0. *Introduction*

I was invited by the organisers of this Winter Symposium of the third research group of the Nordic Summer University (NSU), devoted to the concept of *crisis*, as an Icelandic citizen and scholar to offer a concise picture of the events in our country, which experienced in the year 2008 a much-televised economic crisis or *kreppa*, as it is called locally. In what follows, I provide *two* succinct and inevitably selective pictures: one small, another big. The small picture is a three-step account of what led essentially to the economic crisis, what this crisis consisted primarily in, and what followed it that induced a recovery. I focus upon the third step in particular, since it is less known abroad than the prior *kreppa*. The big picture is a brief twofold reflection on how the Icelandic experience fits within larger global trends, i.e. I assess it from an economic-historical perspective and from an axiological one. Under both perspectives, I make use of two chief intellectual reference points, both Canadian, namely the work and wisdom of the economist John Kenneth Galbraith and of the value theorist John McMurtry. Given that the audience at this symposium is not fluent in Icelandic, I make use only of English-language sources (and spelling of Icelandic names) and as far as possible, given the electronic format of the journal in which this paper is going to be published, of sources that are easily accessible online.

1. *The Small Picture*

1.1 *The Boom*

What preceded the crisis was a fairly long phase of transformation of the country's laws and economy, spearheaded by the governing Independence Party and its leader: "Prime Minister David Oddsson" (Gissurarson, 2004). Writing in 2004, Oddsson's personal friend, policy advisor, fellow Central Bank board member, Mont Pelerin Society vice-president and long-time university professor Hannes H. Gissurarson describes him as "the longest serving leader in the Western world, having formed his first government in 1991", to whom "[m]uch of the credit goes" for launching "a radical and comprehensive course of liberalization that mirrors similar reforms in Thatcher's Britain, New Zealand and Chile" (Id.)

What Gissurarson (2004) depicts and praises as a "[m]iracle on Iceland" is a set of policies truly analogous to those seen in Thatcher's Britain and Pinochet's Chile, such as: "cut[ting] extensive direct and indirect government subsidies early on, mainly by dissolving some public investment funds and privatizing others"; "stabiliz[ing] the economy with monetary and fiscal restraint"; "privatizing… small companies, later turning to large fish-processing plants, factories and financial companies"; "deregulat[ing] the economy [by] target[ing] the special privileges of groups such as pharmacists, and, more importantly, allow[ing] the free transfer of capital in and out of the country and competition in the telecommunications sector… creating conditions for competition in Iceland's hydro-electrical system by bringing in foreign investors"; "reduc[ing] the corporate income tax to 30% from 50% and abolish[ing] a special tax on company turnover… [and later] further… cutting the corporate income tax to 18%… phas[ing out] [t]he net-wealth tax… and… greatly reduc[ing] the estate tax"; and "strengthening private property rights, both to capital and natural resources".

Joining the European Economic Area and weakening the trade unions' bargaining power could be added too, but Gissurarson (2004) laments that "much remains to be done", since "[t]he health and education systems are publicly operated, and so are the utilities, some broadcasting stations, and the hydro-electric power system." Between 2004 and 2008, part of what was left to be done was done, including tuition-charging private universities, which received State subsidies as well (OECD, 2008). Despite such a blatant example of corporate socialism (cf. Galbraith, 1967 & 1977), the ideological inspiration of the country's transformation over the 1990s and early 2000s is described plainly as non-socialist: "Free-market economists like Friedrich von Hayek, Milton Friedman and James M. Buchanan all visited the country in the 1980s, influencing not only Mr. Oddsson but many of his generation. In the battle of ideas here, the right won." The aim of this transformation is also not difficult to identify, i.e. to let Iceland be among "the richest countries in terms of GDP per capita".

Gissurarsson's article does not focus upon the privatisation of the country's three largest banks, which was concluded in 2003 and that, five years later, proved to be the pivotal cause of the nation's sudden and spectacular crisis (cf. Boyes, 2009; Jónsson, 2009). Back then, the privatisation of the largest banks in the country was opposed in Parliament by only one minor left-wing political party (the “Left-Green”) orbiting around 8% of the popular vote, which indicates a rather widespread popular approval of the self-declared free-market right-wing course of action that Gissurarson (2004) dubs a “[m]iracle” (cf. Horn, 2012). Although Iceland enjoyed already in the 1980s very high standards in education, health, cultural and recreational life, most voting Icelanders might have dreamed of something else: fancy cars, high-tech gadgets, bigger houses and an “American-style” life, high private indebtedness included (Huijbens & Þorsteinsson, 2010: 21).

