Ivar Jonsson

Social construction of a ‘glocal’ crisis – the case of Iceland

The present global financial crisis is determined both by general underlying dynamics of capital accumulation and country specific social and economic factors. In this paper, we will observe these matters by comparing the financial crisis in USA and Iceland. We will concentrate on Iceland as a ‘microstate’ and observe its crisis in terms of the ‘social construction’ of the crisis. The analysis will concentrate on the formation of public policy and public opinion and observe the particularly strong power position of corporations in Iceland, power blocs and the emergence of the neo-liberalist power elite and the new transnational capitalist class that caused the rise and fall of Icelandic financial system.

1. Globalization: From deregulation to crisis

The history of industrial capitalism is characterized by long waves of economic development in which depressions occur with 50-60 years interval (Schumpeter 1939). These long waves have been traced back to the 19th century and (post)modern capitalism appears to move through such waves today. The present crisis that started in 2007 in the US mortgage market and led to the collapse of banks and insurance companies in USA developed into a global financial crisis that affected economies around the world. The crisis is to be observed as a form of appearance of the systemic crisis tendencies of capitalist economies. However, the forms of appearance of crisis are different both in terms of different periods of the long waves (C. Freeman 1987) and countries. Let us first examine the underlying systemic crisis tendency in industrial capitalism as it appears in the underlying long term crisis tendency of the US economy. Secondly, we should observe the recent period of globalization and finally let us study the case of Iceland in terms of the social construction of her socio-economic crisis.


2 A ‘microstate’ is a state with less than 1 million inhabitatants, see I. Jonsson 1995.
2. The US economy and capitalist crisis tendencies.

The underlying crisis trend in the US economy appears in the uneven development of long term aggregate wages and profits. This mismatch between wages and profits materializes in debt bubbles that have increased through time and enlarged faster since year 2000 than ever before. In 2007 US domestic debt amounted to 346% of GDP see the following table).

Figure 1
USA profits and wages as percent of GDP 1959-2008


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3 For a substantive study, see J., B. Foster and F. Magdoff 2008a.
Table 1
Domestic debt* and GDP (trillions of dollars)\(^4\)

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>Total debt</th>
<th>% of GDP</th>
<th>House-hold</th>
<th>% of GDP</th>
<th>Financial firms</th>
<th>% of GDP</th>
<th>Non-financial business</th>
<th>% of GDP</th>
<th>Government (local, state, &amp; federal)</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>1</td>
<td>1.5</td>
<td>150</td>
<td>0.5</td>
<td>50</td>
<td>0.1</td>
<td>10</td>
<td>0.5</td>
<td>50</td>
<td>0.4</td>
<td>40</td>
</tr>
<tr>
<td>1980</td>
<td>2.7</td>
<td>4.5</td>
<td>167</td>
<td>1.4</td>
<td>52</td>
<td>0.6</td>
<td>22</td>
<td>1.5</td>
<td>56</td>
<td>1.1</td>
<td>41</td>
</tr>
<tr>
<td>1990</td>
<td>5.8</td>
<td>13.5</td>
<td>233</td>
<td>3.6</td>
<td>62</td>
<td>2.6</td>
<td>45</td>
<td>3.7</td>
<td>64</td>
<td>3.5</td>
<td>60</td>
</tr>
<tr>
<td>2000</td>
<td>9.8</td>
<td>26.3</td>
<td>268</td>
<td>7</td>
<td>71</td>
<td>8.1</td>
<td>83</td>
<td>6.6</td>
<td>67</td>
<td>4.6</td>
<td>47</td>
</tr>
<tr>
<td>2007</td>
<td>13.8</td>
<td>47.7</td>
<td>346</td>
<td>13.8</td>
<td>100</td>
<td>16</td>
<td>116</td>
<td>10.6</td>
<td>77</td>
<td>7.3</td>
<td>53</td>
</tr>
</tbody>
</table>

*The federal part of local, state and federal debt includes only that portion held by the public. The total debt in 2007
Source: J.B. Foster and F. Magdoff 2008b.

The increased indebtedness of USA is due to the skewed distribution of income in this country, i.e. between stagnant wages compared to relative increase in profits. As the production capacity of US industries has increased over time and wages have lagged behind, demand for goods has not followed cause. In order to create demand the government has emphasized state military expenditure and space research such as Apollo-projects and other NASA-projects. However, as the need for demand creation has increased other measures have been necessary such as deregulation of financial markets. Financial deregulation has led to the in-

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\(^4\) The long term trend of ‘indebtization’ before the 1970s can be seen from E. Mandels (1976: 418) analysis of public and private debt:

**Public and private debt in USA as percentage of GNP 1946-1974**

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross National Product (in billion of dollars)</th>
<th>Public debt as % of GNP</th>
<th>Private debt as % of GNP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td>208.5</td>
<td>129.4</td>
<td>73.6</td>
</tr>
<tr>
<td>1950</td>
<td>284.5</td>
<td>84.0</td>
<td>97.2</td>
</tr>
<tr>
<td>1955</td>
<td>398.0</td>
<td>67.8</td>
<td>98.5</td>
</tr>
<tr>
<td>1960</td>
<td>503.7</td>
<td>59.7</td>
<td>112.4</td>
</tr>
<tr>
<td>1965</td>
<td>684.9</td>
<td>53.7</td>
<td>127.1</td>
</tr>
<tr>
<td>1969</td>
<td>932.1</td>
<td>40.8</td>
<td>133.8</td>
</tr>
<tr>
<td>1973</td>
<td>1294.9</td>
<td>46.3</td>
<td>131.2</td>
</tr>
<tr>
<td>1974</td>
<td>1395</td>
<td>50.0</td>
<td>140.0</td>
</tr>
</tbody>
</table>
creased indebtedness of US homes and banks. The uneven development of wages and profits is shown in the following diagram.

Figure 2
The uneven development of debt and wages 1960-2007

![Graph showing the uneven development of debt and wages from 1960 to 2007.]

Source: J.B. Foster and F. Magdoff 2008b.

The present global financial crisis follows the structural development in which demand is created through increased domestic debt. The crisis has evolved differently in different countries. The crisis in USA started with the collapse of the mortgage market but was determined by the monetary policy that was introduced following the “dot-com crisis” in 2001. Speculative bubble that had started roughly in 1995 was nourished by strong believe in future profitability of internet based firms, e-commerce, “dot-coms”. The game was over in 2001 as the value of NASDAQ Composite Index that had peaked with high of 5,132 in early March 2000 was halved within a year and fell to bear time bottom in early October 2002 with the value of 1,108.49. The Federal Reserve responded by lowering interest rates in order to stimulate investment and hinder further crash. However, the NASDAQ did not recover in the short run and banks started speculating in the mortgage market and created a new bubble, the housing bubble by selling large amounts of “sub-prime” mortgages to numerous people that could not afford to buy house and/or
did not fully understand the terms of the mortgage. The following diagram highlights the path of the US financial crisis.

Figure 4
The course of the housing bubble in USA

As can be seen from the figure above, the housing bubble and financial crisis is to be understood as a social construction, i.e. as a consequence of ‘action’ of people in particular social context of unequal distribution of income. The lower interest rates that were implemented by the Federal Reserve in the aftermath of the dot-com crash in 2000, created increased liquidity and demand for loans. However, deregulated financial markets made it possible for banks to implement substantial innovations in securities markets such as derivatives based on mortgages. Unfortunately, large amount of “sub-prime” mortgages were issued and the grounds of the securities markets became slippery. But, the conditions for the housing bubble were ripe and prices of houses increased fast as did securities prices and derivatives based on mortgages. Housing prices peaked in early 2005 in USA, but started to decline in 2006. On Decem-
ber 30, 2008 the Case-Shiller home price index reported its largest price drop in its history. As housing prices declined, the securities based on mortgages declined as well. Stock market shares of firms started to decline as well. Banks started hoarding money as prices were falling and purchasing power of money was increasing. Furthermore, customers of banks started withdrawing from their bank accounts as they worried that securities would be depreciated and the banks would become bankrupt. A vicious circle had started as markets were hit by liquidity squeeze that led to decreasing investment followed by increasing unemployment and stronger deflationary trend. Many of the largest banks of USA were bankrupt and the state had to bail them out. This is what happened to banks and mortgage lenders like Fannie Mae, Freddie Mac, Lehman Brothers, Merrill Lynch, American International Group (AIG). As a consequence of the housing bubble downswing set in: real economic growth has gone downhill since 2004 in USA when real GDP was 3.6% and it is estimated to be -0.9% in 2009 (OECD 2008).

The financial crisis in USA is part of an international financial crisis that becomes ever deeper as consequence of the process of globalization that has been particularly characteristic for the financial sector as opposed to other industries. The World Economy has developed in a similar way as USA, i.e. increasing indebtedness of nations has paralleled declining long term economic growth. However, for the last twenty years, globalization as an economic policy has pre-dominated the political discourse in most countries of the world. The worldwide globalization lobby is strong and one gets the feeling that a fundamental change is taking place in the world economy and a new base for worldwide prosperity is born. This picture does not seem to reflect reality.

Among the criteria, that is often mentioned in order to show the scale of globalization is the growth of international trade in the era of globalization, i.e. since the 1980s. However, figures of world trade do not support the thesis of globalization. As an example, between 1953 and 1974 foreign trade as percentage of world production increased from 6% to 15%. In the globalization era this figure has not increased. In the period between 1975-1997, the figure fluctuated a lot but, in the average it was 14,3%. It follows from this that over 85% of world production is still for the domestic market. Furthermore, in 1953, 59% of foreign trade belonged to the developed countries. This percentage was 67% in 1993 and the figure was in the average the same since 1973 (N. Fligstein 2002: 196-8). As a consequence the structure of foreign trade has not changed much since the 1970s.

Prosperity is often measured in terms of economic growth. This indicator is somewhat misleading as it does not take into account income distribution. But taken at its face value, economic growth has not in-
creased in the globalization era. In fact world domestic production has indeed decreased in the globalization era (after 1973): 1913-50 world GDP was in the average 1,1,8%, 1950-1973 it was 4,9%. In the period 1973-2001 it was 3,1% (A. Maddison 2004: 260). Globalization did not bring about the prosperity that globalists claim it is bound to do.

