% against). A second attempt was made in 2011, which ended similarly, although the plebiscite was more polarized (59,77% against) (Hallgrímsdóttir, 2016). Various organizations rallied around the dispute and its related plebiscites, for example the Advice group, which ran advertising campaigns and opinion articles. A typical advertisement, appearing before the 2011 plebiscite, claimed that while the emergency legislation (of 2008) provided adequate guarantees for the British and Dutch depositors, "[The British and Dutch] want more. That we take responsibility for the bankrupt estate, as well as pay interest. This is not our responsibility, neither legally or ethically" (Fréttablaðið, 2011) (emphasis kept). Hallgrímsdóttir (2016) notes that "politics around Icesave became a tipping point at which left-wing parties lost discursive control of their traditional ideological territory – that is, the protection of public interest – which was ceded first to social movements […}, and then, ultimately, to the right wing."

Attempts to resolve the dispute by diplomatic means during the left coalition were strongly opposed by the Progressive party. The Progressive party took a hard stance against the Icesave agreements, arguing instead for the importance of mortgage relief for the homes of the nation. Common tropes of their rhetoric included painting foreign creditors as "foreign vulture funds." In extreme cases, diplomats, bureaucrats and politicians of the left-coalition deemed responsible for the Icesave agreement proposals were accused of putting foreign interests above the people of the nation, for example in this editorial which appeared in the 23th of May issue of *Morgunblaðið*: "the opposition must announce its intention […] to sue [the heads of the left-coalition parties] in the court of Landsdómur, as they acted in the interests of foreign powers which wanted to make the Icelandic nation pay dearly"[15] (Morgunblaðið, 2011).

In 2012 the Progressive party's platform of mortgage relief[16] and hostility to foreign creditors, crystallized in the Icesave dispute, proved electorally popular. Of particular interest to this thesis is how the rhetoric of classlessness was utilized in an appeal to Icelandic nationalism, as Oddsson (2016) notes, citing Sigmundur Davíð Gunnlaugsson's speech on Iceland's Independence Day in 2013:

> Class has not divided Iceland the same way as other countries and this is one of the great benefits of living in this country. However, it is not certain this will always be the case. Therefore, we must ensure we never have two or three nations living in the same country.

4. Conclusions

This thesis has grappled with a few main themes: (1) the importance of carry trade, or capital gains, to the meteoric rise of the Icelandic financial markets, (2) the financialization process, (3) the quick saturation of domestic financial opportunities, which (4) impelled the international expansion of Icelandic finance, (5) a discussion on the study of nationalism.

My hypothesis was that nationalist ideology has a class structure – determined by economic factors. Empirically, I have shown that the high

[15] " Stjórnarandstaðan þarf að tilkynna sem allra fyrst að hún muni þegar hefja undirbúning að því að kalla þau Steingrím og Jóhönnu fyrir landsdóm, […] þar sem þau gengu hagsmuna erlendra afla sem vildu láta íslenska þjóð sæta afarkostum"

[16] "Heimilin eru hornsteinn þjóðfélagsins" – "Homes are the building block of our society"

"Framsókn vill takast á við vanda heimilanna" – "The Progressive Party wants to take on the homeowner crisis"

"að þrotabú gömlu bankanna fái ekki heimildir til útflæðis gjaldeyris fyrr en heildstæð áætlun um losun hafta liggur fyrir, Eðlilegt er að þjóðin njóti góðs af ávinningi af viðskiptum kröfuhafa gömlu bankanna, til að bæta lífskjör" – "that the bankrupt estates of the old banks will not get approvals to transfer funds [out of the country] until solid plans for the abolition of capital controls have been made, It is natural that the nation benefit from profits made by the claimants of the old banks, in order to raise the living standard."

(Framsókn, 2013) (translation mine, emphasis in original) indebtedness of Icelandic households, coupled with an international dispute over the repayment obligations surrounding Landsbanki's Icesave branch, were the material conditions out of which the rise of nationalist rhetoric can be explained. Another facet of the class character of nationalism can be shown in the qualitative difference between the chauvinistic nationalism during the hegemony of the transnational capitalist class, and the xenophobic nationalism which arose in the aftermath of its collapse.