1.2 *The Bust*

As commonplace in the history of several countries that underwent analogous transformations after the end of the Bretton Woods system, Iceland’s “miracle” (Gissurarson, 2004) turned into a meltdown. Elaine Byrne and Huginn F. Þorsteinsson (2012: 135-6) write: “in October 2008. Within a span of less than a week, the entire financial sector, ten times the gross domestic product (GDP) of Iceland, went bust. The stock market was nearly wiped out. The economic outlook was not favourable. Interest rates and inflation were at 18 per cent. Unemployment sharply rose from 1 per cent to 9 per cent. Government revenue was rapidly evaporating but government expenditure had surged. The Icelandic króna (ISK) was in free fall and the reputation of the country was in absolute tatters. The entire financial sector had collapsed lock, stock and barrel.”

The Viking Tiger, just like the Asian, Latin-American, Baltic and Celtic ones, discovered itself to be a sacrificial lamb upon the altar of free trans-national capital trade. Rather than shining like a new wealthy “Luxembourg” (Gissurarson, 2004), Iceland’s boom-bust cycle mirrored the events that have repeatedly taken place in a plethora of former Western colonies since the 1980s and a number of post-communist countries since the 1990s (cf. McMurtry, 1999 & 2013). In this specific case, the crash of the derivatives-filled financial market in the US—the private “toxic assets” that somehow have already disappeared from mainstream public discourse and the mass media *in lieu* of “public debt” and nations “living beyond their means”—produced a “credit crunch” (cf. Chand, 2009). In essence, not knowing how “toxic” another’s books could be, private banks stopped lending to each other for fear of facing major losses, both nationally and internationally. As a consequence, it became impossible to continue to refinance the massively leveraged (i.e. debt-based) and poorly collateralised growth of Iceland’s “three main banks, Glitnir, Kaupthing Bank and Landsbanki.” (Byrne & Þorsteinsson, 2012: 135) Caught with their pants down, if you allow a crude but vivid expression worthy of a finance minister, the recently privatised banks “collapsed creating significant turmoil in the financial markets. This in effect shut down the foreign exchange market and caused a dramatic depreciation of the króna. The immediate consequences were the nationalisation of these three banks, which accounted for 85 per cent of the banking system. The International Monetary Fund (IMF) immediately intervened with a $2.1 billion package in order to avert a further meltdown of the Icelandic economy.”

Such a vertical and critical collapse led to a modicum of soul-searching, which found a bulky and permanent expression in the 2010 Report of the Special Investigation Commission of the Icelandic Parliament (SIC), part of which has been translated into English. In it, the technical details of the banks’ collapse are presented at length, as well as the many anti-competitive and anti-meritocratic practices occurring within the country’s financial sector, the impotence of under-funded regulatory bodies, and the unethical complacency of much of the nation’s media, academia and political class (cf. also Boyes, 2009; Jónsson, 2009). Among them, *Time* (2009) magazine singles out former “Prime Minister David Oddsson” (Gissurarson, 2004) as one of “The 25 People to Blame for the Crisis” worldwide, since he had not only promoted the “experiment in free-market economics” discussed above, but also been at the helm of the country’s Central Bank since 2005, i.e. just in time for failing to keep the meltdown from occurring (*Time*, 2009). Indeed, such a vertical and critical collapse led to unprecedented street protests and what was later named Iceland’s “Kitchenware Revolution”, which made us “[t]he first country to throw its government out of office as a result of the global financial crisis” (Thomas Jr., 2009).

1.3 *The Recovery*

The change of government meant that, for the first time in decades, the conservative party would not steer the course of the nation’s fate. A left-wing government was formed, inside which the formerly minor 8% political party opposing the privatisation of the State’s banking sector had grown into a two-digit strategic player, especially *via* “Iceland’s finance minister, Steingrimur J. Sigfusson, a lifelong leftist” (Id.). Iceland did not turn into a Nordic Cuba, though.

