
THESIS FOR THE DEGREE OF DOCTOR OF FINANCE

**THE ICELANDIC BUBBLE AND BEYOND:
INVESTMENT LESSONS FROM HISTORY AND
CULTURAL EFFECTS**

MÁR WOLFGANG MIXA

DOCTORAL SCHOOL OF BUSINESS

REYKJAVÍK UNIVERSITY

2016

Már Wolfgang Mixa

The Icelandic Bubble and Beyond: Investment Lessons From History and Cultural Effects

1. Edition 2016

© The Author

ISBN: xxxxxxxx

ISSN: xxxxxxxx

Acknowledgements

I got a phone call in March 2009 from a person working at Reykjavík University asking me whether I might be interested in writing an article with him. This was a complete surprise. One reason is that Icelanders usually do not call each other for such reasons without knowing each other rather well. I knew this person casually because our children attended the same music school where parents meet each other regularly. Also, despite having written extensively about financial issues in the media for over a decade, no-one had at any point expressed a desire to write with me about the subject. The person, Throstur Olaf Sigurjonsson, asked me to write a paper about financial matters that might become published in a peer-reviewed journal. I had no peers, being in the midst of finishing my MSc in Corporate Finance at that point. Throstur Olaf still convinced me to give it a try.

As the writing of the paper progressed, I actually found that it was a learning curve that I enjoyed and had some skills in. My former writing experience had taught me a great deal but writing for journals is still a different beast than setting up interesting discussions in the media. As the paper began taking shape, Throstur Olaf informed me that a PhD program was being started at Reykjavík University and I should apply for it. I was hesitant but it turned out that my wife was no less persuasive that I should take the plunge. I thus quickly once again broke a vow I had just made, more than once, of staying away from the academic life for the remainder of my life. To cut a long story short, I began embarking on the PhD journey late 2010.

I have learned more during this time than I would have imagined. I have managed to have a few articles published in either peer-reviewed journals, including the first article Throstur convinced me to write with him. We have already had four additional articles published in either edited book chapters or journals. I feel like I have grown up in a sense, which is probably not a second too late. Not only have I learned how to study and write articles grappling with interdisciplinary

subjects and putting them in a somewhat organized manner, but I have also gained experiences in other areas not directly related to my PhD program but yet has provided valuable in my studies and sending society messages regarding finance in a better way. Outside of studies I have learned teaching skills at Reykjavík University in a way that students now for the most part grasp what I am saying most of the time. I was fortunate becoming a co-judge in two major cases regarding financial matters that affected Icelandic society to a large degree. An intended 4-6 week break from my studies turned into a full time stint working at the *Special Investigation Committee Researching the Prelude, Cause and Fall of the Savings Banks* enabled me to further research and set forth complex issues, many of which were related to my PhD research, in a more understandable form than I could have ever have done without that grueling experience.

I would like to thank my current and former co-workers at Reykjavík University who have paved the way for me to finish this project and making sure that my work in teaching and exploring ideas within the institution could blossom. I thank my advisor Vlad Vaiman for being there for me, setting the path for exploring a difficult and new subject that needs still a great amount of work. Jesper Rangvid took the next step in showing me the landscape of the subject I tackled. My friend Throstur Olaf Sigurjonsson and my wife, Kristín Loftsdóttir, have been there all the way and much more than that. My father and parents-in-law have shown constant support. Finally, my children, Mímir, Alexía and Sól, have given me love throughout the process, constantly teaching me the meaning of life.

May, 2016

Már Wolfgang Mixa

Executive Summary

The Icelandic economic crash in fall 2008 was unprecedented in the nation's history with the Icelandic banks being bailed out only 5 years after having been privatized. All of Iceland's three main banks, Glitnir bank, Landsbanki and Kaupthing bank, went into receivership the within a 10 day span, with most of the savings banks system following those same footsteps in the following months. Iceland's fiscal costs in terms of Gross domestic product (GDP) reached unheard levels within advanced nations in at least 40 years.

A banking and economic meltdown on such a grand scale raises questions. Among such questions is what caused such events to occur and maybe more importantly, especially in light of the fact that similar failures are well known in financial history, why were such events allowed to occur? Following such an analysis, a natural question is if lessons could be learned from such events.

Given that the crash was to a large extent global, it is worthwhile paying attention to how similar the circumstances were in different societies and what, if any, differed between countries and regions.

The research project focuses on investment behavior and the Icelandic economic bubble and crash, emphasizing that investment behavior has to be seen within a historical and cultural environment. As such the project is related to financial history and behavioral finance. The project's main goals can be summarized into the following key research question:

What cultural conditions shaped the appearance and formation of the financial bubble in Iceland and in what way did those conditions differ, if any, from other countries and to what extent?

The main results are that cultural conditions influenced the creation of the Icelandic banking miracle that ended so badly. Certain dimensions in the Icelandic culture were more suspect of embracing values that (temporarily) opened doors to possibly naïve beliefs. Technological and ideological changes on an international level also influenced the Icelandic culture; more than most cultural studies anticipate. Some changes in the Icelandic culture were, however, caused to a certain extent by design, even an invented cultural one, rather than default. With the use of the media some agents convinced the Icelandic country that their best interests were served blindly embracing certain values when in fact those agents were reaping the profits with speculation and risk taking that the public was eventually left to face the consequences of.

Table of Contents

| | | |
|--------|---|-----|
| 1. | Theoretical Background..... | 1 |
| 1.1. | Objectives of the Project and Research Question..... | 5 |
| 1.2 | Behavior, Culture, Finance & Finance | 8 |
| 1.2.1. | Behavioral Finance..... | 8 |
| 1.2.2 | Cultural Finance | 11 |
| 1.2.3 | Culture..... | 13 |
| 1.2.4. | Cultural Economics | 18 |
| 1.2.5 | History of Culture Related to Economics..... | 21 |
| 1.2.6 | Culture in Tandem with Economics | 22 |
| 1.2.6 | Cultural Literature Linked with Finance | 27 |
| 2. | Research – Approach & Methodologies..... | 30 |
| 2.1 | Quantitative and Qualitative Approaches..... | 33 |
| 2.2 | Further description of studies | 39 |
| 3. | Papers of the Thesis – Relevance and Relationship | 41 |
| 3.1 | Learning from the “Worst Behaved” | 43 |
| 3.2 | A Day in the Life of an Icelandic Banker | 46 |
| 3.3 | Financial Behavior in Iceland within the Framework of Hofstede’s Cultural Dimensions | 48 |
| 3.4 | A Nation of Money and Sheep | 55 |
| 3.5 | Banks Glowing in Nationalism | 57 |
| 4. | Further Thoughts..... | 62 |
| 5. | Conclusion | 67 |
| | Bibliography..... | 68 |
| | Paper 1: Learning from the “Worst Behaved:” Iceland’s Financial Crisis and Nordic Comparison..... | 79 |
| | Introduction..... | 81 |
| 1. | A Sudden Prosperity | 83 |
| 2. | The End of Prosperity | 86 |
| 3. | Comparison of Crises..... | 88 |
| 3.1 | Lending Growth | 92 |
| 3.2 | Unemployment, GDP and (asset) Inflation..... | 98 |
| 4. | Conclusion | 107 |

| | | |
|---|--|-----|
| 4.1 | Firm Level | 108 |
| 4.2 | Macro Level | 109 |
| 4.3 | Policy Level | 110 |
| | References | 112 |
| Paper 2: A Day in the Life of an Icelandic Banker..... | | 118 |
| | A Banker’s Life | 120 |
| | Risky Exista | 121 |
| | Setting the Stage for the Manic Millennium | 124 |
| | Privatization – A World of Efficiency | 126 |
| | Domestic and Foreign Perception | 127 |
| | Good and Bad Bankers | 129 |
| | “Bad” bankers within a Utopian Economy | 133 |
| | The Moment of Truth | 134 |
| | References | 136 |
| Paper 3: Financial Behavior in Iceland within the Framework of Hofstede’s Cultural Dimensions.... | | 140 |
| | Introduction..... | 141 |
| | National Cultures Comparison | 146 |
| | Icelandic Behavior from Dimensional Perspectives | 150 |
| | Individualistic Trends and Traditional Culture | 155 |
| | Economic and Financial Comparisons | 156 |
| | Stock Market Indicators | 160 |
| | Savings Ratio..... | 164 |
| | How Results Harmonize | 167 |
| | Illusion of Harmony & Stability within a Utopian Economy | 167 |
| | Summary | 171 |
| | References..... | 174 |
| Paper 4: A Nation of Money & Sheep | | 182 |
| | Introduction..... | 183 |
| | From Rural Banking to International Financial Wizards..... | 186 |
| | Bad Successful Bankers | 188 |
| | The Sheep Bankers | 190 |
| | Application of the Hofstede Dimensional Model..... | 193 |
| | Summary | 196 |

| | |
|--|-----|
| References..... | 198 |
| Paper 5: Bankar í ljóma þjóðernishyggju: Efnahagshrunið, hnattvæðing og menning / Banks Glowing in Nationalism: The Financial Crash, Globalization and Culture | 204 |
| Abstract | 205 |
| Útdráttur | 207 |
| Paper 5: Banks Glowing in Nationalism: The Financial Crash, Globalization and Culture | 208 |
| Introduction..... | 208 |
| Development of the Icelandic banking system | 211 |
| Globalization and nationalism..... | 221 |
| Discussion | 228 |
| Conclusion | 232 |
| Icelandic version..... | 235 |
| Inngangur | 235 |
| Þróun íslenska bankakerfisins | 239 |
| Alþjóðavæðing og þjóðernishyggja | 248 |
| Umræða..... | 256 |
| Lokaorð..... | 259 |
| Heimildir | 262 |

List of Figure in Theoretical Background

| | |
|--|----|
| Figure 1. Onion Layer of Cultures..... | 15 |
|--|----|

1. Theoretical Background

The Icelandic economic crash in fall 2008 was unprecedented in the nation's history with the Icelandic banks being bailed out only five years after having been privatized. Seldom, if ever, has such a banking crisis occurred in the Western world.¹

All of Iceland's three main banks, Glitnir bank, Landsbanki and Kaupthing bank, went into receivership the within a 10 day span. Most of the banks within the savings banks system shared the same fate during the following months (SIC 2010a; SICSB 2014).² Total governmental debt went from being 22% of Iceland's gross domestic product (GDP) in 2007 to 80% in 2010 (Iceland's Finance Ministry 2015), with real estate prices, adjusted for inflation, falling about a third following the crash (Mixa & Sigurjonsson 2010).

A recent study by Laeven and Valencia (2013) of systematic banking crises world-wide during 1970-2011 concludes that Iceland's fiscal costs in terms of (GDP) were the highest of advanced countries during the period, at 44% of GDP. Reinhart and Rogoff's (2008, 3) comparison of banking crises from the post-War period until 2007 defined 18 such crises, with three among the five most severe ones being in Norway (1987), Finland (1991) and Sweden (1991), where the starting year of each crisis started is in parenthesis. According to Laeven and Valencia (*ibid*, 255-259), comparable costs associated with the Nordic crises Reinhart and Rogoff (*ibid*) identified were 3%, 13% and 4% respectively, with Ireland's crisis in 2008 being the only nation suffering anything close to comparable losses of Iceland faced at 41% of GDP.

¹ It could be argued that the South Sea Company and Mississippi Company bubbles that both burst in 1720 had a larger effect on society, and even to a degree the Tulipomania in the Netherlands that burst in 1637. While bills of exchange did exist at that point, a banking system as it is usually defined today was, however, in its infancy.

² SIC is an abbreviation of the Special Investigation Commission, which focused in a major report on the causes regarding the Icelandic banking system, particularly the three Icelandic banks, which were Glitnir bank, Landsbanki and Kaupthing bank. SICSB is an abbreviation of another Special Investigation Commission that focused in a major report on the causes regarding the Icelandic savings banks system, which also went mostly bankrupt following the financial crash in 2008.

The costs to the economy as a whole were also very high in Iceland, although not on the same relative scale as the direct fiscal costs transferred to taxpayers. There was a major slowdown in the economy, but such comparisons can be problematic since output growth prior to crises tends to be higher than normal. By focusing on the increase in unemployment, the percentage increase from the starting point of each crisis until its highest points within five years later was in Norway 4.0%, in Sweden 7.5%, in Finland 13.5% (IMF 2009) and in Iceland it was 6.0%.

A banking and economic meltdown on such a grand scale raises questions. Among such questions is what caused such events to occur and maybe more importantly, especially in light of the fact that similar failures are well known in financial history, why were such events allowed to occur? Following such an analysis, a natural question is if lessons could be learned from such events.

A banking and economic meltdown on such a grand scale raises questions. Among such questions is what caused such events to occur and maybe more importantly, especially in light of the fact that similar failures are well known in financial history, why were such events allowed to occur? A lack of historical perspective was clearly evident, allowing imprudent business behavior to develop and unsound investment philosophies to become wide spread. The financial crash was (initially) due to Iceland's three main banks' failure to refinance their short term debt following a run on deposits in the UK and Netherlands (Bagus & Howden 2009). Debt had swollen during the years prior to the crash, mainly short term debt maturing in three to five years (SIC 2010b, 3) that occurred with rapid speed as the three main banks became privatized. While the Central Bank of Iceland (CBI) attempted to cool down the expansion by raising interest rates, the banks used other measures to raise capital. One was with direct CBI assistance, which increased lending to financial institutions via collateralized loans from 30 billion Icelandic krona to 500 billion Icelandic krona, of which 300 billion were against

collateral in securities and letters of credit in the three largest banks from autumn of 2005 to the beginning of October 2008 (SIC 2010c, 6). Also, the ever increasing interest rate differential fuelled capital inflows with the issuance of Eurobonds that were commonly known in relation to Iceland as “glacier bonds.” Such bond issuances did not begin until August of 2005 but had by September of 2007 reached 450 billion Icelandic krona, the equivalent to 35% of Iceland’s gross domestic product (GDP), which to a large extent filtered into Iceland’s economy with an increased inflow of money leading to rising asset prices (SICa, 149-150) and also causing the appreciation of the Icelandic krona making imported goods cheaper and thus increasing their demand, leading to an increased current net deficit (ibid, 152). This development helped creating a vicious cycle that the higher domestic Icelandic interest rates became, the more interest rates were raised, the more the exchange rate appreciated leading to further capital inflows (Plantin & Shin 2011, 4). When the economic crash occurred, the appreciation of the Icelandic krona went into reverse leading to prices of imported goods rising

Once the status of the banks was properly investigated, it became apparent that it was not mere illiquidity that caused the crash but more than anything else it was caused by factors such as failures in investments, quality controls in risk management, corruption, unreasonable leverage and even ignorance and stupidity (SIC 2010a; SICSB 2014). Not only were Glitnir bank, Landsbanki and Kaupthing bank put into receivership but many companies went bankrupt or had to be re-structured financially (Statistics Iceland n.d.; Icelandic Competition Authority 2011). Similar failures are well known in financial history. The stock market crashes in the United States in 1907 and 1929 are well known examples in the banking arena and also major companies such as the brokerage company Drexel Burnham Lambert in 1990 and energy company Enron in 2001 (Bruner & Carr 2007; Sobel 1968; Stewart 1992; McLean & Elkind 2004). This was thus not the first time a major banking crisis had occurred with devastating

effects; history is littered with similar examples that very few, especially in Iceland, seemed to have learned any lessons from.

Following the crash, market participants and also to a large degree the entire population of Iceland have been learning, or in some cases re-learning, certain truths regarding financial markets, particularly those that pertain to financial bubbles. Although the key characteristics of the Icelandic bubble are well known (Gylfason 2011; Zoega 2011; Halldorsson & Zoega 2010; SIC 2010a; SICSB 2014; Mixa 2009a), the focus is mainly on financial data and possible corruption. The historical specificity led many Icelanders to believe that this time things were different, both during the prelude of the crash and also its immediate aftermath. Some writings did, however, point out certain similarities to prior crashes. A huge influence was the publication of the book *This Time is Different* (2009) in the aftermath of the crash by Reinhart & Rogoff, which showed in a thorough and quantitative way (a first among books focusing on financial crashes) the similarities of quantitative financial data during preludes of historic financial crashes (the title of the book is intentionally ironic). Yet, the financial landscape in Iceland during the years before the crash were virtually without precedence with the financial system growing at rates virtually unheard of (Halldorsson & Zoega 2010; Sigurjonsson & Mixa 2011), with the private credit vs. GDP ratio rising well over fourfold from year end 1998 to 2007 (Johnsen 2014, 7).

Given that the crash was to a large extent global, it is worthwhile paying attention to how similar the circumstances were in different societies and what, if any, differed between countries and regions.

1.1. Objectives of the Project and Research Question

The research project focuses on investment behavior and the Icelandic economic bubble, emphasizing that investment behavior has to be seen within a both historical and cultural environment. As such the project is related to financial history and behavioral finance. The project's main goals can be summarized into the following research questions:

What cultural conditions shaped the appearance and formation of the financial bubble in Iceland and in what way did those conditions differ, if any, from other countries and to what extent?

This question entails a few issues that are addressed, although in varying proportions, in my thesis. Among those issues and related questions are:

- The difference between Icelandic bankers and the rest of the Icelandic nation when it came to finance. In other words, are there large differences between investment cultures and national cultures? Did foreign bankers view Icelandic bankers as being different in any way?
- Is the global investment culture more important than national culture in determining investment strategies and risk assessments? Have there been rapid cultural developments during recent decades?
- Do representations of past successes in stock investing amplify a feedback loop to a greater extent in Iceland than in other nations, which possibly had a more mature financial history concerning investments, making Icelanders more susceptible to the illusion of prosperity?

I use financial data to compare various financial macro data between nations to establish different proportional progresses in the prelude of the crash in Iceland 2008. Such information

is intertwined with cultural comparisons using the most common method in the field of cultural finance when seeking clues of differences in cultures between nations. These issues and questions show to a degree the historical (horizontal) and cultural/social (vertical) dimension of the thesis. The hypothesis is that various cultural and behavioral effects form accepted attitudes can lead to circumstances where financial bubbles are more likely to take place. The research analyzes the effects formed in Iceland, comparing them to other nations such as the Nordic nations and ones with high individualism (as defined by dimensional studies explained in more detail later) and placing them in a historical and cultural context, attempting to understand similarities and disparities.

This is addressed in this thesis through a series of papers published in international journals and edited book chapters addressing different aspects of these key issues described above. This involves basing research on both qualitative and quantitative methods, linking these methods together for a generalized overview and a more nuanced understanding of particular aspects. This also means that the focus is on painting a picture of circumstances providing a deep understanding of Iceland's financial and cultural landscape, using foreign ones as comparisons. Whether one looks at financial indicators or cultural ones, the first step is generally analyzing comparison studies in an attempt to gain an understanding from a certain standpoint as opposed to defining what normative financial or behavior is. An obvious way of doing such research is comparing Iceland's financial landscape to other nations such as Nordic ones. Last but not least importantly, it also involves studying cultural differences between nations in many ways similar to Iceland and Iceland's historical financial history.

While most research papers about the Icelandic crisis have concentrated on the causes of the crises by focusing on internal macro issues (Ólafsson 2008; Matthíasson 2008; Jannari 2009; Daníelsson & Zoega 2009; Bagus & Howden 2009; SIC 2010a), my research gives a deeper

insight on how Iceland's interlinked social environment influenced and shaped investment strategies and risk assessments preceding the crash as well as emphasizing how these conditions contributed to the crash. Iceland is a central point in my research, concentrating on financial data within the country, comparing it to other countries, in addition to cultural factors between nations and also the global changes occurring during the years preceding the crash in 2008, years I refer to as the Manic Millennium (Mixa 2009b). By using this example, the thesis seeks to contribute to ongoing scholarly discussions about cultural finance as a discipline, methodologies and theoretical orientations. It stresses the importance to critically investigate concepts used and how they can be developed for further research, and providing a greater understanding in the field of finance and other related fields.

I will start the discussion in this introduction by clarifying the use of key concepts in this thesis. While a general agreement exists about many conceptual issues, the concepts below that I briefly define and explain further have multiple understandings and also how they relate to each other. I thus begin defining those concepts and underline my view of how they should be used. I thus discuss different ways of looking at finance from behavioral economics to cultural finance, demonstrating the need to take the culture concept under closer investigation. Then I discuss the papers themselves and how they link with the overall theoretical framework and how they address the research question. Finally, I will address the main findings of the overall thesis.

1.2 Behavior, Culture, Finance & Finance

In this section I critically assess how scholars have talked about the interrelationship between finance and culture. This involves giving an overview of differences in behavioral and cultural approaches towards financial matters and how those concepts differ when looking from a purely financial dimension and an economic one. I begin by providing a short overview of behavioral finance with the intent to relate it to cultural finance. Consequently, I show why I consider the concept cultural economics more applicable in the discussion of this thesis than cultural finance.

1.2.1. Behavioral Finance

Behavioral finance (interchangeably imprecisely referred to as behavioral economics), is a field that studies the effects on psychological social and cognitive factors affecting people, both on an individual level, groups and also institutions, relating to investment behavior. The main focus generally involves what may constitute irrational investment behavior of many sorts (Reuter 2009, 35). The consequences of such (sometimes irrational) behavior can be found in the demand of certain types of investments, which not only affects market prices of securities and other investment vehicles but also resource allocation, since money is transferred to projects of various industries and regions where money flows in accordance with the common view of where the highest returns are in tandem with associated risks. If the behavior becomes irrational due to some types of trends, certain securities, types of securities or other types of investments become either grossly undervalued or overvalued when measured against historical data of real returns and thus their future expected values, i.e., the market prices of such investments veer to a large degree away from their fundamental values. It is, however, very often difficult to assess with a certainty what fundamental values actually are since they to a large extent rely on future incomes with a large amount of uncertainty. Often, still, such irrationality becomes obvious, especially with the benefit of hindsight. Recent examples include the dot.com bubble that burst

2000-2001 and the housing bubble that shocked financial markets in August 2007, reached a high point in fall 2008 and still rattles western economies.

The foundation of behavioral finance is not built upon unknown stock market realities that have only recently been discovered. Knowledge of systematic irrationality by investors has been known for centuries (Chancellor 2000). A famous example is the Dutch Tulipomania that reached its height in 1637, a period that Mackay illustrates as being when “the rage among the Dutch to possess them was so great that the ordinary industry of the country was neglected” (1841/1980, 94), illustrating vividly how the misplacement of investments affects not only investments and securities markets but also economies as a whole, hence rationality (or behavior) regarding investments directly affects the economy and can thus be said to be on the same side of the coin. Case in point is the relationship between the Crash in 1929 (relating to financial markets) and the Great Depression (relating to the economy) during the following years is one of the most debated issue in economic history (Chancellor 2000, 224).

Many investment classics have described irrational investment behavior of various sorts (Gordon 1999; Carret 1930/1997; Fisher 1958/1996; Lefèvre 1923/1994). A great deal has additionally been written and chronicled regarding financial bubbles (Kindleberger & Aliber 2011; Galbraith 1955/1997; Chancellor 2000) with further work related to the field of behavioral finance often discussing how investment irrationality in various ways leads to the creation of financial bubbles (Shiller 2000; Surowiecki 2005³; Pompian 2006; Zweig 2007). Behavioral finance as a science is, however, a recent field that began emerging as an independent one in response to the rational market theory formulated mainly at the University

³ Surowiecki actually contends that the wisdom of crowds is most often close to the best estimate, which may yet open doors to financial bubbles since people’s rule of thumb is that the crowd is correct, as is often in financial markets.

of Chicago in the 1960s with the efficient market hypothesis (EMH) as its best known element (Fox 2011, ix). Fama (1970, 383) defined an efficient market as one where security prices always fully reflect all available information, i.e., the market always knows best. From the beginning of the 1980s new empirical studies reversed such EMH claims leading to the emergence of a new approach – behavioral finance (Szyszka 2008). From that point on, many anomalies were discovered, among which are investors' tendency to overtrade despite decreasing returns (Barber & Odean 2000), investor's tendency to under-react to news in the short run (generally labelled *conservatism*) (Rendleman et al. 1982) but also to over-react to successes in the long run (generally labelled *representation*) (Poteshman 2001). The element of conservatism may be one of the reasons why momentum buyers often buy the best performing stocks in the most recent 12-18 month period; many investors are still anchoring their value to prices from a recent past, often stocks that had represented bad returns in years prior to the turnaround (Ilmanen 2011). Perhaps the greatest known theory related to behavioral finance, and could be considered a harbinger of the science, is the Prospect Theory put forward by Kahneman & Tversky in 1979, which showed how investors' risk assumptions were affected by reference points and the framing of questions. People are generally willing risk more to recoup perceived losses but less willing to endanger gains, something MacKenzie (2008, 267) points out contradicts a lore among traders, especially ones Ilmanen (2011) refers to, that one should run with ones profits but cut losses.

Related to such complicated dynamics at play is the price-feedback loop mechanism. Akerlof & Shiller (2009) describe this as a tendency of people buying or selling stocks due to past price changes, i.e. becoming representative to a certain trend, which may develop into a vicious cycle of price-to-price feedbacks that will eventually burst since expectations of further price increases cannot support rising prices indefinitely. People become less inclined to save since

their savings have increased so much in value through market gains in the stock market, i.e., when bull markets are the trend. With a lower savings-ratio, more money is put into spending, causing added product demand leading to higher operational returns and yet higher sales that increase profits and thus provide a temporary justification of higher equity prices. A vicious cycle has developed, one that only ends at some inflection point (Soros 2003) that has proven difficult by academics to systematically predict. This investment behavior that is generally viewed as part of behavioral finance does yet have an effect on the whole economy that sends positive signals (until the inflection point has been reached) to the stock market, and so the circular motion continues between signals from society to individual investors, intertwined with political agendas that may transform institutions and also structural networks as pointed out by Vaiman, Sigurjonsson and Davidsson (2009).

1.2.2 Cultural Finance

The field of behavioral finance has, however, given little thought to different aspects between cultures, generally assuming that people and thus their societies all over the world act and react in the same manner when it comes to financial and economic issues. One could say that the focus is on the individual within the field within a particular historical and cultural environment. MacKenzie (2008, 266) states that behavioral finance sometimes focuses too narrowly on psychological and individual issues. Shefrin's (2010, 16-17) literature overview of behavioral finance states that behavioral finance mainly draws from individualistic psychology rather than a social one. That is not to say that behavioral finance ignores social influences all together. It is rather that the focus is on the influences society place upon the individual,⁴ as opposed to

⁴ The Asch conformity experiments done in the 1950s showed how people were willing to change their opinions of obvious facts when influenced by groups that in experiments willingly gave false answers. Shiller (1995) showed, however, that people's opinions is altered to a similar degree by information bias rather than a social one, with people assuming that other people must be right. This circles back to behavioral finance, dealing with the tendency of people assuming that "the crowd" surely knows better.

individuals combining to create a consensus of a certain world-view, and the assumption that such influences and views are world-wide the same. Shiller (2014, 2) recently stated about the relation of financial bubbles and behavioral effect that “a speculative bubble is a peculiar kind of fad or social epidemic that is regularly seen in speculative markets; not a wild orgy of delusions but a natural consequence of the principles of social psychology coupled with imperfect news media and information channels.” Shiller’s words suggest that social rather than merely individual forces are at play in creating financial bubbles that are then influenced by media channels, which have in recent years transformed via the increased use of television channels on a global scale and more recently and possibly more importantly through Internet coverage. It can be contended that if social forces differ between nations due to cultural variations, such differences must be scrutinized to apply behavioral aspects properly.

Since the late 1990s, scholars have increasingly criticized this ‘non-cultural bias’ within behavior finance, i.e., the tendency to judge phenomena with standards of a single culture (Shiller 1999; Statman 2006; Statman 2008). Different social influences on individuals’ financial behavior are the main basis of what is generally referred to as cultural finance (or cultural economics). Demonstrating the importance of focusing more closely on ‘culture’ in relation to finance and economic issues, Breuer and Quinten (2009) maintain that cultural finance⁵ can be located as an interface between finance and social sciences, contending that the consequences of globalization suggests that cultural finance as a research area will expand fast. They see cultural finance as a bridge between a neo-classical point of view of finance (where market players are purely rational, and obey laws and regulations within parameters that provide no place for corruption) and behavioral finance (where market players are considered more influenced by cognitive and emotional factors related to financial decision making). As such,

⁵ In this essay cultural finance is viewed as cultural economics.

cultural finance can be defined as a discipline that takes cultural aspects into consideration when analyzing financial matters in regards to behavior within society. Stulz's & Williamson's (2003) analysis begs the question that if culture has been shown to being important regarding legal traditions how the same could not be true regarding financial matters. A recent survey by Reuter (2009) of culture and finance shows cultural finance emerging as a field within publications with explicit culture-interest in financial research, with publications relating to this field only consistently starting a decade ago (during the writing), with working papers as a majority in recent years. Breuer and Quinten (2009) even proclaim that cultural finance can be seen as constituting a new, autonomous discipline within the field of economics. The systematic use of culture-concepts in financial research is thus recent and gaining a larger audience with an increase of interest in culture among financial scholars, involving as well a more interdisciplinary approach in understanding financial phenomena.

To the best of my knowledge, cultural finance research is limited in scope, with no studies in Iceland or internationally having been done in a constant and systematic way. A cultural comparison study between Iceland and USA has been published comparing the prelude of the crash in Iceland 2008 and the Great Crash in USA 1929 (Mixa 2009b). It was, however, a general overview of precipitating factors related to social issues indicating that a financial bubble was brewing as Shiller (2000) described regarding the years preceding the dot.com bubble and the Icelandic social environment during the years before the 2008 crash. This is hence a topic that is recent in the international arena and thus not surprisingly with limited research so far in Iceland.

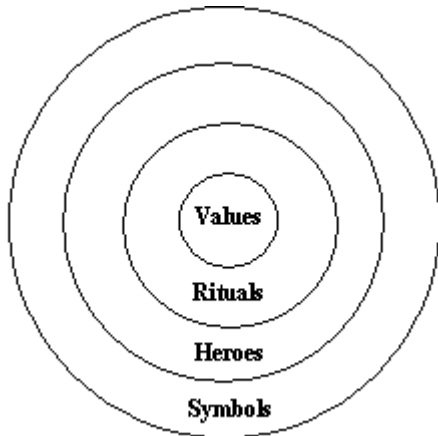
1.2.3 Culture

As stated, the study of behavioral finance assumes that what applies to individuals in one culture applies the same (or a very similar manner) in other cultures. It can thus be seen as a study of

individuals in intra-relationships within a specific cultural and historical environment. This is still a complicated task, with the no universally accepted definition of the concept of culture existing, not even within the social sciences, as I will soon address. Reuter (2009) states that no such consensus exists in cultural finance studies, which even sometimes skip defining the concept. This inconsistency ensures that the findings of various studies may be interpreted in different manners simply because the ideas researchers have of culture may differ. The same data may thus lead to different conclusions among researchers.

The most common systematic efforts in implementing concepts or variables in financial research related to culture are Hofstede's cross-national culture indices, generally labeled the 'dimensionalist literature' (Reuter 2009). Hofstede's methodology in comparing cultures is extremely influential among researchers in business and organizational areas, which views culture on a relative scale, being a "collective programming of the mind that distinguishes the members of one group or category of people from others" (Hofstede et al. 2010, 6). Hofstede himself graphically asserts that the structure within each culture is built up in layers in what he describes as an onion, where values are the core of cultural differences.

Figure 1. Onion Layer of Cultures



Source: Hofstede et al. (2010, 8)

Hofstede's methods seek to determine (via questionnaires) people's values first and foremost, on a relative scale by comparing various dimensions of cultures, not defining how cultures should be in one way or another. Hofstede's methods are usually referred to dimensionalist studies due to the focus on various dimensions between countries scale.

Such a relative method fits nicely with psychologist's views. Ariely (2009, 1-23) points out that people generally define what they should be doing in relative terms, e.g. quoting H.L. Mencken, Ariely (playfully) states that a man's satisfaction with his salary depends on whether he makes more money than the husband of his wife's sister. Social pressures may differ between societies in shaping people's definition of themselves, like people comparing each other during family gatherings. Kindleberger (1996, 13) describes this relative notion from the standpoint of stock market gains, stating that nothing is as disturbing as seeing one's neighbor becoming easily rich via investments (a relative comparison thus emerges, "I should be that way too"). This can be further related to how people define themselves and their role within a larger society or nations

as a whole within larger territories. Germany's social structure crumbled when the middle class was mostly wiped out financially post WWI, calling for a radical altering of their views of how they defined themselves and their nation (Ahamed 2009).

Hofstede (Hofstede et al. 2010, 128) takes Adam Smith's theory regarding the "invisible hand" as an example of a generally accepted theory within the heart of economics, yet the science of economics is based on an individualistic idea that has been mainly explored within countries that score highly on individualism, thus not being necessary applicable in all territories. He points out that economics has remained an individualistic science with most of its contributors coming from highly individualistic nations such as the United States and Britain. The classic case of the Tragedy of the Commons may, for example, be more relevant in certain countries than others and must take into account contextual factors (McCay & Acheson 1990, 6-10). By the same token, individualism is not necessarily a universal phenomenon but culturally specific to individualistic countries, with duties and relations between individuals being different in different cultures. Territories that may not adhere to the same extent are ones that score highly on the other side of the spectrum, i.e., on collectivism.

Hofstede's methods are not the only ones used. Recently a culture model by Schwartz has gained in popularity (Breuer & Quinten 2009) because many deem it as overcoming some of the methodological weaknesses inherent in the Hofstede model, although both models take the impact chain of culture as being a given (ibid). What such models have in common is that they are attempts in defining cultures in systematic ways. This may be helpful in creating a standardized setting of how the concept is defined. When doing a detailed study, however, the use of such models can only be viewed as being stepping stones. As Hofstede et al. themselves state (2010, 48-49), dimensional methods involve not merely collecting the data but also interpreting it, determining its usefulness and limitations, and comparing and applying it to a

specific topic. Increased production in Asia in recent decades has for example been explained with the arguments that the general long term orientation among cultures in the region is yielding results. It has also been detected that individualism is prevalent in nations that score highly regarding individualism usually have economic superiority compared to other nations. It is, however, difficult to say whether cultural effects created such effects or whether the surroundings created something that constitutes being of a certain cultural nature. It is for example interesting that nations with high individualism scores tend to have lower economic growth once they have reached higher individualism. This can be explained in a way that such nations contain a great number of people that can afford having such individualist views, having often a strong social system with thus a less need of collectivism among individuals as some sort of insurance of survival among individuals within a society (Hofstede et al. 2010, 132-133).

Hofstede's methods have been criticized by numerous researchers, with for example McSweeney (2002) criticizing Hofstede's generalization of nations and averaging scores within nations as being yet representative of the nation and Ailon (2008) further arguing that the studies and subject used to gather data are too centered on Western subjects and assumptions, thus not taking into account the diversity of other groups within nations. While Hofstede's methods are not flawless and by their own admission (Hofstede et al. 2010) with limitations, they remain nevertheless the most popular method in studying cross-national cultures (Breuer & Quinten 2009) and compare still favorably with other frameworks (Magnusson et al. 2008).

Quantitative research using the dimensionalist perspective advocated by Hofstede (i.e. cross cultural comparison) is immense in an international context, while lacking in relation to Iceland. A paper Eyjolfsdottir & Smith wrote in 1997 has been e.g. been often cited, in which they infer

Iceland being similar to other Nordic countries using Hofstede's methods as a base point, despite offering no supporting quantitative data.

Two University of Iceland studies analyze the main characteristics of Icelanders using Hofstede dimensional analysis (Adalsteinsson, Gudmundsdottir & Gudlaugsson 2011; Gudmundsdottir, Gudlaugsson & Adalsteinsson 2015). Another study I am aware of was conducted by Kaupthing prior to the crash. The results of that study have though not been properly analyzed nor publicly released. There have been other minor studies using Hofstede's methods that cannot be considered being reliable. The results from those studies combined may still provide indications of the general financial/economic mood in Iceland that may, due to Iceland's smallness, provide a glimpse of how those views altered the perception of Icelanders concerning financial matters.

It is important to underline that cultural analysis in this thesis takes the common current view, which will be later explained in further historical detail, that no true or correct cultures exist but is rather subject to comparisons of each other.

1.2.4. Cultural Economics

When discussing behavioral finance, the commonly interchangeable term behavioral economics is often used. The former term focuses on issues relating to the act of investing while the latter one additionally entails the effects investment decisions have on the whole economy, i.e., both the act of investing (and thus the allocation of capital and resources) and also the economic effects. Such effects within the economy create a feedback that both begins influencing people's investment behavior, not only in terms of investing but also consumption (that creates yet another feedback loop) and attitudes towards savings, risk and the public's willingness to accept and follow certain ideologies. Galbraith (1955/1997, 169-170) describes such an economic and social environment stating that: "People must also have faith in the good

intentions and even in the benevolence of others, for it is by the agency of others that they will get rich.” It is, in other words, old wisdom that during good times, people change their behavior in a way that affects the economy as a whole. I deem that the term cultural economics by that token also takes into account the effects of investment decisions on the economy as a whole, how the consequences of such decisions affect societies at large in possibly various manners between societies while cultural finance generally relates to a more narrow term concerned with the act of investments and how it may differ between societies. Cultural economics is thus a better term when describing the interplay between sociological aspects and economical ones, which are never-the-less closely tied with financial investment behavior, not merely when looking at recent events but also from a historical perspective.

The behavioral finance term is additionally often associated with some sort of irrationality, which has a strong association with irrational investment decisions and is additionally often associated with financial crisis. This is exemplified by the title of the most famous book in the field of behavioral finance, *Irrational Exuberance* by Robert J. Shiller, which was initially published at the peak of the dot.com bubble in March 2000. It should be pointed out that the term rationality is difficult to define in finance, because despite its general association to psychological effects, with investors not being rational (Statman 2008b), it is well known that investors often have invested in securities they believed were overvalued but yet had reasons to surf current investing trends (Lynch 2000; Shiller 2002). Reasons include that being wrong for a long time and also different than “the crowd,” despite being eventually proven to be right, has costs professionals losing their jobs (Bloomberg 2002; Independent 2008). Also, investors often pay more attention to momentum trading rather than fundamentals (Mallaby 2010) in a fashion Ilmanen (2011) describes momentum traders, which often achieve above average returns.

Although the term cultural economics could also be deemed being associated with financial crisis, having defined in a clear manner the differences between the concepts behavioral finance, behavioral economics, cultural finance and finally cultural economics, it should be clear that cultural economics focuses on comparing different investment behavior between cultures without regard to its rationality (a term that is in itself difficult to define concerning investments), but still as a stepping stone in determining the likelihood of financial crisis under various circumstances in various cultures. The applicability of cultural economics could, however, just as well be to determine the financial institutional setting within different nations. Such an application could, still, be relevant when financial institutional settings are being transformed. An example of such a transformation is the liberalization of the banking system, which, e.g., is generally assumed having had large implications in the Nordic countries and Iceland during the prelude of their financial crisis. If one accepts the notion that such institutional and economic settings are part of culture, changing the set-up of those institutions radically opens the gates to profoundly change people's views in society to various issues, and thus the culture. Demirgüç-Kunt and Detragiache (1998, 6) find for example that a financial crisis occurs more likely in countries where the banking sector is more liberalized, not often happening immediately following the aftermath of such liberalization but a few years later. They point to the fact that this is especially likely where bureaucracy is inefficient, contract mechanism are inefficient, a lack of respect is for the rule of law and corruption is widely spread. On a similar note, La Porta et al. (1998) come to the conclusion that laws and their enforcement differ between nations, and those nations with less investor protection suffer due to less developed equity and debt markets, which tend to enhance economic growth.

The discussion above indicates that the distinction between behavioral finance and behavioral economics is in no way clear-cut. The degree of how much social (and if they differ, thus

cultural) issues vs. being individual is often unclear. One of the main concepts in behavioral finance is *herding*, a term relating to people mimicking actions of other people and hence how society influences the behavior of people. Sornette (2004, 94) links many economic activities to the *herding* concept such as investment recommendations, price behavior when common stocks are initially sold, earnings forecasts and portfolio management, to name a few. Even professionals are not immune to such activities. Lynch (2000, 59-63) describes portfolio manager's tendency to mostly buy stocks known by the public so they have little explaining to do if stocks within the portfolio fall in value while Shiller (2001, 5&13) states that people are more likely to buy assets that have grabbed their attention (via the media or even just word-of-mouth) and such assets are usually assets whose price has gone up recently; hence to deal with the clients' expectations they portfolio managers have added pressure to invest according to certain fads their clients follow. Hence, society influences people's behavior, with even professionals who should know better, feeling themselves forced to possibly amplify irrational behavior because of social influences but may also begin rationalizing that they must be wrong in their (rational) assumptions since so many others hold other views. This is a commonly accepted fact within behavioral finance. It is, however, often difficult to assess to what extent it is individualistic biases that causes irrational financial behavior opposed to societal peer pressure. Behavioral finance accepts this as a fact and while the field thus embraces sociological influences on investment behavior; it has done little research regarding different influences between nations or regions.