The average growth of foreign trade was also slower in the globalization era compared to the post war era: 10,5% in 1951-1973; 10,2% in 1973-2001 (WTO 2003: 40). Among the outstanding feature of globalization is reduction of tariffs and increased freedom or deregulation of foreign trade. Despite this development, the growth of foreign trade has decreased in the world during the globalization era. Furthermore, the structure of foreign trade is regional rather than global. In 2004, 56% of USA export was within North-America and 5,4% of her export was to Mid- and South-America. At the same time, 73,8% of Europe’s export ended in Europe. Asian economies sold 50,3% of their export to other Asian countries (WTO 2005: Table III.3).

The structure of foreign investment is similar to the structure of foreign trade, it is predominantly regional (L. Weiss 1998). Finally, one can ask why economic growth has been slower in the globalization era. One of the reasons may be that the bulk of foreign direct investment and acquisitions have been financial speculation rather than investment in real innovation and increased value creation. Another reason may be that increased foreign trade has been between units of the same transnational corporations. This kind of trade is not between independent states as it used to be (R. Saul 2005: 21-2). Finally the reason for lesser economic growth may be because foreign investment and acquisitions have led to increased productivity and saving of labor, that has led to increased unemployment, that has led to lower real wages, that has led to lower general demand in the world economy, that has led to lower growth in the world economy.

We would conclude from the discussion above that the decades long uneven development of wages and profits in the US economy and the negative long term effects of globalization on world economic growth will lead to even deeper economic depressions in the future with even more extensive stimulation packages by the state (J.B. Foster and F. Magdoff 2008a: 62). These general trends in the global economy evolve in different forms in different countries. The development of the Icelandic economy and responses to the international boom and recent recession is in many ways different from the development of the US economy. We will now analyze the country specific development of Iceland.
3. The case of Iceland

Unlike the case of USA, wages and salaries in Iceland have been increasing as a percentage of GDP since the late 1990s. The following figure highlights the development in Iceland.

Figure 4
Compensation of employees and operating surplus as percentage of GDP in Iceland 1973-2007


The rise of compensation of employees as % of GDP was made possible because of seven reasons: 1) the financial sector in Iceland was privatized and deregulated in the 1990s; 2) Easy access to loans on international financial markets in the 1990s and until 2007; 3) the boom era and increasing demand for Icelandic exports on foreign markets; 4) Icelandic pension funds invested heavily in bonds and shares in Icelandic firms and particularly the banks; 5) In the 1990s the tax system in Iceland was changed as progressive income tax was abolished, one flat tax level was introduced for all income groups and tax on income from securities and housing rent was lowered to 10%; 6) the government started its Karahnjuka project and built one of the largest hydro-power plant in Europe, a project that was followed by the building of Alcoa’s aluminum plant in East-Iceland in the early 2000s and; 7) GDP per capita grew fast from 2000 to 2008, i.e. from 28807US$ to 37272US$. 
The housing bubble in Iceland started in 2003 but it was short lived and ended in 2008. There had been smaller bubbles in the late 1990s following the privatization and deregulation of the bank sector.

In 2004 the state Housing Financing Fund (HFF) implemented new rules according to which it increased its loans. From then on the loans
covered 85% of insurance value of the houses or flats up to maximum 13 million kronas (185,000 US$ or 148,000 Euros). The Council of Commerce and Association of Employers, i.e. the fortress of neo-liberalism in Iceland, were very annoyed as the activities of the HFF were presumed to be an unacceptable example of state interventionism. The privatized banks were also annoyed as they wanted to take over the mortgage market. On the 8th of November 2004 all three main banks announced that they would grant mortgage loans worth 100% of the value of the respective real estates and the maximum loan was set to 25 million kronas (355,518 US$ or 284,576 Euros).

The HFF responded In April 2005 and increased the ratio to 90% and with a special arrangement the HFF and the Mutual Banks offered together loans of maximum 26 million kronas (417,336 US$ or 322,581 Euros)(Morgunbladid 25th of April 2005).

Despite pressure from the Council of Commerce and the Association of Employers and the Association of Icelandic Banks, the Progressive Party (PP) in the coalition government of the PP and the right wing Independence Party, hindered plans that the banks would take over the mortgages of the HFF.

It follows that the state as well as the private banks accelerated the mortgage market and fed the housing bubble on grounds that turned out to be shaky. Indebtedness of household increased fast and indeed the economy as a whole as well as the following figure highlights. Due to the boom in Iceland in the early 2000s and the record high exchange rate of the krona, it was likely that slow down or recession would set in with increasing unemployment, salaries would decrease and inflation would grow. The conditions for “sub prime” mortgage market were ripe. However, privatization and deregulation of the financial markets in Iceland led to development that was much more serious for the financial system in Iceland than was the domestic development mentioned above. In short the Icelandic banks became part and parcel of the global financial system that was pre-dominated by the US financial corporations. However, the Icelandic banks grew much faster than banks in other economies and outsized the Icelandic economy in numbers unheard of. As a consequence, the financial crisis in Iceland hit the country much worse than other countries. The reason for why the crisis is so large in Iceland is that it is such a small economy. However, before we observe size related problems of the Icelandic economy we will discuss the sudden rise and the swift fall of the financial system in Iceland in recent years.

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5 Exchange rates in October 2004.
6 Exchange rates in April 2005.
3.1. The rise and fall of the globalized Icelandic banks

The rise of the Icelandic banks that followed the privatization of the state owned banks is to be observed on the one side in the increased number of bank employees in Iceland and on the other side the growth of the banks abroad. In 1991, 3.6% of employed persons in Iceland worked in financial intermediation while in 2001 the ratio was 4.1%. In 2007 the ratio reached 4.9% and the number of persons had increased from 6500 in 2001 to 8700 in 2007 (Statistics Iceland 2009). As a consequence the number of employees increased by 25% in a short period of 7 years. However, the development of the Icelandic financial system turned out to be much more dramatic abroad with its outward foreign direct investment. This development is reflected in the growth of total assets of the three main Icelandic banks (see the following diagram). The total value of the assets grew from 3342 billion kronas in 2004 to 11343 billion kronas in 2007 or from 34% of the GDP to 872%. In 2005 and 2006 the ratio of assets of foreign subsidiaries owned by the banks mounted to roughly 45% of their total assets while in 2007 the ratio slighted to roughly 41% (Central Bank of Iceland: Financial Stability 2005, 2006, 2007, 2008).

Figure 7
Total assets of the main Icelandic banks

![Total assets of the main Icelandic banks](image)


It appears that the Icelandic banks had become a major international business with subsidiaries in many countries around the world. At the
same time they had become vulnerable to turbulences in international financial markets in the same way as other international banks. However, as the Icelandic banks were relatively much larger than banks of other countries their fall led to much more serious economic crisis in Iceland than in other countries. Why is that? one may ask. The answer is to be found in the EEZ contract between the EU and EFTA countries.

Iceland joined the EEZ on the 1st of January 1994 and became part of the free market regime of EU with free transfer within the EEZ of capital, labor, goods and services, but excluding the fishing and agricultural sectors. The Icelandic banks used the opportunity to establish subsidiaries in the EEZ-countries and the government of Iceland did not intervene despite the risk that was taken. The risk might be enormous if Iceland is obliged to pay the minimum amount of 20.000 Euros to deposit holders of the foreign subsidiaries in case they and their Icelandic mother banks crash. The responsibility of the government is disputed as the respective EU-directives (no 19/1994 and 14/1998) are not clear concerning this matter. The government could have stopped the banks according to EU directive 2000/12/EB (EU 2000) and Icelandic bank laws no. 161/2002. The risk was high to let the banks expand abroad as their size indicates. Their assets were 872% of Iceland’s GDP and assets abroad 357% of GDP in 2007. But the government was too preoccupied with what it presumed to be a sign of its success in implementing neo-liberal policies. Any state intervention in the financial sector was considered off track and although the (neo-liberalized) social democratic party, the Alliance, had joined the right wing Independence Party in a coalition government in 2007, critique of the growth of the financial sector and the huge power plant Karahnjukar and Alcoa’s aluminum plant was considered to be obsolete socialism and the government kept its course.

In 2008 the banks suffered increasing liquidity squeeze abroad and finally collapsed in early October. The deposit accounts of the banks abroad were enormous and the state was likely to be obliged to pay the deposits back to their customers. The largest amount was related to the Icesave accounts that counted 250 to 1000 billion kronas depending on different estimates. These are huge figures in relative terms as Iceland’s GDP is around 1500 billion kronas. The actual figures will depend on how much worth the banks’ assets will be when they will be sold. It has been estimated that the collapse of the Icelandic banks will cost the state between up to 3000 billion kronas due to the Icesave accounts, domestic accounts, capital investment in banks in order to restructure the banks and establish new banks and measures to strengthen the exchange reserve fund of the central bank. The costs of the crash will have to be paid by loans that will burden the state for many years to come. As a consequence the indebtedness of Iceland will increase greatly. The new external debt
will add to the debt registered at the end of 2008 that mounted to 851% of GDP, i.e. 12.886 billion kronas (Central Bank of Iceland 2009). As a consequence, given that the GDP of Iceland will be around 1500 billion kronas the external debt might become over 950% of the GDP or similar to Ireland in 2008 as the following table indicates. Presuming that the extra loans Iceland will have to take will be around 1600 billion kronas the extra burden might become 39000 kronas per capita per month at the start and decrease gradually in the following years. This debt burden might lead to serious social crisis in the country.

Table 2
External debt of selected economies

<table>
<thead>
<tr>
<th>External debt</th>
<th>Date of estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>960.86%   Ireland</td>
<td>30.Jun.08</td>
</tr>
<tr>
<td>374.96%   United Kingdom</td>
<td>Jul.08</td>
</tr>
<tr>
<td>352.75%   Netherlands</td>
<td>30.Jun.07</td>
</tr>
<tr>
<td>348.74%   Belgium</td>
<td>30.Jun.07</td>
</tr>
<tr>
<td>159.92%   Germany</td>
<td>30.Jun.07</td>
</tr>
<tr>
<td>126.03%   Cyprus</td>
<td>31.Dec.07</td>
</tr>
<tr>
<td>106.91%   Australia</td>
<td>30.Jun.07</td>
</tr>
<tr>
<td>99.95%    United States</td>
<td>31.Mar.08</td>
</tr>
</tbody>
</table>

Source: Wikipedia.com

The balance of interest payments of Iceland increased from 35,5 billion kronas in 2004 to 534,8 billion kronas in 2008 (Central Bank of Iceland 2009c). As a % of GDP the interest rate payments increased by 1000% over the years from 2004 to 2008 as the following figure indicates.