5. Bibliography

Althusser, L. (2014), *Ideology and Ideological State Apparatuses*, London: Verso.

Arrighi, G. (1994), *The Long Twentieth Century: Money, Power, and the Origins of Our Times*, Verso, London.

Benediktsdóttir, S., Daníelsson, J., & Zoega, G. (2011, April). Lessons from a collapse of a financial system. *Economic Policy, 26*(66), 183-231. Retrieved from http://economicpolicy.oxfordjournals.org/content/26/66/183

Berberoglu, B. (2000). Nationalism, Ethnic Conflict, and Class Struggle: A Critical Analysis of Mainstream and Marxist Theories of Nationalism and National Movements. *Critical Sociology, 26*(3), 205-231.

Brenner, R. (2006). *The Economics of Global Turbulence.* London: Verso.

Brown, D. (1998). Why is the Nation-State so Vulnerable to Ethnic Nationalism?. *Nations and Nationalism*, *4*(1), 1-15.

Callinicos, A. (2004). *Making history: agency, structure, and change in social theory* (Vol. 3). Brill.

Carchedi, G. (2011), *Behind the crisis: Marx's dialectics of value and lnowledge*, Brill, Leiden.

Desai, R. (2008). Introduction: nationalisms and their understandings in historical perspective. *Third World Quarterly*, *29*(3), 397-428.

Dugger W.M. and Sherman H.J. (2000), *Reclaiming Evolution. A dialogue between Marxism and institutionalism on social change,* Routledge, London and New York.

Durrenberger, E. P., & Pálsson, G. (2014). *Gambling debt: Iceland's rise and fall in the global economy*. University Press of Colorado.

Epstein, G. (2002). Financialization, Rentier Interests, and Central Bank Policy. *Department of Economics and Political Economy Research Institute (PERI).* Amherst: University of Massachusetts.

Flannery, M. J. (2009). *Iceland's Failed Banks: A Post-Mortem.* Reykjavík: Rannsóknarnefnd Alþingis.

Framsóknarflokkurinn. (2013) *Framsókn fyrir Ísland.* Retrieved from http://www.framsokn.is/wp-content/uploads/2013/03/stefnuskraL.pdf

Gellner, E., & Breuilly, J. (2008). *Nations and nationalism*. Cornell University Press.

Hart-Landsberg, M. (2013, October). *Lessons from Iceland - Capitalism, Crisis, and Resistance*. Retrieved from Monthly Review: http://monthlyreview.org/2013/10/01/lessons-iceland/

Haurant, S. (2006, October 11). *Banks battle to offer best rate on savings*. Retrieved from The Guardian: http://www.theguardian.com/business/2006/oct/11/interestrates.depositaccounts

Helgason, I. K. (2007). *Þurfum líka evrur.* Retrieved from http://timarit.is/view_page_init.jsp?issId=277799&pageId=3981780&lang=is

Hermannsdóttir, A., Thorstensen, A. B., & Ólafsson, S. (2007). Overview of foreign investment from Iceland 1998 to 2005. *Institute of Business Research*.

Hilferding, R. (1981). *Finance Capital. A Study of the Latest Phase of Capitalist Development.* London: Routledge. Retrieved February 25, 2016, from https://www.marxists.org/archive/hilferding/1910/finkap/ch08.htm

Howden, D. (2013). *The Rise and Fall of the Icelandic Economy*. The Journal of Social, Political, and Economic Studies, 38(4), 389-424. Retrieved from http://search.proquest.com/docview/1492871743?accountid=26425

Hreinsson, P., Benediktsdóttir, S., Gunnarsson, T. (2010). *Aðdragandi og orsakir falls íslensku bankanna 2008 og tengdir atburðir.* Reykjavík: Rannsóknarnefnd Alþingis.

Huffschmid, J. (2008), *Finance as a driver of privatisation,* Transfer: European Review of Labour and Research, 14(2), pp. 209-236

Johnsen, Guðrún. (2010). *Bringing Down the Banking System – Lessons from Iceland*. New York: Palgrave Macmillan.