1.2.5 History of Culture Related to Economics

As previously discussed, no consensus of its definition exists in the field of cultural finance. What is probably more worrisome is the fact that some papers dealing with the subject have used the concept uncritically as if assuming that there was a shared understanding among

academics on the concept and as well as that those classified as belonging to a particular culture have the same views of what constitutes their culture. I have emphasized the importance of contributing from theoretical discussion about the culture concept, which exists in complex interrelations with social and historical factors.

This involves concepts such as power and hegemony, which strangely are often absent in economic theories when approaching culture.⁶ While Sigurjónsson and I show in the first paper of this thesis that quantitative factors showed clear signs that a financial bubble was brewing in Iceland prior to the crash, the fifth paper of this thesis written with Loftsdóttir strongly hints at forces within the Icelandic society that had actual interests in creating a new value system within it. The degree to which this was by default rather than design cannot be determined but it is unquestionable that some agents that had interests of developing a new value system and thus culture in Iceland and consciously re-enforced and maintained such views within Iceland with the use of media.

1.2.6 Culture in Tandem with Economics

The word culture has its roots in the Latin word *Cultura* that is drawn from the noun *to cultivate*, which explains the relation of the word to agriculture (Jackson 2009, 16). The main thought of such use of language during the middle centuries related to the growth of the mind in a spiritual sense, with an increased emphasis on meditation, understanding and praying (Beugelsdijk & Maseland 2011; Jackson 2009). This began changing with the transformation of European societies changing from feudalism to capitalistic ones, with the individual coming more into the forefront than before. This was natural since ancient social contracts were being broken and

⁶ See for example discussion in the fifth paper regarding Keen's assertion that historical approaches have been removed from economic tool kits.

natural resources that once before belonged to society as a whole (not necessary still with the same rights or privileges) were transferred in the hands of individuals (Ritzer 2007).

This period created a society/culture characterized by a great upheaval, unrest and even violent actions with the individual in the forefront. The need to frame the development with a coherent theory of the transformed society became urgent, explaining how a society could be justified where individuals had their own interests in the forefront but yet held together without chaos ruling and eventual disintegration within itself. Adam Smith published such a theory in 1776 in his book *The Wealth of the Nations*, in which he maintains that the value of goods within nations is not inherent in the wealth of the elite but rather the combined wealth and income of (free) individuals (Beugelsdijk & Maseland 2011). Although Smith describes some sort of law of the jungle (in a Darwinian vein), with every man for himself, he brought forth arguments that such a development would lead to added efficiency for society as a whole (Ritzer 2007), which at that point was with added industrialization and urbanization, applying specialization (or division of labor as Smith put it) to create and increased amount goods with less effort (Cassidy 2010, 26-29).

The conclusions Smith derived were built upon what may be called empirical studies. While working on the book he analyzed the operations of a pin (nail) factory and saw that its production increased with added specialization, which was in a certain contrast to Britain's society during that period in which bands of hungry laborers at times roamed the country and impoverished people filled newly built factories, although Smith's point was confirmed with living standards eventually rising within the free market society (Cassidy 2010, 27-28). Smith was describing a development of a pattern within society that was taking a new shape (Beugelsdijk & Maseland 2011); he was in other words not simply describing an economical concept but also took into account the governing culture within society that was rapidly shaping

itself towards a market economy and industrialization. It is, however, not unlikely that a certain justification of the developments within society, which affected the power structure between classes in Britain, influenced Smith's writings, benefitting the interests of the main emerging market system and providing the necessary institutional framework for the growth for industrialists and merchants (Tsoulfidis 2010, 50); Smith was interested in explaining how capitalistic markets worked, not how they failed (Roubini & Mihm 2010, 40).

It is worth noting that the famous analogy of the (divine) invisible hand was framed within the effects of a different society and added efficiency in manufacturing without leading to chaos, but not in relation to financial markets in general. Smith was without doubt influenced by memories of one of history's most famous stock market bubble, *The South Sea Bubble*, had occurred half a century sooner and its dire effects were still engraved in the minds of Britain's public.⁷ Stock markets were hence still viewed with suspicion and were even illegal in Britain during the period of Smith's writings; Smith himself considered joint-stock companies suffering from the separation of management from ownership and hence causing agency problems (Chancellor 2000, 90). Although Smith could be described as a free market advocate, it was not necessary in the vein that is commonly outlined today regarding financial markets, which often are assumed adjusting towards true values of securities like some sort of invisible hand guiding equilibrium of demand and supply. Cooper (2009, 93-105) shows, however, that while there is plausible arguments of market stability of goods and services, which does not apply to credit markets.

Karl Marx contended that the shaping of the society and thus its culture was in many ways explained by how the ownership of machines and tools had formed a sociological pattern. Marx

⁷ Sir Isaac Newton lost enormous amounts in the bubble. It is said that no one was allowed uttering the words in his presence following the debacle.

regarded the ideas of the ruling class being in reality the ruling ideology of each culture, meaning that the class ruling over the machinery and other necessary resources to create valuable products not only had a financial superiority but also a mental/spiritual one (Tucker 1978). This creates an interwoven relation between the economy and society in creating the fabric of the governing culture, where the production of goods becomes not merely an economical feature but also creating societal structures and ideologies in maintaining them, like human and spiritual relations.

Since the construction of the economic life, which Marx placed in the center of society, steered these structures, it also influenced the legal and political landscape of its environment because those social pillars have guided the public towards acting in a manner that maintains such structures. Marx maintained that the ruling class thus not only ruled the economy but also culture and hence popular core beliefs within it, like what is right and wrong, beautiful and ugly, etc. The ideology of the ruling classes was thus the dominant ideology of each society at every point. Thus the dominant ideology of the ruling class defines to a great extent the culture of a state at any given time. The interpretation of reality of the ruling class is interpreted by society as a certain truth at each point in time and mirrors the collaboration of power and those who handle it (Marx & Engels 1978, 64).

Gramsci took this concept one step further by maintaining that the ruling class had a certain governing power, defined as hegemony rather than ideology, where the masses accept a general direction imposed upon the social life by the ruling class (2000). Gramsci made a distinction between ruling and hegemony; with ruling expressed as a direct coercion normally used in times of crisis but hegemony in more normal situations through political, social and cultural forces (Williams 1977, 108). If the general public accepts a certain ideology then the ruling class build their power structures not merely upon machines, tools or other types of financial wealth and

the structure of society, but also upon the fact that the masses believe that such power of the ruling class is built upon an ideology that serves the best interests for the society as a whole (Beugelsdijk & Maseland 2011). Hence, by having the population accepting concepts tied to the core of what constitutes as cultural issues such as ideology, beliefs, norms and customs that maintain the power of the ruling class, an even more and steadier sort of power is attained than through sheer ruling. This entails a change from the structural ideas of Marx who viewed power of the ruling class being purely economic through the ownership of machines, tools and natural resources.

In 1937 Keynes wrote *The General Theory of Employment, Interest and Money*, which overthrew the dominant view of economics, mainly due its criticism that some invisible hand was at its own devices best suited in directing the economy; a sensible guidance of governments was also needed to steer the economy (Roubini & Mihm 2010, 43). It could be said that Keynes was taking a step in the direction of feudalism but instead of landlords, now governments were granted a larger role in controlling the economy. Another point of view of Keynes' writings is that individualism by itself as described by Smith did not suffice in maintaining an economic balance but a certain amount of collectivism was also needed.

Although Keynes criticized the writings of Smith, particularly that some invisible hand guided the economy, he did not revert towards Marxism but rather combined the individualism Smith put forth as a driving force but tempered it with the argument that a government was yet needed to guide that invisible hand (Fox 2011, 35). Since Keynes' arguments did not radically attack the dominantly accepted ideologies for the past decades but at the same time gave governments a green light in combining individualism to collectivism by piling money into economic activity (which provided good results during the following quarter of a century), it is was no surprise

that his views regarding the economy and its interaction with Western civilization became as accepted as they were.

In an environment where structure of theories about culture became ever more complicated and concentrated increasingly on relationships and power structures, cultural hegemony became even more important. It was within such an environment that Polanyi brought forth a new vision of the definition of what an economy is, interpreted by Beugelsdijk & Maseland (2011, 98) as an economic system as something that entails certain universal governing rules (dealing for example with choices of scarcity as a form of science) he defined it as various means in which people interact with their social and physical environment for survival and reproduction purposes. Such means can take different shapes depending upon the location of each society, its climate, and with the advent of increased communication via telephones and the Internet one could argue that international ideologies play an increasingly bigger role. This fits with Tang & Koveos' (2008) findings that there is anecdotal data showing that despite institutional factors such as geography and religion are important elements of culture, those dynamics in an increasingly integrated world (communication) may be declining in certain dimensional ways.

1.2.6 Cultural Literature Linked with Finance

Significant works in the domain of cultural finance have only recently started to appear, with key works appearing at the turn of the millennium (Breuer & Quinten 2009, 12). Reuter (2010, 29), furthermore, points out that almost no dimensionalist research effort has been published in financial journals in spite of their potential contribution to understanding better workings of financial markets. Among the most cited works related to cultural literature in regards to finance is La Porta et al. (1998) study, claiming that investor protection between countries differs according to their cultures. This observation is important due to investor protection being a major issue in economic growth (Acemoglu & Robinson 2012), and thus such differences affect

each country's stock markets. Stulz & Williamson (2003) important contribution to this literature was the observation that a country's dominating religion is a predictor in the variation of the rights of creditors, meaning that different dominating religions between countries, which is cornerstone in most countries 'culture, affect the financial landscape within each country in varying ways. Kwok & Tadesse (2005) show a correlation between higher mean scores of uncertainty avoidance index (UAI) and the types bank-based financial systems in each country, papers by Chui et al. (2010) and Dou et al. (2010) showing the correlation between individualistic cultures and stock market trading volumes, and Tang & Koveos' research (2008) showing the correlation between individualism, power distance and long-term orientation with economic dynamics.

In my own contribution to the field, I similarly to Kwok & Tadesse, use Hofstede as a base to move forward analysis of culture in relation to finance, which also involves a more nuanced reading of culture than often is done by those using his approach. The third paper in this thesis, "Financial Behavior in Iceland within the Framework of Hofstede's Cultural Dimensions," uses a dimensionalist approach, indicating a correlation between the level of individualism within nations and their propensity to save. By using a diverse set of data consisting on dimensional results and financial indicators, the paper shows that while nations may on the surface appear similar, their financial behavior may differ radically. To my best knowledge, this approach has not been used before. Looking at historical elements before the Manic Millennium shows how the seeds were sown for the formation of classic types of financial bubbles, with a technological revolution in the communication industry occurring (Shiller 2001), money inflows into the country (Kindleberger & Aliber 2011) and wide spread optimism about the future (Reinhart & Rogoff 2009), there were also additional forces involved. As often occurs during such periods full of optimism, various sorts of promoters begin raising money for projects, many of which

are of a dubious nature, as Mackey (1841/1980) describes regarding the period when the Sea-South bubble was forming in England in 1719, for example a company creating a wheel of perpetual motion and another one carrying on an undertaking of great advantage but no one knowing what it is. The fifth paper of this thesis, “Banks Glowing in Nationalism,” shows that the idea of Icelanders as in some way special regarding banking and business despite of their obvious lack of experience in such international matters was in spite of its absurdity sold to the Icelandic nation, hence enabling the banks to carry on their rapid expansion despite the associated risks that the Icelandic nation to a large degree eventually had to handle. Here I underline the importance of looking at historical conditions of finance as well as the consequences of rapid social changes into people’s perceptions and behavior. While the paper also stresses the continuity of cultural identity through different decades, it also shows how such cultural elements can be appropriated by different forces in society – to the benefit of rapid growth.

2. Research – Approach & Methodologies

This PhD thesis advances further the use of the concept ‘culture’ within cultural economics by using an interdisciplinary approach, benefitting from the evolution of the concept within social sciences. That means that the focus will not be merely on quantitative variables but also takes a critical look at the evolution of Iceland’s culture that, interestingly, evolves remarkably in tandem with historical changes of the banking system in Iceland, which both are highly influenced by new technologies (cable television and the Internet), which is often a harbinger of economic growth but also often financial bubbles,⁸ and international changes in the financial system that had a major impact on cultures. Numerical features will mainly focus on financial macro comparisons between nations and dimensional scores between nations/cultures. My research takes into account the critical approach within the social sciences that have criticized how the culture concept is often used in a simplistic way, for example as completely controlling people’s behavior (Skaptadóttir & Loftsdóttir 2009), in regard to how these insights can possibly deepen the concept of cultural economics.

It is important to lay out the course of how I philosophically approach this study because few such studies have been conducted within the field of cultural finance and no systematic research has been done in predicting financial crisis and cultural variations as far as the author is aware of.⁹ This ambiguity is relevant to the study of finance in general, which is a field that deals mostly with future risk and rewards laden with uncertainty of company profits (affecting returns on stocks), interest rate movements (affecting returns of stocks, bonds and cash) and company failures and other unforeseeable events (affecting all types of ownership). Shiller (2001, 7)

⁸ See for example discussion in Shiller (2005, 107-131) regarding New Era thinking and Kindleberger & Aliber (2011, 26-38) regarding the anatomy of a typical crisis.

⁹ Demirgüç-Kunt & Detragiache (1998) studies of financial fragility may be viewed as an early comparative study that may provide explanations of cultural differences combined with a discussion of different institutional settings.

gives examples of the difficulty portfolio managers constantly face when making investment decisions, that is seldom limited to quantitative number crunching but all types of other matters, with Shiller stating that: “No one person can be at once a historian, political scientist, economist, and psychologist rolled into one,” further stating that “synthesizing all this knowledge,....., is an even more difficult task than trying to add a piece of scholarly evidence.”

One could easily fall into traps by interpreting results using simple inferences. Hofstede et al. (2011, 132) provide examples of such interpretation, showing that their research indicates that nations that score highly on individualism and generally enjoy higher wealth subsequently enjoy less economic growth than comparison nations despite popular belief of the contrary. A similar example of drawing simplistic conclusions from data is pointed out by Vaiman, Sigurjonsson and Davidsson (2010) who show that corruption in Iceland exists despite traditional measurements indicating the opposite with results constantly published in the media prior to the crash 2008, but measurements did not in a subtle way detect. The myth of nations scoring high on individualism reaping comparatively high economic growth remains persistent while the assumed low level of corruption is being widely questioned.

Delving too much into the data can be problematic, especially when the financial and cultural data is imprecise. That is not to say that it can provide clues about certain relationships. Kwok and Tadesse (2005) used dimensional analysis with the research hypothesis of whether nations with higher mean scores of uncertainty avoidance index (UAI), using Hofstede’s methods, were likelier to be associated with bank-based financial systems as opposed to market-based financial systems. While the authors did find a statistically significant relationship indicating that Anglo-Saxon countries financial systems are more dominated by stock markets, they also underline the limitations of the study stating that they “deal with cultural and socio-political variables, the measurement of these variables is not precise” (26), furthermore stating that; “our empirical

tests do not provide a precise test of causal relationship. What we find is a significant association between national culture and the configuration of financial systems” (26-27). Hence, the authors do provide a substance to further findings but emphasize themselves the limitations of their findings published in their paper.

Other studies have shown cultural relationships regarding finance. Chui et al. (2010) and as further demonstrated by Dou et al. (2010) show that individualistic cultures tend to have higher stock market trading volumes. The findings in a study done by Tang & Koveos (2008) show that individualism, power distance and long-term orientation are more prone to economic dynamics than uncertainty avoidance and masculinity. They suggest that institutional traditions and economic conditions should be reflected in cultural values, meaning that economic changes require constant adjustments of cultural dimensions. This resonates with Acemoglu and Robinson’s (2012, 7-8) argument in their book *Why Nations Fail* that social institutions have by far the greatest effect on how the economy of nations develop, either positively or negatively. This is a point the authors argue is due to the different historical build-up of institutional structures in each nation, which relates to power structures within societies. The definition of cultures when intertwined with economics is thus merely an approach but not an absolute one.

In the survey of papers and articles focusing on cultural economics (or cultural finance as it is defined in his paper), Reuter (2010, 45) points out that there seems to be much confusion between culture and institutions and in cases of dimensionalist papers (using Hofstede’s methods) they do not come without additional references to institutions, hence “it seems that the emergence of the culture theme in financial research corresponds to a renewed interest to try and untangle the sources of national embeddedness for financial phenomena: cultural, political, institutional, structural (networks)...” This is complicated, as Shiller’s discussion points out (2001, 7) addressing the difficulty of synthesizing various different fields of

knowledge relating to financial matters, which focus on financial analysis on a relatively minimal scale but rather on other aspects (both from an individual level and social one), and are yet so important when it comes to financial decision making; i.e., where to invest and hence resource allocation that affects the economy as a whole and shapes and transforms societies (due to investments or even due to the lack of investments in certain areas).

2.1 Quantitative and Qualitative Approaches

Reinhart and Rogoff laid a foundation of quantitative studies in the field of financial crises with their research that culminated with the book *This Time is Different* (2009), which is generally accepted as the first quantitative summarization of build-ups of financial bubbles over 800 years. In another recent paper, Reinhart and Rogoff (2008) focus on a quantitative and historical comparison approach is used to measure danger signs of bubbles in America. While I use to a large extent Reinhart and Rogoff's general approach of using quantitative figures as a base of comparing preludes to financial crises, from a historical perspective, the additional aim of my research is combining such quantitative analysis to some sorts of dimensional literature. To the best of my knowledge such studies have not been done to date. As Reuter stated (2006), no review or consistent cultural framework has yet emerged in cultural economics.

A quantitative approach using economic and financial ratios and dimensionalist comparison studies sets a foundation of framing such research. The first paper "Learning from the "Worst Behaved": Iceland's Financial Crisis and Nordic Comparisons" is quantitatively straight forward, comparing economic and financial ratios in Iceland during the prelude of the 2008 financial crisis to such ratios in the Nordic countries during the prelude of the 1990s financial crisis. The aim of the paper is to quantitatively assess the extent of the growth of each nation's

financial system and whether it was as much in Iceland as in the other Nordic countries. The results clearly show that the Icelandic financial system showed signs of much more expansion and thus possible overheating during the prelude to the Icelandic 2008 crisis compared to the Nordic 1990s crisis. During both comparison periods the banking system of all nations grew immensely, with the general conclusions that such rapid growth was to a large extent the reason of the Icelandic 2008 crisis (see for example Englund 1999; Jonung 2008; SIC 2010¹⁰). This clearly shows that the Icelandic nation was much more willing to allow the banking system expand to a degree that it should have been obvious that inherent risks were associated with such an expansion. The paper thus provides a clear overview of the rapid growth of Iceland's financial system during the years before the 2008 crash, both in absolute and relative terms.

Qualitative research in the area of cultural economics is also limited. Other scholarly traditions such as anthropology have relatively recently given a more nuanced view of the dynamics at play between finance and society (Miyazaki 2006; Ho 2009; Graeber 2012). I focus at historical issues relating to finance (investments) and society in setting up a fuller picture of how cultural issues contributed to the financial crash in Iceland, focusing on how Iceland's culture changed during the prelude and qualitatively use theories from the social sciences.

In this regard the aim of this thesis is to analyze new cross-disciplinary uses of the concept culture, which is in line with Zingales' (2000) view that new methodologies into finance are called for, as well as being informed by recent development of the 'culture' concept by social scientists that have discussed widely the relationship between culture and individuals as agents.

¹⁰ It should be pointed out that while the paper "Learning from the "Worst Behaved": Iceland's Financial Crisis and Nordic Comparisons" was published about a year *after* the SIC report was published, it was ready for publication about a year *before* the SIC report was released. A main feature of the general results of the SIC report was that the Icelandic banking system simply grew too fast and was the first thing mentioned during the widely viewed press conference regarding the report. While this was news for most of the nation, the authors of "Learning from the "Worst Behaved": Iceland's Financial Crisis and Nordic Comparisons" had been aware of those results for a while.

Reuter (2009) states that many financial issues are being institutionally embedded on findings from sciences such as economics, sociology, political and management sciences. In order to provide a conceptual model of how collective norms influence financial decision making, such norms must be analyzed separately from cultural conceptions and, in a sense backwards, applied to findings of cultural inclinations. This is a different approach from purely behavioral finance where biases are identified and rationalized. This thesis thus has the potential of being an important contribution to a more theoretical sophistication of the culture concept within cultural economics.

“A Day in the Life of an Icelandic Banker” (the second paper) is inspired by a social science point of view in its analysis of Iceland’s society. Narrating how the financial landscape in Iceland changed radically, both domestically and internationally, the paper shows that Iceland followed international trends in the financial world. The main difference was, however, that Iceland had no financial history outside of the realms of traditional banking within a politically restrictive environment. It can be argued that Iceland’s culture changed more than other cultures with technological changes that were occurring in the communication boom via cheaper phone rates and the internet, since Iceland had been isolated from other countries, both geographically but also had been much less interconnected with international media than most other Western nations. The paper shows that once banks began showing higher profits due to changes, a prevailing bias that profits continue in a similar fashion in the future is formed within society (Soros 1997), as happened in Iceland, through sound banking practices as opposed to reckless risk-taking. The paper’s approach traces in a nuanced manner how a different international banking environment, Iceland’s entrance in the European Economic Area (EEA) with its requirement of Iceland adapting to international laws and regulations as well as advances in communication technology changed Iceland’s culture in a swift manner. As La Porta et al.

(1998) have shown, different law systems affect financial systems and thus economic growth, which highlights the importance of taking such institutional changes into consideration,

The Hofstede dimensional studies are introduced in paper three, “Financial Behavior in Iceland within the Framework of Hofstede’s Cultural Dimensions,” where quantitative results from the paper “Learning from the “Worst Behaved”: Iceland’s Financial Crisis and Nordic Comparisons” are used as a basis in addition to Hofstede dimensional scores. It is noted that while Icelanders are generally viewed as being culturally similar to other Nordic countries, the conclusion from the paper “Learning from the “Worst Behaved”: Iceland’s Financial Crisis and Nordic Comparisons” is that Icelanders were much more reckless than the Nordic nations from a financial perspective. While Kwok and Tadesse’s approach (2005) used the uncertainty avoidance index dimension as a base of comparison to the likelihood as certain types of financial systems, paper three in the dissertation compares nations with very high scores in the individualism index dimension to their propensity to save. While other Nordic nations’ individualistic index is rather high, Icelanders, according to the dimensional studies, have the strongest sense of individualism in their culture in the world, although very similar to the United States, United Kingdom and Australia. Those nations also have a very low propensity to save, with an apparent correlation being between high levels of individualism and low savings ratio levels. While it may be argued that these results are more of an “eyeball test,” further studies done by Mixa & Vaiman (2015) show a definite correlation of low savings ratio within nations with high individualism scores using the Hofstede method. This correlation is for first time, to the best of my knowledge, been shown in a paper.

The main features of papers two and three (“A Day in the Life of an Icelandic Banker” and “Financial Behavior in Iceland within the Framework of Hofstede’s Cultural Dimensions”) are drawn together in paper four, “A Nation of Money & Sheep,” showing how Iceland’s financial

system quickly changed. It shows how these two aspects of the liberalization process of Iceland's financial system, high level of individualism and low savings ratio may have combined in contributing to causing the Icelandic nation being very oblivious to the inherent dangers of the rapid growth of the financial system.

Paper four shows, furthermore, that financial liberalization may have opened the doors to reckless financial behavior, as Englund (1999) suggests occurred in the Nordic countries in the prelude of the 1990s crisis. This discussion is in line with the conclusion Bandiera et al. (2000) reach, namely that financial liberalization, especially where liquidity constraints are relaxed, may be associated with a fall in saving.

The fifth paper, "Banks Glowing in Nationalism," makes the argument that the growth of Iceland's financial system during the Manic Millennium was not merely a natural process where changes in Iceland's culture and its financial institutions, in addition to the international banking arena and the swift increase in global communication possibilities, but there were interests involved in such a process occurring. One way to enable such a process to take place in Iceland to such extremes; one could say having the Icelandic nation accepting such a process, was the constant reference to nationalistic themes demonstrating the superiority of the (small) Icelandic nation compared to most other nations, with the Nordic nations being the most common comparison nations, the same nations mainly used in the quantitative comparisons in this thesis. These references were to a large extent built upon imagined images, invented to a large extent as opposed being built upon reality. This paper thus shows that while Iceland's culture transformed during the Manic Millennium due to external consequences, greatly influenced by simple global processes, other forces had a vested interest in amplifying such processes. This was done to a large extent via the media, mostly owned by bankers and their main associates. Despite the financial crash and its horrible effects on the Icelandic nation, with many

individuals becoming bankrupt following the whirlwind of the boom-bust cycle, there is a certain group of individuals related to Iceland's pre-2008 banking system that are today wealthier than was prior to the Manic Millennium imaginable, having paid themselves dividends due to in some cases mark-to-market profits that were mainly derived by risky and leveraged investment policies that the Icelandic nation to a large extent bore the losses of. Although the extent of the use of nationalistic themes cannot be measured, nor if their frequent use was simply due to public relations officers' own conviction that Icelanders were indeed superior, the paper suggests that while Iceland's culture was rapidly changing, old and mostly invented cultural themes relating to some sort of Viking spirit was used to justify the rapid expansion of the banking system. The paper "Banks Glowing in Nationalism" thus shows that a certain group of individuals had a vested interest in changing the perception of Icelanders towards risk taking, which was to a great degree financed by foreign money but built upon some sort of imagined Icelandic superior characteristics. The paper shows that the growth of the Icelandic banking system was at least partially because of certain interests gaining money of such growth, not only because of various global processes taking place and Iceland's culture changing in tandem with such changes.

To sum up, an applied and theoretical perspective will emphasize at looking at cultural aspects in investment policies (or if one will, behavior), with Iceland in recent years as the central focus, using comparisons of historical information and socio-cultural analysis. The research is based on a combination of quantitative and qualitative methods, using quantitative comparison studies in conjunction with an analysis of semi-structured interviews. The cultural comparison based upon these two sets of data gives an overview of social and economic indicators and how the global development affects societies on a global scale.

Bankers are the primary source of interviews in this thesis. Interviews were conducted in order to gain a comparative understanding of concepts often associated with financial crisis. Not only were bankers questioned of how their understanding and perception of key concepts such as acceptable risk taking, individual responsibility and relevant financial issues but also how their clients perceived such issues during the boom years and how that perception has changed in the aftermath of the financial meltdown. Foreign bankers were interviewed that had either worked with Icelandic bankers or worked in Icelandic banks on foreign ground.

2.2 Further description of studies

In line with approaches of defining culture not from a singular standpoint but a comparative one, my research compares financial and cultural concepts between Iceland and other countries. Comparison studies are extensive regarding the so-called 1990s Scandinavian Crisis – a term often used about the severe banking crisis and consequent recession in Finland, Sweden and Norway - with comparisons between the nations involved (Honkapohja 2009; Jonung, Kiander, Vartia 2009; Berg 1998; Englund & Vihriala, 2003); studies that some of which include possible lessons one can derive from such comparisons (Jonung 2009; Jonung 2008). Such comparison studies view the qualitative background mostly in relation to financial matters that is explained via quantitative graphs and movements, focusing on financial indicators and typical elements of financial bubbles. While they often contextualize these indicators within social and historical perspectives, they usually ignore cultural dimensions.

I use in my research financial comparisons built upon macro data mainly between Iceland and Nordic nations. The reason I began focusing on those nations is that they are commonly viewed as having similar cultures, institutional set-ups, political landscape, a common historic bond and even financial landscape. The cultural comparisons analyzed used Hofstede's dimensional

method. The financial data was compared on a side-by-side basis in the prelude of major financial crisis. While the financial crisis in 2008 is commonly viewed as the most serious one world-wide since the one that engulfed the global economy 1930-1932, the Nordic (Norway, Sweden and Finland and to a smaller extent Denmark) financial crisis at the beginning of the 1990s was in a study by Reinhart and Rogoff (2008) identified among the five “Big Ones” 18 financial crises from WWII until 2007.¹¹

This research has thus explored the entanglements of various aspects of Iceland’s economy with other aspects of Iceland’s society. The outcome of such an approach does provide some explanatory power to why Iceland as a nation was as oblivious to the dangers of leverage and bad banking practices despite obvious public warning signs apparent in many dimensions (Mixa 2009b). The behavior of Icelandic bankers is also compared to the international banking community, which affected the public’s opinion of “their” bankers, both regarding attitudes and also beliefs, via the use of the media and perceived increase in profits. I show in this regard how the banks’ public relation teams used certain elements in the Icelandic past historical culture to enhance their agenda.

Iceland was also a part of a financial global environment. This weighs a great deal in the analysis that could be valuable in creating a more enhanced understanding of the nature of the global financial environment and how vital it is both to understand national/cultural aspects and global ones. As such it will create a deeper understanding of not only the development of the Icelandic bubble, but of creation of bubbles in both a local and globalized context. The research takes into account both ‘national culture’ and also investigates to what extent one could talk

¹¹ The crash in Norway actually occurred in 1987-1989 but is generally scaled towards 1990 in comparison studies. External factors, with the aid of 20/20 hindsight vision, merely hastened an inevitable process of a trend that occurred there in a similar fashion as in the comparison countries.

about a more ‘global behavior in the finance community, i.e., to what extent the concept culture can also be useful to draw out certain variances and similarities that are found within different financial systems and their relationship towards the development of global ideologies, especially those that relate to financial matters.

3. Papers of the Thesis – Relevance and Relationship

This thesis consists of five papers. Two papers have been published in recognized journals. “Learning from the “Worst Behaved”: Iceland’s Financial Crisis and a Nordic Comparison” was published in an international one, *Thunderbird International Business Review*. The other one, “Bankar í ljóma þjóðernishyggju” (English translation is: Banks Glowing in Nationalism: The Financial Crash, Globalization and Culture) was published in an Icelandic one, *Skírnir*. I include both a translated version of the paper and also the original Icelandic version of the paper in this thesis. Two papers have been published as book chapters in edited books. “A Day in the Life of an Icelandic Banker” is published in the book, *Gambling Debt*; edited by E. Paul Durrenberger and Gísli Pálsson, which was published in late 2014. The book is a collection of articles analyzing the rise and fall of Iceland’s participation in the global economy through the banking system. It is analyzed from multiple perspectives, my chapter being the only one focusing on financial aspects. “A Nation of Sheep and Money” is the title of my chapter in the second book titled *The Routledge Companion to Cross-Cultural Management*, which is self-explanatory of its contents. The book was published spring 2015. Finally, a shorter version of the paper, “Financial Behavior in Iceland within the Framework of Hofstede’s Cultural Dimensions” has been published in the Icelandic Review of Politics & Administration (Mixa 2015) entitled “Individualistic Vikings: Culture, Economics & Iceland.” While the different version uses much of the same sources, its focus is more on comparisons directly relating to the two Hofstede studies done so far in Iceland by researchers at the University of Iceland

(Adalsteinsson, Gudmundsdottir & Gudlaugsson 2011; Gudmundsdottir, Gudlaugsson & Adalsteinsson 2015).

These papers show how Iceland's culture transformed within a remarkably short time. Such changes occurred due to many classical developments known within studies relating to financial bubbles. There were, however, additional forces playing a major role. The culture transformed much faster than most cultural studies anticipate because in the past cultural structures are built upon values. As shown in Hofstede's et al. (2010, 8), manifestations of culture at different levels of values change only little by little while practices normally change more rapidly. That, however, can be argued was not the case with Iceland since it was not only within the banking system (practices) that a major transformation took place but it was in tandem with other developments in Iceland's society, having a profound effects on the nation's general ideology. This was used and abused by some people with references of national superiority and the need to show the world how fantastic Icelandic bankers were, when in reality they were, as for example described by some interviewees, somewhat childish and inexperienced. Such inexperience hid the risks associated with the growth of the Icelandic banking system that was leveraged to degrees that an eventual collapse was obvious to those (few) observers who studied the numbers.

In an attempt to avoid replicating the papers, I summarize the main purpose of each paper and show how they relate to each other. Two papers, "Learning from the "Worst Behaved"" and "Financial Behavior in Iceland within Hofstede's Dimensions," are explained in a somewhat detailed manner (especially the latter one) since those papers are backed up by quantitative data that should be explained to summarize the connections of the papers. The latter paper also ties all the papers together and is thus of vital importance. The papers are included in their entirety at the end of this thesis.

3.1 Learning from the “Worst Behaved”

The first paper, “Learning from the “Worst Behaved”: Iceland’s Financial Crisis and Nordic Comparisons” is mostly a groundwork of comparative research between developments during the prelude of crisis. The main question is whether warning signs were evident of an imminent financial crash in Iceland. As the title of the paper indicates, this question is related to learning from the worst behaved; those nations having had major banking crisis during the beginning of the 1990s. Those nations are Nordic nations, all of which are geographically close to Iceland, with similar cultural attributes and have had a long standing relationship with Icelanders for centuries. The main analysis is on Sweden and Finland since the financial crisis in those nations was largest during the 1990s, although Norway is also used in the study.¹²

The paper provides an overview of the history of the Icelandic banking system from 1979 and onwards. It shows a slow descent of the liberalization of Iceland’s banking system that rapidly increases when Iceland became one of the founding members of the European Economic Area (EEA) agreement. Following that short-term and long-term capital movements were fully liberalized and also foreign direct investments. Privatization of banks started in 1998 with Icelandic banks transforming within a few years from being mostly state owned and under governmental control to being not merely liberalized but also doing so within an international arena. This created in some sense a better banking system but also opened doors to features that ultimately within a very few years caused the Icelandic banking system in almost its entirety to collapse.

¹² Those are the countries Reinhart & Rogoff (2008) refer to in their discussion of financial crisis when talking about the 5 Big Ones from WWII until the crisis in 2008.

This process of the liberalization of the Icelandic banking system is remarkably similar to the developments in the Nordic nations during the years before its banking system experienced massive losses. The Nordic banking system also began a liberalization process around the same time that Iceland's banking system began veering towards liberalization, i.e., around the early 1980s. The liberalization process main characteristics were liberation of interest rates (as in Iceland 1987) and free flow of capital in international markets (as in Iceland 1994 & 1995). The liberalization period in the Nordic nations was thus swifter than in Iceland.

I and my co-author compared quantitative macro figures to compare the growth of the banking system in Iceland, Finland, Sweden and Norway. Regarding the banking system we analyzed other financial indicators that could show danger signs regarding financial instability. The period 1982-1990 for the Nordic nations were compared side-by-side to the period 1999-2007 for Iceland. It is striking that the lending growth in Iceland was about three times as great as it was in the Nordic nations during the comparison period, despite the lending growth in the Nordic nations having, with the benefit of hindsight, been viewed as irrational. It is further pointed out that the combined balance sheets of banks was just under the size of the nation's 1999 GDP but was estimated having grown to a staggering size of being 10 times larger than Iceland's GDP in 2008.

Looking at common macro-economic indicators, Iceland had a very low unemployment rate before the crash, indicating a red hot economy, and very high GDP growth, which as on average 1.5%-2.0% higher than the Nordic nations during the comparison period. Inflation figures were actually the lowest in Iceland, but the appreciation of the Icelandic krona had a major influence on inflation, making it deceptively low for most of the comparison period, only to increase suddenly in a dramatic fashion following the crash and concurrent depreciation of the Icelandic

krona. Finally, real estate prices in Iceland rose significantly more than in the comparison nations.

In short, the Icelandic banking system showed very similar elements of growth as the Nordic banking system less than two decades before. Both banking systems had for decades been politically controlled and thus experience within each system in a non-monopolized banking environment was limited. The main difference once the liberalization process started was that Icelandic banks were much more aggressive in their growth and for some reason more questionable business practices were allowed to happen in Iceland.

Having established the massive lending growth by Icelandic banks, both in relative and absolute terms, it is of additional interest that the growth was much greater in lending to holding companies than to households. While the main impetus in the Nordic nations' lending growth was real estate loans, Icelandic banks had more opportunities. This was due to international developments related to the abolishment of the Glass-Steagall act, which in 1999 separated commercial banking from investment banking. Although such practice was generally not prohibited prior to the abolishment of the Glass-Steagall act, this set in motion a trend of banks not only in the United States but internationally of combining commercial and investment banking. This trend happened at almost the same moment as Icelandic banks became privatized. The paper quotes Jannari (2009) who said that the new owners of the Icelandic banks had a mind-set like investment bankers as opposed to commercial bankers. Their opportunity for growth was thus not limited to real estate, as in the case of the Nordic banks during the 1980s, but the whole investment banking scene.

The paper also points out the importance of the free flow of international capital. Even though the liberalization started in Iceland about the same time as in the Nordic nations, the free flow

of international capital did not begin until 1995. The massive growth of the banking systems in Iceland and the Nordic nations was to a large degree financed with foreign lending. It is remarkable how similar the period is from such free flows of capital began and serious banking crises to occur in the case of both Iceland and the Nordic nations.

The association with international markets described above becomes important in the whole thesis. The paper also addresses why such rapid rise was allowed. It has still often happened, as Bandiera et al. (2000) point out, financial liberalization often leads to property prices surging, depending strongly on monetary policy and general macro management.

3.2 A Day in the Life of an Icelandic Banker

While the first paper laid a certain groundwork of similarities and differences between Iceland's banking system, both from a quantitative point of view and also a historical one, it only delves to a limited extent (and then only indirectly) to behavioral issues and not at all into cultural issues.

The next paper, "A Day in the Life of an Icelandic Banker" is a step towards painting a picture of the transformation of the Icelandic culture that was quickly being re-defined by the financial community of what an Icelander was. Such descriptions are, however, more in vein with classical behavioral issues but lay additional ground work for a discussion of cultural economics. That includes certain types of behavior like risk-taking, which was built on risk taking that can at best be described as naïve and pricing of some securities that diverged from their intrinsic values to such an obvious extent that one must go back to historical descriptions of the madness before the 1929 market crash to find similar analogies.

This paper sets the stage for the changing banking environment in Iceland. It describes the alarming risk of the holding company Exista, with a market value at one point of approximately 1/3 of Iceland's annual GDP. The price and leverage of Exista veered to ludicrous levels, with a price-to-book ratio for most of 2007 at 1.5 and a booked equity ratio of 43% year-end 2006 and 30% year-end 2007.¹³

The savings banks in Iceland had a huge stake in Exista. The paper shows that one savings bank had ¾ of its equity base tied in Exista. (The paper does not mention it but there were actually worse examples within the savings banks (SICSB 2014)). That was understandable since its regular operations were yielding losses. Because of its gains due to its ownership in Exista, few people noticed the true development. The public, as is common place during the build-up to financial crises, was in awe of the brilliance of its bankers. This was reinforced in the media that Icelandic bankers soon mostly owned (bought with loans from the banks). As is common among nations engulfed in the developments of financial markets, those who took most risks became media heroes. The paper describes in further details how Iceland became part of an international landscape during a period when the nation as a whole became connected to the outside world through international phone rates rapidly falling, cable television and most importantly the advent of the Internet.

The phenomenon of making big profits from not so very prudent investment decisions was though not limited to Iceland. A common thread among bankers working abroad that I interviewed was that Icelandic bankers were rather similar to foreign ones, but lacked experience and had an even larger appetite for risk.¹⁴

¹³ It was in reality only 20% year-end 2007 but the listed securities of Kaupthing bank and Bakkavor Group were no longer marked-to-market, and they had fallen considerably in value.

¹⁴ The description of the top layer of Icelandic bankers was, however, less positive.

Among the apparent success of the banks Icelanders began embracing neo-liberalistic views that the banking system was best left alone to its own devices without governmental interference. While history is littered with people being generally blinded by financial successes, the paper shows that the Icelandic case was unusually extreme not only in its size (as the first paper addresses) but also in how obvious the success was built upon sand. This leads to the third paper of providing a partial explanation of why a nation could almost in its entirety change its value set in such a dramatic fashion.

3.3 Financial Behavior in Iceland within the Framework of Hofstede's Cultural Dimensions

This paper assesses whether cultural indicators may have been to some degree responsible for the extent of the massive collapse of the Icelandic banking system in 2008. At first a general overview is given of the development of the banking industry in Iceland. It shows, e.g., that aggressive young bankers were increasingly hired and older ones put aside. Despite the young bankers' ignorance, they followed their bosses' instructions and during the constant rise of stocks within a low interest rate environment maximized financial gains, which little by little led to circular re-enforcing pattern where much risk-taking was rewarded. As also described in all of the other papers, those bankers became some sort of national heroes, creating stratification within nations of who were winners and who were not.

This is followed with survey of the dimensional research done in Iceland and the results of those surveys are compared dimensional results in the Nordic nations. The main conclusions are that Icelanders are mostly like Nordic nations. Icelanders are, however, more individualistic and more power distant. This is backed up by studies other studies showing that Icelanders share many social, political and cultural aspects of Nordic nations but also showing close similarities

to American cultural values (Olafsson 2003). Among those characteristics are a strong sense of independence, resenting central authority and individualism (Olafsson 2011).