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7 i.e. monetary authorities’ debt was 371 billion kronas, 534 billion general government, 10598 deposit money banks, other sectors 1136 billion kronas and direct investment 247 (Central Bank of Iceland 2009, External Debt).

8 i.e. 273 US$ or 205 Euros given the official exchange rate on April 15th 2009.
3.2. The expansion of outward FDI

The increased interest payments and expansion of the banks abroad developed parallel with increased outward FDI of other sectors. Direct investment abroad increased from 181 billion kronas in 2004 to 447 billion in 2005. In 2006 it was 374 billion and jumped to 789 billion kronas in 2007, i.e. 61% of GDP. The main sectors that were responsible for this outward FDI besides the financial sector were retailing, pharmaceuticals, telephone, real estate investors and fishing companies.

The business model on which the expansion was founded emphasized exploitation of the easy access to loans on the international financial market and relatively low interest rates. These loans were spent on aggressive take-overs of firms on the one side that would become profitable by restructuring them (the strategy of Baugur Group) and on the other side takeovers of firms that opened avenues to new markets and or cheap labor and raw materials (the strategy of Actavis, Novator, Bakkavor and Norvik).

This business model was successful for awhile. The companies grew fast and so did the number of their employees abroad. In 2007 it is likely that the number of employees were around 120 thousand in subsidiaries abroad with Baugur Group being the largest counting for around 75000, 9

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9 In 2007 Baugur Group owned large shares in corporations in Iceland and abroad. In the fashion stores sector Baugur Group owned Mosaic Fashions, Coast, Karen Millen, Oasis, Odille, Principles, Shoe Studio Group, Warehouse, Whistles, Jane Norman, MK One, ALL SAINTS, Day Birger et Mikkelsen, Matthew Williamson, Steinunn and PPQ. In the department stores sector Baugur Group owned House of Fraser, Illum, Magasin Du Nord and SOUK. In the food

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Actavis 11000 and Kaupthing 2100. This is remarkable as the number of employed persons in Iceland at that time was 177300 (Statistics Iceland, database).

3.3. The collapse in October 2008

The economy of Iceland had become very vulnerable due to its indebtedness. The neo-liberal governments in the early 2000s had counteracted the inflationary pressures from the Karahnjuka and Alcoa aluminum plant projects and the expansion of the financial sector by a) keeping labor costs down by opening the labor market for 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 the strategy of the governments were swept away. The banks were unable to finance their own activities and consequently they were unable to finance the corporate sector. The Icelandic banks were nationalized and in collaboration with IMF, 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 2.1 billion US$ from the IMF. 560 million US$ 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 with three months interval depending on new evaluation of the status of the Icelandic economy (IMF 2008).

The economic policy measures did not work in the short run. Unemployment increased fast, i.e. from 2.5% in the third quarter of 2008 to 7.1% in the first quarter of 2009 (Statistics Iceland, database). Housing prices fell even faster than they did in 2007 and many families became heavily indebted as the exchange rate of the krona fell\(^\text{10}\) and their mortgages were linked to the exchange rate of the krona. Inflation increased fast and the Central Bank kept to its policy of high interest rates in order to undermine the increasing inflation\(^\text{11}\). However, with the high interest

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\(^{10}\) The exchange rate of the krona against the Euro fell from 84 kronas per Euro as it stood on the 29th of June 2008 to 153 on 1st of October and at the end of November the figure was 183. 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.

\(^{11}\) In June 2007 the policy rate of the Central Bank was 13.3% and stayed at that level until 1st of November when it was increased to 13.75%. On the 25th of March it was increased to 155
rates, expectations of the corporate sector became negative with the consequence that investment plunged and unemployment intensified. By December the economy was locked in a vicious circle and in January 2009 riots forced the government to abstain. 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 the 25th of April.

3.4. On the social construction of the crisis in Iceland

The Icelandic economy was over heated due to on the one side the state’s projects in the energy sector and Alcoa’s activities, and on the other side, because of the boom in the domestic and international financial markets. There are two intriguing questions to be answered in relation to the implementation of this disastrous regime: a) Why was this adventurous economic policy implemented and b) why was Iceland so badly struck by globalization and the international financial crisis. The answers rest in the dynamics of hegemonic politics and the structural particularity of Iceland as a microstate based on an economy that is very vulnerable to external economic conditions.

3.4.1. Hegemonic politics and power blocs in Iceland

The history of Iceland is characterized by shifting power blocs12 as fishing and trade sector capitalists have shifted in holding the hegemonic position in the political system. However, the fishing sector has gradually lost its power base. Following the trend of depopulation of the fishing villages and growth of Reykjavik and the south-west of the country, the fishing sector has become less important in the economy and the political

and again on 10th of April it became 15.5%. Following the bank crisis the Central Bank lower the rate to 12% on the 15th of October, but change its course in the 28th and decided on 18% policy rate to strengthen the krona. It was not until 19th of March 2009 that the rate was lowered to 17% and again on 8th of April it was put at 15.5%. Finally, on the 7th of May the policy rate was lowered to 13% (Central Bank of Iceland). On the same day as the rate was decided to be 13% in Iceland the European Central Bank put its rate to 1%.

12 As N. Poulantzas analysis, 'power blocs' emerge historically as a result of the separation of the state and economy in the history of capitalism. He defines 'power blocs' like this: "(i) the power bloc constitutes a contradictory unity of politically dominant classes and fractions under protection of the hegemonic fraction; (ii) the class struggle, the rivalry between the interests of these social forces, is constantly present, since these interests retain their specific character of antagonism. These are the two reasons why the notion of 'fusion' cannot give a proper account of this unity." (Poulantzas, 1975: 239).
system. This development intensified in the 1990s and 2000s resulting with 69% of the population living there. With increasing role of the service sectors in the economy, the trade and finance sectors have gradually taken over the hegemonic role from the fishing sector in Icelandic politics (I. Jonsson 1995: chapters 5 and 6).

As can be seen from the following table, there have been shifting power blocs and developmental projects in Iceland since the Republic of Iceland was established in 1944. In periods when the fishing sector capitalists have held hegemonic position in the political system the emphasis has been on structuralist projects. This refers to increased investment in the fishing and fish processing sector and innovation in the domestic manufacturing sector. Neo-classical projects emphasize exploitation of natural resources, particularly energy production and inward FDI by multinational companies (aluminum and ferro-silicon smelters). Neo-liberal projects emphasize deregulation of markets, privatization of state institutions and expansion of the financial sector. Between 2003 and 2007 a neo-liberalist project was predominant and state companies and institutions were privatized for 130 billion kronas (Rikisendurskodun 2003 and Framkvæmdanefnd um einkavæidingu (2007)).

The following tables summarize shifting power blocs in Iceland and accumulation strategies. We will now concentrate on the period between 1994-2008 in which accumulation strategies were predominated by neo-liberalist socio-economic policies.

The main characteristic of the socio-economic development in Iceland since 1994 is how fast and extensive the process of privatization was. Furthermore, the growth of outward FDI is probably unique. Finally it is remarkable how strong the consensus of the neo-liberalist strategy became and how weak critique of the dominant strategy was. This situation leads us to the question, how did such a strong consensus come about?
## Table 3

### Power blocs and hegemonic projects in Iceland since 1944

<table>
<thead>
<tr>
<th>Power blocs</th>
<th>Politically dominant classes</th>
<th>Hegemonic fraction</th>
<th>Political elites on governmental level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fish sector capitalists</td>
<td>Fishing capitalists</td>
<td>Elites of the IP and the PrP. Subordinate role of the PP and SP elites</td>
</tr>
<tr>
<td>Structuralist projects 1944-59</td>
<td>Fish sector and trade sector capitalists</td>
<td>Trade capitalists</td>
<td>Elites of the IP and the IP</td>
</tr>
<tr>
<td>Neo-classical synthesis projects 1960-70</td>
<td>Fish sector and trade sector capitalists</td>
<td>Fishing capitalists</td>
<td>Elites of the ALL, the PA and the PrP. Subordinate role of the elites of the PP and the IP</td>
</tr>
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<td>Structuralist projects 1971-82</td>
<td>Fish sector and trade sector capitalists</td>
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</tr>
<tr>
<td>Neo-liberal-project/authoritarian projects 1983-90</td>
<td>Trade sector capitalists</td>
<td>Trade capitalists</td>
<td>Elite of the IP</td>
</tr>
<tr>
<td>Neo-social democratic projects 1991-4</td>
<td>Trade and financial sector capitalists</td>
<td>Trade capitalists</td>
<td>Elites of the IP and PrP</td>
</tr>
<tr>
<td>Neo-liberalist projects 1995-2008</td>
<td>Trade sector capitalists</td>
<td>Trade capitalists</td>
<td>Elites of the A and LGM and IMF experts</td>
</tr>
<tr>
<td>Austerity regime 2009+</td>
<td>Trade sector capitalists</td>
<td>Weak hegemony of trade and fishing capitalists</td>
<td></td>
</tr>
</tbody>
</table>

Abbreviations of political parties’ names: A = Alliance (social-democratic); ALL = Alliance of Liberals and Left; IP = Independence Party (right wing); LGM = Left-Green Movement (socialist and environmentalist); PA = People’s Alliance (socialist); PP = People’s Party (social-democratic); PrP = Progressive Party (center party); SA = Socialist Party;
### Table 4 Accumulation strategies 1944-82

<table>
<thead>
<tr>
<th>Accumulation strategies</th>
<th>Structuralist projects 1944-59</th>
<th>Neo-classical synthesis projects 1960-70</th>
<th>Structuralist projects 1971-82</th>
</tr>
</thead>
<tbody>
<tr>
<td>Import substitution:</td>
<td>Severe restrictions on imports and complicated regulation of foreign currency exchange. Devaluations of the krona during periods of right-wing governments. Low interest rates.</td>
<td>Export promotion: Heavy steering of investment in infrastructure, i.e. Power plants in order to produce cheap electricity for multinational corporations. Devaluation of the krona emphasized over aid for the fish sector. Iceland joins EFTA and gets special contracts with EEC. Emphasis on inward foreign direct investment. Deregulation of imports and foreign currency exchange undermines import substitution.</td>
<td>Limited import substitution due to the process of adjustment to EFTA and EEC agreements.</td>
</tr>
<tr>
<td>Export promotion:</td>
<td>Heavy steering of investment into the fish sectors. Direct aid for the fish and agricultural sectors.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Table 5 Accumulation strategies 1983-2009

|-------------------------|--------------------------------------|-------------------------------------|----------------------------------|-----------------------|
3.4.2. The social construction of the neo-liberalist consensus

The neo-liberal regime in the era of the financial bubble in 1994-2008 was criticized by very few economists and academicians in Iceland. It was mainly the Left-Green Movement that criticized the high level of indebtedness and extensive expansionist policy of building the Karahnjukar power plant. Following the crisis people ask themselves, how could this happen? And why was critique so silent? Many commentators in media point at “herd mentality” that is presumed to characterize very small societies. It is, however, rather unclear what is meant by this phrase, but there may be some sense to it. From the point of view of micro-sociology, in a very small society people may tend to suffer from high level of self-censorship as it is very likely that a relatively large proportion of the population will get information or will easily get information about persons that fall out of the main stream. As a consequence, the social risk is high as this may affect ones chance of getting jobs or even the relatives of the person in question may suffer. If this is the case the neo-liberalist consensus would be explained by the fact that people did not take the social risk by criticizing in public the neo-liberalist regime whose ideology had become mainstream ideology.

