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State Decision-Making in a Post-Crisis Economy

The Case of Iceland: A Post-Fordist and Field Theoretical Approach to Modern State Decision-Making

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ABSTRACT

This thesis analyses the extent and limitations of the Icelandic response to the financial crisis in 2008 with the use of Fligstein and McAdam's Field Theory and Post-Fordist theory of modern Capitalism. The thesis establishes the existence of a pure Post-Fordist regime of accumulation, and holds that while state and labor have asserted significant influence on the post-crisis policies they have primarily served to reproduce the power of capital due to domestic and transnational Post-Fordist constellations. The Post-Fordist structures are found to reduce the effects of the egalitarian policies, and increase the relative power of capital within the Icelandic society. The labor unions have converged with capital interests, defended the Occupational Pension Funds at the cost of labor interests, and become proponents of expanding the Post-Fordist regime. The state has reproduced a refurbished status quo in the bank market and established control by confining to a multitude of social roles inherent within the state- and market structures. The extent of labor and state influence are further found to be the main deviations from the general European context, and the analysis brings out the holistic synergy between the two theories in explaining state decision-making in the contemporary political economy.

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ABBREVIATIONS

ABCP-market – Asset Backed Commercial Paper Market

ASI – Icelandic Confederation of Unions

CDO – Collateralized Debt Obligation

CDS – Credit Default Swap

EEA – European Economic Area

EFTA – European Free Trade Association

EU – European Union

FDI - Foreign Direct Investment

ICA – Icelandic Competition Authorities

IMF – International Monetary Fund

IP – Independence Party

MBS – Mortgage Backed Security

OECD – Organization for Economic Cooperation and Development

OPF – Occupational Pension Fund

PFN – Petroleum Fund of Norway

PM – Prime Minister

PP – Progress Party

SA – Icelandic Confederation of Employers

SDP – Social Democratic Party

TNC – Transnational Corporation

UN – United Nations

WB – World Bank

WTO – World Trade Organization

1 INTRODUCTION

How can we explain similarities and differences in societal developments across capitalist states, and how does it come to affect state decision-making? How can theory help us make sense of the different policy responses in Europe after the financial crisis in 2008? What does it mean for the future study of political economy? This thesis seeks to answer these questions from a political scientist's perspective, using Post-Fordist theory of modern Capitalism and Fligstein and McAdam's Theory of Fields.

Europe has gone through a two-part crisis for over half a decade. First a financial crisis where banks from mostly western states speculated in financial products tied to US mortgages and spurred large-scale bail-outs from the sovereign states (Fligstein and Goldstein, 2012). This in turn led to a sovereign debt crisis where the states struggled to handle the massive increase in debts and the subsequent distrust from the capital markets (Fligstein and Habinek, 2012; Kolb, 2011). The European states responded in a remarkably similar way by using methods deployed in developing countries through four decades with devastating effects (Harvey, 2007). Iceland however seems to have responded differently. This thesis will focus on the case of Iceland, how their economy has developed, and how the theories can explain their seemingly deviant response.

My research question is; how can we explain the Icelandic response to the financial crisis in 2008? I also wish to explore what my findings would mean for the study of political economy. I will answer the question from structural perspectives and will not seek to elaborate upon the use and effect of social skill by individual agents after the crisis. A part of the thesis will also be devoted to establishing the existence of a Post-Fordist accumulation regime, as to my knowledge no similar study of Post-Fordism has been conducted on Iceland. This will set some length-limitations to the following analysis of the state decisions, however I believe the quality of the analysis is maintained. The analysis of the bank restructuring process will further have some limitations in form of mapping out the field in question, as this lengthy process would leave little time and space to answer the question at hand.

I will start by explaining why the two theories have been chosen and what they are about. In the same chapter I will provide distinctions between the two theories and the more common perspectives. In chapter 3 I give an account to my choice of performing a deviant case study with

the use of document analysis and interviews, and provide some epistemological considerations to their usefulness in answering my research question. Chapter 4 is a detailed analysis of the development of Icelandic capitalist structures, where I look at different economic sectors and find the lack of a Fordist production period while establishing the existence of a Post-Fordist accumulation regime. The findings are further used to provide some theoretical predictions to the post-crisis policies. In chapter 5 I give a brief account of the general European response to the crisis in 2008. In chapter 6 I elaborate upon how the crisis originated on Iceland and how they chose to respond. The restructuring of the bank sector will be analyzed in detail in chapter 7 with the use of Field Theory, and I show that the interests of the Post-Fordist power structures and the state had important effects on the new structure. In chapter 8 I go on to analyze the general response of Iceland and show how it was affected by the power relationship between labor, state, and capital, and how the Post-Fordist structures functions to enhance the power of capital and water down the attempted egalitarian state response. I conclude in chapter 9 by summarizing my main findings and how they add to the theories. Implications are drawn for the study of political economy and I make suggestions for future research on Iceland and the study of modern Capitalism.

2 THEORIES ABOUT STATE DECISION-MAKING

The theoretical framework is important for the case study in order to understand and contextualize the information gathered within the document analysis and interviews (Hartley, 2004). In this thesis I am making use of theories with two different levels of abstractions to analyze state decision-making. This chapter will explain why Fligstein and McAdam's Theory of Fields and a Marxian analysis of Post-Fordism have been chosen, and how the theories can say something about state decisions in the contemporary political economy.

The theories are chosen on the basis that you can't understand political actions without understanding the structures in which they occur. State decision-making has always been subject to limitations set by their socio-economic system. That calls for a theory about how and why socio-economic systems changes and develops within western state societies - a theory of Capitalism. You cannot, however, explain state decision-making by only looking at the abstract

structures; you also have to be able to understand how markets emerge and reproduce to account for different market constellations and their relationship to the state. Fligstein and McAdam's Theory of Fields helps us understand Capitalism and state decision-making by providing analytical tools for the analysis of market behavior, grounded in the microfoundations of human behaviour (Fligstein and McAdam, 2012). Compared to Post-Fordist theory, Fligstein and McAdam's theory has a lower level of abstraction which enables the analysis of unique social structures and how they affect state decision-making. Post-Fordist theory further abstracts these processes and enables the analysis of general societal developments and the effects on state decisions. In that sense the two theories provides two different levels of analysis of the social processes in play, enabling a complementary and holistic analysis of the structures in which state decision-making occurs. The role of individual agents will be given little emphasis in this thesis except when serving as examples for the general tendencies. Still, Fligstein and McAdam's Field Theory, as I will explain later, provides an analysis of individual action in order to understand collective action. The theoretical will therefore provide some emphasis to the issue of agency within structures.

To produce the synergy between the two theories one adaptation will have to occur to the Post-Fordist theory. The Marxian analysis of the relationship between labor and capital will be adapted to include Fligstein's distinction of the state as an actor with its own interest. State decisions are therefore the outcome of the relative power between labor, capital, and the state (Fligstein, 2002). That way the state has a role as an organized actor and as an organizer of social space within society (Fligstein, 2002; Fligstein and McAdam, 2012). This will be further elaborated upon later in this chapter.

2.1 FLIGSTEIN AND MCADAM'S THEORY OF FIELDS

Fligstein and McAdam's Field theory view strategic action fields as the fundamental units of collective action in society.

A strategic action field is a constructed mesolevel social order in which actors (who can be individual or collective) are attuned to and interact with one another on the basis of shared (which is not to say consensual) understandings about the purposes of the field, relationships to

others in the field (including who has power and why), and the rules governing legitimate action in the field. A stable field is one in which the main actors are able to reproduce themselves and the field over a fairly long period of time (Fligstein and McAdam, 2012:9)

Social actors (e.g. agents) can affect change within strategic action fields by strategic actions. Strategic actions are attempts “by social actors to create and sustain social worlds by securing the cooperation of others” (Fligstein and McAdam, 2012:17). Strategic action is linked to the human capacity and need to create shared meanings and identities. This is an addition to the Marxian view where humans are seen as materialist creatures seeking to achieve instrumental advantage. Fligstein and McAdam states that social structures are just as importantly guided by the individual’s need to fashion meaningful worlds for themselves and others. Strategic action requires social skill, which is the ability for the social actor to induce cooperation by creating shared worlds and identities with others. Socially skilled actors provide other people with reasons to cooperate by empathetically relating to their situations. Social skill is therefore based on the individual’s capacity to use it, and the ongoing usage of social skill helps to create and sustain fields. (Fligstein and McAdam, 2012:chp 1)

Strategic action fields can be embedded within each other. A firm’s accounting unit might be a strategic action field, but it is also a part of a larger firm-level field. This creates a complex web of fields. There are, however, some distinctions to the relationship between fields. Fligstein and McAdam distinguish between proximate- and distant fields. Proximate fields are fields which have recurring ties to each other, and where actions within one field routinely affect the proximate fields. Distant fields have virtually no effect on each other. There is also a distinction between state and nonstate fields. States also encompass a myriad of field structures, and these fields have generally unrivaled potential to affect most non-state strategic action fields. The state is thereby not a singular hegemonic structure but is made up of a complex web of fields in itself. (Fligstein and McAdam, 2012)

Fields are made up of incumbents, challengers, and governance units. The incumbent actors wield disproportionate influence within the field. Their interests and views are heavily reflected by how the field is organized; the purpose and structure of the strategic action fields are aligned with their interests. The incumbent position in the field therefore claims the lion’s share of material- and status rewards. The shared meanings within the field legitimate and supports the

incumbent's privileged position and the rules within the field tend to favor them. The challengers wield little influence over the field and can be expected to conform to the prevailing order, however often grudgingly. They can articulate alternative visions of the field and their position in it, and they await opportunities to challenge the structure and logic of the system so they can attempt to secure a better position for themselves. Governance units are internal units that oversee the compliance with the field rules and facilitate the overall function of the system. Examples include internal auditing units, rating agencies, trade associations, etc. They are generally there to reinforce the dominant perspective and safeguard the interests of the incumbents, and not act as a neutral arbitrage in conflicts between incumbents and challengers. (Fligstein and McAdam, 2012)

The contentious nature of the strategic action fields means that actors are constantly jockeying for position. That makes incremental changes the norm within stable fields. Actors interpret each other's moves based on their positions within the field, their interpretive framework, and acts in response. They can also initiate moves themselves. They make adjustments to the conditions within the field given their position and actions of others, and they are always looking for ways to marginally improve their standings. (Fligstein and McAdam, 2012)

Larger change occurs when a field can no longer reproduce their role structures. Changes within a field can send ripple effect across proximate fields, much like a stone thrown into the water. Incumbents may still, however, be perceived as strong and powerful in the midst of destabilizing events, and challengers might therefore choose not to contest their power during a crisis. Incumbents can also rely on substantial support from governance units within the field and in proximate fields. Incumbents are therefore well positioned to survive exogenous shocks to the field. For contestation to take place (e.g. significant change), those that perceives the opportunity must have organizational resources to mobilize and sustain action. Contestation is defined as "a period of emergent, sustained contentious interaction between ... (field) actors utilizing new and innovative forms of action vis-à-vis one another" (Fligstein and McAdam, 2012:9). Contestation creates a sense of uncertainty and exposes the actors to rules they had taken for granted, calling them into question, and heightens the use of previously prohibited forms of collective actions. The contesting mobilization can create a new settlement in form of new rules which are seen as legitimate, or the incumbents can manage to reassert a refurbished status quo. More often the latter prevails over the former. (Fligstein and McAdam, 2012)

2.1.1 THE DISTINCTION TO BOURDIEU

Fligstein and McAdam's field theory advances Bourdieu's theory of fields by focusing on collective actors. Bourdieu has few accounts to how cooperation and competition between collective actors structures fields, the architecture of fields, and the relationships between fields. Bourdieu focus on the individuals acting in fields, while Fligstein and McAdam focus on how people cooperate, how groups get things done, and how one can understand the interaction that goes on between collective actors. Bourdieu also focus on how individuals desire to advance their interests within the constraints in which they find themselves, while Fligstein and McAdam look at how individuals coordinates action by empathically adapting to the other views in order to frame lines of action which appeal to others. Cooperation and competition is therefore both fundamental to Fligstein and McAdam's field analysis. Their framework also enables the analysis of the emergence of new fields and transformation of existing fields, while Bourdieu was mostly oriented towards establishing the existence of fields. (Fligstein and McAdam, 2012:24-26)

2.1.2 MARKETS AS FIELDS

Within the field theoretical framework of Fligstein and McAdam there are analytical tools for analyzing the architecture of markets. "Markets are social arenas that exist for the production and sale of some good or service, and they are characterized by structured exchange. Structured exchange implies that actors expect repeated exchange for their products and that, therefore, they need rules and social structures to guide and organize exchange" (Fligstein, 2002:30). Markets are made up of collective actors and should thus be analyzed as strategic action fields (Fligstein, 2002). They require extensive social structures to function (Fligstein, 2002). For transactions to take place there needs to be rules on who can transact with whom and under which conditions transactions are carried out, what Fligstein calls rules of exchange (Fligstein, 2002). Examples include safety standards, health standards, paying with cash or credit, trade agreements, or other things that govern the transaction. Rules of exchange also function to solve problems related to trust which are vital for markets to function; if you can't trust a supplier to deliver the goods you have paid for you are not going to trade with them (Fligstein, 2002). One example is the case of E-Bay and how they had to introduce trust-mechanisms in order to become a viable market place (Kashkooli, 2008).

Another problem that needs to be solved is related to who owns what and has the right to what within the firm – the property rights. Rules as to who has the claim on profits of a set of assets (be they physical, financial, intellectual, or human) has to be created in order for market structures to function. There also needs to be general rules for competition and cooperation between the firms – what Fligstein calls governance structures. Governance structures create an understanding of legal and illegal forms of competition, definitions of how firms should be organized, rules governing the labor market, etc., and can be formal or informal. Governments play important roles in solving these issues. (Fligstein, 2002)

Markets where these social structures are in place are characterized as reproducing role structures. The firms reproduce their roles within the market structure on a periodic basis and thereby produce a stable market. A reproducing role structure means that firms are organized in a social status hierarchy with incumbents and challengers. Incumbents are on top of the hierarchical ladder, while challengers are below. Survival is best achieved by dominating the other actors within the field and belonging to dense networks. The status hierarchies in which the firms battle for positions are based on legitimacy, quality, and brand awareness. These stable market structures help the firms avoid competing on price, and therefore produce more profits than unstable markets. (Fligstein, 2002)

Firms reproduce their role structures and social hierarchies by creating a conception of control which is market specific. The conception of control is the common cultural understanding of how to organize and behave, the “local know-how” of which strategies are viewed as viable to create and maintain their market positions. The conception of control is also used to interpret the moves of other actors within the market, and tells the firm how to respond - if at all. The conception of control often reinforces the social hierarchy in the market, and makes it harder for challengers to contest the position of the incumbents. To understand markets one therefore needs to understand the common understandings of how they are making money and how this common understanding is reproduced. (Fligstein, 2002)

2.1.3 THE RELATIONSHIPS BETWEEN THE MARKET AND THE STATE

Fligstein and McAdam’s Theory of Fields enables the analysis of the role of the State in building the economy. The theory holds that capitalist states have national variations. Each state develops rules and laws for their markets based on their unique history and culture to achieve economic

growth. States ability to help their citizens, grow, and protect themselves, are all in large part dependent on their ability to grow their economy. The state therefore develops relationships to their large national actors. Economic growth is an essential part of the state-building process, and relies as described above on a number of social structures to be in place. The state therefore intervenes in the market in a myriad of ways. (Fligstein, 2002)

Fligstein identifies labor and capital as the two other organized groups with interests in how the society produces stable market structures. The balance of power between labor, state, and capital dictates how the state intervenes in its markets and social arenas (Fligstein, 2002:chp 3). The state therefore plays a role as an organized group with interests in the market structures, and at the same time a role of organizing social space within society (Fligstein, 2002; Fligstein and McAdam, 2012). The domination of one of the organized groups often happens if they (e.g. capitalists, workers, or state officials) dominate the executive or legislative branch and make favorable rules for themselves over an extended period of time, thereby creating institutions which lives past the political constellations creating them (Fligstein, 2002:45-46). In a pure case where the three groups asserts equal relative power the state intervention into markets is decided on a sector-by-sector basis where the nature of the intervention is dependent on which group has the strongest position within that sector (Fligstein, 2002:53).

An illustrative example can be made by pointing out how government employees have to adhere to problems raised by market actors. Employer organizations can for instance take their grievances of having to pay sick benefits to the related state-department on behalf of a firm. How the state chooses to deal with this problem is in large parts based on the power relationship internalized within the state institutions. Similar to the ways in which an incumbent actor possesses disproportionate influence to a challenger within a strategic action field, the government will more often than not side with the stronger part in the power- relationship. If then, say, the case was in the US, the state would more likely side with the employer organizations (e.g. capital) than the wage laborers (e.g. labor). Cases where state-capital-and labor wields proportionate influence are often recognized by cooperative actions between the organized groups, like for instance through collective bargaining. (Fligstein, 2002)

For the power relationship within a state to change, the internalized power relationship within the institutions themselves have to change. This would mean a restructuring of a variety of laws,

norms, and institutions that make up this power in practice. Fligstein argues this usually only happens under extreme circumstances such as after major economic crises or war, but even then the changes can turn out to be temporary. The institutions also adjust to new technologies and opportunities without changing the underlying power relationship. (Fligstein, 2002)

The government's response to crises will be affected by the power relationship between the coalitions of market actors, and from the field theory it follows that the response will generally be advantageous for the dominating part within this relationship and strengthens its position. (Fligstein, 2002; Fligstein and McAdam, 2012)

2.1.4 NEOCLASSICAL ECONOMIC THEORY AND NEOLIBERALISM

Viewing markets as fields is contrary to the more popular theory coming out of neoclassical economics. Neoclassical theory holds that markets are perfectly competitive (Weintraub, 1993). Prices are outcomes of supply and demand (Fligstein, 2002; Weintraub, 1993). Individuals are profit- and utility maximizers¹ and possess perfect information² (Fligstein, 2002). These conditions cause societal resources to be spent most efficiently through markets (Fligstein, 2002; Weintraub, 1993). None of these core principals should be affected by social structures. The neoclassical economic model for explaining markets therefore don't not hold up in empirical research (for empirical studies on how price is set see e.g. (Baker, 1984; Uzzi and Lancaster, 2004), for empirical studies on the social structures govern markets see e.g. (Kashkooli, 2008; La Porta et al., 1999; Uzzi, 1996)).

The political economic theory coming out of neoclassical economics is called neoliberalism. Policies coming out of neoliberal theory have been concerned with scaling back the role of the state and leave the markets to their own device (Harvey, 2007). Seeing that markets are deemed efficient and self-regulating, the theory holds that state intervention into markets should be kept to a bare minimum as it disrupts market efficiency (Harvey, 2007). Governments should only

¹ People as profit maximizers means that people will create goods or services until the point where the next product/service will cost them more to produce than they will earn selling it (Fligstein, 2002; Weintraub, 1993). People as utility maximizers means that people will buy goods/services until the next product will give them no more utility (Fligstein, 2002; Weintraub, 1993).

² Individuals having perfect information mean that both buyer and seller know everything about the product or service, and are aware of all their alternatives (Fligstein, 2002). This causes opportunism to be irrelevant (Fligstein, 2002).

intervene in markets when there is a market failure; when few firms have too much power or when there is a demand where firms can't make profits (Brennan and Moehler, 2010).

2.2 A THEORY OF MODERN CAPITALISM

So how can we make sense of the more abstract forces affecting state decision-making and explain why western socio-economic systems tend to develop along a similar path?

Marx wrote that all existing history is a history of class struggle. Capitalism is the socio-economic system that sprung out of the feudalist society, and which most states currently abide to. The ruling elite under Capitalism are by Marx called the bourgeoisie, the owners of production material which has employed wage-laborers. At the other end of the class spectrum stands the proletariat, the modern wage-laborers who have to sell their labor to survive in lack of owning production materials. The proletariat is in itself a product of Capitalism, since Capitalism is dependent on the proletariat to create surplus. The driving force behind the history of Capitalism is the class struggle between the proletariat and the bourgeoisie.(Marx, 1978) Institutions are seen as bearers of the ruling class interests, locally, nationally, as well as internationally (Harvey, 2006; Marx, 1978).

The capitalist system entails certain contradictions which makes it prone to economic crises (Marx, 1978). As Polanyi once famously explained; Capitalism relies on the commodification of land, labor and money (Polanyi, 2001). That makes them fictitious commodities in the sense that they are social constructs and not actual commodities, they are not produced for selling on the markets (Polanyi, 2001). Turning them into commodities creates profound social dislocations as it challenges human non-economic interactions (Polanyi, 2001). Capitalism, however, relies on these fictitious commodities, and the process of commodification must continue to preserve its existence (Marx, 1976; Polanyi, 2001).

Capitalism further relies upon constant expansion to find new ways of absorbing surplus capital (Marx, 1978). Surplus capital is the return on investments that is greater than the outlay (Harvey, 2013). The surplus capital needs to be reinvested or else it will lose its value (Marx, 1978). If new markets can't be acquired or the existing markets can't yield enough profits, a crisis of over

accumulation occurs (Marx, 1978). Capital will be devalued; it can't be reinvested with expected surplus gains (Harvey, 2013). Devaluation can take the form of inflation – making money worth less, by reducing production capacities, or by leaving production facilities to be written off or left unemployed (Harvey, 2013). The proletariat stands also to be devalued through unemployment (Harvey, 2013). Capitalism is therefore in constant need to find profitable ways to reinvest the surplus capital, and this creates technological innovations and new markets (Marx, 1978). The existence of the bourgeoisie class depends on revolutionizing the means of production in order of finding new ways to exploit existing markets, or finding or creating new ones (Marx, 1976, 1978).

The need to create surplus capital makes monopoly and oligopoly important aspects of Capitalism (Harvey, 2006). Monopoly in the strict use of the word means a market with only one seller (Foster et al., 2011). Markets resembling this strict definition of the word however rarely exist (Foster et al., 2011). It is therefore more useful to deploy a wider definition, where firms strong enough to affect price, output, investments, and access to the market are seen as wielding monopoly power (Foster et al., 2011). Firms with monopoly power are in practice the central feature of oligopolistic markets; meaning markets divided by a few large players, and increasingly so in the modern capitalist era (Foster et al., 2011). Oligopolistic markets and the use of monopoly power creates security for capitalists as it ensures a stable and calculable future (Foster et al., 2011; Harvey, 2006). Monopoly in the form of for instance patents or control over essential services like electricity, power-grids, water and sewage systems, or gas pipes thereby becomes the aspirational way to create surplus capital (Harvey, 2006). Monopoly and oligopoly are also the likely end results of competition given the “survival of the fittest” aspect which it entails (Harvey, 2006).

Local monopolies have through history been ensured by barriers to trade such as physical distances and local tariffs (Harvey, 2006). Capitalism, however, always seeks to reduce the turn over time for capital; the time it takes from investing to creating a profit which can be reinvested (Harvey, 2006). Capitalism therefore seeks what Marx called “the annihilation of space through time”, to reduce physical distances and time as barriers to capital accumulation (Harvey, 2006).

The driving forces and contradictions described above have led to the current development of Capitalism in the post-modern society. Post-Fordist theory further unravels this development.

2.2.1 POST-FORDISM AND MODERN CAPITALISM

Post-Fordist theory is built upon the notion that the regime of production has changed (Macdonald, 1991). Fordism was characterized by capital accumulation through assembly line production and mass consumption led by institutional support through Keynesian demand-policies and mass production (Macdonald, 1991). Goods were standardized and supply-driven, meaning production was based on forecasts (Vidal, 2011). Firms had internalized employment, real wage increases spurred demand increases, and the welfare state expanded (Vidal, 2013). The stagnation of growth and inflation (e.g. stagflation) in the 1970's drove capitalist societies to advance their form of capital accumulation- and regulation regime (Harvey, 1996; Macdonald, 1991). Firms were sitting on an excess amount of goods which decreased in value to inflation, and firms with excess capital were unable to reinvest in a profitable manner (Harvey, 1996:chp 8-9; Vidal, 2013). The crisis of accumulation drove firms to search for new and more flexible ways to organize their production (Harvey, 1996:chp 8-9). The structures that developed were built around the existing institutions and were in that sense not new, but rather an advanced form of Fordism – Post-Fordism (Vidal, 2013).

The new regime of production has been driven by technological innovation and neoliberal ideology (Macdonald, 1991; Vidal, 2013). Post-Fordism is characterized by a diversification of methods for capital accumulation and a concentration of capital within trade regions (Amin, 1996; Kiely, 1998). Production has become flexible, and so has the labor arrangements (Amin, 1996; Kumar, 2005). Industrial products are no longer necessarily created and assembled under the same roof (Kumar, 2005). Specialized production of specific parts take place in different countries, and the parts are later gathered and assembled (Kumar, 2005). Labor has had to adapt by accepting flexible work conditions (Amin, 1996; Kalleberg, 2009; Kumar, 2005).

Manufacturers have also increased their output at the same time as they have decreased their need for labor (2013; Wilson, 1996). Production has changed from being more supply-driven to become increasingly sensitive to demand (Vidal, 2013). It has also become supply-driven in a different way, now more based on diversified products rather than standardized outputs (Vidal, 2013). Inventory buffers are kept to a minimal, whereas they under Fordism were kept large (Vidal, 2011). The production developments increases labor productivity, but also widens the gap between labor productivity and real wages (See Figure 1) (Sachdev, 2007).

A new regime of production changes the relationship of production, and has further consequences for the social system (Kumar, 2005). Post-Fordist accumulation has national capitalist variations, as states with their distinctive cultures, history, and power constellations affect their economies and transition into Post-Fordism in different ways (Amin, 1996).

2.2.1.1 GLOBALIZATION

Post-Fordism is, however, not the most common theory for explaining the current changes in the contemporary society. More popularly, globalization is used to explain the current socio-economic changes (Goldstein and Pevehouse, 2013).

Globalization is widely defined as “the widening, deepening and speeding up of a worldwide interconnectedness in all aspects of contemporary social life, from the cultural to the criminal, the financial to the spiritual” (Held et al., 1999:2). The enabling factors of globalization and the processes that are seemingly tying the world closer together include the informalization of society through advances in technology (more specifically communication technology), the liberalization and subsequent increased global trade and the power of international corporations (Goldstein and Pevehouse, 2013; WTO.org, 2013). The production of goods is no longer necessarily being situated in one place, but can be divided and split up around the globe (WTO, 2010; WTO.org, 2013). Markets have, according to globalization-theorists, become integrated around the world into a world market place (Goldstein and Pevehouse, 2013; Langley, 2003). Exports have for instance increased within OECD countries (9,5% of GDP in 1960 to 20,5% of GDP in 1990) while tariffs have decreased (25% in 1950 to 5% in 1990) within first world countries (Kiely, 1998). World Real GDP has increased from around 20 trillion in the 1970’s to almost 70 trillion in 2012 (Waterson, 2013). The interconnectedness of globalization is thought to have changed the way we interact with each other and, by extension, our social lives (Goldstein and Pevehouse, 2013). Information and global networks are only a few clicks away and further empowers those with access (Kumar, 2005). This create pressure on the nation state and decrease its ability to take sovereign decisions, which have further implications for the authority and decision-making of the sovereign state (Goldstein and Pevehouse, 2013). International organizations like the UN, WTO, WB, OECD, and the IMF have emerged to form a “global community” to solve problems connected to the globalization processes which no longer can be solved within the sovereign state (Goldstein and Pevehouse, 2013; Held et al., 1999).

There is however no consensus on how intensely connected the world has become, or if it is only a perceived process (DiPrete et al., 2002). Globalization theory and its thesis of increased interconnectedness do however signify that something has changed in the way we produce things. The questions then arise as to how what it means that the world economy has become “globalized”?

