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Abstract

The role of sovereignty in sustainable social development

The main topic of this presentation is the relation between sovereignty and social sustainability. The concept of sovereignty will be discussed in terms of individual sovereignty, democracy and state sovereignty. Furthermore, the concept of societal paradigm will be observed and its relation to development models. Realization of development models will be discussed in terms of power structures, sovereignty and hegemonic politics. Finally, the rise and fall of the liberal-productivist development model of Iceland will be observed briefly and its social non-sustainability examined.

Biographical note

Ivar Jonsson studied Social Implication of Technical Change at the University of Sussex, England, and History and Philosophy of Social and Political Science at the University of Essex, England. He is a former professor of industrial innovation at the University of Bifrost, Iceland, and associate professor at the Department of Human Work Sciences at Luleå University of Technology, Sweden. He was lecturer at the Department of Management at the University of Greenland. He is the author of *West-Nordic Countries in Crisis* (Copenhagen Business School 1995) and *Innovation and Entrepreneurship; From Theory to Practice* (University of Iceland Press 2008).

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The role of sovereignty in sustainable social development*

The history of Iceland since the Second World War is characterized by high levels of growth. In recent years, until the crash in 2008, Iceland was among the 10 richest countries in the world in terms of per capita income. In the 1990s, a neo-liberalist development model was implemented that was typified by privatization of state activities and globalization. Outward foreign investment grew extremely fast and a new transnational capitalist class emerged that became unusually powerful with strong grip on political parties, media and universities. Public opinion formation was heavily influenced by this class, corporations and their organizations. At the same time, inequality and social polarization increased rapidly. Democratic critique of the regime was scant and conditions for 'sovereignty of the individual' was undermined. Following the economic crisis in 2008 and riots during the winter 2008-2009, social sustainability of Icelandic society is at risk as trust in the main institutions of democracy has greatly diminished and the government plans to cut state expenditure and welfare services in real terms by 40% or more in the next few years. This paper observes this development and concentrates on the social construction of social paradigms and development models in terms of active political struggle by socio-economic forces.

Sovereignty

The concept of sovereignty is one of the most severely disputed concepts in political science and its meaning has changed greatly in the history of political ideas. The roots of the modern conception of sovereignty are to be traced back to Jean Bodin's and T. Hobbes' idea of the absolute power of monarchs. However, their idea of sovereignty of monarchs was tight to the idea of power over territory. The Peace of Westphalia in 1648 established the notion of territorial sovereignty as a doctrine of noninterference in the affairs of other nations, i.e. the so-called Westphalian sovereignty. With the 1789 French Revolution shifted the site of sovereignty from the sovereign ruler to the nation and its people. The idea of popular sovereignty that was introduced is the notion that no law or rule is legitimate unless it rests directly or indirectly on the

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consent of the individuals concerned. John Locke had argued in his **Second Treatise of Government** (1689) that the people has natural right to revolt against governments that abuse their powers. As he puts it:

“THOUGH in a constituted common-wealth, standing upon its own basis, and acting according to its own nature, that is, acting for the preservation of the community, there can be but one supreme power, which is the legislative, to which all the rest are and must be subordinate, yet the legislative being only a fiduciary power to act for certain ends, there remains still in the people a supreme power to remove or alter the legislative, when they find the legislative act contrary to the trust reposed in them: for all power given with trust for the attaining an end, being limited by that end, whenever that end is manifestly neglected, or opposed, the trust must necessarily be forfeited, and the power devolve into the hands of those that gave it, who may place it anew where they shall think best for their safety and security. And thus the community perpetually retains a supreme power of saving themselves from the attempts and designs of any body, even of their legislators, whenever they shall be so foolish, or so wicked, as to lay and carry on designs against the liberties and properties of the subject: for no man or society of men, having a power to deliver up their preservation, or consequently the means of it, to the absolute will and arbitrary dominion of another; when ever any one shall go about to bring them into such a slavish condition, they will always have a right to preserve, what they have not a power to part with; and to rid themselves of those, who invade this fundamental, sacred, and unalterable law of self-preservation, for which they entered into society. And thus the community may be said in this respect to be always the supreme power, but not as considered under any form of government, because this power of the people can never take place till the government be dissolved.” (John Locke 1980 [1689], Chapter 13, Sec. 149).

The ideas of John Locke influenced the American and French revolutions although he was not arguing for representative government. This form of government presumes, besides general human rights, a transfer of the exercise of sovereignty from the people to the parliament or the government. In representative democracy the Parliament is, ultimately, the source of sovereignty, and not the executive power.

Parliaments, as cornerstones of democracy, exist in many countries today, such as North America and in the European countries of former colonial powers. Formally, it presumes that the legislature rules over the executive power and that MPs are representatives of the people who rule over MPs by voting for them in elections. However, organization of the relationship between the representatives and voters has always been problematic. This goes both for the question of how centralized the state should be vis-à-vis local communities and for the question of how independent or sovereign individual voters are vis-à-vis their representatives and in general vis-à-vis socio-economic interests in society.

Libertarians, both liberalists like John Stuart Mill and guild-socialists like Bertrand Russell and G.D.H. Cole, emphasized the role of individuals in societal decision-making. J.S. Mill warned against ‘tyranny of the majority’ in his book **On Liberty**. He underlined the threat of oppression in which minorities are morally, and according to law, subjugated under customs and opinion of the majority of the nation. He claimed, following the French Revolution and the principle of democratic republic, that:

“...elective and responsible government became subject to the observations and criticisms which wait upon a great existing fact. It was now perceived that such phrases as "self-government," and "the power of the people over themselves," do not express the true state of the case. The "people" who exercise the power are not always the same people with those over whom it is exercised; and the "self-government" spoken of is not the government of each by himself, but of each by all the rest. The will of the people, moreover, practically means the will of the most numerous or the most active part of the people; the majority, or those who succeed in making themselves accepted as the majority; the people, consequently may desire to oppress a part of their number; and precautions are as much needed against this as against any other abuse of power. The limitation, therefore, of the power of government over individuals loses none of its importance when the holders of power are regularly accountable to the community, that is, to the strongest party therein.” (J.S. Mill 2001 [1859]: 8).¹

Libertarian socialists took this critique of popular democracy further and emphasized that sovereignty of individuals is incomplete as actors that influence them determine individuals’ opinions and these actors have unequal access to resources of opinion formation. As G.D.H. Cole puts it:

“Society ought to be so organised as to afford the greatest possible opportunity for individual and collective self-expression to all its members, and that this involves and implies the extension of positive self-government through all its parts.” (Cole 1920: 13).

However, self-expression is hindered:

¹ J.S. Mill admitted in his autobiography that his book **On Liberty** was influenced by the thought of A. von Humboldt and the American anarchist J. Warren who claimed in his **Manifesto** that: “... *the forming of societies or any other artificial combinations* is the first, greatest and most fatal mistake ever committed by legislators and by reformers. That all these combinations require the surrender of the *natural sovereignty* of the Individual over her or his person, time, property and responsibilities, to the government of the combination. That this tends to *prostrate* the individual -- To reduce him to a mere piece of a machine, involving others in responsibility for his acts, and being involved in responsibilities for the acts and sentiments of his associates; he lives & acts without proper control over his own affairs, without certainty as to the results of his action, and almost without brains that he dares to use on his own account; and consequently never realizes the great objects for which society is professedly formed.” J. Warren 1841.

It appears ... obviously futile to expect true democracy to exist in any Society which recognises vast inequalities of wealth, status and power among its members. Most obvious of all is that, if, in the sphere of industry, one man is a master and the other a wage-slave, one enjoys riches and gives commands and the other has only an insecure subsistence and obeys orders, no amount. of purely electoral machinery on a basis of " one man one vote" will make the two really equal socially or politically. For the economic power of the rich master, or of the richer financier who is above even the master, will ring round the wage-slave's electoral rights at every point. A Press which can only be conducted with the support of rich capitalists and advertisers, an expensive machinery of elections, a regime in the school which differs for rich and poor and affords a training for power in the one case and for subjection in the other, a regime in industry which carries on the divergent lessons of the schools-these and a hundred other influences combine to make the real political power of one rich man infinitely greater than that of one who is poor. It is a natural and legitimate conclusion that, if we want democracy, that is, if we want every man's voice to count for as much as it is intrinsically worth, irrespective of any extraneous consideration, we must abolish class distinctions by doing away with the huge inequalities of wealth and economic power on which they really depend." (ibid: 15-16).