A different approach would highlight how the consensus was socially constructed on the bases of the structure of the means of public opinion formation. This structure is determined by the characteristics of the Icelandic economy as a mini economy and the consequent tendencies towards oligopoly and monopoly in the economy. The following figure highlights the size related determination of the socio-economic dynamics of an economy. In the figure causal effects go from top to bottom.
As figure 9 indicates, the size of the home market and the absolute number and size of firms (whether in terms of turnover rate or person years) determines monopoly tendencies and chances of exploiting economies of scale. These two last mentioned factors affect levels of value added as monopoly and oligopoly leads to decreased output of the economy and increasing costs of other non-monopoly sectors (Yarrow 1985) and lack of economies of scale leads to relatively low levels of productivity. Furthermore, the figure indicates that the openness of the economy affects the role of exchange rates. The smaller the economy is the more open it will tend to be and the more important exchange rate policies will be for the economy. This is the case both in terms of costs of imported goods for consumption and production as well as in terms of profitability of export sectors and long term rationality of investment in these sectors. The fourth factor, fluctuations in GDP, affects social and political stability. Fluctuations in GDP lead to fluctuations in income distribution and class relations as well as fluctuations in state revenues and party voting. Finally, the fifth factor, the absolute size of administration, determines its grounds to function as a formally neutral body vis-à-vis social and economic interests and to contribute to collective policy making. In a small society it is likely that the personnel of the administration has personal relations with owners and managers of corporations as
they are acquainted be graduated from the same schools and/or universities, leisure activities and family relations. Furthermore, the smaller the administration is, the more likely it is to lack resources and specialization to contribute to long term policies and economic and political stability (Jonsson 1991b). However, despite the small size of the administration, there is a greater need for a rationalizing role of the state and public institutions in the economy because of the small number of firms, monopoly tendencies and inability of firms as concerns industrial innovation due to their unusually small size and unstable economic environment.

The result of the structural conditions of a micro state that we have described above is that the formation long term policies is difficult and short term policies reign in concerning social and economic strategies. This situation suits well neo-liberalist ideology as laissez-faire policies emphasize that governments should not direct economic development. It is competition and markets that are supposed to lead the development of the economy towards maximization of output.

But, in a micro state like Iceland there are structural limits to market rationality due to strong tendency to monopoly and oligopoly in markets. What concerns us here, is the role of the absolute number and size of firms and the absolute size of the government/administration in relation to the process of public opinion formation in Iceland. Referring to the left side of the figure, it is presumed that the size of the economy in question will affect the absolute number and size of firms and consequently, will affect the degree of monopoly tendencies in the different markets of the economy. The size of the economy will also determine the number and size of private universities, research institutions and media.

In the case of Iceland, the level of oligopoly is very high in all industries and the relationship between corporations on the one side and media, research institutes, universities and the administration is very strong. Furthermore, tight relations of interlocking directorship is among the main characteristics of the corporate sector. These political-economic relations generate a situation in which corporations have strong power position in terms of influencing public opinion and political institutions such as the administration and legislature.

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. Interest groups such as corporations, trade unions, employers 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 legislature and regulations that concern their way of doing things. On the basis of positive public opinion it will be easier for them to influence political parties, legislators and the administration so that laws and regu-
lution will realize their interests. The resources that interest organizations 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 a) the establishment and reproduction of interest groups; b) interaction of interest groups; c) the exercise of influence by way of lobbying and financing campaigns that affect political behaviors or policy decisions of legislators, political executives, judges and preferences of the public and; d) the effects of activities by interest organizations on the political system as a whole concerning political participation of citizens, the operation of government and the course of public policy. In short these are issues that concern how democratic representation works (D. Lowery and H. Brasher. 2004: 18-19).

Icelandic companies and their interest organizations have a very strong power position in Icelandic society. There power resources are remarkable. This appears as one observes their ownership and/or control of the main media (newspapers, TV and radio), universities and research institutions. Concerning media it is striking to observe that all the three newspapers published in Iceland are owned by companies that were the main actors of outward FDI in the expansion period leading up to the financial crisis. According a survey by Gallup, in February, March and April 2008, in the average 64.9% of the Icelandic population read daily The Frettabladid while 41.6% read Morgunbladid and 50.4% read 24 stundir.

Figure 10
Daily reading of newspapers 2005-2008

Source: Capacent Gallup (2009a)

Morgunbladid was established in 1913 and has supported the right wing Independence Party since it was established in 1930.
It is interesting to note that Frettabladid is owned by a company called 365 hf. and, according to its Annual Report for 2006, its president was J.A. Johannesson the chairman of the board of directors of Baugur Group hf. The editor of this paper was from early 2006 to June 2009 Th. Palsson the former prime minister of Iceland and leader of the Independence Party. He was one of the party’s main neo-liberalist ideologist in the 1980s. In 2006 365 hf. was owned by 1,088 shareholders but the main owners were the leading companies of outward DFI, i.e. Baugur Group hf. that owned 30.7% of its shares, Milestone ehf., Reykjavík 16.8%, Fons Capital AS and related parties 14.9% and Runnur ehf. 10.8% (365 hf. 2007).

365 hf. owns as well a TV-station and a radio-station. According to Gallup survey in 28th of January to 3rd of February 2008, Stöd 2 enjoyed 34.2% of daily watch of all TV viewers while the state TV station had 44.1% of the watch (Capacent Gallup 2009b). Gallup survey on 27th January to 1st of February 2008 showed that out of all listening to radio channels, 45.2% of listening was spent on the radio channels of 365 hf. while 54.8% was spent on the two channels of the state radio station (Capacent Gallup 2009c). In addition to the media mentioned above, the main shareholder in the company that publishes the newspaper DV is a company owned by the chair of the board of Baugur Group hf (H. Loftsson). DV does not take part in the Gallup media surveys. This company owns as well large shares in Birtingur that shares the market of popular journals in Iceland with Edda that is a publishing company mainly owned by Björgolfur Guðmundsson the main shareholder in the company Samson that in 2006 owned 41.7% of the shares in Landsbankinn (that was the among the main actors of outward FDI) (Morgunbladid 2008).

It appears from the discussion above that the media market is dominated by few corporations. Among them are the main companies of globalization and outward FDI. It is to be expected that Icelandic media is strongly biased towards neo-liberalist ideology.

It is not only media that is controlled by the corporations. The corporate sector has also established its university, the Reykjavik University (RU), that started as a school of business studies and computer science. RU was established in 1998 and in 2005 it took over the state owned undergraduate University of Technology. There were 17623 students studying at university level in Iceland in 2008. Out these students, 2974 were enrolled in RU (Statistics Iceland 2009b). RU’s The Board of Trust-

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13 The TV station runs the channels Stöð 2 and Stöð 2 sirkus. The radio station runs the channels Bylgjan, FM 95.7, X-id, Lettbylgjan, Gullbylgjan and Rondo.
14 H. Loftsson was the chairman of the committee that organized the privatization of state banks and state companies in the 1990s.
15 Björgolfur Gudmundsson is the main shareholder in the English Westham United Football Club.
tees is composed of 8 permanent representatives and 2 alternates all of which come from industry and are appointed by RU’s owners. The members of the Board of Trustees of RU are appointed by the Iceland Chamber of Commerce, the Confederation of Icelandic Employers and the Association of Industries. Board of Trustees has the same status as the board of directors in private companies and is the highest power body of the university. In 2008 the board members included CEOs of Bank of Iceland (former Glitnir) and Alcoa.

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

In short the associations of employers control universities that have 21% of all university students enrolled in Iceland. The state universities in Iceland 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 is very rare in the state universities as such research would undermine their chances of increasing their income. The bulk of their income stems from the state budget that is determined by the parliament. Critical research might even lead to cuts in the budget of the state universities.

Media and universities are important in modern societies concerning formation of public opinion. As we have seen, interest groups and corporation 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 deci-

16 The members of the board of trustees in 2008 were Róbert Wessman, President and CEO of Salt Investments, Finnur Oddsson, Managing Director of the Iceland Chamber of Commerce, Birna Einarsdóttir, Executive Director, Islandsbanki, Eggert Guðmundsson, CEO of HB Grandi, Jón Sigurðsson, CEO of Óssur, Katrín Pétursdóttir, CEO of LÍSI, Kristín Friðgeirsdóttir, Associate Professor of Decision Sciences, London Business School, Sigurður Bragi Guðmundsson, engineer. Alternates are: Árni Harðarson, lawyer Salt Investments and Tómas Már Sigurðsson, CEO of Alcoa Fjarðaál (RU homepage: http://ru.is/?PageID=7258).

17 Members of the board in 2008-2010 are: A. Magnússon, Chairman, Director, Representative of The Alumni Society of the University, F. Árnason, Vice-Chairman, President, Representative of The Confederation of Icelandic Employers, Á. Haraldsson, Associate Professor, Representative of The Council of the University of Bifröst, G. Adalbjarnarson, Director, Representative of The Confederation of Icelandic Employers, H. Stefánsdóttir, Head Lawyer, Representative of The Confederation of Icelandic Employers. Alternates: Representatives of The Confederation of Icelandic Employers A. Atlason, Á. Gíslason, S. Jöhannesson, Representative of The Alumni Society of the University, H. Jónsdóttir, Representative of The Council of the University of Bifröst K. Jóhannsdóttir University of Bifröst homepage: http://www.bifrost.is/english/about-bifrost/board-of-governors/)
sions 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 (I. Jonsson 2006). It appears from the figures of turnover 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 employers unions a different picture emerges. At the central bodies of employers associations there were 41 experts working in 2009 while the figure for central bodies of the trade unions was 18\textsuperscript{18}. The number of staff and particularly experts of the interest groups are particularly important in terms of the work of the administration and legislature on laws and regulations. This is because when motions and amendments in the parliament are discussed and prepared by the committees of the parliament, the interest groups and stakeholders are usually asked to make their comments on motions. The same goes for regulations formulated by ministries when they ask for comments.