2.2.1.1.1 THE “GLOBAL” ECONOMY

Processes that are referred to as global within the concept of Globalization often turn out to be regional (Amin, 1996; Fligstein, 2008; Kiely, 1998). Even though exports have increased during the period of economic liberalization, it is important to note the destinations of the exports. If the world economy has gone global, one should assume that the share of exports to other parts of the world has increased. This is however not the case (See Table 1). The overall trend is an increase in exports within the three regional trade blocks (See Table 1). The increased trade and capital production in the world has also largely been driven by transnational corporations (TNCs) (Harvey, 2007). Their investments and progressions can be traced through rates of Foreign Direct Investment (FDI) (See Figure 2).

Analysis of historical trends in FDI reveals major increases and concentrations of investments in manufacturing in Eastern Asia, and natural resources in Latin-America and Africa (te Velde, 2006). Sales affiliated with TNCs increased from 27% of world GDP in 1990 to 58% in 2007 (Alfaro and Chen, 2012). 51 of the 100 largest economies in the world were corporations at the turn of the millennium, many of which based in America (Anderson and Cavanagh, 2000). It is estimated that pension funds in 1999 held investments worth \$13, 000 billion of the \$28,000 billion that was the worlds GNP (Langley, 2003). Their investments and actions are therefore vital for how the Post-Fordist economy has developed and in which way the world is becoming “globalized”. This is difficult to explain if not looking at how the methods for production and capital accumulation have changed.

The celebrated interconnectedness of the world economy turns out to be the increased interconnectedness within the rich-state societies of North-America, Western Europe, and Asia, and their TNCs (Anderson and Cavanagh, 2000; Davis, 2007; Fligstein, 2008; Harvey, 2006; Langley, 2003). Furthermore, capital investments into countries with lower labor costs are directed only to a few specific industrial sectors – it is not a crossindustrial trend (Kiely, 1998; te

Velde, 2006). The evidence highlights an intensified uneven development of the global economy (Davis, 2007; Epstein, 2005; Harvey, 2006; Kiely, 1998; Langley, 2003). International institutions have played an important role in this process through the use of debt restructuring, trade agreements, and expert advice, but not to create a “global culture” or a “global community” to replace local cultures or state autonomy (Harvey, 2006; Kiely, 1998; Kumar, 2005). Concepts and ideas are still being transformed to have local and state distinctions (Kiely, 1998). The changes we see in the contemporary society explained by the process of globalization is in other words indivertibly linked to changes in production. Analyzing the effects of the changes in production is therefore vital to understand and develop the link between Capitalism and state decision-making. It is, however, also important to understand how the Post-Fordist regime of accumulation came into place, and why.

2.2.2 POST-FORDISM, A POLITICAL CONSTRUCT

The Post-Fordist accumulation regime has, as I alluded to earlier, been able to establish itself through neoliberal economic practices and ideology (Harvey, 2006; Macdonald, 1991).

Neoliberalism is as earlier described a political-economic theory coming out of neoclassical economic theory that emphasizes freedom for entrepreneurs, individual liberties, private property rights, and the free market (Harvey, 2007; Taylor, 1997). To achieve these values, neoliberal practices have been to scale down the interventions of the state, open up boarders for trade, and lesson restrictions to the flow of capital (Harvey, 2007; Taylor, 1997). States should take the role of protecting individual liberties, private property, and make sure that the market is free to rule itself (Harvey, 2007).

It should be noted that there is a tension between neoliberal theory and practice. Neoliberal theory is based on the neoclassical economic principals, which as explained earlier can't be grounded in empirical evidence. Subsequently, neoliberal theory always deviates from neoliberal practices as markets and individuals don't behave in the way projected by the theory. For instance, even though neoliberal theory is heavily favoring the protection of private property, neoliberal practices tends to have a selective protection of private property (Harvey, 2007). The state often intervenes for the benefit of a “good business climate” and protects certain types of property rights, like for instance intellectual property rights or steel industries from international competition (Harvey, 2007). Other types of property rights like those of wage laborers or

squatters and small house owners who are displaced in the interest of profits are systematically given little or no protection by the neoliberal state (Davis, 2007; Harvey, 2007).

This theory has been largely uncontested in the western societies the last 20-30 years and managed to incorporate itself as “common sense”. “Common sense” in Gramsci’s definition of the word meaning “the conception of the world which is uncritically absorbed by the various social and cultural environments in which the moral individuality of the average man is developed” (Gramsci, 1971:333). Neoliberal practices are being fronted by large international institutions such as IMF, the World Bank, WTO, and the OECD (Harvey, 2006).

Neoliberal practices have been vital for enabling a Post-Fordist regime of production as they produce the flexible structures which Post-Fordism relies on to increase accumulation of capital surplus’ (Amin, 1996; Kumar, 2005; Macdonald, 1991). Post-Fordism is in that sense the outcome of active political decision-making (Amin, 1996). To understand how Post-Fordism came to dominate as a production regime it is therefore useful to understand how Neoliberalism came to triumph as a political ideology.

The introduction of Neoliberal practices in the UK and the US didn’t happen peacefully. In the UK, Thatcher reduced the power of labor by cracking down on unions. It is also highly unlikely Thatcher would have been reelected if it hadn’t been for the war of the Falklands and the following boost of patriotism, and it was only within her second term she really got through with her neoliberal reforms (Harvey, 2006:29-30). In the US, Reagan also had to subdue labor by crushing the unions in order to pass his neoliberal reforms. Laws were passed in the same period enabling economic contributions to the politicians; giving business a new way to forge alliances based on their class interest. Developing countries were forced through neoliberal reforms by the IMF and the World Bank in exchange for loans. The loans were often needed in order to pay the interests on earlier debts. The interest had suddenly soared after the US deployed the “Volcker shock”, a strategy named after the head of the Federal Reserve in 1979 that overnight raised the interest rates on debt owed by foreign countries. Greenspan continued using this tactic throughout the 90’s, forcing countries to agree to the structural adjustments through bankruptcy and debt-dependency. (Harvey, 2006:9-68)

As the examples show, the neoliberal entry into state politics has been geographically uneven, and has relied on violence (e.g. the post-war neoliberalization of Iraq in 2004, the post-coup neoliberalization of Chile in 1973, displacement of 70 million peasants in Mexico and China, etc.) and forceful implementations (e.g. anti-picketing rules, cracking down on unions, structural adjustments, etc.) (Harvey, 2006:9-68). Neoliberal practices have also turned out to be compatible with neoconservative ideas, thereby making it easier to adapt to other conflict lines within societies (Harvey, 2006). Once established it has become hegemonic towards other development practices (Harvey, 2007; Taylor, 1997).

2.2.3 POST-FORDISM AND THE CHANGING SOCIAL RELATIONSHIPS

So what are the effects of the changes to modern production on capitalist societies?

Post-Fordism and its flexible production have had consequences for the relationship between employer-employee (Macdonald, 1991). The employer has for instance gained considerable power over the employee through the use of flexi-time, part-time, and probation time (Macdonald, 1991). In an attempt to decrease unemployment, states have made it easier to hire and fire workers (Harvey, 2007). These conditions are beneficial for the employer and leave the worker with job insecurity and less job-protection (Harvey, 1996; Kalleberg, 2009; Macdonald, 1991). Flexible employment conditions tends to increase the number of working poor as they become easier to exploit by the employers (Chilman, 1991).

Parallel to this is the declining power of labor through unions (DiPrete et al., 2002; Kalleberg, 2009). Unions reduce workers exposure to “bad jobs”, e.g. low wages and no social benefits (Kalleberg et al., 2000). Wages throughout the world has stagnated or been reduced due to inflation, and standards of living for lower layers of society has declined as public welfare systems have eroded (Giles, 2011; Harvey, 1996, 2006, 2007, 2013). At the same time, productivity in form of capital production and GDP has increased (Epstein, 2005; IMF, 2013; Waterson, 2013).

This directly affects the relationship between labor and capital in the Post-Fordist state; the Post-Fordist regime of production further empowers capital (DiPrete et al., 2002). Harvey notes the redistributive effects of the new regime of accumulation (Harvey, 2006, 2007). During the 1970's, the share of national income for the top 1% of income earners in the US was dramatically

reduced (Harvey, 2007). After the 1970's their share of national more than doubled (Office, 2011). The same thing can be said for the top 1% of national income earners in for instance Britain, Mexico, Russia, and China (Harvey, 2007). The increases in inequality in all OECD countries after the 1980's have in fact been so severe that Harvey defines it as the restoration of class power by the rich elite (Harvey, 2006, 2007).

Post-Fordist accumulation has also led to a massive increase in poverty and informal activities like domestic work, prostitution, odd-jobbing and drug-trade (Amin, 1996; Davis, 2007). In Latin-America, 4 out of 5 new jobs were created in the informal economy, and the informal sector employed 57% of the workforce around the millennium (Davis, 2007). The massive expansion of slums around the world is indeed one of the most depressing characteristics of modern Capitalism. UN-HABITAT calculated in 2005 the slum population to be growing by 25 million people per year (Davis, 2007). Davis estimates that there are over 200 000 slums on the planet (Davis, 2007).

This development is closely linked to the massive increase of capital savings and urbanization produced by the Post-Fordist production regime. It took the world 100 years to reach 36 trillion dollars in capital savings, since 2000 it has doubled and reached 70 trillion dollars (Blumberg and Davidson, 2008). The cities have played a key role of absorbing this capital surplus (Davis, 2007; Harvey, 2006). The cities have also absorbed 2/3 of the population increase since 1950 (Davis, 2007). The urban workforce has doubled since 1980, and the cities are expected to accommodate all future population growth (Davis, 2007).

Cities have grown through geographical and social concentrations of surplus products. Surplus, as Marx showed us, is always being extracted from somewhere and somebody. The control over the surplus usually lies in the hands of a few. Urbanization is therefore a class phenomenon. The urbanization process depends on the creation of surplus products, and Capitalism requires places that can absorb their surplus products in order to turn it into surplus capital. The perpetual need to reinvest surplus capital is, as explained earlier, what drives Capitalist development. The urbanization process and Capitalism therefore create a dependent relationship, growth of capitalist output are parallel to the urbanization of the world population. (Harvey, 2013)

An interesting paradox is that even though the urbanization has been the product of surplus products and reinvestments of an unprecedented amount of global savings, it has also relied heavily on financialization in order to create the credit that is needed to drive it. Financialization refers to the emergence of finance in the world economy (Epstein, 2005). Especially financialization of housing markets has been important for the urban process, and increasingly the role of everyday-finance (Epstein, 2005; Harvey, 2013). This might be connected to the general stagnation and decline of wages. As people are expected to consume an ever increasing amount of products, find better accommodations, or simply needing more capital to support their living, their problems has neatly been solved through finance and mortgage debt. Mortgages have become an immense source of capital accumulation through financialization (Fligstein and Goldstein, 2010). Another factor might be the changes in our monetary system. Capital can now be created instantly by banks, and does not hold a physical form (Blumberg and Davidson, 2008). Debt financed purchases decrease the turnover time of capital. If a company is expecting a certain amount of capital to be gained from, let's say, a shipment of industrial products, it can take weeks before the shipment arrives and the capital to be made. Instead of waiting, the company can borrow money in the REPO- market³ using their expected future income of the shipment as a security. They can then reinvest this money into, let's say, parts needed to construct their product. That way their next shipment is delivered to their customers faster, and the turnover time of capital is decreased.

Urbanization has had important consequences for our social lives, as well as for the flexible accumulation regime. Cities and urban environments have transformed into what Harvey calls “an economy of the spectacle”, meaning they are turned into adventure arenas similar to those of amusement parks (Harvey, 1996, 2013). Landlords, retail owners, investors, and city planners transform the urban environment into places of consumption where quality of life becomes a commodity for those with money (Harvey, 2013). There is never a dull moment to be found without the opportunity for shopping or other activities related to consumption (Harvey, 2013). The disneyfication of the urban life is a product of the Post-Fordist regime of production, and has gained sporadic attention in Norway (Otterlei, 2013).

³ Short-term loan market based on financial securities created from the expected future income (Blumberg and Davidson, 2008)

The effect of urbanization and the subsequent commercialization on our social life becomes particularly visible when you look at how cultures have changed. Culture can be defined as “accumulated experience and established values that is widespread and accepted in a society, and that is transferred through generations. The most important aspects of culture are language, knowledge, faith and beliefs, norms and sanctions” (Schifloe, 2011:510). The Post-Fordist production regime has worked to commercialize the urban-culture in the pursuit for monopoly powers in order to extract rent. Rent is based on monopoly power by private owners of certain resources, and occurs when private owners have exclusive control over products that in some shape or form is unique and non-replicable (Harvey, 2013).

The distinctiveness of cultures is found to be extremely effective at enabling monopoly-rent. Rent through commercialization of culture is achieved through two scenarios. One scenario is when an actor controls a quality resource, commodity, or place, which in relation to some type of activity makes the actor able to extract monopoly rent from those that wishes to make use of it. The other scenario is when the same piece of land, resource, or commodity is traded with directly. Monopoly-rent is for example indirectly extracted by tourist attractions that hold cultural significance, such as Westminster Abbey, by the marketing of cultural sights from the tourist industry. Cultural attributes enable a diversification of products, making them unique and distinctive, thus opening up for the accumulation of monopoly-rent. The diversification of production and products is a hallmark of the Post-Fordist production regime. This has led to a massive increase in the number of culture-producers and knowledge based industries connected to culture. (Harvey, 2013)

The commodification of culture further increases the production of symbolic capital. Bourdieu defined symbolic capital as a collection of luxury items that emphasize the taste and distinction of the owner (Bourdieu, 1977). Symbolic capital is produced when diversified products enable middle- and high income groups to accumulate status-increasing luxury goods (Harvey, 1996). This leads to increased social differences between those that can and those who can't accumulate symbolic capital. It also increases the power of those who can, because of their privileged position in the urban economy which, as earlier stated, is increasingly based on consumption (Harvey, 1996).

The production of symbolic capital from cultural distinction has given cities with high rates of symbolic capital economic advantages compared to those with low symbolic capital. Increased symbolic capital connected to a city leads to more tourism and investments. Barcelona is a prime example of a city that has managed to produce an increasing amount of symbolic capital in the last decades, thus gained an economic advantage to, say, Liverpool or Glasgow. (Harvey, 2006)

Capitalists are therefore increasingly wading into culture-wars as well as multiculturalism, fashion, and aesthetics (Harvey, 2006, 2013). The Post-Fordist production regime has found new ways of connecting capital to local and cultural distinction in the perpetual search for profit (Harvey, 2006, 2013). Cultures and Capitalism is therefore increasingly linked in the Post-Fordist regime of production - Capitalism commodifies culture and culture creates local capitalist distinctions - they both affect each other (Fligstein, 2002; Harvey, 2013).

The emergence of the Post-Fordist production regime also a dialectic relationship to the emergence of finance in the world economy, what is termed financialization (Epstein, 2005). Finance is increasingly the state's source for economic growth, and most states have become dependent on finance to keep their economy alive (Blumberg and Davidson, 2008; Epstein, 2005; Harvey, 2006; Langley, 2003). Finance markets are often portrayed as abstract markets that are difficult to get a hold of. Transactions and information flows through the internet, and changes in the markets can occur in milliseconds (Epstein, 2005). However finance markets behave similar to other markets; they are all social constructs (Epstein, 2005).

The financialization of the world economy has been strongly connected to the US and their liberalization of finance markets along with their debt-financed trade and budget deficits. What is less known is the massive expansion of everyday borrowing practices (Langley, 2003). From the 1970's until the 2000's, American household debt increased by 450% (Langley, 2003). Comparably, the federal government increased their debts by 55% (Langley, 2003). This massive expansion in debt should be seen in relation to lack of increase in real wages, as well as innovations within finance markets, more specifically the securities market (Langley, 2003). US firms also use the REPO-market as a company credit-card, financing their everyday needs by putting future expected earnings as collateral thus decreasing turn-over time of capital (Blumberg and Davidson, 2008). The US has in other words become dependent on global financial markets

to finance their own economy at the federal-, corporate-, as well as the individual level (Langley, 2003).

There has been a massive increase in the use of finance products, finance transactions, profits of finance firms, and the share of national income due to holders of finance capital in the Post-Fordist economy (Epstein, 2005). The prime skill of finance has been hedging risk, spreading the risk of investments to decrease losses (Dore, 2008). This makes speculative investments more secure (Dore, 2008). Innovation within the world of finance the last 30 years has been composed of new ways to minimize risk (Dore, 2008). This is done through complex mathematical formulas, some even rewarded with a Nobel Prize (Merton and Scholes for how to price “options”) (Dore, 2008). These innovations are in reality what has contributed to economic growth for the last years (Dore, 2008).

The growth of everyday finance in the Post-Fordist economy has been connected to neoliberal practices and the belief in individual freedom of choice (Erturk et al., 2007; Langley, 2003). Individuals are increasingly seen as financial beings, best suited to choose their own financial products that fulfill their needs (Erturk et al., 2007). The financial products are often pension-, insurance-, or debt related (Erturk et al., 2007; Fligstein and Goldstein, 2013). The problem is that financial products are difficult to understand, often can’t give calculable returns, and have risks that are hard to recognize (Erturk et al., 2007). It is impossible to predict the income and welfare benefits provided by financial products over the lifespan of an individual or a household (Erturk et al., 2007). The individual’s investments are therefore under the mercy of those that manage the financial products, whose primary objective is to increase their own capital surplus (Erturk et al., 2007).

Financialization of pensions, insurances, and debts, has changed the social relationship between lender and depositor (Langley, 2003). The users of financial products have gone from depositors to “investors”, making the individuals bear the loss if the financial product doesn’t pay off (Langley, 2003). The actual investments, however, are still managed by the financial employees in banks or pension funds (Langley, 2003). Risk is thereby transferred to the individuals (Erturk et al., 2007; Langley, 2003).

Everyday financial products have also contributed to the increasingly segmented society in the Post-Fordist economy (Fligstein and Goldstein, 2013). The poorest 20% uses finance in order to scrape by and cover their day-to-day needs, while the richest 20% uses it to get further ahead of the rest of the population (Fligstein and Goldstein, 2013). It has been accepted that the collective savings from for instance pension funds have become a source of investment in the economy (Langley, 2003). Using collective savings for investments has turned the individualization of risk into a generalization of risk, in the sense that the collective fate of those nearing retirement is dependent on the development within the world of finance (Langley, 2003). The individualization of risk highlights that financialization not only is a process driven forth by strong national, international, and private actors, but also by the everyday processes and the changing social relationships within the Post-Fordist societies (Epstein, 2005; Langley, 2003).

2.3 THEORY AND THE CASE STUDY

I have shown how the modern capitalist society has developed into a Post-Fordist production and accumulation regime, and the effects on the social relationships within the state. The consequences of the Post-Fordist regime are however not directly causal. As accounted for under Field Theory; changes in one field of production can indirectly lead to changes in other fields as societal fields are often intricately tied and affect each other through a myriad of social processes. I have given some important examples, though there surely are others. The theory raises the question of how the structural pressures from Capitalism are filtered and shaped by particular institutional configurations on Iceland. Understanding the trajectory and development of the Icelandic economy is therefore important. First, however, I will elaborate upon the methodological approach to this thesis.

3 METHODS AND EPISTEMOLOGICAL CONSIDERATIONS

This thesis seeks to unravel the underlying processes that affect state decision-making, and under which conditions states act in the contemporary political economy. I have chosen to analyze this

by performing a case study on Iceland with emphasis on their capitalist development and decisions made after the financial crisis in 2008.

My research question is:

How can we explain the Icelandic response to the financial crisis in 2008?

I also wish to explore the following sub-question:

What does this mean for the study of political economy?

I believe the broad research question calls for theories that can say something about how societies develop and are maintained through periods of time. My angle for explaining state decision-making follows the analysis of Wolfgang Streeck; you have to understand the abstract processes of modern Capitalism and how they affect society in order to analyze a modern capitalist society (Streeck, 2012).

My theories of choice have been influenced by my belief in the importance of cross-disciplinary work. After all, many social scientists in other disciplines have also been concerned with state decision-making and change; what affects it, and how it is caused. This thesis is no exception. I have found Fligstein and McAdam's Field theory and Post-Fordism to enable a different way of analyzing state decision-making. Fligstein and McAdam's Theory of Fields might be relatively new on the international arena (2012), but the work it draws upon is heavily anchored within political science and sociology. Combining this with a Post-Fordist theory of modern Capitalism has, to my knowledge, not been attempted to this date. If nothing less, I therefore hope this thesis will be a contribution to the world of cross-disciplinary work.

3.1 THE CASE STUDY

A case study is a detailed examination of a single example (Flyvbjerg, 2006). The logic behind a case study is that knowledge itself is worthless unless you are able to put it in a context (Flyvbjerg, 2006). Context-dependent knowledge is also at the heart of social theories, as social scientists to this day have failed to produce a predictive theory that is context-independent (Flyvbjerg, 2006). Social science is in itself a constructed representation of social life (Ragin,

1994). A case study is therefore at the heart of social science; it can give great knowledge about real-life scenarios and the particular as well as being able to generalize (Flyvbjerg, 2006). A case study opens up for the analysis of why decisions were made, how they were implemented, and what the result of them were (Yin, 2003). A case study may also unravel further questions that needs analysis, much like an in-depth interviewer can stumble upon unexplored territory in the middle of a study (Charmaz, 2006). A case study might therefore also be hypothesis generating (Gomm et al., 2000; Hartley, 2004).

This approach is what Cassel and Symmon refers to as academic detective work (Cassel and Symon, 2004). Like a detective, the social scientists have to follow up on clues within the data and theories in order to academically reconstruct the major event that is investigated (Cassel and Symon, 2004). It is an explorative way of performing social science that can be linked to abduction (Josephson, 1996). Abduction is also called “inference to the best explanation”, and holds that one can gather data from a case-study and interpret it in order to best form a hypothesis that explains the phenomenon in question (Josephson, 1996). The idea is that the data itself holds the evidence towards the best hypothesis (Josephson, 1996). I find the hypothesis generating, abductive approach to fit well with my research question. This, however, means that the thesis will be heavily influenced by how I gather my data, as well as the theories which are used to interpret them. Some consideration needs to be made.

My data gathering is informed by my theories. I accept that this might lead to a bias towards the data. Important data which is not “caught” by the theoretical framework might be left out of the analysis. Data can’t, on the other hand, be gathered blindly, even without the use of theories. We always bring some assumptions to the table based on our accumulated knowledge and beliefs. This will ultimately affect how we gather and interpret new information. Bias will therefore always occur in data gathering. By this statement I also leave the burden of proof of such bias in the hands of future researchers. I believe hypothesis generating case studies are as well equipped to create informed hypotheses based on the data in question as deductive studies, where data is gathered with the possible conclusions in mind (Trochim, 2006). It is, of course, difficult to gather data without continuously forming possible hypothesis’s in one’s head. It is, however, my job as a researcher to keep this in mind and try to not let this control my choice of data and the explorative design of this thesis.

Arguments have been made that a case-study can't produce expert knowledge (Flyvbjerg, 2006). This is highly misleading, as what all experts have in common is the knowledge of thousands of different cases in their field of expertise (Flyvbjerg, 2006). It is also said that you can't generalize from a single case study (Flyvbjerg, 2006). However, generalization depends on the case at hand, and how it is chosen (Flyvbjerg, 2006). Even though every country has its unique history, culture, and institutions, comparisons might still give valuable information. As explained earlier, field theory shows how cultural distinctions and institutions within states are social processes at work created by the human need for meaning-making through collective action (Fligstein and McAdam, 2012). Post-Fordist theory adds that modern capitalist societies have advanced their methods for accumulation from Fordism to Post-Fordism (See for instance Amin 1996; Harvey 1996, 2006, 2012; Kiely 1998; Kumar 2005). As explained above, similarities in the new regime of capital accumulation causes similar development trends across modern capitalist societies. Iceland has therefore been called a miniature version of other western states (Boyes, 2009). On that basis I argue that generalizations from Iceland can't be deemed irrelevant due to its low population if they entail similar accumulation-structures. The social and capitalist processes at work would then be similar to those in other capitalist societies.

It is also important not to overestimate the need for generalization while performing a case study. As Flyvbjerg writes;

One can often generalize on the basis of a single case, and the case study may be central to scientific development via generalization as supplement or alternative to other methods. But formal generalization is overvalued as a source of scientific development, whereas "the force of example" is underestimated. (Flyvbjerg, 2006:228)

The specific findings and general trends I expect to find in this thesis will open up for comparisons of Iceland to other European countries. Comparisons, though only at a superficial level, establish that Icelandic political decision-making after 2008 has deviated from other western European countries. Such comparisons highlight the uniqueness as well as the similarities of the political decisions and create a deeper understanding of the political reality in the specific national context (Bryman, 2004). Comparative case methodology can therefore prove essential for contextualizing findings within a case study (Clausen and Mjøset, 2007). I will, however unfortunate, not find the time to do a thorough comparison with other European

countries in this thesis. Comparisons will be limited to capturing the general differences and similarities in order to better understand the deviant case of Iceland.

Deviant cases are studies of the abnormal (Gomm et al., 2000). Such studies can yield important information about the underlying causes of a process (Kazancigil, 1994). In this setting, a deviant case can highlight the underlying causes of state decision-making after the financial crises in 2008. The deviant case study also yield important information about theories which we use to analyze them(Yin, 2003). The selected theories interpret the information we gather. The theories thus have to be able to account for why the particular case has become deviant in order to maintain legitimacy and its relevance (Gomm et al., 2000). Deviant cases therefore also become theory-testing cases, and opens up for a critical affirmation of the theories used in this study (Gomm et al., 2000).

3.2 DOCUMENT ANALYSIS

The case study will primarily be based on document analysis. Document analysis is a qualitative study based on second hand sources. Qualitative methods are particularly applicable where the research topic is hard to investigate using quantifiable methods. Document analysis implies certain biases towards the selection of documents. This bias revolves around the impossible task of finding and reading every document and establish if it is relevant or not for the research project. Every such study will therefore have some bias connected to the possibility that there might be documents out there with serious implications for the study, or that the same study has been undertaken by someone else. The problem can be somewhat negated by reading “a lot” of documents. But what is “a lot”? And what is “a lot” in a case with seemingly endless sources of information?

In this case study I have made use of criteria-based sampling (Dalen, 2011). This means that I have read documents that fits with criteria's (key terms, subjects, names) informed by my theoretical perspectives, and that are refined and changed as new data arises (Dalen, 2011). This is useful when studying a subject which is rich on information (Patton, 1990). Criteria-based

sampling has been applied to the Icelandic academic database of Skemman⁴, the UIT - Arctic University of Norway's library service Bibsys⁵, as well as Google Scholar and conventional Google searches. I have also made use of the snowball-method by following up on references which have led to new documents, and so on. The snowball procedure has also been used by looking at the authors themselves, finding additional research they have written (or are currently writing) by using their name as a criteria for searches in the databases. This does not negate the bias explained above. It also introduces bias towards the authors, and it might make it more difficult to find "unpopular" authors that are less referred to but still might have valid points. However, I choose to accept this risk for the purpose being able to finish this thesis within the normative time frame.

3.3 INTERVIEWS

Four interviews have been conducted in this study, in addition to a number of e-mail correspondences. The e-mail correspondences have been used to get additional information and data, and the informants were selected based on their prior writings or affiliations with key organizations with interests in how the markets have been structured after the crisis. Three of the interviews were face-to-face meetings while one was a phone-interview. All of them were conducted on Iceland. Two of the informants represented the labor market partners (e.g. the labor unions and the confederation of employers), and two of the informants were representatives of the state through the Icelandic Competition Authorities (ICA). The interviews were semi-structured, meaning I prepared a set of questions based on the theories and collected data, but adjusted them to fit with the flow of the interview. Follow-up questions were also added as new information emerged, and some questions were left out as they were answered by previous questions. Hand-written notes were taken during the interviews to remember the data that emerged. The structure of the interviews were similar to that of a workout; short and specific questions were used to warm up, longer open-ended questions were the main bulk of the interview, while questions about the future were used to finish as they tend to calm informants down and leave them with a better feeling after a lengthy interview.