Of the dimensional studies done in Iceland, two by far have the most scientific merit. The later one (Gudmundsdottir, Gudlaugsson & Adalsteinsson) was published in 2015 when the version of this paper was finalized. This paper focuses thus merely on the first study done in 2011 by Adalsteinsson, Gudmundsdottir & Gudlaugsson (2011) (same team of researchers, the order of authors has though been changed), which specifically points out that Icelanders have a very high score on the individualism dimension and is in fact the highest score excluding the United States since dimensional studies began in 1980. The results were that Iceland had the highest score within the individualistic dimension alongside the United States, with the United Kingdom and Australia scoring only slightly lower scores and other nations scoring significantly lower.

This becomes a stepping stone in analyzing possible connections between a certain dimension within Hofstede's methods and financial macro data, pointing towards some sort of culture determined by economic factors. Hofstede et al. (2010) provide a clue by stating that increasing individualism since the early 1990s is one of the forces leading to deregulation, where certain monopolies have been replaced for ideological reasons. This fits well with the privatization (and thus abolishment of banks monopolization) and liberalization of the Icelandic banking system described in the first paper that took place in Iceland during the decade before the banking system crashed. Such trends are generally defined as neo-liberalism, which celebrates an ideology of individual empowerment and political government minimized (Steger & Roy 2010).

Following this analysis the financial data, some of which presented in the first paper, is introduced showing comparative measurements between Iceland and other Nordic nations. Since the discussion is not specifically on comparisons of financial crisis the data also includes Denmark. Also included is stock market data showing the incredible rise of the Icelandic stock market index, which rose almost eight-fold from the beginning of 1999 until the middle of 2007 (only to lose over 90% of its value within days following the crash in 2008). One important feature is, however, added in this paper and that is the savings ratio. The difference between the comparison nations is staggering. While all the other nations were at a similar savings rate level, with Norway understandably somewhat higher with a correlation to higher oil prices that are put in the nation's oil fund (that is literally kept as a reserve), Iceland's savings rate is far below. Since the figures use gross savings ratio is used, i.e., one that does not take into account the estimated consumption of fixed capital (not taking into account thus costs of replacing fixed assets on a certain year basis), the net savings ratio of Iceland is actually close to zero during most of the period (this is further confirmed by Statistics Iceland (2007) that shows that the net savings of Icelandic households was negative every year during 1997 to 2005 despite the purchasing power of disposable income per capital having increased by 56% from 1994 until 2005).¹⁵

Next, Iceland's savings ratio is compared to other nations that either have been much in the press for all the wrong financial reasons (Greece, Italy & Portugal) or are generally considered being financially irresponsible and also the United States, the nation with the highest individualistic dimensional score alongside Iceland. While Iceland has culturally little in common with the south European nations according to dimensional studies the savings ratios are much more alike than when compared to Nordic nations. While Iceland still exhibits the

¹⁵ I have not found more recent data of this savings ratio.

smallest savings ratio, the United States shows similar scores as those other nations and has obviously a lower savings ratio than the Nordic nations.

I and my co-author propose that the cause of this divergence is related to a sudden shift of world-views, one could say paradigm shift, with neo-liberalistic ideological forces sweeping the globe from the 1980s onwards, gaining steam with the fall of the Berlin Wall, had not only wide-spread effects around the globe but also dissimilar ones, with nations with comparatively high individualistic inclinations more inclined to embrace them. Icelanders also became during the latter part of the 1990s suddenly connected to the world of media and finance with the advent of the internet, at the same time as the cost of international phone calls lower plummeted and international live broadcasting of television stations, e.g. the financial television network CNBC, became part of society, with access to invest 24/7 in international financial markets via internet (Mixa & Vaiman 2015), all classical elements when financial bubbles are forming; where a sense of the world becoming smaller is occurring, such as the railways during the 1840s, the automobile and radio during the 1920s, and television during the 1950s, as Shiller (2001) and Chancellor (2000) document. This process in Iceland is related to Iceland's "Americanized" culture and high individualistic scores and veers away from Hofstede's assumptions that cultures only gradually change long periods of time. The period from the 1990s onwards may, however, be an exception to that assumption. To determine better how such a proposition harmonizes with historical facts, we looked further into Iceland's banking history and its sudden changes during the 1990s and 2000s, not only in some isolated fashion but in tandem with the whole society.

We show that after years of the Icelandic banking system being subjected to strict regulation the privatization and free-market mantra created a sense of added efficiency, which was further apparently underlined with their massive profits that was mirrored in the staggering rise of their

stock prices (in the case of the banks, the stock prices when applied to general ratios was optimistic on the surface but not irrationally so). The nation began a journey of misguided trust. We quote Galbraith in his analysis of the 1929 Great Crash (1955/1997, 170) that speculative mania begins brewing when people let their guard down regarding speculation. That is most likely to happen after a substantial period of prosperity.

As often during speculative mania periods, success cries out for more success. That can be done via leverage, meaning investing more money but using loans to finance them but at the same time, in a contradictory fashion, saving less money. This is derived from one of Shiller's (2001) typical anatomies of precipitating factors of a financial bubble; the expansion of defined contribution pension plans, which Shiller in 2000 had considered being rampant in the United States. I pointed out (Mixa 2009b) that a similar effect had occurred in Iceland, with the equivalent of individual retirement accounts (IRAs) in Iceland having started in 1998 (during the same time as the banking system was rapidly transforming). This type of savings in addition to an increased emphasis on regular pension funds had the aim of increasing net savings among Icelandic households. This is may, however, not be the case with recent research indicating that the relationship may be reversed, with Danielsson (2012) concluding that such plans may have decreased Icelanders' needs to set money aside for future purposes (this rhymes with the findings of Statistics Iceland showing that Iceland's households net savings began becoming negative almost the same year the Icelandic version of IRAs was introduced) (Statistics Iceland database n.d.). Using this information, we propose that this may be at least a partial explanation why dimensional scores provide different results than financial ones in explaining the savings and even possibly the risk appetite among nations. This is further backed up by research done by Duménil & Lévy (2011, 141-169) who contend that there is a correlation between neo-liberal influences and low savings rates.

By putting nations with high individualistic dimensional scores in the same category as being also highly neo-liberal as Duménil & Lévy (ibid) contend, we look at the savings ratio of nations with the individualistic scores. As before, Iceland remains the “worst behaved” but what is also interesting is that the United States and United Kingdom, who score highest (with Australia) on the individual dimension list are nations number 2 and 3 with the lowest savings ratio. Only nations from current troubled zones have lower savings ratios. This, we believe, shows a strong correlation between cultures where individualism is rampant and inclinations to save is low.

If this relationship between individualism and neo-liberalism is universal then the close inspection of that relationship, using Hofstede’s dimensional studies, provides some explanatory power to why the general dimensional scores show Icelanders being culturally similar to Nordic nations while in fact they are more American in nature.¹⁶ By a similar token, while the power distance and masculinity dimensions showed little differences between Iceland and other Nordic nations, it still highlighted in the most comprehensive study that Icelanders had higher scores in those areas than Nordic nations. This gives further explanatory power to why Icelandic bankers were more willing to blindly follow instructions by the supervisors and also their willingness to participate in risk taking deals, with money being the main measurement of success, which Nordic banks managed better to avoid.

It may be argued that Nordic nations had simply learned lessons from the 1990s banking crash that Icelanders had not experienced. There is a grain of truth in this as Denmark suffered more hardship than other Nordic nations during the recent 2008 financial crisis, with Rangvid (2013), who was head of Denmark’s version of Iceland’s SIC report, supporting the hypothesis that Denmark may have not learned lessons well enough from the 1990s crisis since it did not affect

¹⁶ It is worth noting that this is not concluded as being an absolute truth. This is first and foremost and observation for further interdisciplinary studies.

the nation to the same degree as Sweden and Finland, emphasizing that that was though simply speculation without formal research. It is pointed out in the paper that Gylfason (2011) shows that Iceland's government had to support the Icelandic banking system to a similar degree when measured against the percentage of each nation's GDP, hence the crisis definitely had a major impact on the Icelandic economy from which lessons should have been learned.

I and my co-author point out that this is not the first time the relationship between cultural elements and economical ones have close ties. Adam Smith's *The Wealth of Nations* in 1776 was first and foremost a description of cultural developments within a society that was quickly transforming from feudalism into a market economy (Beugelsdijk & Maseland 2011).

According to these findings, a wide-spread belief in neoclassical theories, and thus individualism, appears to be a certain cultural trait. This approach uses, however, a different approach in finding cultural traits. Variables that generally have been associated with empirical science with the assumption of being universal, such as economics and people's rationality in their sense, meaning that it was not worth investigating such aspects from different cultural standpoints, are now the base in comparison research of cultures between nations. The above comparison also differs from Hofstede's methods. Hofstede's methods are conducted where people answer questionnaires according to how they believe they behave themselves and even their nation/culture, which can differ significantly from their true economic, and in this case cultural, behavior. Gathering data and applying it to Hofstede's method is in a sense a quantitative empirical study method of people's behavior as opposed to more qualitative studies, where the savings ratio mirrors the reality of how people behave as a culture as opposed to how people envision themselves being. By looking at economic ratios one can thus more objectively see how people behave and compare such behavior between cultures. Such an observation provides a more realistic picture than questionnaires.

To summarize the train of thought in the paper; the process laid out is that vertical and horizontal elements were at work. They were vertical in a sense that there was stratification within Iceland and also the banks where risk takers were deemed exemplifying some sort of true Icelandic culture. The horizontal elements were that while a general trend world-wide was taking place, it did so with varying degrees, with dimensional elements indicating that Icelanders were more “vulnerable” toward ideologies that could cause more damaging effects during financial storms than in other less “vulnerable” nations. The combined above elements became apparent when high individualism may have been more suspect to ideological shifts occurring over a period starting in the early 1990s when neo-liberalism began gaining a stronger foothold.

It is stressed that other forces were taking place that also may have had effects on this process, which the research question of this thesis addresses. Some of those forces are addressed in the next two papers.

3.4 A Nation of Money and Sheep

The title of this paper is a play of Icelandic word fé, which can mean money and sheep. The message, although barely noticeable, is that Icelanders were for the longest time an agricultural nation that transformed within a very short time into financial wizards, which turned out to be an illusion. The paper uses similar references as the previous paper but concentrates more on describing Icelandic bankers, more specifically “bad” Icelandic savings bank bankers. The idea emerged through my work at the SICSB where I worked for 15 months from 1/2013 until 3/2014.

As discussed in the previous paper, many bankers working in the banking industry in Iceland were inexperienced with older and more reliable bankers put aside. One of the main assumptions, and is indicated in the previous paper, when it comes to culture regarding the 2008

crash is that there were certain types of bankers, mainly those that are young, reckless and embracing cultural values often associated with free market mantra, mostly at fault. This may, however, be not so simple. When looking at Iceland's banking history and in particular savings banks, a contradiction arises. Savings banks were also deeply invested in maximizing financial gains but lacking concerns over how such returns were achieved and certainly not the associated risks.

What I show is that there was a pressure of uniformed thinking within the banks with an aim to change the culture, which was hard, so the banks instead concentrated on changing employees. The savings banks were though a very different beast. They had hardly any glamorous perceptions within the Icelandic society, with most of the directors and even main workers could have easily been put into the old fuddy-duddy category.

The stratification of beliefs of the Icelandic success within an international arena Icelanders had just entered was thus not limited to young and irresponsible bankers, with wool pulled over their eyes, but also savings banks that, as described in the second paper, gained most, if not all, of their profits from their ownership in one holding company, Exista, that was both (very obviously) irrationally priced and not as obviously lad with immense risk in its balance sheet. It the time of the writing of the paper the exact numbers were confidential¹⁷ but the combined equity base of the Icelandic savings banks system year-end 2006 consisted of equity in Exista worth 42 billion Icelandic krona (ISK) out of a combined equity base of 74 billion ISK.¹⁸ This

¹⁷ I worked at the SICSB from 1/2013 to 3/2014. My main task concerned the investments of the savings banks and the risk associated with those investments. I thus knew of the confidential information and could use that knowledge to a certain extent.

¹⁸ This was not clearly visible because the savings banks „sold“ a large portion of their Exista shares to a holding company, which only purpose was to buy Exista stock, which it did by accepting half of the shares as payment and the other half the holding company financed with loans from other financial companies. The holding company was, however, entirely owned by those same savings banks. As was confirmed later, there was no option for the holding company to default on those loans since the savings bank owned it 100%, meaning that a

means that about 59% of Iceland's savings banks equity base consisted of stock ownership in a holding company that had equity ratio of 43%, which at that point had never had less than 50% of its investments in merely two companies (SICSB 2014).¹⁹ What struck me during my work at the SICSB was how oblivious practically all the old and "wise" saving bankers were to the dangers involved in the type of banking practices they recently embraced. Most of the bankers had for decades served rural parts of Iceland (hence many farmers) but all of a sudden were creating such "easy" wealth while embracing new beliefs that entailed views that fit to a certain degree to the Icelandic culture. As discussed in the concluding chapter of this thesis, this ignorance aided certain groups of Icelandic society in becoming very rich, at least temporarily.

3.5 Banks Glowing in Nationalism

As previously stated in this thesis there were many actors who benefitted from the reckless and ignorant banking practices taking place in Iceland before the 2008 financial crisis. As outlined in the first paper many bankers were paid bonuses in amounts not known within Icelandic society at the beginning the millennium. As further discussed in the last chapter of this thesis there were also other forces gaining from the ignorance of risk and rewards associated with the apparent rise of the Icelandic banking system. That discussion will, however, only touch upon rather basic facts since a properly detailed explanation would require a much more thorough investigation. The discussion in this paper uses theoretical insights about globalism and culture to gain a deeper understanding of why warning signals were ignored when financial history indicated that a recession or even a major financial crash was imminent. This is a similar approach as done in the first paper except here the discussion focuses on qualitative features

default of the company would in the banking world equaled a default by the savings banks. The shares of Exista were hence all in their books, not only the associated rewards but also the risks.

¹⁹ Exista began the year 2007 by buying added shares in Sampo Group and paid a handsome dividend, thus increasing the balance sheet risk considerably.

while the focus of the first paper was on quantitative ones regarding warning signs. It also provides qualitative answers to why, or maybe more precisely how, Icelanders were so ready to embrace new cultural values.

There is more focus on the definition of culture than in previous papers, something that is lacking generally in the field of cultural economics. It is shown that culture is ever more related to some sort of marketing within increased globalization. In this context there is a reference to Appadurai's (1996) conception of *a warehouse of cultural scenarios*, from which certain past memories can be framed into the present. We show that historical comparisons may appear irrelevant in an environment where nationalistic characteristics are being emphasized and thus facilitate the shunning of obvious warning signs that otherwise would be obvious. This nationalism was to a large degree invented.

The banking system of Iceland is given special attention in this context and shows that this nationalistic discourse about Icelandic investors and bankers had no obvious connections to the historical development of the Icelandic banking system, having only been released from political shackles during the 1990s after having been more like institutions serving specific groups since 1930. There is a certain paradox that the Icelandic banking system was simultaneously shaped ever more in accordance with international financial systems as the same system was conceptualized as a part of Iceland's nationalistic characteristics. Economic variables are thus part of a global and local environment, simultaneously entangled in nationalistic ideas and social environments.

At first the history of the Icelandic banking system is detailed but in this paper the emphasis is on how the banks were re-defined from nationalistic ideas. Such ideas related to their role within society. While Icelandic banks had for centuries served Icelanders in a localized style they –

and Icelanders at the same time – had a bigger role to play once they entered the international arena that can be argued took place in 1994 within the EEA agreement Iceland participated in. The role of the Icelandic banks was thus set up in a way that it was supposed to mirror the role of Icelanders as a nation.

That role had since 1930 been localized and nationalistic. The National Bank of Iceland had the slogan “The Bank of All Inhabitants.”²⁰ The transition of the banking system is explained in a more detailed fashion than in previous papers in this thesis, showing how very recently the Icelandic banking system changed from having close to no international relationships nor free-market banking to becoming privatized and with the free flow of foreign capital being financed to deal in investment banking financed by foreign banks. With increased internationalism the banks became in practice international in their business models. They were, simultaneously re-defined as part of the Icelandic culture, as if they were part of a team but not as institutions serving people’s financial needs. This was done with by the discourse in the media, at that point mostly owned by the owners of the banks, which began referring to the banks’ success as being part of the success of “us” Icelanders. This was incorporated in constant references to Iceland’s settlement legacy, but instead of referring to settlers the discussion focused on Vikings (Loftsdóttir 2010, 121), an invented feature found in the Appadurai’s (1996) warehouse of cultural scenarios, that soon was re-named as Business Vikings. Those bankers went on a spending spree in Europe, snapping up businesses and for a while appeared to be very successful in doing so. This was generally described in symbolic terms of conquering territories in the media, symbolizing Icelandic bankers as invading Vikings, even in some sort of war.

²⁰ A translation of „Banki allra landsmanna“

This discourse became very obvious during the mini-crisis in 2006 when a Danish analyst (correctly) predicted the Icelandic financial system crashing at a certain point, showing all typical signs of a financial bubble. One newspaper (Helgason 2006, 12) responded by stating in its headline:

*Danes are in an attacking mode and no defences can be expected for that
country: Must defend the lies ourselves.*²¹

This headline emphasizes Icelanders as being “us,” one solidary group that is called to arms. Those bankers were not just Vikings but ones who were on behalf of the whole nation battling on foreign grounds. It could be argued that Iceland received foreign assistance in such a battle when the Icelandic Chamber of Commerce commissioned a report written by Frederic S. Mishkin and an Icelander, Tryggvi Herbertsson (Mishkin & Herbertsson 2006), entitled *Financial Stability in Iceland*. As its title suggests, the report was optimistic about the future of Icelandic banking but does, however, point out that potential were problems looming, for example that “there are concerns that the banks could experience refinancing problems” (9). The next sentence was, however, “Although the banks' reliance on external financing poses the biggest risk to the financial system right now, the probability of a credit event occurring is low” (ibid). Arnason (2015, 53-57) shows that expert opinions in the vein of Mishkin had an impact on markets in defending some sort of production of truth about the Icelandic banking system. Other examples are listed in the paper showing that this was done on the behalf of agents who had interests in re-enforcing such value systems within the nation. The success of Icelanders in foreign territories was thus installed within the nation as being part of some sort of patriotic undertaking.

²¹ This is my translation.

The apparent success of Icelandic bankers who were conquering assets on foreign ground was thus not separated by the experience of individuals but on the contrary, the conquering acts became “common knowledge, lived and touched and constantly proven on the pages of the media” (Loftsdóttir 2011, 5). The irony was that most of the expansion was financed with foreign capital.

It is interesting looking at the development of the Icelandic banking system that it had no history related to investment banking or even free-market banking but yet was full of invented traditions. Hobsbawn (1983) points out the importance of invented traditions when great changes are taking place in society, when certain ideologies need to gain a hegemonic status, increase the solidarity of certain groups and justify the introduction of stratification within society. This became apparent when the Danish analyst Carsten Valgreen in 2006 predicted the impending financial crash. Countless commentators criticized the report vehemently with the general public mostly following suit. This was reminiscent of the discussion in the United States prior to the 1929 crash and subsequent Great Depression when Paul Warburg, one of the main architects of the creation of the Federal Reserve 16 years earlier voiced concerns of the overexpansion within the financial system, only to be criticized by his own country-men of “sandbagging American prosperity” (Sobel 1968, 126).

4. Further Thoughts

The discussion in the papers shows that the Icelandic banking system was transformed within a short period from a localized system influenced by party politics into one a more globalized and market-oriented one with added efficiency. This was done with a great deal of national rhetoric but still ironically mostly financed with foreign money. During the period of the expansion of the Icelandic banking system there was constant reference in the media and the whole society of a culture that was identified with and juxtaposed to some sort of Viking nature of the nation. Although it cannot be determined if and how consciously the nationalistic rhetoric was used, it did without doubt benefit the largest owners of the banks, enabling them to further expand the balance sheets of the banks without the public and thus the legislation in putting the brakes on the rapid expansion. Having basically no history of finance outside of a highly restricted and political environment for over 60 years, Icelanders were still easily swayed in defining themselves as part of the Business Viking elite, basing on nationalistic discourses dating from early 20th century when Iceland was seeking independence from Denmark (Loftsdóttir 2010). Compared to other nations, Icelanders thus defined themselves, i.e. who “they are,” as *not* being dull bond buyers (even though bond yields in Iceland were most likely the most advantageous in a risk/reward sense in western society)²² like e.g. the Nordic people, but risk seeking Business Vikings making loads of money via leveraged buyouts and investing in stocks. This swift change of view relates to how nations imagine themselves with the aftermath, including a constant fear of a financial bubble developing again in media discourses, demonstrating further how fragile such beliefs are.

²² The real yields of Iceland’s Housing bonds, generally perceived as state guaranteed and had during the years prior to the financial crash in 2008 very favorable ratings by investment rating companies, were usually between 4-6%, which was much higher yields than other governmental bonds with similar debt ratings.

As shown in the discussion in the sections discussing the history of culture related to economics and also in tandem with it, and then further in the papers number 3 and 5, culture is generally accepted to being built upon structural features in most societies (to varying degrees) that Marx defined as machines and tools but today also involve to a great degree the set-up of the banking system. The ruling classes that control such structural features also control to a large extent beliefs and thus values within those societies, what is right or wrong etc. Gramsci took this one step further by showing that the ruling class gains hegemonic powers simply by having the masses believing an ideology that serves the best interest for the society as a whole. A logical extension of this is Polanyi's view that economic factors are more survival techniques rather than a system dealing with scarcity in a scientific manner, meaning that the economy is a social landscape where people aim at promoting their interests, using for example the media.

The international media that Icelanders suddenly gained access to was characterized by free-market values, often neo-liberalistic in nature. Among the main focus points of such an ideology was added efficiency, as Smith had argued about capitalism about 220 years earlier. Iceland also followed international trends in the banking business by liberalizing the banking system and subsequently privatizing it.

Once the banks had been privatized, huge profits became the norm. On the one hand, this was attributed to some sort of special Icelandic "Viking" nature. This was also attributed to the embracing of free-market mantra. Such a mantra generally entails the vision that markets are efficient, meaning that market prices are generally close enough of adequately weighing risks and rewards that one could not reap constantly spectacular gains compared to other competitors or other market indices. There was thus a certain contradiction in those arguments, since the enormous profits generated by the Icelandic banks were well beyond any normal profits other banks world-wide were enjoying. As it turned out, they were taking risks that were beyond

belief (SIC 2010a; SICSB 2014). While the Icelandic nation bore great eventual costs of that risk-taking, it was not equally distributed since some agents taking those risks gained massive amounts of money. This manifested itself for example in the bonus payments high ranking bankers earned during the boom period (SIC 2010a). There was also, as demonstrated in paper 4, a huge amount of ignorance among some bankers. That ignorance is extensively demonstrated in relation to how the savings banks directors and boards were oblivious of the associated risks of their ownership in the holding company Exista. Despite the company being the main source of profits, that were record breaking 2004-2007, few of the savings banks boards or directors had an inkling of the risk inherent in the balance sheet of Exista as demonstrated in papers number 2, 3 & 4 in this thesis. Those profits swelled up the balance sheet of the savings banks, constituting for example of 80-90% of the largest one, The Savings Bank of Reykjavík, for a short while.

There was more, however, at stake. The massive recorded profits due to the ownership of Exista within many savings banks did much more than increasing the wages of the bank management teams at some of them. In short, the savings banks were owned by their neighboring municipalities or towns with a few owners that owned a small stake in them, usually because of historical reasons when those owners were defined as being underwriters on behalf of the savings banks. That “ownership” was for decades viewed as being of minimal value. By newly created laws the profits could be paid out to those “owners,” which they were to the fullest extent and were additionally used to a large extent to finance the owners gaining a larger share of the savings banks. In a strange twist, those dividends to those “owners” were the most when profits were high and thus increased their share in the savings banks, but if there would be a loss of the operations, the “owners” would not partake in those losses, hence they were deducted from the share the public owned in those savings banks. A merry-go-round developed where

the “owners” reaped the most from taking what for most observers were irrational but in their case probably was very rational.

In the case of The Savings Bank of Reykjavík, its value was estimated being just below 8 billion ISK year-end 2003, of which the “owners” were entitled to 19% of the amount, or 1.4 billion ISK. With the excessive profits that could be argued were entirely due to its ownership in Exista, the merry-go-round practice of using dividend payments due to profits with (ir)rational methods that increased the share of the “owners” in the savings bank, and finally an updated and questionable²³ valuation of the savings bank, the savings bank was valued at 59.4 billion ISK in the summer of 2007 and was listed at the stock exchange of Iceland only a few months later at a valuation of over 80 billion ISK (it was a month later again valued at around 60 billion ISK) (SICSB 2014). The “owner” at this point no longer owned 19% of the savings bank but owned now 85% of it. The irrational behavior had thus increased the “owners” wealth in the savings bank from 1.4 billion ISK in late 2003 to 50.5 billion ISK in 2007. The other owner’s share during the period, Reykjavík City, was estimated being in 2003 6.5 billion ISK but had only risen to 8.9 billion ISK in 2007, which at that point was about 10% less worth than the savings bank’s book value (ibid).

This was done behind a veil of markets being efficient and Icelandic bankers being special. For this merry-go-round to take place mostly unnoticed, it was essential for the agents involved who benefitted from this process that the Icelandic nation believed in the Icelandic banking miracle. It was possible by creating beliefs and value systems in the Icelandic nation that was

²³ The valuation derived the value of the savings bank by looking at a 10 year average of profits in the past, including obviously those because of the savings bank’s ownership in Exista, although it was obvious that such profits were practically impossible, even with huge risk taking, in the future.

done via the media and through popular discourse of Icelandic bankers being efficient and special.

5. Conclusion

The main research question of this thesis was:

What cultural conditions shaped the appearance and formation of the financial bubble in Iceland and in what way did those conditions differ, if any, from other countries and to what extent?

The papers show that the cultural conditions lay to a combination of a few facts. The starting point is the international changes that swept the western world following the fall of the Berlin Wall, hence some sort of evidence that capitalism had won communism. Such conditions swayed the Icelandic nation to a larger degree than other nations such as the Nordic ones. One reason is that despite Iceland's cultural likeness of Nordic nations, certain cultural dimensions influenced the Icelandic nation a great deal, especially individualism but also more power distance and masculinity that seems to be evident in Icelandic society, which has also similar features as the those in the United States. There were also other forces taking place in Iceland. Despite the financial system having begun a liberalization process in the 1980s, the effects did not become really apparent in an international sense until 1995 when the free flow of capital between borders became a reality. In the sensible name of efficiency, the banks were privatized. As has been thoroughly documented, many people profited from that process. This thesis shows that there was a cultural shift occurring within that process where the nation bought a new ideology, changing its culture more swiftly than cultures usually do. This was probably in some cases done by design since many agents became very rich during the process, with invented images of the Icelandic culture that had no relation to reality.

Bibliography

- Acemoglu, D. & Robinson, J.A. (2012). *When nations fail: The origins of power, prosperity, and poverty*. New York: Crowne Business.
- Adalsteinsson, G.D., Gudmundsdottir, S. & Gudlaugsson, T.O. (2011). "Islensk thjodmenning i ljosi menningarvidda Hofstede" [Icelandic Cultural Nationality within Hofstede's Culture Dimensions]. *Icelandic Review of Politics and Administration*, 7(2), 353-368. Retrieved from <http://skemman.is/handle/1946/10399>
- Ahamed, L. (2009). *Lords of finance: The bankers who broke the world*. United States. Penguin Books.
- Ailon, G. (2008). Mirror, mirror on the wall: Culture's consequences in a value test of its own design. *The Academy of Management Review*, 33(4), 885-904.
- Akerlof, G.A. & Shiller, R.J. (2009). *Animal spirits*. New Jersey: Princeton University Press.
- Appadurai, A. (1996). *Modernity at Large: Cultural Dimensions of Globalization*, Minneapolis: University of Minnesota Press.
- Ariely, D. (2009). *Predictably irrational: the hidden forces that shape our decisions*. New York. HarperCollins Publishers.
- Arnason, V. (2015). "Something rotten in the state of Iceland: "The production of truth" about the Icelandic banks", in Durrenberger, E.P. & Palsson, G. (Eds.), *Gambling debt: Iceland's rise and fall in the global economy*, 47-62. Boulder: University Press of Colorado.
- Bagus, P. & Howden, J.D. (2009). *Iceland's banking crisis: The meltdown of an interventionist financial system*. Retrieved from Ludwig von Mises Institute website <http://mises.org/story/3499>
- Bandiera, O., Caprio, G., Honohan, P. & Schiantarelli, F. (2000). Does financial reform raise or reduce saving? *The Review of Economics and Statistics*, 82(2), 239-263.

- Barber, B.M., & Odean, T. (2000). Trading is hazardous to your wealth: The common stock investment performance of individual investors. *Journal of Finance*, 55, 773-806.
- Beugelsdijk, S. & Maseland R. (2011). *Culture in economics: History, methodological reflections, and contemporary applications*. Cambridge: University Press
- Berg, S.A. (1998). "Bank failures in Scandinavia", in G. Caprio et al. (Eds.), *Preventing bank crises. Lessons from recent global bank failures*, (pp. 195-208). Washington, DC: The World Bank.
- Bloomberg. (2002). "How the Tech Boom Went Bust" by Peter Elstrom. Retrieved from <http://www.bloomberg.com/bw/stories/2002-02-24/how-the-tech-boom-went-bust>
- Breuer, W. & Quinten, B. (2009). Cultural finance. Working paper series retrieved from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1282068
- Bruner, R.F. & Carr, S.D. (2007). *The panic of 1907. Lessons learned from the market's perfect storm*. New Jersey: Wiley.
- Carret, P.L. (1930/1997). *The art of speculation*. Hoboken: John Wiley & Sons.
- Cassidy, J. (2009). *How markets fail: The logic of economic calamities*. New York: Farrar, Straus and Giroux.
- Chancellor, E. (2000). *Devil take the hindmost: A history of financial speculation*. New York: Plume.
- Cooper, G. (2008). *The origin of financial crises: Central banks, credit bubbles and the efficient market fallacy*. New York: Vintage Books.
- Chiu, A.C.W., Titman, S. & Wei, K.C. J. (2010), Individualism and Momentum around the World. *The Journal of Finance*, 65, 361–392. doi: 10.1111/j.1540-6261.2009.01532.x
- Danielsson, A. (2012). Mandatory pension savings, private savings, homeownership, and financial stability. Working paper *Central Bank of Iceland* no. 58.
- Daniélsson, J. & Zoega, G. (2009). *The Collapse of a Country: Second Edition*. Retrieved from www.riskresearch.org

- Demirgüç-Kunt, A. & Detragiache, E. (1998). *Financial liberation and financial fragility*. Retrieved from <http://siteresources.worldbank.org/DEC/Resources/84797-1251813753820/6415739-1251813951236/demirguc.pdf>
- Dou, Y., Hunton, J.E., Truong, C. & Veeraraghavan, M. (2010). Individualism, Uncertainty Avoidance, and Earnings Momentum in International Markets. 23rd Australasian Finance and Banking Conference 2010 Paper. Available at SSRN: <http://ssrn.com/abstract=1689420> or <http://dx.doi.org/10.2139/ssrn.1689420>
- Duménil, G. & Lévy, D. (2011). *The crisis of neoliberalism*. Cambridge: Harvard University Press.
- Englund, P. (1999). The Swedish banking crisis: Roots and consequences. *Oxford Review of Economic Policy*, 15(3), 80-97.
- Englund, P. & Vihrala V. (2003). *Financial crises in developed economies: The cases of Sweden and Finland*. Stockholm: Handelshogskolan.
- Eyjolfsdottir, H.M. & Smith, P.B. (1997). Icelandic business and management culture. *Int. Studies of Mgt. & Org.*, 26(3), 61-72.
- Fama, E. F. (1970). Efficient capital markets: A review of theory and empirical work. *The Journal of Finance*, Vol. 25, No. 2, Papers and Proceedings of the Twenty-Eighth Annual Meeting of the American Finance Association New York, N.Y. December, 28-30, 1969 (May, 1970), pp. 383-417. Retrieved from <http://efinance.org.cn/cn/fm/Efficient%20Capital%20Markets%20A%20Review%20of%20Theory%20and%20Empirical%20Work.pdf>
- Fisher, P. A. (1956/1996). *Common stocks and uncommon profits and other writings*. Hoboken: John Wiley & Sons.
- Fox, J. (2011). *The myth of the rational market: A history of risk, reward, and delusion on Wall Street*. New York: Harper Collins.
- Galbraith, J. K. (1955/1997). *The great crash 1929*. New York: Mariner Books.

- Gordon, J.S. (2000). *The great game: The emergence of Wall Street as a Wall Street power*. New York: Touchstone.
- Graeber, D. (2011). *Debt: The first 5,000 years*. New York: First Melville House.
- Gramsci, A. (2000). *The Antonio Gramsci reader*. New York: New York University Press.
- Gudmundsdottir, S, Gudlaugsson, T.O & Adalsteinsson, G.D. (2015). Icelandic National Culture compared to National Cultures of 25 OECD member states using VSM94. *Icelandic Review of Politics & Administration*, 11(1), 19-32. Retrieved from <http://www.irpa.is/article/view/a.2014.10.1.2>
- Gylfason, T. (2011). “Events in Iceland: Skating on Thin Ice?”, in Aliber R.Z. & Zoega, G. (Eds.), *Preludes to the Icelandic financial crisis*, (pp.290-295). London. Palgrave Macmillan.
- Ho, K. (2009). *Liquidated: An ethnography of Wall Street*. Durham and London. Duke University Press.
- Helgason, H. (2006). Danir eru í árasarham og engra varna að vænta þar í landi: Verðum að verjast lyginni sjálf. *Markaðurinn*, 1. nóvember, page. 12.
- Hobsbawm, E. (1983). “Introduction: Inventing Traditions“, in E. Hobsbawm & T. Ranger (Eds.), *the Invention of Tradition*, (pp. 1-14). Cambridge: Cambridge University Press.
- Hofstede, G.H., Hofstede J.H. & Minkov, M. (2010). *Cultures and organizations: Software of the mind: Intercultural cooperation and its importance for survival*. United States. McGraw-Hill.
- Honkapohja, S. (2009). *The 1990's financial crises in Nordic countries*. Bank of Finland Research Discussion Papers, 5, 7-26.
- Icelandic Competition Authority. (2011). *Samkeppni eftir hrún* [Competition after crash]. Retrieved from <http://www.visir.is/assets/pdf/XZ118069.PDF>

- Iceland's Finance Ministry. (2015). Eignir og skuldir ríkissjóðs [Assets and debts of the government] (see line "tekin lán"). Retrieved from <http://hamar.stjr.is/Fjarlagavefur-Hluti-II/Fjarreiduyfirlit/Tofluyfirlit/2015/Fjarlog/Tafla-9.htm>
- Independent. (2008). "Tony Dye: Controversial Fund Manager" by James Daley. Retrieved from <http://www.independent.co.uk/news/obituaries/tony-dye-controversial-fund-manager-796811.html>
- IImanen, A. (2011). *Expected returns: An investor's guide to harvesting market rewards*. Chicester: John Wiley & Sons.
- Jackson, W.A. (2009). *Economics, culture and social theory*. Cheltenham: Edward Elgar Publishing.
- Jannari, K. (2009). *Report on Banking Regulation and Supervision in Iceland: Past, present and future*. Retrieved from http://eng.forsaetisraduneyti.is/media/frettir/KaarloJannari__2009.pdf
- Johnsen, G. (2014). *Bringing down the banking system: Lessons from Iceland*. New York: Palgrave Macmillan.
- Jonung, L. (2008). Lessons from financial liberalisation in Scandinavia. *Comparative Economic Studies*, 50, 564-598.
- Jonung, L. (2009). The Swedish model for resolving the banking crisis of 1991–93. Seven reasons why it was successful. *European Economy Economic Papers*, 360, 1–27.
- Jonung, L., Kiander J., & Vartia P. (2008). The great financial crisis in Finland and Sweden: The dynamics of boom, bust and recovery, 1985-2000. *European Economy Economic Papers*, 350, 1-70.
- Kindleberger, C. P. (1996). *Manias, panics, and crashes: A history of financial crises*. New York: John Wiley & Sons.
- Kindleberger, C.P. & Aliber, R.Z. (2011) *Manias, panics, and crashes: A history of financial crises*. New York: Palgrave Macmillan.

- Kwok, C. & Tadesse, S. (2005). National cultural and financial systems. *William Davidson Institute Working Paper Number 884* March 2005. Retrieved from <http://wdi.umich.edu/files/publications/workingpapers/wp884.pdf>
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A. & Vishny R.W. (1998). Law and finance. *The Journal of Political Economy*, 106(6), 1113-1155.
- Lefèvre, E. (1923/1994). *Reminiscences of a stock operator*. Hoboken: John Wiley & Sons.
- Laeven, L. & Valencia, F. (2013). Systemic banking crises database. *IMF Economic Review*, 61(2), 225-271.
- Loftsdottir, K. (2010). The loss of innocence: the Icelandic financial crisis and colonial past, *Anthropology Today* Vol 26(6), 9-13.
- Lynch, P. (2000). *One up on Wall Street: How to use what you already know to make money in the market*. New York: Fireside.
- MacKenzie, D. (2008). *An engine, not a camera: How financial models shape markets*. Cambridge: The MIT Press.
- Mackey, C. (1841/1980). *Extraordinary popular delusions & the madness of crowds*. New York: Broadway Books.
- Magnusson, P. *et al.* (2008). Breaking through the cultural clutter: A comparative assessment of multiple cultural and institutional frameworks. *International Marketing Review*, 25(2), 183-201.
- Mallaby, S. (2010). *More money than god: Hedge funds and the making of a new elite*. London: Penguin Books.
- Marx, K. & Engels F. (1978). *The German ideology*. New York: International Publishers.
- Matthíasson, P. (2008). Spinning out of control, Iceland in crisis. *Nordic Journal of Political Economy*, 34, 1-19.

- McCay, B.J. & Acheson, J.M. (1990). "Human ecology of the commons", in McCay, B.J. & Acheson J.M. (Eds.), *The Question of the Commons: The Culture and Ecology of Communal Resources* (second edition), (pp.6-34). Tucson: The University of Arizona Press.
- McLean, B., & Elkind, P. (2003). *The smartest guys in the room: The amazing rise and scandalous Fall of Enron*. New York: Penguin Group.
- McSweeney, B. (2002). Hofstede's model of national cultural differences and their consequences: A triumph of faith – a failure of analysis, *Human Relations*, 55(1), 89-118.
- Mishkin, F.S. & Herbertsson T.T. (2006). *Financial Stability in Iceland*. Reykjavík: Iceland Chamber of Commerce.
- Mixa, M.W. (2009). "Once in khaki suits - Socioeconomical Features of the Icelandic Collapse", in Ingjaldur Hannibalsson (Ed.), *Rannsóknir í Félagsvísindum X* [Research in Social Sciences X], (pp. 435-447). Reykjavík: Félagsvísindastofnun Háskóla Íslands.
- Mixa, M.W. & Vaiman, V. (2015). Individualistic Vikings: Culture, economics & Iceland. *Icelandic Review of Politics & Administration*, 11(2), 355-374. Retrieved from <http://www.irpa.is/article/view/a.2015.11.2.12/pdf>
- Miyazaki, H. (2006). Economy of dreams: Hope in global capitalism and its critiques. *Cultural Anthropology*, 21(2), 147–172.
- Olafsson, S. (2003). The identity of Icelanders: Scandinavian or American? *Scandinavian Review*, 91(1). Retrieved from <https://borg.hi.is/IcelandID.pdf>
- Ólafsson, S. (2008). Íslenska efnahagsundrið: Frá hagsæld til frjálshyggju og fjármálahruns. *Stjórnmal og stjórnsýsla*, 4(2), 233-256. Retrieved from <http://www.stjornmalogstjornsysla.is/images/stories/fg2008h/stefan08.pdf>
- Olafsson, S. (2011). Level of living consequences of Iceland's financial crisis: What do the social indicators tell us? Retrieved from <http://www.imf.org/external/np/seminars/eng/2011/isl/>

- Plantin, G. & Shin, H.S. (2011). Carry trades, monetary policy and speculative dynamics. *CEPR Discussion Papers*. Retrieved from <https://www.princeton.edu/~hsshin/www/carry.pdf>
- Pompian, M. (2006). *Behavioral finance and wealth management: How to build optimal portfolios that account for investor biases*. New York: Wiley Finance.
- Poteshman, A.M. (1999). *Unerreaction, overreaction, and increasing misreaction to information in the options market*. Revised version of part of Ph.D. dissertation at the University of Chicago.
- Rangvid, J. (2013). Lecture at the Central Bank of Iceland 7.11.2013. Discussion about it was retrieved from <http://www.mbl.is/vidskipti/pistlar/marmixa/1326150/>
- Reinhart, C. & Rogoff, K. (2008). *Is the 2007 U.S. sub-prime financial crisis so different? An international historical comparison*. Working paper series. Retrieved from <http://ideas.repec.org/p/nbr/nberwo/13761.html>
- Reinhart, C.M. & Rogoff, K.S. (2009). *This time is different*. New Jersey: Princeton University Press.
- Rendlemen Jr., R.J., Jones, C.P. & Latané, H.A. (1982). Empirical anomalies based on unexpected earnings and the importance of risk adjustments. *Journal of Financial Economics*, 10, 269-287.
- Reuter, C.H.J. (2010). A survey of 'culture and finance'. Working paper series retrieved from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1317324&rec=1&srcabs=1282068
- Ritzer, G. (2007). *Contemporary social theory and its classical roots*. McGraw-Hill.
- Roubini, N. & Mihm, S. (2010). *Crisis economics*. New York: The Penguin Press.
- Shefrin, H. (2010). Behavioralizing finance. Foundations and trends in finance. *SCU Leavey School of Business Research Paper* 4(1-2), 1-184. Retrieved from <http://ssrn.com/abstract=1597934>
- Shiller, R.J. (1995). Conversation, information and herd behavior. *American Economic Review* 85(2), 81-185.
- Shiller, R.J. (1999). "Human behavior and the efficiency of the financial system". in Taylor & Woodford (Eds.), *Handbook of macroeconomics*, 1305-40. Amsterdam: Elsevier.