Besides influencing public opinion and legislature via experts, the interest organization and corporations actively attempt to influence the policies of political parties. They do this by sponsoring campaigns and candidates in elections and appointing MPs as members of the board of companies. Furthermore, In addition to sponsoring the parties directly, the corporation sponsor individual candidates. Corporations sponsor 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 interest organizations concerning their attempts to influence societal decision making.

Organizations become interest organizations (IOs) when their concerns intersect with public policy. They differ from social movements as they have clear organizational structure. They actively represent the interests of their members on 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 action by government. Interest organizations differ from political parties in that they do not themselves seek elective office (D. Lowery and H. Brasher 2004: 5-8). With reference to the definition above, we would conclude that corporations belong to the category of interest organizations insofar as they attempt to influ-

\textsuperscript{18} Employers associations: SA=15, SI=16, SVTh=4, LIU=6, total = 41; Trade unions: ASI=9, BSRB=6, BHM=3, total = 18. (figures from the homepages of the respective associations). A similar but more detailed study of the number of staff of these associations 1970-1987, shows that in 1987 the employers associations had 19 economists on their list of staff while the trade unions had 4 (I. Jonsson 1995: 108).
ence public policy in the same way as special issue groups are established for the same purpose.

The following table summarizes the practice of interest organizations concerning how they actively influence societal decision making. This takes place on two levels, i.e. on the one side by influencing the public and on the other side by influencing legislature.

Table 6
The exercise of influencing

a) Influencing the public
How it appears in practice:
i. Influencing choice context:
   Framing:
   IOs attempt to influence which issues or conditions are defined as problems that need political solution. Furthermore they try to affect how they are framed, e.g. as being unfair condition, immoral, dangerous etc. They will also attempt to have issues reframed.
   Issue advocacy:
   By way of putting advertisements in media that advocate particular issue without directly using words like “vote for”, “elect”, “defeat” or “support”. Issues are rather framed in a positive or negative way in order to affect how the public sees things.
   Think tanks:
   IOs use think tanks to help framing issues. They are independent non-profit public policy research organizations using social science research methods. IOs support their work or finance their research. In recent years they pretend less to be objective than they used to do (cf. the Heritage Foundation and the Cato Institute).
   Media lobbying:
   IOs produce information and reports in order to influence the work of journalists and public opinion through them. They may also buy or establish their own media in order to control the work of journalists via self-censorship.

ii. Influencing choice content:
   Candidate recruitment and training:
   Political parties tend to reserve their funds for the winning nominee. IOs fund candidates in the early stages of elections and even choose particular candidates to sponsor (i.e. with

<table>
<thead>
<tr>
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<th>b) Influencing choice context:</th>
</tr>
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“hard money” as it is called). They sometimes offer candidates training using e.g. videos and campaign seminars.

Party infiltration:
IOs members become members of parties in order to influence their policies and ideology.

Soft money:
‘Soft money’ refers to IOs’ funding of parties without sponsoring particular candidates or policy issues. These are measures that promote the parties generally. Soft money appeals to IOs because they can contribute substantial amounts of money - enough to be noticed. The parties appreciate such high amounts as this will make it easier to get support from other IOs.

iii. Influencing citizens’ choices:

Campaign information:
IOs collect information on how legislators vote when their issues are on the agenda and inform voters and the members of the respective IOs about it. In some cases, they distribute voter guides so that people vote according to the IOs’ interests.

Campaign labor:
IOS actively communicate with voters in elections by knocking on doors and talk to them, put up yard signs, stuffing envelopes, manning phone banks, and driving voters to the polls.

Campaign money:
IOs support candidates and/or parties directly or they establish special political action committees (PACs) in order to raise money and make contributions to the campaigns of political candidates whom they support. IOs also use soft and hard money to support candidates and parties. IOs contribute much more to incumbents rather than new challenging candidates. They use their money to support incumbents as they are more likely to win nominations rather than challengers and the IOs emphasize working with the winner. As a consequence they tend to support candidates of all parties that are likely to win rather than attempt to shape citizens’ choices in elections.
b) Influencing the legislature

How it appears in practice:

i. Influencing the different stages of legislature:

Introducing legislature:
Legislators need to collaborate with IOs in order to get ideas, issues and drafts of legislation. IOs use the opportunity to influence legislators.

The committee stage:
Most bills in legislature are considered first in committee and require the support of committee members to be reported to the floor. IOs attempt to influence one or few legislators that are likely to get other legislators to accept their cause. It is the function of committees to establish the content of legislation and therefore their work can be very important for IOs. The IOs learn what the preferences of legislators are by observing which committees they become members of and estimate how receptive they will be concerning the issues of the IO in question. As each committee member usually has many bills and amendments to work on the IOs try to find champions for their cause. The contributions of IOs to campaigns of candidates that they presume to be likely to pursue their cause are legitimized by the time and effort that the legislator spends on issues in committee work that reflects the interests of the respective IOs.

Furthermore, legislation often involves complex or technical issues that and legislators are dependent on external expertise. This situation offers opportunity for IOs to influence legislators. Preferably IOs will ask particular members of committees in parliament to lobby other members. Finally, in some cases IOs lobby members from particular constituencies to lobby other members from the same constituency if e.g. the issue in question is important for the constituency (such as concentration jobs in particular industry in the constituency)

Voting decisions:
Voting procedures in parliaments are dominated by majority rule and whip system makes it easier to predict what bills and amendments will succeed. Consequently, IOs exploit the power structures in political parties and attempt to influence leading legislators that
stand close to their ideology or issues or they lobby to strengthen the power base of such legislators.

After the vote:

In some countries presidents or governors have the right to veto legislation. In such cases IOs may attempt to influence these actors if the new law opposes their interests.

ii. Means of influencing the legislature:

IOs need resources to influence the legislature. The main resources are information, votes and money. IOs have unequal access to these different resources. Trade unions and issue groups like environmental movements have members that constitute part of the voters in elections while corporations do not have many votes, but they may have larger budgets for lobbying.

Information:

Information is necessary for legislators in terms of defining or redefining problems so that legislation can be effective and its consequences for voting behavior of the electorate can be estimated. IOs produce information for allies among legislators and undecided members of parliament that might support their cause. There are two kinds of information, i.e. policy information and political information. Policy information includes background data on the issue and data on the technical workings of proposed legislation and its societal consequences. Information of this kind is important for framing issues. Some IOs have their own research facilities and think tanks and have therefore privileged power position compared to other IOs. Political information refers to information that observes electoral consequences of a member’s vote on legislation. This kind of information highlights how constituents receive a particular action, what public opinion is in the district, or how strongly members of the organization feel about the decision. The information can be presented to the legislators in different ways, such as by testimony at committee hearings and direct contacts between legislators and lobbyists. Such direct contacts are the most important means by which IOs present information.

Votes:

Legislators are bound to take into consideration their voters in their work on legislation. IOs with strong
district presence are powerful in this context and particularly those IOs that have presence in many constituencies. By organizing campaigns and activating their grassroots members they can have strong impact on legislators, such as by way of calling and e-mailing MPs. In cases when IOs have very large number of members and ability to organize campaigns, the legislators tend not to oppose their interests.

Money:
IOs tend to have different strategies in exploiting money as power resource. Corporations and organization that represent business interests tend to emphasize access strategy, i.e. contributing to incumbents, legislative leaders, and members of majority parties. The aim is to secure access to them once in office rather than to further their election chances. However, some IOs tend to pursue electoral strategy and contribute to candidates on the grounds of the candidates ideological or policy compatibility with the IO’s goals. Research shows that IOs contributions are effective in contexts when the visibility of an issue is low or if public opinion is divided, i.e. when the public cares about an issue, money has little influence on final votes by legislators.

iii. Strategic choice:
Different IOs have different power resources. But, the resources are of little help if they are not used properly. Consequently, the IOs have to determine their strategy of using the resources effectively. There are two basic kinds of strategies choices, i.e. selecting the right tool and deciding whether to establish a coalition.

Selecting the right tool:
The power resources IOs use depends on the nature of the organization in question and the issues at hand. Issues can be particularistic, conflictual or unifying. In the case of particularistic issues, the interests of one or few companies are engaged. They tend to concentrate their efforts on few MPs and executive officials and use money and direct contacts based on long-standing relationships. Concerning conflictual issues with real clash of interests such as whaling
versus whale watching companies district interests will have the upper hand. This is the case when a particular company has strong presence in a constituency: it will act as a champion by representing constituents’ preferences. For legislators from other districts other factors are important to affect their attitude. Here technical policy information, ideological preferences, party position and money are important power resources. Finally unifying issues refer to issues that impact the interests of business as a whole. They involve major policy changes that bear significantly on a large number of people. Examples are regulations that limit air pollution or improve workplace safety or the relationship between labor unions and management. Issues like these should unify e.g. the business community and provide the basis for a unified front. Paradoxically, however, these are issues on which business interests actually have the least influence. As they are likely to be salient to a large number of voters, constituency considerations are far more likely to matter to legislators than money or even long-standing, personal contacts.

Coalitions:

IOs can maximize their power resources by joining coalitions with other IOs. They can share cost of lobbying and by resolving conflicts among themselves they can present a unified front to law makers. Furthermore, participating in a coalition may help to legitimate an IO’s policies as it will appear to speak for larger portion of the population if it belongs to a coalition. Finally an organization is more forceful if it is a part of coalition. Research indicates that governmental actors are more responsive to collations than individual organizations as the resources of collations are more powerful.

Source: D. Lowery and H. Brasher (2004: chapters 4 and 5).