⁴ <http://skemman.is/en/>

⁵ ask.bibsys.no

4 ICELANDIC ACCUMULATION STRUCTURES

So how are the capitalist accumulation structures shaped on Iceland, and how can they affect state decision-making? To answer this question we must first establish how the system of production has developed and its main characteristics. Taking a look at the historical developments of Icelandic Capitalism within important economic sectors will provide key insights.

4.1 THE PRE-FORDIST PERIOD

Iceland gained their independence from Denmark in 1944, which is quite new from a western-state perspective⁶ (Bergmann, 2011; Boyes, 2009; Jónsson, 2009). Their nationalistic pride, however, descends from their far reaching history, having one of the oldest parliaments with the creation of the Althing in the tenth century (Bergmann, 2011; Boyes, 2009; Jónsson, 2009).

Historically the Icelandic economy has been dominated by fishing and agriculture. Up until the 19th century fishing was supplemental to farming, and was seasonally practiced using row-boats (Knutsson and Gestsson, 2006). Settlements grew around closeness to agriculture land and fishing grounds (Hjaltested, 2012). For the same reason municipalities developed along the coast, and their historical importance was institutionalized within the parliament with great overrepresentation - holding significant political influence even today (Hjaltested, 2012). The fish sector continues to play a key role; preserving it has historically been deemed important for the Icelandic economy and sovereignty, and the fishing industry has established itself as a symbol for the sovereign Icelandic nation (Bergmann, 2011; Knutsson and Gestsson, 2006). Their historical importance has also created a close institutionalized relationship to the ruling political elite on Iceland (Jonsson, 1991).

⁶ Understanding the relatively new independence struggle is important for understanding Icelandic sovereignty debates even today, as the arguments of the independence struggle are still applied in Icelandic political discourse concerning the European Union (EU) (Bergmann, 2011).

4.2 THE LACK OF A FORDIST PERIOD

Iceland struggled to develop a Fordist accumulation regime (Jonsson, 1991). Early signs of industrialization could be traced back to the introduction of decked boats in the 19th century (Knutsson and Gestsson, 2006). It allowed for fishing on a year-around basis and marked the beginning of the fishing industry (Knutsson and Gestsson, 2006). The fishing industry remained, however, generally stagnant from its peak in the 1930's until the 1970's (Knutsson and Gestsson, 2006).

The period from the Second World War and to the 1970's is recognized by dependency on the American (1941) army base in Reykjavik, and attempts to develop their industry through funds made available with the Marshall aid (Guðnason and Magnason, 2012; Hjaltested, 2012). The development projects were however not large enough to establish a dominant industrial sector (Hjaltested, 2012; Jóhannesson et al., 2010). International aluminum companies started production in the late 60's and through the 70's, however it took several years before aluminum production became a dominant pillar of the economy (Grande, 2011). Their method for production was also, as explained later, not characteristic of Fordist production.

Fordist production was dominated by assembly line production and an industry based within national borders (Vidal, 2013). Institutional class compromises enabled mass consumption through rising real wages and a Keynesian welfare state (Vidal, 2013). Iceland was however never dominated by Keynesian accumulation strategies, but instead relied upon raw material production and a mix of devaluation⁷ - and structuralist⁸ policies until the 1980's (Jonsson, 1991). Importantly, the period produced a strong Fordist labor structure where unions played active roles in the development of the labor market (ASI, 2014). The institutionalization of labor power, as we shall see later, has played important roles in the further development of the economy.

The lack of Fordism on Iceland could be linked to the size of the state (Jonsson, 1991). Size puts limitations in terms of access to laborers, raw material, and branches of industries available to create the production structures characteristic of Fordism (Jonsson, 1991). The question then raises itself of how this would affect possible Post-Fordist developments.

⁷ Devaluation policies refer to policies devaluating the currency, which served to increase profitability of the export sector (e.g. fish-sector) (Jonsson, 1991).

⁸ Structuralist policies refer to policies of directing investments towards the fish sector (Jonsson, 1991).

4.3 THE POST-FORDIST ECONOMY OF ICELAND

Iceland sought to develop additional pillars for capital accumulation as the dependency on the fish industry and the American army base caused great fluctuations in their economy (Guðnason and Magnason, 2012; Jonsson, 1991). The search for diversification has spurred the transition from raw material focused production into a regime of transnational network production and massive financialization. In the coming pages I will give an account to the underlying ideological developments that has been essential for this transition. By ideology it is meant that it's an overarching idea of how the society should best be organized (Østerud, 2007).

4.3.1 NEOLIBERALIZATION OF ICELAND

Neoliberalism is, as earlier stated, the political-economic theory and ideology coming out of neoclassical economics. It holds that markets free of government intervention are the most efficient facilitator of societal resources, and markets are seen as self-correcting (Harvey, 2007). Policies related to this theory have therefore been to scale back state involvement in the markets and leave the markets to their own device (Harvey, 2007; Weintraub, 1993).

Iceland joined the European Free Trade Association (EFTA) in 1970, and the European Economic Area (EEA) in 1994 which opened Iceland to “the four freedoms”; the free movement of people, capital, goods, and services (Bergmann, 2012; EFTA, 2014). The idea behind the expanding trade zone was based upon neoliberal principals – fewer restrictions to trade were thought to create more efficient markets and thus make better use of societal resources.

Iceland has since the entry into the EFTA increased their share of total exports to the European Union (EU), particularly within the Euro area (See Table 2). The growth signifies the increased importance of trade with the Euro countries, and thereby the importance of the participation in the Euro-project for the export economy. The goods imported from the EU as total share of goods imported has however generally declined (See Table 3). This signify changes within the import-networks, and particularly the import of raw material for aluminum production since 2000 as there has been a major expansion of aluminum smelters since the turn of the millennium (Grande, 2011; StatisticsIceland, 2014).

Joining the EEA also made Iceland deeply involved in the European project in other ways than trade. EEA membership requires Iceland to adopt the regulatory framework of the EU without

participating in the internal decision-making of EU's institutions (Bergmann, 2011; Bergmann, 2012). Joining the EEA therefore meant increased commitment to the liberalization of the Icelandic economy (Bergmann, 2012), and gave Icelandic capitalists access to people who would accept more precarious work than Icelanders themselves (Wojtyńska, 2012).

The political roots of the neoliberal development can however be traced even further back. Developments within the influential Independence Party (IP) led them to import radical neoliberal policies from the US in the 1980's, and they were heavily influenced by neoliberal American think tanks (Ólafsson, 2010). Important neoliberal ideologues came to visit the island. Among them were Hayek, Friedman, and Buchanan (Ólafsson, 2010). The ideas were backed by the media, employers, and economists (Ólafsson, 2010).

From the 1990's the Icelandic government led by the neoliberal Independence Party (IP) and David Oddsson (Prime Minister (PM) between 1991 – 2004, Director of Central Bank 2004-2009) started various deregulation and privatization schemes, putting neoliberalism into practice (Boyes, 2009; Jonsson, 1991, 2010; Jónsson, 2009). David Oddsson himself was a self-proclaimed believer in the free-enterprise model, and studied, along with other influential Icelandic politicians, at the same schools as important business figures (Boyes, 2009). Importantly, Iceland has since the 1990's had an extremely low unemployment rate, around 1 %, legitimizing the economic model of the neoliberals (Boyes, 2009).

The neoliberal ideology spread to other political parties in the 1990's (Jonsson, 2012). Similar to their sister parties in other western countries, the Social Democratic Party and the Progress Party (PP) in Iceland started to adopt the neoliberal principles (Jonsson, 2012). Among the reforms that were introduced were revision of the tax-codes beneficial for private investments, decreased corporate tax levels, freedom of capital movements (1995), privatization of publicly owned companies, and the privatization and deregulation of the banking sector (Boyes, 2009; Fatalla, 2012; Jonsson, 2012; Jónsson, 2009; office, 2001; Ólafsson, 2010, 2011a, b).

4.3.1.1 NEOLIBERAL Foothold in Academia

The development of neoliberal practices in Icelandic politics has occurred in parallel with the marketization and liberalization of Icelandic universities. Universities in Iceland have developed to become increasingly business-oriented, have increased links to corporations with economic

interests in Iceland, and are increasingly influential on state policies (Jonsson, 2012; Júlíusson and Helgason, 2013; Ársælsson, 2011). The government delegated work and acquired expert advice from neoliberal oriented academic institutions and consultancy firms for policy creation as government staffs were kept low (Jonsson, 2012; Ársælsson, 2011; Ólafsson, 2011c). New private universities emerged, focusing on business and economic studies (Jonsson, 2012; Ársælsson, 2011). There has simultaneously been massive increase in students with higher education in for instance law and business, while the interest for other disciplines has diminished (Júlíusson and Helgason, 2013). Neoclassical economic principals have generally dominated the business studies the last decades (Harvey, 2006; Weintraub, 1993). As students graduate they thereby bring the neoclassical principals to important societal positions. Ársælsson refer to the Icelandic development as neoliberal academic apartheid to highlight the hegemonic position neoliberal ideas have gained in Icelandic academia in the last decades (Ársælsson, 2011).

Two research institutes have worked as think tanks the last decades; The Institute for Economic Policies and the Economic Institute (Jonsson, 2012). The latter was dissolved through legislation in 2002 after a falling out with PM Oddsson for publishing reports too critical of the IP's agenda (Jonsson, 2012; Kolb, 2010; Sigurgeirsdottir and Wade, 2010). The former is neoliberal-oriented, and became the most important sub-contractor in the field of policy recommendations as they did most of the analysis for the PM's office during David Oddssons reign (1991-2004) (Jonsson, 2012). Neoliberal ideology and corporate interests have in other words become heavily institutionalized within the academic environment, and held powerful sway over government policies. This is also supported by the Parliamentary Investigative Committee's conclusions, which holds that the academic environment failed to provide critical and sufficiently objective research on the state of the economy leading up to the financial crisis of 2008 (SIC, 2010; Ólafsson, 2011c).

4.3.1.2 MEDIA

The media has been heavily influenced by neoliberal ideas and entangled with the large corporations with economic interests in Iceland (See Figure 3). The three newspapers published in Iceland were all up until 2008 owned by companies responsible for most of Iceland's outward FDI (Jonsson, 2012). The most read newspaper, the second largest TV-station, and the most popular radio stations were controlled by the same companies (See Figure 3). Morgunbladid,

Frettabladid, and 24 Stundir were free dailies and drew most of their revenue from advertisements (Harrie, 2009).

Positive reports about the role of the financial institutions and the liberalization projects dominated in the media during the 1990's and up until the crises in 2008 (Arnarson et al., 2011). Media's cover of economic discussions often originated from the major economic actors themselves (Arnarson et al., 2011). Morgunbladid has been closely connected to the Independence Party (IP) and advocated their neoliberal policies (Arnarson et al., 2011). David Oddsson became for instance Chief Editor at Morgunbladid after he was forced out of his bank position in 2009 (Arnarson et al., 2011). Frettabladid has historically been the supporters of the Progress Party (PP) (Mósesdóttir, 2011b).

The cross shareholdings and diagonal and horizontal integration experienced in the Icelandic media the last years is not unique in a comparative context (Harrie, 2009). The same development can be witnessed in other western economies, like for instance with Shibsted in Norway, Bonnier in Sweden, or Sanoma in Finland (Harrie, 2009).

The commercialization of the media through advertisement-run newspapers and media's positive avocation of neoliberal practices shows how it contributed to making the neoliberal ideology "common sense". The owners of the media market have been some of the main beneficiaries of these policies, and the largest newspapers have close connections and advocate the policies of the neoliberal parties. Similarly, the academic institutions have become increasingly business- and neoliberal oriented and strongly influenced public policies. Along with the strong presence of neoliberal political parties in government the last decades, it paints a picture of a hegemonic ideology with great influence on the development of the Icelandic economy.

The spread of neoliberalism since the 1980's across capitalist societies makes the Icelandic case a part of a general trend. Neoliberalism spreads throughout the world by forceful and violent implementations as a universal solution to a myriad of state problems (Harvey, 2006, 2007). Neoliberal practices have also turned out to be remarkably compatible with neoconservative ideas⁹ (Harvey, 2007:chp 3), as is highlighted by the Icelandic case where the two conservative

⁹ There is however tension between them when it comes to morality, as neoliberalism tends to favor individual permissiveness while neoconservatism favors more strict set of moral values. Neoliberal practices also seeks to open

parties (the IP and the PP) have been the most eager proponents of neoliberal ideology. The strong neoliberal development becomes particularly important when remembering that a Post-Fordist accumulation regime develops through neoliberal practices. Neoliberal practices create the flexibility which Post-Fordism relies on for increased productivity and capital accumulation. The flexibility refers to the state of labor relations, labor standards, organization standards, capital mobility, and other state attempts to create a “good business climate” (e.g. attend to the interest of capital). Compared to the Fordist accumulation process where labor relations were rigid and standardized, neoliberal practices loosen these barriers for capital accumulation by highlighting neoclassical economic principals as the solution to economic growth. By taking a closer look at the Icelandic labor market and some of the main economic sectors I will show how this has panned out in practice.

4.3.2 THE ICELANDIC LABOR MARKET

Iceland has a long tradition of active and strong unions functioning as enforcers of labor power (ASI, 2014; Ólafsson, 2011c). The unionization rate of around 80% (2008) rate is high compared to other western states, though it has been declining the last years and especially after the financial crisis in 2008 (Andersen et al., 2011; OECD, 2013). The high unionization is due to a “closed shop” agreement where employers automatically register new hires in the local union (Ólafsson, 2011c). The unions have a centralized federation of unions called ASI¹⁰, which is the equivalent of the Norwegian LO (ASI, 2014). Together with the Confederation of Icelandic Employers (SA) they create a corporatist system of governance for the Icelandic labor market (Ólafsson, 2011c).

Corporatism is a specific socio-political process in which organizations representing monopolistic functional interests engage in political exchange with state agencies over public policy outputs which involves those organizations in a role that combines interest representation and policy implementation through delegated self-enforcement. (Cawson, 1985:8)

up boarders for trade, while Neoconservatism entails a strong element of nationalism and seeks to defend the population from real or imagined threats from abroad. (Harvey,2007:chp 3)

¹⁰ ASI covers most of the workers of the private sector and some in the public sector, and is by far the largest union on Iceland with 100 000 members. It is recognized by the other unions as speaking on their behalf during collective agreements. The three other major unions include a union for the public sector with about 20 000 members, the academics union with about 10 000 members, and the teachers union with about 7000 members. (ASI, 2014)

4.3.2.1 UNIONS AS ASSERTERS OF LABOR POWER

So how can we assess the position of labor in Iceland? On the one hand labor organizations have been active participants in asserting the power of labor through collective bargaining (Andersen et al., 2011; Ólafsson, 2012b). The collective agreements made by the labor market partners and the state have been applicable to all laborers regardless of union membership since the 1980's (ASI, 2014). Real wages have generally increased from 1990-2007, dropped rapidly after the crisis in 2008, and then increased to around 2006 levels through collective bargaining (See Table 4 and Figure 5) (Andersen et al., 2011; ASI, 2011, 2014; Ólafsson, 2012b). The ASI asserts large influence over the public safety net by running important parts of the Icelandic welfare system together with the SA (Ólafsson, 2011c).

On the other hand the labor unions have accepted more flexible working conditions and are active participants in the privatization of the Icelandic welfare system (Andersen et al., 2011; Guðnason and Magnason, 2012; Hannesson, 2014; Wojtyńska, 2012; Ólafsson, 2011b, c). It has become easier to hire and fire workers (Andersen et al., 2011; Ólafsson, 2011c). Part-time work and the use of temporary contracts has increased and become more common in low-skilled service jobs, especially among migrating workers, younger people and women (Andersen et al., 2011; ASI, 2014; Ólafsson, 2011c). The labor market partners relies upon private consultants and private firms to conduct their welfare services, and the public welfare services are increasingly being privately run (Hannesson, 2014; Ólafsson, 2011b, c).

Baccaro and Howell (Baccaro and Howell, 2011) point to different ways in which labor and labor unions generally have weakened in western countries the last decades. They refer to it as institutional liberalization. They argue that even though the labor institutions might have a strong position in a country, their daily practices have generally changed in subtle ways that produces outcomes more beneficial for the employers. Real wages have systematically started to trail productivity increases (see Figure 1). Shifts from higher levels of collective bargaining to lower levels (e.g. national to municipal), removing the fall-back position that national bargaining can provide if the local bargaining fails. Unemployment benefits have become dependent on active job search and willingness to accept available jobs. Works councils encourage cooperation and identification with employers instead of being workplace agents for unions. The institutional barriers created through class struggles are becoming deregulated and relaxed through neoliberal

policies. Labor institutions are reengineered, and practices and functions changed to enable neoliberal policy orientations. The employers are generally able to assert more discretion and manage the relationship with the employees as they please. Such incremental changes have important outcomes for industrial relations. As the power of labor erodes the labor unions tend to become pacified. Neoliberal policies which favor capital becomes less contested as the union practices are reengineered, thereby incrementally strengthening the power of capital and changing the power relationships within the countries. (Baccaro and Howell, 2011)

In Iceland the relationship between the ASI and the SA has historically been one of conflict (Ólafsson, 2011c). Large national strikes and fluctuations in the bargained wages have been common from the 1960s-1989 (Ólafsson, 2011c). The state systematically reduced and limited the growth in real wages through laws and decrees for the purpose of increased capital accumulation for businesses, particularly from the late 80's and early 90's (Jonsson, 1991). Since the 1990's the relationship has however become more cooperative (Ólafsson, 2011c). From the new societal pact in the 90's the unions could negotiate about general economic policies, meaning the national interest rate, the value of the Krona, additional welfare benefits etc. (ASI, 2014). At the same time, collective bargaining has become increasingly at firm level, and bargaining for the public sector has become decentralized (Ólafsdottir, 2013; Ólafsson, 2011a). The agreements to increase wages have become more modest, and the time between bargaining has generally increased to 3 years at the time with renewals each year to adapt to inflation (ASI, 2014; Ólafsson, 2011a, c).

The collective agreements have not been applicable to all laborers in practice, especially migrating workers and laborers hired by temporary work agencies (2005; Guðnason and Magnason, 2012; Wojtyńska, 2012). Neoliberal practices of flexible employment and access to new pools of laborers (e.g. reserve army of labor) within the EU created a grey area in the Icelandic labor market where systematic violations of the collective agreements could occur (Guðnason and Magnason, 2012; Wojtyńska, 2012). Temporary work agencies were eventually required by law to provide secure working conditions and minimum wages in December 2005, highlighting the unions' problem of asserting the issue (2005; Wojtyńska, 2012).

As the unions have become more cooperative, Interest Organizations (IO's) and the SA have been increasingly influential in forming public policies through the media, academia, campaign

donations, inviting politicians to sit on the board of directors of related organizations, and having common ideological goals with the incumbent political parties (Jonsson, 2012; Ólafsson, 2011c). The SA is also known to have a close relationship with the Chamber of Commerce, and have unofficially been heard boasting about having 95% of their policy wishes implemented by the government (Ólafsson, 2011c).

The labor unions have a stronger financial position than the employer association (Jonsson, 2012). The SA however has more expert knowledge used by parliamentary committees (41 experts to the 18 of ASI), especially after the committee budgets were cut in 2009 (Jonsson, 2012). This is important, as the corporatist nature of the Icelandic democracy seldom passes a bill unless they consult with these interest organizations first (Jonsson, 2012). Having more experts and a bigger staff allows for increased influence on the legislations.

The institutional system of the labor market gives unions a strong position in terms of collective bargaining and having a large member base. However the unions have proportionally few active participants comparative to for instance Denmark or Sweden (ASI, 2014; Ólafsson, 2011c). The “closed shop” agreement makes many people unaware that they are even a part of a union (Ólafsson, 2011c). Opinion polls therefore always come up showing lesser unionization rate than the real figures (Ólafsson, 2011b). Many people also dislike the unions as they withdraw a number of dues from their wages to fund the social security system and the pension funds (Ólafsson, 2011b, c).

The unions are caretakers of the Occupational Pension Funds (OPFs) and sickness funds used to finance welfare services, and thereby have significant stakes in how these funds perform (Mósesdóttir, 2012; Ólafsson, 2011a, b). The Occupational Pension Funds (OPFs) amounts to 140% of national GDP and their expenditures on pensions are higher and increasing more than that of the state (Mósesdóttir, 2012; Ólafsson, 2011c). That way they also have a role as financiers and investors in addition to be the asserters of labor power. This role has become increasingly important as the funds have expanded in size and importance for the Icelandic economy (Ólafsson, 2011c). The OPFs are also heavily involved in finance activities through their investments in the Icelandic banks, their bond, and derivatives (Arnarson et al., 2011).

The ASI is currently looking to develop a Ghent system, meaning a system where the labor unions would be responsible for the provision of welfare benefits instead of the state (ASI, 2014). This would serve to legitimize their existence towards their members (Ólafsson, 2011c). The SA is also looking to change the current system as they want to lower their expenses (SA, 2014). Although the labor market partners disagree on how the new system should look like, a solution would mean the privatization of these services as the labor market partners rely on private companies to run their welfare services (Ólafsson, 2011c).

Since the financial crisis of 2008 the user fees for social services have gone up (Ólafsson, 2012a). Laws passed in 2009 increased eligibility testing of unemployment insurance, but also extended the coverage from 3 to 4 years (Agnarsson, 2011). Receiving unemployment benefits dictates active job searching efforts, and one have to be ready to accept any available job (Center, 2014). The unions accepted a drop in the real wage after the financial crisis until 2011 (See Table 5), and the minimum wages were not increased in real terms (See Figure 6) (Grönvold, 2012). The minimum wage has historically been low compared to the Scandinavian welfare states, and for the same reason the rate of in-work poverty on Iceland has been closer to the EU average (Andersen et al., 2011; Ólafsson, 2011a, c).

The ASI has actively pursued membership in the EU (Arnbjörnsson, 2011; ASI, 2014; Mósesdóttir, 2011b). As the interviewed representative for the ASI noted; it would be the only solution to the crisis, the capital controls, and the unreliable currency of the Krona (ASI, 2014). They are seen as barriers to re-enter the global economy, and thereby having an open economy, which is needed to continuing the Nordic welfare system (ASI, 2014). The ASI's strong stance has been an important contributor and legitimizer for the decision by the "left-wing" government to start negotiations with the EU about a membership (ASI, 2014).

The data points to a general liberalization of the Icelandic labor institutions where they have converged with the general liberalization of Icelandic society, however this doesn't mean they have become pacified. The purpose of the unions have been reengineered from being protector and asserter of labor power to become financers of pension- and sickness funds, providers of welfare services, wage bargainers, investors, and a cooperative entity to the federation for employers. They have been active participants in building the current welfare system and have been somewhat successful in following productivity increases with real wage increases (See

Figure 5) (Ólafsson, 2012b). Providing social services and operating a financial entity however also means they have active stakes in the deregulation of the economy. Bargaining about all aspects of the economy further signifies a role change where they increasingly have to attune to the world of business and economists – which as explained above have been arenas dominated by neoliberal ideology the last decades.

The ASI wants collective agreements to last for 3 year terms to create stability (ASI, 2014). This also means locking in the contracts to keep the system from being challenged. The works councils encourage more cooperation with the employers and create shared identities with firms as opposed to serve as agents for the unions, thereby undermining the traditional power of the unions (Organization, 2006; Welfare, 2006). The reengineered role of works councils followed a decision by the European Parliament which Iceland adapted to in 2006 (Welfare, 2006).

The closed-shop arrangements increase the power of the unions through their member-basis. At the same time it results in many inactive members and the need to legitimize their existence. A paradox thereby occurs where their main source of power (e.g. member-basis through closed-shop arrangements) creates a need to institutionalize their power even further by acquiring control over more welfare benefits to conserve this power. At the same time the Icelandic systems puts a great deal of the responsibility to reduce the social dislocations created by Capitalism on the unions. Working conditions, labor standards, minimum wages, and pensions are not institutionalized through legislation but upheld through the collective agreements (Andersen et al., 2011; Ólafsson, 2011c). This makes the Icelandic society particularly vulnerable to the effects of institutional liberalization.

The unions are supposed to provide the barriers to negate the power of capital. As the unions are reengineered to enable neoliberal policy orientations, these barriers are weakened, meaning that capital has more room to insert its influence. This influence asserts itself among other ways through a flexible labor market on Iceland. Flexibility in labor arrangements, wages, and working conditions increases capital accumulation and changes the relationships of production. Employers have increased power to assert their influence on employees, and the employer organization and private IO's strengthens their influence on political decision-making.

The development follows the trajectory of other European countries since the 1980's and their efforts to liberalize the labor market (Baccaro and Howell, 2011; Olafsdottir, 2013). Similar to other capitalist societies, systematic attacks by the state on the real wage throughout the 80's and 90's and the institutional convergence of the unions have transformed the Icelandic labor market into a new regime of accumulation (Harvey, 2007; Jonsson, 1991). It means that Iceland is experiencing the same trends within the labor market as other capitalist states. The trends are characteristic of Post-Fordism. Post-Fordist labor relationships weaken the Fordist class compromises between labor and capital to increase capital accumulation and productivity (Vidal, 2013). Long-term employment and internal labor markets¹¹ decline in favor of part-time employment, external labor markets¹² (e.g. Polish labor market), and contingent forms of employment (Andersen et al., 2011; Vidal, 2011; Wojtyńska, 2012). The changes occur in parallel with changes within production and capital accumulation of firms. Analyzing developments within key economic sectors provides further insights.

4.3.3 THE FISH INDUSTRY

New technological developments in the 1970's allowed for bigger boats, and from the 80's the vessels were able to freeze the catch on board (Knutsson and Gestsson, 2006). It caused declining fish stocks and less people to be employed in the sector (See Table 5) (Knutsson and Gestsson, 2006). The government responded by introducing the fish quota systems (Knutsson and Gestsson, 2006). The quota system meant that fishing vessels only had the right to catch a certain amount of fish. This right became transferable in 1991, meaning fishing vessels could buy and sell these rights as they pleased (Islandsbanki, 2012b; Knutsson and Gestsson, 2006).

The transferable quota system has led to a horizontal integration¹³ of the fishing industry, where a few firms own large parts of the quota (Korolev, 2011). Currently the 10 largest companies controls 52% of the quota (see Figure 4), and the 18 largest companies hold 72% of the quota (Islandsbanki, 2012b; Valdimarsson, 2012). The fish industry has also become vertically integrated¹⁴, as fishing, processing, and exporting are often controlled by the same firms

¹¹ Refers to labor markets where laborers are recruited from within the firm structure (Vidal, 2011).

¹² Refers to labor markets where laborers are recruited from outside the firm structure, e.g. through work agencies, headhunters, etc. (Vidal, 2011).

¹³ Refers to market concentration

¹⁴ Refers to market concentration within the market chain, meaning different parts of the production chain become connected through ownership.

(Korolev, 2011). The firms expanded through debt-driven acquisitions; the net debts of Icelandic fishing companies increased by 437% from 1997 to 2008 (Korolev, 2011). This development has ensured more stability and increased profitability for the fishing industry, especially after 1994 and Iceland's entry into the EEA which have become the most important market for marine exports (Islandsbanki, 2012b; Knutsson and Gestsson, 2006; Korolev, 2011). Many of the actors in the fish industry are still national based, but increasingly connected to transnational networks as a few TNC's are controlling the market for buying marine products (Sæmundsdóttir and Hannibalsson, 2013).