Hence, economic inequalities lead to unequal individual sovereignty and undermines democracy. Moreover, according to Cole, this situation adds to the defaults of representative democracy that appear in the "consciousness of consent" - that assigns to the ordinary citizen little more than a privilege which is in practice mainly illusory - of choosing his rulers, and does not call upon him, or assign to him the opportunity, himself to rule (ibid: 13). Furthermore, representative government has gradually through time been undermined as a consequence of the extended activity of political government. As long as the purposes of political government are comparatively few and limited, and the vast mass of social activities either not regulated, or regulated by institutions of civil society, it is perhaps possible for a body of men to choose one to represent them in relation to all the purposes with which a representative political body has to deal. But, Cole claims, as the purposes covered by political government expand, and more and more of social life is brought under political regulation, the representation which may once, within its limitations, have been real, turns into misrepresentation, and the person elected for an indefinitely large number of disparate purposes, ceases to have any real representative relation to those who elect him (ibid: 14-15).

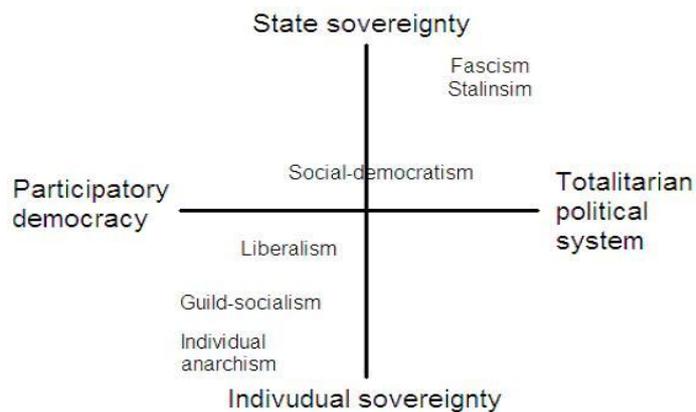
This critique reflects the unresolved contradiction between individual sovereignty and state sovereignty. Representative democracy promised to supersede this contradiction but even as late as in the 1960s human rights movements and new social movements such as

environmentalists and the women's movements struggled for restructuring of the structures and practices of democracy.

The democratic puzzle – the contradiction of sovereignty.

The contradiction of sovereignty calls for organization of structures of societal decision making that either increase balance between the two poles of individual and state sovereignty or, theoretically speaking, abolishes either of them. Some of possible solutions are shown in Figure 1. According to the figure, fascism and Stalinism presume alternatives that optimize state-sovereignty while individual anarchism presumes the lowest level of power of the state machinery as it, indeed assumes abolition of the state (D. Guerin 1970). Representative democracy tends to be skewed towards state sovereignty, i.e. to strengthen the power position of the representatives or politicians and state bureaucracy as the critique by guild socialists highlights. A “de-skewing” alternative would be participatory democracy. Unlike guild socialists and other types of libertarian socialists, advocates of participatory democracy don’t necessarily require abolition of capitalism. The aim of participatory democracy is that all citizens should be actively involved in all important decisions and it stresses that those who results of decisions concern are involved in the decision making as much as possible. However, this alternative does not solve the problem of unequal distribution of different socio-economic actors concerning political resources in terms of lobbyism and formation of public opinion (Lowery, D. and Brasher, H.: 2004).

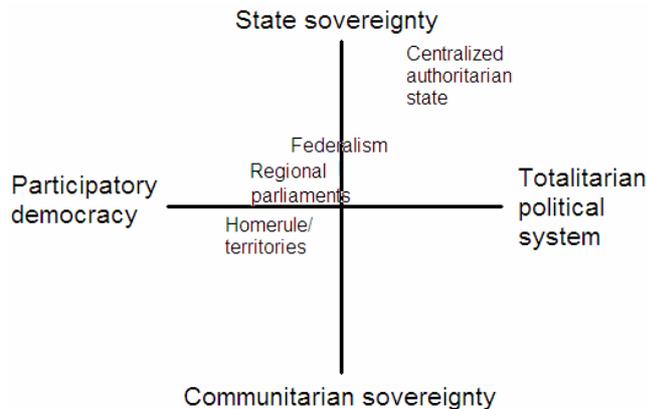
Figure 1
Sovereignty and political ideals



The considerations above refer to organization of societal decision making in terms of the contradiction between individual sovereignty as opposed to state sovereignty. The problem of state sovereignty may also be approached from the point of view of centralization versus de-

centralization of collective power structures. In terms of organizing societal decision making this refers to the level of autonomy given to local and regional authorities and communities at the expense of the power of the centralized state (M. Keating 2000). This dimension appears in at least in two forms. On the one hand, ethnic groups have received increasing autonomy in their social and economic affairs such as in the Northern Territories, Greenland and Faroe Islands with their home-rule-government and many European countries such as Spain and UK. On the other side, regions within traditional nation-states have received increased autonomy following the establishment of regional parliaments and extended power of regional authorities such as in Sweden. This development of “re-regionalization” followed the re-structuring of capitalism in the 1980s and 1990s because of the rise of neo-liberalism and its emphasis on globalization and de-regulation of cross-border trade and investment. In this context regional authorities had to be strengthened to be able to support the regional corporate sector and develop regional innovation systems so that it would have capacity to take part in cross-border corporate networks and enhance their competitiveness. Moreover, it followed the integration process of the European Union that emphasized the principle of ‘subsidiary’ in processes of implementation of EU-regulations. Finally, growing ‘communitarianism’ in the 1980s and 1990s changed or reflected ideological emphasis on the role of trust and social capital in economic development in particular on community level rather than national. This train of thought was an alternative to the individualism of neo-liberalism, but was not without its problems as it had much to say about social cohesion but little about problems of social exclusion (B. Fine 2001, R. Putnam 1993 and 2001). However, it highlighted the viability of small local production in the world of ‘flexible specialization’ (Piore and Sabel 1984). Figure 2 highlights the dimension of regional/communitarian sovereignty.

Figure 2
Regional dimension of sovereignty



The forms of democratic structures that are highlighted above have developed in different forms in different countries as a result of different cultures, history, socio-economic conditions and balance of power of socio-economic forces that actively struggle for realization of different alternatives. Democratic systems are therefore 'structured' in an active way (Giddens 1984: 34-6). Consequently, country-specific conditions in capitalist countries lead to varieties of capitalism that are molded in processes of hegemonic politics (I. Jonsson 1993). Political struggle takes place within frameworks of the political structures such as those observed above and it affects their development. Their development is molded in the struggles of different socio-economic forces that fight for different development models, i.e. different trajectories of societal development. These development models are based on societal paradigms that are constituted by meta-political ideas and values that tend to become 'taken-for-granted' realities or consensus notions of reality that are reproduced by practices and active struggle.