Let’s observe the neo-liberalist era in Iceland and concentrate on how IOs have moulded public opinion and how they influence legislators and the government. Let’s start with the question of how they influence public opinion by influencing choice context and commence with framing strategies.
In the early 1980s, organizations of employers were successful in framing, particularly effective was the Iceland Chamber of Commerce. They managed to put privatization on the political agenda and the ideology that deregulation of the economy was necessary to increase economic 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 neo-liberalist framing took over the scene. This took place in the international context of the rise of neo-liberalism and decline of Keynesianism. Keynesian economic policy was unable to solve the problem of stagflation and severe inflation in Western countries that followed the oil crises in the 1970s. In Iceland inflation reached 58.5% in 1980 and 84.3% in 1983. In this context the Confederation of Icelandic Employers (CIF) and the Iceland Chamber of Commerce (ICC) (1983) stressed framing strategy and started campaign that emphasized privatization and cuts in public expenditure. The CIE and ICC followed the movement of young members of the Independence Party (IP) that published or arranged publication of books and pamphlets on neo-liberalism and monetarism in the early 1980s. The leaders of the movement such as D. Oddsson, became leaders of the IP in the 1980s. Form 1991-2004 the neo-liberalist leader of the IP, D. Oddsson, held the post of prime minister and became the head of the Central Bank of Iceland 2006-2009. The CIE and ICC use their annual general meetings in very successful way for framing purposes. Prime ministers and ministers attend these meetings and listen to the policies of the organizations. The meetings are very well presented 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, Th. Palsson, became candidate for the IP in the parliamentary elections in 1983 and became its MP (G. Magnusson 2004:

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212). Later in the same year he was voted the leader of the IP and became the prime minister in 1987-1988. He belonged to the neo-liberalist clique at the University of Iceland together with Oddsson in the 1970s. Palsson had been editor of the right wing newspaper, Visir, preoccupied with political framing. He was the editor of Frettablaid 2006-9.

Icelandic employers’ and labor 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 employers’ organizations, as was mentioned above and their personnel are frequent commentators in media on issues concerning economic policy and business matters. The staff also writes reports that influence choice context. As an example, economists at the University of Reykjavik wrote a report in 2005 that was very positive and uncritical of the expansion of the finance sector. The report, one among only few Icelandic reports on the financial sector, got good publication in the predominantly right wing Icelandic media. As is to be expected, the recruitment of staff in these private universities is carefully scrutinized in terms of political ideology and the ideological control is strong.

Although there are no formal think tanks in Iceland on 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 analyzed economic policy alternatives and economic development, was discontinued in July 2002. Consequently, from then on the neo-liberalist orientated Institute of Economic Studies became the leading institute of economic policy analysis. The role of this institute became particularly important as it became the main sub-contractor in this field of the prime ministry. It received this status as the prime minister and neo-liberalist, D. Oddsson, hired this institute to do most of the policy analysis for the prime ministry. The director of the Institute of Economic Studies (IES), T. Th. Herbertsson, became the economic advisor of prime minister D. Oddsson in August 2008, Professor at the University of Reykjavik in February 2009 and a member of parliament for the Independence Party in

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20 The summary of the reports starts like this: „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. Although economists do not always agree as to the channels through which the financial sector enhances growth, they largely agree that an efficient financial market is conducive to economic growth and thus enhances the standard of living” (University of Reykjavik Economic Research Unit 2005). For a discussion of the report and the research on which it is based, see the main newspapers in Iceland at that time, Morgunbladid, on the 8th, 14th and 15th of April 2005 and Frettablaid on the 13th of April 2005.

21 See e.g. testimony by L. Mosesdottir former lecturer at the University of Reykjavik and professor at the University of Bifrost (L. Mosesdottir 2008).
April 2009. He is a vice board member 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 Fraser Institute, Canada, and contributed to the *Economic Freedom of the World 1997 Annual Report* (the Fraser Institute 1997). The Fraser Institute organized collaboration of 45 neo-liberalist or employers institutes that collected material on the status of economic freedom in 115 countries. The ideological aim of this work can be observed in the Fraser Institutes own description of its objective: “It has as its objective the redirection of public attention to the role of competitive markets in providing for the well-being of Canadians” (ibid.: xiv).

Media lobbying is one of the ways that IOs use in order to influence choice context. Icelandic corporations have had unheard off strong lobbying position in relation to media. As was 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, that Baugur Group owned. The second largest newspaper, Morgunbladid, was owned by the company Arvakur, that was owned by the main shareholder of Landsbankinn. As a consequence, the situation in Iceland is to be characterized as an extreme case of corporate media lobbying.

As we observed in table 6, IOs spend time and resources on influencing choice content. One way of doing this is by means of ‘hard money’. They often fund candidates in early stages of elections. In this respect, they tend to sponsor candidates that are likely to win. It is common for all the Icelandic parties that organize pre-elections for its members and sometimes the general public to elect their candidates. At this stage, corporations sponsor particular candidates. No systematic research has taken place in order to estimate the scale and scope of such sponsoring in Iceland. 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 narrow glimpse into this side of Icelandic politics. Baugur Group contributed 11.35 million kronas to the pre-election campaigns of several candidates in the pre-elections in 2006 that the political parties held in relation to the parliamentary elections in 2007. On list were the minister of Health that received 2 million kronas and the minister of agriculture who received 300 thousand kronas. The former mayor of Reykjavik received 2 million kronas. This is of course only tip of the iceberg and total contributions of IOs might be much larger.

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22 Contributions from Baugur Group to candidates in million kronas: Á. Kr. Ólafsson Independence Party (IP) 0,5kr, Á.R. Jóhannesdóttir Alliance (Samfylking, SF) 0,2kr, B.G. Sigurðsson SF 0,3kr, B.I. Hrafnsson Progressive Party (PP) 2kr, Dögg Pálsdóttir IP 0,2kr, Guðfinna Bjarnadóttir IP 1kr, G.Th. Thordarson IP 2kr, G. Ágústsson PP 0,3kr, Helgi Hjörvar SF 0,9kr,
IOs also attempt to influence choice content by exploiting ‘soft money’ and promoting parties generally rather than individual candidates or issues. After the crash in 2008 and the banks were taken over by the state, information on how companies act has become public. It appears that the banks and the globalizing companies like Baugur Group hf and Actavis were among the most active corporations in this respect. In 2006, the social-democratic Alliance (Samfylkingin) received 103 million kronas 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. Landsbankinn and FL Group contributed 8 million kronas each. Other parties have not published as detailed information about contributions as the Alliance. However, in the same year the right wing Independence Party received 30 million kronas from the company FL-Group and 25 millions from Landsbankinn. In all the party received around 35 million kronas from companies affiliated with Baugur Group and similar amount affiliated with Landsbankinn and Actavis. The party has confirmed that it received 81 million kronas from corporations that contributed one million kronas or more (Visir 2009). The Progressive Party received officially 23.5 million kronas from corporate sponsors (Morgunbladid 2009b). If we presume that the Independence Party, the main right wing party, received at least two times as much as the Alliance, the Progressive Party 2/3 as much as Samfylkingin 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 17.44 US$ (exchange rate 72.27 kronas per US$ in June 2006).

It is interesting to note, that in the year of presidential elections in USA in 2008, the total lobbying spending in USA amounted to 3.27 billion US$ or 12.23 US$ per capita (Center for Responsive Politics 2009 and US Census Bureau 2009). The difference is even larger if one compares these figures in the light of GDP per capita (PPP) as in 2008 the

Jóhanna Sigurdardóttir SF 0,2kr, K. Júlúsdóttir SF 0,5kr, R.E. Árnadóttir IP 0,25kr, R. Ríkhardsdóttir IP 0,5kr, R. Marshall SF 0,25kr, S. Andersen IP 0,25kr, S.V. Öskarsdóttir SF 2kr. FL Group contributed also to candidates: G.Th. Thordarson IP 2kr, I. Gunnarsson 2kr, S.V. Öskarsdóttir SF 2kr. This information is not complete as journalists have hard time getting such information in Iceland (DV 24th of April 2009).

23 Kaupthing Bank contributed 10 million kronas and Landsbankinn 8 millions. FL Group gave 8 millions. The bank Glitnir contributed 5.5 millions and so did Actavis (main shareholder is B.Th. Bjorgolfsson who is the main shareholder of Samson that is the main shareholder of Landsbanki). Dagsbrun the main shareholder of the media company 365 and affiliated with Glitnir contributed 5 millions and so did Baugur (large shareholder in Glitnir). The bank Exista gave 3 millions and so did the oil distributing company Ker. In all big corporations contributed 73 million kronas while smaller companies and individuals gave 30 millions (Morgunbladid 2009).

24 The companies of father and son Björn Bjorgolfur Gudmundsson and his son Bjorgolfur Thor Bjorgolfsson.
GDP per capita in Iceland was 40025 US$ while the figure for USA was 46859 US$ (IMF 2009).

Concerning how IOs in Iceland attempt to influence citizens’ choices, it appears that do not take part in campaign labor or produce campaign information. But, they emphasize hard and soft money in their struggle to parties and candidates as we discussed above.

Besides influencing political parties and their candidates IOs attempt to influence the process and outcome of legislature. They systematically and actively influence the different stages of legislature. Icelandic IOs invite ministers to their annual meetings in order to influence their framing and views concerning what to emphasize in the field of policy in question (as we discussed above). They also invite members of parliament to dinners and discuss policy issues (L. Mosesdottir 2009). However, the committee stage is probably more important in this respect. At the committee stage the parliament asks IOs and stakeholders for comments on amendments and bills. As the parliament has only 12 experts, i.e. committee secretaries that assist the committees in their work, the members of parliament are very dependent on external comments by IOs and stakeholders and experts working in ministries. Members of parliament have traditionally had assistant that have usually been young politicians rather than experienced experts. In 2009 the parliament’s expenditure on MPs experts was cut and since then they have none. IOs with good resources can, as a consequence, easily affect how committees frame problems and what information they access. IOs staffed with many experts have therefore strong power position relative to the committees and other IOs that have fewer resources. As we 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 very strong whip system and majority rule. This is due to strong power position that the party leaders have in governmental procedures. Party leaders lead negotiations when coalition governments established. They name candidates for ministerial posts and the members of parliament (MP) of the party in question de facto accept the party leader’s proposal. The individual MP’s career depends therefore to large extent on the leader’s goodwill concerning the chances of MPs to become 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. Parliamentary oligarchy and discipline is therefore a persistent characteristic of the Icelandic parliament. Further-
more, most bills are government bills. Consequently, the role of the parliament in societal decision making is weak while the administration and ministers are powerful.

Once the parliament has accepted bills they do not become formal laws until the president has signed them. The situation after vote can theoretically become critical as if the president does not accept the law, it then has to be put to general election. This has never happened.