Labor costs in the fishing industry as a whole has gone down continuously since 1997 (Korolev, 2011). Employment in the fishing-sector has also steadily declined (See Table 5) (Wojtyńska, 2012). The trends result from increased productivity and access to cheap and exploitable labor from Europe (Korolev, 2011; Wojtyńska, 2012). The jobs in the fish-processing plants have also become increasingly "bad" in that they are less paid, less secure, and yield less benefits than those in most other sectors (Wojtyńska, 2012).

The state has played a vital role in constructing the current market in the fish industry. By making quotas transferable they changed the governance structure of the market – e.g. the rules for competition and cooperation between the firms (Fligstein, 2002). In this case the firms were allowed to achieve positional advantage in the market through debt-driven acquisitions of quotas, and thereby created a new role structure where the incumbent (e.g. dominant) firms were vertically and horizontally integrated (Sæmundsdóttir and Hannibalsson, 2013). To keep this position the firms highlight their part of the Icelandic cultural heritage and keep close ties to regional and national government officials, often whom are participants in the market themselves (Jonsson, 2012).

The current structure within the fish industry is characterized by network production. The fish is caught and frozen on the vessels, before being transported to processing plants often controlled by the same network of firms. The marine products are then exported to transnational actors, mostly European based, which distributes it to where it is needed. The network production enables better synergy between trawlers, processing plants, export demands, and the price of the different marine products, thereby increasing productivity by enabling just-in-time delivery. Production is shifted from supply-driven to become more demand-driven. These material

networks also create informal information networks, which makes the Icelandic fish sector more attuned to strategies and ideas from a wider range of strategic action fields.

Network production is characteristic of Post-Fordist production as it enables diversification of products rather than standardization, and it develops ownership-, material-, and informal networks along the lines of the whole production chain. Fordist production meant that the firms usually concentrated their business to one of the three production steps (e.g. catching, processing, or exporting). While Fordist production was supply-driven, Post-Fordism becomes a more demand-driven approach. In this case it means that the fish industry can better deliver products based on the demand of the TNC's in Europe, instead of delivering what's "in season" at the given time. While Fordism meant growth through a class compromise with rising real wages, Post-Fordism develops flexible and precarious working conditions to increase productivity. The Post-Fordist structure has also relied upon changes in proximate fields; the deregulation and privatization of banks has created access to cheap credit which in turn has been used to develop the networks.

4.3.4 THE RETAIL SECTOR

The retail sector (wholesale, retail trade, restaurants, and hotels) employed 18,4% of the total workforce in Iceland in 2011 (See Table 5). The retail sector grew by 70% from 1990 to 2002 (Einarsson, 2007). At the heart of this growth lie changes within the structures of the markets which will be highlighted through the example of Bónus.

Before Bónus was established in 1989, the grocery market mostly consisted of supermarkets and small grocery stores (Authority, 2012). Their prices varied from store to store, and they purchased their goods from independent wholesaling companies (Jonsson, 2013-2014). The suppliers had a lot of power in negotiating prices to the resellers (Authority, 2012).

The new conception of control that Bónus pioneered, the new understanding of how to make money in the grocery market, changed the social hierarchy of the market. Around 1990 Bónus introduced the one price system (Jonsson, 2013-2014). This meant that their prices didn't deviate from store to store. Traditionally prices in the rural areas had been higher than in the Greater Reykjavik area (Authority, 2012; Jonsson, 2013-2014). They also required wholesalers to lend them the goods in 90 days so that Bónus could sell it before purchase (Jonsson, 2013-2014;

Sigurgeirsdottir and Wade, 2010). Earlier, retailers had to pay cash in advance of sale (Jonsson, 2013-2014). This decreased their turnover time of capital and their storage values. They also started to develop their own import wholesaling (Authority, 2012; ICA, 2014b; Jonsson, 2013-2014). Using barcodes on their products digitalized their storage and accounting, and meant that their stores required fewer employees (Advameg, 2014). They were also the first discount supermarket, differentiating themselves from the other supermarkets at the time (Advameg, 2014).

In 1992 Bónus merged with Hagkaup (another retail chain), and in 1998 they formed Baugur group (Advameg, 2014; Einarsson, 2007). Baugur group, as explained below, would go on to create an international network of companies, becoming a dominant actor within the Icelandic retail sector (Sigurðsson and Sveinbjörnsson, 2010). The sub company Hagar was established in 2003, which now owns Bónus and Hagkaup (Authority, 2012; Einarsson, 2007).

By developing their own import wholesaling, Bónus effectively caused a merger of the two markets (Authority, 2012; ICA, 2014b; Jonsson, 2013-2014). Control over the wholesaling market gave competitive advantage in forms of price and distribution (Authority, 2012). In 2010, Hagar enjoyed a 53% share of the market, Kaupás 21%, and Samkaup 16% (Authority, 2012). Together the three companies made up 90% of the grocery retail market in 2010 (Authority, 2012). As Baugur group went bankrupt in 2008, Hagar was overtaken by Arion Bank (Authority, 2012). Arion Bank has later as part of their conditions for overtaking Hagar sold their position in the company to Icelandic pension funds (40-45%) and other investors (Hagar, 2014; ICA, 2014b).

4.3.4.1 BAUGUR GROUP

From its origination within the grocery market Baugur group expanded by acquiring companies and company shares in the US, UK, Scandinavia, and in different economic sectors of Iceland (NYT, 2009). This expansion was largely debt-driven and based on restructuring the acquired companies to make them more profitable (Jonsson, 2012; NYT, 2009). Baugur group's strategy was similar to US firm's strategies from the 70's and 80's - aggressively acquiring firms through mergers and restructuring them to increase the value of the shares. The US strategy was a result of institutional investors figuring out that company's stocks was worth less than the company

(calculated by Tobin's Q ¹⁵). It was also an important contributor to why the US market for corporate control¹⁶ shifted from a kind of managerial Capitalism¹⁷ to a shareholder value conception of control¹⁸. In fear of hostile takeovers and as a response to a period of economic stagnation and high inflation, owners demanded the managers to increase the value of the company shares; they demanded property rights¹⁹ to be skewed towards the shareowners. The restructuring process involved selling off assets, leveraging the company, moving production to locations with access to cheap labor, and reducing labor costs. In a similar fashion Baugur group has restructured companies and leveraged them in order to require new funding so they could keep expanding (Braithwaite, 2008; Jonsson, 2012; NYT, 2009).

The retail chain Baugur has diversified their methods for capital accumulation by vertically integrating the retail and wholesaling market, and by aggressively acquiring companies in other sectors and countries, and restructured them. Baugur group's methods are characteristic of Post-Fordist accumulation. Products in the food-market arrived just in time instead of taking up storage space. Barcoded product allowed for digitalized tracking of products in stock, and automated shipments of new goods can be sent as products are about to sell out. Similarly the wholesalers can keep track of which goods are needed to import and when; reducing their storage values and allowing for just-in-time delivery and thereby more demand-driven production. The cost of labor also decreases with the barcode system, as less manpower is needed to keep track of inventories and products. The network production provides Icelandic retail with access to cheap and diversified goods, decreases labor costs, and increases productivity. The network production structures created in the grocery market are similar to the developments within Europe (Dahlbacka, 2012). It means that the new conception of control within the grocery market heightens interactions between the oligopolistic networks of European retailing, as they are increasingly connected through production structures, thus also developing stronger informal power networks along the production lines.

¹⁵ An economic equation used to figure out the true value of a firm. Tobin's $Q = \text{Stock shares} * \text{stock price} / \text{assets}$.

¹⁶ Market for corporate control refers to the market for firm ownership; e.g. who controls the firm.

¹⁷ Managers controlled the firms, how it was organized, what to invest in.

¹⁸ Firms are organized to maximize shareholder value by increasing the stock. Managers are subordinate to the board of directors, and their pay often linked to the value of the stock.

¹⁹ Property rights refer to the right to the profits of the firm.

4.3.5 INDUSTRY

Through tax-incentives, infrastructure, and the policy of “lowest energy price” (1995), the Icelandic government has effectively subsidized the establishment of three giant international aluminum corporations on the island; Alcoa, Rio Tinto Alcan, and Century Aluminum (Grande, 2011; Guðnason and Magnason, 2012). Alcoa and Rio Tinto Alcan control approximately 10% of the entire world aluminum market (Grande, 2011). The business model has been to import raw materials from countries like Ireland, the US, Australia, or Jamaica to Iceland (Chu, 2011; Grande, 2011). The raw material is melted in the huge plants at a low cost. Aluminum is then exported and shipped around the world to where it is needed (Chu, 2011).

The growth of the aluminum industry is tied to the project of diversifying the Icelandic economy (Grande, 2011; Guðnason and Magnason, 2012). Development of the industry was set in motion in the 60’s, however it needed neoliberal reforms and construction of large-scale smelters before it became a major economic contributor (Grande, 2011). As Table 6 and Table 7 shows, the importance of aluminum for the Icelandic economy has rapidly increased since the 1990’s to become one of the largest sectors of the economy in terms of exports (see Table 6 and Table 7).

The growth of the aluminum industry has created an increasing demand for more cheap energy as energy costs make up roughly one third of the total cost of running an aluminum smelter (Chu, 2011; Grande, 2011; Guðnason and Magnason, 2012). 71% of all the produced energy in 2011 was consumed by the aluminum industry (Authority, 2014). The state has constructed hydro plants and dams for to fill this demand (Chu, 2011; Grande, 2011; Guðnason and Magnason, 2012). The state has also provided the industry with energy prices tied to the price of aluminum in contracts lasting for 40 years²⁰ with the state-owned energy company Landsvirkjun (Grande, 2011; Guðnason and Magnason, 2012; IceNews, 2010; Savingiceland, 2010). Payments between the smelters and Landsvirkjun are also made in USD to remove the risk connected to the exchange rate for the foreign companies (Grande, 2011). That means that much of the risk connected to exchange rates and aluminum prices are transferred to the state. Landsvirkjun have recently been allowed to hedge (e.g. insure) 100% of this risk with the use of complex financial products (Grande, 2011), meaning that the risk is now at the mercy of financial capitalists and connected to fluctuations in the financial markets.

²⁰ Possible renegotiations after 20 years (Grande, 2011).

The construction of hydro plants and aluminum plants has also created an industry revolving around their expansions. Many Icelanders have specialized skills that rely on this industry to stay employed (Guðnason and Magnason, 2012). They have become an important source for job-creation and income for the districts (Guðnason and Magnason, 2012). The large construction projects have however been undertaken by large international companies such as Bechtel²¹ and Impreglio²² (Forbes, 2014; Impregilo, 2014; Jonsson, 2010). These companies have relied upon foreign workers as a cheap and exploitable source of labor (Guðnason and Magnason, 2012; Jónsson, 2009).

The environmental degradation connected to the hydro-and aluminum plants have spurred many protests around Iceland as their expansion cause damages to the surrounding eco-system. Transforming rivers into hydro plants or dams creates large ripple-effects for the fauna in vast areas. The interconnectedness of the eco-system has in many cases been thoroughly documented by researchers on Iceland, but the interests of the aluminum industry, job creation in the municipalities, and the economic stimulus of the constructions usually triumphs. Profiled politicians from the municipalities are also often recruited by the aluminum companies to lobby their cause, and the line between public servant and corporate servant often becomes blurred. (Guðnason and Magnason, 2012)

The aluminum industry has grown out of state support and dispersed production. Dispersed production is characteristic of Post-Fordism. Raw material is mined one place, shipped to Iceland and smelted to aluminum blocks, then shipped to where it is needed. It allows for just-in-time production, which signifies demand-driven production in that it can be based on orders rather than forecasts. Fordist production meant nationally bound supply-driven production, where the smelting took place in close proximity of the raw material and where the production was based upon the available supply (Vidal, 2011, 2013). Iceland has further developed a dependency on the aluminum companies and their production network as their well-being is vital for the economy. Risks connected to energy prices and exchange rates are transferred from the aluminum companies to the Icelandic society to ensure them stable profits. Natural resources are dispossessed and commodified at the cost of environmental degradation. Local government officials become wage earners for the aluminum industry by recruiting them as lobbyists, and

²¹ Bechtel is ranked as the 4th largest privately owned company in the US (Forbes, 2014).

²² Impregilo is an Italian based company operating in 30 countries with close to 12000 employees (Impregilo, 2014).

labor conditions become more precarious by dispossessing the rights of foreign migrating workers in related industries. These are not just Post-Fordist characteristics, but also strategies deployed by the aluminum companies to increase productivity and maintain their dominant roles within the transnational aluminum market.

4.3.6 PHARMACEUTICAL INDUSTRY

The pharmaceutical industry and the case of Actavis highlight similar growth strategies as the retail sector and the fish industry; debt driven expansions and aggressive acquisition of foreign companies. Actavis started producing generic pharmaceuticals in the 1970's (Actavis, 2007). Led by the Icelandic billionaire Thor Bjorgolfsson they have from the late 90's aggressively acquired numerous pharmaceutical companies in Europe, the US, and Russia (Actavis, 2007; Björgólfsson, 2012; EMIS, 2014). Most of them were debt-financed purchases through Glitnir and Landsbankinn (Actavis, 2007), two of the three major banks at the heart of the financial crises on Iceland in 2008. From being a local generic drugs manufacturer, they have in 2012 merged with the US-based Watson pharmaceutical company to become the third largest generic pharmaceutical company in the world (Björgólfsson, 2012).

As with the fish industry and the retail sector the pharmaceutical industry has relied on market concentration, vertical and horizontal integration, and debt-driven expansion to increase their capital accumulation. Field theory holds that these tactics likely have been copied from each other (Fligstein and McAdam, 2012). Actors, even within neighboring and distant fields, watch each other and copy each-others moves in order to gain positional advantage (Fligstein and McAdam, 2012). From the theoretical we also know that firms always seeks to control competition (Fligstein, 2002). In a similar fashion one of the dominant transnational actors within the pharmaceutical market purchased Actavis as their market share became significant. This highlights how firms across the production network are aware of what other firms are doing and responding to their moves. It also shows the social processes which connects Actavis to a larger transnational production structure.

Neoliberal policies create flexible conditions under which these strategies come to play a vital role for the transformation of the whole industry. By liberalizing and deregulating the credit markets the firms were able to acquire cheap financing for their expansions. Neoliberal practices of downsizing the state enabled for instance Actavis to acquire newly privatized firms in Europe

(Actavis, 2007). Companies in other western countries were acquired to increase access to other markets, but also to access new products, material, and labor. Production was not concentrated under the same roof, but remained dispersed. The range of products were diversified rather than standardized. These are characteristics of Post-Fordist accumulation, and thus follow the trend of other economic sectors within the Icelandic economy.

4.3.7 TOURIST INDUSTRY

The tourist industry has been a major source of economic growth since the 1980's and now yields more foreign currencies than fisheries (SA, 2014; Óladóttir, 2013; Ólafsson, 2011a). Before that time it was almost non-existent (Jóhannesson et al., 2010). Politically it remained a low-priority sector until the 1990's (Jóhannesson et al., 2010). Nature, historical- and cultural sights have become increasingly important attractions and serve as the main incentives for visiting the island (Becker, 2011; Jóhannesson et al., 2010). Political documents reveals that there has been an active political effort to build up the cultural capital of Iceland by highlighting their cultural heritage and nature sights in order to attract tourists (Jóhannesson et al., 2010). This effort has been shared by the largest actor within the industry, Icelandair Group Ltd., which run the domestic airline company Icelandair, two hotel chains, and arrange the largest festival on Iceland (Becker, 2011; Icelandairwaves, 2014; Jóhannesson et al., 2010). Icelandair initiated the "Inspired by Iceland" campaign, which successfully used the western media attention after the eruption of Eyjafjallajökull for the promotion and creation of Iceland's cultural capital (Becker, 2011; SA, 2014).

Currently, the city center of Reykjavik is competing with shopping centers outside the city area for tourists and shopping revenue (Hjaltested, 2012). Attempts have been made revitalize the city by transforming the city center into a more attractive place for shopping (Hjaltested, 2012). The shopping centers on Iceland generally contain shops for things to wear (e.g. clothing, make-up, shoes, accessories, etc.) or things to eat or drink (e.g. cafés, grocery outlets, juice bars, restaurants, etc.) (Personal observations, Smaralind and Kringlan, 13/3/14). Most of these have links to large production networks in order to import the most popular brands, textiles, accessories, franchises, etc., or to get products at a competitive price level so they can survive the rent associated with running a store at a shopping mall. That way the shopping centers generally

look very similar in terms of the goods they sell comparative to other western states (Personal observations, Smaralind and Kringlan, 13/3/14).

The distinctiveness of the Icelandic culture is highlighted for tourists to create monopoly rent for the tourist industry. The commercialization of culture also creates increased symbolic capital for Iceland, giving them economic advantages over other countries. Symbolic capital is used to make tourists and citizens accumulate status-increasing luxury goods provided to them by the retailers and the tourist industry. The systematic use of culture to extract monopoly rent is characteristic of the Post-Fordist period as it relies upon technological developments within transportation and communication to be conducted on a large scale (Harvey, 2013). It serves to create differentiated products and increase capital accumulation. By for instance selling horse rides with Icelandic traditional horses to tourists across historical and culturally significant sites firms are able to offer a unique product only available on Iceland – thereby differentiating themselves against competitors offering horse tourism in other countries, enabling the extraction of monopoly rent. The heightened use of cultural capital as a mean to capital accumulation is nothing specific to Iceland, and can also be witnessed in other cities across Europe like for instance Barcelona, London, Paris, Berlin, etc.

4.3.8 THE DEVELOPMENT OF FINANCE

Finance has particularly thrived in the era of neoliberal policies in Iceland, and, as explained above, its development has had important ripple effects on other economic sectors. To capture the general trends in this sector I will focus on the development of the bank industry.

The structure of the bank market had up until the 1990's been made up by smaller domestic banks, and the state was actively involved in the market (See Figure 8) (Fatalla, 2012). Managers had been politically selected based on standing in the social hierarchy, and loans had been given on the basis of kinship or social contacts, and were harder to come by (Arnarson et al., 2011). Capital Controls were in place from the 1930's until entering the EEA, and tight regulation kept the banks focused on the domestic market (Jónsson, 2009). The market would later become dominated by three major actors; Landsbankinn, Glitnir (Islandsbanki), and Kaupthing (See Figure 8). Landsbankinn historically functioned as a state-owned commercial bank and, for an extended period, as a central bank (1921-1961), and was founded in the 19th century (Jónsson,

2009). Islandsbanki was originally privately owned and founded in 1904 (Jónsson, 2009). It was rebuilt as a partially state-owned bank under the name Utvegsbanki during The Great Depression, and eventually acquired by three other private banks in the 1980's and merged into its old name – Islandsbanki (Jónsson, 2009). Kaupthing was originally a brokerage firm²³ established in the 1980's which turned to an investment bank²⁴ in 1997 (Jónsson, 2009).

In 1989 the market structure collapsed with the stock of the cod market, and the banks found themselves chronically short of liquidity (Jónsson, 2009). The solution was to rethink the market structure along neoliberal lines, which meant de-regulating and privatizing the banking sector (Arnarson et al., 2011; Fatalla, 2012; Jónsson, 2009). Entering the EEA meant adopting the EU bank legislation, effectively removing the separation of investment banking and retail banking (Jónsson, 2009). This also secured the banks access to the European credit market (Arnarson et al., 2011). From 2001-2003 the three largest banks were fully privatized (Arnarson et al., 2011; Jónsson, 2010; Markúsdóttir, 2011; Ólafsson, 2010). Ownership went to people with ties to the neoliberal conservative government, and the banks became highly interconnected due to the debt-financed share purchases (Arnarson et al., 2011; Fatalla, 2012; Sigurgeirsdottir and Wade, 2010).

The government started to rely on the banks for information about the economy (Arnarson et al., 2011; Sigurgeirsdottir and Wade, 2010). The government was viewed as lender of last resort for the banks due to their previous stakes in Landsbankinn and Islandsbanki, and the banks actively alluded to this when acquiring cheap credit abroad (Arnarson et al., 2011; Sigurðsson and Sveinbjörnsson, 2010). The new business model was focused on generating fees, similar to the development within US banks (Fligstein and Goldstein, 2012; Jónsson, 2009). Increasing the generation of fees meant increasing the generation of loans (Fligstein and Goldstein, 2012). Credit and loans thus became readily available, even more so for those with ownership ties to the banks (Arnarson et al., 2011). Corporations and high-ranking societal figures used cheap credit to achieve incumbent positions within their market sectors, and the indebtedness of the Icelandic population grew along with the balance sheets of the banks (Boyes, 2009; Fatalla, 2012; Jónsson, 2010). The banks started to expand their depositor accounts abroad (e.g. Icesave) and acquired

²³ Brokerage firms are intermediaries between buyers and sellers, meaning they for instance find buyers for stocks or bonds, and live off commissions (e.g. fees) (McLean and Nocera, 2011).

²⁴ Investment banks underwrite loans and debt, and are responsible for pricing and marketing securities to investors, thus specialize within the finance market (Kendall, 2000:5).

branches overseas in places like Luxemburg, Isle of Man, and the British Virgin Islands (Markúsdóttir, 2011; Sigurgeirsdóttir and Wade, 2010). They wanted to create an international network structure (Jónsson, 2009). The banks used short-term debt from the interbank loan market (ABCP-market) to finance their expansions (Jónsson, 2009). The problems related to juggling-around the short-term debts led to innovations such as Icesave (Landsbankinn), and “love letters”²⁵ (Sigurgeirsdóttir and Wade, 2010). The banks mimicked each other’s moves and intensified their own strategies by diversifying and creating new product niches (Sigurgeirsdóttir and Wade, 2010). Landsbankinn, Glitnir, and Kaupthing eventually accounted for 85% of the country’s banking system in 2008 (Fatalla, 2012; Markúsdóttir, 2011).

The managers of the banks and key financial officers were celebrated socially, and often appeared on the front of newspapers and magazines (Arnarson et al., 2011). Banks hosted sport events and donated to charities to create a positive public image (Arnarson et al., 2011). In 2007, the whole nation was invited to Kaupthing’s anniversary concert (Arnarson et al., 2011). The parliamentary Special Investigative Report later found that major companies, including all three of the major banks, donated large sums to the Progressive Party, Independence Party, and the Social Democratic Party (Arnarson et al., 2011; Jonsson, 2012). Donations were also given to individual political campaigns or indirectly through memberships on board of directors (Jonsson, 2012).

The development of finance is a distinct feature of Post-Fordism as it relies on the developments within communication technology and neoliberal practices to deregulate the market and reduce the barriers to the flow of capital. The growth of finance has an important effect for the continued development of other Post-Fordist structures as it severely reduces the turn-over-time of capital, which in turn allows the structures to increase productivity.

²⁵ “Love letters” refers to loans acquired from the Central Bank of Iceland, Luxembourg and the European Central Bank by the Icelandic banks where debt securities based on no real assets were used as collateral (e.g. insurance to pay back the loan), thereby being able to acquire capital with just an empty promise of paying them back (Sigurgeirsdóttir and Wade, 2010).

4.4 ECONOMIC SECTORS AND THE POST-FORDIST REGIME OF PRODUCTION

The most striking aspect about the development within the Icelandic economy the last decades has been how the liberalization of societal institutions has led to a system of network production. Political parties, academia, media, and labor organizations have adopted neoliberal policy orientations. Neoliberalism has become “common sense”, and has been important for the vertical and horizontal integrations within the Icelandic economy. The implementation of a transferable quota system in the fish sector coupled with the deregulation and privatization of financial institutions have for instance seen the rise of concentrated ownership networks within the fish sector. The production of fish and marine products are now linked through these ownership networks all the way from capture and freezing on the fishing vessels, processing, to exports. Production has that way transformed from being supply-driven to become more demand-driven. These networks are again increasingly connected to a few transnational actors due to market concentrations in the market for buying marine products.

Neoliberal practices have produced a dependency on international aluminum networks. Iceland is used as a melting station for the raw material and is one link in their international production chain. Both the aluminum industry and fish industry has relied upon cheap and exploitable labor for profit accumulation – the aluminum industry through construction of dams and smelters, and the fish industry through their processing factories. The unions that traditionally have acted as the defender of labor power have experienced institutional convergence to the neoliberal policy orientations of business. This has allowed for flexible working- and employment conditions, and thus a liberalization of the Icelandic labor market.

The pharmaceuticals industry, retailing, and financial industry have created their own transnational networks through debt driven acquisitions, mostly in western countries. Copying strategies from the US the Icelandic sectors have linked themselves to transnational production chains, connecting stores and businesses on Iceland to for instance sweatshops in Bangladesh, pharmaceutical markets in Eastern Europe, and mortgage buyers in the US. The tourist industry has created strong symbolic capital based on the Icelandic cultural heritage. The symbolic capital is used to extract monopoly rent. Shopping malls on the outskirts of Reykjavik have become the most popular places for consumption and consist of mostly chain-related stores which are part of transnational production networks.

The network production regime is one characteristic of the Post-Fordist period, and so are the flexible labor arrangements, the financialization of the economy, and the vertical and horizontal integrations of market sectors into larger companies with extensive transnational networks. Moreover, the networks with parts of the production cycle in low-labor cost countries are specific to certain industries; the aluminum industry and parts of the retail sector. The Fordist period, as explained under theory, was characterized by an industry-focused development of the economy with assembly-line production and mass consumption through Keynesian demand-policies by the state (Macdonald, 1991). Post-Fordism on the other hand is closely linked to neoliberal policies, and signifies changes within the accumulation regime that increases productivity (See Figure 1 and Figure 7). Fordism was further characterized by rigid labor structures with class compromises through high unionization leading to rising real wages and mass consumption (Vidal, 2013). Post-Fordist labor structures on the other hand are more flexible and generally imply increased social dislocations as the barriers protecting workers against Capitalism erodes (Vidal, 2013).

In Iceland we see signs of both Fordist and Post-Fordist labor structures. While the unions have been active in shaping the Icelandic labor market and are strongly institutionalized in the political structure, their institutionalization also drives them to develop a Ghent-system to legitimize their existence towards their members and adopt neoliberal policy orientations. This reengineers their role from being protectors of labor interests to also adopt the interests of capital, and opens up for more flexible labor relationships on Iceland. This has important implications for the production relationships. A flexible accumulation and labor regime increases the power of the employer by eroding the barriers set in place to protect the employee in order to increase productivity. Common ideological goals between Icelandic employers and the state contribute to further enhance this power. One way in which this pans out is how the economic differences increased in the period leading up to the crisis (See Figure 9 and Figure 10). Productivity generally increased more than real-wages the last two decades, however not by much, implying that the unions still were effective at asserting labor interests (See Figure 5). In a way, this highlights the puzzle of the Icelandic unions.

The findings in my analysis imply that the Icelandic economy is experiencing many similar development characteristics as other capitalist economies. Size seems to be no limitation for

developing a Post-Fordist regime. Instead, the small size seems to enhance the development due to the lack of Fordism. Iceland can therefore be experiencing a more pure form of Post-Fordism as they didn't go through a Fordist accumulation period. There are therefore less Fordist institutions which the Post-Fordist accumulation structures later would have had to adapt to. As a result the economic sectors analyzed in this thesis have developed strong ties to transnational production structures, and the dominating principals within the markets have distinct Post-Fordist features.