- Shiller, R.J. (2001). *Irrational exuberance*. New York: Broadway Books.
- Shiller, R.J. (2002). Bubbles, Human Judgment, and Expert Opinion. *Financial Analysts Journal*, 58(3), 18–26. Retrieved from <http://www.jstor.org/stable/4480389>
- Shiller, R.J. (2005). *Irrational exuberance* (second edition). New York: Broadway Books.
- Shiller, R.J. (2014). *Speculative Asset Prices*. Retrieved from <http://cowles.econ.yale.edu/P/cd/d19a/d1936.pdf>
- Sigurjonsson, T.O. & Mixa, M.W. (2011). Learning from the “worst behaved”: Iceland's financial crisis and the Nordic comparison. *Thunderbird International Business Review*, 53(2), 209–223.
- Skaptadóttir U.D. & Loftsdóttir K. (2009). “Cultivating culture? Images of Iceland, globalization and multicultural society”, in S. Jakobsson (Ed.), *Images of the North*, 201-212. Reykjavík: Reykjavíkur Akademía.
- Sobel, R. (1968). *The great bull market. Wall Street in the 1920s*. New York. W.W. Norton & Company.
- Sornette, D. (2004). *Why stock markets crash: Critical events in complex financial systems*. Princeton: Princeton University Press.
- Soros, G. (2003). *The alchemy of finance*. New Jersey: John Wiley & Sons.
- (SIC) Special Investigation Commission (2010a). *Skýrsla rannsóknarnefndar Alþingis* [Report of the Special Investigation Commission regarding the events and causes leading to the fall of the Icelandic banks]. Retrieved from <http://sic.althingi.is/>
- (SIC) Special Investigation Commission (2010b). *Skýrsla rannsóknarnefndar Alþingis* [Report of the Special Investigation Commission regarding the events and causes leading to the fall of the Icelandic banks]. English version of presentation entitled “Press Conference 12. April 2010.” Retrieved from <http://www.rna.is/media/myndir/KynningEnsku.pdf>
- (SIC) Special Investigation Commission (2010c). *Skýrsla rannsóknarnefndar Alþingis* [Report of the Special Investigation Commission regarding the events and causes leading to the fall of the

- Icelandic banks]. Summary of the Report's Main Conclusions. Retrieved from <http://www.rna.is/media/skjol/RNAvefKafli2Enska.pdf>
- (SICSB) Special Investigation Commission (2014). *Skýrsla rannsóknarnefndar Alþingis um aðdraganda og orsökum, erfiðleika og falls sparisjóðanna* [Report of the Special Investigation Commission regarding the events and causes leading to the fall of the Icelandic savings banks system]. Retrieved from <http://www.rna.is/sparisjodir/>
- Statistics Iceland (2007). Disposable income of the household sector 1994-2005. Retrieved from <https://hagstofa.is/lisalib/getfile.aspx?ItemID=6240>
- Statistics Iceland. (n.d.). Retrieved from <http://www.statice.is/Statistics/Enterprises-and-turnover>
- Steger, M.B. & Roy, R. (2010). *Neoliberalism: A very short introduction*. New York: Oxford University Press.
- Surowiecki, J. (2005). *The wisdom of crowds*. New York: Anchor Books.
- Statman, M. (2007). Local ethics in a global world. *Financial Analysts Journal*, 63(3), 32-41.
- Statman, M. (2008a). Countries and culture in behavioral finance. *CFA Institute*, 25(3), 38-44.
- Statman, M. (2008b). "What is Behavioral Finance?", in Frank J. Fabozzi (ed.), *Handbook of Finance*, Vol II., chapter 9, 79-84. Hoboken: John Wiley & Sons. Retrieved from <http://www.cfapubs.org/doi/pdf/10.2470/rf.v2010.n2.2>
- Stewart, J.B. (1992). *Den of thieves*. New York: Simon and Schuster Paperbacks.
- Stulz, R.M. & R. Williamson. (2003). Culture, openness, and finance. *Journal of Financial Economics*, 70(3), 313-349.
- Szyszka, A. (2007). From the Efficient Market Hypothesis to Behavioral Finance: How Investors' Psychology Changes the Vision of Financial Markets. Available at SSRN <http://ssrn.com/abstract=1266862> or <http://dx.doi.org/10.2139/ssrn.1266862>
- Tang, L. & Koveos, P.E. (2008). A framework to update Hofstede's cultural value indices: Economic dynamics and institutional stability. *Journal of International Business Studies*, 39, 1045-1063.

- Tsoufidis, L. (2010). *Competing schools of economic thought*. Berlin Heidelberg: Springer-verlag
- Tucker, R.C., Marx, K., & Engels, F. (1978). *The Marx-Engels reader*. New York: Norton.
- University of Iceland. (2011). *Hver eru einkenni Íslendinga?* Retrieved from http://www.hi.is/visindin/hver_eru_einkenni_islendinga
- Vaiman, V., Sigurjonsson, T.O. & Davidsson, P.A. (2010). Weak business culture as an antecedent of economic crisis: the case of Iceland. *Journal of Business Ethics*, 98, 259-272.
- Williams, R. (1977). *Marxism and literature*. Oxford University Press. Retrieved from <http://www.hu.mtu.edu/~rlstrick/rsvtxt/williams.pdf>
- Zingales, L. (2000). In search of new foundations. *Journal of Finance*, 55, 1623-1653.
- Zoega, G. (2011). "A spending spree", in Aliber R.Z. & Zoega, G. (eds.), *Preludes to the Icelandic financial crisis*, (pp.296-301). London: Palgrave Macmillan.
- Zweig, J. (2007). *Your money and your brain: How the new science of neuroeconomics can help make you rich*. New York: Simon & Schuster.

Paper 1: Learning from the “Worst Behaved:” Iceland’s Financial Crisis and Nordic Comparison

Throstur Olaf Sigurjonsson & Mar Wolfgang Mixa, 2011

Thunderbird International Business Review, Vol. 53, Issue 2.

Abstract:

This article explores how the financial crisis in 2008 could have been partially avoided by Iceland through observing the warning signs. Iceland experienced the harshest consequences from the financial crisis in the western world such as the total collapse of its banking sector. This article compares the prelude of Iceland's financial crisis to the Scandinavian one, less than 20 years ago, providing an understanding of the sources of the crisis and its impact. Results show that signs of overexpansion in Iceland were clear and numerous. Iceland's structural weaknesses resemble many other badly hit countries, simply more extreme.

Keywords: Financial Crisis, Corporate Governance, Iceland, Policy Making, Scandinavian Crisis

Introduction

Iceland is a good illustration when drawing lessons from the errors that resulted in the 2008 Global Financial Crisis. No other developed country endured a systemic collapse in its banking sector on the scale that occurred in Iceland, or indeed, rarely in the history of finance. Most of the variables that could go wrong undeniably went wrong, and the collection of these wrong doings systematically assumed mountainous proportions. Whether it was the fiscal policy of the government, the monetary policy of the Central Bank of Iceland, or the financial supervisory, corporate governance and risk management of the banks that were the causes; the situation turned out to be catastrophic. However, individually, these factors are an inadequate explanation. It was the interaction of these factors, which played an important role in the breakdown of the financial system.

Consequently, the question of whether or not there were warning signs arises. Comparative research to contextualize the experience Iceland went through provides an understanding of the dynamics that led to the financial and economic collapse in 2008. Hence, this research compares the Scandinavian Crisis of the 1990s to the Icelandic Financial Crisis, focusing on the similarity between the two crisis' and possible contrasts, illuminating the severity of the current crisis in Iceland. The Scandinavian countries and Iceland (often referred to as the Nordic countries) all bear a resemblance in their economic and societal structure and considering there is less than twenty years occurring between the crises, provide a comparable viewpoint. The Scandinavian countries had to provide their banking sector a considerable amount of public support and their crisis became widespread. However, an underlying question throughout this discussion is what went wrong within the banking institutions and how the changes within the public policy arena (itself being influenced by general social trends) may have contributed to the crisis.

First, this article will examine the main reasons for the sudden and extraordinary growth of the Icelandic banks. Resulting from this growth, the increased vulnerability of the banks and the following collapse is reviewed in part two. Third, the paper compares the Icelandic Crisis and the Scandinavian Crisis, involving the examination of similarities between the two, and the identification of factors that are unique to either banking crisis. Finally, there is a short summary regarding what lessons may be learned from the recent crisis, and what policy recommendations can be derived from the situation. Of special interest is the fact that the Scandinavian Crisis occurred within a banking environment where the separation of investment and commercial banking was mostly still intact. Following the abolishment of the Glass-Steagall Act of 1999, the international banking landscape changed; meaning that banks' risk appetite increased. That complacency spread to the general public. After the abolishment of the act, it took less than a decade for the international banking system to collapse, the meltdown being worst in Iceland. It also appears that the Scandinavian Crisis was limited to abnormal lending growth, mostly related to mortgage loans, while Icelandic banks lent a great deal to holding companies, often with limited collateral.

1. A Sudden Prosperity

Iceland experienced the worst financial collapse of any western country when its banking system fell apart in October 2008. Most of its financial system toppled when its three largest banks, Kaupthing, Landsbanki and Glitnir, with 182 billion USD in assets, were taken into receivership, creating the third largest collapse after Lehman Brothers and Washington Mutual (Bibler, 2010). They had grown from small local commercial banks into international commercial and investment banks with combined balance sheets amounting to ten times Iceland's GDP. International conditions had been optimal, supplying funding at historically low interest rates at a low risk premium (Central Bank of Iceland, 2009). As early as in 1993, when Iceland became one of the founding members of the European Economic Area (EEA) agreement, Icelandic banks obtained the right to operate within the border of the EU countries. At the same time, Iceland instituted the EU regulatory framework for financial institutions and markets. Still, it was not until 2003, when the Icelandic banks were privatized in full, that they capitalized on money market funding, opened branches abroad and acquired foreign financial institutions in large numbers (Sigurjonsson, 2010a).

The banks capitalized on the rapid growth that much of Icelandic industry enjoyed during the first years of the 2000's. These were industries such as pharmaceutical, retailing, real estate, food processing and transportation. The drivers for this growth were similar to the drivers for the financial industry. These were favorable international conditions, a mature domestic market and an essential diversification strategy to decrease risk. The banks took advantage of this development and collaborated with both large and growing firms within these industries. The partnership did not only consist of lending but became, in many instances, joint ventures in which banks invested their own equity in their customer's projects. That gave later rise to speculation regarding a conflict of interests and dependence on a few large customers, (some

of whom were owners of the banks) and all were not necessarily geographically diversified nor diversified by industry (Portes and Baldursson, 2007).

The privatization of Icelandic banking was conducted somewhat differently from the process of privatization in many other countries. Most countries privatized their institutions with at least some foreign ownership whereas the Icelandic government initially decided to encourage foreign ownership, but then backed away from that decision. Instead, individual domestic entities gained controlling interests in the banks. These investors had no prior experience in commercial banking (Sigurjonsson, 2010b).

Within three years of privatization, (in 2006), the banks were hit by what was called the informational crisis (Portes and Baldursson, 2007). Fitch Ratings and Danske Bank were the strongest critics of the banks mostly focusing on how dependent the Icelandic banks were on wholesale markets for financing and how “short maturity they had on their borrowing“. The criticism was that these conditions would create great vulnerability in the case of financial turmoil and a liquidity crisis. Concerns about potential cross-ownership, earning quality and lack of transparency in the banks’ operation drew criticism as well (Central Bank of Iceland, 2006a; Valgreen, 2006).

When cross-ownership in Iceland was scrutinized, the lack of transparency was evident and corporate governance within the banks became a real issue. The root of these issues can be traced to the time when the banks began their growth period. In a small and fast growing economy, ownership was more entwined than in a larger economy. The young Icelandic financial industry promoted executives mostly aged in their late twenties or thirties. The banks went from public to private with considerable stock options for executive level managers. A

completely new compensation policy was implemented, encompassing an aggressive investment banking style incentive system. This led to excessive risk taking.

The criticism led to a depreciation of 25% in the ISK, and to a similar drop of the ICEX (the Icelandic Stock Exchange Index) during the early part of spring 2006. The banks had, until then, relied on wholesale market financing with short maturities. Their income stream was vulnerable, with 50% of total income as non-core income. The banks had no choice but to alter their strategies (Sigurjonsson, 2010a). With an already dominant share in the domestic market, they sought vast growth through their subsidiaries and branches abroad, where they managed to raise customer deposits, especially through Internet accounts.

The banks were successful in this strategy and managed to raise the total deposit/asset ratio to similar levels that other Nordic banks enjoyed. Growth continued at extraordinary levels as indicated by asset multiples of 8 to 12 during 2003-2007 (annual reports of the banks 2003-2007). Within 18 months, Landsbanki and Kaupthing managed to collect over £4.8 billion in the UK and €2.9 billion in the Netherlands through their Icesave and Edge Internet deposit accounts. The goal was to create a broader income base and distribute risk, intended to soften any setbacks that the Icelandic economy might suffer (Jannari, 2009). On the other hand, large shifts in the value of the foreign assets and liabilities of the banks created problems of how to insulate the domestic economy, which depended on the regular production flow of goods and services. The Icelandic banks, over a period of a few years, had leveraged their capital base to buy up banking assets worth several times Iceland's GDP (Sigurjonsson, 2010b), and the potential depreciation of assets made the leveraged banking sector highly vulnerable. There was thus little leeway for declining assets values, mostly purchased during the years of the banking and credit boom period of 2003-2007, in preventing the banks' equity to dry up. Neither the National Treasury nor the Central Bank of Iceland had the necessary foreign reserves to support

any of the larger banks. A lender of last resort in foreign currency, therefore, did not exist in Iceland's post-privatization era.

2. The End of Prosperity

The Icelandic financial industry was gradually de-regulated prior to the privatization of the banks. At the time of the privatization, a laissez-faire policy of the Icelandic government fostered a period of optimism and risk taking on behalf of the business community. With ample credit, business opportunities were there for the taking. Asset prices appreciated in an era of easy access to cheap capital. The belief in further appreciation encouraged people to purchase assets, regardless of revenue stream. With equity appreciating further and with assets booked at market value, continued borrowing was justified, eventually creating asset bubbles. Most of the Western world experienced a similar environment of low interest rate policies for some years, with the negative effects of such policies only surfacing in 2007 (Kirkpatrick, 2009).

In 2007, liquidity difficulties accumulated with mounting revelations of severe flaws in the US housing credit market. Trust within financial markets diminished and the trouble only accelerated in 2008. Less liquidity in asset markets made financing through bond markets yet more difficult. Central banks had to interfere and provide liquidity, among which was the Central Bank of Iceland. The Icelandic banks had been successful with their Internet deposit accounts abroad where they decreased their "loan/deposit ratio" from 3.2 in 2005 to 2.0 in 2007 (Carey, 2009). At the time the largest bank in Europe, HSBC, had its ratio as 0.84 to 1.00. However, this initiative of the Icelandic banks provided merely temporarily relief. The fact that Landsbanki gained a larger market share in the UK than the largest Internet deposit bank internationally, ING Direct, should have been a clue that the deposit growth was vulnerable;

such depositors were probably inclined following whatever Internet bank provided the highest interest rates at any given time.

The Icelandic banks became a gauge of the negative effects to come. Their assets became extremely vulnerable and when creditors began believing that other creditors would refuse to roll over present loans and extend new credit and the banks lost credibility. This is a classic situation that leads to the failure of banks.

The fall of Lehman Brothers in September 2008 did not have a great direct influence on the Icelandic banks but its indirect influence was catastrophic. The bankruptcy of Lehman Brothers demonstrated that a large financial firm could go bankrupt without the state rescuing it. International money markets froze completely, interbank markets became inactive, liquid resources vanished and assets became untradeable. This was the point of no return for the Icelandic banks. A bank run began, not on a single Icelandic bank, but the complete Icelandic financial system (some international foreign exchange dealers informed their Icelandic counterparts that their banks had ceased lending to Iceland). When short run funding evaporated, margin calls came from the European Central Bank. Glitnir bank was the first to search for a lifeline at the Icelandic Central Bank, which refused to help, and the bank was taken over by the government the next day, October 6th. Landsbanki, which could not meet its obligations, went into receivership. On October 7th Kaupthing appeared to be still viable and had received an 80 billion ISK loan from the government on October 6th. The UK authorities had a substantial role in the events that followed. Landsbanki, with its UK branch, collected 1,200 billion ISK through its Icesave deposit accounts. By operating a branch, but not a subsidiary, the bank had transferred the liability to the Icelandic state. Comments from the Central Bank of Iceland stating that the Icelandic state would not be able to meet these obligations led to an immediate reaction by the UK authorities, applying anti-terrorist laws to

seize the UK assets of the Icelandic banks. Kaupthing's operation in the UK was ruined as covenants on loan agreements were activated, and Kaupthing was put into receivership on October 9th.

Interestingly, all of the Icelandic banks had passed stress tests only a few weeks earlier by the Financial Supervisory Authority (FSA) (FSA, 2008), but unfortunately these stress tests did not account for vulnerability to a liquidity nor currency crisis²⁴. While the banks' assets grew ten times, the staff of the FSA only grew from 27 to 45 employees (FSA, 2009). Additionally, promising lawyers and economists at the FSA were swiftly 'bought' by the banks, maintaining an imbalance of corporate knowledge and skills in favor of the banks. The FSA became thus increasingly weaker, causing limited control of the banks' growth, with aggressive incentive systems that encouraged excessive risk taking. Since there was not a regulatory framework preventing Icelandic banks from opening branches (rather than subsidiaries) abroad, the ultimate liability was transferred to the Icelandic public.

3. Comparison of Crises

A study by Reinhart and Rogoff (2008) identified 18 financial crises from WWII until 2007 when the subprime crash unfolded. Among the five "Big Ones" are the crises in Norway, Sweden and Finland at the beginning of the 1990s. They conclude that the crises followed a similar pattern although the tipping point in each case seems to differ. The crises usually follow a pattern in which regulation changes lead to some sort of increase in lending (Easy Money) that develops into an asset bubble. When such bubbles burst, especially related to real estate, asset prices tumble with the consequence of mass bankruptcies. Losses related to write-offs

²⁴ Kamallakharan & Tómasson (2009) describe why the test proved to be worthless, stating that the test assumed no more than a 20% fluctuation in the Icelandic Krona when in reality its worth against the currency basket fell more than 50% in a matter of weeks during the fall of 2008.

and asset depreciation causes a banking crisis that, along with a currency crisis, exacerbates losses, especially in circumstances where loans financed during the bubble were denominated in foreign currencies. The consequence is a contraction in loans to companies that are still in business, adding further pressure on a systematic collapse and necessary governmental interference to assist the financial system (Englund, 1999).

This paper focuses on the crises in Sweden and Finland. These crises had similar characteristics within the same timeframe, and are often called “twin crises”, while the crisis in Norway was somewhat different, regarding both time and external developments (Jonung, 2008). However, the figures used here still include Norway, in order to provide a fuller picture. Adding Iceland to that equation, with its uncanny similarities, draws forth the possibility of “triplet crises,” the main difference being that Iceland experienced its boom and bust just under two decades later.

Even those who believe that the deregulation process itself did not cause the crisis usually attribute the beginning to the Scandinavian Crisis to the deregulation process that occurred at the start of the 1980s. The processes of deregulation differed somewhat between countries, but the start and end points were similar (Englund, Vihriala, 2003). The main characteristics of this deregulation were the liberation of interest rates and the free flow of capital in international markets, importantly including financing (Jonung, Kiander, Vartia, 2008).

The new financial landscape was mostly unnoticed by regulators in Sweden where the laws remained largely unchanged following the rapid development and in addition, changes to the tax system resulted in incentives for households and corporations to increase lending (Honkapohja, 2009).

Whilst the deregulation process took less than a decade in Scandinavia from start to finish, with the indirect effects in increased lending taking three to four years to materialize, the period in

Iceland was much longer, as seen in Table 1. It can be inferred that the Icelandic period was around 25 years, making comparison somewhat difficult.

Table 1 Financial Evolution in Iceland

| <i>Event</i> | <i>Year</i> |
|---|-------------|
| Financial Indexation permitted | 1979 |
| Liberalization of domestic bank rates | 1984-1986 |
| Iceland Stock Exchange established | 1985 |
| Interest Rate Act: Interest rates fully liberalized | 1987 |
| Stepwise liberalization of capital movement begins | 1990 |
| Treasury overdraft facility in the Central Bank closed | 1992-1993 |
| New foreign exchange regulations marks the beginning of the liberalization of cross-boarder capital movements | 1992 |
| Privatization process launched | 1992 |
| Interbank market for foreign exchange established | 1993 |
| Iceland becomes a founding member of the EEA | 1994 |

| | |
|--|------|
| Long term capital movements fully liberalized | 1994 |
| Short term capital movements fully liberalized | 1995 |
| Foreign direct investment liberalized in accordance with EEA agreement | 1995 |
| Privatization process of the Icelandic banks begins | 1998 |
| Interbank money market | 1998 |
| Interbank FX swap market | 2001 |
| Privatization of state owned banks completed | 2003 |

Source: Central Bank of Iceland (2006b) and authors.

The main years of deregulation were 1982 to 1986 for Scandinavia but for Iceland it was 1984 to 2003. However, the lending growth period was immediate in Scandinavia from 1986 to 1990; while in Iceland such growth started during the latter part of the 1990s but the explosive growth, leading to the bust, began after 2003. Nevertheless, the seeds of growth were planted once the interbank lending started in 1998, which quickly spread to add fluidity in currency market dealings.

The starting point for the comparison period may appear being subjective. We look at the start of the deregulation process as a starting point in Scandinavia, i.e. in 1982. In Iceland, the deregulation process began during a similar period, but took longer and the effects were for a long time barely visible. Therefore we use 1999 as the starting point in Iceland, which is four

years prior to the beginning of the lending boom (which is the same as the Scandinavians starting point), but also an approximation of when deregulation began in reality to change the Icelandic financial landscape. At that time, the privatization processes in two of the three Icelandic state owned banks had just begun and rapid changes were implemented soon after.

Using the above assumptions, we use the year 1982 as the starting point for Scandinavia in this paper and 17 years later for Iceland. Thus, we define year 1999 as Period 1 or T for Iceland and 1982 or T minus 17 for Scandinavia. The length of periods differs somewhat, mainly because some data is no longer available after the Icelandic banks went into default.

3.1 Lending Growth

Following the deregulation process, the banks in Scandinavia decreased their emphasis on services and cost structure, and instead began to concentrate on pricing and added market share. This resulted in additional risk taking (Honkapohja, 2009) and loans to new markets followed. However, financial institutions were working in a new environment where their ability to measure risk adequately became more difficult (Berg, 1998).

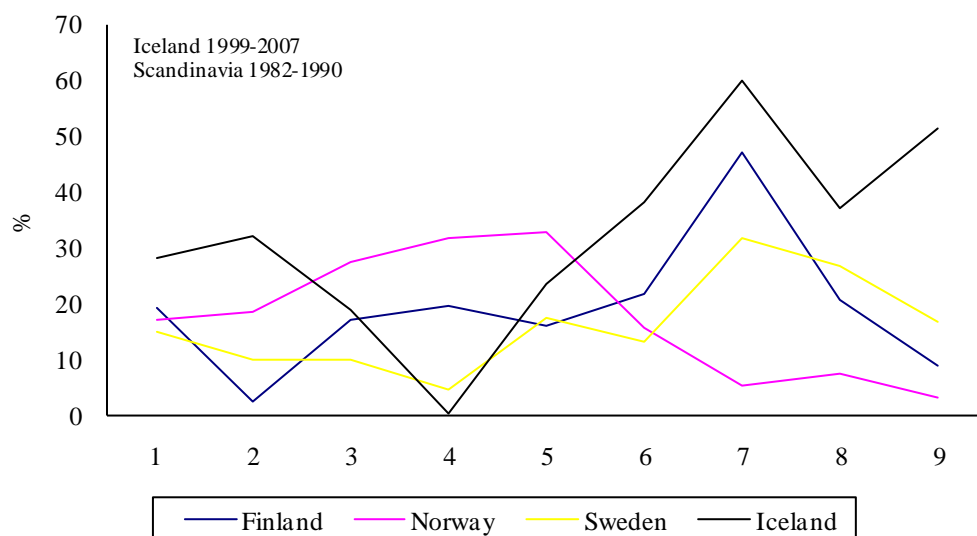
Initially the lending increase caused no alarm. After a long period of lending restriction, in which real rates were negative and thus there was some sort of privilege associated with receiving loans, a higher lending equilibrium was to be expected. Added demand for money caused interest rates to rise, leading to an increased rate difference between domestic rates and international rates. This made borrowing in foreign denominated currency even more tempting within the environment of free capital flow, making interest rate policies in Scandinavia increasingly toothless (Honkapohja, 2009). Due to the pegging of domestic currencies to the German Mark, domestic loan takers perceived the likelihood of currency losses to be minimal.

Berg (1998) maintains that without the foreign capital inflow the increased lending growth would have been impossible.

The privatization process of the banks began in Iceland 1997 with the aim of establishing a widely distributed ownership structure. The policy change in 2002, with the controlling interest in two of the three main banks falling into the hands of investor groups with little banking experience, set the stage for the banks' transformation in which lending growth exploded in Iceland. As in Scandinavia a few years earlier, the Icelandic banks (with savings banks following suit) began to concentrate on market share and pricing with added risk associated to their business model. The true explosive lending growth period thus began in 2003 in Iceland, 17 years after the same development in Scandinavia.

A comparison of lending growth in Iceland and Scandinavia is shown in Figure 1. Since two different periods are compared, the starting point is defined as being T or Period 1, representing 1999 for Iceland and T minus 17 (or 1982) for Scandinavia, in line with the assumptions previously explained.

Figure 1 Lending Growth Comparison – Iceland vs. Scandinavia²⁵.



Source: Central Bank of Iceland (2009a)

It is worthwhile pointing out that lending growth remained very high following the Informational Crisis in 2006, dipping a little the following year but was still higher than the other comparison periods in all comparison countries. Lending growth was actually in a similar range in Iceland in the early part of the comparison period, as it was in the latter one in Scandinavia. The later part of the comparison period shows that lending growth in Iceland was approximately double compared to Scandinavia, only with a short period in Finland being the exception.

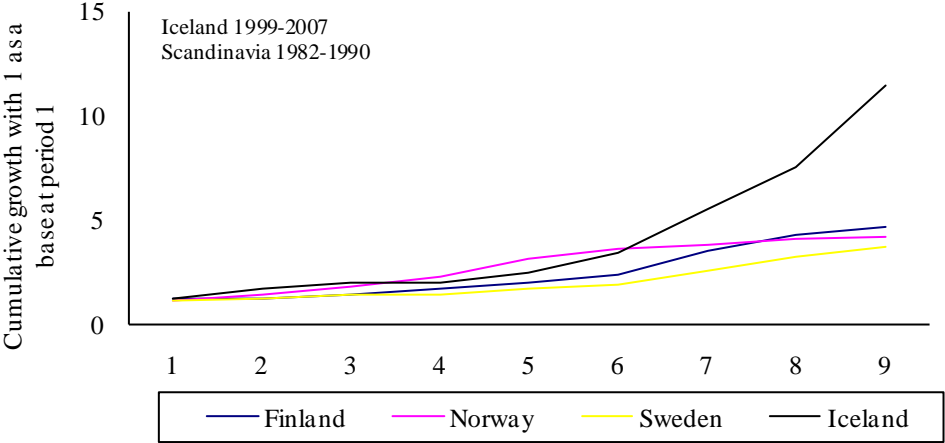
It was, however, not only the increased lending to households and companies that caused this increase. Icelandic banks evolved quickly from being traditional commercial banks into becoming investment banks who took positions in their commercial customers' projects.

²⁵ Lending growth information is available for the first nine months of 2008. Nominal growth that year is almost 60%. The authors, however, assume that the depreciation of the Icelandic Krona, which during that period was approximately the same percentage as the nominal growth, is largely responsible for the increase (by that point ¾ of lending was denominated in foreign currency) in addition to inflation.

Jannari (2009) explains this by stating that the majority holders who gained control in 2002-2003 had a mindset more like investment bankers rather than commercial bankers. Incentive systems were enacted in line with common features abroad where short term profits were paramount. This created an atmosphere in which the main objective was getting a deal done, as percentages employees received of loans provided could be around 0.3% to 0.4% in the form of bonuses. Those bonuses were given regardless of long-term consequences and inherent risks associated with the deals. In fact, as McLean and Elkind (2003) described the situation with Enron a few years earlier, an incentive scheme evolved in which it became advantageous to minimize the potential risk associated with deals taking place in order to make sure that they were completed and thus commissions paid.

Once the contraction in lending growth subsided in the comparison periods, about 3 to 4 years after the common starting point (T and T-17), lending growth became much higher in Iceland compared to Scandinavia. Another, and maybe a more descriptive, way to look at this is viewing the cumulative increase as shown in Figure 2, representing the Icelandic lending growth compared to the “irrational” one in Scandinavia during the late 1980s.

Figure 2 Cumulative Lending Growth Comparison – Iceland vs. Scandinavia.



Source: Central Bank of Iceland (2009a)

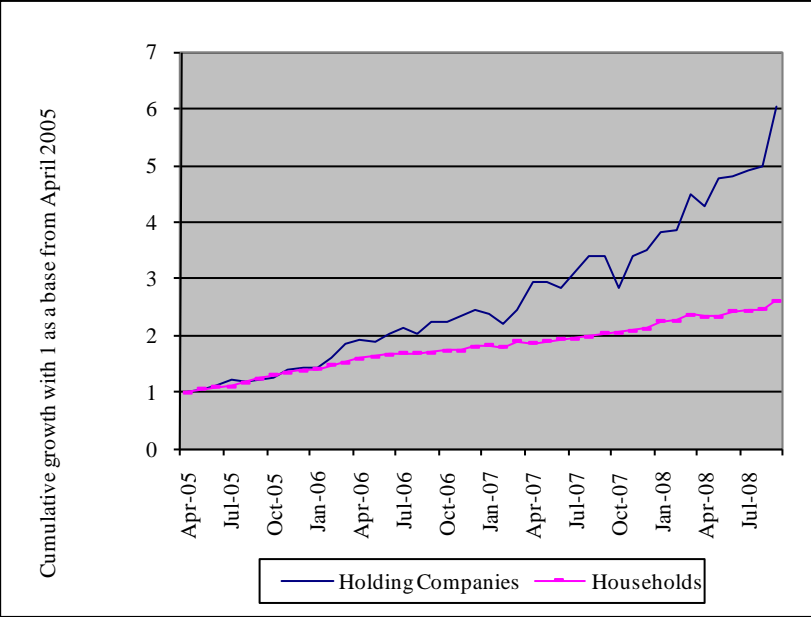
The cumulative growth was already much more than it had been in the comparison countries when the Informational Crisis hit in 2006. The enormous continued growth shows how much more the expansion of the Icelandic banking system was compared to the Scandinavian countries during the 1980s. This growth corresponds with the growth of Icelandic banks’ balance sheets, which combined were just under the size of the country’s 1999 GDP, but are estimated at being ten times larger than Iceland’s GDP in 2008 (Central Bank of Iceland, 2009).

One explanation of why the negative effects of deregulation filtered down so late into the Icelandic financial system is that the government retained its controlling stake in the banking system whilst the changes were taking effect. Thus, despite the free flow of capital, there were implicit restrictions on lending growth. That is not to say that lending growth was non-existent during those years (as Figure 2 demonstrates); but during that period it was understandable due to the easing of lending restrictions leading to a natural higher lending equilibrium.

Information surfacing after the crash (for example, the leaked loan book of Kaupthing Bank) indicates that the loans were not merely ill considered but were even questionable from legal and ethical standpoints. The collateral for loans were in an abnormally low percentage range or even simply only the equity bought. This raises the question why Icelandic banks did not simply buy the equity themselves and thus reap all the benefits themselves if they turned out to be successful. In some instances, such loans were used to finance purchases of the bank's own shares, so in effect banks were lending money to buy shares in themselves, with those shares being the only collateral. During the writing of this paper investigations are under way regarding market manipulation due to such loans, with banks accused of lending money in the attempt of keeping their share prices artificially high.

As with Japan in the late 1980s, where loans were increasingly made to holding companies with the main purpose of investing in other companies (Chancellor, 2000), loans by Icelandic banks were often related to cross-ownership or other relations between parties in which dubious collateral was placed (Jannari, 2009). This was not a concern in Scandinavia (Jonung, 2008). Figure 3 shows the nominal increase in total lending Icelandic holding companies scaled to April 2005, compared to the growth in lending to domestic households, many of whose sole purpose was investing in equities of other companies (Jannari, 2009).

Figure 3 Lending Growth to Icelandic Holding Companies and Households.



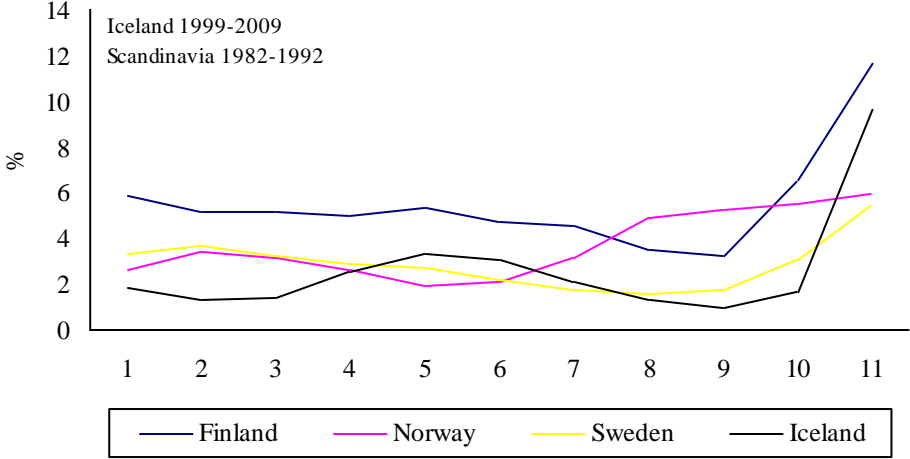
Source: Central Bank of Iceland (2009a)

Despite the frenzied increase in lending to households, it pales compared to the increase in lending to holding companies. Often with little (if any) collateral on the table, the owners of the holding companies stood a chance of striking it rich if they were successful in their investments, it appears that stockholders, bondholders and taxpayers may have to pick up a sizeable amount of the tab if unsuccessful.

3.2 Unemployment, GDP and (asset) Inflation

Unemployment in Scandinavia was generally low during the 1980s (see Figure 4). In Finland, it gradually decreased during the later part of the decade. In Sweden, unemployment never went above 4% and for a period during that period was below 2%. A common government policy in the region was maintaining full employment (Jonung, Kiander, Vartia, 2008).

Figure 4 Unemployment % Comparison – Iceland vs. Scandinavia.



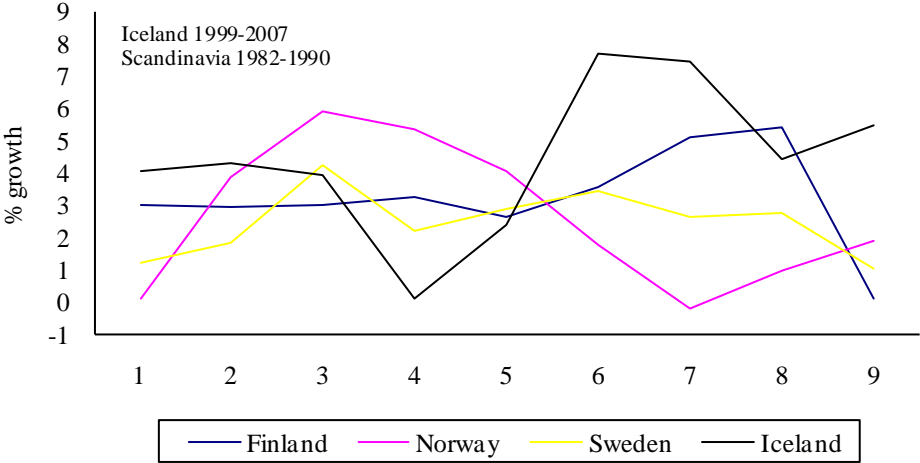
Source: IMF (2009)

As with the Scandinavian countries during the 1980s, Iceland experienced almost non-unemployment, which is partially explained by major construction projects. Thus, the expansion in loans in both comparison periods created an illusion of a stable and healthy economy, only turning out to being an obvious mirage when unemployment skyrocketed following the bust.

Information from the IMF shows that unemployment in Finland reached 17% for a short period during the ensuing bust; that figure in Iceland, at the time of writing, hovers around 8% (Directorate of Labour in Iceland, 2010).

All the countries showed a stable increase in GDP during the period, especially Iceland that had a mean annual growth of 4%. This is in contrast to the 2-2.5% mean annual growth in the comparison countries within the decade actually being 6% annually during the boom years 2003-2007 (see Figure 5).

Figure 5 Real GDP Growth Comparison – Iceland vs. Scandinavia.

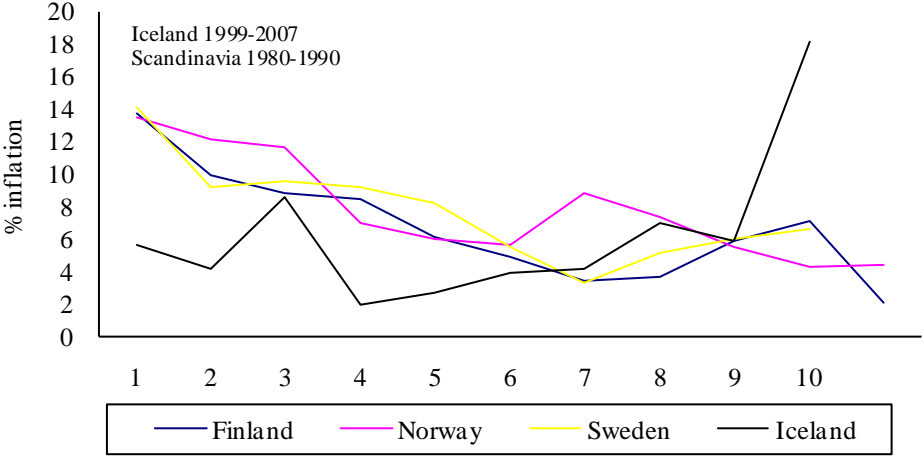


Source: IMF (2009)

What is probably most striking is the extraordinary high GDP growth in Iceland once the boom period took hold. Monetary issues were not the only cause. The government implemented enormous power plant projects that totaled 10.5% to 12% of GDP in 2005 and 2006 (Central Bank of Iceland, 2009). During the same period municipalities engaged in various projects keeping demand for labor high.

The comparison of inflation as seen in Figure 6 shows that it remained relatively mild in Iceland during the boom years. That does not mean that it did not exist, the Central Bank’s goal of keeping inflation at or below 2.5% was seldom reached. Inflation was, in a sense, partially hidden due to the strength of the ISK, making imports cheaper than otherwise. Domestic factors were thus mostly instrumental in causing added inflation.

Figure 6 Inflation % (end of period) Comparison – Iceland vs. Scandinavia.



Source: IMF (2009)

When the ISK tumbled following the financial meltdown, inflation shot up. Its strength had held back inflation for many years but when that development reversed inflation quickly spiked, as seen in Figure 6, since importers had little choice but to hand the added expense partially to the customers.

Adding insult to injury, many Icelandic companies had, on the surface, operated in a stable and profitable manner, by merely looking at the net income numbers. No study has been done yet in this particular field, as far as the authors are aware, but by scanning a few annual reports, it shows that by comparing EBITDA numbers to net loans and fixed assets, under normal circumstances companies were losing money on their operations. However, by having a huge amount of their loans denominated in foreign currencies, interest costs were little, with artificially low interest rates and an increasingly strong ISK. Once the ISK depreciated, the strengthening reversed and exposed the ‘hidden’ risk via currency fluctuations in financing, leading to many companies’ equity disappearing almost overnight.

The monetary policies in Iceland and Scandinavia during the boom periods have been criticized for different reasons. Many academics have questioned the pegging of the currencies to the German Mark (Jonung, 2008; Honkapohja & Koskela, 2000; Englund, 1999). Although those thoughts are inconclusive, most argue that a floating currency would have resulted in a 'corrective' currency adjusting to interest rate spreads.