Jónsson, Í. (1991), Hegemonic Politics and Accumulation Strategies in Iceland 1944-1990, D.Phil.-Dissertation, University of Sussex.

Jónsson, Í. (2008),*The Transnational Capitalist Class and the Mini-Keiretzu System in Iceland*, in G. Winther (ed.) The Political Economy of Northern Regional Development Yearbook.

Kedourie, E. (1993). *Nationalism, Fourth Expanded Edition*. Blackwell, Oxford, Cambridge, 1960(1961), 1966.

Kliman, A. (2011). *The Failure of Capitalist Production.* New York: Pluto press.

Kotz, D. M. (2008), *Neoliberalism and Financialization*, paper written for a conference in honour of Jane D'Arista at the Political Economy Research Institute, University of Massachusetts Amherst

Landsbanki Íslands hf. (2008). *Landsbanki H1 Results.* Reykjavík: Landsbanki. Retrieved from http://hugin.info/136348/R/1238856/265187.pdf

Lapavitsas, C. (2008), *Financialised Capitalism: Direct Exploitation and Periodic Bubbles*, School of Oriental and African Studies, University of London, May.

Lapavitsas, C. (2009). Financialised Capitalism: Crisis and Financial Expropriation. *Historical Materialism, 17*(2), 114-148.

Lapavitsas, C. (2013). *Profiting Without Producing - How Finance Exploits Us All.* London: Verso.

Macheda, F. (2009). *Economic Structure and Industrial Relations in Iceland* (Master's thesis). University of Milan, Italy.

Macheda, F. (2012). The role of pension funds in the financialisation of the Icelandic economy. *Capital & Class*, 1-14.

Markaðurinn. (2007a). *Viðskiptaannáll ársins 2007.* Retrieved from http://www.visir.is/vidskiptaannall-arsins-2007/article/200771227036

Markaðurinn. (2007b). *Lætur aldrei efast um fjármögnun bankans aftur.* Retrieved from http://timarit.is/view_page_init.jsp?issId=272854&pageId=3933266&lang=is

Milios, J. and Sotiropoulos, D.P. (2009), *Rethinking Imperialism. A Study of Capitalist Rule*, New York: Palgrave Macmillan.

Morgunblaðið. (2011). *Alvarleg afglöp.* Retrieved from http://www.mbl.is/greinasafn/grein/1379305/

OECD. (2006), *National Report: Iceland*.

O'Hara, P.A., and Sherman, H.J. (2004), *Veblen and Sweezy on Monopoly Capital, Crises, Conflict, and the State*, Journal of Economic Issues, 38(4).

Ólafsson, S. (2011, December). Iceland's Financial Crisis and Level of Living Consequences. *Social Research Centre*. Retrieved from http://thjodmalastofnun.hi.is/sites/thjodmalastofnun.hi.is/files/skrar/icelands_financial_crisis_and_level_of_living.pdf

Prime Ministry of Iceland (2008) *Memorandum – Overview of legislative framework in respect of restructuring of the Icelandic banking system*. Retrieved from https://www.forsaetisraduneyti.is/media/island/frettir/21.pdf

Rutherford, D. (2002), *Routledge Dictionary of Economics*, Routledge, London and New York.

Shaikh, A. (2010). *The First Great Depression of the 21st Century.* London: The Merlin Press.

Shulman, S. (1996). The political economy of labor market discrimination: A classroom-friendly presentation of the theory. *The Review of Black Political Economy*, *24*(4), 47-64.

Smith, A. D. (1986). *The ethnic origins of nations*, Oxford: Blackwell Publishers.

Stiglitz, J. E. (2001). Monetary and Exchange Rate Policy in Small Open Economies: The Case of Iceland. *Central Bank of Iceland*, 10-11.

Szymanski, A. (1983). *Class Structure: A Critical Perspective.* New York: Praeger.

Uemura, K. (2006), *Marx and Modernit*y, in Marx for the 21st Century, (edited by Hiroshi Uchida), New York and London: Routledge.

Veblen, T. B. (1923), *Absentee Ownership and Business Enterprise in Recent Times: The Case of America*, New York: Huebsch.

6. Table of Figures