4.4.1 LIMITATIONS AND INCENTIVES DURING CRISIS

Post-Fordist accumulation implies certain limitations and incentives for the political decision-making, particularly at the time of crisis. The flexible methods for accumulation and -labor relations which characterizes Post-Fordism has become institutionalized within the state structures through laws and regulations. To challenge this flexibility one would therefore need to remove these and put in place a whole new set of laws and regulations. It is therefore likely that policies in response to an economic crisis will not challenge this flexibility. While Fordism relied upon Keynesian state policies, Post-Fordist production relies heavily on neoliberal practices. It is therefore likely that the response will be neoliberal oriented. The network production also sets certain limitations in that the power-networks build up under Post-Fordism will protect their dominant positions within society. The power of these networks increase with their ability to affect public policies, which have developed to become quite strong in the Icelandic society. Policies will therefore likely be affected by these networks and revolve around protecting the network production structures.

Furthermore, Fligstein's field theory predicts that the policy response will be outcome of the relative power between labor, state, and capital. This power relationship has increasingly been skewed towards capital due to the reengineered orientations of the unions adapting to capital interests, the increased power of the private IO's and SA, and the neoliberal practices favoring capital. We can thus predict that the outcome of the government policies will generally serve to reproduce the power of capital over that of labor and the state. Seeing that governments draw much of their legitimacy on their ability to grow the economy and produce stable market structures, we can predict that government policies will as far as possible retain the role structure of the markets as they were before the crisis. The incumbent actors within the different markets,

e.g. the largest actors wielding disproportionate influence within their sectors, will try to continue the prevailing strategies for capital accumulation within their field. The prevailing strategies are what they know works, and would have gotten them the position in the first place. If this becomes impossible they will turn to the government for help, and the government will try to help the incumbents stay in position as far as possible.

5 THE GENERAL EUROPEAN RESPONSE TO THE CRISIS

Europe has responded to the financial crisis by saving the largest banks without restructuring and with borrowed state funds (Ertürk et al., 2012). This has in turn created a sovereign debt²⁶ crisis²⁷ which still persists today (Ertürk et al., 2012). To deal with the heightened sovereign debt the European states have focused on balancing their budgets by cutting in public spending, as opposed to increasing sources of revenue, and increasing inputs by taxation (Kolb, 2011). This fits with the neoclassical view of economics as it seeks to roll back the state presence in markets instead of increasing it. The result has been stagnating or declining growth across the European countries with heightened levels of unemployment, poverty, lowered wages, lowered pensions, and erosions to the public services (Ertürk et al., 2012). The significant devaluation of labor can therefore be said to be initiated to protect the interest of capital, e.g. sovereign bond holders.

6 THE ORIGINATION OF THE FINANCIAL CRISIS AND THE ICELANDIC RESPONSE

Securitization has been the major financial innovation in the past decades (Dore, 2008; Kendall, 2000; Leyshon and Thrift, 2007). Through the use of financial instruments like Mortgaged Backed Securities (MBS's)²⁸, Collateral Debt Obligations (CDO's)²⁹ and Credit Default Swaps

²⁶ Sovereign debt is debts acquired by governments (Kolb, 2011).

²⁷ Refers to the stagnating or declining growth in Europe created by the state attempts to deal with the heightened levels of sovereign debt (Kolb, 2011).

²⁸ Mortgaged Backed Securities are securities created out of mortgages. Securities are debt instruments (like mortgages, e.g. rights to future income) packaged to enhance their credit status in order to be sold to third party investors. (Kendall, 2000)

²⁹ Collateral Debt Obligations are resecuritizations of existing subprime mortgage backed securities (Fligstein and Goldstein, 2012).

(CDS's)³⁰, finance has become the epicenter of growth and economic disasters (Fligstein and Goldstein, 2010).

The financial crisis of 2007-2008 has spurred vast research on its origination and how it spread around the world. Few have however been able to provide a thorough account of the events. Especially economists have struggled to provide evidence for the origination and spread of the crisis. Sociologists argue economists are coming up short because they are not analyzing markets as social systems. Through Field Theory, Fligstein shows the historical roots of the crisis, how the market for mortgage backed securities developed and transformed, and how it caused banks across mostly western European countries to collapse (Fligstein and Goldstein, 2010, 2012; Fligstein and Habinek, 2012; Fligstein and McAdam, 2012).

Fligstein and Habinek shows how banks massively increased their holdings in US based MBS's and their activities in the asset-backed commercial paper (ABCP)³¹ market from 2003-2007 (Fligstein and Habinek, 2012). American MBS's and CDO's were the most profitable investments still deemed safe in the global financial market. Fligstein and Habinek argue that banks in mostly rich western states learned from the US banks and effectively copied their actions. They adopted the US-strategies by borrowing in the ABCP market to purchase MBS's and the more exotic CDO's which yielded even higher returns, and thus becoming a part of the same market. They borrowed short term to invest in long term mortgage securities; they borrowed short to go long. Consequently, as the interbank loan market dried up none of the banks were able to find credit to repay their short-term loans. The banking system went belly up. (Fligstein and Habinek, 2012)

Icelandic banks were heavily involved in this process, being one of the countries with highest amounts of American MBS's to GDP in 2007 (Fligstein and Habinek, 2012). Iceland does however not appear as one of the ten largest sponsors of ABCP in 2007, but was extensively

³⁰ A CDS is a kind of insurance where a buyer can insure a financial asset against default by paying the insurer a premium. The insurer can be a third party, and none of the parties involved have to have a stake in the asset that is being insured. There is no limit to how many can insure the same asset. This market is not officially an insurance market as it is not regulated. (Markusdóttir, 2011)

³¹ The ABCP market is the interbank loan market, also called "shadow banking system". It is used by banks to acquire short-term loans backed by collateral and to lend money which is not needed in the nearest future. Loan durations usually range from 1-90 days, but shorter durations also occurs. Historically this collateral has consisted of government bonds, however in the later years it has also been backed by MBS's and CDO's (Fligstein and Habinek, 2012)

involved in this market to fund their investments and lending to corporations (Fligstein and Habinek, 2012; Jónsson, 2009). In 2007 about two thirds of their total funding came from short-term borrowing (Sigurgeirsdottir and Wade, 2010).

The downturn in the market started as the price of housing stagnated and foreclosures began to rise in the US. As the cash flow dried up the banks found themselves holding MBS's and CDO's worth less than what was paid for them. Loans in the ABCP-market however generally require banks to pay the lender additional collateral if the value of the security they are buying decreases. Loans can also be recalled on a short notice by the lender. The banks, which were both lenders and borrowers, therefore started to knock on each other's doors asking for their collateral or money back, only to realize there were no liquidity available. (Fligstein and Goldstein, 2012; Fligstein and Habinek, 2012)

Many of the international banks realized what was about to happen in the market already in 2006 and 2007 and started to insure or get rid of their toxic assets (McLean and Nocera, 2011). CDS's became a profitable industry³² of its own, where multiple international actors bought insurances on the same assets – sometimes with inside knowledge about their probability of default (McLean and Nocera, 2011). The Icelandic banks also massively increased issuing CDS's from July 2007³³ (See Figure 11) (Fatalla, 2012; Jónsson, 2009). The Icelandic banks were in other words participating in the transnational bank market and adhering to the same conception of control (e.g. the common understanding for how to make money) as the other large western banks.

The banks rolled over as they couldn't repay their creditors. The three major banks were nationalized, divided across the lines of domestic and foreign assets (See Figure 12), and 2 out of

³² The most famous example is how the AIG made extreme amounts of money from the premiums by issuing these insurances without paying much attention to the assets which they were insuring. Later they would receive a full bail-out by the US government to secure the assets of the insurers. (McLean and Nocera, 2011)

³³ Economists (Fatalla 2012, Markúsdóttir 2011, Jónsson 2009) view the CDS spread of banks as an indicator of the probability for default. When the financial markets are skeptical to a bank and believe it is about to default they purchase insurances against assets in these banks. Economists therefore explain the heightened CDS spread of Icelandic banks as lack of market confidence in their operations – serving as proof that Icelandic banks were using unsustainable strategies and that the crisis was caused by their mismanagement. Sociology of markets views CDS's as a popular strategy for making money (for both the buyer and the issuer of the insurance) which is part of the conception of control at the time. The implication is that the Icelandic banks were a part of a larger international market which was using similar strategies – abiding to the same conception of control. Viewing the Icelandic crisis as mismanagement would yield political recommendations based on changing the management. Viewing the crisis and strategies as a part of a larger conception of control in a transnational field would yield political recommendations based on regulating the market strategies such as the use of CDS's. Not surprisingly, governments have chosen the former over the latter.

3 domestic banks were re-privatized as a part of the settlement for nationalizing the banks (Finance, 2009; Mósesdóttir, 2011b). The foreign assets remained under the control of foreign creditors (Jónsson, 2009). This was a deviation from the general European response where the banks generally were bailed out without splitting them up (Ertürk et al., 2012). The government has kept control over Landsbankinn, while Islandsbanki (former Glitnir) and Arion Banki (former Kaupthing) was given back to the creditors of the old banks (See Figure 12, Table 8, and Table 9) (Landsbankinn, 2014).

Domestic deposits and loans were transferred to the new banks written down by 45% -65%, and securities and liquidity were issued to the old banks to cover the transaction (Finance, 2009; Mósesdóttir, 2011b; Sigurgeirsdottir and Wade, 2010). The old banks and international assets were held in a receivership by winding-up boards representing the international creditors – meaning they operate as asset management companies seeking to return as much value as possible from the assets they control to the creditors (Jónsson, 2009).

The solution still effectively bankrupted the Icelandic Central Bank as they had given much of their liquidity in exchange for “love letters”, and Iceland had to seek help (Jonsson, 2012; Sigurgeirsdottir and Wade, 2010). The sitting government since 2007 (IP and SDP) reached out to the IMF, Russia, China, and the Scandinavian countries for possible loans (IPU, 2008; Mósesdóttir, 2011b). The attempts with Russia and China stranded, and the Scandinavian countries would only support Iceland if they agreed to the terms of the IMF; restructuring through austerity³⁴ measures and solve the pending dispute with the British and the Dutch over the Icesave accounts (Mósesdóttir, 2011b).

The Icesave accounts refers to the depository accounts provided by Landsbankinn abroad which attracted large sums of money due to their high interest rates, mostly from the UK and Netherland (Mósesdóttir, 2011b). The deposits of the Icelandic people in the old banks were insured by the depository guarantee, where 5% of the depositors owned about half of the guaranteed amount

³⁴ Austerity is a fiscal policy reflecting the views of neoclassical economics on sovereign debt. Austerity is a set of policies directed towards contracting government outputs and increasing inputs to pay back the sovereign debt (Konzelmann, 2012). Contracting outputs is done by cutting in government spending, and inputs increased by raising taxes (Konzelmann, 2012). The theory holds that high sovereign debt causes markets to be inefficient (Avent, 2013). Austerity is therefore a tool to scale back government intervention and restores the efficient market. Paying back sovereign debt is also important to protect private investors in sovereign bonds and banks, and ensure their property rights (Konzelmann, 2012).

(Mósesdóttir, 2011b; Sigurgeirsdottir and Wade, 2010). It has however been a large dispute about whether or not the foreign depositors also were covered by such a guarantee through the EEA-agreement (Mósesdóttir, 2011b; Sigurgeirsdottir and Wade, 2010). The UK enforced anti-terrorist legislation in order to freeze Icelandic assets in an attempt to push the Icelandic government to agree to repay the depositors, and the pressure from the UK, Dutch, IMF, and the Scandinavian countries has been huge (Mósesdóttir, 2011b; Sigurgeirsdottir and Wade, 2010). The IMF and the Scandinavian scheduled loan payments were put on hold due to this dispute (Jonsson, 2012; Mósesdóttir, 2011b; Sigurgeirsdottir and Wade, 2010). The depository schemes of the UK and Netherland decided to pay back the Icesave deposit owners, and they now hold the claim against the old Landsbankinn for these assets (ICA, 2014a). Legislation passed in Iceland after the crisis has made the deposits priority claims, meaning the old Landsbankinn are prioritizing to pay back the largest claims (from the UK and Netherlands) and have done so gradually (ICA, 2014a). The winding up board of old Landsbankinn is today milking their assets to pay down this debt, the biggest of which is the bond³⁵ issued by the new Landsbankinn to acquire the old Landsbankinn's domestic assets (ICA, 2014a).

Iceland entered into a loan agreement with the IMF (Mósesdóttir, 2011b). The agreement included austerity measures³⁶ to reduce the government deficit and turn it into a surplus in 5 years, capital controls, and increasing the interest rate of the Central Bank from 12% to 18%³⁷ (Mósesdóttir, 2011b). The IMF sent a team of advisers to assist the administration of the economy (Júliússon and Helgason, 2013; Sigurgeirsdottir and Wade, 2010).

The capital controls were established in order to stop foreign investors to withdraw their investments in Icelandic assets which contributed to the plummeting value of the Krona (SA,

³⁵ There is some controversy as to how this bond was issued. According to the Icelandic bankruptcy laws, all claims following a bankruptcy should be settled in ISK. This bond however, was given in Euro and GBP, meaning that the claims of the UK's and the Dutch's depository schemes are paid back in foreign currency by the old Landsbankinn, whose primary asset to milk is this bond. This serves as a huge advantage for British and Dutch government, as they otherwise would be having problems exchanging the ISK due to the capital controls, and the foreign currency debt of Landsbankinn weakens the recovery of the Icelandic krona - thereby weakening the purchasing power of the Icelandic people. (ICA, 2014b)

³⁶ The IMF later decreased their fiscal targets for Iceland in 2010, thereby admitting that their original austerity targets were too harsh (Jonsson, 2013-2014; Mósesdóttir, 2013).

³⁷ Increasing the interest rate has caused the foreign investors to get a better return on their investments, meaning their losses have been somewhat negated (Mósesdóttir, 2011b) . It has also caused investors to put their money in the banks instead of investing which have served the banks well, but has also neutralized fiscal stimulus (Mósesdóttir, 2011b).

2014). In practice they ensure that creditors and investors can't pull out of their Icelandic assets by exchanging them to foreign currency (SA, 2014). All the big international companies along with some of the major Icelandic companies operating on Iceland have however gotten exemptions from the capital control (SA, 2014). The capital controls are still in place to this date (SA, 2014). Removing them would massively increase the debt-burden of the large proportion of households with index-based loans (Mósesdóttir, 2011b). 20% of the household debts were tied to the exchange rate of the Krona and 90% of the interest rates and principals were tied to inflation indexes, so as the value of the Krona plummeted and inflation increased the households became massively indebted (Mósesdóttir, 2011b; Sigurðsson and Sveinbjörnsson, 2010).

The Icelandic debt to GDP soared. Wages decreased, unemployment rose, and standards of living fell (Ólafsson, 2011b, c, 2012a). 65% of corporations and 39% of households were technically bankrupt (Jonsson, 2012). Icelandic pension funds transferred their losses to the pensioners by cutting about 20% in their pension payments (Arnarson et al., 2011; Mósesdóttir, 2011b). The devaluation of Icelandic assets through the value of the Krona helped the export industry to stay competitive, however it also caused Icelandic households to take big cuts in real earnings (Mósesdóttir, 2013; Ólafsson, 2012b). Inflation increased rapidly causing a rapid drop in real wages (See Table 4) (Jonsson, 2012; Sigurðsson and Sveinbjörnsson, 2010; Ólafsson, 2012b).

The unions started to bargain for real wage increases as their "stability pact" with the SA fell apart (ASI, 2014). They were active proponents of expanding and boosting the welfare system to deal with the crisis (ASI, 2014). The unions were however also supporters of the IMF agreement, and have protected their role as financiers (Mósesdóttir, 2011b; Valdimarsson, 2013). They refused to abolish the indexation of mortgages which would hurt the profits of the OPF's (Mósesdóttir, 2011b; Valdimarsson, 2013). The OPFs invests in large amounts of mortgage securities which finances the mortgage market (Lokhandwala, 2014; Mósesdóttir, 2011b). 56,8% of their net assets are tied to such fixed income-securities (Björnsson, 2014). Their profits of over 11% in 2013 were in other words directly tied to the interest rates of the mortgages (Lokhandwala, 2014; Mósesdóttir, 2011b). The ASI has also openly supported IMF's austerity plan, joining the EU, and adopting the Euro (Mósesdóttir, 2011b).

Weekly demonstrations outside the parliament building since October 2008 eventually forced the government and the leader of the Central Bank to resign in January 2009 (Júliússon and

Helgason, 2013). The movement that occupied the square of Reykjavik didn't spring out from worker organizations (Júliusson and Helgason, 2013). The labor organizations were still active in the sense that they were strategically cooperating with the protest-organizers (ASI, 2014). By request from the organizers they however refrained from taking a leading role of the movement as they wanted the demonstrations to originate outside the prevailing power structure (ASI, 2014). Many of their members and employed personnel joined the demonstrations, but only two unions in the northern and western regions of the country organized demonstrations after the crisis (ASI, 2014; Jonsson, 2013-2014). The movement against the sitting government was waged by activists from the social democratic party and the left-green party, gay activists, women's rights groups, heterodox economists, well known authors, environmentalists, anarchists, and neo-Marxists (Júliusson and Helgason, 2013; Mósesdóttir, 2011b).

New elections were held and a coalition of the Left-Green Movement and the Alliance (SDP) supported by the Progress Party (PP) came to power in May 2009 (Júliusson and Helgason, 2013). They chose to honor the austerity agreement made with the IMF (Mósesdóttir, 2011b). They also increased taxes on the top income earners and shielded those with less income (Andersen et al., 2011; Ólafsson, 2012b). Taxes on the increasingly profitable export industry and pension funds were however avoided (Mósesdóttir, 2011b). The new tax regime should also be seen in the light of two decades with transferring the tax burden from the higher end of the income scale to the lower end (See Table 10) (Ólafsson and Kristjansson, 2010). One important contributor has been the taxation of financial earnings, which is still considerably lower than that of labor and pensions income (Affairs, 2009; Davidsson, 2012; Valtýsdóttir, 2013).

The state response was effective at reducing the impact of the crisis on lower income earners, and economic differences decreased after the crisis (See Figure 9 and Figure 10) (Ólafsson, 2012b). Labor was still significantly devalued through inflation and unemployment (Ólafsson, 2011b, 2012a, b). Job forums and educational support programs were created to get people into higher education or to help them find jobs (Ólafsson, 2012a). Minimum social security pension increased somewhat (Ólafsson, 2012b). Expenditures on disability pensions and old-age pensions for the public sector were directed at the lower-income pensioners (Ólafsson, 2012b). This does however not include the OPFs which are the largest contributors to old-age pensions in Iceland, limiting the effect of this policy (Ólafsson, 2011c). Households were allowed to

withdraw private pension savings to pay their mortgages (Mósesdóttir, 2011b). The effect has been similar in size as other countries' stimulus packages in terms of GDP (Mósesdóttir, 2011b). It has also encouraged the financially distressed to "kick the can down the road" in terms of dealing with their financial situation (Mósesdóttir, 2011b). A roof was put on individual's costs towards prescribed medication (2011) and spending on child benefits were increased (though not in real terms) (Finance, 2014; Ólafsson, 2012a). Temporary measures like free dental care for children in low-income families (2011) also helped to shield them from the effects of the crisis (Ólafsson, 2012a). Government expenditure on unemployment benefits increased massively and extended from 3 to 4 years, however this is linked to the massive rise in unemployment (Agnarsson, 2011; Ólafsson, 2012a, b). Eligibility testing of unemployment insurance was intensified for the self-employed (Agnarsson, 2011). Unemployment benefits and minimum wages were increased, but remained stagnant to inflation (See Graph 1) (Grönvold, 2012; Ólafsson, 2012a, b). General state expenditures declined adjusted for 2012 inflation on health and in particular hospitals, education, and road transport services (StatisticsIceland, 2013a). Notably the real time expenditures on education were cut as more people were entering the education system, putting more pressure on its quality (Ólafsson, 2012b).

The IMF restructuring terms had favorable consequences for the export sectors and the pension funds, as they were largely untouched by the austerity measures (Mósesdóttir, 2011a, b). By incentivizing investors to deposit their money through the increased interest rates they also reduced the investments, thereby neutralizing the fiscal stimulus attempts by the state (Mósesdóttir, 2011b). Different debt relief programs were put in place in cooperation with the IMF, and tax rebates on interests paid on mortgages (Ólafsson, 2012b). These have been criticized for being issued on a case-by-case basis instead of being universal write downs, and in that sense failing to transfer the discount enjoyed by the banks when acquiring the domestic loan portfolios (Mósesdóttir, 2013). The debt-relief process has also been dragging out, causing what many considers to be unnecessary hardships for those waiting to get their case up for review (Mósesdóttir, 2013). The debt-relief measures have further been targeted at those with negative equity in their housing, the majority of which have been low-end and the high-end of the income distribution, meaning those at the middle have disproportionately been effected by the debt-burden (Mósesdóttir, 2011b, 2012). The index mortgages have also increased far more than their wages, further adding to the debt burdens (Gylfason, 2014). According to poll data gathered by statistics

Iceland around 50% of the households were struggling to make the ends meet in 2010, 2011, and 2012 (StatisticsIceland, 2013b). The debt-burden created after the crisis has seemingly negated the effect of the resurging real wage (See Table 4) on alleviating economic hardships.

A bank tax was implemented in 2011 to incentivize lower balance sheets, and is expected to rise given the 2014 budget (Davidsson and Thorleifsdottir, 2013; Finance, 2014). This has become an important source of income for the state (Davidsson and Thorleifsdottir, 2013). A special tax for 2012 and 2013 on financial entities was also implemented as a temporary method to fund interest rate subsidies to households (Davidsson and Thorleifsdottir, 2013). Two other significant tax changes have been successfully reduced, contested, and revised, through the efforts of private IO's – a tax on financial companies (FAT) and a tax on the fish industry (Davidsson, 2013; Davidsson and Thorleifsdottir, 2013; Finance, 2014; Sigurðardóttir, 2013; Valdimarsson, 2012)

The “left-wing” coalition decided in two different parliamentary votes to repay the foreign creditors, one in 2010 and one in 2011 (BBC, 2011). Both times the President, which holds mostly a symbolic role, handed it over to the people for a referendum (BBC, 2011; Sigurgeirsdottir and Wade, 2010). Both times the bill was voted down, with 93% voting no in 2010 and 58% in 2011 (BBC, 2011). Membership talks with the EU were also initiated (ASI, 2014). The decision caused internal splits, but drew legitimacy from the labor market partner's stance on the issue (ASI, 2014).

The mix of austerity measures, failure to uphold election promises, attempts of paying back foreign creditors and depositors, the nationalistic and conservative counter movement created by efforts to join the EU, and internal splits within the parties contributed to the fall of the “left-wing” coalition in the 2013 election (ASI, 2014; Bergmann, 2011; ICA, 2014b; SA, 2014; Ólafsson, 2011a). The new coalition consisted of the old neoliberal parties which had brought in new faces; the IP and the PP (Sigurðardóttir, 2013). The new government plans to reduce taxes for corporations and financial entities, and to increase taxes on the banks (Finance, 2014). They also promise to reduce taxes for middle income groups and continue the criticized IMF led mortgage debt-relief programs (Finance, 2014).

7 FIELD ANALYSIS OF THE RESTRUCTURING OF THE BANK SECTOR

A field analysis of the restructuring of the bank sector provides insights into the social process of state decisions within the markets of the Post-Fordist economy. This helps us better understand the different interests in play after the crisis and gives a better understanding of the Icelandic response. The tricky part is to establish exactly who is member of the strategic action field (Fligstein and McAdam, 2012:167). In this case I will focus on the actors that routinely take each other into account when they act; the state and the three major banks - Glitnir, Kaupthing and Landsbankinn. There will be, however unfortunate, not found time to elaborate upon exactly which parts of the state-, or other possible actors, that also inhabit the field in question, but it will in that sense lay the groundwork for possible future studies. The field analysis takes into consideration the suggested roadmap of Fligstein and McAdam for studying fields in a state of crisis.

Kaupthing emerged as a brokerage firm and turned into an investment bank by making use of innovative actions copied from American banks (Jónsson, 2009). The strategies were based on short-term borrowing to invest in long-term financial products and aggressive lending to generate fees (Fligstein and Habinek, 2012; Jónsson, 2009). Their strategies were widely successful and changed the dominating principals within the Icelandic banking market – e.g. the conception of control. To keep their positions within the market Glitnir (then Islandsbanki) and Landsbankinn had to adopt the strategies or accept falling behind (Jónsson, 2009). Expansions and acquisitions abroad became important to increase the scale in which the strategies took place. The new strategies changed the role structure of the market and turned Kaupthing into one of the dominating actors within the market (See Table 11).

7.1 INTERNAL AND EXTERNAL PROCESSES LEADING UP TO THE CRISIS

I have argued that the banks' interconnectedness and participation in the larger international field of finance and banking is what caused the crisis. Kaupthing, Glitnir and Landsbankinn came to share an understanding with other western banks regarding acceptable forms of actions and rules that structured their everyday reproduction. Acceptable actions were for instance short-term borrowing and investing in long-term financial products, acquisitions and mergers throughout the

western countries, affecting media and financial reports to produce positive narratives about their actions, and aggressive lending to increase the generation of fees.

The external shock that caused the banks to roll over was the drying up of intra-bank loan market (the ABCP market) (Fligstein and Habinek, 2012). Several internal processes accelerated the crisis. The banks had a huge loan exposure to each-other due to intra-bank lending and the boosting of each other's stocks (Jónsson, 2009). Internal auditing mechanisms eroded, and the banks lent excessively to corporations with close connections to the banks (Jónsson, 2009). Managers and employees took out loans in their respective banks to fund share purchases, and Credit Default Swaps was issued to obtain liquidity to manage their short-term debts (Jónsson, 2009). There were also cases of predatory lending³⁸ to individuals and Icelandic firms (ICA, 2014b; Jónsson, 2009).

7.2 PROTECTING THE STATUS QUO

The state acted as a protector of the status quo in the bank market throughout the crisis, and defended the banks publicly on several occasions. The Parliamentary Special Investigative Report found that both the PM (from the IP) and Minister of Foreign Affairs (from the SDP) held conferences abroad in 2008 to strengthen the public image of the Icelandic banks, and thereby increasing their credit rating (Arnarson et al., 2011). The Minister of Education questioned the motives behind the critique of the banks, and stated that the critical voices should re-educate themselves³⁹ (Arnarson et al., 2011). In 2006 the Norwegian PM was requested by his Icelandic colleague to intervene with the Petroleum Fund of Norway's (PFN) decision to purchase CDS's against the default of the Icelandic banks (Jónsson, 2009:chp 4). Shortly after the request was made the PFN sold their CDS's, and the person responsible for the investment decision lost his job (Jónsson, 2009:chp 4).

³⁸ Predatory lending means that the lender persuades the borrower to accept loans with conditions that have disadvantageous for the borrower but beneficial for the lender. Examples include high fees, and complex mortgages tied to for instance indexes or yearly interest rate increases. Complex mortgages usually end up serving the lenders more than borrowers. These loans often exploit grey areas within definitions of what is legal or illegal, and are therefore immoral, however not necessarily illegal. (McLean and Nocera, 2011)

³⁹ The same minister was later found to have large stakes in Kaupthing (Arnarson et al., 2011).

The chamber of commerce ordered two reports by internationally renowned economists stating that the Icelandic banking system was healthy and functional (Sigurgeirsdottir and Wade, 2010). The first cost \$135,000 and was written by Frederic Mishkin⁴⁰ (Sigurgeirsdottir and Wade, 2010). The second was written in 2007 by Richard Portes and cost £58,000 (Sigurgeirsdottir and Wade, 2010). The papers were requested to counter the effect of the increasingly critical reports that were coming out of foreign media (Jónsson, 2009). The Icelandic state also managed to give a positive spin to a critical IMF report on their economy (Sigurgeirsdottir and Wade, 2010). Furthermore they successfully lobbied to change the wording in the internationally published version of the report, thereby toning down the criticism of their banking sector (Sigurgeirsdottir and Wade, 2010).