Judging from Iceland's recent experience, those arguments appear to be falling flat. At the beginning of the decade, the ISK was floated with the aim of keeping inflation below 2.5%, which was the Central Bank's main interest rate objective. This policy proved to be futile, as Figure 6 demonstrates, as was the pegging in Scandinavia during the comparison period, within an environment of free flowing capital. While pegging created an imbalance too great between currencies, the floating ISK with the Central Bank policy of increasingly higher interest rates led to an inflow of capital that strengthened the ISK. Like the Scandinavians during the late 1980s, Icelanders (both households and municipalities) began taking foreign loans in large amounts. The rationale for many people was that historically such loans had provided more advantageous interest rates and, maybe more importantly, the ISK showed no signs of weakening (this is a case of the short term memory the public has of financial markets, the ISK had weakened considerably 2001, and this seemed already to be a distant memory).

The consequences proved to be dire. Icelanders not only took foreign loans because of their belief in its continued strength but also, paradoxically, used much of that money to buy foreign goods, which had become so cheap because of the strong ISK. Jannari (2009) maintains that this eventually resulted in the high interest rate policy of the Central Bank not only being toothless, but in reality with the free flow of capital adding to the inflationary pressure. A lesson to be drawn is that monetary policies alone do not suffice within such circumstances, fiscal policies with the same aim are necessary.

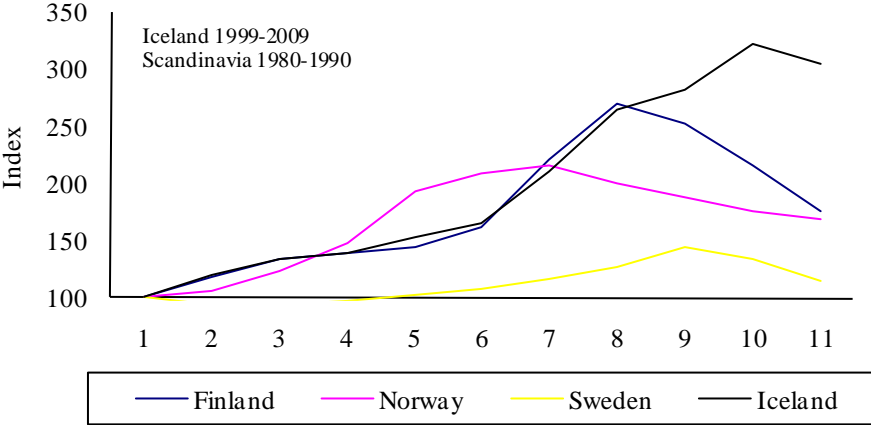
Therefore, measuring asset inflation during this period is difficult. The underlying factors that were taking place did not necessarily show up in normal studies. A simple approach is looking at the nominal inflation price of real estate, which takes inflation, underlying inflation to some extent, and the level of risk appetite into account. It also measures the consequences of access to money, or M1. The case in point is Scandinavia during the 1980s. Englund (1999) points out that while deregulation may have opened the door to asset inflation, it was not until the Loan-To-Value (LTV) ratio went from 75% to 90% in 1988, and 3 years after deregulation had firmly taken place that real estate values went up 35% within a short amount of time. Until that, real estate prices remained stable and even lowered during much of the decade (Berg, 1998). Furthermore, Englund asserts that a higher LTV ratio is, in a sense, a measure of risk appetite, which plummeted following the bust and the LTV ratio quickly fell again. The ratio thus increased when there was no need for it, but decreased when liquidity problems surfaced. The Swedes surely were aware of this, therefore the lesson simply was that a 90% LTV ratio is too high, even during bust periods.

This development was even more extreme in Iceland. The government decided to raise the LTV ratio in a few steps from 65% to 90%. People began to take advantage of this by taking mortgage loans that were partially government sponsored in an indirect way and using the money, not only for household purposes, but also to increase spending and paying down overdraft loans. The banks responded by lowering interest rates even more and in the spirit of gaining market share one bank began offering 100% LTV loans²⁶. The fierce competition led to a negative interest rate spread. One of the major savings banks, for example, financed itself

²⁶ http://www.sa.is/files/Sp%E11%-EDkan%20um%20EDb%FA%F0afj%E1rfestingar_1723061657.pdf

via long-term bonds paying 4.90% to 5.20% interest but lent its customers at the same time money to finance real estate at 4.15%. (NASDAQ OMX Nordic (2009).

Figure 7 Real Estate Nominal Price Inflation Comparison (index set at 100 as starting point)



Sources: Berg (1998) and Icelandic Property Registry (2009)

Figure 7 shows that the paths of Iceland and Finland, during the comparison period, were for many years almost identical. However, prices kept on increasing in Iceland, and judging from the Scandinavian experience will decrease to about half of their value from their peak prices. This prediction is not impossible. Various home builders joked during the boom period that there was a 20/50 aim on new buildings, i.e. put 20 million in building an apartment and selling it for 50 million. As Englund and Berg point out, prices in Sweden were stable for most of the period but as the LTV ratio was raised, prices shot up only to fall again concurrent with the lowering of the LTV ratio.

The above factors demonstrate not only an overheating of the economy, but indicate how the general population perceived the economy, i.e. added optimism leads to added consumerism. Therefore a vicious cycle forms, in which the main driver of economic growth is consumption

(of various forms) financed by loans. In a sense, the current lifestyle is funded by sacrificing the future, although that is usually not the general perception at such a given point. Carey (2009) for example points out that the savings ratio of Iceland was negative during the boom years, 2003 to 2007.

As previously mentioned, the high interest rate policy of the Central Bank may have increased underlying inflation, being expansionary in a sense. However, the monetary policy regarding Easy Money was clearly accommodating; broad based monetary aggregates such as M1 grew above 20% or more every year from 2002 until the crash (Bagus & Howden, 2009). As Woods Jr. (2009) explains, prices can only increase simultaneously (apart from decreasing supply of all goods) by increasing the amount of money in the economy. Hence, despite a high interest rate climate, the Austrian School of thought maintains that monetary policy in tandem with fiscal policy was adding oil to fire as opposed to reigning in inflation. Money was thus being flooded into society that invested it into long-term projects, such as houses, but put the Icelandic nation on a short lease, as recent events underline.

Berg (1998) asserts that the Scandinavian banks would have not been able to increase their lending growth without access to foreign capital. This was the case in Iceland also, where people with loans in foreign currencies had enjoyed favorable interest rates for years and even had their underlying debts decrease in value due to the strength of the ISK. This is further amplified when people see others making money by speculative trading (not limited to the stock market but even to a larger degree housing loans in foreign denominated currencies), adding a tendency to follow the crowd. Kindleberger (1996) described this as “Monkey see, monkey do”.

Thus, by adding insult to injury, in the expansionary climate Icelanders began increasing their appetite for foreign loans considerably as the boom period continued. Such loans increased a great deal in 2006 and at the start of 2008 represented 14% of household debt (Carey, 2009). During the fall of 2007, banks were beginning to shut down foreign denominated loans. The increase, measured in ISK, is after that point mainly due to the weakening of the ISK.

On paper, such loans were as safe for banks as the loans were denominated in the domestic currency. Currency contracts were generally hedged but could only be done so to a certain extent, with fluctuations being assumed to stay within certain parameters. Such hedges proved of limited use due to the discrepancy of the length of maturities between financing and loans provided. When the ISK plummeted in value, the hedging only provided support for the short term. Long-term contracts were 'naked' against such fluctuations. Carey (2009) also points out that although banks theoretically had adequate hedges against such fluctuations, their customers did not. Implying that while banks appeared to be safe, their customers simply could not pay back the loans under such different circumstances, therefore, write-downs became inevitable.

A recent report by the Institute of Economic Affairs maintains that the root of the collapse for many US banks partially lies in the fact that the government encouraged banks to increase mortgage loans to income groups with less money (Schwartz, 2009). In Iceland, where a tradition of equality is rooted within society, such a development occurred to a higher degree with the increase of the LTV ratio. Thus governmental policies contributed to this in both countries, and even internationally, in creating the real estate asset bubble via the Easy Money policy. A lesson from this experience is that governmental controls must be in place during deregulation and Easy Money policy periods. Such controls are paramount in keeping lending growth within reasonable levels and they need not be an infringement on the free market. If banks were to lend recklessly without government guarantees, knowledgeable depositors and

financiers would take notice and withdraw their money, but lesser educated people might not, therefore leaving trust in the system at the mercy of speculators disguised as bankers. A simple restriction of LTV ratios and foreign denominated loans would be the most effective strategy. Without such simple measures, another crisis due to the same underlying factors would soon occur, only in a different form.

4. Conclusion

The similarity of the two comparison periods (T & T-17) is remarkable. Despite the Scandinavian crisis being defined as one of the five “Big Ones” by Rogoff and Reinhart, Iceland shows, by a wide margin, more significant signs of over-expansion in practically all aspects.

An obvious question is how Iceland came to be a victim of such a similar euphoria so shortly after a similar crisis by their neighbors. Monetary issues are not the sole explanation. Galbraith (1997) maintains that credit has on numerous occasions (for instance both before and after the “Roaring Twenties”) been easy without causing speculation. As with deregulation, easy money by itself does not cause unsound speculation leading to disaster. Galbraith states that the mood is far more important than the rate of interest, some sort of conviction that ordinary people should be rich. The answer is in short provided by Reinhart and Rogoff (2009). Icelanders, in line with a common syndrome associated with financial crises, thought that they were smarter and had learned from past mistakes; such crises only happened to other people during other times. The reality was that not only had Icelanders not learned from past mistakes, but there are vast indications that past mistakes were visible both qualitatively and quantitatively. Striking similarities are also to be found in recent examples in Argentina a decade ago, Asia during the 1990s, and even the “Roaring Twenties” in the US (Mixa, 2009).

Iceland imitated all the main features of Scandinavia such as deregulation, a real estate boom, huge lending increase and an increased amount of foreign capital flow. As the increase of lending to holding companies shows, lending growth was not only more prevalent in Iceland but had an added category where risk taking among insiders took constantly a bigger share of the lending pie. Such added risk appetite was also prevalent in banks' increased exposure in direct ownership of companies.

4.1 Firm Level

Business practices in Iceland became questionable and of such a scale that they ultimately facilitated the collapse of the Icelandic economy. The close-knit society, partially created by managerial relationships, cross-ownership and cross lending, established imbalances in favor of business over regulatory authority. This consequence was an extensive collapse, where if one link in the chain was to fail a domino effect throughout the entire economy was created. As pointed out in this paper, this was not a problem in the other Nordic countries (Jonung, 2008). The foreign criticism from financial institutions, rating agencies and foreign media in 2006 did not manage to influence the general discussion in the Icelandic media in such a way that the international expansion of the Icelandic banks was scaled down. On the contrary, the growth only escalated. In a country where nearly all the newspapers and business magazines are in ownership indirectly or directly by the banks themselves through their largest shareholders, attempts to criticize become negatively addressed and extinguished (Vaiman, Sigurjonsson and Davidsson, 2010).

One possible reason why things got so out of control in Iceland is that the Icelandic banks operated as if they were investment banks. In the shadow of the Great Depression, the Glass-Steagall Act was enacted in 1933, separating commercial banking and investment banking.

During the Scandinavian crisis, those walls still held. They were, however, abolished 1999 and it was within that landscape that the Icelandic banks grew so quickly. It took the international banking system less than a decade to collapse after investment banking became again part of the general banking system. Icelandic banks, expanding partially because they had some sort of governmental guarantee, were the worst culprits and, as such, suffered the worst consequences. This questions how systematic the crash was in reality, whether the similarity of the buildup created the circumstance in which all of the banks stood a chance of failing within parameters of certain negative events, with or without domino effects. It can thus be argued that this experiment of abolishing the Glass-Steagall Act was an expensive one (Mixa, 2009), with Iceland suffering the highest cost. This also raises the question why such separation has not been re-enacted.

4.2 Macro Level

The recent experience in Iceland and the experience in Scandinavia two decades ago suggest that fiscal and monetary policies must involve consistent goals. Interest rate tools within an environment of free flow of capital were used in both instances, in Iceland with the aim of keeping inflation at bay with a floating currency whilst the Scandinavian countries aimed at stabilizing the economy by pegging their currencies. History shows that both these courses become toothless once speculation within an environment of rising asset inflation. The real rate of interest was disguised with foreign denominated loans freely available. During the prelude to the crash of 1929, the rate of interest of some margin loans for stock purchases went to 40-50% with added collateral required (Rappoport & White, 1994) without dampening the amount of speculation since the stock market had become a cornerstone in a sociological sense (Galbraith, 1997).

While the Central Bank of Iceland raised interest rates to keep the economy's growth under control, the government increased to ceiling of LTV for housing purchases, lowered taxes and kept an expansionary policy in the tight labor market. The signals given by the Central Bank via higher interest rates and expansionary policy by the government and its subsidiaries raises the question what sort of policy was in place and partly answers the question why nobody warned against the build up of foreign loans.

4.3 Policy Level

Much discussion has revolved around the effects of added deregulation in Scandinavia. Englund (1999) maintains that such a view simplifies reality. Demirgüç-Kunt and Detragiache (1998) find that a financial crisis occurs more likely in an unregulated environment, especially where a lack of respect is for the rule of law and corruption is widely spread. They find, however, no correlation between financial crises and changes from a regulated environment to a lesser regulated one. Englund (1999) concludes that what counts is a balanced macro environment in keeping the financial system stable within a deregulated environment.

Claiming that deregulation was the root of the financial collapse in Iceland is a simplification. Deregulation in neither Iceland nor Scandinavia was the cause of excessive lending. However, once the monetary and fiscal policy got out of hand, creating a destabilized economy, the doors that deregulation had unlocked were opened. The main impetus at first was real estate loans, leading to higher real estate values in tandem with increased risk in lending. In Iceland the privatization of the state-owned banks accelerated, where size was clearly all that mattered, and with risk taking becoming much more via holding companies within a historically low interest rate environment.

Banking is among the structural factors within societies today, just as schools, electricity and transportation to name a few. Regulation issues within banking are thus of vital importance for the public. Regulations – detailed or general – are not a substitute for proper business practices within banks (Gregg, 2009). Authorities must ensure that not only are such practices within the banks in line with general good practices, but also the interaction of banks and regulatory institutions and stakeholders. It may appear clichéd, but prudent banking is needed to create trust, and banking is built on that basis. Trust in the banking system is deservedly lacking in the banking system and needs to be re-built. A lesson from what went wrong in Iceland is a good starting point.

References

- Bagus, P., & Howden, J. D. (2009). *Iceland's banking crisis: The meltdown of an interventionist financial system*. Retrieved June 11, 2009, from Ludwig von Mises Institute website: <http://mises.org/story/3499>
- Berg, S. (1998). Bank failures in Scandinavia. In J. E. Hughes & S. B. MacDonald (Eds.), *International banking: Text and cases*, (pp. 198-207). Pearson Education Asia Limited and Tsinghua University Press.
- Bibler, J. (2010). Hversu mikið var fall íslensku bankanna á heimsmælikvarða? [How extensive was the fall of the Icelandic banks internationally?]. Retrieved March 15, 2010, from FSA's website: <http://fme.is/?PageID=14&NewsID=521>
- Carey, D. (2009). Iceland: The financial and economic crisis. Economics Department Working Paper No. 725. OECD, 1-47. Retrieved November 7, 2009, from [http://www.oalis.oecd.org/oalis/2009doc.nsf/LinkTo/NT000069D2/\\$FILE/JT03271463.PDF](http://www.oalis.oecd.org/oalis/2009doc.nsf/LinkTo/NT000069D2/$FILE/JT03271463.PDF)
- Central Bank of Iceland. (2006a). *Fitch Ratings revises Iceland's outlook to negative*. Retrieved December 28, 2008, from <http://www.sedlabanki.is/?PageID=287&NewsID=1124>
- Central Bank of Iceland. (2006b). *The Economy of Iceland*. Retrieved December 28, 2008, from <http://www.sedlabanki.is/lisalib/getfile.aspx?itemid=4689>
- Central Bank of Iceland. (2009a). Retrieved September 11, 2009, from <http://sedlabanki.is/?pageid=444&itemid=5a037662-26ea-477d-bda8-d71a6017cc05>

Central Bank of Iceland. (2009b). *Advantages and disadvantages of changing Iceland's monetary policy framework*. Retrieved August 19, 2009, from <http://www.sedlabanki.is/lisalib/getfile.aspx?itemid=7219>

Chancellor, E. (2000). *Devil take the hindmost: A history of financial speculation*. New York: Plume.

Demirgüç-Kunt, A. & Detragiache, E. (1998). Financial liberation and financial fragility. Retrieved March 10, 2010, from: <http://siteresources.worldbank.org/DEC/Resources/84797-1251813753820/6415739-1251813951236/demirguc.pdf>

Directorate of Labour (20010). Retrieved October 28, 2010, from: <http://www.vinnumalastofnun.is/>

DV. (2009). Fengu bónusa fyrir að lána. Retrieved August 15, 2009, from: <http://www.dv.is/frettir/2009/8/5/fengu-bonusa-fyrir-ad-lana/>

Englund P., & Vihrala V. (2003). *Financial crises in developed economies: The cases of Sweden and Finland*. Stockholm: Handelshogskolan.

Englund, P. (1999). The Swedish banking crisis: Roots and consequences. *Oxford Review of Economic Policy*, 15(3), 80-97.

Financial Supervisory Authority. (2008). *Stress test*. Retrieved August 20, 2009, from: <http://www.fme.is/?PageID=168>

Financial Supervisory Authority. (2009). *Annual report*. Retrieved September 5, 2009, from: <http://fme.is/?PageID=531>

Galbraith, J. K. (1997). *The Great Crash*. New York: Mariner Books.

Gregg, S. (2009). Moral failure: borrowing, lending and the financial crisis. Í P. Booth (Ed.), *Verdict on the Crash: Causes and Policy Implications* (pp. 145-152). London: The Institute of Economic Affairs.

Honkapohja, S. (2009). *The 1990's financial crises in Nordic countries*. Bank of Finland Research Discussion Papers, 5, 7-26.

Honkapohja, S., & Koskela, E. (2000). *The economic crisis of the 1990s in Finland*. Helsinki: University of Helsinki and CEPR.

Icelandic Property Registry. (2009). *Vísitala íbúðaverðs*. Retrieved May 19, 2009, from <http://www3.fmr.is/Markadurinn/Visitala-ibudaverds>

International Monetary Fund. (2009b). *World Economic Outlook Database*. Retrieved July 6, 2009, from:

http://www.imf.org/external/pubs/ft/weo/2009/01/weodata/weorept.aspx?sy=1980&ey=2014&scsm=1&ssd=1&sort=subject&ds=.&br=1&c=142%2C128%2C172%2C144%2C176&s=N&GDP_R%2CNGDP_RPCH%2CNGDP%2CNGDPD%2CNGDP_D%2CNGDPRPC%2CNGDPPC%2CNGDPDPC%2CNGAP_NPGDP%2CPPPGDP%2CPPPPC%2CPPPSH%2CPPPEX%2CPCPI%2CPCPIPCH%2CPCPIE%2CPCPIEPCH%2CLUR%2CLE%2CLP%2CGGB%2CGGB_NGDP%2CGGSB%2CGGSB_NPGDP%2CBCA%2CBCA_NGDPD&grp=0&a=&pr1.x=29&pr1.y=8#download

Jannari, K. (2009). *Report on Banking Regulation and Supervision in Iceland: past, present and future*. Retrieved July 15, 2009, from:

http://eng.forsaetisraduneyti.is/media/frettir/KaarloJannari__2009.pdf

- Jonung, L. (2008). Lessons from financial liberalisation in Scandinavia. *Comparative Economic Studies*, 50, 564-598.
- Jonung, L., Kiander J., & Vartia, P. (2008). The great financial crisis in Finland and Sweden: The dynamics of boom, bust and recovery, 1985-2000. *European Economy Economic Papers* 350, December, 1-70.
- Kamallakharan, B. & Tómasson, H. (2009). Can power law help us avoid the high impact ail events? Ingjaldur Hannibalsson (Ed.), *Rannsóknir í Félagsvísindum X*, 77-88. Reykjavík: Félagsvísindastofnun Háskóla Ísland.
- Kindleberger, C. P. (1996). *Manias, panics, and crashes: A history of financial crises*. New York: John Wiley & Sons.
- Kirkpatrick, G. (2009). *The Corporate Governance Lessons from the Financial Crisis*. Retrieved September 9, 2009, from: <http://www.oecd.org/dataoecd/32/1/42229620.pdf>
- McLean, B., & Elkind, P. (2003). *The smartest guys in the room: The amazing rise and scandalous Fall of Enron*. New York: Penguin Group.
- Mixa, M. W. (2009a). Once in khaki suits - Socioeconomical Features of the Icelandic Collapse. Ingjaldur Hannibalsson (Ed.), *Rannsóknir í Félagsvísindum X*, 435-447. Reykjavík: Félagsvísindastofnun Háskóla Ísland.
- Mixa, M. W. (2009b). *Only Yesterday and Today*. Unpublished MS thesis.
- Morgunblaðið. (2009). *Yfirlýsingin kom frá forstjóra Kaupþings*. Retrieved September 20, 2009, from:

http://www.mbl.is/mm/vidskipti/frettir/2008/11/05/yfirlýsingin_kom_fra_forstjora_kaupthing_s/

Portes, R. & Baldursson F.M. (2007). *The Internationalization of Iceland's Financial Sector*, Iceland Chamber of Commerce.

Rappoport, P. og White, E. N. (1994). Was the Crash of 1929 Expected? *The American Economic Review*, 84(1), 272–282.

Reinhart, C., & Rogoff, K. (2008). *Is the 2007 U.S. Sub-Prime Crisis So Different? An International Historical Comparison*. University of Maryland and Harvard University.

Reinhart, C. M. and Rogoff, K. S. (2009). *This time is different. Eight Centuries of Financial Folly*. Princeton, New Jersey: University Press.

Schwartz, A. J., (2009). *Origins of the financial market crisis of 2008*. In P. Booth (Ed.), *Verdict on the Crash: Causes and Policy Implications* (pp. 45-50). London: The Institute of Economic Affairs.

Seðlabanki Íslands. (2010). *Bankatöflur*. Sótt 15. febrúar, 2009, af <http://sedlabanki.is/?pageid=444&itemid=5a037662-26ea-477d-bda8-d71a6017cc05>

Sigurjonsson, T. O., (2010a). Governance of risk and performance. *Corporate Governance: The International Journal of Business in Society*, 10(1), pp. 33-46.

Sigurjonsson, T. O., (2010b). Privatization and Deregulation: A Chronology of Events. In R. Aliber (ed.), *Documents on the Asset Price bubble in Iceland*. Palgrave.

Vaiman, V., Sigurjonsson, T. O. & Davidsson, P.A. (2010). Weak Business Culture as an Antecedent of Economic Crisis: The Case of Iceland, forthcoming.

Valgreen, C. (2006). *Iceland: Geyser crisis*. Copenhagen: Danske Bank.

Woods Jr., T. E. (2009). *Meltdown: A free-market look at why the stock market collapsed, the economy tanked, and government bailouts will make things worse*. New York: Regnery Press.

Paper 2: A Day in the Life of an Icelandic Banker

Mar Wolfgang Mixa, 2014

Gambling Debt – Iceland's Rise and Fall in the Global Economy.

University Press of Colorado. Ed. Gisli Pálsson and Paul Durrenberger.

Már Wolfgang Mixa was one of those reviled Icelandic bankers, but unlike most of his colleagues, he worked from the inside trying to warn against the insanity. Now he's finishing his PhD in cultural finance. In the course of writing this chapter, he was appointed to the Special Investigative Committee to study the fall of the saving banks. Here he offers a unique perspective, from interviews with insiders and from the inside himself, on what went wrong and how.

A Day in the Life of an Icelandic Banker

The Icelandic banking system,²⁷ which had no history in investment banking, engulfed Icelandic society during a period I refer to as the Manic Millennium (Mixa 2009). Its seeds were sown during the mid-1980s, took root in 1994, and reached full bloom from 2003-2008. In the midst of a transformation in ideologies and a revolution in communication technologies, the distinction between investment banker and Icelander was sometimes blurred; the qualities of investment bankers at times reflected on Icelanders as a whole (Loftsdóttir 2009).

The financial community thus began defining the behavior and perception of what an Icelander was. Conversely, Icelanders increasingly saw themselves as risk takers, a view that was reinforced, at least for a few years, by the market. But few Icelanders, including bankers, had any idea how high the risk was or how far prices had diverged from their intrinsic value.

In this chapter, I examine the environment in which Icelandic banks and bankers developed their business ideas and practices during the boom years. I also discuss how national and international factors concealed what should have been obvious to anyone with a minimum of

²⁷ The combined balance sheets of the banking system was approximately the same as the amount of Iceland's gross domestic product (GDP) in a single year around the millennium, but had grown to around 7-8 times that figure in 2007 (Halldorsson & Zoega 2010).

financial savvy, namely that Icelandic bankers in general were dangerously inexperienced in the rapidly growing international investment market, and how this oversight led to the demise of the Icelandic banking system, one of the biggest financial disasters in history, dwarfing well-publicized debacles such as Enron and WorldCom.

A Banker's Life

My Icelandic banking career began in early 1997. My first job was in a new department that the bank had recently created and that would become a blend of brokerage and investment banking. There were hardly any employees, but we had many desks and chairs side by side, and twice as many computer screens on the desks, an unusual sight in 1997. There was a real difference between the people working there and other bankers I had worked with.²⁸ Our attire was international business suits, not the old-fashioned dress code for men or the bank uniforms worn by almost all women. The meeting rooms were simple in setting yet private, in stark contrast to either the customer service areas people were used to when discussing banking services or the formal bank manager offices where people tried to provide loans (bearing negative interest rates) within a restrictive and localized banking environment. While most of the workers had university business degrees, most had no investment banking experience. Financial terms were most often English slang, both because it sounded more modern because and Icelandic hadn't yet developed a special language around financial markets.

With this limited experience, there was little training. The previous year when working at Dean Witter,²⁹ I had to take a three-month course and complete a nation-wide exam before selling securities to customers. In Iceland, I received a one-day training limited mostly to how the

²⁸ I had worked at various positions at Landsbanki Íslands from 1986 to 1987 and as a summer employee from 1988 to 1992.

²⁹ Dean Witter bought Morgan Stanley two years later and became among the biggest investment houses in the world.

trading system worked before being set up in front of a computer to trade on behalf of customers and the bank without any written limits.

Risky Exista

During the economic boom of 2003 to 2008, no one in Iceland, neither the general public nor most bankers and investment managers, fully realized the risks associated with fast, exponential growth. The investment company Exista illustrates how sociological factors blinded even the most financially savvy people.

Exista was formed by Kaupthing Bank in cooperation with the savings Banks of Iceland, which owned Kaupthing before its shares were spun off. In 2003, the brothers Ágúst and Lýður Guðmundsson (known as the Bakkavör brothers) became Exista's largest shareholders, and by the end of 2007, they owned 45.2 percent of its shares via their holding company (Exista 2007). Savings banks were the second largest shareholder, with a combined 16.2 percent ownership via direct holdings and its Kista holding company.³⁰ Exista was by no means small, with total assets at year end 2007 amounting to 8 billion Euros; about half of Iceland's annual GDP using the currency rate of the time.

Exista invested the bulk of its capital in very few companies and mostly in its largest shareholder's own company, the food producer Bakkavör, and their main associate, Kaupthing Bank. The largest holding was, however, the insurance company Sampo Group, which was rumored to be a take-over target of Kaupthing. The combined book value of Kaupthing and Sampo was 4.7 billion Euros, nearly 60 percent of Exista's total assets. Bakkavör accounted for

³⁰ This information was derived from the 2007 Exista Annual Report (Exista 2007) and other annual reports from smaller savings banks, which have limited general availability.

approximately 7 percent of total assets; hence two-thirds of Exista's capital was sitting in three companies, all listed on public stock exchanges.

Exista was a big shareholder in those three companies, holding 39.6 percent of Bakkavör's stock, 23.7 percent of Kaupthing's stock, and 19.98 percent of Sampo's stock (20 percent was the threshold regarding obligations related to the control of the company). Essentially, Exista had almost no exit route if markets took a nosedive.³¹

The leverage and thus risk of Exista was alarming. Judging by the book value, the equity ratio³² at year end 2007 was 29.5 percent, down from 43.2 percent the prior year. In a report in *Viðskiptablaðið* (the *Icelandic Business Paper*)³³ regarding Icelandic holding companies, Jónsson, S. (2009) points out that those equity ratios may be normal for companies that actually produce goods, especially consumer staples yielding relatively constant revenues, but not for investment companies that are wiped out in the next downturn in stock markets. For some perspective, the lowest equity ratio since the first quarter of 2003 of Sweden's main investment holding company, Investor AB, is 77 percent.³⁴ Warren Buffett's³⁵ investment holding company, Berkshire Hathaway, generally has an equity ratio around 100 percent, meaning that it has no net liabilities (Buffett & Clark 1997, Hagstrom 2005).

³¹ Holding such a large percentage of the outstanding stock meant that attempts to liquidate the assets would drive the market price quickly down unless a buyer could be found for a huge share. Such a buyer would likely be acutely aware of this and demand a discount unless other interests were also involved.

³² The equity ratio is a financial ratio indicating the relative proportion of equity used to finance a company's assets. The less it is, the more risk is associated with the financing of the company. If total assets are for example \$100, of which \$60 is financed with bonds and loans, then the equity ratio is 40 percent. If merely \$30 is financed with bonds and loans, the equity ratio has gone up to 70 percent meaning the company is less reliant on the "understanding" of lenders if losses begin piling up.

³³ Exista was owned by the Bakkavör brothers a couple of years before the report was written.

³⁴ Investor web site -http://www.investorab.com/en/Investors_media/InvestorInFigures/KeyFigures.htm, 2009

³⁵ Warren Buffett is arguably the world's most famous investor, becoming one of the richest people in the world through shrewd investments.

The report refers to an interview in *Viðskiptablaðið* in early 2006 in which Lýður Guðmundsson (then current owner) said that Exista aimed at investing in companies through leveraged buyouts. A research report titled “Exista hf: Right Place, Waiting for the Right Time“ (Ögmundsdóttir and Pétursson 2007) confirms this. The report is the only detailed one regarding Exista that was publicly distributed and, not surprisingly, since its lead analysts were employed by Kaupthing, containing a recommendation to buy. It shows that while Exista’s assets swelled in size, growing four-fold in a span of two years, its liabilities multiplied even more; they were five-fold during the same period. With an immensely leveraged balance sheet, the meager profits of the underlying investments actually appeared as substantial profits, pleasing the shareholders who seemed oblivious of the associated risks. However, given the historical volatility of stock markets, where valuations fall every now and then more than 40 percent (has already happened twice this century), it is difficult to see how this strategy would not have ended by crashing and burning.

Despite the obvious risk associated with Exista, no one in the public or banking sectors at home or abroad seemed to notice. More alarming was that its stock was a huge base of equity of many savings banks in Iceland and its rise in market value the major source, in most cases the sole source, of temporary profits during the peak of the Manic Millennium. Case in point is the Savings Bank of Keflavík (2007), which had three-quarters of its shareholders equity directly and indirectly in Exista. From year-end 2002 to year-end 2006 it had more than doubled its balance sheet.³⁶ Other savings banks had similar stories, recklessly lending money from extremely fragile balance sheets.³⁷

³⁶ Its balance sheet was 18.9 billion Icelandic krona year-end 2002 and 48 billion Icelandic krona 4 years later. Its growth in real terms was, however, just over doubled- since the combined inflation during that period was 19 percent.

³⁷ This was also done via issuances of subordinated debt, which can be used to conceal the fragility of balance sheets.

Financially the Manic Millennium resembled the Roaring 1920s in the United States in many ways (Mixa 2009). During both periods, there was an explosion in the formation of investment trusts (Fridson 1998), many of which leveraged themselves, frequently buying shares of the issuing companies or their affiliates at prices as much as double their intrinsic market value (Galbraith 1997). Kaupthing's research report, paradoxically, shows that the price-to-book ratio³⁸ was 1.5 at the time of writing. Put another way, people were paying at least 1.5 times the amount of money for a few stocks generally available on the open market because of the company's representation of success built upon reckless risk. In the end equity investors lost everything and bondholders lost a sizable percentage of their lending, since Exista's crash was also the single biggest company bond loss among Icelandic pension funds (Icelandic Pension Funds Association 2012).

Setting the Stage for the Manic Millennium

So what kind of environment creates and promotes the likes of Exista? It has been said that the four most expensive words in the English language are, "This time is different."³⁹ Those words certainly applied to Iceland during the build-up of the bubble that Exista thrived in. Iceland is special because it had no real history of commercial banking and absolutely none of investment banking. For a long time it was relatively isolated from other Nordic nations and Europe with its population spread in rural areas and its banking localized. After the Bank of Iceland (Íslandsbanki) went bankrupt during the Great Depression, it became a highly-regulated system similar to those of Nordic nations, with political connections and governmental policies dictating which industries should receive preferential treatment (Sigurjónsson & Mixa 2011,

³⁸ A ratio that shows the market price of a stock compared to the book value of the owner's equity.

³⁹ Also the title of a book by Reinhart & Rogoff (2009) concentrating on financial data as warning signs of financial crashes.

Jonung 2008, Englund 1999). Foreign currency restrictions became the norm in Iceland, and Icelanders traveling abroad, for example, had to specifically apply for currency for their travel expenses. Real interest rates were often negative, meaning that access to money was an asset in itself, with demand constantly higher than supply. Specific interest groups thus began creating “their” banks during the next decades, their names reflecting the groups they mainly served and lent to rather than promoting any specialization in lending (Jóhannesson, S. 2004). Some of these include The Bank of Industry (Iðnaðarbankinn) formed in 1953, The Icelandic Bank of Commerce (Verzlunarbanki Íslands) formed in 1963, and The People’s Bank of Iceland formed in 1971 by the labor unions (Alþýðubanki Íslands) (Jónsson, Á. 2009).

This restrictive environment began to change very slowly during the mid-1980s. Domestic bank rates were fully liberalized in 1986 and restriction on capital movements fully abolished in 1995. A year later, Iceland joined the European Economic Area (EEA), which also liberalized foreign direct investment within parameters of the EEA agreement (Mixa & Sigurjónsson 2010), breaking down the currency restrictions and connecting the country’s economy globally. This development marked two watershed moments: it opened the door to the internationalization of financial markets, and it set up the same kind of financial liberalization that had befallen the Bank of Iceland in 1930. These innovations were aimed at making efficient a banking system that had been bloated and inefficient for years. In Iceland this was further amplified with its 1994 EEA membership.

The trend in international banking was to combine traditional banking and investment banking. Traditional banking revolves mainly around basic lending procedures, and banks make money from traditional banking services, such as ATM services, checking accounts, and lending. The interest rate differential, lending say at an interest rate of 6 percent but paying on average 3 percent for saving accounts, is usually the prime source of profits of such banking. Investment

banking, however, is focused on raising money for companies, an act that often involves investing in other companies. For a long time, such companies were owned by owners, who, like in law firms, guarded their interests with great care since their own money was on the line (Lewis 2010).

Unlike traditional banks, investment banks do not raise money from the public via deposits but instead, almost entirely through what is known as long-term investments.⁴⁰ The traditional banking Icelanders were accustomed to was more like the grease for the economy, with short-term funding the norm. There is, however, the inherent danger that depositors may demand their money back. That's what deposit insurance is made for. By providing such programs, which became universal following the Great Depression, governments placed restrictions on banking practices to dampen the kind of speculative behavior that was rampant in during the 1920s (Galbraith 1955, Sobel 1968, Bruner & Carr 2007), justified by the fact that taxpayers' money would fund depositors' losses. While walls between U.S. investment and commercial banking had been in place for decades,⁴¹ there had never been a need to set them up in Iceland because no investment banking existed. Thus, Icelandic banking entered the international arena with adrenalized risk-taking and no restrictive shackles in place, with the chance to act like investment bankers yet funded with deposit money backed by the government.

Privatization – A World of Efficiency

The privatization that had begun in 1992 was going full bore by 2002. Two of Iceland's main banks had been partially privatized in 1998, just a year after my Icelandic banking career began.

The large number of shareholders made it look like the banks were still owned by the people of

⁴⁰ Some people argue about the state of investment banking prior to the crash in 2008, which at that point relied to a great degree on short term lending funds, but that was not the traditional way of investment bank funding.

⁴¹ The Glass-Steagall Act enacted by the US Congress in 1933 separated investment- and commercial banking following the failures of some banks that had invested heavily in the stock market, its repeal occurring in 1999.

Iceland. Just four years later, though, individuals and groups that had little if any banking experience but excellent political connections were allowed to buy a controlling stake in each bank. This new dynamic changed the mission of the banks from service to growth. The banks' new goal was to expand their balance sheets and become big players (Sigurjónsson & Mixa 2011). One CEO remarked to one of the board members that he wanted to duplicate Merrill Lynch, which he had recently visited.⁴² The main investor of the National Bank of Iceland, who also became chairman of the board, declared in a television interview shortly after the privatization that he was determined to make his bank the biggest one of the three. As Icelandic bankers went on acquisition sprees across Europe, the media, increasingly owned by the same bankers (Áskelsdóttir 2010), began reporting on them as Vikings pillaging on foreign shores, dubbing the bankers "Business Vikings." Despite having banking roots that were localized and regulated like Nordic banks, Icelandic bankers (at least the ones deemed successful during the boom years) were described in the media as having greater financial expertise and working more quickly than bankers in most other nations (Loftsdóttir 2009). The public believed this despite the fact that modern banking in Iceland was only a few years old. I was considered one of the most experienced investment bankers in the country, yet had been a novice just a few years earlier.

Domestic and Foreign Perception

Public awe of the "brilliance" of its bankers is a common phenomenon during the build-up to financial crashes (Englund 1999, Gleeson 1999, Chancellor 2000). Galbraith (1997) states that the mood is far more important than the interest rate during a boom. He adds that the prerequisite of a boom is trust in leaders and in the benevolence of others to create some sort of

⁴² This is from a confidential source. The CEO's name and company will remain anonymous.

conviction that ordinary people should be rich. In Iceland, the media became a central player in creating such trust. The Icelandic tabloid *Séð og heyrt* focused on businessmen and politicians, the latter becoming ever less relevant during the Manic Millennium. In an article published barely half a year before the collapse, pictures taken at the *Business Conference 2008* show politicians mingling with businessmen at the conference. The article quotes one CEO saying, “It was enjoyable seeing all the politicians there. It is good that such a good relationship exists between politicians and the business community” (*Séð og heyrt* 2008).

The country was engulfed in the developments of financial markets, and owners of the banks promoted their interests via the media they largely owned. A reinforcing cycle developed in which those who sought the most risk became media heroes. The perception of Icelandic bankers being the best and fastest was promoted inside as well as outside the banks. An internal video at Kaupthing, entitled “*What Is Kaupthinking, (Kaupþing, n.d.)* emphasized the values of acting quickly. It starts with images from the U.S., such as Martin Luther King, Jr. demonstrating in Washington, Bill Gates, and a launch to the moon and juxtaposes them to scenes from Tiananmen Square and the fall of the Berlin Wall, coupled with the written and spoken words “we can.” The narrator then says; “We thought we could double in size and we did, every year for eight years” and a few seconds later in a reference of winning out over the authority of a rigid state, the narrator says, “We think we can grow by outwitting bureaucracy, by moving faster, by being flexible....” The message was clear; growth mattered.

The Financial Supervisory Authority had big problems catching up with the new environment. Simple regulations separating the bank’s proprietary investments from investments on behalf of their clients, for example, had just been enacted in 2002 (*Fjármálaeftirlitið* 2002) with more separation between the operation of banks and mutual funds coming in 2003 (*Fjármálaeftirlitið* 2003). The staff of the supervisory agency did not grow in nearly the same proportion as the

ranks of the financial industry. It was common knowledge in the industry that the best workers were snatched up by the banks when they began learning how to question the banks' operations.

Thus bankers learned slowly but surely that making deals quickly counted the most. A former Icelandic banker who headed one of the big three banks told me that when he first arrived in 2003 he had lots of ideas about how to improve the bank's operations and efficiency. By 2007, he was amazed at how focused his co-workers had become on simply getting deals together with little due diligence. Within a few years he had gone from being considered an aggressive banker to being viewed as a "fuddy-duddy."

This was not a phenomenon exclusive to Iceland. An international banker I interviewed in London gave an example of a prudent banker working the numbers to reach a decision. The banker across the street decided to skip the number crunching and focus instead on getting the deal done quickly and simply trusting *the market*. Bankers' confidence in the market price blinded them to research done by ratings agencies, such as Moody's, Standard & Poor's, and Fitch (Lewis 2010). Another international banker told me that finance professionals all over the world lost sight of their role in an industry that rewarded short-term personal greed and punished long-term value. Worldwide, central figures in the finance industry, such as bankers, were able to claim just enough knowledge to keep their power by getting deals done (as opposed to putting thought into them) but not enough knowledge to take responsibility (Davies & McGoey 2012), something that became apparent after the crash.