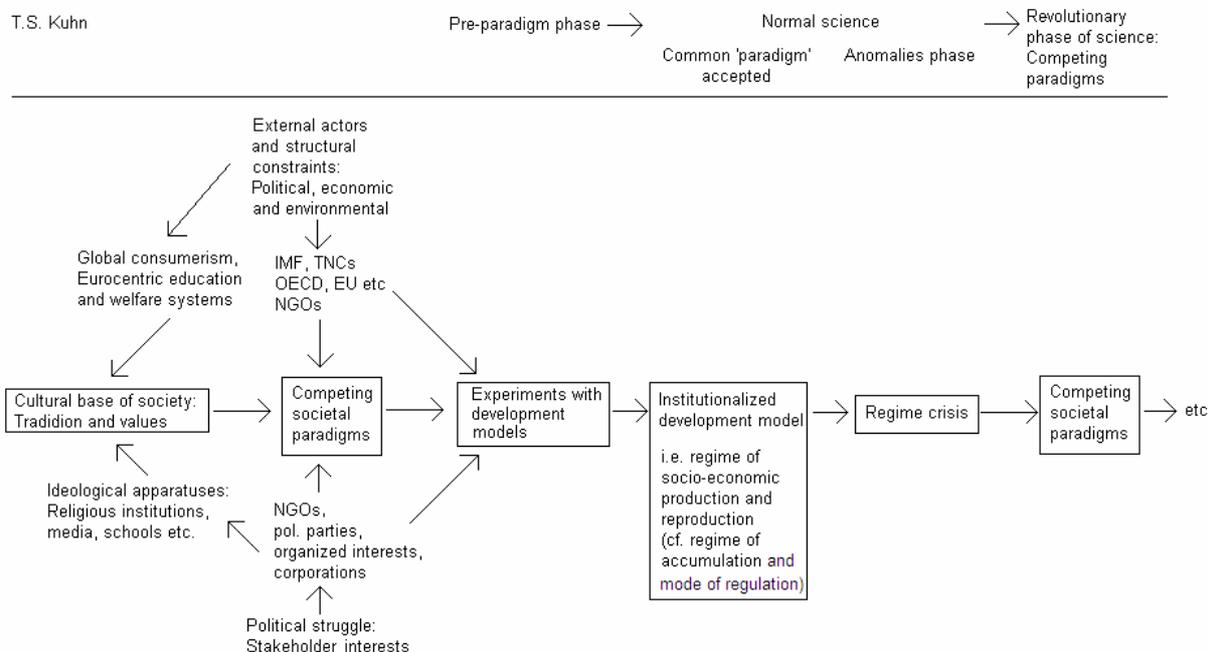
Development models and societal paradigms

It appears to be fruitful for illustrative purposes to compare societal paradigms and T.S. Kuhn's concept of 'scientific paradigms'. T.S. Kuhn **The Structure of Scientific Revolutions** (1970) made the concept of 'paradigm' familiar in history of science. According to his historiography, history of the different sciences develops in phases according to which long periods of 'normal science' are followed by relatively short periods of 'scientific revolution' that lead to shifts in underlying paradigms of the sciences in question. 'Paradigms' refer both to fundamental ideas of the sciences and tacit knowledge gained through practical experience of doing science. It refers to

basic world-views, ideas of boundaries of the domain of the science in question, the concepts, laws of cause and effect, and preferred methodologies. A paradigm constitutes as well the agreed formal and tacit knowledge that a scientist must master in order to be accepted as a member of the scientific community in question. Kuhn reduces the dynamics of scientific development to the scientific community as scientific revolutions take place when the leading scientists agree that too many ‘anomalies’ have piled up, i.e. cases that the accepted theories can not explain and they agree that a new fundamental approach or paradigm has to be developed (T.S. Kuhn 1970). There are three phases of scientific development: 1) Groups of scientists that attempt to create proto-theories from their observations characterize the ‘pre-paradigm phase’. They offer tentative hypotheses about the nature of cause and effect and organizing principles within their domain of study. There is no particular theory that is in the main accepted by the scientists; 2) The second phase, the ‘normal science’ phase, sets in when scientists studying a particular domain or ‘territory’ merge their ideas into a comprehensive body of knowledge or ‘paradigm’ in Kuhn’s terminology. As the science in question matures, anomalies will naturally occur where observations contradict the predictions derived from the paradigm’s theory. During periods of normal science, these anomalies are thought to undermine the accepted theories or they are explained away. They do not challenge the underlying validity of the paradigm in the minds of the scientists. When, however, a sufficient number of the most respected scientists in the field interpret the anomalies as a challenge to the underlying paradigm itself and they begin to offer alternate, incommensurable paradigms, then Kuhn presumes the scientists have entered the revolutionary phase of science. (Kuhn 1970); In the ‘revolutionary phase of science’, Kuhn says, consists of a battle of survival between competing paradigms which cannot be resolved until one paradigm dominates. The competing paradigms offer fundamentally different interpretations and understandings of the world so that, in a conventionalist sense, the concepts they generate have altogether different meaning. As an example, there is no synthesis or middle ground between the view of combustion as oxidation and the *phlogiston* theory of combustion. As Kuhn puts it, the paradigms and their consequent theories are incommensurable. But, eventually one paradigm becomes the dominant and generally accepted by the scientific community, the revolutionary phase of science ends and new phase of normal science sets in.

Societal paradigms and consequent development models appear to develop through similar phases as scientific paradigms. Figure 3 highlights these similarities.

Figure 3
Phases in formation of societal paradigms



Kuhn's analysis of scientific revolutions are 'internalist' in the sense that he does not presume that external forces, i.e. forces outside the scientific community, affect these revolutions in any fundamental way². Societal paradigms and consequent development models evolve in context in which they are 'constructed' by activities of external forces. The main external forces are highlighted in the figure above. Before we discuss the dynamics of the formation of development models we should observe the concept of 'societal paradigm'.

The concept 'societal paradigms' refers to fundamental ideas that predominate over long periods and shape social, economic and political development (I. Jonsson 2001: 331). We observe four types of societal paradigms: Firstly, '*ethical-prescriptive paradigms*' refer to general ideas about right and wrong conduct in different situations, the aims and quality of life; Secondly, '*power-political paradigms*' refer to ideas about how societal decision making should be organized and its enforcement institutionalized; Thirdly, '*reproduction-social paradigms*' refer to ideas about the roles different social groups and institutions should play in regard to sexuality,

² We will not discuss the shortcomings of Kuhn's approach here. Alternative externalist approaches can be found in the work of D. Bernal, P. Feyerabend and various literature in the field of sociology of science.

biological reproduction, care of children, old persons and the disabled, and socialization and; Fourthly, '*techno-economic paradigms*' refer to ideas about what constitutes desirable practices and means of organizing production, services and consumption in general. Let's discuss these different societal paradigms briefly.

Ethical-prescriptive Paradigms (EPP)

Prescriptive practices may take long time to become institutionalized, as Weber observed for the Protestant Ethic (1958). It took Protestant asceticism over two centuries to become institutionalized practice in the form of the 'spirit of capitalism' which has been the dominant ethical paradigm in the industrialized countries of North America and Europe since the eighteenth century. While this ethic is fundamentally individualistic, others have been the basis for collectivist kinds of 'spirits of capitalism', such as the Catholic dominated corporatist capitalism of South-Europe and the Buddhist dominated statist capitalism of SE-Asia, Japan, S-Korea and Taiwan (Chan and Clark 1992).³ Islamic ethics are characterized by strong request for collective caretaking of members of Islamic communities and requires that financial transactions such as in banking must be based on reciprocal responsibility and risk taking. The goals of Islam are based on its concepts of human well-being (*falâh*) and good life (*hayât tayyibah*) which give utmost justice and importance to brotherhood and socio-economic justice and require a balanced satisfaction of both the material and the spiritual needs of all human beings (Chapra 1992: 6-7, see also Chapra 2010).

In recent decades, environmental ethics have become increasingly important in western capitalist countries, becoming institutionalized in national political parties and governmental policies and in the policies of international organizations. Following the rise of gene technology, biological ethics has recently become an important object of political debates.

Power-political Paradigm (PPP)

i. These are ideas about how societal decision making should be organized and its enforcement institutionalized. They include ideas about the desirable level of individual sovereignty, as we discussed above, concentration of power, and ideas concerning who are the legitimate actors in the political life of a given community. They range from the totalitarian to the minimalist state

³ As S. Chan and C. Clark (1992) claim, the statism of Taiwan is based on the ethics of Sunism, which emphasises the obligations of the state to secure the well-being of its citizens.