The incumbent banks responded to the upcoming crisis by intensifying the use of their dominating strategies. The structure collapsed as it was no longer possible to continue with the dominating conception of control. The banks turned to the government for help (Jónsson, 2009). The banks tried to control the agenda which would regulate the new relations in the field by intense lobbying (ICA, 2014b; Jónsson, 2009; SA, 2014). Plans were drawn up where Landsbanki and Kaupthing would divide Glitnir between them, or where Kaupthing would acquire Glitnir (Jónsson, 2009). These plans are still being contemplated and lobbied for by the restructured banks (ICA, 2011). The government was however looking for a solution resembling the American response to the collapse of the Washington Mutual⁴¹, where the government would restructure the banks before selling them off (Enrich et al., 2008; Jónsson, 2009). The state was both unwilling and unable to provide funds for a complete bailout of the bank sector (Jónsson, 2009). The banks later adhered to this solution as a last way out, Glitnir only followed by Landsbankin and Kaupthing by about a week (Jónsson, 2009).

As the bank structure collapsed, new actors and possible contesters to the bank market did not enter the field. Possible new actors could have come from the international bank market. The market structure was however heavily protected by domestic institutions. The government for instance favored the Icelandic banks through legislation and publicly defended them on several

⁴⁰ Called “Financial stability in Iceland”. Later changed to “Financial Instability in Iceland” on his CV after the crash. (Sigurgeirsdottir and Wade, 2010)

⁴¹ Washington Mutual was liquidated by the US after the largest bank failure in US history, and sold off to JP Morgan (Enrich et al., 2008)

occasions (Arnarson et al., 2011; Jónsson, 2009). International banks therefore couldn't perceive an opportunity to enter the Icelandic field. The lack of challengers to the banking field meant that the new field necessarily had to be structured around the old players or let the banks fail. Banks are however financial intermediaries between all things in society, and if the banks are not able to lend money the whole structure of the economy fails. A variant of the former solution could be to merge the banks into one or two entities.

7.3 EXTERNAL ACTORS SHAPING THE OUTCOME

Important external actors shaped the trajectory of the new settlement in the bank market. Financial experts were for instance called in from JP Morgan to assist with the restructuring plans and the rebuilding of the banking system (Jónsson, 2009). The British rallied the EU-countries to support their claim on Icesave (Jónsson, 2009). Iceland couldn't provide liquidity at any central banks in Europe or the US, and the Scandinavian countries would only help if they went through with the IMF agreement (Jónsson, 2009; Mósesdóttir, 2011b). The IMF agreement protected the new banks by enforcing capital controls which preserved their liquidity as the foreign creditors couldn't withdraw their assets, but also shut them out of the international bank market (Affairs, 2012). They also pressed the central bank to increase the interest rates which incentivized investors to put their money in bank accounts and thereby providing them with more liquidity (Mósesdóttir, 2011b). The labor unions have also contributed by refusing to abolish the indexation of mortgages, thereby continuing this particular income stream for the banks and the OPFs (Mósesdóttir, 2011b).

7.4 THE NEW SETTLEMENT AND THE EFFECTS ON PROXIMITY FIELDS

The terms of the new settlement were that a new set of domestic banks were created; Landsbankinn, Arion Banki, and Islandsbanki. All domestic savings and loans to individuals and firms were transferred to the new entities from the old banks with significant discounts (Kristinsson, 2012; Mósesdóttir, 2011b). Foreign assets and loans were kept in the old banks so it later could be sold to compensate the bond holders. The old banks essentially operated as asset

management corporations (and still do) (Jónsson, 2009). With advice from Morgan Stanley and in cooperation with the foreign creditors the majority shares of Arion Banki and Islandsbanki were given back to the creditors of Kaupthing and Glitnir to compensate their losses (See Table 8 and Table 9) (Finance, 2009; Mósesdóttir, 2011b). The creditors managed in other words to mobilize their networks to re-acquire their lost assets. Most of the original creditors have later sold their shares to hedge funds and other banks, expecting a healthy return on their investment (ICA, 2014b). Landsbankinn has like Freddie Mac and Fannie Mae returned to state ownership after a brief period in private hands, but the interests of the creditors has been maintained. The ownership structures have in that sense changed, but the domestic firm structure has been kept in play.

The banks are today still operating as conglomerate banks; meaning they provide mortgages, stocks and bonds, retail banking, and corporate loans and financial services. Historically these businesses have been separated through legislation (Jónsson, 2009). The banks have however been largely shut out of the international markets due to the capital controls, their turnover in the interbank loan market has plummeted , and trading at the stock exchange reduced as there have been fewer listed companies to trade with (Affairs, 2012; ASI, 2014; SA, 2014). Arion Bank have for instance just recently in 2013 been able to issue bonds on the Norwegian stock exchange (Bank, 2013). The profits of the banks have not yet been transferred to the owners but are kept as liquidity, as the foreign creditors will likely exchange them to foreign currencies and thereby violate the capital controls (Mósesdóttir, 2014).

The banks have been active in the liquidation process of bankrupt Icelandic companies, and thereby gained considerable domestic assets after the crisis⁴² (ICA, 2014b). The majority of companies on Iceland went technically bankrupt after the crisis and were at the mercy of the banks (ICA, 2014b; Jónsson, 2009). They have also strengthened their domestic position by acquiring smaller Savings and Loans banks, increasing their market share from 85% before the crisis to about 95% since 2011 (ICA, 2014a; Jónsson, 2009). From 2009-2013 the banks had a

⁴² The Icelandic Competition Authorities have applied several conditions with the liquidation of major Icelandic companies, requiring for instance the banks to sell the companies within a certain time frame. The conditions were imposed if holding on to the firms meant that the banks would cause horizontal or vertical integration in the market which the firm was a part of and thereby “limiting competition”. The banks themselves have been responsible for overseeing the application of these conditions. There are also several cases where firms have not been liquidated by the banks, but still effectively are under their control due to their high debts. (ICA, 2014a)

13% return on their shares, meaning that the new settlement has made them very profitable (Mósesdóttir, 2014).

The Competition Authority has had a strong influence on the new settlement through their reports and opinions. They have been strong proponents of “securing competition”, which means keeping the three banks separated and include private elements in the market. They have also ensured that the banks were unable to keep some of the major Icelandic companies, which would give them a positional advantage within the new field structure. (ICA, 2014b)

From Table 12 we see that the market shares between the three major banks in 2012⁴³ were generally evenly distributed (see Table 12). It means that the new settlement within the bank market has been a refurbished status quo where the dominating actors successfully have defended their positions, despite the spectacular meltdown of their prior structure.

The new settlement also affected proximity fields in that the banks were making money of liquidating firms, merging them, or selling them off. The OPFs have in accordance with the goals of the ASI for instance actively been sweeping up many of the liquidated firms from the banks (e.g. Hagar and Icelandair) (ASI, 2014; ICA, 2014b). The settlement has that way strengthened their position and importance within the Icelandic economy. It also means that collective savings are increasingly used as investments within domestic firms, thereby connecting the fate of peoples’ pensions to the well-doing of key Icelandic firms - potentially causing even larger consequences for the Icelandic society if they were to perform poorly. The effect of company mergers on their subsequent markets might be too early to measure. Judging from the heightened use of formal rulings, fines, and complaints coming out of the ICA due to various forms of market abuse and rule bending (see en.samkeppni.is/resolution/decisions for examples) one can assume there are still changes occurring within the role structures of many different markets (ICA, 2014b).

⁴³ Figures for 2008-2011 are too unreliable to use due to the crash and liquidation of several companies during this period which affects the shares of the banks in the market, as well as Arion Banks use of a Special Purpose Vehicle (separate company) to originate loans to individuals (ICA, 2014b). By 2012 most of the dust had settled after the crisis, and we can only from here start to see how the banks have come out of the process in terms of shares in the bank market.

7.5 WHAT WE GET FROM THE FIELD ANALYSIS.

The field analysis shows us why the current structure came about, and gives important about the power relationship between the societal actors on Iceland. As the crisis hit, the actors within the bank market were not able to reproduce their positions in the field and went to the government for assistance. Who would survive was up for grabs. The government made significant attempts to retain the pre-crisis order, and have successfully enabled the three incumbent actors to emerge from the crisis. This is important to explain as the state could have merged the banks and created a totally different structure, but chose not to. The market structure with three conglomerate banks dominating the field is what the state knew worked, and by rebuilding the oligopolistic structure they could create a stable structure. Given that banks functions as financial intermediaries, stabilizing the bank market was important for the whole structure of the Icelandic economy. States base much of their legitimacy from the people on their ability to build and maintain stable market structures (Fligstein, 2002). The state was also acting as a governance unit for the market – e.g. a protector of the dominating role structure. Even though the dominating principals (e.g. conception of control) failed, a governance unit will still as far as possible seek to retain the dominating structure (Fligstein and McAdam, 2012). In a similar fashion the state created a refurbished status quo.

Through capital controls and tax incentives to reduce their balance sheets the state focused on reducing the scope in which some of the strategies from the prior settlement took place, thereby serving to insure the state interests in the market (e.g. stable market) (Mósesdóttir, 2011b). By keeping a stake in the market the state could also better assert their power within it. The theory holds that social relationships of key national firms and the state become strongly embedded within societal institutions and prove resilient even during periods of change (as for instance privatization) (Fligstein, 2002; Naughton, 2007:chp 13; Vogel, 2005). A firm like Landsbankinn with long-lasting historical connections to the state will therefore have created strong institutional and social ties which come to affect the state's decisions during a crisis (Fligstein, 2002). Not surprisingly therefore, Landsbankinn, which held the closest historical connection to the state out of the three banks, was kept under state control. Furthermore, the state made sure to secure the interests of creditors by providing favorable bonds from Landsbankinn and re-privatizing Glitnir and Arion Banki. This also highlights the different roles played by the state, as it can function as

a governance unit, pursue its own interests, and at the same time be captured by capital interests. Field Theory views states as actors within the fields (e.g. governance unit) or as an actor within the greater societal field (e.g. their need to create stable market), or sometimes both (Fligstein and McAdam, 2012:173). In this case we see that state has taken up a complex, one could argue contradictory, set of roles.

The IMF, the unions, the ICA, the financial advisers, and the other European states also pursued the interest of capital in this case, pointing to how the financial markets were able to mobilize external actors to come to their aid. The new settlement has interestingly strengthened the banks- and the pension funds' stakes within Icelandic firms. The banks have historically had close connections to Icelandic firms, however they have not been controlled through ownership to the same extent as many are today (ICA, 2014b; Jónsson, 2009). The role of the pension funds as large owners of key Icelandic firms also signals a new development within Icelandic Capitalism.

The analysis brings out the puzzles in the state decisions to rebuild the bank market. The outcome is a result of the state's role within the market, their past relationship to the market, their need to create a stable market, and the powerful interests of capital mobilized through domestic-, national-, and international institutions. In other words, the analysis brings out the complexity in the roles played by the state, and further analysis would be needed to shine more light onto the interplay between these roles. Importantly, the analysis also shows that the outcome is a result of the social relationships which guides market action as well as modern capitalist structure, meaning an analysis of modern capitalist structures would be unable to account for the puzzle alone. The analysis further highlights the power of the state as an independent actor in the modern capitalist structure, which is not clearly captured by a Post-Fordist analysis. Without understanding the interests and role of the state, it would be impossible to explain why they developed the new structure. To understand how modern capitalist structures affect political decisions one therefore also needs to understand the markets which make up the structures. The power of the state as an independent actor within the Post-Fordist economy is otherwise easily overlooked.

8 ANALYSIS OF STATE DECISION-MAKING

So how can we explain the state decisions made after the crisis in 2008 in a more general view? On the one hand the Icelandic government has made extensive efforts to shield low-income households through changes in the tax structure and debt-relief measures. They have introduced capital controls to stop capital flight which would further devalue the currency, and with the help of the labor market partners they have used welfare services to assist those in danger of falling out of the labor market. The labor market partners have also increased real wages through collective bargaining, after accepting a period of decreasing purchasing power in the immediate aftermaths of the crisis. As a result of their efforts the indexes for economic inequality has been severely reduced, which is the opposite of what we see in other countries such as Ireland (See Figure 9 and Figure 10). On the other hand they have introduced heavy austerity measures by cutting in public spending and eroded public services through funding. Social assistance programs have trailed to inflation and user fees for social services increased. This disproportionately affects those with lesser income, places the burden of the crisis on future generations, and follows the trends in Europe. An increasing number of people are experiencing financial hardships, particularly the middle class which haven't benefited from the debt-relief measures.

Field theory explains state decisions as the outcome of the relative power between the coalitions of market actors; labor, state, and capital (Fligstein, 2002). Post-Fordism further looks at how the capitalist accumulation structures produce power structures with strong interests in the outcome of state decision-making and dependent relationships to production networks, thereby creating limitations and incentives to state decision-making.

The active labor movement on Iceland has significantly contributed to their egalitarian response through collective bargaining and their participation in the welfare system. Through the combined efforts of the labor unions and the state the response has kept unemployment well below the European average, redistributed wealth by through taxes and real wage increases, and kept up private consumption so the economy has been able to grow after the crisis (Ólafsson, 2012a, b). This signals that labor continues to hold significant power on Iceland.

On the other hand the reengineering of labor unions interests points to the weakened position of labor. By eroding the social services, wages, and pensions, labor has generally been devalued as a result of the crisis. About half of the Icelandic households find themselves in financial difficulties. The unions seek to control welfare services which mean increased privatization of the welfare system. Still, the capital controls and the currency are viewed as some of the most important issues as they allegedly limit growth and the capital accumulation of the OPFs (ASI, 2014). The same OPFs have strengthened their domestic position by acquiring key Icelandic firms while transferring the losses endured during the crisis to the pensioners. This also highlights how the risks of investments are transferred to Icelandic laborers as their collective savings are at the hands of financiers and investors speculating with their future. The unions have taken a “no other alternative” - approach to the debate about joining the EU (ASI, 2014; SA, 2014). The “no other alternative” - approach further signals their institutionalization within the existing national and international power-regime which would benefit from the continued liberalization of the Icelandic economy. In that sense it is another example of how their reengineered role within the Post-Fordist accumulation regime is increasingly attuning them to the interests of capital. This development would also explain why the protest-organizers after the crisis in 2008 didn't want to be publicly affiliated with the unions. Instead of challenging the current accumulation regime the unions have instead become proponents for its expansion.

This contradictory role of the unions serves as a great puzzle. Field Theory provides insights by holding that the relative powers of the organized interests are embedded within a variety of societal institutions (Fligstein, 2002:45-46), and that the power of labor thus is institutionalized in other ways than just through the unions. Indications can be found by looking at who led the demonstrations and the uprising against the sitting power-regime. Labor-power seems also to be institutionalized within the Left-Green Movement, parts of the SDP, women's rights groups, gay activists, and other groups critical of Capitalism. It also seems to be heavily anchored within the state institutions, as is highlighted by the example of how the state responded to the shortcomings of the unions by legally require temporary work agencies to provide secure working conditions and minimum wages in 2005. Thus, even though the unions have been reengineered towards capital interests, the institutionalization of labor power still remains and can assert significant influence.

The state has however also worked to protect their own interest with policies diverted at creating stable market structures. The state has limited the banks' capital accumulation through tax incentives and maintained control over Landsbankinn, thereby asserting control over the bank market. The capital controls also serve to protect the domestic banks by ensuring that foreign creditors can't withdraw their money, and thereby strengthens their liquidity position. This stabilizes the bank market and the currency. Remembering that many still have loans tied to inflation indexes, it also serves to protect labor from increased financial hardships. The capital controls however involves major exemptions for international companies and the largest Icelandic companies. This has been necessary for them to keep importing and exporting goods and handle different currencies. The links to the transnational production structures have thereby been retained. This shows how the Post-Fordist structures limit the policies which the state implements.

The interests of financial markets have been secured by helping the foreign creditors to regain their lost assets. The state gave two of the three nationalized banks to the creditors of the old banks and kept control over one. By issuing a favorable bond to the old Landsbankinn they continuously pay down the priority claims of the foreign depositors, thereby negating some of their losses during the nationalization. It means that the state protected the firms and the interests of the TNC's and foreign states that were holding the claims, but not the prior owners of the banks. The TNC's and the foreign states managed to mobilize domestic- national- and international institutions to aid them in this process. The state was for instance advised by the IMF and actors within financial markets (e.g. JP Morgan) to restore "efficiency" in the market by withdrawing their presence. The UK enforced terrorist legislation on Icelandic assets, and the Scandinavian countries wouldn't provide loans unless they solved the dispute (e.g. returned the lost assets of the creditors). This illustrates the pressure upon the Icelandic state from modern capitalist structures, and how they have shaped their response and adapted to their interests.

The state response to the crisis was further heavily shaped by the austerity measures implemented as a condition for the loan issued by the IMF. The role of the IMF as a lender of the last resort for states is a distinct feature of Post-Fordism, as they rely on the Post-Fordist developments (e.g. financialization) to raise the capital. The theoretical logic of austerity is that sovereign debt has to be repaid quickly as it interferes with market efficiency, and the solution is to scale back state

intervention to restore this efficiency (Avent, 2013; Konzelmann, 2012). The logics of the IMF have been accepted by the broad spectrum of political parties. Fiscal consolidation by reducing public spending means that the interests of institutional investors and hedge funds (which provide the funds to the IMF), and the sovereign bond holders are secured at the cost of the welfare of Icelandic citizens. The state has to reduce spending on hospitals, the quality of education, and transportation, to meet the strict budget goals set by the agreement. To decrease outputs, the state also turns to alternative measures to stimulate the economy like allowing people to draw funds out of their old-age savings and thereby weakening their retirement prospects, leaving them further at the mercy of employers as they either have to take an additional job or continue working past the normative retirement age to make up for the losses. The austerity measures also functions to lock in continued neoliberal practices by the state. Spending cuts generally set in motion further privatization of public resources (Schäfer and Streeck, 2013). Privatization of public resources restricts income opportunities for the state, leaving them with fewer options to fund new policies in the future (Schäfer and Streeck, 2013). Following the general trends in Europe higher proportions of the public budgets are then likely to become non-discretionary expenditures (Schäfer and Streeck, 2013). This serves to limit the effect of democratic choice, as political parties in power will have little leeway to implement new costly policies (Schäfer and Streeck, 2013). The austerity measures therefore effectively work to redistribute power from labor and the state towards capital.

Austerity measures also include taxation to increase inputs (Konzelmann, 2012). The state generally increase tax revenue from immobile assets (e.g. consumption, user fees for social security, citizens), while mobile assets (e.g. finance capital, top 1% of income earners, TNC's etc.) can avoid tax increases through accounting schemes, threats of outsourcing, or relocation (Schäfer and Streeck, 2013). In a similar fashion Iceland responds by focusing on tax revenue from immobile assets. Iceland has diverted their tax regime towards heavier taxation of the higher income groups and reduced taxation of lower income earners. The highest income earners however generally have more mobile assets which allow them to avoid or reduce the general taxation attempts. Taxation of financial earning has increased, but is still considerably lower than that of labor- or pension income. User fees for social services have also increased. Taxation of some of the quota holders in the fish sector, the banks, and financial companies are exemptions to this trend, however powerful interest organizations have managed to significantly water out the

effects through revisions and exemptions. The profits of the OPFs and the aluminum industry have also remained untouched. The state inputs therefore have to come from taxing labor and citizens.

The taxation of immobile assets shows the limitations of an attempted egalitarian tax regime in a Post-Fordist economy, as the highest income earners and dominating firms generally have mobile assets and powerful influence to negate their effect. Further egalitarian policies like debt-relief programs have also served the higher end of the income scale as well as the lower end, and universal write downs of household debts have been successfully resisted. In a similar way the unions have also resisted the abolishing of indexed mortgages for the purpose of securing the profits of the OPFs, causing increased debt burdens for the households and negating the effects of the resurging real wage. This shows how the Post-Fordist accumulation structures waters down the egalitarian policy attempts. Debt, and particularly household debt, is such a big source of the capital accumulation for the financial structures that limiting policies will always be resisted with every mean possible. It also shows how the labor unions worked to protect the profits of the OPFs, thereby how their institutionalization within the Post-Fordist structure made them pursue capital interests at the cost of labor interests and highlighting the paradox of their reengineered interest-orientation.

We see that the theoretical predictions posted by the analysis of the Icelandic economy holds up. The response retains the flexibility of the accumulation regime through continued neoliberal practices, and it protects the network production structures and their operations. The unions have not challenged the flexible labor relations, and the power networks established under Post-Fordism successfully shaped policy outcomes in their favor. We further see that the state policies after the crisis are outcomes of compromises between labor, state, and capital, where all the three actors have asserted significant influence. There are, however, signs that the Post-Fordist accumulation structures affect this power relationship by strengthening the power of capital. The unions' institutionalization within the current accumulation regime attunes them to capital interests, and the state is more often forced to side with capital as their inputs are reduced and they become strapped for discretionary finances while being pressured by international institutions, TNCs, and foreign states. In that sense, Post-Fordism works to strengthen the power

of capital by weaken the power of the state and labor. The state policies have therefore generally served to reproduce the power of capital over that of labor and the state.

The Icelandic response has resisted the general European pattern by making use of egalitarian state policies, collective agreements, and the welfare system to reduce the devaluation of labor. The state's role in the restructuring of the financial sector after 2008 is unique in a European comparative context, however not in a theoretical context (See chapter 7.5 above) (Fligstein, 2002:chp 3). The role of the labor unions has also been unique in the sense that it has asserted significant power for the benefit of labor while at the same time pursued capitalist interests which have watered down the egalitarian response. The extent of the labor and state influence are still what seems to make Iceland unique in a comparative context as it has resulted in a more egalitarian response compared to the European countries while the state has asserted control over the domestic bank market.

There are, however, important general characteristics that they hold similar to the European countries. The general neoliberal response in form of austerity measures and the adaptations to the interests of the Post-Fordist structures points to how the accumulation structures dictates similarities in the outcome of state policies across western capitalist states. The Icelandic case thus highlights the extent of their labor- and state power, but also its limits within a Post-Fordist society. Still, the labor and the state seem to be more effective in influencing the state response on Iceland than the general trends are in Europe. The question then arises of why a seemingly pure Post-Fordist society which extensively embraced the neoclassical economic model of development responded by resisting the pressure from capitalist institutions and made significant efforts to pursue the interests of labor? The answer provided by the Field Theory is implicit in the analysis above, and lies in the relationship between labor, state, and capital which is strongly embedded within societal institutions and are surprisingly resilient through long periods of time. This system can be adjusted, but the major aspects of the system generally remains as changing them would mean that whole sets of laws and social relationships would have to disappear (Fligstein, 2002; Naughton, 2007; Vogel, 2005). A contributing factor could be the severity of the crash, causing better grounds for the mobilization of the organized groups after the crisis. Another contributing factor could be related to size and that the feeling of communitarianism

could play a larger role in a smaller society; however my empirical findings would not be sufficient to back up this speculation.

9 CONCLUSION

I have shown how Iceland fast tracked to Post-Fordism without developing Fordist production structures. To my knowledge, the Post-Fordist production structures in the Icelandic economy have not been accounted for prior to this study, and an extensive part of this thesis has thus been devoted to that task. The examples from the labor market, fish industry, retail sector, aluminum industry, pharmaceutical industry, tourist industry, and the bank sector shows how the Icelandic economy developed network production- and accumulation structures. The spread of the neoclassical economic model to the political parties, academia, and media has produced a hegemonic neoliberal environment where neoliberal practices have become “common sense”. The neoliberal practices was important for developing the flexible conditions like access to credit, - exploitable labor, - flexible employment conditions, commodification of land and culture, and creation of symbolic capital, which the Post-Fordist development relied upon. The dominant actors within key economic sectors are increasingly vertically integrated and have strong horizontal connections. Icelandic production has changed from more supply-driven to become increasingly demand-driven. The Icelandic unions have become heavily institutionalized within the Post-Fordist structures and have adopted capital interests, while at the same time being effective at pursuing labor interests.

The goal of this thesis has been to create informed hypotheses able to explain the phenomenon of Iceland as a deviant case in the European crisis responses. I therefore propose the following hypothesis;

Hypothesis 1a: The political response to the crisis has been the outcome of the power between labor, state, and capital, where the power of capital has been reproduced over that of state and labor, but where the state and labor also have wielded significant influence.

Labor has managed to reduce their devaluation through collective agreements, redistribution of wealth, and by making use of the public welfare system. The labor unions have pursued both

labor interests and capital interests by securing a resurging real wage, developing the welfare system, protecting and expanding the capital accumulation of the OPFs, defended the IMF agreement, and not challenged the flexible labor relations. Furthermore, by lobbying to join the EU and remove the barriers towards accumulation posed by the capital controls and unstable currency they have become proponents of expanding the Post-Fordist accumulation regime. My analysis brings out the conflicting roles played by the unions and the puzzling effects on the Icelandic response where they are effective at pursuing labor interests, but still accept a general devaluation and more precarious conditions for labor in the pursuit of capital interests. Labor has however also mobilized outside the labor unions, through political parties, different rights groups, and anti-capitalist groups. This indicates that the effectiveness of labor also has much to do with their institutionalization outside the traditional labor unions.

The state has asserted control over the bank market, by rebuilding a refurbished status quo, holding on to Landsbankinn, protecting the banks with capital controls, and limited their strategies for capital accumulation through taxation, in order to produce a stable market. They have also pursued the interests of capital by giving Islandsbanki and Arion Banki to the foreign creditors of Glitnir and Kautphing, and issuing a favorable bond to the Old Landsbankinn for their domestic assets. They have in other words played three different roles within the restructuring process of the banks; a protector of the prior market role structure, an organized group with interests in controlling the new structure, and a protector of capital interests. These set of roles played by the state highlights another unique feature to the Icelandic response. The influence asserted by the state and labor is therefore what made the Icelandic response deviate from that of other European countries and shows the extent of their power.

I further find that the Post-Fordist structures limits and waters down the attempted egalitarian response, and turns the outcome in the general favor of capital. This shows the limits of the state- and labor power. The Icelandic response thus also holds many similarities with that of European countries. I therefore hold that;

Hypothesis 1b: The development of Post-Fordist accumulation structures on Iceland reduces the effect of egalitarian policies and shifts the response in favor of capital.

And as a consequence;

Hypothesis 1c: Post-Fordist accumulation structures adjust the power relationship between labor, state, and capital in favor of capital.

The larger domestic and international firms have been given exemptions to the capital controls. Large networks like the aluminum companies, fish quota holders, pension funds, and other financial companies have avoided or reduced taxation attempts by the state. The banks and the Occupational Pension Funds (OPFs) have significantly strengthened their positions in the domestic market through the restructuring process of debt-burdened Icelandic companies, and through the massive increase of financially distressed people relying on their services. The labor unions have protected the interests of the OPFs at the cost of increased indebtedness of Icelandic households and reduced pensions. The debt-burdens have further reduced the effect of the resurging real wage. Targeting the lower income earners in the debt-relief process has also worked to favor the higher income earners. The banks have effectively resisted universal write downs of household debts, ensuring that the debt-relief process continues its dysfunctional practices. The austerity measures from the IMF agreement secured the assets of financial markets and locks in future neoliberal practices by reducing the state inputs. The austerity measures have eroded the public welfare system and social services, and sets limitations to the role of the state in the economy. The state has focused on the taxation of immobile capital over mobile capital to increase inputs, thus increasing taxation of labor assets which tends to be immobile over capital assets which tend to be mobile.