Good and Bad Bankers

In his 1989 exposé, *Liar's Poker*, Michael Lewis describes the person who makes the most money as a Big Swinging Dick. No matter what happened, he ruled. One experienced banker I interviewed felt the same about what happened in Icelandic banking at the time: Inexperienced

bankers powered manic growth while making easy money. Meanwhile prudent, more experienced bankers were sent to the sidelines. At Icebank's trading desk where I worked in 2008, the combined banking experience of the 12-14 employees there was barely 15 years, with no one having worked in banking for more than two years. They were handling interbank loans amounting to 20 percent of Iceland's GDP and lost almost all of it during the 2008 meltdown. Without the anchor of experience, it was easy to be convinced that all was well. Most of the experienced bankers I interviewed agreed that young people could be easily molded. One Icelandic banker quoted another as saying that 25 was old for a bank employee.

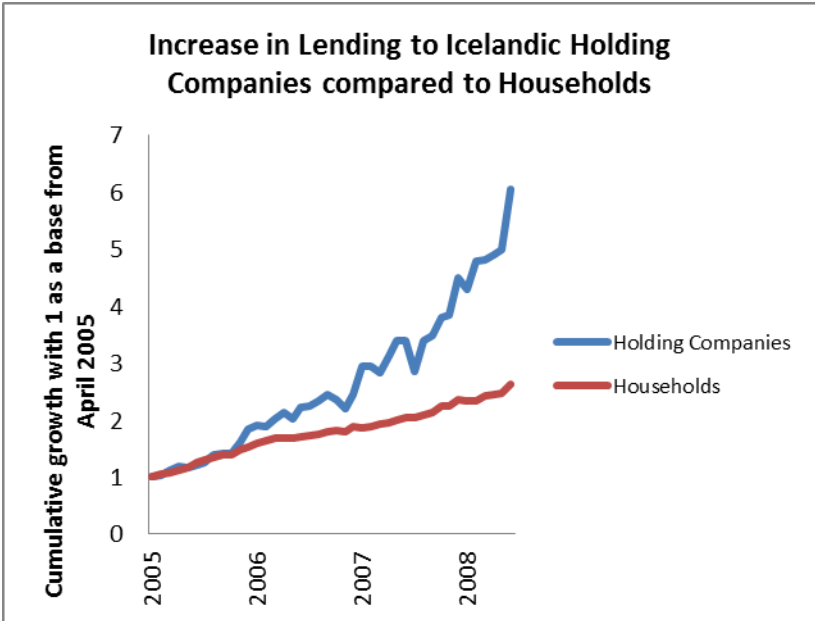
This inexperience may also explain how stratification within the banks developed easily, with the top layer keeping information from the rest. Only a very few people knew the dire state of the banks for the longest time. When I expressed concerns to an Icebank employee in April 2008, I had to backpedal quickly when I saw how shocked my coworker was at what I considered a casual remark. After that, I made sure that I expressed my concerns only to persons who had some knowledge of the precarious state of the bank. Little by little a small group would meet regularly in a specific room to make sure that our talks were limited to a small circle.

These small, highly stratified layers made the deals of the primary owners and bank associates a priority over the banks' normal operations. Many loans were made to holding companies with close ties to the owners of the banks and their cronies. As Figure 4.1 demonstrates, between 2005 and 2008 the robust increase of household loans looks tame compared to the frenzied rise in loans to holding companies.⁴³

Figure 1 Increase in Lending to Icelandic Holding Companies Compared to Households

⁴³ Figures are only available from early 2005.

Picture1: Increase in Lending to Icelandic Holding Companies Compared to Households



Source: Central Bank of Iceland (2009)

In one glaring example, bankers lent the equivalent of well over \$100 million to holding companies for the sole purpose of buying a controlling stake in a savings bank. The owners of the holding companies were business partners of the biggest shareholder (another savings bank) of the bank in question and the top management team of the savings bank being bought. With the exception of one buyer, the people involved only had to lay out costs connected with the creation of the holding companies, an amount estimated to total \$100,000. Practically the entire purchase price was lent by other savings banks, and shares in the bank were the sole collateral. This meant that if the bank remained successful (as it had been in previous years), the buyers would become millionaires. Since the bank went bankrupt shortly afterwards, each of the new owners (with one exception) lost what amounted to approximately \$10,000.⁴⁴

⁴⁴ During the time of writing, this information is confidential but will probably become public late in 2013.

Suspicious of such cronyism entered my mind when I was asked in early 2008 to write a memo about whether it was prudent to lend money to a holding company whose only purpose was investing in stocks, which was also their only collateral. I asked why the bank didn't simply buy shares in the companies themselves, reaping the rewards if the stocks rose in value. Wouldn't this be more valuable than getting the loan back with some interest? But of course the bank stood to lose money if the stock value decreased, I explained. I was never asked to write such a memo again.

Many people I interviewed, as well as co-workers, expressed bitterness at having fought to keep the banks afloat for what they then considered a just cause, only to find out that they were actually fighting for the interests of small groups. It was amazing how so many bankers were kept in the dark.

Interviews with other mid-level foreign bankers about their Icelandic counterparts have been rather positive. One banker specifically said that the myth of Icelandic bankers moving so quickly on deals did have some substance, explaining that the Icelanders were willing to do what it took to get business going and were in general "not out to get me." Another Nordic banker said that in his experience, business in Iceland was not materially different from business in other Nordic countries with the exception of the relative lack of experience and the strong appetite for risk. This view does not, however, apply to the top level of bankers. One foreign banker called them crooks while another one talked at length about how they lied to maintain business relationships. Tony Shearer, CEO of Singer & Friedlander when Kaupthing bought the company, described Icelandic top level bankers with whom he worked as being very confident of themselves and their capabilities (personal communication, January 27, 2012). Despite Shearer's decades of international banking experience, the Icelanders who bought his company *never* asked his advice on any matter.

“Bad” bankers within a Utopian Economy

Iceland was like its farmers’ cows freed in the spring after being locked inside the barn all winter, full of life but not necessarily managing freedom very well. Icelanders embraced the free-market mantra that they believed entailed harmony and stability, something Cassidy (2009) argues was built on an illusion. Neoliberalism was initially built upon the concept of freedom, the argument that governments could not decide what was best for their citizens, and slowly the argument evolved until the efficiency of the market was in the front seat (Davies & McGoey 2012). Icelanders justified the privatization of banks not only because it increased efficiency but also because of the implied declaration of nationalistic freedom. As Cassidy (2009) puts it, by privatizing the banks the way they did, neoliberal proponents created free markets that contained incentives for individuals and groups to act in ways that were individually rational but in the end damaging to themselves and others. It is also no secret that the main owners of the new banks had political ties. It became general knowledge that being associated with the Independence Party enhanced one’s chances of being hired at the National Bank of Iceland, as was the case with a former director of the Independence Party becoming one of the bank’s board members.

Forces in the top levels of Icelandic business and politics thus had great incentives to embrace the neoliberal movement, by handing the banking sector and many national treasures over to their cronies. It was essential that the public followed suit. By increasing bank profits, improving efficiency, and abandoning the shackles of a restrictive past, the public was willing to go along.

These developments opened certain doors to liberating the financial system. The difference in the process of the liberalization, judging from the behavior of Icelanders and citizens of other

Nordic countries, can be partially explained by the fact that the Nordic countries didn't throw those doors wide open. In addition to having learned their lessons from the financial crisis of the early 1990s, the Nordic countries did not have as much to prove to the world as Iceland, who desperately wanted to be a player on the international stage (Loftsdóttir 2010 and 2012b). The Icelandic banking system was opened to corruption without the necessary accountability. Like the general public, most bankers were simply part of a process that enabled those at the top with ties to politicians (Vaiman, Sigurjonsson and Davidsson 2010) to concentrate on their self-interests while sacrificing the long-term interests of the nation.

The Moment of Truth

Chronic nationalism and the feeling of prosperity made Iceland particularly vulnerable to the economic boom and bust, but it is not the only country to have suffered this tragedy. Following the breakdown of the Iron Curtain in 1990 and the subsequent fall of communism, a belief in the superiority of capitalism reigned worldwide (Steger & Roy 2010). Keynesian economics, which was crafted after the Great Depression and gave governmental controls their place, gave way to free market views, which had been gathering steam since the 1970s (Fox 2011). The collapse of communism shifted the ideological balance, giving neoclassical ideologies (free markets govern themselves best) a strong foothold. The new ideology was amplified in Iceland in 1994 when it gained EEA membership, making it more globalized and simultaneously susceptible to international trends. International phone communications during that time became much less expensive and the rise of the Internet transformed Iceland from a country in isolation to one in constant touch with the world.⁴⁵ The domination of capitalism and increased

communication potential set the stage for the irrational optimism that Shiller (2001) lists as a precipitating factor of a financial bubble. When such a trend persists, a representation of the past amplifies the general view of future trends (Kahneman and Tversky 1982). This is consistent with the insights of Soros' (1997); financial markets operate with a prevailing bias, which validates the bias by influencing not only market prices but also the assumed fundamentals that market prices should reflect (and that may actually transform toward the prevailing bias). This is amplified until the moment of truth when people stop believing the hype but may still participate in the madness until they swiftly come to their senses.

Reports after the crash indicate that most politicians were in the dark about the situation until early 2008. The light flickered on following an internal conference at The National Bank of Iceland in February 2008, when grim warning signs of the impending crisis were announced (Special Investigation Commission, 63). The day after the conference, a Central Bank of Iceland internal memo was circulated, expressing shock over the negative views foreign senior bankers had expressed during a recent visit. The memo states, for example, that the foreigners said Glitnir bankers were both desperate and inexperienced, and Kaupthing bankers were not to be trusted.⁴⁶ When Iceland's Prime Minister Geir Haarde announced a state of emergency at the height of the crash on October 6, 2008 and declared "God Bless Iceland," my fellow Icebank employees stared at the television screen in utter disbelief. It was the beginning of the end.

⁴⁶ Retrieved 8 July, 2014 from <http://eyjan.pressan.is/frettir/wp-content/uploads/2009/03/minnisblad-si-feb-2008.PDF>

References

- Áskelsdóttir, Alda G. 2010. Áhrif eigenda á íslenska fjölmiðla. MA-ritgerð, Háskóli Íslands. Retrived March 2, 2012 at <http://skemman.is/handle/1946/6145>
- Bruner, R.F. & Carr, S.D. 2007. The panic of 1907. *Lessons learned from the market's perfect storm*. New Jersey. Wiley
- Buffett, M. and Clark D. 1997. *Buffettology : The previously unexplained techniques that have made Warren Buffett the world's most famous investor*. New York: Rawson Associates Scribner
- Cassidy, J. 2009. *How markets fail: The logic of economic calamities*. New York: Farrar, Straus and Giroux
- Central Bank of Iceland. 2009. Retrieved September 11, 2009 from <http://sedlabanki.is/?pageid=444&itemid=5a037662-26ea-477d-bda8-d71a6017cc05>
- Chancellor, E. 2000. *Devil take the hindmost: A history of financial speculation*. New York: Plume.
- Davies, W. & McGoey, L. 2012. Rationalities of ignorance: on financial crisis and the ambivalence of neo-liberal epistemology. *Economy and Society*, 41 (1), 64-83.
- Englund, P. 1999. The Swedish banking crisis: Roots and consequences. *Oxford Review of Economic Policy*, 15(3), 80-97.
- Exista. 2007. Annual Report.
- Fjármálaeftirlitið. 2002. Leiðbeinandi tilmæli um innra eftirlit og áhættustýringu hjá fjármálafyrirtækjum nr. 1/2002. Retrieved March 8, 2012 from <http://www.fme.is/log-og-tilmaeli/leidbeinandi-tilmaeli/nr/908>

- Fjármálaeftirlitið. 2003. Leiðbeinandi tilmæli um aðskilnað reksturs og vörslu og óhæði rekstrarfélaga verðbréfasjóða skv. 15. gr. laga nr. 30/2003, um verðbréfasjóði og fjárfestingarsjóði. nr. 5/2003. Retrieved March 8, 2012 from <http://www.fme.is/log-og-tilmaeli/leidbeinandi-tilmaeli/nr/930>.
- Fox, J. 2011. *The myth of the rational market: A history of risk, reward, and delusion on Wall Street*. New York: Harper Collins
- Fridson, M. S. 1998. *It was a very good year: Extraordinary moments in stock market history*. New York: John Wiley & Sons
- Galbraith, J. K. 1955/1997. *The Great Crash 1929*. New York: Mariner Books.
- Gleeson, J. 1999. *Millionaire: The philanderer, gambler, and duelist who invented modern finance*. New York: Simon & Schuster
- Hagstrom, R. 2005. *The Warren Buffett way*. Hoboken: John Wiley & Sons
- Halldórsson, Ó. & Zoega, G. 2010. Iceland's Financial Crisis in an International Perspective. *Institute of Economic Studies Working Paper Series*. University of Iceland. Reykjavik. Retrieved July 8, 2014 from <http://hhi.hi.is/sites/hhi.hi.is/files/W-series/2010/WP1002.pdf>
- Henrekson, M. and Jakobsson, U. 2003. The Swedish model of corporate ownership and control in transition. *SSE/EFI Working Paper Series in Economics and Finance No. 521*.
- Jonung, L. 2008. Lessons from financial liberalisation in Scandinavia. *Comparative Economic Studies*, 50, 564–598.
- Jónsson, Á. 2009. *Why Iceland?* New York: McGraw-Hill
- Jónsson, S. M. 2009. Spilaborg eignarhaldsfélaganna fallin. *Viðskiptablaðið*, September 20, 2009, pp.22-23
- Kahneman, D. & Tversky, A. 1982. Subjective probability: A judgment of representativeness. In D. Kahneman, P. Slovic, & A. Tversky (eds.), *Judgement under uncertainty: Heuristics and biases* (pp. 32-47). Cambridge: Cambridge University Press.

- Kaupping. Retrieved March 29, 2012 at http://www.youtube.com/watch?v=31U54cgf_OQ
- Lewis, M. 1989. *Liar's Poker: Rising through the wreckage on Wall Street*. New York: W.W. Norton & company
- Lewis, M. 2010. *The Big Short: Inside the doomsday machine*. New York: W.W. Norton & company
- Loftsdóttir, K. 2009. Kjarnmesta fólkið í heimi: Þrástef íslenskrar þjóðernishyggju í gegnum lýðveldisbaráttu, útrás og kreppu. *Ritið*, 9(2-3), 113-140.
- Loftsdóttir, K. 2010. The loss of innocence: The Icelandic financial crisis and colonial past, *Anthropology Today* 26(6), 9-13.
- Loftsdóttir, K. 2012. Colonialism at the Margins: Politics of Difference in Europe as seen through two Icelandic Crises, *Identities: Global Studies in Culture and Power*, 19(5), 597-615.
- Mixa, Már W. & Sigurjónsson, Þ. Ó. 2010. Áfram á rauðu ljósi – fjármálahrunið á Íslandi og reynsla Norðurlandanna, *Tímarit um viðskipti og efnahagsmál*, 7(1), 21- 40.
- Mixa, M. W. 2009. Once in khaki suits - Socioeconomical Features of the Icelandic Collapse. Ingjaldur Hannibalsson (Ritstj.), *Rannsóknir í Félagsvísindum X*, 435-447. Reykjavík: Félagsvísindastofnun Háskóla Ísland.
- Pension Fund Investigative Report. 2012. Retrieved from <http://ll.is/?i=2&o=1377>
- Reinhart, C. M. & Rogoff, K. S. 2009. *This time is different: Eight Centuries of financial folly*. Princeton, New Jersey: University Press.
- Savings Bank of Keflavik. 2007. Prospectus due to share increase issued September 27, 2007
- Séð og heyrt. 2008. Elsku evra! Issue #8, 21. February – 27. February
- Shiller, R. J. 2001. *Irrational exuberance*. New York: Broadway Books
- Sigurjónsson, T. O. and Mixa, M. W. 2011. Learning from the ‘worst behaved’: Iceland’s financial crisis and Nordic comparison. *Thunderbird International Business Review* 53(2), 209–223.

Sobel, R. 1968. *The great bull market. Wall Street in the 1920s*. New York. W.W. Norton & Company.

Soros, G. 2003. *The alchemy of finance*. New Jersey: John Wiley & Sons

Special Investigation Commission (SIC). 2010. *The causes of the collapse of the Icelandic banks – responsibility, mistakes and negligence*. Retrieved September 3, 2014 from

<http://www.rna.is/media/skjol/RNAvefurKafli21Enska.pdf>

Steger, M. B. and Roy, R. 2010. *Neoliberalism: A very short introduction*. New York: Oxford University Press

Jóhannesson, S. 2004. Frelsi á fjármagnsmarkaði eftir 1980. Eggert Þór Bernharðsson (editor), *Rætur Íslandsbanka 100 ára fjármálasaga*. Reykjavík: Íslandsbanki.

Vaiman, V., Sigurjonsson, T. O. & Davidsson, P. A. 2010. Weak business culture as an antecedent of economic crisis: The case of Iceland, *Journal of Business Ethics*, (98), 259-272.

Ögmundsdóttir, G. and Pétursson, H. Y. 2007. Exista hf. Right place, waiting for the right time. Retrieved September 7, 2009 from <http://www.kaupthing.is/lisalib/getfile.aspx?itemid=11683>

Paper 3: Financial Behavior in Iceland within the Framework of Hofstede's Cultural Dimensions

Mar Wolfgang Mixa & Vlad Vaiman

Introduction

Iceland's recent financial bubble and economic crash is historical in various aspects. Foreign creditors are estimated having lost the equivalent of the market value of every single building in Iceland – twofold (Mixa 2011) - due to losses within the Icelandic banking system. As a result, most of the entire banking system in Iceland went into receivership during the first two weeks of October of 2008. Losses amounted to well over half of the combined balance sheet of the Icelandic banks, which was approximately the same as Iceland's GDP in 2000 but had swelled just before the crash to seven- to eightfold the country's annual GDP (Halldorsson & Zoega 2010). Such losses, both in terms of money and even more so in terms of scale, raise questions of practices not only within the Icelandic banks and the public's participation in such reckless growth, but also within the foreign banks that lent them such unprecedented amounts of money. Many foreign lenders were not immune to the same worldviews⁴⁷ as Icelanders, which had transformed dramatically within a short period of time. While Icelanders, including most bankers, were certainly gullible, they were not alone.

In this paper, we will assess the vision that cultural indicators were manifested strongly in the Icelandic economic collapse of 2008. It has been suggested that Iceland's propensity to risk taking and willingness to bend the law was to a large degree responsible for the collapse, affecting bankers in Iceland and also in other parts of the world, all of whom had faith in the Icelandic success story. We emphasize how insights from cultural finance, combined with additional theoretical aspects from the social sciences, can enrich financial analyses of the economic crisis in Iceland in 2008, providing useful indicators of detecting the makings of financial bubbles. Furthermore, we contend that focusing on particular agents within the

⁴⁷ The definition of worldview is in this paper very much associated with financial aspects.

financial landscape – in this case the bankers – and their interaction with society as a whole is a significant avenue of inquiry to explore.

This interaction becomes relevant when reviewing cultural comparisons between nations. Nordic countries appear to share similar cultural traits, yet as we show in the paper, financial data paradoxically shows much more risk taking and less long-term orientation in Iceland. We use a common method in measuring cultural differences when applying cultural comparison, which is mainly built upon research by Geert Hofstede in investigating certain characteristics of national culture which are often referred to as dimensional studies. This method has been used extensively in the field of management and business by many scholars (Newman & Nollen 1996, Soares, Farhangmehr & Shoham 2007, Hoffman & Hegarty 1993), Hofstede's methods have still been criticized by numerous researchers. McSweeney (2002) criticizes Hofstede's generalization of nations and averaging scores within nations as being yet representative of the nation and Ailon (2008) further arguing that the studies and subject used to gather data are too centered on Western subjects and assumptions, thus not taking into account the diversity of other groups within nations. Despite the limitations in Hofstede's methods and not being flawless, by their own admission (Hofstede et al. 2010), they remain, nevertheless, the most popular method in studying cross-national cultures within financial analysis (Breuer & Quinten 2009, Magnusson et al. 2008, Reuter 2010), with no obvious alternatives. We thus find it important as well to analyze its application, weaknesses and possibilities.

As Hofstede himself asserts, dimensional studies should be first and foremost used as some sort of stepping stones in applications to other studies. We show that some of the weaknesses within the method are paradoxically also its strength. Our analysis seems on the surface to suggest that his methods lack explanatory power because of recent rapid changes in world-wide financial ideologies, which have had enormous effects on economies and thus cultures. We emphasize,

however, that when they are applied to financial indicators the results strongly indicate that cultural factors influence financial behavior on a relative scale between countries.

This is evident when viewing the general results of Hofstede's dimensional studies, which show Icelanders being similar to Nordic countries but appear to break down when inspecting Icelandic behavior from a purely financial standpoint. Icelanders behaved very differently than the Nordic nations during the years following the start of what we refer to as the Manic Millennium until the banking crash during fall 2008. The difference in behavior was actually already apparent before the millennium but the divergence gathered considerable strength during the early 2000s.

We provide hypotheses of why such general dimensional studies of culture in the vein of Hofstede fail on the surface to explain the divergence between these nations during the build-up of the bubble, but yet are a solid starting point at explaining the difference that rely, perhaps contradictorily, to a great extent on certain elements within Hofstede's research methods. This includes a discussion of a traditional local economy embracing globalization, and an ideology based upon Neo-liberalism, and the differing effects that such influences had on the Icelandic nation compared to other Nordic nations. As such, our discussion can be located within Cultural Finance - a research area that is situated as an interface between Finance and Social Sciences and is thus more of multidisciplinary perspective than viewing financial behavior from a purely psychological perspective.

We suggest that it is important to contextualize the 'banking culture' in Iceland within a particular national environment; one that is undergoing a social paradigm shift where the worldview of the general public is changing, and those who are in the center of such changes begin a circular re-enforcement one that is undergoing a social paradigm shift. Those who are

at the center of such changes have initiated, in tandem with the public, a reification of sorts of the wisdom of the markets with those who were daring enough (and had the necessary access to capital) to embrace these changes in the local and international arenas. Such a “daring” market environment slowly develops into a norm, similar to what Soros (1997) contends happens in financial markets that operate with a prevailing bias that validates itself by influencing not only market prices but also assumed fundamentals (that transform towards prevailing biases) that market prices should reflect. Although not discussed in detail in this paper, such imitating behavior is tied to known developments in the making of financial bubbles.

Furthermore the size of the banking system in Iceland (a nation with no prior history in investment-banking before the Manic Millennium)⁴⁸ had engulfed large parts of the Icelandic society and thus blurred to a significant degree the distinction between being an investment banker and an Icelander. The behavior of the financial community thus began assimilating the behavior and the public’s perceived view of what being an Icelander entailed. Icelanders viewed themselves as risk takers who were being rewarded as such by the market, but few, even among bankers, had an idea how much the risk level was and how far price levels had in a concrete manner diverged from their intrinsic value. As expressed by some bankers we interviewed, those “old fuddy-duddy” bankers who did not participate soon found themselves outside of the center of the action. Icelandic banks thus became full of inexperienced bankers (Mixa 2015a). There was thus a deadly combination in the creation of a loop that again was re-affirmed within banks, where Icelanders perceived themselves as not only being rational (Neo-liberal) individuals, or rational in maximizing their own financial gains, but did so with a prevailing

⁴⁸ According to Sigurjonsson and Mixa (2011), the size of the Icelandic banking system when it crashed in the fall of 2008 as viewed from their balance sheets was almost triple the size of the banking system in Nordic countries when their banking systems collapsed during the early 1990s.

bias fuelled by ignorance in what Davies and McGoey (2012) describe as being useful for some agents.

The developments described above opened certain doors. The apparent cultural differences, judging from financial behavior between Icelanders and the other Nordic countries, can at least partially be explained by the fact that Nordic countries made sure those doors were not forced wide open, as they did not have ‘as much to prove’ as Icelanders who desperately wanted to make a point of their status within the international arena (Loftsdottir 2010). Doors were opened to corruption, where stratification within the banks was needed, with most bankers simply being a part of a reification process in tandem with the general public (Mixa 2015a). This was enabled by the top layer of the financial sector with ties to the political arena of Iceland (Vaiman, Davidsson & Sigurjonsson 2010) to concentrate on individualistic self-interest while sacrificing the long-term interests of the nation as a whole.

In the first part of this paper we will provide an overview of cultural finance, then show the cultural similarities of Iceland and the Nordic nations in general and how they are re-enforced by dimensional studies, compared to what the financial data indicates. We link Neo-liberal influences into this discussion, which we believe had considerable effects on nations that scored high within the individualism dimension. The second part of the paper analyzes economic and financial indicators, comparing again Iceland to certain Nordic nations. Thirdly, the differences derived from those comparison styles will be drawn forth, with an emphasis on general results from national characteristics studies relating to finance compared to the financial indicators themselves. In the fourth part, a proposition will be set forth of possible explanations of why general results harmonize so inconsistently with financial indicators, involving a discussion of why the culture of Iceland was in a sense ripe for the nation in embracing new sets of values, which is to a degree built upon an analysis of Hofstede’s methods.

National Cultures Comparison

The systematic use of cultural concepts in financial research is recent and gaining a larger audience with an increase of interest in culture among financial scholars, involving as well a more interdisciplinary approach in understanding financial phenomena. Some scholars even proclaim that cultural finance can be seen as constituting a new, autonomous discipline within the field of economics (Breuer and Quinten 2009). Thus cultural finance is conceptualized as being a bridge between a Neo-classical point of view of finance and behavioral finance. It is assumed within the Neo-classical ideology that market players are purely rational agents towards money and obey laws and regulations within parameters that provide no place for corruption (Cassidy 2009). In contrast, behavioral finance, a field that has gained momentum since the early 1990s (Shiller 2001), analyzes more cognitive and emotional factors related to individual decision making, showing that irrational behavior often occurs among people regarding financial matters. Cultural finance takes this one step further by differentiating between such irrationalities as dependent upon cultural values, and even questions if there is a singular 'correct' rationality but simply different core value systems that differ in what constitutes prudent uses of money. These various valid approaches demonstrate the importance of viewing finance from a multidisciplinary perspective. Cultural finance thus provides clues of how relatively apt different countries are towards conservative or less conservative (even reckless) financial behavior.

A case in point is that behavioral finance generally takes individuals raised in particular cultural environments as being normative, thus ignoring cultural aspects as important in shaping people's behavior. The study of behavioral finance generally assumes that what applies to individuals in one culture applies the same (or a very similar manner) in other cultures. Hofstede (2010) takes Adam Smith's theory regarding the "invisible hand" as an example of a generally

accepted theory within the heart of economics, yet the science of economics is based on an individualistic idea that has been mainly explored within countries that score highly on individualism, thus not being necessary applicable in all territories. The classic case of the Tragedy of the commons may, for example, be more relevant in certain cultures than others (McCay & Acheson 1990 [1987]); the notion of individualism as understood in behavioral finance is not necessarily a universal phenomenon, but culturally a specific one as well as the duties and relations between individuals being different in different cultural contexts.

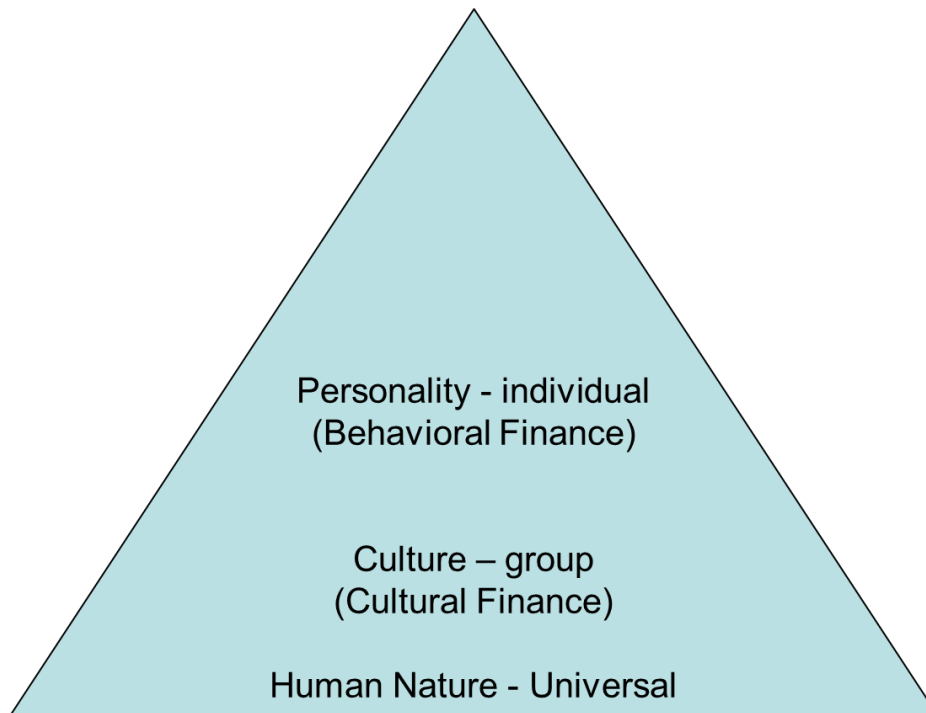
Taking a step away from behavioral finance towards cultural finance complicates the study, making some simplifications or accepting assumptions like the definition of culture. Anthropologists Clyde Kluckhohn and Alfred Kroeber compiled in 1952 a summary of the definition, yielding 161 variations of the definition of culture (Skaptadóttir & Loftsdóttir, 2009). In a recent survey of culture among financial scholars, Reuter (2010) comes to a similar conclusion as Kluckhohn and Kroeber about sixty years earlier, stating that there is an overwhelming diversity in how culture is approached; yet within the study of cultural finance the concept is sometimes not defined or even explained at all. Reuter's (2010) conclusion of the survey is that systematic efforts in implementing concepts or variables in financial research related to culture are few, with the sole exception of Hofstede's cross-national culture indices, generally labeled the 'dimensionalist literature' (there are other ones but less widely used). To better understand the utility of the concept, it is important to explain how the concept is usually used within dimensional studies and in the analysis here. Trompenaars & Hampden-Turner define culture as being a shared system of meanings, dictating what we pay attention to, how we act and what we value (1998, 13). That definition is useful as a prelude of Hofstede's (2010) definition of culture, being "a mental programming of the mind." Both parties define culture as

existing in layers that comprise the external observable components of culture and cultural practices, with aspects such as beliefs and values being a less observable element of culture.

By clarifying the common use of the culture concept within dimensional studies, the separation of behavioral finance and cultural finance becomes clearer. Behavioral finance relates to individualistic thoughts and actions with common characteristics generally assumed being the same world-wide. Such characteristics do, however, differ between cultures (groups or societies) and are thus not universal in nature. Such cultural characteristics are learned, not innate, and are derived from one's social environment (Hofstede et al. 2010), which in turn may be influenced by its geographical environment. As Shiller (2001) points out, such differences may be attributed to the memory process of human thought related to patterns of communication within certain groups, often related to information regarding the local environment such as potential hazards and who is and isn't to be trusted. Shiller (2001) provides an economic example of such information variance, stating the striking savings rates differ across countries.

Cultural finance can thus be seen as bridging the gap between individual behavior and universal innate tendencies in relation to how people actually handle money. Figure 1 shows how these concepts are tied together.

Figure 1. Three Levels of Uniqueness in Mental Programming in Relation to Cultural Finance



Source: Hofstede et al. 2010, addition by Mixa 2013

Hofstede's dimensions in comparing different cultural differences are grouped into 5 categories. Those categories are the following indices:

1. Power Distance (PDI) - It is defined as being the extent to which members with less power within institutions and organizations expect and accept an unequal distribution of power.
2. Individualism versus Collectivism (IDV) - Refers to societies where ties between individuals are loose as opposed to other ones where people place a more emphasis on strong, cohesive in-groups.

3. Masculinity versus Femininity (MAS) - A dimension relating to gender roles; masculine societies have e.g. clearly distinct gender roles where males generally are supposed to be assertive.
4. Uncertainty – Avoidance (UAI) – Measures the level of members’ inclination to avoid or feel threatened by unknown situations and thus attempt to avoid them to a stronger degree than in comparison societies.
5. Long-term versus Short-term Orientation (LTO) – Is an indicator for the emphasis of future rewards, especially concerning actions of perseverance and thrift, not expecting immediate gratifications.

Now, we turn our attention to how Hofstede’s dimensional studies indicate Icelanders being similar to Nordic countries, which can fruitfully be linked to analysis within social sciences that identify Iceland’s culture as being similar to those countries and possibly also under influences from Anglo-Saxon countries. Then we show that by observing financial indicators a very different picture emerges that creates a paradox within the existing dimensional studies literature.

Icelandic Behavior from Dimensional Perspectives

Studies comparing Icelandic culture to other cultures within the field of economics and finance are scarce. Only a few studies relying on Hofstede’s research have recently been conducted in Iceland. Eyjolfsdottir and Smith (E&S) examined in 1997 the Icelandic pattern of business and management relating to Iceland’s culture. Their findings of Icelandic management culture suggest similarities to other Nordic countries. Relying mainly upon a questionnaire study they developed an analysis using Hofstede’s concepts, and their findings were that Icelandic

managers resemble their Nordic counterparts in general with low power distance, low uncertainty avoidance and holding feminine values. E&S's findings of individualism indicated, however, that Icelandic managers were more individualistic than their Nordic counterparts and actually similar to other nations where the highest scores in the world were recorded, such as the United States, the Netherlands, and the United Kingdom. Although the long-term dimension was not set up in conjunction with Hofstede's research (it had recently been added when that study was done and E&S thus probably were not aware of it during the writing of the paper), a great deal is spent on inferring such practices, drawing upon Trompears and Hampden-Turner's dimension of time and emphasis on short versus long term results. Their conclusion is that Icelandic managers concentrate on short term results, having a fisherman's mentality of dealing with an unstable environment.

H.P. Jonsson (HPJ) used the Hofstede questionnaire in 2004 to compare one company and one institution in Iceland to other comparable ones in the Nordic countries. HPJ's general results were that Icelanders are culturally similar to Nordic countries. There is though more power distance, slightly more individualism, masculinity in the higher range, with Iceland with the highest uncertainty avoidance and long-term orientation of the Nordic countries (LTO was not measured for Denmark and Finland).

The similar results of these studies become even more descriptive when using Geert Hofstede's own estimates (long-term orientation not included) when interviewed by Vlad Vaiman (VV) in 2009 (Vaiman, Davidsson & Sigurjonsson 2010⁴⁹), which showed characteristics similar to Nordic countries.⁵⁰ Hofstede's estimates and the results of the three studies have the following results, seen in Table 1, regarding Iceland's cultural dimensions compared to Nordic countries

⁴⁹ The estimate was 25-30 for PDI; we use an average of 27.5.

⁵⁰ Nordic countries were in the paper defined as being Scandinavian.

drawn together, defined here according to the year of study, and categorized by Higher, Similar and Lower ranges.

A comparison study was (2011) conducted by Adalsteinsson, Gudmundsdottir and Gudlaugsson (AGG) at the University of Iceland. A questionnaire was distributed among students within the university and the results compared to those from a comparable study done by Beardon et al. at universities⁵¹ in Argentina, Austria, Japan and the United States. Despite the limitations regarding the number of countries, the researchers inferred from the results derived from the other countries by locating Iceland within dimensions gathered from previous studies. According to those results, Icelandic culture entails a low power distance, high feminine values⁵² and average long-term orientation. It is still of interest that this is the only study where masculinity is higher than in the Nordic countries and power distance is also higher, a feature that the other studies with one exception did not detect.

Uncertainty avoidance is relatively high within the Icelandic culture. Since the study was done literally in the aftermath of the financial crisis, the researchers believe it may have influenced attitudes within the culture towards risk temporarily (it can be confidently stated that Icelanders viewed risk differently during the euphoric period prior to the crash).

When compared to findings of dimensional studies of the Nordic nations, it becomes apparent in the study that Iceland scores somewhat higher in all of the dimensions, i.e. its culture has more power distance, is more masculine, and both long-term orientation and uncertainty avoidance are slightly higher.

⁵¹ Hofstede compared IBM employees over the world. It could be argued that this type of study provides views of university students as opposed to the population, especially the since certain types of people may have enrolled in universities in Iceland following the crash.

⁵² About 72% of respondents were females, which may have an effect of creating feminine values.

Table 1. Dimensional Comparisons between Iceland and Nordic Nations

| | PDI | IDV | MAS | UAI | LTO |
|----------|-----|-----|-----|-----|-----|
| 1996 E&S | == | ↑ | == | == | ↓ |
| 2004 HPJ | ↑ | ↑ | == | ↑ | ↑ |
| 2009 VV | == | == | == | ↑ | × |
| 2011 AGG | ↑ | ↑ | ↑ | ↑ | ↑ |

↑ = Higher score for Iceland compared to average Nordic scores

↓ = Lower score for Iceland compared to average Nordic scores

== = Similar score for Iceland compared to average Nordic scores

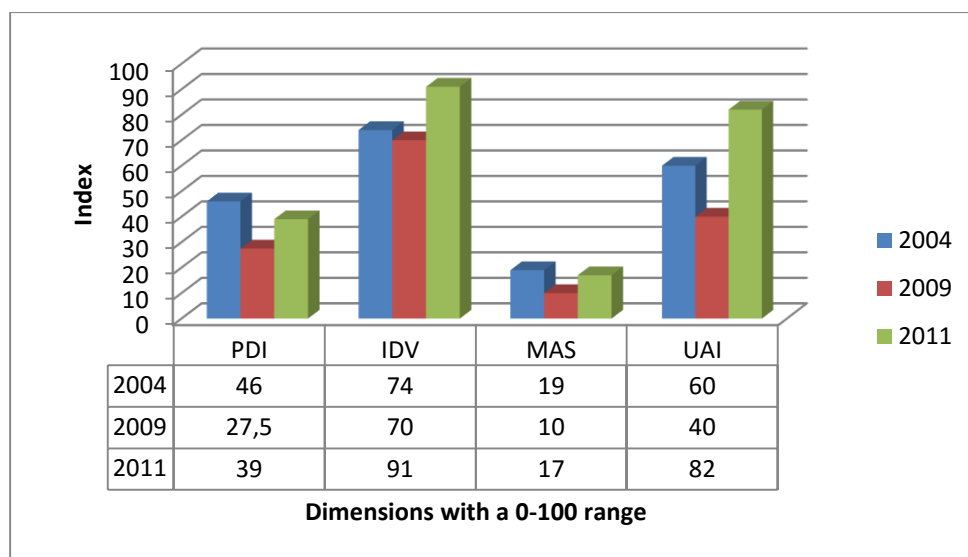
× = No score recorded

Sources: Eyjolfsson & Smith 1997, Jonsson 2004, Vaiman, Davidsson & Sigurjonsson 2010, Adalsteinsson, Gudmundsdottir & Gudlaugsson 2011

Table 1 shows the comparative results of the studies, two conducted prior to the crisis and two following it. It is interesting that little correlation exists between studies depending on whether they were conducted before or after the crisis.

Iceland's results are similar to general results among the Nordic nations, while Iceland tends to score either similar or higher in all cases. This in a sense solidifies the perception that Icelanders are similar to Nordic countries in cultural aspects, but yet not in absolute terms. One can thus conclude from these results that the common perception of Icelandic culture being similar to Nordic ones is not incorrect, but at the same time that Icelandic culture exhibits patterns of dissimilarity. The scores of the three Dimensional scores in the studies⁵³ can be seen in Figure 2.

Figure 2. Scores of Icelandic Culture within Dimensional Studies



⁵³ Eyjolfsson and Smith did not include any specific scores and are thus not included in Figure 2.

Sources: Jonsson 2004, Vaiman, Davidsson & Sigurjonsson 2010, Adalsteinsson, Gudmundsdottir & Gudlaugsson 2011

It is interesting though that Hofstede's own estimates, while being similar to the comparison studies, are also more in line with the Nordic countries, with estimates in all instances somewhat lower than the scores that the Icelandic 2004 and 2011 studies indicate. This generalization seems to accord with a perception of American influences with more individualistic values.

Individualistic Trends and Traditional Culture

Here we show that individualistic trends drawn from Hofstede's methods provide valuable clues regarding Iceland's culture. Judging from the results of the most recent and extensive study using Hofstede's methods, Iceland scores not only high on the individualistic dimension but the highest one historically since dimensional studies began in 1980 excluding the United States (Adalsteinsson, Gudmundsdottir & Gudlaugsson 2011). We use this finding as a stepping stone in further analyzing possible connections between typical elements of individualistic behavior within cultures using Hofstede's methods and financial indicators. Hofstede (2010) points out that increasing individualism since the 1990s has been one of the forces leading to deregulation, further stating that certain public monopolies have in some cases been replaced for ideological reasons rather than pragmatic ones. This trend Hofstede relates to is generally defined as Neo-liberalism. In defining Neo-liberalism, Steger and Roy (2010) state that the ideology celebrates individual empowerment and that central state power should be cut into smaller units with political governance at the same time being minimized.