Quite the opposite, over the following three years, Iceland pursued economic policies “in close contact with the I.M.F.’s representative [t]here” that included “sharp cuts in health spending and higher gas prices… [h]igher interest rates”, cuts to culture and education, and further “severe economic restrictions that the country has been forced to endure to qualify for more money from the I.M.F. and other Nordic lenders.” (Id.) The tax revenue from the ballooning financial sector had evaporated, while the bill for unemployment benefits had soared at the same time: pressured by its historic Nordic partners, Norway *in primis*, the options on the government’s table seemed limited. Far from challenging orthodoxy, the new government followed “the fund’s recommendation that [they] maintain high interest rates as well as capital controls — a prescription [Steingrimur J. Sigfusson] describes as similar to wearing a belt and suspenders at the same time.” (Id.)

As peculiar as such a statement may sound, the pants were up this time; and so they have stayed thus far. As Elaine Byrne and Huginn F. Þorsteinsson (2012: 137) report: “in the three years since the 2008 Icelandic collapse, the Nordic country has made a remarkable and noteworthy economic recovery. The IMF approved the final loan tranche in August 2011, marking the end to a 33-month rescue package. The Finance Minister, Steingrímur Sigfússon, subsequently announced that ‘All the program objectives have been achieved.’ Nemat Shafik, IMF Deputy Managing Director and Acting Chair, likewise stated ‘Key objectives have been met: public finances are on a sustainable path, the exchange rate has stabilized, and the financial sector has been restructured.’ The economy has stabilised, fiscal adjustment has been successful, economic growth is picking up and the sovereign financed itself successfully in the bond market in May 2011 on what were considered good terms.”

Were high interest rates and severe budget cuts the crucial recipes of this second Icelandic miracle? Yes and no. Orthodoxy did play a role, but so did heterodoxy, starting with capital controls, which the IMF, a long-time enemy of them (cf. Chwieroth, 2009), regarded as necessary on this occasion. On top of these controls, which are still in place and make Iceland reminiscent of the Bretton Woods’ days, the new Icelandic government pursued: the re-nationalisation of the recently privatised banks; their dismantling into viable good banks (thus saving domestic depositors) and bankrupted bad banks (thus causing shareholders and foreign investors to lose their risk capital); the steering of the banks' credit in support of domestic entrepreneurship and employment; the regular consultations among the government, the employers' associations and the trade unions in order to keep joblessness under control; a new markedly progressive taxation of income; and the principle that the regressive measures, i.e. the many painful cuts to public investment, should be done in a progressive manner (cf. Johnstone & Ámundadóttir, 2011). Thus, unlike the 1st letter of intent with the IMF, which was passed before the "Kitchenware Revolution", the 2nd letter of intent with the IMF made it clear that Iceland would retain its Nordic Welfare model (cf. Ágústsson & Johnstone, 2013). I believe this explicit reference to welfare *qua* conditionality for the IMF intervention to be the first and only in the IMF's history.

Additional factors played an equally important role: the depreciated national currency led to a surge in the country's export of goods and incoming tourism; the people of Iceland rejected twice the so-called *Icesave* agreements with Holland and the UK, which would have burdened the country's public budget with new loans to repay the Dutch and British customers of foreign branches of now bankrupt Icelandic private banks (Icelanders voted the latter time against the advice of nearly all parties, both left and right of the political spectrum); and the curious fact that, as Huijbens and Þorsteinsson (2010) notice, the orthodox IMF recipes of sweeping liberalisation and privatisation could not be applied, since they had already taken place in the seventeen years before the eventual meltdown. That which *Time* (2009) dubs "free-market economics" could not come to the rescue, for it had already been the prime cause of the country's shipwreck.[1]

2. *The Big Picture*

2.1 *Economic History*

Sub sole nihil novum est. On a national level, the Icelandic crisis trod along the lines of the notorious 1929 Wall Street crash and successive US financial collapses (e.g. the savings & loans crises after the 1986 tax reforms, the 2000 dot-com bubble). All of the key-ingredients discussed in John Kenneth Galbraith's 1954 classic study of the 1929 Great Crash were there:

financial speculation prevailing over genuine productive investment; media-inflated irrational euphoria; private over-indebtedness by easy credit; blind, biased and bought punditry; irritated dismissal of critical voices; successful corporate lobbying for lax regulation; endemic corruption across private and public sectors; business-friendly legislation for businesses befriending legislators through generous campaign donations and revolving-door incentives; reduced taxation on higher incomes (cf. Thorvaldsson, 2009). In truth, even Galbraith's (1987) main fear *vis-à-vis* modern economies was there: the sheer ignorance of, and/or wilful blindness to, the lessons of economic history; could things be really different this time? Had the Icelanders truly found a special, Viking way of doing business, as a colleague once told me with great pride before 2008?[2] As Galbraith (2000) would quip: "The oldest Galbraith rule is that when you hear that a new era has dawned, you should take cover."