(Guerin 1970), and involve definitions of insiders and outsiders, or who has the right to participate in societal decision making. Political power has become more decentralized in European societies in recent centuries. The sovereignty of European monarchs was 'handed down' to consultative assemblies drawn from the three fundamental classes, aristocracy, bourgeoisie and peasants, in the 19th century and by the turn of the 20th century representative democracy was becoming general. Suffrage was gradually extended to men of no property, and after the First World War, to women. Younger people were gradually allowed to participate in the political community (Hettne et al. 1998).

ii. Ideas concerning the degree to which it is desirable that different organizations of social groups take part in societal decision making is one of the fundamental elements of PPPs. After the Second World War, class divisions were incorporated into the structures of many European states. Neo-corporatism is based on tripartite collaboration between the state, trade unions and employer associations, through which these actors attempt to adjust wages to productivity development (Schmitter and Lehbruch 1979, Jonsson 1989).

iii. The third element of PPPs concerns how inter-mediation of regional interests is organized in different ways in different countries. Before the implementation of the nation-state system in Europe, regional interests were represented through the hierarchical system of feudal lords with their subordinate counts etc. In many contemporary western parliamentary systems the rule of proportional representation is counteracted by regional disproportional representation, such as the separation in Germany between Bundestag and Bundesrat to secure regional interests (Mosesdottir 2001). In most countries the nation state is organized in terms of three levels of jurisdiction, the state, counties, and municipalities, where the state is predominant and municipal officers and politicians have relatively limited power determined by parliament. In the case of federations, regions are more autonomous and possess legislative power to differing extents in areas such as taxation, education and culture, health and social services, but their autonomy never extends to foreign or monetary policy. Autonomous areas are often organized on the basis of ethnicity and there appear to be increasing numbers of such areas. Since the late 1970s, different forms of home rule have been established in Europe, for example in Greenland, Spain and UK (I. Jonsson 1999, M. Keating 2000). With the shift from nation states to supra-states like the EU one should expect greater pressure for increased regional autonomy in the future.

Reproduction-social Paradigms (PSP)

The central ideas here concern ethnicity, gender and generation in the context of the family or household. In earlier European agricultural society, social and biological reproduction was located in the extended family, with coordinating regulation by the church. Industrialization and urbanization, helped the diffusion of the nuclear family, with increasing coordination by the state (Hirsch and Roth 1986). With the growth of the welfare state after the Second World War and the expansion of social services, schools and care institutions, the role of the family as locus of socialization and care was greatly reduced. The role of extra-household institutions and actors varies between both countries and periods. Different constellations of extra-household institutions and their interrelations may be called 'societal regimes', i.e. structured constellations of class, gender and ethnic relations.

One may distinguish three main types, liberal, ecclesiastic and egalitarian (Mosesdottir 1995, 2001) centred respectively around the market, religious organizations, and socialist parties. Concrete examples might be the USA as liberal, Germany as ecclesiastic and Sweden as egalitarian. All western systems appear to be highly class, gender and ethnically segregated in terms of biological reproduction, care and socialization. Married couples of mixed race and/or ethnicity are relatively rare. The same goes for class. Socialization and care of children in the home is predominantly based on women's homework, and nursery staff and primary school teachers tend to be predominantly women. The staff of health institutions and institutions for the elderly is predominantly women. Germany is a predominantly male breadwinner society with the husband being the main source of household income. Sweden and the USA are characterized to different degrees by dual breadwinners. There is also a big difference between the three countries in terms of the extent of collectivization of socialization and care functions. Of the three, public expenditure as a proportion of GNP is largest in Sweden and smallest in USA (Mosesdottir 1998).

Techno-economic Paradigms (TEP)

i. The history of western capitalism is characterized by shifting techno-economic paradigms. A fundamental element of a techno-economic paradigm (TEP) is the idea of property. In terms of the capitalist TEP the principle of private property is fundamental. It took European societies centuries to introduce private property as the way to regulate wealth and resource use. This involved the gradual institutionalization of more free exchange of privately owned resources. However, the process was never complete, and in the period from the second world war to the

1980s market exchange was increasingly re-regulated as can be seen from the growth of the welfare state (Esping-Andersen 1990), environmental regulation etc. Interestingly enough, agriculture has always been much more regulated than other sectors in European economies. The principle of private property is still being questioned, increasingly so in recent times. The struggle of aboriginal peoples for their traditional rights to territorially based resources has been particularly important. United Nations Convention 169 (1989) guaranteed aboriginal people rights to co-determination regarding exploitation of natural resources. The ongoing struggle for implementation of this convention in different countries shows that the principle of private property is constantly being actively embedded in historical contexts.

ii. A second element of TEPs is the spatial distribution of production of goods and services on regional, national and global level (Storper and Walker 1989). Where one invests and locates production geographically depends on many different factors, such as local skills, local cultures, infrastructure, distance from markets, governmental regulation and support (financial and military). Ideology is also an important factor, in the forms of localism (Putnam et al. 1994), nationalism, colonialism and globalism.

iii. A third element is localization of resources and infrastructures, that is, ideas about most desirable practice and techniques in terms of transport and localization of labor, inputs and outputs of production, which involves connecting producers and markets by means of physical (road, air and sea traffic) and symbolic transport systems (information on production and market trends). Recent history has seen the rise and fall of the Fordist paradigm of geographically concentrated mass production (Aglietta 1979, Freeman 1987) and the rise of postfordist flexible specialization that is based on economies of scope, small batch production, information technology, flexible labor markets and flexible firms organized in local and global alliances and networks (Sayer and Walker 1994).

iv. The fourth element of TEP concerns ideas of what kind of technology in production and services is most desirable. In the three decades after the Second World War assembly line and flow-line technology was presumed to secure highest productivity while since the 1980s information technology gained this status.

v. A fifth element is ideas concerning desirable organization of training and skills, including what kind of skills are needed and how and where training should take place (Lash and Urry 1994).

vi. The sixth element concerns ideas of most desirable organization of consumption. These refer not only to controlling the magnitude of consumption through state monetary and fiscal policies, but also what kind of goods and services should or should not be provided. Ideas about how to organize consumption also include where to consume and with whom. The dominant locus of consumption in western capitalist societies is the nuclear family that fetches its usables (goods etc) from shopping centres (Hirsch and Roth 1986). But there have also been others, such as the collective forms of consumption of early Christian communities around the first century DC, the Catholic tradition of monasteries (Gunnarson 1973, 107-30), or the urban communes of the 1960s and 1970s with their collective households.

vii. The seventh element of a TEP concerns ideas of desirable macroeconomic role of the collective bodies of society, such as the state. This refers to monetary and fiscal policy, measures to control general effective demand, foreign trade balances and, industrial and innovation policies.

As Figure 3 highlights, societal paradigms are determined by three main factors, i.e. a) cultural values and traditions; b) external factors and; c) internal factors. These factors change through time as these changes lead to rise of different societal paradigms that different stakeholders struggle for and attempt to make them ‘normalized’ or generally accepted. One of the competing societal paradigms will become dominant and will become basis for new development models. The implementation of development models will clash with institutional forms, stakeholders and actors that are present at the particular moment and country in which the implementation takes place. However, eventually a development model will be institutionalized and will persist for a long period. An important part of an institutionalized development model is its ‘model of production and division of labor’, ‘regime of accumulation’ and ‘mode of regulation’.

i. A ‘model of production and division of labor’ (MPDL)⁴ refers to ideas of what is presumed to be desirable organization of work in sites of production and services and the technology that is used there. It also refers to division of labor between industries and between countries. MPDLs are not implemented in all sectors of economies, but they are dominant in so far as they have

⁴ A. Lipietz (1992: 2) calls uses a more abstract terminology in his analysis of this part of a development model and calls it ‘labor process model’.

proved to secure high levels of productivity in advanced sectors and are presumed to be ideal for future development.

ii. Following regulation theories we would define a ‘regime of accumulation’ as a systematic and long-term allocation of the product of economic activity in such a way as to ensure a certain adequation between transformations of conditions of production and transformations of conditions of consumption (Lipietz 1987: 32). A regime of accumulation in this sense refers on the one hand to the conditions of production (productivity of labour, degree of mechanization, relative importance of the various branches of production). On the other hand, it refers to the conditions under which production is put to social use (household consumption, investment, government spending, foreign trade) (A. Lipietz 1992: 2).

iii. A ‘mode of regulation’ refers to the institutional forms, procedures and habits which coerce or persuade private agents to conform to the schemas of the regime in question (Lipietz 1987. 33). This involves all the mechanisms which adjust the contradictory and conflictual behaviour of individuals to the collective principles of the regime of accumulation. At the basic level, these are means of adjustment that make entrepreneurs and workers conform, or be willing to conform, to these principles, because they recognize them (even reluctantly) as valid or logical. At another level, institutionalized forms are more important - the rules of the market, social welfare provision, money, financial networks. These institutionalized forms can be state determined (laws, executive acts, public finances), private (collective agreements) or semi-public (A. Lipietz 1992: 2).