My findings add to the theory in significant ways. I show that the power of the state as an independent actor within Capitalism is easily overlooked by a Post-Fordist analysis. I have also shown the multiple roles played by the state within the capitalist society. These roles need to be understood in order to account for state interventions within markets. The addition of Field theory therefore serves to expand the Post-Fordist analysis and captures developments within Capitalism which Post-Fordism seems to be unable to. It means that Post-Fordist analysis should seek to unravel the trends within the power of the state in addition to that between labor and capital. I have further found that the labor unions have adjusted to the Post-Fordist developments by adapting capital interests which have been pursued at the cost of labor interests after the crisis. This signals the weakened power of labor, and as such adds to the Field Theory in that

developments within the regime of accumulation can change the underlying power relationship within societies.

This thesis has combined two theories which, to my knowledge, have not been combined before. In that sense this thesis breaks new ground in attempting to combine theories of market and human behavior with theories of capitalist development, and can thus be said to advance the study of political economy. I have shown that the theories complement each-other in explaining state decision-making. I therefore hold that future studies of political economy should pay attention to the social relationships guiding market interaction, the relationships between the state, labor and capital, and the ways in which modern capitalist structures affects this relationship, when analyzing state decision-making.

Future research should focus on the strategies for making money in the bank market on Iceland, as they seemingly are cut off from participating in the transnational bank market. The power of financial institutions, domestic and transnational, and their effect on Icelandic political economic decisions have been substantial after the crisis, and studies revealing their strategies for capital accumulation will yield important insights into how they will attempt to affect political decisions in the future. This could be incorporated into a larger study seeking to analyze the interplay between the different roles of the state in restructuring the bank market after the crisis, and should seek to unravel which parts of the state were involved in which role, map out the other actors within the bank field, and how they came to matter in the state decision-making.

Future research should also focus on the different roles played by the unions which have been highlighted by this thesis and the consequences for the future of Icelandic Capitalism. The significant role developed by the OPFs within the domestic economy after the crisis is likely to further develop the unions role of pursuing capital interests, however the power of labor still seems to remain strongly institutionalized. This puzzle would need further unraveling. There is also a question if the pure state of Post-Fordism on Iceland enhances the effects that the Post-Fordist structures have on the power relationship between the societal actors. This is suggested as a starting base for a broader comparative study where the findings in this thesis are contextualized with findings from other capitalist countries.

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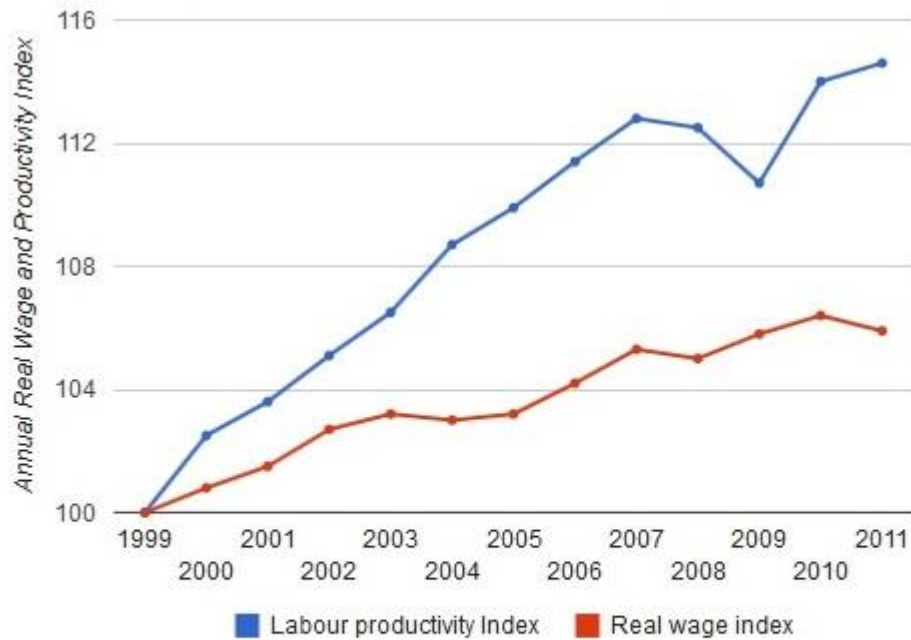
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APPENDIX 1

FIGURES AND TABLES

FIGURE 1: LABOR PRODUCTIVITY AND AVERAGE REAL WAGE TRENDS IN DEVELOPED ECONOMIES FROM 1999-2011 (INDEX 1999=100)

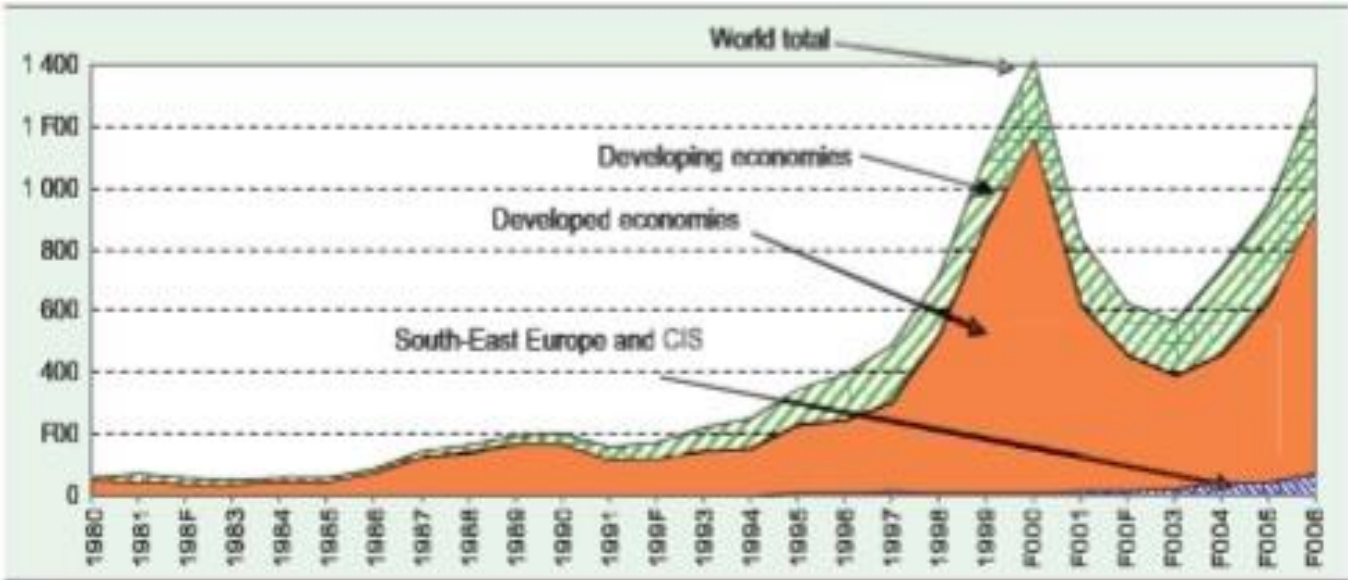


Since the indices refer to a weighted average, developments in the three largest developed economies (United States, Japan and Germany) have a particular impact on this outcome. Labour productivity is measured as output per worker (see note 9).

Sources: ILO Global Wage Database; ILO Trends Econometric Model, March 2012.

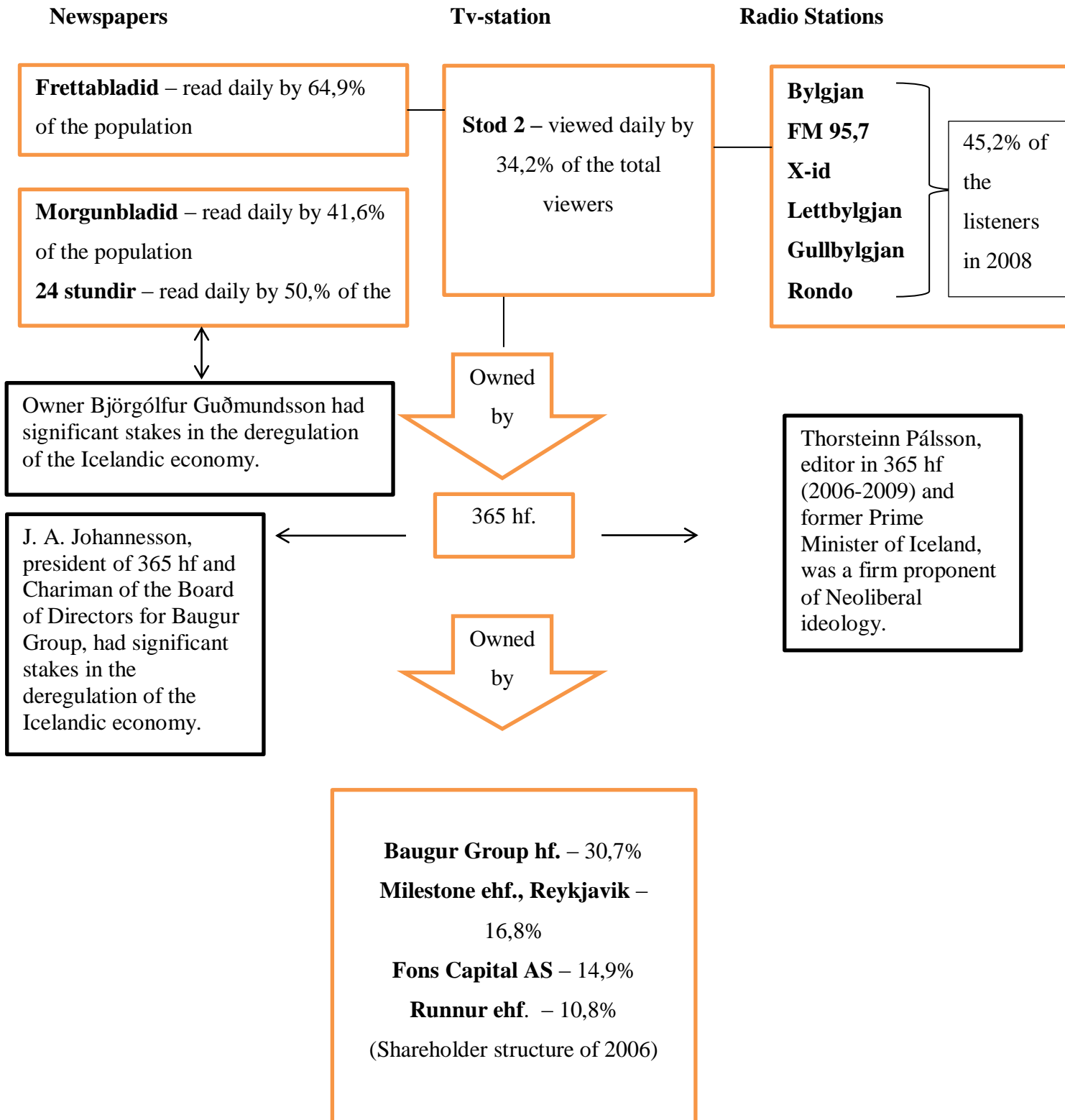
Source: ilo.org. Global wage reports. Accessed: 2/2/14

FIGURE 2: WORLD FDI INFLOWS BY GROUP OF ECONOMIES, 1980-2006



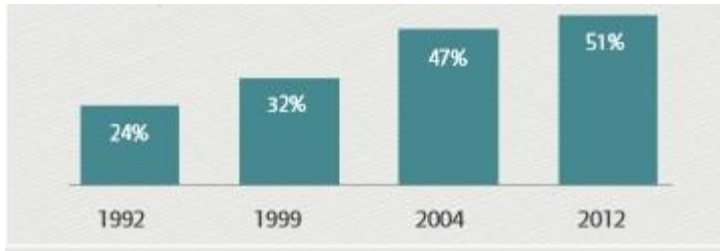
Source: (UN, 2007)

FIGURE 3: EXAMPLE OF ICELAND'S MEDIA STRUCTURE 2008



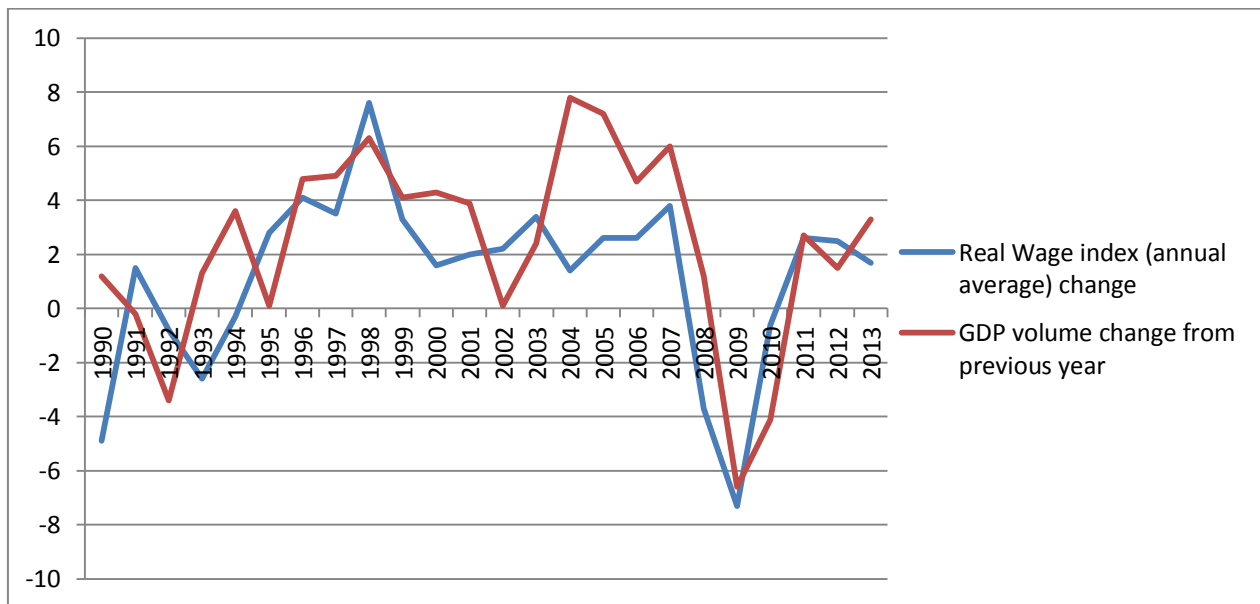
Source: (Harrie, 2009; Jonsson, 2012)

FIGURE 4: 10 LARGEST QUOTA HOLDERS OF THE TOTAL SHARE OF QUOTAS, 1992-2012



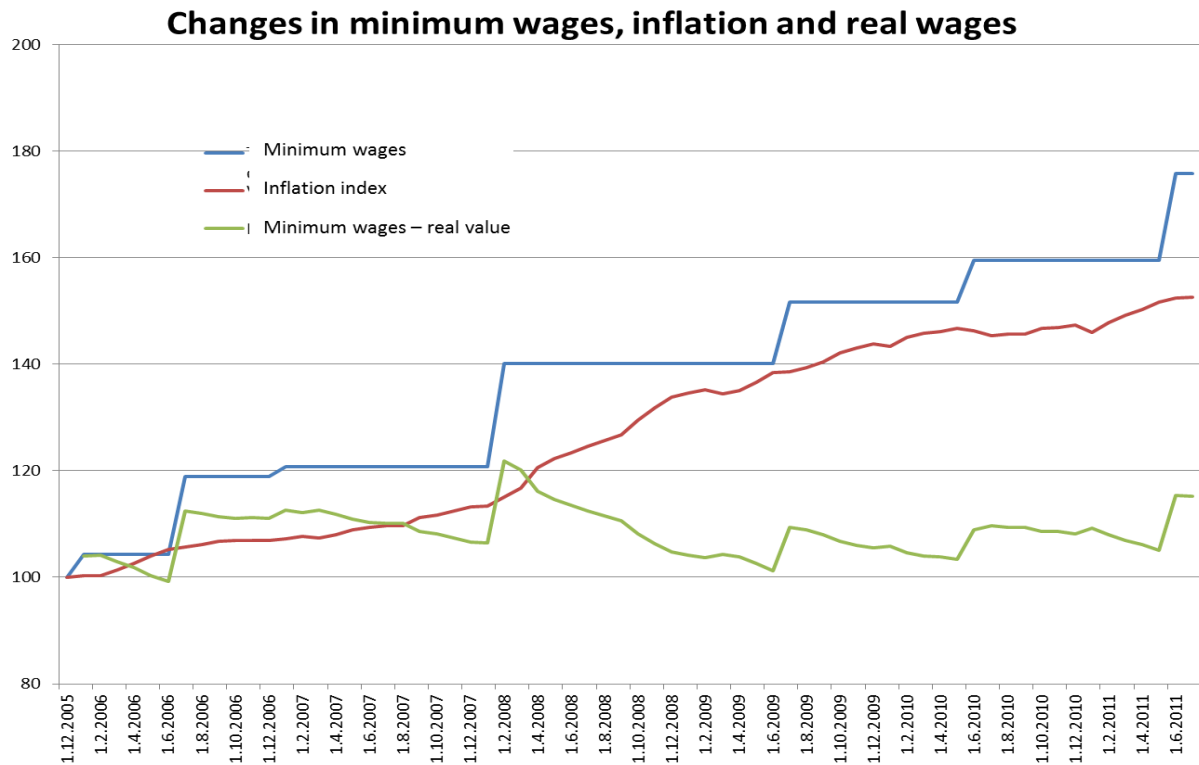
Source: (Islandsbanki, 2012a)

FIGURE 5: GROWTH IN REAL WAGES VS. GDP (%), 1990-2013



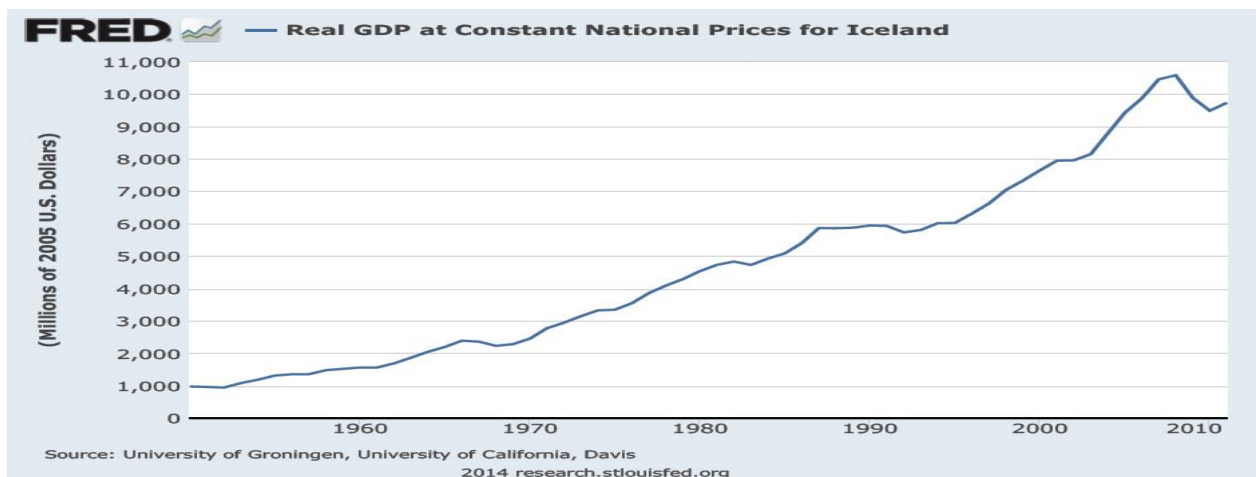
Source: Stattice.is

FIGURE 6: CHANGES IN MINIMUM WAGES



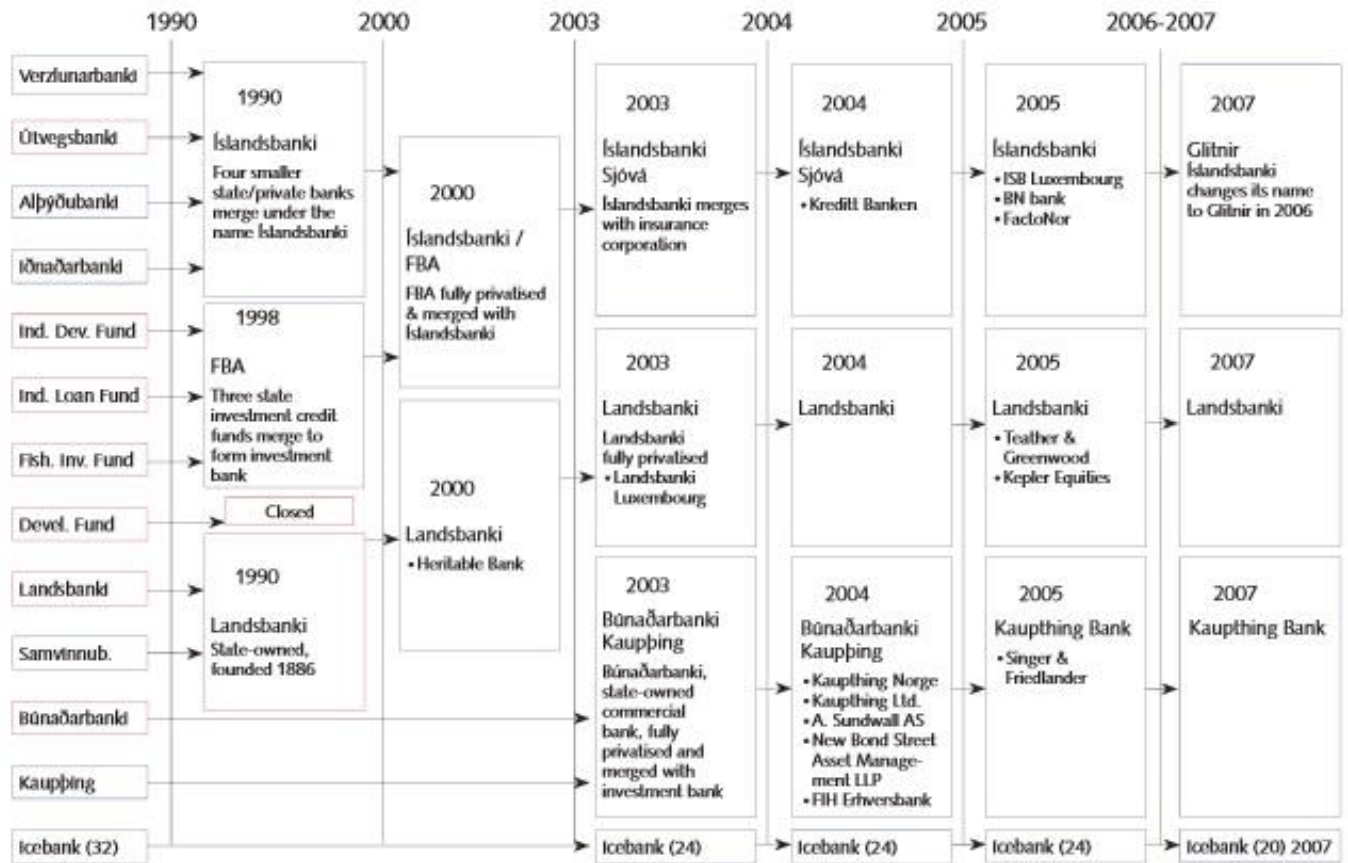
Source: (Grönvold, 2012)

FIGURE 7: REAL GDP OF ICELAND IN MILLIONS OF 2005 USD, 1950-2010



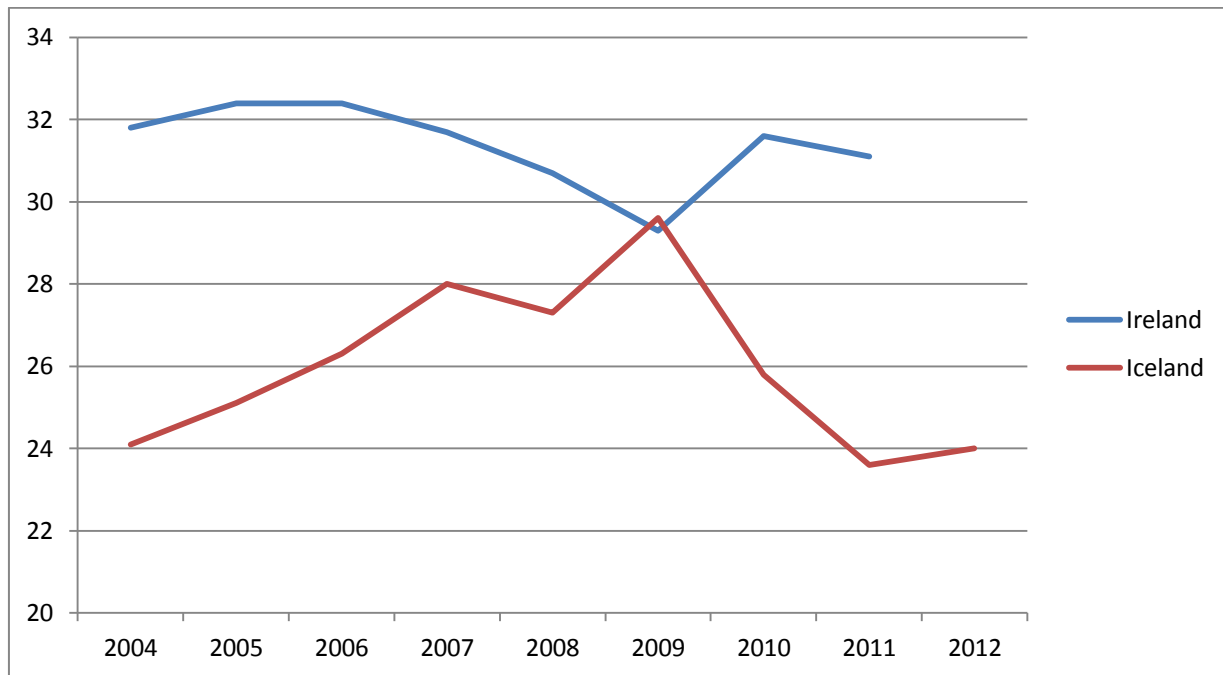
Source: (Feenstra et al., 2013)

FIGURE 8: DEVELOPMENT OF THE ICELANDIC BANKING SYSTEM, 1990-2007



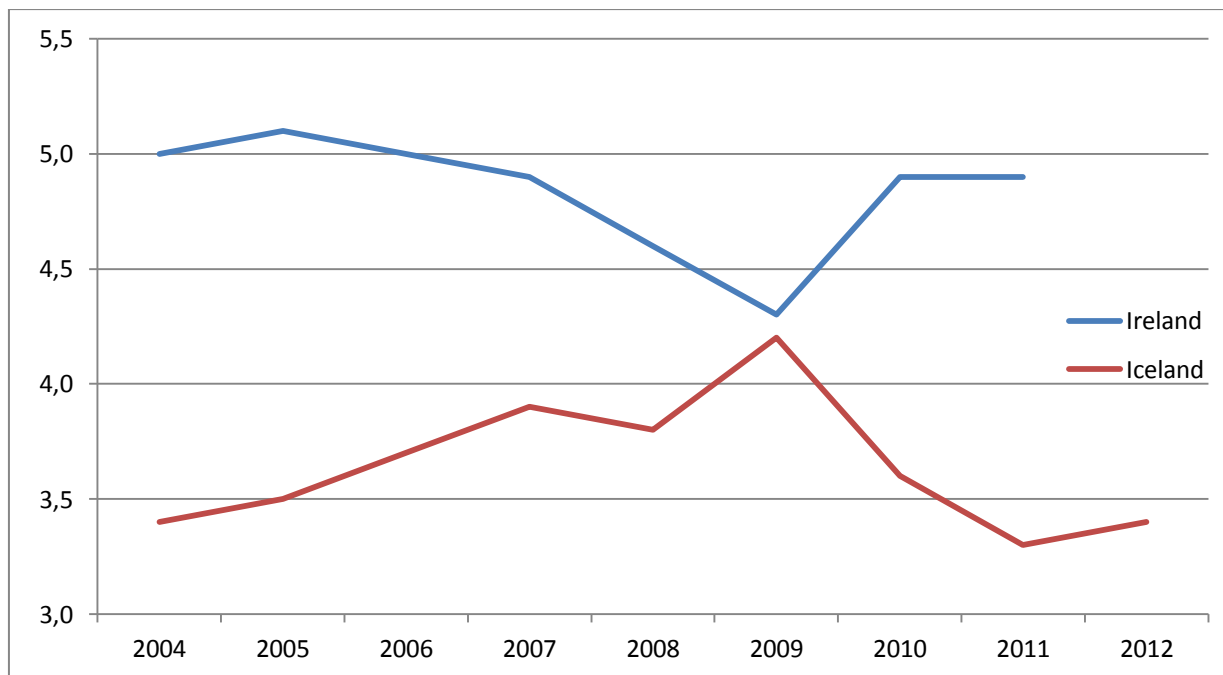
Source: (Iceland, 2008)

FIGURE 9: GINI-COEFFICIENT IN IRELAND AND ICELAND FROM 2004-2012*



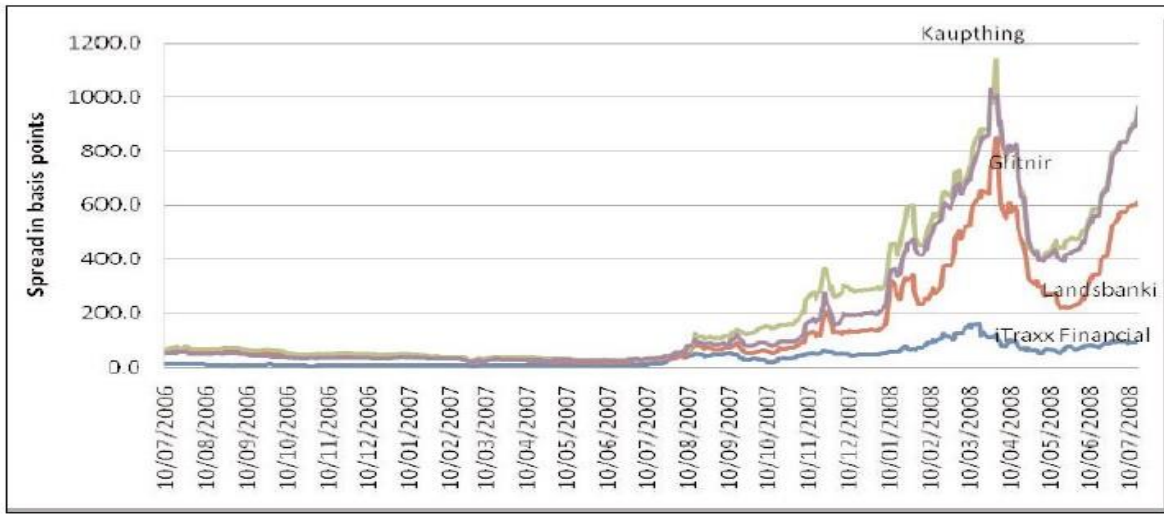
Source: cso.ie, statice.is. *2012 figures for Ireland are not available.