The results using dimensional studies rhyme with the conclusion Olafsson came to in 2003 that Icelanders share many social, political and cultural aspects of the Nordic (Olafsson defines them as being Scandinavian) countries while at the same time showing a significant degree of

American characteristics. Olafsson maintains that the thesis put forth by American sociologist, Richard F. Tomasson is useful in this regard; that is, that Iceland could be defined as a new nation (more precisely the first new nation) showing typical characteristics such nations exemplify, such as a strong sense of individualism and independence, strong focus on equality but yet being tax averse and resenting central authority. Such characteristics resemble what generally fits ideas of American cultural values. Olafsson further compares the welfare regimes between Iceland, the Nordic nations and America, concluding that the development of Iceland's welfare state could never be as large in Iceland as in other Nordic nations. This description fits well with the general description Olafsson (2011) at a later date proposed as being the main characteristics of Icelanders, having a strong sense of individualism and independence and resenting central authority.

We propose in this paper that Neo-liberalistic ideological forces sweeping most of the globe during the period from the 1980s onwards, gaining full steam following the fall of the Berlin Wall, had dissimilar effects on nations depending on their perceptions of individualism.⁵⁴ Although the authors are not aware of studies having shown a conclusive correlation between high individualistic scores among nations and Neo-liberalistic ideologies, does exist, Hofstede et al. (2010) suggest that there is a connection and we provide further indications of such a connection in this paper.

Economic and Financial Comparisons

Hofstede's research has shown parallels between certain cultural traits and financial behavior (Hofstede 2010), indicating that Nordic countries should have similar scores in that area. A high

⁵⁴ The development of capitalism within has been different in various parts of the world, within for example different political landscapes.

level of Individualism is for example most common in countries that are wealthy but Gross Domestic Product (GDP) growth in countries with such cultural traits normally lags, in contrast with a common assumption that individualism creates high economic growth. Another example is how thrifty countries are - a cultural trait related to long-term orientation. Thrift, often associated with the percentage of savings compared to income (commonly referred to as the Savings ratio), has been associated with high long-term growth (Hofstede 2010).⁵⁵

It can be argued that one of the drawbacks of Hofstede's methods is that they are built upon surveys (Jones 2007) and thus mirror people's perception of disparity between themselves and others opposed to their true comparative actions in daily life. Opposed to surveys that provide clues about people's perception of themselves and their actions, finance may provide insights into how people act in reality, since financial indicators (often) show in a more concrete manner how people behave in practice. Here we use financial data to determine differing behaviors between cultures. This is accomplished through a comparison of behavior interpreted through the lens of financial data from a standpoint between various nations. Such data, mostly macro, has historically been used to determine various financial developments, mostly in regard to financial shocks and the explanatory use of financial statistics in determining the causes and consequences of financial crises.

Financial comparison studies for Iceland and other Nordic countries are scarce. A few studies compared the Scandinavian countries' macro financial numbers precluding the banking crisis in the early 1990s, with Jonung (2008) pointing out similar characteristics among the countries; Honkapohja (2009) demonstrated how changes to the tax system added incentives for households and corporations to increase their loans; Englund (1999) provided arguments that

⁵⁵ This should not be surprising. Companies that have a higher re-investment rate of their profits usually have higher growth rates depending on their return on equity.

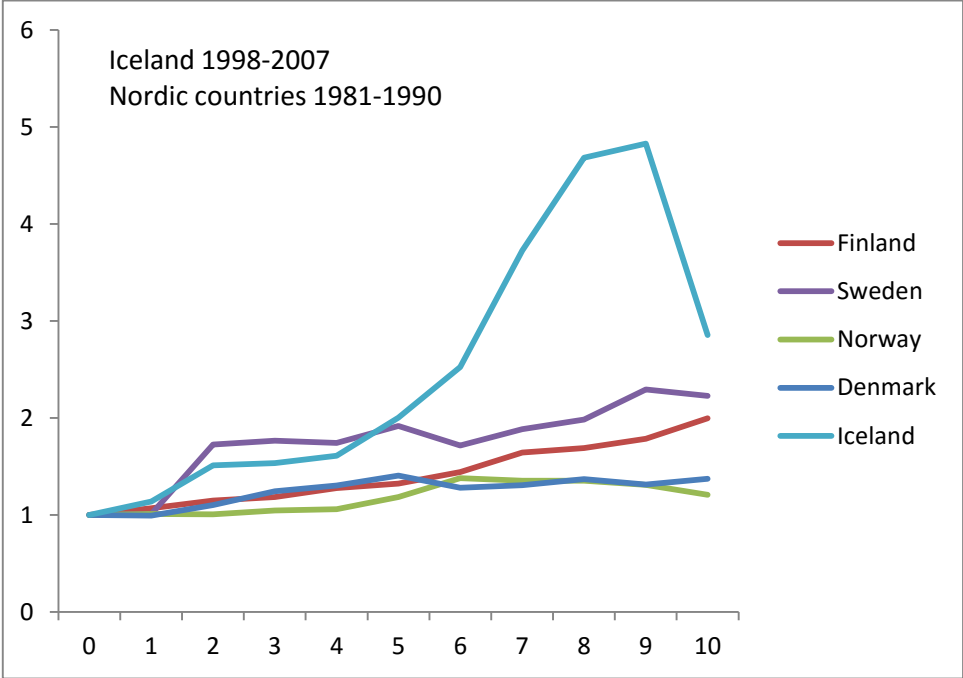
posited that the deregulation process was not necessary as the driving force in setting in motion increased lending among banks to unsustainable levels, but it certainly opened doors to such actions. Berg (1998) showed that deregulation meant that a certain monopoly among banks was removed, forcing more competition among banks resulting in loans being handed out without enough experience among bankers and the regulatory system to measure appropriate risk.

Sigurjonsson and Mixa (2011) compared financial figures of Sweden, Norway, Finland and Denmark during preludes of major financial crises from 1982 to 1991 with the financial figures in Iceland 17 years later or between the years 1999 to 2008. They concluded that Iceland imitated all of the main features of the other nations listed above, but simply to a greater extent. This is, for example, vividly demonstrated by comparing the cumulative lending growth⁵⁶ of Icelandic banks⁵⁷ to Nordic banks during the comparison periods as seen in Figure 3.

⁵⁶ This is based upon the size of the balance sheets of banks; Icelandic banks differed in a fundamental way that much of the lending was in reality to finance speculative purchases, even of their own stock, while such practices were much more weighted towards Real Estate in the Nordic countries.

⁵⁷ Banks lent incredible amounts to their own owners to a degree that these numbers are skewed from the reality of the public in general. Lending to households never-the-less increased during the same period almost eightfold in nominal terms and more than fivefold in real terms during the same period.

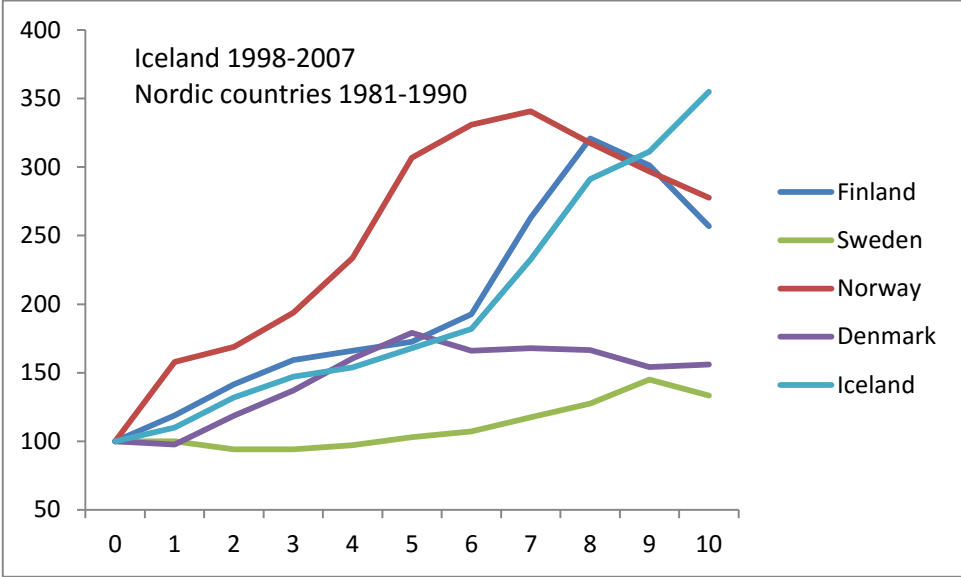
Figure 3. Cumulative Lending Growth Comparisons with 1 as a base at period 0 – Domestic Credit Provided by Banking Sector % of GDP – Iceland vs. Nordic Countries



Source: World Bank via Datamarket (2013)

Despite the lending being mostly weighted towards real estate in the Nordic countries and less so in Iceland, the effects of the “printing of money” and easy access to it were considerably more significant in Iceland as Figure 4 demonstrates.

Figure 4. Real Estate Price Comparison with Index Starting at 100 – Iceland vs. Nordic Countries.



Source: Berg (1998) and Registers of Iceland (2012)

The authors compare the same countries but in a synchronized time frame from 1999, the year the Glass-Steagall Act was abolished, which meant that the separation between commercial and investment banking that had been in place for 66 years (set up following the Great Depression) and thus changing the international banking landscape towards investment banking and setting in motion added risk appetite (Mixa & Sigurjonsson 2013). This added risk appetite remained rather constant until a decade later when the banking industry collapsed. The difference between countries is similarly striking.

Stock Market Indicators

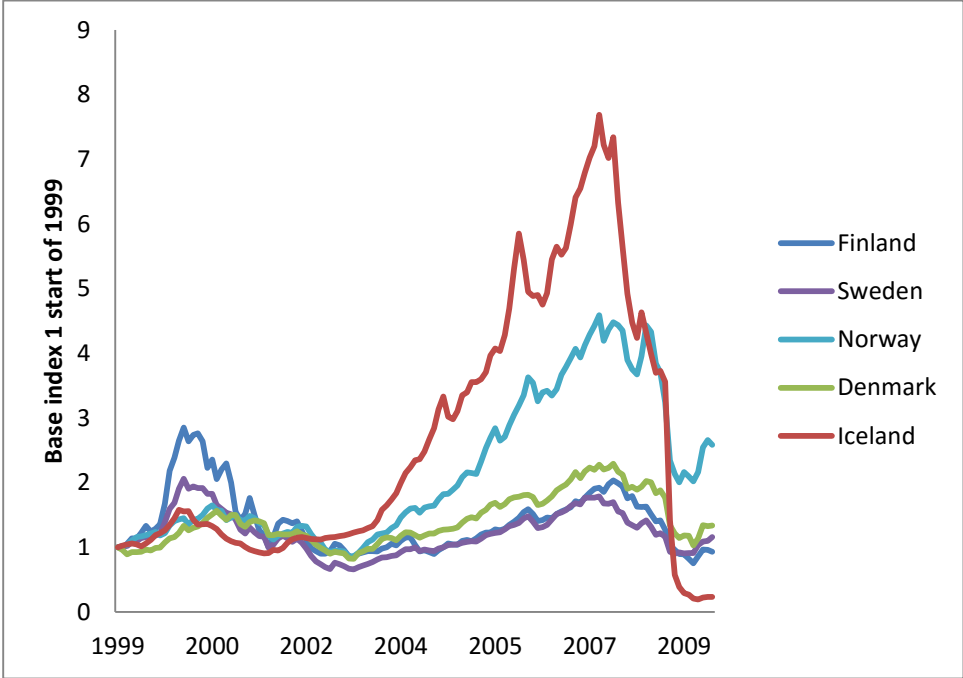
Among the most common indicators of optimism in society is measured with stock market indices. It may appear to be simplistic to estimate when stock markets have reached extreme level of optimism or pessimism by simply gleaning insights from a few commonly known ratios

and financial indicators. This is, however, much easier said than done, even for the most experienced investor sages. Stocks may be by most indicators under- or overvalued for long periods and suddenly move towards their true intrinsic value for no obvious reason (Graham 1973), the signal of a price “correction” often being that the most ardent non-believers of then current market valuations finally caving in to “the market” (Kindleberger 1996).

Common indicators within society of too much optimism is increased risk appetite, added leverage (Galbraith 1997), an expansion in media reporting business news (Shiller 2001) and stock market speculation becoming central to the culture (Galbraith 1997), where the perception is that “we” are better, smarter and have learned from past mistakes (Reinhart & Rogoff 2009). Few Icelandic bankers took note of the enormous risk associated with the holding company Exista that invested in very few listed companies but yet had an equity ratio constantly below 50% (Mixa 2015a, Mixa 2015b).

The growth of the Icelandic stock market and multiplication of real estate value during the period starting 2002 until the crash was historically unheard of. Stocks multiplied in value more than sevenfold (OMX 2012) while real estate prices increased threefold (Registers Iceland 2012). Stocks rose the same or more each year in Iceland over the years 2003 (54%), 2004 (57%) and 2005 (60%) (OMX 2012) than the best year of US stocks during the 20th century which was in 1933 (54%), but then only after the Dow Jones stock index had fallen almost 90% the prior 3 years (Fridson 1998). Even compared to the rise of other stock markets in the international arena, Iceland clearly stood out as seen in Figure 5 that compares the rise of stock markets in Iceland compared to Nordic stock indices.

Figure 5. Stock Indices in Nordic Countries with the base set at 1 at the beginning of 1999 – Iceland vs. Nordic Countries.



Source: Eurostat via Datamarket (2012)

As can be seen in Figure 5, Nordic stock markets had a favorable run from 2003 until the fall of 2008. Since the phenomenal rise in Iceland and Norway, the rise is somewhat concealed in Figure 5 for Denmark, Sweden and Finland where stock indices approximately doubled in value because the rise was much more extreme in Norway and Iceland. Denmark, Sweden and Finland all enjoyed healthy economic growth during those years. Its stock indices fell considerably following the bust in 2008 but still at or slightly above their 2003 levels. Norway received a major boost from higher oil prices, making its oil production yield far more profits. Although its stock market crashed in 2008, its stock index still remained about twice its average worth in 2003.

It can happen that stock markets rise in value due to interest rates falling due to the inverse relationship between stock prices and interest rates.⁵⁸ Iceland's stock market, however, multiplied almost eightfold during this period despite interest rates remaining high; the major drivers being increased market valuation in banking stocks (as opposed to some risky tech stocks rising in value). Such a rise is almost unheard of world-wide in the annals of stock market history.

Although the boom occurred on an international level, Iceland seemed to be more inclined in its participation, whilst Nordic financial companies became increasingly hesitant in lending Icelandic banks money. Some Danish banks decided not to lend Icelandic banks money⁵⁹ after a report by a Danish analyst at Danske Bank (Valgreen, 2006) was published, which compared Iceland to Thailand's situation shortly before its 1997 financial meltdown. The assumption that Nordic financial institutions had simply learned from their early 1990s banking crisis is a weak argument since the Icelandic government had to inject a similar percentage of the country's GDP into the banking system during the same period (Gylfason, 2011).

Whatever reasons for this divergence between Iceland and the Nordic countries (that were still by no means pessimistic on whole), the difference in the euphoria in the stock market is staggering and does not harmonize with the results of the general and dimensional studies comparing Iceland to Nordic nations.

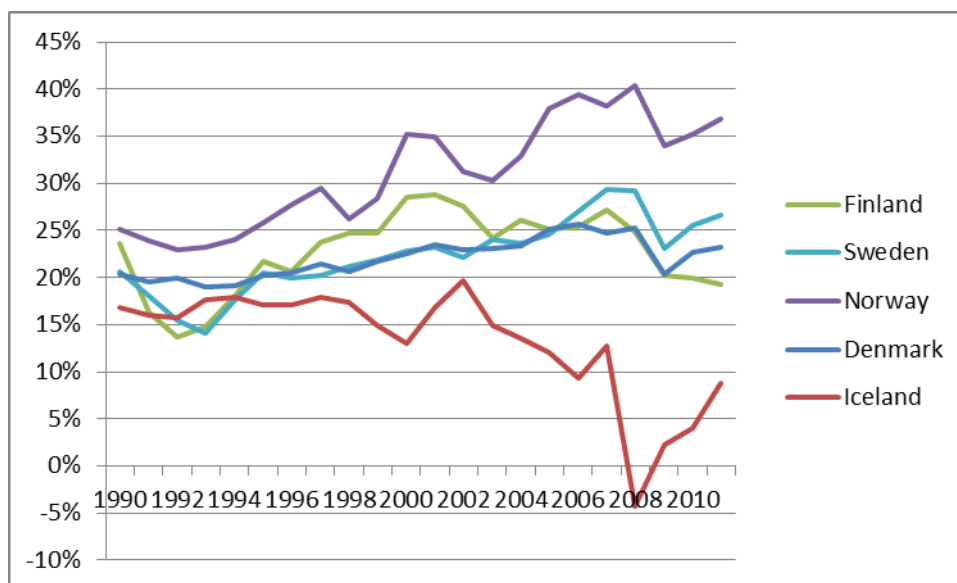
⁵⁸ A famous historical example was in the US in 1965 until 1981 when stock prices remained unchanged despite profits increasing during the period threefold. Interest rates had, however, risen proportionately the same and thus cancelled out the increase in profits.

⁵⁹ There is no public available source about this information to the best of my knowledge, but this information was known within a small circle at Icebank, which was the main source of foreign financing for the Icelandic savings banks, where I worked at the interbank desk in 2008.

Savings Ratio

The savings ratio is an indicator of how thrifty nations are; the savings ratio measures the percentage of income that is set aside for the future as opposed to spending all income for more immediate gratification. The ratio is measured by comparing the gross national savings to the percentage of GDP⁶⁰. In other words, if a nation produces goods and services valued at 100 krona per year and consume only 90 krona of it, the remaining 10 krona are saved for the future and comprise 10% of the GDP⁶¹. Figure 6 compares the ratio between Nordic nations from 1990 until 2010.

Figure 6 Savings ratio in Nordic countries 1990-2012



⁶⁰ The International Monetary Fund (IMF) (2012) defines it more precisely as being in a current local currency, defining gross national saving as gross disposable income less final consumption expenditure after taking account of an adjustment for pension funds. Note that the gross savings ratio does not take into account an estimated consumption of fixed capital, which is similar to not taking depreciation into account when estimating true net income of a firm.

⁶¹ Being compromised from two variables, i.e., both GDP and the amount of savings, the ratio may change due to GDP fluctuation even if the level of savings (in real terms) remains unchanged. The fluctuation of GDP has in recent decades, however, been much less than it used to be (Bookstaber 2007) and can be considered to be a fairly stable variable for the purposes of this paper. The amount of savings has, however, varied a great deal more.

Source: IMF (2013)

This graph shows that Norway has during this period saved between 20-40% of its GDP during most of the comparison period, increasing to 30-40% during the 2000s. This high figure is distorted though by the fact that its direct proceeds from oil profits are set into a specific investment fund and with the rise in oil prices the figure has been very high during the most recent decade. The other Scandinavian countries show similar savings ratios, most hovering during the period in the region of the mid-20s percentile, although all decreased significantly towards the low-20s percentile when the financial crisis occurred in 2008. It is interesting that all of the countries bar Norway have a ratio below 20% during the early 1990s when the banking crisis hit those countries hardest; Norway's business cycle peaked a few years before the banking crisis hit the country (Steigum 2009), meaning that its higher savings ratio during that specific period may be explained merely due to a different timing of the public's perception of financial conditions.

The Nordic countries began, however, to increase their savings ratio again up to or above 20% following the unwinding of the banking crisis with the exception of Iceland, which shows by far the least inclination of saving money.⁶² During the boom years the percentage never went higher than 20% and became negative following the bust. Although it has reached positive levels again, it is still very low compared to its Nordic counterparts.

Iceland actually looks in this sense much more alike other nations that have been frequent in the financial press in recent years, mostly for all the wrong reasons. As seen in Figure 7,

⁶² The years 2008 and 2009 are abnormal for reasons that have not been fully investigated. Since so much money was lost during those years, the savings ratio is probably unreliable during those years.

Iceland's propensity to save is more similar to countries in southern Europe and the United States.

Figure 7. Savings ratio in Iceland, USA & Southern Countries 1990-2012



Source: IMF (2013)

With the exception of USA, the Icelandic culture has little in common with the comparison nations in Figure 7 according to dimensionalist comparison studies. Yet behavior that is commonly considered being highly correlated to culture indicates weak similarities between Iceland and Nordic countries.

What is the cause of this divergence? We propose that a sudden change of values, a paradigm shift in worldviews, has occurred in Iceland to a much larger degree than in other Nordic nations, one that may or may not be permanent. That shift relates to a great extent to Iceland's more Americanized culture and high individualistic scores that we propose are related to Neo-liberal values.

How Results Harmonize

Sir John Templeton once said that the four most expensive words in the English language are “This Time Is Different” (Reinhart & Rogoff 2009). They certainly applied to Iceland during the build-up of the bubble. Usually though, a referral is being made of the past. What made Iceland special in a way was that it had no real past history of commercial banking outside of a politically controlled environment and absolutely no tradition of investment banking. It could thus be concluded that Icelanders did not precisely think that ‘this time it was different,’ since they had no internal point of reference but rather that they were smarter and better than other nations as described by Reinhart and Rogoff (2009). How could that happen?

One of Hofstede’s assumptions in his cultural comparisons is that despite cultures gradually changing, they usually do so only during a long period of time (Hofstede et al. 2010). The period since the early 1990s may, however, be an exception to such an assumption, especially relating to neo-liberal influences. Hofstede himself asserts that the Neo-liberal influences show the power of cultural values (ibid).

To provide an answer to how that transformed Icelandic society on a certain dimensional level, while other dimensions did not necessary change, it is worthwhile taking a quick look Iceland’s banking history in relation to its society and how it quickly transformed, changing not only the financial landscape alone but in tandem with the societal structure.

Illusion of Harmony & Stability within a Utopian Economy

As the rise in stock market prices indicates (as seen in Figure 5), there was a perceived sense of phenomenal success due to the massive growth in the banking and financial sector. Despite having banking roots that were very localized, regulated in a similar manner as Nordic banks

but with a virtually no international history, Icelandic bankers (at least the ones generally deemed successful during the boom years) were described positively in the media (Loftsdottir 2010, Askelsdottir 2009). The public believed this, despite the fact that modernized banking in Iceland was in reality only a few years old. This happened despite the banks being filled with inexperienced bankers but with a higher inclination due to a comparatively higher power distance and masculinity than in the Nordic countries (according to the last and most comprehensive dimensional study) to follow their bosses' lead and also viewing money and material things being more important than issues such as social welfare.

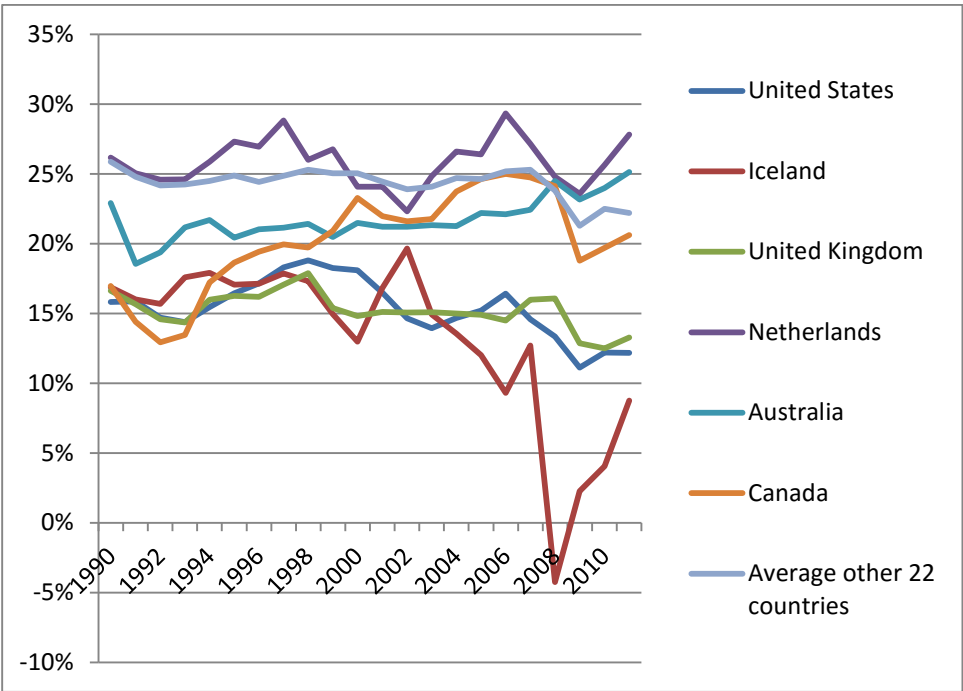
How could a nation “buy” such illusions and why were they being sold? How could such misguided trust build up? Galbraith (1997, p.170) points out that when people are cautious, questioning, and suspicious or mean, they are immune to speculative enthusiasms. Until then, it is as if the crowd lets its guard down and the potential of speculative mania begins brewing. Iceland, having been subjected to strict regulation for so many years, may be compared to its farmers' cows that are being freed in the open during spring after being locked inside during the winter time, full of life but not necessary handling the freedom very well. This involved embracing the free-market mantra that they entailed harmony and stability, something Cassidy (2009) argues was built on an illusion. Neo-liberalism was initially built upon the concept of freedom, that governments were in no position deciding what was best for their citizens; this changed little by little by putting the efficiency of the market in the driver's seat (Davies & McGoey 2012). The privatization of the banks was justified with good reason that it increased efficiency, but an underlying concept surely was that it signified some sort of declaration of (nationalistic) freedom. For a while, this strategy appeared to be successful.

As often, added success demanded more success. That can be done via leverage, which in itself is the opposite of saving for the future. Mixa (2009) points out that one of the typical anatomies

Shiller (2001) suggests being among the precipitating factors of a financial bubble⁶³, one that Iceland and the United States had in common during the recent financial bubble build-up, is the expansion of defined contribution pension plans. Danielsson (2012) concludes that the increase of such plans in Iceland may have contributed to Icelanders' lesser needs in setting aside money for the future, but in a contradictory way people seem to save even less on the whole (or put another way, spend more than they set aside in savings) than before. This may explain why dimensional indicators diverge from financial ones in explaining the behavior of savings and risk appetite among nations. Duménil and Lévy (2011) contend that where Neo-liberal influences are rampant, more leverage is prevalent with the savings ratio falling ever more. By looking at savings ratios of nations with the highest individualistic scores from Hofstede's dimensional studies, it becomes apparent that such nations do have in common very low savings ratios that tend to have decreased further concomitantly as Neo-liberal influences have grown (there is no known study of such influences, but are assumed having had grown, e.g. via increased inequality in income). This trend can be seen below in Figure 8.

⁶³ Shiller is in his discussion mainly considers what today is commonly known as the dot.com bubble.

Figure 8. Savings ratio in highest scoring individualistic countries 1990-2012



Source: IMF (2013)

While Iceland remains the worst culprit, it is interesting that the USA & UK, nations represented by the major two faces of Neo-liberalism, Margret Thatcher and Ronald Reagan, have a much lower savings ratio than nations number 3, 4 and 5 in Hofstede’s individual/collective dimensional index. Actually, by looking at the major 35 nations the International Monetary Fund (IMF) defined as major economic nations,⁶⁴ only a few score lower on the savings ratio scale, all from the same region around the current troubled zones of Greece and Spain with the addition of Ireland (a country often spoken of in the same breath as Iceland regarding current financial matters). It is also worth noting that nations having the

⁶⁴ 35 countries are defined but only 28 have sufficient financial data for Savings ratio analyses.

highest score on the Uncertainty dimension, Greece and Portugal, had among the lowest savings ratios.

It is also interesting that Canada, a nation that compared to other Western nations, fared relatively well during the financial crisis that started in 2008, has diverged from the savings ratios experienced amongst the “worst” culprits towards more sustainable levels. It actually hovers close to the average of countries⁶⁵ defined as being advanced economies within the International Monetary Fund with sufficient data for the time period investigated.

This clearly shows a strong correlation between cultures having less inclination to save where individualism is extremely highly prevalent within society.

If this relationship of individualism and Neo-liberalism is a universal⁶⁶ phenomenon, then it may explain why Iceland’s value system has swayed more in line with what it is the USA, meaning that dimensional studies are in this case off the mark, at least temporarily, yet providing clues to why Icelanders were willing to take added risks during the rise of Neo-liberal influences. As has been documented, more risk entails higher bonuses for bankers, meaning that while the going was good (Sigurjonsson & Mixa 2011), the measurement of Individualism versus Collectivism were useless within certain stratifications of the Icelandic society.

Summary

Sectorial features (bankers and their risky behavior) were in Iceland (and generally world-wide) more or less in line with pre-dominant cultural values in conjunction with Neo-liberalism, which we show in this paper has links and even re-enforcing effects on increased individualism.

⁶⁵ 22 countries were used in finding the average.

⁶⁶ This may appear to be a contradictory way of defining Universal, since cultural finance views behavior of groups having the possibility to differ towards financial issues while behavioral finance concentrates on individualistic actions within a sphere where actions are universal.

Although the sense of individualism world-wide is difficult to measure since it is relative between nations rather than an absolute number, financial indicators such as the savings ratio appears to provide clues of cultural behavior on both a relative scale between nations and absolute scale regarding general cultural trends for certain areas and maybe even on an universal scale. With elements such as increased flow of communication (cheaper phone rates and the Internet) and the fall of the Berlin Wall implying a victory of Capitalism over Communism, the western world was ripe for a sudden transformation often associated with financial bubbles (Shiller 2001, Mixa 2009). Icelanders, having lived so isolated for many years due to its geographical location, was certainly riper than most other nations to such international trends and very likely changed thus much more rapidly than assumed in Hofstede's work (2010).

This change, although unusually sudden, is not an anomaly. History shows that the definition of culture has often been intertwined with economic developments, such as Adam Smith noted when writing *The Wealth of Nations*, not merely describing economic concepts but more in a sense the cultural developments he was witnessing within a society quickly transforming into a market economy on the brink of the industrial revolution (Beugelsdijk & Maseland 2011). Icelandic society, including its banking culture, transformed in a few years from being almost purely domestically focused to becoming highly international oriented (Loftsdóttir & Mixa 2014).

Icelanders began defining themselves accordingly, being better and daring than most other nations (Grimsson 2006, Vidskiptarad 2006), in a similar manner as Johnson and Kwak (2011) contend that many Americans define themselves in relation to their general ideas of their culture consisting of capitalism in a country where freedom and individualism is so cherished, and are thus generally unwilling to criticize their financial system, despite its 2008 collapse. The associated exuberance leading up to the fall of 2008 turned during the crash into a renewed

scare of being isolated (Loftsdottir 2013) with a high level of uncertainty avoidance, as the Icelandic 2011 dimensional study indicated.

In our analysis we have used Hofstede's dimensional method, pointing out its weaknesses but more importantly how it can be advanced further by more contextualization within a social and historical insight. This was done by combining financial data with insights from social sciences, a common way within cultural finance, which can provide new ways of thinking and predicting financial behavior of societies. Our analysis furthermore demonstrates how important it is to distinguish between people's actual behavior – not simply how they perceive their own behavior.

Culture by itself certainly does not, however, explain why such a large part of the population went along.⁶⁷ The effects of the relationship between the general culture and sectorial features within it, especially in relation to finance, need further studies to show potential links of the interplay of culture and financial issues. Such studies must take into account other factors such as people's necessity to prove some sort of point of superiority or conceal some sort of minority complex (Loftsdottir 2009), a long history of political and economic isolation (Sigurjonsson, Schwartzkopf & Arnardottir 2010) and institutional weaknesses (Landsdomur 2012).

⁶⁷ Dimensional studies usually rely on average scores.

References

- [1] Adalsteinsson, G.D., Gudmundsdottir, S. & Gudlaugsson, T.O. (2011). “Íslensk thjóðmenning i ljosi menningarvidda Hofstede” [Icelandic Cultural Nationality within Hofstede’s Culture Dimensions], *Icelandic Review of Politics and Administration*, 7(2), 353-368. Retrieved from <http://skemman.is/handle/1946/10399>
- [2] Ailon, G. (2008). Mirror, mirror on the wall: Culture's consequences in a value test of its own design. *The Academy of Management Review*, 33 (4): 885-904.
- [3] Askelsdóttir A.G. (2009). Áhrif eigenda á íslenska fjölmiðla. MA-thesis, University of Iceland. Retrieved from <http://skemman.is/handle/1946/6145>
- [4] Berg, S. (1998). “Bank failures in Scandinavia”, in J. E. Hughes & S. B. MacDonald (eds.), *International banking: Text and cases*, (pp. 198-207). Hong Kong: Pearson Education Asia Limited and Tsinghua University Press.
- [5] Beugelsdijk, S. & Maseland R. (2011). *Culture in economics: History, methodological reflections, and contemporary applications*. Cambridge: University Press
- [6] Bookstaber, R. (2007). *A demon of our own design: Markets, hedge funds, and the perils of financial innovation*. Hoboken: John Wiley & Sons.
- [7] Breuer, W. & Quinten, B. (2009). Cultural finance. Working paper series. Retrieved from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1282068
- [8] Cassidy, J. (2009). *How markets fail: The logic of economic calamities*. New York: Farrar, Straus and Giroux
- [9] Danielsson, A. (2012). Mandatory pension savings, private savings, homeownership, and financial stability. *Working paper Central Bank of Iceland* no. 58.

- [10] Duménil, G. & Lévy, D. (2011). *The crisis of neoliberalism*. Cambridge: Harvard University Press
- [11] Englund, P. (1999). The Swedish banking crisis: Roots and consequences. *Oxford Review of Economic Policy*, 15(3), 80-97.
- [12] Eurostat via Datamarket. (2012).
<http://datamarket.com/data/set/190r/#ds=190r!ncy=3:ncz=m.a.7.t.5>
- [13] Eyjolfsson, H.M. & Smith, P.B. (1997). Icelandic business and management culture. *Int. Studies of Mgt. & Org.*, 26(3), 61-72.
- [14] Fridson, M.S. (1998). *It was a very good year: Extraordinary moments in stock market history*. New York: John Wiley & Sons.
- [15] Galbraith, J.K. (1997). *The Great Crash*. New York: Mariner Books.
- [16] Graham, B. (1973). *The Intelligent Investor: A book of practical counsel*. New York: HarperCollins Publishers.
- [17] Grimsson, O.R. (2006). *Útrásin: Uppruni – einkenni – framtíðarsýn*. Lecture at the History Society January 10th 2006. Retrieved from <http://forseti.is/media/files/06.01.10.Sagnfrfel.pdf>
- [18] Gylfason, T. (2011). “Events in Iceland: Skating on thin ice” in Aliber R.Z. & Zoega, G. (eds.), *Preludes to the Icelandic financial crisis*, (pp. 290-295). London: Palgrave Macmillan.
- [19] Halldorsson, O. G. & Zoega, G. (2010) *Iceland’s Financial Crisis in an International Perspective*.

http://www.hi.is/files/skjol/felagsvisindasvid/deildir/hagfraedi/2010/GZ_OGH_iceland-paper-10october2010x.pdf

- [20] Hoffman, R.C. & Hegarty, W.H. (1993). Top management influence on innovations: Effects of executive characteristics and social culture. *Journal of Management* 1993, 19(3), (549-574). <http://jom.sagepub.com/cgi/content/abstract/19/3/549>
- [21] Hofstede, G.H., Hofstede J.H. & Minkov, M. (2010). *Cultures and organizations: Software of the mind: Intercultural cooperation and its importance for survival*. United States. McGraw-Hill.
- [22] Honkapohja, S. (2009). The 1990's financial crises in Nordic countries. *Bank of Finland Research Discussion Papers*, 5, 7-26.
- [23] IMF (International Monetary Fund). (2013). World Economic Outlook Database.
- [24] Johnson, S. & Kwak, J. (2011). *13 bankers: The Wall Street takeover and the next financial meltdown*. New York: Random House
- [25] Jones, M.L. (2007). *Hofstede – Culturally questionable?* University of Wollongong. <http://ro.uow.edu.au/cgi/viewcontent.cgi?article=1389&context=commpapers>
- [26] Jonung, L. (2008). Lessons from financial liberalisation in Scandinavia. *Comparative Economic Studies*, 50, 564-598.
- [27] Jonsson, H.P. (2004). Menning skipulagsheilda: Tengslfyrirtækjameningar og Þjóðmenningar. Viðskipta og hagfræðideild. Reykjavík: Háskóli Íslands.
- [28] Kindleberger, C. P. (1996). *Manias, panics, and crashes: A history of financial crises*. New York: John Wiley & Sons.

- [29] Landsdomur (2012). <http://www.landsdomur.is/media/skyrslur/nr.-3-2011-Domur-a-vef.pdf>
- [30] Loftsdottir, K. (2009). Kjarnmesta fólkið í heimi: Þrástef íslenskrar þjóðernishyggju í gegnum lýðveldisbaráttu, útrás og kreppu. *Ritið*, 9(2-3), 113-140.
- [31] Loftsdottir, K. (2010). The loss of innocence: The Icelandic financial crisis and colonial past. *Anthropology Today*, 26(6), 9-13.
- [32] Loftsdottir, K. (2013). “The enemy outside and within: The crisis and the imagining the global in Iceland”, in Loftsdottir, K. & Jensen, L., *Crisis in the Nordic Nations and Beyond: At the intersection of environment, finance and multiculturalism*, (pp. 161-180). Surrey: Ashgate.
- [33] Loftsdóttir, K. & Mixa, M.W. (2014). Bankar í ljóma þjóðernishyggju: Efnahagshrunið, hnattvæðing og menning. Reykjavík: *Skírnir*.
- [34] Magnusson, P. *et al.* (2008). Breaking through the cultural clutter: A comparative assessment of multiple cultural and institutional frameworks. *International Marketing Review*, 25(2), 183-201.
- [35] McSweeney, Brendan. (2002). Hofstede’s model of national cultural differences and their consequences: A triumph of faith – a failure of analysis. *Human Relations*, 55(1), 89-118
- [36] Mixa, M.W. (2009). “Once in khaki suits - Socioeconomical Features of the Icelandic Collapse”, in Ingjaldur Hannibalsson (ed.), *Rannsóknir í Félagsvísindum X [Research in Social Sciences X]*, (pp. 435-447). Reykjavík: Félagsvísindastofnun Háskóla Ísland.

- [37] Mixa, M.W. (2011). Hrun, íbúðarhúsnæði og Facebook [Crash, private property and facebook]. http://www.ru.is/media/hr/skjol/Frettatiminn_03_tbl_2011_LR.pdf
- [38] Mixa, M.W. (2015a). A Day in the Life of an Icelandic Banker. *Gambling Debt – Iceland’s Rise and Fall in the Global Economy*. University Press of Colorado. Ed. Gisli Pálsson and Paul Durrenberger.
- [39] Mixa, M.W. (2015b). “A Nation of Money and Sheep”, in Holden, N., Michailova, S. & Tietze, S. (eds.), *Routledge Companion to Cross-Cultural Management*, (pp. 294-303), London: Routledge.
- [40] Mixa, M.W. & Sigurjonsson, T.O. (2013). “Lessons not Learned – Iceland’s Financial Crisis Compared to the Nordic Countries”, in Hawthorne, C.A. (ed.), *Financial Crises: Identification, Forecasting and Effects on Transition Economies*. New York, USA, Nova Science Publishers, Inc.
- [41] Newman, K.L. & Nollen, S.D. (1996). Culture and congruence: The fit between management practices and national culture. *Journal of International Business Studies*. Vol. 27, No. 4 (4th Qtr., 1996), pp. 753-779. <http://www.jstor.org/stable/pdfplus/155511>
- [42] Olafsson, S. (2003). The identity of Icelanders: Scandinavian or American? *Scandinavian Review*, 91(1). Retrieved from <https://borg.hi.is/IcelandID.pdf>
- [43] Olafsson, S. (2011). Level of living consequences of Iceland’s financial crisis: What do the social indicators tell us? Retrieved from <http://www.imf.org/external/np/seminars/eng/2011/isl/>
- [44] OMX Iceland: Database

- [45] Portes, R. & Baldursson F.M. (2007). *The Internationalization of Iceland's Financial Sector*. Reykjavik: Iceland Chamber of Commerce.
- [46] Rappoport, P. & White, E.N. (1994). Was the Crash of 1929 Expected? *The American Economic Review*, 84(1), 272–282.
- [47] Registers Iceland: Database: <http://www.skra.is/English>
- [48] Reinhart, C.M. and Rogoff, K.S. (2009). *This time is different. Eight Centuries of Financial Folly*. New Jersey: Princeton University Press.
- [49] Reuter, C.H.J. (2010). A survey of 'culture and finance'. Working paper series.
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1317324&rec=1&srcabs=1282068
- [50] Shiller, R.J. (2001). *Irrational exuberance*. New York: Broadway Books
- [51] Sigurjonsson, T.O., Scharzkopf, D. & Arnardottir, A.A. (2009). Viðbrögð tengslanets við gagnrýni á fjármálastöðugleika Íslands. Stjórnmal & stjórnsýsla.
<http://skemman.is/stream/get/1946/9660/24597/4/a.2011.7.1.9.pdf>
- [52] Sigurjonsson, T.O. and Mixa, M.W. (2011). Learning from the „Worst Behaved“. Iceland's Financial Crisis and Nordic Comparison. *Thunderbird International Business Review*, 53(2), 209-224.
- [53] Skaptadóttir, U.D. & Loftsdóttir K. (2009). “Cultivating culture? Images of Iceland, globalization and multicultural society”, in S. Jakobsson (ed.), *Images of the North*, (pp. 201-212). Reykjavík: ReykjavíkurAkademía.