Let’s have a brief look at societal paradigms that have been prominent in Western industrialized countries in recent decades. Table 1 highlights the main features of the liberal SP, soviet SP, social-democratic SP and alternative SP.

Table 1
Examples of recent societal paradigms

	Liberal SP	Soviet SP	Social-democratic SP	Alternative SP
Ethical-prescriptive paradigms	Humanity/individuals are by nature egoistic and rational. Individual optimization of pleasure is a fundamental rule of ethics. Laissez-faire is the only system that can realize optimization of individual pleasure and hence collective pleasure.	Individuals are rational but their attitudes/beliefs are determined by their class positions. Egalitarianism is fundamental to ethics. State-socialism is the only system that can realize egalitarianism.	Individuals are rational but their attitudes/beliefs are embedded in their social positions. Egalitarianism is fundamental to ethics. Reformed state-socialism is the only system that can realize egalitarianism.	Individuals are rational but their attitudes/beliefs are embedded in their social positions. Egalitarianism is fundamental to ethics, but egalitarian issues concern material as well as spiritual and environmental well-being. Consumerism is not desirable due environmental reasons and its impact on life-styles. These issues or ethical duties are both intra- and inter-generational (sustainable)
Power-political paradigms	Individual sovereignty and minimal power of the central state with private market based welfare services secure best optimum individual pleasure and economic and social welfare	State-sovereignty and maximum power of the centralized state secures best economic and social welfare	Strong centralized state with 'islands' of private social services secures best economic and social welfare	Individual sovereignty and minimal power of the central state with substantial social and economic role of communities and civil society institutions secures best economic and social welfare
Reproduction-social paradigms	The family is responsible for social reproduction and care	The state is responsible for the social reproduction and care of its citizens	The state is responsible for the social reproduction and care of its citizens according to universal rights to transfers and services	Communities and civil society provide social services and condition of social reproduction within framework of general state rules/laws
Techno-economic paradigms	Perfect competition (PC) must rule in markets. PC and 'homo oeconomicus' secures optimum economic output. Unemployment is voluntary and hence individual choice. State intervention undermines competition and firms are crowded out. Market demand determines technological development	Plan-economy is necessary due to inevitable crisis tendency of capitalism. The state defines need for consumer and production goods and secures full employment. The state leads technological development.	Neo-corporatism (corporate-state-labor collaboration) is desirable as basis for societal income distribution. Keynesian economic policy and industrial policy secures full employment. State must be active in technological transfer and development	Neo-corporatism is desirable as basis for societal income distribution. Keynesian economic policy and industrial policy secures full employment. Economies of scope rather than scale are desirable. Flexible specialization rather than mass production. Sustainable technological development is desirable.

Societal paradigms refer to fundamental beliefs but differ from ideologies as they are not formal and systematic ideologies. However, socio-economic actors and political activists tend to base their policies and/or issue politics on formal ideologies that are based on the values of societal paradigms and exploit political resources to realize their interests. These actors struggle

for societal consensus and reproduction of the basic values of the societal paradigms that their ideologies and policies reflect as the consensus of the values of societal paradigms are necessary condition for implementation of development models. But, as structural conditions are different in different countries and political resources are unequally distributed among stakeholders and political actors, the chances of different development models to gain the status of being dominant models are not the same. Consequently, different development models are realized in different countries. Let's highlight two recent development models in Western industrialized countries.

Table 2
Examples of development models since the 1980s

	Liberal-productivist model	Neo-Social-democratic model
Leading countries	UK-USA	Sweden
Model of production and division of labor	<ul style="list-style-type: none"> • ICT-technology presumed to be high-growth tech. of the future. Fordist mass production considered obsolete.⁵ • Globalization of investment, services and production considered ideal 	<ul style="list-style-type: none"> • ICT-technology presumed to be high-growth tech. of the future. Fordist mass production considered obsolete.⁶ • Globalization of investment, services and production considered ideal
Regime of accumulation	<ul style="list-style-type: none"> • Monetarist economic policy introduced. • Public social expenditure kept at low level or around 16% of net national income in USA while UK is around 24% • Deregulated financial sector and international trade boosts consumption and demand. Financial and service sectors become leading growth sectors. • ITC and just-in-time technology main source of increased productivity. • Permanent high level of unemployment restraints workers' militancy. • Global corporate alliances and networks grow fast. • USA joins free trade unions: FTA 1988 and NAFTA 1994. 	<ul style="list-style-type: none"> • Keynesian economic policy preserved. • Public social expenditure kept at high level or around 33% of net national income • Deregulated financial sector and international trade boosts consumption and demand. Financial and service sectors become leading growth sectors. • ITC and just-in-time technology main source of increased productivity. • Permanent high level of unemployment restraints workers' militancy while social unrest is met with tailored labor market skill training and temporary work schemes. • Public sector cuts organized in the form of 'public governance' and sub-contracting of services. • Global corporate alliances and networks grow fast. • Sweden becomes part of the free market regime of the European Union in 1995. The EU free market regime was introduced in 1992.
Mode of regulation	<ul style="list-style-type: none"> • Labor-market restructured and centralized interest groups are undermined. 	<ul style="list-style-type: none"> • The principle of neo-corporatist collaboration preserved.

⁵ See I. Jonsson (1989) for analysis of the rise and fall of Fordism.

⁶ See I. Jonsson (1989) for analysis of the rise and fall of Fordism.

<ul style="list-style-type: none"> • Flexible (core-peripheri) labor markets grow. • Total quality management spreads. The introduction of quality control circles to check quality of supplies of components inside and outside the factory. • Teamwork: The creation of autonomous task oriented work groups in workplaces. Managerial decentralization: The replacement of centrally controlled hierarchies with flowing matrices of a federation of organizational styles and practices. • Consumption is increasingly marked by market niches in the context of increasing social fragmentation. • Consumers become increasingly indebted as the total wage-share decrease as portion of GDP. • The state throws in increasing sums of money to bail out the financial sector. • Income and wealth distribution becomes increasingly unequal. Inequality is supposed to create extra funds to intensify investment. • Class based political parties give way for NGOs and new social movements. • Voluntary movements in welfare services grow. • New imperialist maneuvers intensify following 9/11 2001. 	<ul style="list-style-type: none"> • Flexible (core-peripheri) labor markets grow. • Total quality management spreads. The introduction of quality control circles to check quality of supplies of components inside and outside the factory. • Teamwork: The creation of autonomous task oriented work groups in workplaces. Managerial decentralization: The replacement of centrally controlled hierarchies with flowing matrices of a federation of organizational styles and practices. • Consumption is increasingly marked by market niches in the context of increasing social fragmentation. • Consumers become increasingly indebted as the total wage-share decrease as portion of GDP. • The state bailed out the financial sector in the bank crisis in 1992 at the cost of 4% of GDP. • Income and wealth distribution becomes increasingly unequal. Inequality is supposed to create extra funds to intensify investment. • Class based political parties give way for NGOs and new social movements. • Voluntary movements in welfare services grow.
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The development models of USA/UK and Sweden share some common features. They are both characterized by deregulation of goods, financial and labor markets. Public social expenditure (PSE) is kept at approximately 34% of GDP in Sweden but sub-contracting of services to private firms has increased. PSE is kept low in USA, around 17% of GDP while it stays around 24% in UK. The Swedish model, unlike the USA/UK model, is characterized by active labor market interventions, neo-corporatist collaboration and moderate Keynesian policies. The regimes of Reagan and Thatcher emphasized monetarist policies. Both development models are characterized by high levels of unemployment (in the average 1996-2008: 6,8% in Sweden, 5,6% in UK and % 5.0% in USA according to **OECD Employment Outlook 2009**).