FIGURE 10: INCOME QUINTILE SHARE RATIO IN IRELAND AND ICELAND FROM 2004-2012*



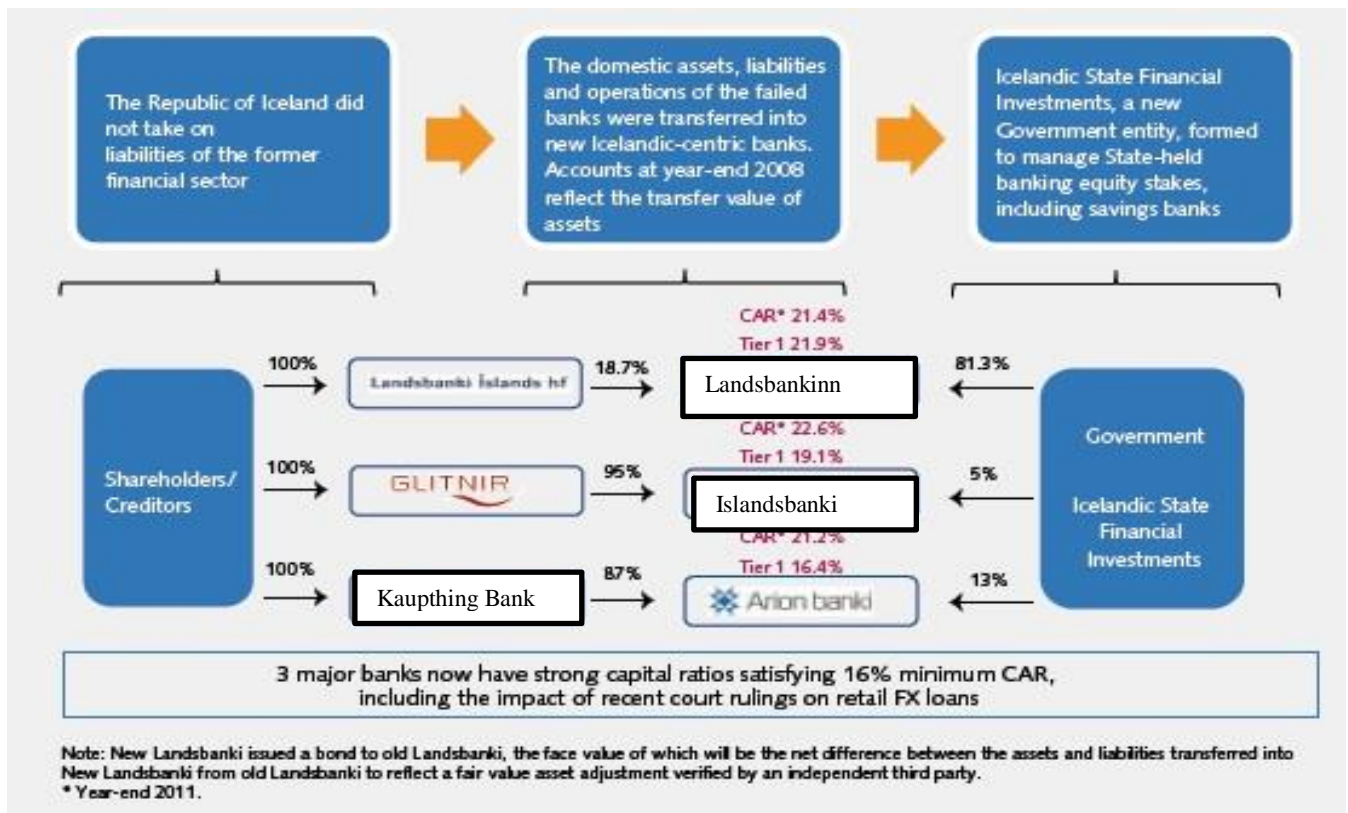
Source: cso.ie, statice.is. *2012 stats for Ireland are not available.

FIGURE 11: CDS SPREAD* OF ICELANDIC BANKS, 2006-2008



Source: (Markúsdóttir, 2011). *The CDS spread refers to the premium received from selling CDS's (Paris-Dauphine, 2009).

FIGURE 12: THE RECONSTRUCTION OF THE BANKING SYSTEM



Source: (Iceland, 2012)

TABLE 1: REGIONAL STRUCTURE OF WORLD MERCHANDISE TRADE IN EXPORTS, 1990, 1999, 2005, AND 2011

Regional Origin	Regional Destination															
	North America				Western Europe				Asia				Rest of the World			
	1990	1999	2005	2011	1990	1999	2005	2011	1990	1999	2005	2011	1990	1999	2005	2011
North America	<u>34.2</u>	<u>39.6</u>	<u>55.8</u>	<u>48</u>	24	19,4	16,1	17	25,5	21,1	18,3	21	16,3	19,9	9,8	14
Western Europe	7,8	9,9	9,1	7	<u>71.4</u>	<u>69.1</u>	<u>73.2</u>	<u>71</u>	7,3	7,5	7,6	10	13,5	13,5	10,1	12
Asia (incl. Japan)	28,3	26,3	21,9	16	20	18,1	17,9	17	<u>42.1</u>	<u>46.6</u>	<u>51.2</u>	<u>53</u>	9,6	9	9	14

Note: Rows sum to 100 within years. Reliable data for Regional Origin; Rest of World is not available. Regional Destination Rest of World has been rounded to make rows sum to 100 within years as the data from WTO is inconsistent.

Source: World Trade Organization International Trade Statistics 2000, Table III.3, Table III.10, Table III.33, Table III.69, 2006, Table III.3. Wto.org. World and Regional Merchandise Export Profiles, 2011.

TABLE 2: ICELANDIC GOODS EXPORTS BY DESTINATION, 1970-2011

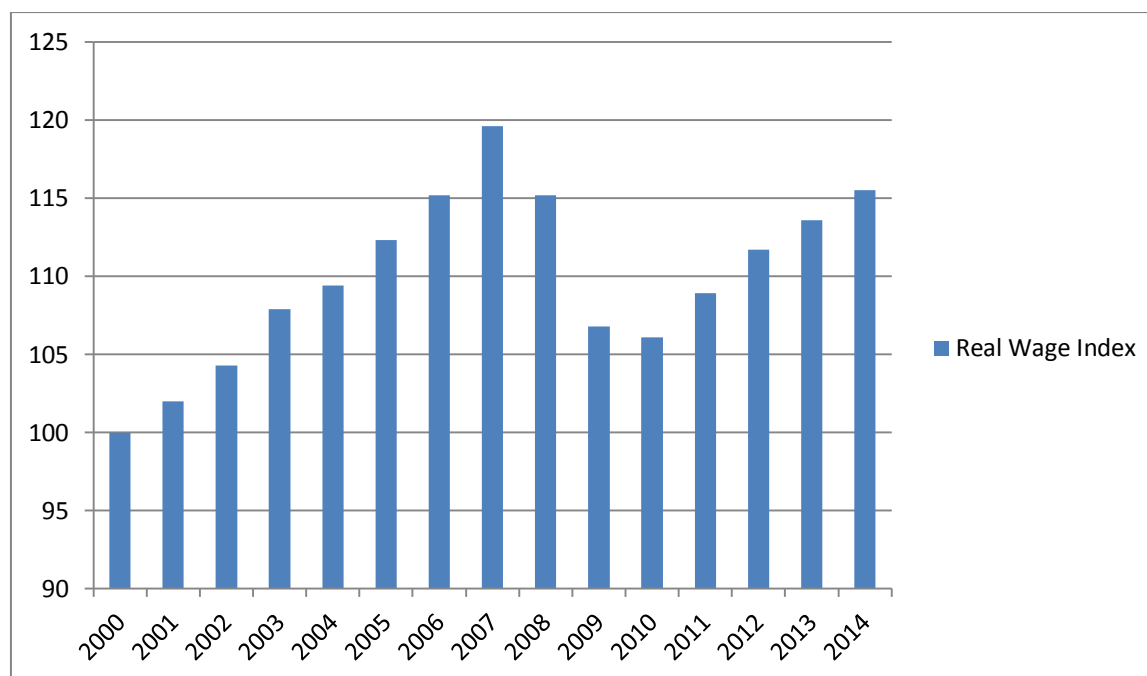
Goods exports	Share of total					EUR millions
	1970	1980	1990	2000	2011	2011
European Union	52.8	52.3	70.7	67.4	78.2	3,030.9
Euro area	25.4	30.2	37.6	42.3	63.1	2,442.0
Other EU countries	27.4	22.0	33.1	25.1	15.1	588.9
United Kingdom	13.2	16.5	25.3	19.3	9.0	346.2
Other Western European countries	2.8	2.3	3.4	7.8	5.1	194.8
Eastern Europe and former Soviet Union	9.6	8.8	2.9	1.4	7.5	289.4
Russia	6.8	5.4	2.5	0.4	3.1	120.2
United States	30.0	21.6	9.9	12.2	3.7	142.2
Japan	0.1	1.5	6.0	5.2	2.5	95.7
Other OECD countries	0.5	0.6	0.5	2.0	1.3	51.5
Developing countries ²	4.2	12.9	5.5	3.0	10.2	392.3
Other countries	0.0	0.0	1.1	1.0	1.4	55.2
Total	100.0	100.0	100.0	100.0	100.0	3,841.7

Source: (Iceland, 2012)

TABLE 3: ICELANDIC GOODS IMPORTS FROM DESTINATION, 1970-2011

<i>Goods imports</i>						
European Union	64.9	58.0	59.9	57.0	46.0	1,599.4
Euro area	32.0	33.2	35.5	33.5	26.9	913.3
Other EU countries	33.0	24.8	24.4	23.6	19.1	686.0
United Kingdom	14.3	9.5	8.1	9.0	5.2	179.8
Other Western European countries	5.4	8.1	5.2	9.7	16.3	624.4
Eastern Europe and former Soviet Union	10.4	10.9	6.5	5.7	5.1	195.0
Russia	7.2	9.7	5.0	1.8	0.8	30.1
United States	8.2	9.4	14.4	11.0	10.9	378.1
Japan	2.9	4.0	5.6	4.9	1.6	54.3
Other OECD countries	0.4	5.8	3.7	4.5	2.3	88.0
Developing countries ²	7.2	2.7	3.1	5.6	18.7	720.3
Other countries	0.6	1.1	1.4	1.5	1.6	62.2
Total	100	100	100	100	100.0	3,479.3

Source: (Iceland, 2012)

TABLE 4: REAL WAGE, INDEX 2000-2014*

Source: Statice.is - Statistics Iceland. Rates refer to the change in the wage index deflated by the CPI, annual average. Index 2000=100. *Numbers for 2014 are based on January average.

TABLE 5: EMPLOYMENT BY INDUSTRY, 1963-2011

C Breakdown of employment by industry	Thous. man-years	Percentage breakdown ¹						
	1997	1963	1970	1980	1990	1997	2000 ¹	2011 ¹
Agriculture	5,207	13.4	12.4	7.9	4.9	4.0	2.8	2.9
Fisheries	6,115	6.6	6.4	5.3	5.7	4.7	4.0	2.7
Fish processing	7,598	9.7	7.8	9.1	6.1	5.9	4.3	2.6
Manufacturing industry	15,282	15.6	15.2	15.2	12.5	11.9	12.1	9.2
Construction, electricity and water	11,638	11.1	11.4	11.0	10.8	9.0	8.0	6.9
Wholesale & retail trade, restaurants & hotels	20,118	13.7	13.5	13.4	14.5	15.6	17.8	18.4
Transport, storage and communication	8,817	9.6	8.5	7.3	6.7	6.8	7.3	6.8
Finance, insurance, real estate, business services	11,537	2.7	4.0	5.4	8.1	9.0	11.3	15.7
Producers of government services	25,300	9.5	12.4	15.7	18.2	19.6	6.8	4.3
Other services	9,202	7.0	6.9	7.2	7.4	7.1	5.9	2.7
Other	8,018	1.0	1.4	2.4	4.9	6.2	19.6	27.9
Total employment ²	128,832	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1. Figures for the period 1963-1997 show number of man-years by industry. Since 2000, data have been compiled from PAYE returns and show number of employed persons by industry. 2. Unemployed are not included.

Sources: Statistics Iceland, Central Bank of Iceland.

Source: (Iceland, 2012)

TABLE 6: SHARE OF TOTAL GOODS EXPORTED BY CATEGORY, 1969-2008

	Average 1969-2008	Average 1969-1990	Average 1991-2000	Average 2001-2008	2007	2008
Aluminium	14.2	12.2	11.6	22.9	26.3	39.0
Fisheries products	70.2	74.6	73.4	54.2	41.8	36.7
Agricultural products	2.1	2.5	1.7	1.7	1.1	1.4
Manuf. other than alum.	10.3	9.0	9.8	14.4	12.6	13.1
Other goods	3.2	1.7	3.5	6.8	18.2	9.8

Source: Statice.is – Statistics Iceland

TABLE 7: PERCENTAGE OF GOODS EXPORTED BY CATEGORY AND AS PROPORTION OF GDP, 1969-2008

	Average 1969-2008	Average 1969-1990	Average 1991-2000	Average 2001-2008	2007	2008
Aluminium	3.6	3.1	2.7	5.8	6.3	14.1
Fisheries products	17.4	19.0	17.4	12.9	10.0	13.2
Agricultural products	0.5	0.6	0.4	0.4	0.3	0.5
Manuf. other than alum.	2.5	2.3	2.3	3.4	3.0	4.8
Other goods	0.8	0.4	0.9	1.5	4.3	2.2

Source: Statice.is - Statistics Iceland

TABLE 8: CREDITORS OF GLITNIR AND THEREBY MAJORITY SHAREHOLDERS OF ISLANDSBANKI, 2012

Vidauki.

Nöfn og þjóðerni þeirra sem eiga 1% eða hærra hlutfall krafna í þrotabú Glitnis.

Nafn	Land	Hlutfall
Burlington Loan Management Limited	Bretland (GB)	8,46%
Landsbanki Íslands hf.	Ísland	4,95%
CCP Credit Acquisition Holdings Luxco, S.A.R.L.	Bandaríkin (US)	4,61%
The Royal Bank of Scotland PLC	Bretland (GB)	4,23%
Silver Point Luxembourg Platform Sarl	Bandaríkin (US)	4,14%
Deka Bank Deutsche Girozentrale	Pýskaland (DE)	3,61%
Owl Creek Investments I, LLC	Bandaríkin (US)	3,08%
Deutsche Bank AG, London Branch	Bretland (GB)	2,92%
SPB hf. (áður Sparisjóðsbanki Íslands hf.)	Ísland	2,84%
ACMO S.a.r.l.	Bandaríkin (US)	2,79%
Barclays Bank PLC	Bretland (GB)	2,70%
Max Participations II S.a.r.l.	Lúxemborg (LU)	2,66%
Kaupþing banki hf.	Ísland	2,03%
Perry Luxco S.A.R.L.	Lúxemborg (LU)	1,98%
Leonardo L.P.	Bandaríkin (US)	1,84%
Botticelli, L.L.C.	Bandaríkin (US)	1,69%
Thingvellir S.a.r.l.	Bretland (GB)	1,67%
Morgan Stanley Bank International Limited	Bretland (GB)	1,65%
CSCP Credit Acquisition Holdings Luxco, S.A.R.L.	Bandaríkin (US)	1,60%
Credit Agricole Vita S.p.A.	Ítalía (IT)	1,57%
Serengeti Manyara Cooperatief U.A.	Bandaríkin (US)	1,56%
TCA Opportunity Investment S.A.R.L.	Bandaríkin (US)	1,52%
Goldman Sachs Lending Partners LLC	Bretland (GB)	1,21%
Gardur Partners S.A.R.L.	Lúxemborg (LU)	1,14%

Source: (Guðfinnssonar, 2013)

TABLE 9: CREDITORS OF KAUPTHING AND THEREBY MAJORITY SHAREHOLDERS OF ARION BANKI, 2012

Byggt á kröfuskrá þann 26. nóvember 2012

Neðangreind tafla byggir á kröfuskrá Kaupþings miðað við 26. nóvember 2012. Helldarhljóði kröfuhafa með samþykktar almennar kröfur var 13.412. Nafn og þjóðerni kröfuhafa sem eiga 1% eða hærra hlutfall krafna er sýnt hér að neðan.

Kröfuhafi	Þjóðerni	Samþykktar almennar kröfur***	% of samþykktum almennum kröfum	Þar af, endanlega samþykktar	Þar af, samþykktar en í ágreiningi vegna farangs	Þar af kröfur undir MTN US144a Programme***	Halnaðar almennar kröfur í ágreiningi	Helldar útstandandi almennar kröfur	% af helldar útstandandi almennum kröfum
York Global Finance Offshore BDH (Luxembourg) S.á.r.l.	LUXEMBOURG	198.303	7,13%	182.835	-	15.468	-	198.303	6,36%
Deutsche Bank AG, London	GERMANY	153.000	5,50%	147.878	1.061	4.060	10.737	163.737	5,25%
Seðlabanki Íslands	ICELAND	137.209	4,94%	137.209	-	-	-	137.209	4,40%
ACP Intermediate Acquisition S.á.r.l.	LUXEMBOURG	119.148	4,29%	119.148	-	-	-	119.148	3,82%
Burlington Loan Management Ltd.	IRELAND	108.963	3,92%	59.455	34.448	15.060	-	108.963	3,49%
ACMO S.á.r.l.	LUXEMBOURG	98.554	3,55%	57.478	35.454	5.621	-	98.554	3,16%
Kaupthing Singer & Friedlander Ltd. (in Administration)	UNITED KINGDOM	57.737	2,08%	57.737	-	-	35.373	93.110	2,96%
Hilcrest Investors Ltd.	IRELAND	92.270	3,32%	78.611	-	-	13.659	92.270	2,96%
Kaupthing Singer & Friedlander Isle of Man Ltd.	UNITED KINGDOM	-	0,00%	-	-	-	88.508	88.508	2,84%
BNAP S.á.r.l.	LUXEMBOURG	86.529	3,11%	-	86.529	-	-	86.529	2,77%
Bayerische Landesbank	GERMANY	73.804	2,66%	71.190	-	2.614	-	73.804	2,37%
Arrowgrass Investments S.á.r.l.	LUXEMBOURG	56.059	2,02%	51.412	4.647	-	-	56.059	1,80%
Barclays Bank Plc.	UNITED KINGDOM	49.716	1,79%	49.156	-	560	-	49.716	1,51%
Perry Luxco S.á.r.l.	LUXEMBOURG	47.115	1,70%	47.115	-	-	-	47.115	1,51%
Thingvellir S.á.r.l.	LUXEMBOURG	46.611	1,68%	16.665	-	29.945	-	46.611	1,49%
Drómi hf.	ICELAND	10.645	0,38%	10.645	-	-	30.293	40.937	1,31%
Potter Netherlands Cooperatief U.A.	NETHERLANDS	40.252	1,45%	14.140	-	26.113	-	40.252	1,29%
Sparisjóðabanki Íslands hf.	ICELAND	39.299	1,41%	39.299	-	-	-	39.299	1,26%
Credit Suisse International AG	UNITED KINGDOM	8.472	0,30%	8.472	-	-	29.979	38.450	1,23%
Landsbankinn hf.	ICELAND	36.518	1,31%	36.431	-	88	-	36.518	1,17%
Goldman Sachs International	UNITED KINGDOM	33.523	1,21%	18.813	-	14.710	-	33.523	1,08%
Kaupthing Capital Partners II LP.	UNITED KINGDOM	-	0,00%	-	-	-	32.594	32.594	1,05%
TCA Opportunity Investments S.á.r.l.	LUXEMBOURG	31.091	1,12%	25.238	5.852	-	-	31.091	1,00%
CCP Credit Acquisition Holdings Luxco S.á.r.l.	LUXEMBOURG	30.915	1,11%	24.507	-	6.408	-	30.915	0,99%
KSAC Europe Investments S.á.r.l.	LUXEMBOURG	28.910	1,04%	28.910	-	-	-	28.910	0,93%

***Þann 12 október 2011 staðfesti Hæstiréttur Íslands í máli nr. 398/2011 ákvörðun sliðastjórnar Kaupþings hf. að hafna öllum kröfum hagsmunaeigenda ("beneficial holders") skuldabréfa sem gefin voru út undir USS MTN 144A skuldabréfaramma Kaupþings hf. ásamt því að staðfesta ákvörðun sliðastjórnar Kaupþings hf. að viðurkenna kröfur sem Deutsche Bank Trust Company Americas ("DBTCA") lýsti sem "Trustee" fyrir hönd hagsmunaeigenda í samræmi við ákvæði skuldabréfarammans. Kröfur DBTCA uppá 578 milljarða króna voru því samþykktar. Í töflunni hér að ofan er horft í gegnum DBTCA og eigendur hagsmuna sýndir.

Fyrirvarar í kröfuskrá Kaupþings eiga við töfluna hér að ofan. Sliðastjórn tekur fram að listinn er ekki endanlegur og hann getur tekið breytingum bæði vegna afgreiðslu sliðastjórnar á kröfum, úrlausnar ágreiningsmála bæði innan og utan dómstóla sem og vegna mögulegra viðskipta með kröfur í Kaupþing.

Source: (Guðfinnssonar, 2013)

TABLE 10: EFFECTIVE TAX BURDEN BY INCOME GROUPS, 1996-2009

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
I Lowest decile	-6.0	-6.0	-4.2	-1.9	-1.4	0.8	0.4	2.2	4.1	3.1	3.3	3.0	2.1	-0.3
II	1.1	2.4	4.6	7.2	7.8	10.1	9.7	10.6	12.2	11.4	11.3	10.5	10.1	8.3
III	7.4	8.0	9.9	12.1	12.8	14.9	14.0	14.6	15.8	15.1	14.7	13.8	13.4	11.9
IV	12.4	12.4	14.2	15.8	16.6	18.3	17.4	18.0	18.8	18.4	17.9	16.7	16.1	15.0
V	16.4	16.4	17.7	18.8	19.4	20.9	20.1	20.4	21.2	20.6	20.2	18.8	18.3	17.5
VI	19.4	19.4	20.3	21.0	21.6	22.8	22.2	22.3	23.0	22.6	22.1	20.5	20.0	19.5
VII	21.7	21.9	22.6	23.0	23.3	24.4	23.9	23.9	24.5	24.2	23.5	22.2	21.6	21.5
VIII	23.9	24.2	24.4	24.6	24.7	25.8	25.4	25.3	25.9	25.2	24.6	23.4	23.0	23.3
IX	26.2	26.4	26.3	26.3	26.5	27.2	26.9	26.8	27.2	26.3	25.3	24.3	23.8	25.0
X Highest decile	30.3	29.0	29.0	27.7	27.2	25.9	25.1	23.5	23.4	20.2	18.8	17.1	19.5	24.2
Highest 1% of homes	32.2	27.8	27.7	24.5	22.0	17.4	16.5	15.3	15.8	13.3	13.1	13.0	14.7	20.2
Mean tax burden	20.3	20.3	21.1	21.5	21.8	22.5	21.9	21.7	22.2	20.9	20.1	18.6	19.1	20.1
Median tax burden	18.2	18.0	19.3	19.6	20.4	21.4	21.1	21.5	22.0	21.5	21.2	19.3	18.9	18.5

Calculated from tax authorities data (www.rsk.is).

Source: (Andersen et al., 2011)

TABLE 11: MARKET SHARE OF DEPOSITS*, 1999, 2005, 2007

Bank	1999	2005	2007
Landsbankinn	30.0%	33.1%	28.3%
Arion (Kaupthing Bank)	23.4%	22.3%	24.9%
Íslandsbanki	21.9%	21.7%	20.9%
SPRON	6.5%	6.0%	6.8%
Byr	3.3%	3.1%	5.9%
SpKef	2.6%	2.4%	3.3%
MP Bank			
Total	87.7%	88.6%	90.1%

Source: (Affairs, 2012). *Based on residents' deposits with deposit institutions.

TABLE 12: MARKET SHARES BETWEEN THE THREE BANKS

Market Share	
Major Banks	2012
Total Lending	
Arion Banki	31,6 %
Íslandsbanki	31,2 %
Landsbanki	37,2 %
Total	100,0 %
Loans to Individuals	
Arion Banki	35,6 %
Íslandsbanki	35,8 %
Landsbanki	28,6 %
Total	100,0 %
Loans to Companies	
Arion Banki	29,2 %
Íslandsbanki	28,3 %
Landsbanki	42,5 %
Total	100,0 %
Deposits	
Arion Banki	33,5 %
Íslandsbanki	35,1 %
Landsbanki	31,4 %
Total	100,0 %

Data received by the Icelandic Competition Authorities (ICA)