The power resources or means of influencing the legislature that IOs have are among the most important factors that affect the outcome of legislature. The IOs of corporations are active in producing policy information. They are particularly active in matters concerning alleged consequences of tax policies and backing up the policy of the right wing Independence Party. The IP has managed to cut tax burden of the corporate sector steadily since the 1990s and in particular taxing of financial income that has become much lower than income tax of wage earners. In May 2001 the Confederation of Icelandic Employers published a report on taxes in Iceland and required 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. The prime minister, D. Oddsson, participated and famous neo-liberals such as Michael Walker, head of the Fraser-Institute in Canada (that published annually the Economic Freedom of the World (EWF) Index) (Morgunbladid 2001: 30-31). The conference and the report was covered extensively in the media and a bill on tax amendment, that had been proposed in the parliament in October 2001, which presumed that corporate income would be lowered to 18% was passed by the parliament in December 2001.

Concerning political information, Icelandic IOs do not directly collect information on electoral consequences of members of parliament vote on legislation. However, Gallup collects information on different political issues by way of surveys in which the public opinion is observed. 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 ASI (Iceland’s Trade Union Council) and the Federation of Icelandic Industries buy

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

26 From the 1st of 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 2002-9).
questions related to the question whether Iceland should join EU as this is their official policy that Iceland should do so. 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 labor and capital in Iceland finance the Center for European studies at the University of Bifröst. This institute and its director is pro-EU and publishes reports on policy issues related to the question whether Iceland should join the EU. As an example it published a report in 2006 that came to the conclusion that Iceland should implement the Euro and join the EMU rather than sticking to the Icelandic krona (E.B. Einarsson and J.Th. Sturluson 2008).

By influencing and activating voters so that they press for issues or policies, IOs can influence legislators. Agitation of this kind is rare in Iceland. The transnational corporations in the Aluminum industry run campaigns to influence voters in order to press on legislators in periods when decision concerning building of 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 important power resource the IOs and corporations exploit to influence legislature. They tend to emphasize access strategy, i.e. contributing 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 was 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 members of the parliament 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 legislator and corporations as the following tables show.

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27 The Centre for European studies was founded at Bifröst University in August 2005 in cooperation with the C (SA), the Icelandic Confederation of Labour (ASÍ), the Federation of Icelandic Industries (SI) and the Confederation of State and Municipal Employees (BSRB).
### Table 7
**Members of parliament were members of the board of corporations in 1991**

<table>
<thead>
<tr>
<th>Members of Parliament</th>
<th>Members of the board</th>
<th>Type of ownership</th>
<th>Alternates</th>
<th>Type of ownership</th>
<th>Board of executives</th>
<th>Political parties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Björn Bjarnason</td>
<td>Almenna bökafelagid</td>
<td>Pr</td>
<td></td>
<td></td>
<td></td>
<td>Indep. Party</td>
</tr>
<tr>
<td>David Oddsson</td>
<td></td>
<td></td>
<td>Almenna bokafelagid</td>
<td>Pr</td>
<td></td>
<td>Indep. Party (PM)</td>
</tr>
<tr>
<td>Eggert Haukdal</td>
<td>Höfn-Thrihynningur hf</td>
<td>Pr</td>
<td></td>
<td></td>
<td></td>
<td>Indep. Party</td>
</tr>
<tr>
<td>Egill Jonsson</td>
<td>Aburdarverksmiðja rikisins</td>
<td>St</td>
<td></td>
<td></td>
<td></td>
<td>Indep. Party</td>
</tr>
<tr>
<td>Eidur Gudnason</td>
<td>Saga Film</td>
<td>Pr</td>
<td></td>
<td></td>
<td></td>
<td>People’s Party</td>
</tr>
<tr>
<td>Eyjolfur K. Jonsson</td>
<td>Almenna bökafelagid; Isno hf; Lodskinn</td>
<td>Pr</td>
<td></td>
<td></td>
<td></td>
<td>Indep. Party</td>
</tr>
<tr>
<td>Halldor Blondal</td>
<td>Bunadarbanki Islands</td>
<td>St</td>
<td></td>
<td></td>
<td></td>
<td>Indep. Party</td>
</tr>
<tr>
<td>Ingi B. Albertsson</td>
<td>Tollvorugeymslan hf</td>
<td>Pr</td>
<td></td>
<td></td>
<td></td>
<td>Indep. Party</td>
</tr>
<tr>
<td>Members of Parliament</td>
<td>Members of the board</td>
<td>Type of ownership</td>
<td>Alternates</td>
<td>Type of ownership</td>
<td>Board of executives</td>
<td>Political parties</td>
</tr>
<tr>
<td>-----------------------</td>
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<td>-------------------</td>
<td>---------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>Ingibjörg Palmadottir</td>
<td>Skallagrimur hf</td>
<td>Pr</td>
<td></td>
<td></td>
<td></td>
<td>Progr. Party</td>
</tr>
<tr>
<td>Johann Arsaelsson</td>
<td>Haforninn</td>
<td>Pr</td>
<td>Skallagrimur</td>
<td>Pr</td>
<td></td>
<td>People’s All.</td>
</tr>
<tr>
<td>Pall Petursson</td>
<td>Landsvirkjun hf</td>
<td>Pr (St)</td>
<td></td>
<td></td>
<td></td>
<td>Progr. Party</td>
</tr>
<tr>
<td>Palmi Jonsson</td>
<td>Lodskinn</td>
<td>Pr</td>
<td></td>
<td></td>
<td></td>
<td>Indep. Party</td>
</tr>
<tr>
<td>Steingrimur Hermannsson</td>
<td>Landsbanki Islands</td>
<td>Pr</td>
<td></td>
<td></td>
<td></td>
<td>Progr. Party</td>
</tr>
<tr>
<td>Sturla Bodvarsson</td>
<td>Thor hf</td>
<td>Pr</td>
<td>Breidarfj. ferj. Baldur</td>
<td>Pr</td>
<td>Thor hf</td>
<td>Indep. Party</td>
</tr>
<tr>
<td>Valgerdur Sverrisdottir</td>
<td>Federation of Icelandic Coops Slippstodin hf</td>
<td>C Pr</td>
<td>Isl. skinnaidnadur</td>
<td>C</td>
<td></td>
<td>Progr. Party</td>
</tr>
<tr>
<td>Vilhjalmur Egilsson</td>
<td>Skjoldur</td>
<td>Pr</td>
<td></td>
<td></td>
<td>Skjoldur</td>
<td>Indep. Party</td>
</tr>
</tbody>
</table>

C = coop; Pr = private firm; St = state institution; Pr(St) = Ltd 100% owned by the state.
Table 8
Members of parliament who are members of the board of corporations in 2007

<table>
<thead>
<tr>
<th>Members of Parliament</th>
<th>Members of the board</th>
<th>Type of ownership</th>
<th>Managers</th>
<th>Other interest relations</th>
<th>Political parties (period as member of Parliament)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Árni Páll Árnason</td>
<td>Bunadarbanki Islands (2001-3)²⁸</td>
<td>St</td>
<td></td>
<td></td>
<td>Alliance (MP 2007+; Minister of Soc. Aff. 2009+)</td>
</tr>
</tbody>
</table>

²⁸ MOB when Samson got loan from Kaupthing to buy shares in Landsbankinn.
<table>
<thead>
<tr>
<th>Members of Parliament</th>
<th>Members of the board</th>
<th>Type of ownership</th>
<th>Managers</th>
<th>Other interest relations</th>
<th>Political parties (period as member of Parliament)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thorgerdur K. Gunnarsdottir</td>
<td>Pr</td>
<td>Her husband was manager of the department of commercial banks affairs at Kaupthing</td>
<td>Indep. Party (MP 1999+; Minister of culture and education 2003-9)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ögmundur Jónasson</td>
<td>Pension Fund of Public Sector Employees, chairman of the board 2006-7.</td>
<td>Non-Profit</td>
<td>Left-Green Movement (MP 1999+; Minister of Health in 2009)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As was discussed above in table 6, some IOs use money in order to pursue electoral strategy and 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 will receive more monetary support from them than other candidates. Candidates and parties in Iceland 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, trans-national corporations and IOs such as the Icelandic Chamber of Commerce. The great support that the Independence Party 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 to observe this phenomenon.

The third main factor that affects the ability of IOs and corporations to influence 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 analyzed as being particularistic, conflictual or unifying (cf. table 6 above). 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 would join the EU then they will lose their quotas and Brussels but not the Icelandic government will decide on fishing policies for Iceland. Candidates in the constituencies outside the capital area that are dominated by the fishing industry tend to oppose EU membership and follow the policy of the employers’ associations in the fishing sector. MPs from these constituencies tend to be owners of fishing corporations, high rank staff or 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 Independence Party. The social democratic party, The Alliance, has its stronghold in the capital area constituencies in which the private and public sector is concentrated. This party has since the late 1990s had a clear policy that favors 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 we have discussed above, the financial corporations concentrate their efforts on 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 larger part of the population in question. Coalitions of IOs are rare in Iceland, but the organizations of both labor 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 Euro-
European Studies at the University of Bifröst as we observed above. By influencing public opinion via media discussion on the institute’s reports and its director’s frequent political articles in newspapers and interviews in radio and television, the IOs managed to influence legislatures indirectly. They managed also to influence the legislature directly as the institute reports directly to committees of the parliament on issues related to EU and foreign affairs.

3.4.3. From the power elite to the rise and fall of the new transnational capitalist class

Above, we have analyzed the power position of IOs and corporations and the ways in which they actively influence public policy and public opinion. We have highlighted how structural conditions and particularly the small size of the economy and oligopoly has 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. Now, we should observe the historical formation of the power elite of the neo-liberals that generated the institutional conditions for the creation of a ‘financial-transnational-industrial complex’ (FTIC), that is constituted by close relationship between governments and these corporations. This is a policy relationship that secures 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 the outward direct foreign investment in Iceland.

There are five phases in this development to be observed. a) 1979-1991 – The formation and take-over of the Independence Party by the neo-liberal elite; b) 1990-1994 – The neo-liberalization of other parties; c) 1995-2000 the degeneration of the power base of the Independence Party due to the decline of the class of whole-salers and the rise of the financial-transnational power elite; d) 2001-2008 – The era of Plutarchy; e) 2009+ - Post power elite phase. Let’s have a brief look at these phases.

3.4.3.1. 1979-1991 – The take-over of the Independence Party by the neo-liberal elite

In his path-braking book, The Power Elite, C. W. Mills (1974) concentrates on American society and 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 hier-
archies 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.” (ibid.: 3-4).