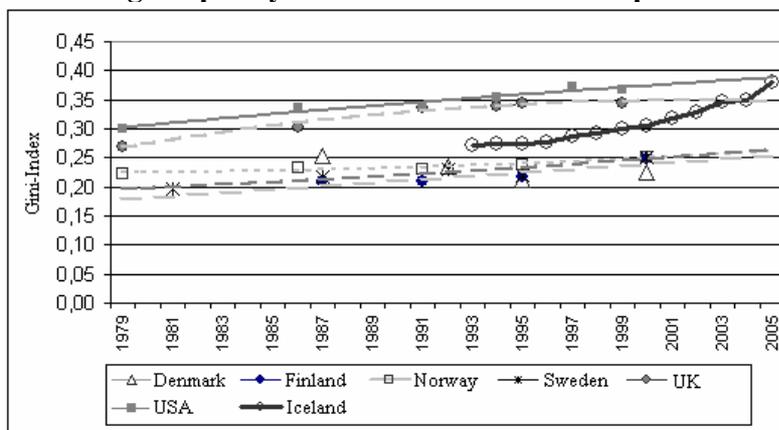
Rise and fall of the Icelandic liberal productivist model.

Iceland's political and economic history was characterized, like many developing countries, by accumulation strategies that we would call 'import substitution' in the 1950s and 1960s while 'export promotion' strategy dominated the scene in the 1970s the cornerstone of which was export of fish products and export of electricity and aluminium products from a plant owned 49%

by the MNC Aluswiss (51% owned by the Icelandic state). This regime of accumulation in this period was inspired by Fordist mass production, but was not based on anti-cyclical policies, as Keynesian full employment policies presume. Public services developed pro-cyclically as expenditure increased in terms of percentage of GDP in upswings and high level of employment was secured by way of devaluing the Icelandic Krona and hence guarantying profitability of the export sectors and stimulating employment (I. Jonsson 1991 and 1995).

In the 1980s a neo-liberalist development model was introduced that emphasized ‘public governance’ strategies and sub-contracting of public services. However, privatization of various state corporations and in particular privatization of the state banks was crucial in the development model as three state owned banks that stood for the bulk of loaning activity in Iceland. The financial and retailing sectors grew fast and outward foreign direct investment (OFDI) grew fast in these sectors as well. The OFDI gave birth to a new transnational capitalist class of rich plutarchs that established homes abroad and invested grand amounts in real estates, yachts, private jets etc. At the same time income inequality increased fast as figure 4 shows.

Figure 4
Increasing inequality in Iceland 1983-2005 compared with selected countries



Source: S. Olafsson (2006)

The expansion of the Icelandic banks that followed the privatization of the state owned banks in the early 2000s is to be observed on the one side in terms of 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. 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 and branches 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).

It appears that the Icelandic banks had become a major international business with subsidiaries and branches 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 branches 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 branches 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.⁷ However, 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

⁷ A. Lipietz, (2010) member of the European Parliament is among those who claim that the Icelandic state is not responsible for reimbursements of deposits in the branches of the banks abroad.

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 Karahnjúkar 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 possibly obliged to pay the deposits back to their customers due to EU Directives no. 19/1994 and 14/1998. 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 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 kronas⁸ (Central Bank of Iceland 2009a). 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. 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 month⁹ at the start and decrease gradually in the following years. This debt burden might lead to serious social crisis in the country.

The balance of interest payments of Iceland increased from -25 billion kronas in 2003 to -313 billion kronas in 2008 (Central Bank of Iceland 2009b). As a % of GDP the interest rate payments increased from 3% in 2003 to 21% in 2008. Due to debt burden and decreasing tax revenues, the government will cut state expenditure by 100 billion kronas, or 6,7% of GDP in

⁸ 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 2009a, **External Debt**).

⁹ i.e. 312 US\$ or 217 Euros given the official exchange rate in January 2010.

2009-2013. These cuts come in addition to real-value cuts of state expenditure due to inflation that is likely to be around 28% over the period. The real-value cuts will be around 187 billion kronas or 12,5% of GDP. Consequently, as state expenditure was 669 billion kronas in 2008, the real cuts will be 287 billion or 43% over the period. The bulk of the cuts will be in the welfare system that will be harmful for it.

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 75000¹⁰, Actavis 11000 and Kaupthing 2100. This is remarkable as the number of employed persons in Iceland at that time was 177300 (Statistics Iceland, data base).

¹⁰ 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 sector Baugur Group owned Hagar, Hagkaup, Bonus, 10-11, SMS, Booker, Iceland, Woodward Foodservice, Julian Graves and Whittard of Chelsea. In non-food Baugur Group owned Hamleys, Goldsmiths and Mappin & Webb, WYEVALE GARDEN CENTRES, Utilif and Husasmidjan (Baugur Group 2007).

The collapse in October 2008

The economy of Iceland had become very vulnerable due to its indebtedness in 2008. The neo-liberal governments in the early 2000s had counteracted the inflationary pressures from the Karahnjúkar 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 and was 7,6% in the first quarter 2010 (Statistics Iceland, data base). Housing prices fell even faster than they did in 2007 and many families became heavily indebted as the exchange rate of the krona fell¹¹ 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.¹² However, with the high interest rates, expectations of the corporate sector became

¹¹ 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.

¹² 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 15% and again on 10th of April it became 15,5%. Following the bank crisis the Central Bank lowered the rate to 12% on the 15th of October, but changed its course on 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

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.

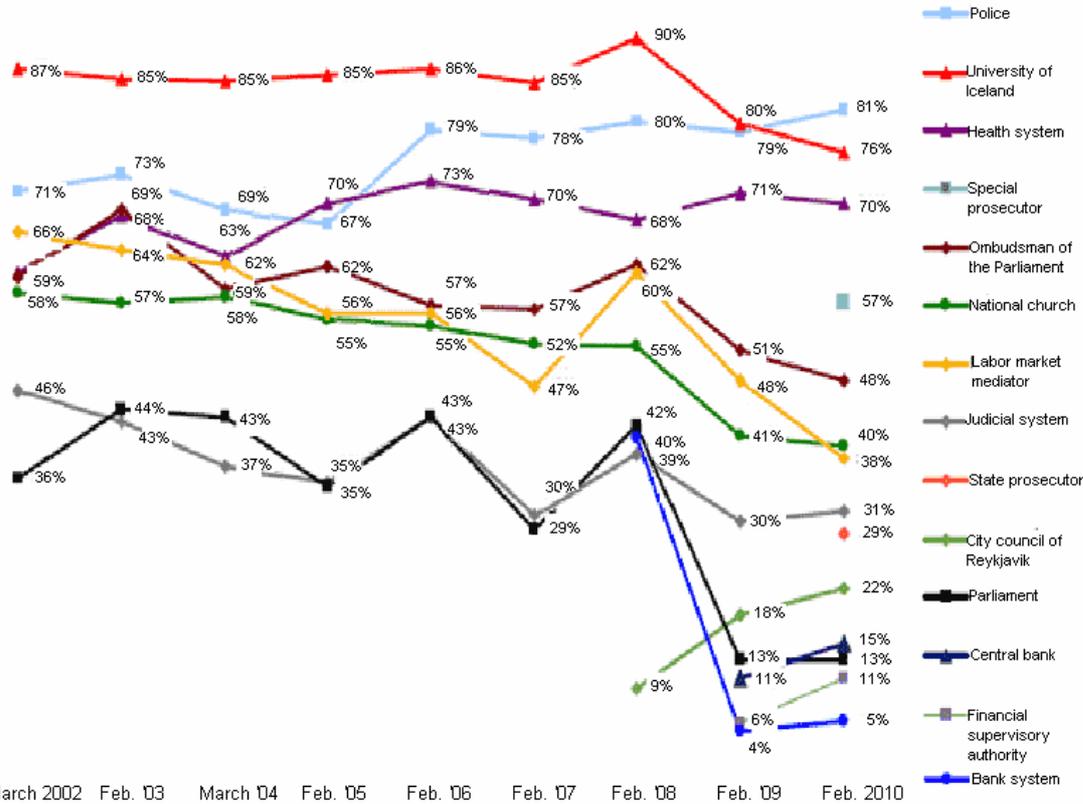
Following the election a new coalition government was formed by the Alliance and the Left-Green Movement. In 2009 state took over the banks and the bulk of the mutual savings trusts at the cost of 200 billion kronas or around 13% of GDP.