On an international level, the Icelandic crisis trod along the lines of innumerable post-Bretton-Woods meltdowns (cf. McMurtry, 2013). Latin America, Sub-Saharan Africa, Pakistan, South-East Asia and post-communist Europe have given ample testimony to the chaos that Cornelius Castoriadis (1996/2005: 82) predicted *qua* inevitable outcome of the re-introduction of free capital trade worldwide: only a "planetary casino" could emerge from "the absolute freedom of capital movements".

As to the British and Dutch attempts to impose onto Iceland *via Icesave* agreements a system of self-perpetuating debt, that is precisely what de Bernis (1999) calls the "usury model" of the so-called "Third World", whereby national governments find themselves burdened by such amounts of debt that, apart from reducing all forms of public spending but the army, they service their debt by taking on more debt, which in turn has to be serviced in the same way. That is analogous to current developments in southern Europe, where the governments of countries such as Greece and Italy are burdened by a considerable debt level, and yet keep increasing it in order to pay their creditors, while at the same time reducing the provision of human-rights-mandated public services to the population—to an extent that can be technically defined as "cruel" (cf. Baruchello, 2013b).

What is conspicuously different in the Icelandic case are some rather unusual outcomes of the crisis: banks i.e. shareholders were not bailed out (for once, the laws of competition were applied, though possibly out of inability to do the opposite, given the disproportion between the banks' losses and the country's GDP; cf. Byrne & Þorsteinsson, 2012); sweeping reforms were implemented (but in a protectionist sense, e.g. by re-nationalising recently privatised banks and protecting local depositors); free capital trade has been suspended since the emergency laws were passed in response to the 2008 meltdown (again, at least in part, out of sheer necessity); and further privatisations and fire-sale handovers to foreign investors have been avoided until now.

Do note however that performing a second miracle on Iceland was not enough for the 2009 governmental coalition to win the 2013 elections, which brought the so-called “crisis parties” back to power—Iceland’s Lutherans, unlike Catholics, are hard to sway with miracles, especially when the one saluted by Gissurarson (2004) turned out to be rather dubious. Not to mention that the second miracle itself might have seemed dubious to many Icelanders, whose private debts have endured *qua* assets of the new “good” banks capitalised after the demise of the old “bad” ones, while their purchasing power has fallen together with the national currency and the dreams of a fancy way of life—the kind of inane consumerist life that so many TV programmes, movies and adverts have been showing them on a daily basis since early childhood (cf. Castoriadis, 2003 & 2005; Galbraith, 1967 & 2004; Fromm, 1966). On top of that, many Icelanders might have wanted to reward the one and only party opposing the *Icesave* agreements on both national referenda, while also campaigning for a large-scale private-debt write-off (the “Progressive Party”; cf. Young, 2013).

2.2 *Axiology*

As McMurtry (2013) observes in his latest book, Iceland and, for that matter, *all* meltdown countries are cases of societies turned into means to multiply the money demand of private money possessors as the supreme goal of the economy and society itself. In *all* these cases, with no exception whatsoever, the countries’ economy and, which is constitutionally worse, the State’s life-protective functions were, have been, and are being turned into means to this lifeless end, whether by hijacking the State to re-set it towards business-serving functions (e.g. competitiveness-aimed new public management) or by selecting out life-serving functions not subordinated to this lifeless end (e.g. budget cuts to public care for the disabled and to public cultural activities). This macro-law of the money-sequence axiology is revealed whenever performance and success, both individual and collective (e.g. of States), are measured regularly and primarily in terms of money-value alone (e.g. American-style consumer goodies, pay-checks, bonuses, growth, RoE, FDI), rather than by means of well-being indicators (e.g. Bhutan's pioneering 1972 Gross National Happiness [GNH] metrics, the UNDP's 1997 Human Poverty Index, the Council of Europe's 2005 Social Cohesion Indicators) or fulfilment of human-rights-defined standards of sufficient nutrition, access to education and healthcare, democratic participation, and freedom to form and/or join a trade union (cf. ICESCR, 1966).