In the 1980s a shift in the political part of the power elite in Iceland took place. The Independence Party had suffered severe conflicts in the 1970s between rival leaders of the party that had their roots in the social liberalism of the party that characterized it in the first decades after the establishment of the republic of Iceland in 1944. A stalemate between the followers of two rivaling party leaders, G. Hallgrímsson and G. Thór Oddsen, made the party ineffective in dealing with the impacts of the two oil crisis of 1970s and consequent hyper inflation. Out of the unrest in the party a clique of young university students in Heimdalur, the organization of young party members, and activists in Vaka, the organization of right wing students at the University of Iceland, formed a well-organized group of activists that promoted Milton Friedman’s monetarism and Hayek’s individualism. However, the bulk of these young neo-liberals were law and philosophy students that uncritically applied their ideas in a very naïve way, presuming that the very small, oligopolistic economy of Iceland would be a great battleground for the ideal of perfect competition. They endorsed privatization as cure for private enterprises that had been “crowding out” of markets. Furthermore, they promoted lower taxes so that private investment would rise and they endorsed deregulation so that it would flourish.

This well-organized group were the buddies that wrote the chapters in the book “The Revolt of Liberalism” (Uppreisn frjalshyggjunnar) that we mentioned above when we discussed framing strategies. The condition for take-over by the neo-liberals was consigned when David Oddsson became the mayor of the capital Reykjavik in 1982, a post that in most cases had until then been a safe ticket to the post of the leader of the Independence Party and consequently prime minister of Iceland. He became the PM in 1991 as we discussed above.

3.4.3.2. 1990-1994 – The neo-liberalization of other parties

The neo-liberalist take-over of the Independence Party (IP) was complete in 1991. However, as the Icelandic governmental system is a coalition system the neo-liberals needed a political partner that would follow their leadership. The social-democratic party, the People’s Party (PP), played that role as the party leadership had followed the suit of Britain’s neo-liberalized “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 the parliament in January 1993. The membership of EEA gradually “liberalized” all sectors of the economy in the following years except agriculture and the fishing sectors (that are still protected from foreign investment).

The Progressive Party (PrP) opposed the membership of EEA in the parliament but failed. In the following years the party took on the international wave of neo-liberalism in the form of the ideology of globalization and close collaboration with EU. Under the leadership of H. Asgrimsson marketism grew in the PrP and emphasis increased on “urbanizing” the party, i.e. aiming at voters in towns and villages rather than in rural areas. The new power elite formed coalition governments that put privatization on the agenda as we analyzed above. The cornerstone of the privatization was the selling of the state banks that created the conditions for a new power elite in Icelandic society.

3.4.3.3. 1995-2000 – Rise of the financial-transnational power elite

The power base of the pre-neo-liberalist (i.e. social liberalist) elite of the Independence Party was for decades the balanced relationship between the employers in the fishing sector and 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. J. Jonsson (2004) 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 corporate firms and cooperative 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 was that retailing prices had decreased and the purchasing power of the income of common people had increased drastically.

Bonus was the cornerstone of Baugur and a new ruling class was rising that had weak relations with the IP and its power elite. The new class in the rising was the new transnational capitalist class 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. This new elite became so powerful that it had the power to cause the crash of the entire financial sector in Iceland and with it the bulk of other sectors as well.
Baugur had by 2000 gained 43-44% of the Icelandic grocery sector with its supermarkets (Bonus, Hagkaup, Nykaup and 10-11). Another private corporation Kaupas (Noatun, 11-11, Kaupfelag Arnesinga, Kostakaup (Kronan)) controlled 22-23% of the market and cooperatives 19-22% (Verðlagsstofnun 2001). In the Capital area, the Greater-Reykjavik area, Baugur controlled 59-60% of the grocery market, Kaupas (Noatun, 11-11) 26-27%. The coops controlled 4-5% of the market. By 2004 the markets 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. Adföng and Bur, that supplied the stores with inputs. They are owned by Hagar (main owner Baugur) and the cooperatives. The two companies controlled 80% of the inputs supplied in the grocery sector (Samkeppniseftirlitid 2005).

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 Independence Party in the retail and wholesale had crumbled as concentration in the sector had increased very fast and the new ‘plutocrats’ did not limit their relations with the political system to the IP, but built up strong relations with the neo-liberalized social-democratic Alliance and the Progressive Party as we saw above concerning corporations financial support for parties and MPs. The IP had lost its hegemonic position and the political influence of the very rich of the new transnational capitalist class (NTCC) had gained the hegemonic position in the power elite and in Icelandic society at large.

3.4.3.4. 2001-2008 – ‘Capotism’ and the era of Plutarchy

Plutarchy, or the rule by the wealthy, was intensified after the privatization of the banks. The government stuck to a policy of ‘banal laissez faire’ 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 USA and UK. The Gini-Index increased from 0,30 to 0,34 between 1999 to 2005 when it nearly reached the level of USA.

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29 The main owners of Kaupas were the family that owns BYKO, retailer in construction material. They invested in the following years through their investment company, Norvik, in timber production in Russia and Letland.
Following increased inequality, the NTCC got used to a new ‘leisure class’ lifestyle (cf. T. Veblen 2008) according to which extreme and wasteful consumption, ‘Conspicuous Consumption’ underlines the wealth and status of the persons in question. Private jets, Bentley cars, extremely expensive summer houses, yachts, flats and birthday parties in which musicians like Elton John entertain the guests emphasized the status of the plutarchs. Sometimes the president of the republic 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 Forbe’s list of richest persons of the world in 2008. His wealth was estimated to be around 3,5 billion US$. He was in 2009 put in 701-793rd seat on the list with wealth worth 0,1 billion US$ (Morgunbladid 2009c)\(^{30}\).

The power of the plutarchs emerged in extensive lobbying and control of the media and it 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 and the unpromising project of establishing an international financial center in Iceland that wood compete with New York and London. However, the most notorious project was the ‘Icesave’ accounts that the Landsbanki arranged in UK,  

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\(^{30}\) Bjorgolfur Thor Bjorgolfsson got the “advanced” status within the global NTCC of being invited for three times to take part in the World Economic Forum in Davos in Switzerland. He took part in the Davos project Young Global Leaders.
Holland and Germany that helped to crush the banks and might cost Iceland 1000 billion kronas or 2/3 of its GDP.

Icelandic society is characterized by tight nepotism in which relationship between relatives, social and political friends are important when decisions concerning recruitment and payoffs are allocated. In so far as principles of nepotism rather than market competition prevails, one should characterize Icelandic society as ‘capotist’ and analyze it in terms of ‘capotism’ (i.e. mixture of nepotism and capitalism) rather than ‘capitalism’ (i.e. market predominated society). 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, that was funded by loans from their own banks, into buying shares in these firms so that share prices increased constantly. Furthermore, they paid into their own pockets bonuses and shares in the companies so that within only few years their wealth increased by many hundred percents. The concept of ‘plutarchy’ refers to societies in which power structures and societal decision-making is characterized by 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 (www.fme.is) and the government playing passive role in regulating financial markets, the financial institutions became ever more corrupt. As E. Chancellor (2000) puts it “A combination of laissez-faire and political corruption is a feature of later (speculative) manias”.

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. 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 that bought shares in the banks etc. As we observed above, politicians and ministers were involved in the process. Besides organizing shares’ price spirals of this kind, the plutarchs established shadow firms abroad in tax-heavens such as Isle of Man, Jersey, British Virgin Islands, Cayman Islands etc. to make their investments less traceable for tax authorities. This appears to have taken place following signs of possible crash of the US-bubble in 2006. Panic characterized the activities of the plutocrats. Following the crisis and bankruptcy of the banks, Baugur and more companies sus-
pected fraud activities started to be investigated in spring 2009 by international team led by expert Eva Joly. As Charles Kindleberger (1996: 69) puts it. “Commercial and financial crisis are intimately bound up with transactions that overstep the confines of laws and morality … the signal for panic is often the revelation of some swindle, theft, embezzlement or fraud.”

3.4.3.5. 2009+ - Post power elite phase

The hegemonic position of the NTCC crumbled with the crash of the financial system and large part of the wholesale and retail sectors in late 2008 and early 2009. In the parliamentary elections in April 2009, the Independence Party got 23.7% of the votes. In the parliamentary elections in 2007 the IP got 36.6% of the votes. The party had been in government since 1991. The former 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 Samfylking established a coalition that nationalized the banks and large number of technically bankrupt corporations came under the control of the banks. However, with help from the nationalized bank, Islandsbanki, Baugur kept its ownership of the media corporation, 365, and the second largest newspaper, Morgunbladid, was chiefly taken over by plutocrats who control large fishing quotas (Morgunbladid 2009d). In the present transitional situation the banks have weak position in the power elite and it is likely that the fishing and retailing sectors will gradually gain its hegemonic position in the power elite and a new fishing and retailing power bloc will emerge.

As the present “left-wing” coalition government has decided to cut drastically state expenditure and public services, it is likely that the opposition parties, the Independence Party and 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 again gain the position they had before the boom of the financial sector in recent years.

4. Are mini-economies viable? – Concluding remarks

As we observed above, mini-economies have many shortcomings related to how small they are. The main economic shortcomings are related to oligopoly tendencies and small size of the home-market that limits

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31 It is argued, that cuts in public expenditure are necessary due to huge debt-burden that results from the financial crisis. The volume of debt due to the crisis and the need to restore the economy is presumed to be around 1.5 to 2 times the GDP of Iceland.
chances of exploiting economies of scale. They are also characterized by
great instability and fluctuations in GDP. The main social and political
shortcomings appear in weak administration, problems with upholding
neutrality and keeping nepotism under control.

The case of Iceland has shown that mini-economies are able to secure
high level of economic growth and economic welfare over long periods
and several decades. The present crisis shows, however, that political
corruption and naïve laissez-faire policies can undermine economic wel-
fare. Furthermore, due to EEA regulations, deregulated financial markets
have turned out to be very risky for the mini-economy of Iceland. In the
global era of the 1990s and until 2006, in which banks had easy access to
international capital funds, the financial sector grew much faster than the
rest of the economy. Indebtedness became uncontrollable and finally led
to general crisis in the economy following the global financial crisis. It
appears therefore that the causes of the crisis of Iceland are due to histori-
cal factors and political factors instead of structural characteristics of its
economy as mini-economy. In short, the crisis is socially constructed. We
would therefore conclude that mini-economies are viable in so far as they
manage to limit political corruption and concentration of power in the
hands of corporations and their political allies. In short, democratic for-
mation of public opinion and decentralization of power are fundamental
preconditions for the viability of mini-economies.

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