Hegemonic politics: From societal paradigms to development model

The neo-liberal productivist development model led to disastrous results in terms of social sustainability. It led to economic crisis and social collapse. Social cohesion was undermined by the fast increase in income inequality and riots led to collapse of the neo-liberal government and formation of a new left-wing government. Trust in the main institutions of Icelandic society such as the Parliament collapsed as well, and so did trust in the judicial system, labor market mediator, national state church, politicians, bank system, central bank, and the financial supervisory authority. Furthermore, Icelanders do not have much trust in Icelandic corporations, media, political parties and the Parliament as surveys show that they believe that these actors are very corrupt, cf. Figure 5.

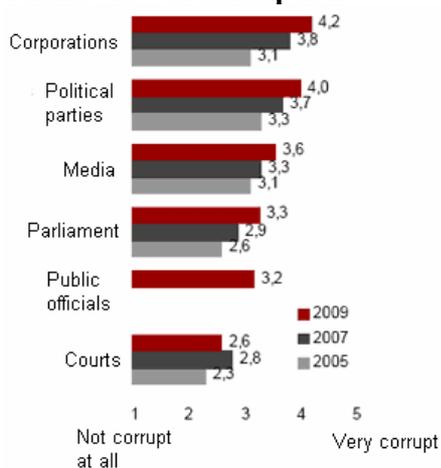
to 13% (Central Bank of Iceland). On the same day as the rate was decided to be 13% in Iceland the European Central Bank put its rate to 1%.

Figure 5
Collapse of trust in main societal institutions*
 Percentage that have much trust in the respective institutions



Source: Gallup surveys of public opinion. Survey question: How much or little trust do you have in ...?

Figure 6
Public view of corruption

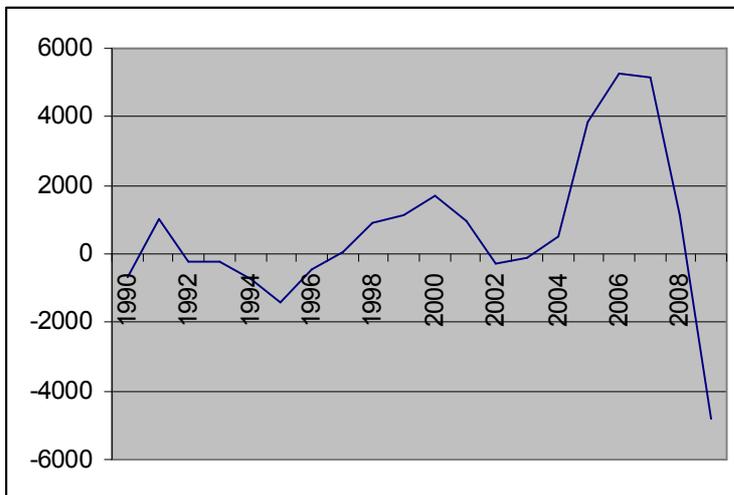


Source: Gallup surveys of public opinion. Survey question: How corrupt do you think the following institutions are?

An indicator of social sustainability of a society is the willingness of its members to stay in the society rather than move abroad. A survey among teenagers in Iceland has shown that in 2010 larger portion of teenagers want to life abroad in the future than did in 2007. In 2010 43% wanted to life abroad in the future while in 2007 the figure was 32% (University of Akureyri 2010).

Recent demographic statistics reflect a situation in which the population is vulnerable and emigration may become a problem following the present economic crisis in Iceland. Figure 7 highlights a new pattern in long term statistics of net immigration to Iceland.

Figure 7
Long term net immigration to Iceland



Source: Statistical Bureau of Iceland.

The realization of the unfortunate neo-liberal productivist development model in Iceland is to be explained on the one side by constructive and active operations of groups of people and on the other side by structural conditions. Let's observe first the activist side of the matter.

Reasons for the neo-liberal productivist development model – A constructivist approach

We would claim that there were five stages in the realization of the unfortunate neo-liberal productivist development model:

- 1) Neo-liberalist take-over of the powerful, right wing Independence Party and neo-liberalist transformation of other parties
- 2) Intensive lobbyism of the NTCC and corrupt financial favoritism in relation to politicians and public officers
- 3) Active ideological struggle for the neo-liberal societal paradigm

4) Take-over of the media and universities by the neo-liberalists and the new transnational capitalist class (NTCC)

5) Introduction of laissez-faire policies that undermined and made inactive supervisory institutions in the field of financial businesses and regulation of competition.

1) The neo-liberalist take-over of the powerful, right wing Independence Party (IP) took place between 1979 and 1991. A group of well organized students at the Department of Law at the University of Iceland became influential in the party and started extensive publication of books by F. von Hayek and M. Friedman and neo-liberalist articles in journals and newspapers. 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 IP and consequently prime minister of Iceland. He became the PM in 1991 and held that post until September 2004. He was minister of foreign affairs 2004-6 and governor of the Central Bank of Iceland 2006-9 (for a detailed discussion, see I. Jonsson 2011, forthcoming).

Other parties followed and were neo-liberalized between 1990 and 1994. The Icelandic governmental system is a coalition system, so the neo-liberalists 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) had 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 discussed above. IP and PrP established a coalition governments that stayed in power from 1995 to 2007. The cornerstone of the privatization was the selling of the state banks that created the conditions for new power elite in Icelandic society.

However, the neo-liberals were hit by their own boomerang, privatization. In 1995-2000 the power base of the IP degenerated due to the decline of the class of whole-salers and the rise of the financial-transnational power elite and the concentration of capital in retailing, i.e. the fast growth of the retailer Bonus that joined Hagkaup in 1998 in the company Baugur that stood for bulk of retailing in Iceland. Levels of oligopoly in the Icelandic economy reached new height.

2) In 2001-2008, particularly after the privatization of the state banks, an era of Plutarchy set in. The new transnational capitalist class embarked on large-scale lobbyism and spent large sums of money on supporting political parties and their candidates in elections for municipalities and the Parliament. 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 GDP per capita in Iceland was 40025 US\$ while the figure for USA was 46859 US\$ (IMF 2009).

After the banks collapsed and the state took over, the bulk of the corporate sector collapsed as well as the companies faced liquidity crisis and did not get the loans they needed for their operations. Consequently, the power base of the new transnational capitalist class disappeared.

3) The neo-liberals struggled actively for the neo-liberal societal paradigm. Interest organizations and corporations used many means to actively influence the public by swaying choice contexts with framing strategies, i.e. by influencing which issues or conditions are defined as problems that need political solutions. (D. Lowery and H. Brasher 2004: chapters 4-5). In the early 1980s, organizations of employers were successful in their framing strategies. The Iceland Chamber of Commerce was particularly effective in this respect. They managed to put privatization on the political agenda and the ideology that deregulation of the economy was necessary to increase 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 (CIE) and the Iceland Chamber of Commerce (ICC) (1983) stressed framing strategy and started a 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.

Moreover, the CIE and ICC use their annual general meetings in a 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.

4) Think tanks are important tool for framing strategies. There are no such institutions in Iceland. However, the two private universities in Iceland, University of Bifröst and University of Reykjavik, are controlled by the employers' organizations and their personnel are frequent commentators in media on issues concerning economic policy and business matters. The staff also writes reports that are part of framing strategies.¹³ As is to be expected, the recruitment of staff in these private universities is carefully scrutinized in terms of political ideology and their ideological control is strong¹⁴.

Although there are no formal think tanks in Iceland, one should highlight that the Institute of Economic Studies at the University of Iceland had the role of a think tank between 1996 and 2006. Another institute, The Economic Institute that was respected as a neutral state institute that 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

¹³ 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 financial sector. The report, one among only few Icelandic reports on the financial sector, was highly emphasized in the predominantly right wing Icelandic media. 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 Frettabladid on the 13th of April 2005.