As Gissurarson's (2004) reveals, what justified politically and axiologically the possibly miraculous transformation over the years 1991-2008 was to let Iceland be among "the *richest* countries *in terms of GDP* per capita" (emphasis added). When this *reductio ad pecuniam* happens, then money becomes *de facto* the guiding supreme value, which determines individual choices (e.g. one's "sensible" studies and "rational" career moves) as well as collective ones (e.g. "sound" governmental policies), above and/or beneath cultural traditions and constitutional duties. It is not happiness that counts above all else; not health; not children's well-being; not human rights; not nature's pristine continuation and provision of life-supporting conditions; not stability; not secure and full employment. Money alone does (cf. McMurtry, 2013).

Iceland is not isolated in this modern form of fetishism, which Castoriadis (1996/2005) regarded as a token of pseudo-rationality; i.e., rational behaviour is assumed to be the one that promotes economic growth, but no valid rational justification is given for this unqualified growth to be taken as primary. McMurtry (2012: 49 & 59) dubs such a presupposed rationality "moronic" and poignantly remarks: "no place on the balance sheets is provided for doing good for others, or even providing for anyone's life need." The world at large testifies today to this inane accounting deficit, which threatens the sustainability of civilisation itself (cf. Motesharrei, Rivas & Kalnay, 2014). Across today's Europe, for one, States act regularly as though they were meant to serve money-value alone (e.g. recurrent references to the "will" and "sentiment" of "investors", the TINA-esque 'must' of "competitiveness", the desirability of unqualified "growth"), while their citizens are either a resource (i.e. a means to an end) or an obstacle (e.g. "costs", "expenditures", "unproductive" classes).

However, the citizens' wellbeing, as captured for instance in human-rights jurisprudence, is the actual aim and justification of State power under all existing constitutional arrangements:

salus populi suprema lex (Cicero, 1st c. BCE/n.y.: Book III, Part III, Par. VIII). People are meant to be safe, healthy, educated, socialised, acculturated and enjoying progressively better living conditions (cf. Baruchello & Johnstone, 2011). Money-value is a means to these ends, which embody and exemplify higher values (e.g. cultural identity, happiness, family life). In a successful society, people enjoy better and better psycho-physical well-being and opportunities for intelligent self-realisation. If the economy facilitates the attainment of such goals, then it is good. It is bad, instead, if it hampers such goals, e.g. by making people's livelihood insecure, their minds and bodies ill, their understanding bamboozled by media propaganda–i.e. regular features of today's global consumerist "market societies" (cf. Castoriadis, 2003 & 2005; Galbraith, 1967 & 2004; Fromm, 1966; McMurtry, 1999 & 2013).

Not to mention the depletion of the Earth's life support systems (UNESCO, 2002-14). Unlike actual people, money-value does not need pristine environments, clean air and potable water; hence it either turns them into priced goods that only moneyed consumers can purchase, or destroys them in the pursuit of other profitable activities (cf. McMurtry, 2013). Modern meltdowns, like the life-threatening environmental crisis of our age, are not unforeseen natural disasters akin to tsunamis, but the inevitable result of an institutionally endorsed economic system that aims at money-value maximisation instead of life-sustenance and amelioration. An axiological blunder lies at its heart. As McMurtry (1999: 243) stated long before the 2008 crisis: "*[F]inancial crises always follow from money-value delinked from real value*, which has many names but no understanding of the principle at its deepest levels."

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[1] Just like old-time Marxists could claim the failures of "real socialism" not to be failures of Marxism, so can

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die-hard liberals of all stripes find *ad hoc* explanations getting their ideology off the hook whenever crises occur (e.g. individual cases of corruption, somehow unpredicted greed, faulty State regulation, national character), as I discussed in a previous contribution to the NSU research group #3 (cf. Baruchello, 2013a), but that demonstrates the unscientific nature of liberalism in *assuming* the free markets' unique ability to bring about prosperity whilst refusing to face what so-called free-market economies have actually been like in their history (e.g. Bagus & Howden, 2011; cf. also Galbraith, 2004).

[2] This was not the only peculiar, highly revealing statement that I came across in conversations with local business experts. Another, whose name I also omit for reasons of professional courtesy, told me that some of the scholars in his university department had concerns about the country's boom, but kept quiet: "we did not want to rock the boat and, above all, we did not want to be taken for leftists". Ideological self-censorship runs deep in academe.