¹⁴ See e.g. testimony by L. Mosesdottir former lecturer at the University of Reykjavik and professor at the University of Bifröst (L. Mosesdottir 2008).

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 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 was probably the most influential tool that neo-liberals and the new transnational class exploited in their framing strategies. Icelandic corporations have had unheard off strong lobbying position in relation to media. In the 1990s and 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 media lobbying¹⁵. It was very difficult to publish and develop alternative discourse on non-neo-liberal values such as social justice, equality and argue for progressive social welfare systems.

It appears from the discussion above that the lobbying activities and framing strategies by neo-liberals and neo-liberal orientated organizations of employers undermined societal

¹⁵ 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 where until November 2008 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 Morgunbladid¹⁵ and 50,4% read 24 stundir (Capacent Gallup 2009a).

democratic decision-making and hence undermined individual sovereignty which is one of the cornerstones of democratic systems.

5) The neo-liberalist regime was characterized by strong consensus of laissez-faire ideology that undermined and made inactive supervisory institutions in the field of financial businesses and regulation of competition. The Special Investigation Commission of the Parliament, that investigated the reason for the fast growth and fall of the Icelandic financial system came to the conclusion that the government and the board of the Financial Supervisory Authority (FSA) were responsible for FSA's lack of resources that made the institution incapable of supervising the fast growth of the financial sector. The number of staff of FSA did not grow fast enough and staff members lacked seriously experience in analyzing operations of financial corporations. Moreover, the FSA did not operate according regulations concerning investigating information it received on unlawful operations of the banks. The other main supervisory authority in this field, the Central Bank of Iceland, was also passive in its relations with the banks. As the Special Investigation Commission (SIC) puts it:

“The SIC is of the opinion that such big and high-risk growth is not compatible with long-term interests of a robust bank but, on the other hand, there were strong incentives for growth within the banks. These incentives included the banks' incentive schemes, as well as heavy indebtedness by the biggest owners. The Commission is of the opinion that it should have been clear to the supervisory bodies that such incentives existed and that there was reason for concern about this rapid growth.” (Special Investigation Commission 2010: 98).

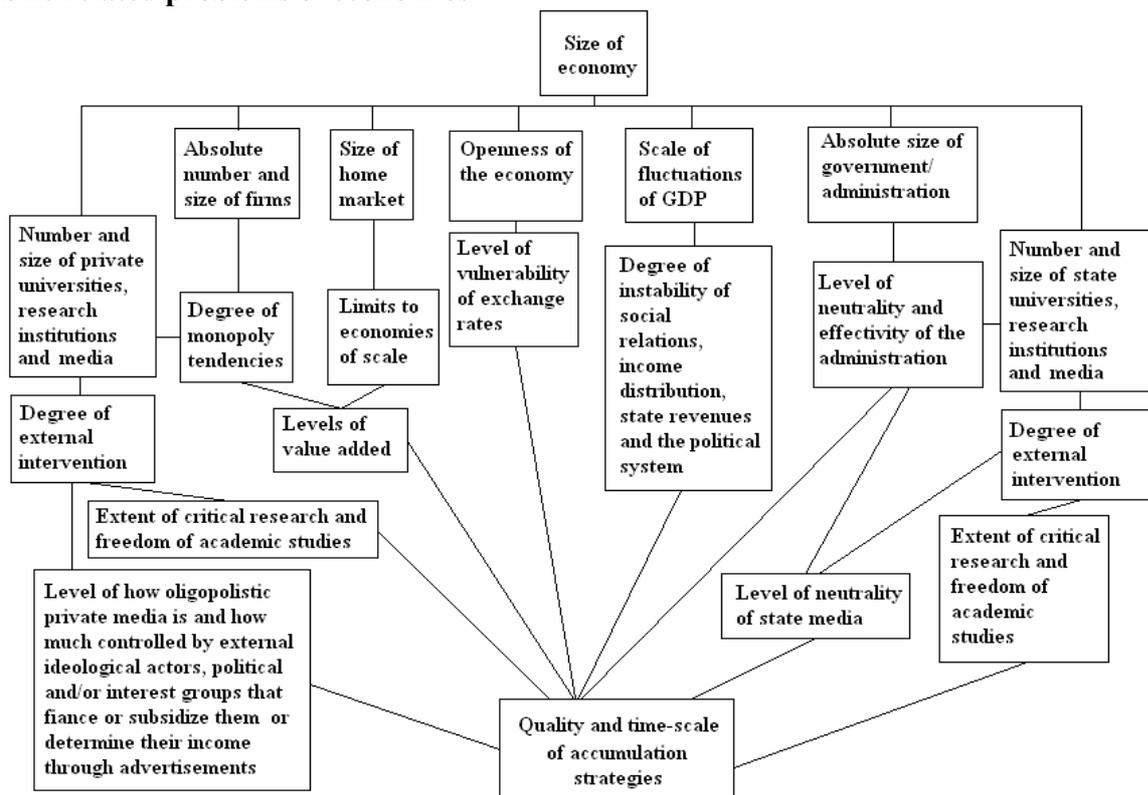
The weak and passive supervision of the financial sector made it possible for the owners of the banks to “rob the banks from within” by keeping up prices of the shares in the banks by handing loans to their owners and their companies that bought shares in the banks and the banks bought shares in their companies (W. Black 2010). The way that the prices of shares were kept high is according to the well known formula of Ponzi frauds.

It appears from the discussion above that the neo-liberal was realize by active political practice of neo-liberal actors. Their activity is important in terms of explaining the rise and fall of the neo-liberal development model in Iceland. However, the structural conditions within which the actors operate is also important.

Structural conditions for the rise of the neo-liberal productivist development model

These structures are 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.

Figure 8
Size related problems of economies



As figure 8 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-a-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 by being 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 policy formation and economic and political stability (Jonsson 1991). 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 concerning 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 of long term policies is difficult and short term policies reign concerning social and economic strategies. This situation suits well neo-liberalist ideology as laissez-faire policies emphasize that governments must not steer 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 monopoly and oligopoly tendency 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. The small size of the Icelandic economy generates few and very small universities, research institutes and media. We would claim that the characteristics of these apparatuses are the crucial material base for the active construction of regimes in Iceland. When the private media corporations are owned by a small group of individuals and a coalition government of the same parties has held power for many years and

can influence state media and other institutions indirectly through the state budget, there will emerge conditions in which societal discourse becomes one-sided and critique disappears. Public opinion formation becomes one-sided and an autocratic and corrupt regime emerges that lasts until it suddenly collapses as a surprise to most people except few who dare to point at signs of its inevitable collapse.

Concluding remarks – Iceland and social sustainability.

Sustainability is the capacity to endure. Social sustainability refers to the capacity of a social unit to survive despite internal and external constraints. Following this train of thought, we would claim that social sustainable development refers to the development of a social unit from one state of affairs to another while it preserves its main characteristics. A sustainable society preserves its main cultural social and economic characteristics through time albeit it is transformed due to external influences and internal creativity. Such a society is able to preserve its demographic size and the quality of life of its members.

The social sustainability of the neo-liberalist Icelandic society is threatened by legitimation crisis of main societal institutions such as the Parliament, political parties, the judicial system as well as the corporate sector. The legitimation crisis appears in mistrust of these institutions by the general public and the belief that they are corrupt. Consequently, Icelandic capitalism faces legitimation crisis. The main reason for this situation is the economic crisis that has its roots in the collapse of the corrupt financial system. The neo-liberal development model in which the globalization of Icelandic society and economy was rooted was realized because the democratic structures stopped functioning and neo-liberals, corporations and organizations of employers took over the main apparatuses of public opinion formation, i.e. the media and universities. With the take over of these apparatuses and breakdown of the functioning of democratic structures the role of individual sovereignty and the means of criticizing the regime were undermined. The result was a kind of dictatorship of corporations that led to the most serious socio-economic crisis Iceland has faced since the establishment of its republic in 1944.

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