- [54] Soares, A.M., Farhangmehr, M. & Shoham, A. (2007). Hofstede's dimensions of culture in international marketing studies. *Journal of Business Research* 60 277–284.
<http://www.sciencedirect.com/science/article/pii/S0148296306001974>
- [55] Special Investigation Commission (2010). Skýrsla rannsóknarnefndar Alþingis [Report of the Special Investigation Commission].<http://sic.althingi.is/>.
- [56] Statistics Denmark (2011). <http://www.statbank.dk/statbank5a/default.asp?w=1366>.
- [57] Statistics Finland (2011). http://www.stat.fi/til/kihi/yht_en.html.
- [58] Statistics Iceland (2013).
http://www.statice.is/?PageID=2932&src=/temp_en/Dialog/varval.asp?ma=VIS01002%26ti=Consumer+price+index+from+1939%26path=../Database/visitotur/neysluerd/%26lang=1%26units=Indices.
- [59] Statistics Norway (2011).
http://statbank.ssb.no/statistikkbanken/Default_FR.asp?PXSid=0&nvl=true&PLanguage=1&tilside=selecttable/hovedtabellHjem.asp&KortnavnWeb=bpi.
- [60] Statistics Sweden (2011).
http://statbank.ssb.no/statistikkbanken/Default_FR.asp?PXSid=0&nvl=true&PLanguage=1&tilside=selecttable/hovedtabellHjem.asp&KortnavnWeb=bpi
- [61] Steger, M.B. and Roy, R. (2007). *Neoliberalism: a very short introduction*. New York: Oxford University Press

- [62] Steigum, E. (2009). "The boom and bust cycle in Norway", in Jonung, L., Kiander, J. & Vartia, P. (eds.), *The great financial crisis in Finland and Sweden*, (pp. 202-244). Cheltenham: Edward Elgar Publishing.
- [63] Trompenaars, F. & Hampden-Turner, C. (1998). *Riding the waves of culture: Riding diversity in global business*. 2nd edition. United States. McGraw-Hill.
- [64] Vaiman, V., Sigurjonsson, T.O. & Davidsson, P.A. (2010). Weak business culture as an antecedent of economic crisis: the case of Iceland. *Journal of Business Ethics* 98, 259-272.
- [65] Valgreen, C. (2006). *Iceland: Geyser crisis*. Copenhagen: Danske Bank.
- [66] Vidskiptarad (2006). *Ísland 2015*. Retrieved from <http://www.vi.is/files/1612898009%C3%8Dsland%202015%20Vi%C3%B0skipta%C3%BEing%202006.pdf>
- [67] World Bank (citing: International Monetary Fund, International Financial Statistics and data files, and World Bank and OECD GDP estimates) via Datamarket. (2013). Retrieved from <http://datamarket.com/data/set/149b/#!display=line&ds=149b!gah=2i.2z.1z.1w.4e>

Paper 4: A Nation of Money & Sheep

Már Wolfgang Mixa, 2015

Routledge Companion to Cross-Cultural Management.

Routledge.

Introduction

I began working at the Savings Bank of Hafnarfjörður in 1998, in a small town carrying the same name as the bank at the outskirts of Reykjavík. It was the main financial institution of the town and deeply embedded in the town culture as such, but had recently established a securities division. My co-workers and I at the securities division had no interest in adapting to the old way of banking which was strong in this institution. This came to a symbolic show-down with the CEO, who demanded that we put on (very old-fashioned) name tags. The CEO repeatedly said that at meetings it was essential that the customers knew our names; “How can the customer address you without seeing your names?” he asked. We prevailed, stating that all of “our” customers knew our names and this was thus not necessary. The CEO caved in but what we did not realize at that juncture was that we were in a sense shaped by new way of thinking of banks and bankers, putting us in a sense at an elite status. The CEO himself always bore a name tag as did all the other bank employees. The CEO had in fact a point although not in the way he explicitly said. Name tags had really nothing to do with customers knowing people’s names; most of the savings bank employees had worked there for ages and could hardly cope with greeting everyone when shopping at the local supermarket. There was, however, an implicit message with the name tags; namely that a big family was working there, localizing the operations of the business. This meant that everyone had a role in serving the customer in the same personal manner. We (new bankers) also had a point. People within the flourishing securities business of banking worked in an independent fashion, seldom restricted to 9-5 working hours. The few times we set up the name tags to please our CEO, we made sure we would take them before meeting our colleagues. We were, however, during those moments terrified that some colleague would unexpectedly show up. It would have simply been shameful.

As expressed in this story, Icelandic banks underwent a radical transformation in the late 1990s and early 2000s. As I show in this paper, the excitement of a ‘new’ way of doing banking was not limited to newly privatized banks that soon acted like investment banks but also to banks that were well established in a deeply localized context. I claim here that cultural aspects helped to conceal what should have been an obvious fact; namely that Icelanders were very inexperienced bankers that still managed to grow in status to a degree that their actions created among the biggest financial losses in history, dwarfing well publicized losses such as Enron and WorldCom. Those enormous losses were mostly related to Iceland’s main three banks going into receivership in autumn 2008. The Savings Banks of Iceland were, however, as a whole almost entirely also wiped out during the crash, despite their long history of serving rural customers, even clinging to old fashioned customers service.

Historically, the Icelandic banking system had not changed much and focused on serving the local community, as in the example above. The radical changes in the late 1990s involved Icelandic banks becoming integrated into global financial markets, which led to an unprecedented economic boom and finally to an economic collapse in 2008. This led to a deadly combination, creating a loop that was re-affirmed within banks, where not only the bankers but many Icelanders perceived themselves as not only being rational (neoliberal) individuals, maximizing their own financial gains, but simultaneously did not seem overly concerned with understanding the mechanisms of such high returns. Thus their economic behaviour corresponds with Davies and McGoey (2012) critical address of ‘ignorance’ being useful to agents in the financial markets at certain times, because it helps them to make decisions that can be beneficial financially in the short time but disastrous if looking further ahead. During the boom period, the Icelandic nation was mobilized in pulling wool over its own eyes for the most part, oblivious to the dangers involved in the type of banking creating such

“easy” wealth while embracing new beliefs that entailed views that fit to a certain degree to the Icelandic culture, but in a specific manner.

Geert Hofstede’s model has been widely influential in stressing the importance of taking into account cultural variables in explaining economic behaviour. My argument suggests that while Hofstede’s model can be useful to understand economic processes taking places in Iceland prior to the crash, it is important to use it in a nuanced and selected ways. The Hofstede model can thus help to point towards certain processes and cultural characteristics that should then be investigated further and analysed in a more contextual manner. My argument thus advocates approaching his model as a *model* to guide analysis but not to constrain it. The paper shows that Icelanders fit quite well with the other Nordic countries in accordance to Hofstede model but closer investigation also reveals that they differ in important respects, then in particular in terms of individualism and thus with a much lower savings ratio. Gleaning into certain aspects of culture does thus provide clues of why Iceland became enamoured with the financial arena. This relates mainly to the high individualist aspects of the Icelandic nation and financial traits such countries have shown in the past.

My case example focuses on the Icelandic banks, comparing the three big banks’ outward characteristics to the savings banks, which is informative in understanding to a wide extent what I have called the Manic Millennium mentality that engulfed the Icelandic nation. I show in that respect how Iceland’s banking system evolved quickly from some sorts of shackles of isolation into becoming an enormous entity. Following its downfall many painted a picture of certain personal characteristics, most of which are common within the popular discourse, being responsible for the Manic Years. Taking a look at the characteristics of savings banks and their operations, however, shows that the matter is not so simple. As opposed to being merely some symptoms of personal characteristics within a closely knitt group, Iceland was possibly more

suspect to specific characteristics of culture combined with international developments that quickly evolved. A combination of such international developments that fit well with precipitating factors of financial crises as described by Shiller (2005) and individualism as measured by Hofstede's methods provides clues of how certain cultural elements can easily be amplified

The discussion starts by describing how the Icelandic banking industry transformed within a few years from being a localized and highly regulated industry into an international and liberated one, embracing neoliberal values but yet inadequately regulated, culminating into the economic bubble. Next I show the process of "bad" bankers personifying the apparent success of the banking industry in tandem with the Icelandic society at large and the international banking community. Following that I discuss how the illusion of easy success also applied to old and "wise" saving bankers who seemed on surface to have little in common with the "bad" bankers. Finally I explain that certain group elements lack explanatory power of how the Icelandic nation got worse caught up in the financial frenzy during the Manic Millennium years. That discussion compares for example the Icelandic culture to other cultures using Hofstede's methods.

From Rural Banking to International Financial Wizards

What made Iceland special in a way was its lack of any past history of commercial banking outside the realms of politics and absolutely none of investment banking. It was for the longest time highly localized system with currency restrictions. Its scene was similar to Nordic nations, which were mainly dictated by political connections and governmental policies regarding which industries should receive preferential treatment (Jonung 2008).

The banking environment began a slow liberalization process during the mid-1980s but very slowly. It was not until 1995 that Iceland broke down currency restrictions following the country joining the European Economic Area (EEA) the prior year, forcing Iceland to liberalize foreign direct investment within parameters of the EEA agreement, and thus making Iceland a somewhat globalized country for the first time in more than six decades.

Iceland's participation within the EEA was a major impetus moving the country towards being more international in nature. This related particularly to the banking industry and the first step in such a direction since the Great Depression occurred more than 60 years before. Laws and regulations regarding finance were in haste updated in accordance to European standards. That was only the beginning; Icelandic banks began also financing their operations and following that their businesses within European territories, opening branches all over the continent and buying other financial entities. This development marked two watershed moments in one stroke since this opened the door to internationalization of financial markets in Iceland and was a major impetus in a move towards financial liberalization.

Icelandic banks not only expanded rapidly but did so within another area in which they previously had no experience in; namely investment banking. This coincided with international trends with many traditional banks and investment banks joining forces.

This resulted in Icelandic bankers becoming actors in the international banking arena with limited laws mainly built around traditional banking in a country that had only recently liberalized foreign direct investment. One could say that they were not only influenced by the European arena through which door they entered through into the international financial landscape, but also to a great degree the changes towards deregulated banking in the USA causing banks becoming some sorts of supercentres providing all sorts of services. Icelandic

bankers could do this while with the insurance of the deposit money guarantee provided by Iceland's government that had not responded to different circumstances, having once guaranteed what one could call dull banks but without substantial risks embedded their operations.

Bad Successful Bankers

Icelandic banks were privatized little by little, as was common among companies owned by the government during the late 1980s and 1990s in the international arena. The new mission of all three banks was mainly to expand their balance sheet and become big players (Sigurjonsson & Mixa 2011).

Soon Icelandic bankers were substantial players in investment banking in various territories across Europe. Despite having banking roots that were localized and regulated in a similar manner as Nordic banks but with a lesser international history, Icelandic bankers (at least the ones generally deemed to be successful during the boom years) were at the time described positively in the media having greater financial expertise and working quicker than bankers in most other nations (Loftsdóttir 2010). The Icelandic public believed this despite the fact that modernized banking in Iceland was in reality only a few years old. This was amplified by the media; whose ownership was maybe not coincidentally dominated by the main investment partners of the banks (Áskelsdóttir 2010). The media began describing these successful bankers and investors as 'Business Vikings', pillaging on foreign shores (Loftsdóttir 2012).

Such growth was mostly powered by limited experience, as exemplified by presentation by a public relations specialist at a finance company. She underlined the solidness and experience of her company at a presentation in 2009 by saying that one employee even had had gone through the dot.com bust in 2001 in addition to the most recent one. The trend of hiring young

inexperienced bankers became the norm, since older ones were perceived having a less risk appetite. One former savings bank CEO I interviewed stated that all the competitors were hell-bent on hiring young and aggressive bankers; one even saying that none over 25 years old should be hired. Arnason (2012) noted that one foreign compliance officer described the atmosphere at banks as “cultish” with pressure of uniformed thinking. That meant, as Arnason stresses, hiring young (mostly) males with investment banking mentality, quoting one former bank director at Kaupthing who said that it was hard to change the culture but not the bank’s employees. The 14 person unit at an interbank desk of one bank dealing with loans totalling 20% of Iceland’s annual Gross Domestic Production (GDP) had the average bank work experience of approximately one year.

Imitating other international bankers, Icelandic bankers quickly learned that getting deals done meant more than actually doing the homework before deal was decided. An internal video at Kaupthing bank even emphasized how much quick actions mattered.⁶⁸ I interviewed an international banker who said that finance professionals all over the world began emphasizing short-term rewards and disregarding long-term value. Icelandic bankers in general it seems were thus maybe not as special as some people suggest, simply maybe a bit worse behaved. A Merrill Lynch report written probably sums up the general attitude towards Icelandic bankers in spring 2008 only six months before the banking system collapsed.

When clients ask us why the Icelandic banks are considered to have a higher risk profile than their other European peers, one does not have to search hard for answers: rapid expansion, inexperienced yet aggressive management, high dependence on external funding, high gearing to equity markets,

⁶⁸ http://www.youtube.com/watch?v=31U54cgf_OQ

connected party opacity. In other words: too fast, too young, too much, too short, too connected, too volatile.

The Sheep Bankers

This development of Iceland's banking system and Icelandic bankers' behaviour above has been documented substantially since the crash. The Icelandic Parliament had for example a thorough investigative report written by a Special Investigative Commission about the causes of the crash of the Icelandic banking system by investigating the three main banks in detail, released in April 2010.

Another report, also by the request of the Icelandic government, will be released in 2014 that focuses on the fall of the Icelandic savings banks.

While the three main Icelandic banks were infamous for their rapid growth, savings banks were for the most part left behind. The general perception is that young and greedy bankers were responsible for the downfall of the Icelandic banking system, swept by new international trends but like cows being set free during spring not handling the freedom necessarily well. Such a perception was never part of the savings banks, which on surface stayed much closer to the traditional rural banking business. Unlike the main three banks, the savings banks never had the glamorous perception in their business; they were relatively modest in their foreign expansion and did not have the aura of Business Vikings among their main CEOs or owners. One of their advertisement campaigns even made fun of one of the Icelandic investment companies, emphasizing that they themselves, the savings banks, serviced their customers, thus indicating that the others did not.

A glaring example of the extremely risky investments of the saving banks is the investment company Exista. It demonstrates that no one in Iceland, neither the general public nor most

bankers and investment managers, fully realized the risks associated with fast, exponential growth during the economic boom of 2003 to 2008.

Exista was formed by Kaupthing Bank in association with the savings banks, which wholly owned Kaupthing before its shares were spun off in early 2000. Savings banks were combined the second largest shareholder, with a 16% ownership via direct and indirect holdings in Exista, which was a huge investment company with total assets at year end 2007 amounting to 8 billion Euros; about half of Iceland's annual GDP using the currency rate of the time and a market value of 2.5 billion Euros (Exista, 2007). The market value of Exista was, however, twice the amount only six months earlier meaning that its market value was about a third of Iceland's GDP at its highest point.

Exista invested the bulk of its capital in very few companies and practically all in its largest shareholder's own company, the food producer Bakkavör, and their main associate, Kaupthing Bank.⁶⁹ The largest holding year end was, however, the insurance company Sampo Group, which was rumored to be a take-over target of Kaupthing. The combined book value of Kaupthing and Sampo was 4.7 billion Euros, nearly 60 percent of Exista's total assets. Bakkavör accounted for approximately 7 percent of total assets; hence two-thirds of Exista's capital was sitting in three companies, all listed on public stock exchanges. Most of the remaining assets were either other listed stocks or loans.

Exista was, furthermore, a leveraged company, meaning that it invested not only money that itself owned but also borrowed money to finance its investments. It actually borrowed money excessively and increased its leverage in 2007. This meant that Exista made tremendous profits when stock markets prices were going up, but also meant that a slight dip in those stock prices

⁶⁹ The interconnectedness is outside of the scope of this paper.

would incur heavy losses. Exista's assets swelled in size during the Manic Years, increasing in size of 80% during 2007, its liabilities yet grew even considerably faster meaning that its inherent risk was increasing due to leverage. By looking at the book value, the year end 2007 equity ratio⁷⁰ was 29.5 percent, down from 43.2 percent the prior year. It was in reality, however, around 20% meaning that if its assets value would drop by the same percentage the value of the firm would have gone down to zero.

The Exista stock was a huge base of equity of many savings banks in Iceland and its rise in market value the major, if not sole at some savings banks, source of profits during the peak of the Manic Millennium. The Savings Bank of Keflavík is an excellent example. The savings bank had three-quarters of its shareholders equity directly and indirectly in Exista. From year-end 2002 to year-end 2006 it had more than doubled its balance sheet. Many other savings banks had similar elements in their balance sheets, recklessly lending money from extremely fragile balance sheets. In fact, well over half of the total equity of the combined savings banks system in Iceland consisted of stocks directly and indirectly (via a holding company) of ownership in Exista stock in 2006 (Special Investigation Commission, 2014).

This muddles the general perception that Iceland's financial crash was caused by irresponsible young bankers the nation adored as being some sort of Business Vikings. Savings banks were just as reckless in their operations and one could even assert that their profit base, and thus equity base, was purely built upon one investment company that had risks associated with the stock market to such an extent that a relatively common drop in stock prices would deplete its equity base and hence its worth. While the representatives of savings banks did not make any claims of being international in stature nor involved in much risk taking, their business model

⁷⁰ The equity ratio shows the proportion a company uses of its own money to finance its assets.

and risk in operations were more than even their directors and board members realized, with apparently very few of them understanding the risks associated with their main investments.

This, furthermore, raises the point whether certain aspects of Iceland's culture had some influence on the nation as a whole, including young and old bankers. While the "bad" bankers may have had a clue about the risks they were participating in, the older and "wiser" savings bankers seemed to be ready to partake in the Manic Millennium while it served their interests well. One could say that they were no lesser participants in pulling wool over the nation's eyes, with many of them probably with some over their own eyes. It certainly does not fit that it was merely some young bad bankers that caused such economic collapse. The whole nation participated. Some common precipitating factors were in place for financial bubbles to occur. They include added liberalization of currency flows, a New Era thinking and increased communication (in the case of Iceland was the Internet and added access to foreign television stations), making people feel as they are part of a larger world (Kindleberger & Aliber 2011, Reinhart & Rogoff 2009, Shiller 2005). There may, however, be other common threads explaining this development that cross cultural studies may provide a direction to.

Application of the Hofstede Dimensional Model

Looking at the Hofstede cross-cultural model from a general point of view provides few clues as to the origin of the crisis. Iceland's culture has often been compared to Nordic ones. Stefan Olafsson (2003) maintains that Icelanders share many cultural, political and social aspects of Nordic countries but yet showing strong American characteristics such as a strong sense of individualism and independence and resentment towards central authority (as put forth by American sociologist Richard F. Tomasson in his thesis). Only a few studies about the culture of Iceland have been done by researchers using the Hofstede Dimensional (Eyjolfsdottir &

Smith 1997, Jonsson 2004 and Adalsteinsson, Gudmundsdottir & Gudlaugsson (AGG) 2011). Hofstede's own personal estimates have also been used as a reference in the matter (Vaiman, Davidsson & Sigurjonsson 2010). Although the study in 2011 was the only one that could be maintained meeting high academic standards, the results were still similar between Icelandic studies and Hofstede's estimates. The results were also similar to Nordic nations, giving strength to the common perception of the Icelandic culture being similar to Nordic ones.

A study by Sigurjonsson & Mixa (2011) shows, however, that Nordic nations differed tremendously from Icelanders during the build-up of the financial crisis. By looking thus at the general culture of Iceland and comparing it to nations generally considered being culturally alike provides no indication why Icelanders were much worse caught in the banking frenzy during the Manic Millennium.

Instead of focusing on some holistic picture it may be worthwhile focusing on certain elements of Hofstede's dimensions. One might for example think that some sort of risk taking is inherent in Iceland's culture as in Hofstede's Uncertainty Avoidance (UAI) dimension, even with a propensity to break the law. The few such studies that have been done on the Icelandic culture show, however, no glaring indications of Icelanders having a low UAI dimension. According to the AGG study in 2011, Icelanders were in one certain sense different from other nations and that was the sense of strong individualism, rhyming with Olafsson's take⁷¹ on individualism. Not only was the Icelandic nation with the high sense of individualism, it actually had the highest score world-wide, tied with the United States.

INSERT FIGURE 1 NEAR HERE

⁷¹ Olafsson referring to Tomasson's thesis.

Hofstede (2010) points out that increasing individualism since the 1990s has been a major force of international deregulation, even maintaining that some public monopolies have been replaced for ideological reasons rather than pragmatic ones. This rhymes with Olafsson's (2010) general description as being the main characteristic of Icelanders.

In a work in process Mixa & Vaiman propose that neo-liberalistic ideological forces sweeping most of the globe during the period from the 1980s onwards had dissimilar effects on nations depending on their perceptions of individualism. Although the authors are not aware of studies having shown a conclusive correlation between high individualistic scores among nations and Neo-liberalistic ideologies, it can be assumed that a connection does exist, as Hofstede suggests.

I have earlier pointed out (Mixa 2009) that one of the typical precipitating factors Shiller (2005) suggests being of a financial bubble, one that Iceland and the United States had in common during the recent financial bubble build-up (Shiller refers to the dot.com bubble in his analysis), is the expansion of defined contribution pension plans. Danielsson (2012) concludes that the increase of such plans in Iceland may have contributed to Icelanders' lesser needs in setting aside money for the future, but in a contradictory way people seem to save even less on the whole (or put another way, spend more than they set aside in savings) than before. This may explain why dimensional indicators diverge from financial ones in explaining the behaviour of savings and risk appetite among nations. Duménil and Lévy (2011) contend that where Neo-liberal influences are rampant, more leverage is prevalent with the savings ratio falling ever more. This serves little explanatory power of the recklessness of the young Icelandic bankers but provides hints of why old and "wise" bankers were willing to engage in such leverage as was inherent in the operations of Exista and thus the (almost) whole savings banking system.

By looking at savings ratios of nations with the highest individualistic scores from Hofstede's dimensional studies, it becomes apparent that such nations do have in common very low savings ratios that tend to have decreased further concomitantly as Neo-liberal influences have grown (there is no known study of such influences, but are assumed having had grown, e.g. via increased inequality in income). This trend can be seen in Figure 2.

INSERT FIGURE 2 NEAR HERE

Iceland has obviously been least inclined to save for a rainy day. It is interesting that nations like the USA & UK that also live in a rather stable political surrounding have a much lower savings ratio than nations number three, four and five in Hofstede's individual/collective dimensional index. This clearly shows a strong correlation between cultures having less inclination to save where individualism is extremely highly prevalent within society.

Summary

Financial indicators such as the savings ratio appear to provide clues about cultural behaviour that also importantly measures how people actually behave. Jones (2007) has pointed out that the strong emphasis on surveys is a drawback on Hofstede's methods but it can also be pointed out that surveys do not distinguish between people's perception of themselves and how they actually behave contrary to financial indicators which (often) show in a more concrete manner how people behave in practice. While Icelanders were in awe of their young bankers' success, as is common during financial euphoria, the actions of the savings banks suggests that no such extravaganza was needed, simply a cocktail of ignorance while the going was good and great belief in individuals performing miracles that in hindsight were (way too much) too good to be true.

The Icelandic nation can also be described as living in total isolation, then, not due to its location as is commonly seen but due to the nature of its foreign business ties. The transformation during a short span of years very likely changed thus much more rapidly Icelandic cultural identity than is assumed in Hofstede's work (2010). This change, although unusually sudden, is not an anomaly. History shows that the definition of culture has often been intertwined with economic developments, such as Adam Smith noted when writing *The Wealth of Nations*, not merely describing economic concepts but more in a sense the cultural developments he was witnessing within a society quickly transforming into a market economy on the brink of the industrial revolution (Beugelsdijk & Maseland 2011).

References

- Adalsteinsson, G.D., Gudmundsdottir, S. and Gudlaugsson, T.O. (2011) *Islensk thjodmenning i ljosi menningarvidda Hofstede* [Icelandic Cultural Nationality within Hofstede's Culture Dimensions], Stjórnmal og stjórnsýsla, <http://skemman.is/handle/1946/10399>
- Arnason, V. (2012) *Something Rotten in the State of Iceland. Ethical Explanations of the Icelandic Collapse*. The Icelandic Meltdown: A Workshop on the Causes, Implications, and Consequences of the Collapse of the Icelandic Economy, Iowa City 11–14 August 2012
- Askelsdóttir A.G. (2009) *Áhrif eigenda á íslenska fjölmiðla*. MA-thesis, University of Iceland. <http://skemman.is/handle/1946/6145>
- Beugelsdijk, S. and Maseland R. (2011) *Culture in economics: History, methodological reflections, and contemporary applications*. Cambridge: University Press
- Danielsson, A. (2012) Mandatory pension savings, private savings, homeownership, and financial stability. *Working paper Central Bank of Iceland* no. 58.
- Davies, W. and McGoey, L. (2012) Rationalities of ignorance: on financial crisis and the ambivalence of neo-liberal epistemology. *Economy and Society*, 41(1), 64-83.
- Duménil, G. and Lévy, D. (2011) *The crisis of neoliberalism*. Cambridge: Harvard University Press

Exista Annual Report 2007. http://www.euroland.com/omx_attachments/2008-02/248363-0-is.pdf (accessed 12 December 2014).

Eyjolfsdóttir, H.M. and Smith, P.B. (1997) Icelandic business and management culture. *Int. Studies of Mgt. & Org.*, 26(3), 66. 61-72.

Hofstede, G.H., Hofstede J.H. and Minkov, M. (2010) *Cultures and organizations: Software of the mind: Intercultural cooperation and its importance for survival*. United States. McGraw-Hill.

Jones, M.L. (2007) *Hofstede – Culturally questionable?* University of Wollongong. <http://ro.uow.edu.au/cgi/viewcontent.cgi?article=1389&context=commpapers>

Jonsson, H.P. (2004) *Menning skipulagsheilda: Tengsl fyrirtækjameningar og Þjóðmenningar*. Viðskipta og hagfræðideild. Reykjavík: Háskóli Íslands.

Jonung, L. (2008) Lessons from financial liberalisation in Scandinavia. *Comparative Economic Studies*, 50, 564-598.

Kindleberger, C.P. and Aliber, R.Z. (2011) *Manias, panics, and crashes: A history of financial crises*. New York: Palgrave Macmillan.

Loftsdóttir, K. (2010) The loss of innocence: The Icelandic financial crisis and colonial past. *Anthropology Today*, 26(6), 9-13.

Loftsdóttir K. (2012) Colonialism at the margins: Politics of difference in Europe as seen through two Icelandic crises. *Identities: Global Studies in Culture and Power*, 19(5), 597-615

Mixa, M. W. (2009) Once in khaki suits - Socioeconomical Features of the Icelandic Collapse. Ingjaldur Hannibalsson (Ed.), *Rannsóknir í Félagsvísindum X [Research in Social Sciences X]*, pp. 435-447. Reykjavík: Félagsvísindastofnun Háskóla Ísland.

Olafsson, S. (2003). The identity of Icelanders: Scandinavian or American? *Scandinavian Review*, 91(1). Retrieved from <https://borg.hi.is/IcelandID.pdf>

Reinhart, C.M. and Rogoff, K.S. (2009). *This time is different. Eight Centuries of Financial Folly*. New Jersey: Princeton University Press.

Shiller, R.J. (2005). *Irrational exuberance*. New York: Broadway Books

Sigurjonsson, T.O. and Mixa, M.W. (2011) Learning from the „Worst Behaved“. Iceland's Financial Crisis and Nordic Comparison. *Thunderbird International Business Review*, 53(2), 209-224.

Special Investigation Commission (2014) – *The causes of the fall of the Icelandic savings banks*. Althingi, Reykjavik. Volume 2, chapter 10.

The Hofstede Centre (2014) <http://geert-hofstede.com/countries.html>

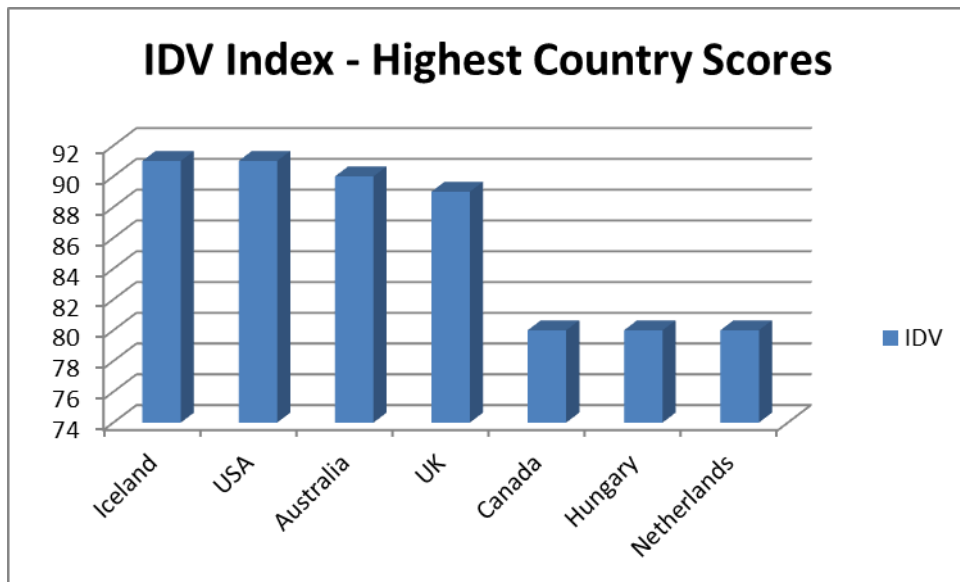
Vaiman, V., Sigurjonsson, T. O. and Davidsson, P.A. (2010). Weak business culture as an antecedent of economic crisis: the case of Iceland. *Journal of Business Ethics*, 98, 259-272.

Table of contents

Figure 1 Highest Individualism Scores using the Hofstede Cross Cultural Method

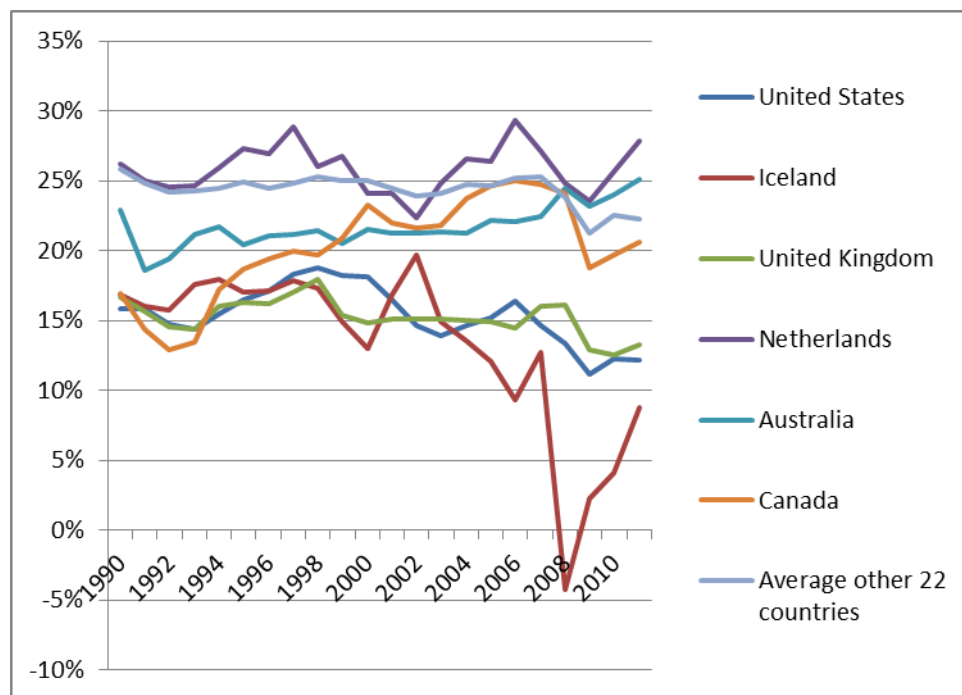
Figure 2 Savings Ratio in Highest Scoring Individualistic Countries 1990-2012

Figure 1 Highest Individualism Scores using the Hofstede Cross Cultural Method



Source: Adalsteinsson, Gudmundsdottir & Gudlaugsson 2011, The Hofstede Centre 2013

Figure 2 Savings Ratio in Highest Scoring Individualistic Countries 1990-2012



Source: IMF (2013)

Paper 5: Bankar í ljóma þjóðernishyggju: Efnahagshrunið, hnattvæðing og menning / Banks Glowing in Nationalism: The Financial Crash, Globalization and Culture

Kristín Loftsdóttir & Már Wolfgang Mixa, 2014

Skírnir vorhefti 2014

Abstract

The Icelandic government privatized the three main Icelandic banks in 2003 only to take them into receivership 2008 to prevent them from bankruptcy. Comparison studies show that certain features are the harbinger of economic meltdowns and Iceland was no exception. We use in this article insights from theories about globalism and culture to gain a deeper understanding of why warning signals were ignored when financial history indicated that a recession or even a major financial crash was imminent. We show that the Icelandic economic miracle was interpreted in a very nationalistic manner in Iceland despite being built upon an increased participation in global processes. Historical comparisons may appear irrelevant in an environment where nationalistic characteristics are being emphasized and thus facilitate the shunning of obvious warning signs that otherwise would be obvious. The banking system of Iceland is given special attention in this context and show that this nationalistic discourse about Icelandic investors and bankers had no obvious connections to the historical development of the Icelandic banking system. There is a certain paradox that the Icelandic banking system was simultaneously shaped ever more in accordance with international financial systems as the same system was conceptualized as a part of Iceland's nationalistic characteristics. Economic variables are thus part of a global and local environment, simultaneously entangled in nationalistic ideas and social environments.

Keywords: Financial crash, nationalism, finance, globalization, culture

Útdráttur

Árið 2008 tók íslenska ríkið yfir þrjá stærstu banka á Íslandi til að forða þeim frá gjaldþroti en þeir höfðu verið einkavæddir aðeins fimm árum áður. Í þessari grein bendum við á hvernig íslenskir bankar voru túlkaðir hér á landi með afar þjóðernislegum hætti eftir 1995, þrátt fyrir að vera mikilvægur hluti í þátttöku Íslendinga í hnattvæddum ferlum. Í umhverfi þar sem áhersla er lögð á sérstöðu þjóðarinnar getur sögulegur samanburður við aðra virst vera fráleitur og þannig auðveldað að litið sé fram hjá aðvörunarmerkjum sem annars ættu að vera augljós. Ákveðin þversögn felst í því að á sama tíma og íslenskt bankakerfi fylgdi því sem var að gerast á alþjóðlegum mörkuðum var fjármálaumhverfið á Íslandi í auknum mæli túlkað sem hluti af þjóðareinkennum Íslendinga. Hagrænar breytur eru því samhliða hluti af hnattrænu og staðbundnu umhverfi jafnframt því sem þær eru tengdar samfélagslegum hugmyndum um þjóðerni og samkennd.

Efnisorð: Bankahrun, þjóðernishyggja, fjármál, hnattvæðing, menning

Paper 5: Banks Glowing in Nationalism: The Financial Crash, Globalization and Culture

Introduction

Within the neat stack of promotional materials at the National University Book Museum of Iceland is a small brochure from Landsbankinn, which was probably released during the height of the economic expansion. The title on cover reads: “We Know Our People.”⁷² Each page contains an illustration on one side and a short text on the other side. Remarkably, the text contains no data regarding the bank’s activities, services, or really anything relating to banking operations. The purpose of the booklet, according to its own introductory words, was to remind people that “the employees of Landbankinn's staff has played a key role in the development progress the Icelandic nation has taken for more than 100 years.” The brochure does not, however, outline this role but rather offers details of the “fascinating peculiarities” of Icelanders that make “us unique,” as it says in the text. The privatization of the three largest banks in Iceland was completed in 2003, but its aim was to “provide banks future opportunities and good profitability” as stated in a press release from the Prime Minister (Forsætisráðuneytið, 2002). Many promotional booklets were distributed to Icelandic homes - as was possibly the case with this brochure - which helped to make the banking practices part of the daily reality of people. Only five years after the privatization was completed the Icelandic government was forced to bail out the banks to prevent them from bankruptcy. Foreign creditors lost the equivalent of double the value of all real

⁷² In Icelandic the text is „Við þekkjum okkar fólk.“

estate in Iceland (Már Wolfgang Mixa 2011). Banks played in this scenario a key role because Icelandic investors were either the banks themselves or companies loyally supported by the banks.

In parallel with the Icelandic banks becoming a part of the global financial system, they were re-defined in Iceland from nationalistic ideas. Their re-definition included the notion that the banks' main purpose should not merely be serving the local community—consisting of Icelanders – but had simultaneously a larger international role. The role of the banks was in that sense considered to mirror the role of Icelanders as a whole. Increased international relations and global processes have in this sense been a fertile ground in raising new questions of nationalistic identities in a changed social environment. A few decades ago, when the theoretical debate about globalization was growing, some scholars wondered whether the importance of nation states would decline (Appadurai 1991). The reality has been different, with the nation continuing to be an important platform for identity (Ginsberg, Abu-Lughod and Larkin, 2002). A standardized vision of culture and cultural differences has thus been growing in contemporary discussion, possibly as a reaction to the increased flow of people and ideas (Gupta & Ferguson 1997, Xavier, Rosaldo & Rosaldo 2002). Ideas in focusing on culture have also received increased attention because the concept of culture has been used by liberal ideologists as some kind of label or brand in global marketing. Culture has thus become marketed with increased globalization, which contributes to further objectification and its importance to organize diversity in a globalized world (Moore 2004, 78). One characteristic of the present, as Andreas

Huysen (2001) points out, is constant reminders of the past where historical events are used to create a specific framework to understand the present. Anthropologist Arjun Appadurai (1996) describes this as a “warehouse of cultural scenarios“where memories are selected to frame the present. In our example here, the nation branding was primarily directed at the Icelanders themselves and the creation of their identity as Icelanders in a neoliberal world.

The Icelandic financial system grew in a similar fashion as has happened in the precursor of prior banking crisis elsewhere, with clear bubble characteristics (Sigurjónsson & Mixa 2011). We suggest that a nationalistic focus emphasizing the uniqueness of Icelanders, selected from a warehouse of cultural scenarios, explains to some extent why the warning signs were ignored when financial historical signals should have clearly shown that an economic crisis and even historical collapse was imminent. Our approach is interdisciplinary, underlining that economic variables are part of society. There is a long tradition of such an approach within anthropology where researchers have studied the economic systems of different societies as integrated to other components (Schwegler 2009). Within economics, there has been an increased focus on the importance of culture to understand economic issues (Hofstede, Hofstede and Minkov 2010) as well as criticism of how economic issues have often been viewed primarily as a technical challenges (Hageraud 2003). In a harsh criticism of neoliberal theories, Steve Keen (2011, 15) points out that the historical approach has in many ways been exiled from the toolbox of economists and is not taught in many universities as part of economics. As we show here, one of the ways to connect economics and

culture is to highlight how economic variables are a part of the global and local environment, as well as related to societal notions of nationalism and community. In Iceland, the globalization of the local systems seems to have been interpreted in a very nationalistic manner, which had little relation to the previous understanding of Iceland and its relationship regarding the role and nature of banks. A certain paradox lies in the fact that at the same time as the Icelandic banking system developed in an increasingly similar manner as other international markets, the financial environment in Iceland was yet interpreted as a part of the unique national characteristics of the Icelandic nation.

Development of the Icelandic banking system

In accordance with critical research of scholars regarding nationalism (Anderson 1983) and traditions as a political phenomenon (Hobsbawm (1983), research on Icelandic nationalism sees Icelandic nationality as shaped by its historical and political context instead of consisting of a "natural" phenomenon as social discourses often seem to assume (Gudmundur Hálfðánarson 2000). Icelanders views of their history and nationality were a long time under a strong influence of the writings of Jon Jonsson Aðils, who in the early 20th century connected together the Icelandic national identity and progress in the spirit of the ideas the German philosopher Johann Gottlieb Fichte (Sigríður Matthíasdóttir 1995, 41). The idea of one nation with the same history and future has continued to be important (Gudmundur Hálfðánarson 2000, 7), as well as the idea of the superiority of the Icelandic language and nationality (Sigríður Matthíasdóttir 2004). The Icelandic authorities have also for a long time institutionalized specifically signature symbols of the Icelandic culture and thus influenced the public's understanding of what is important regarding the Icelandic

nationality (Gudmundur Hálfðánarson & Ólafur Rastrick 2006). As Olaf Rastrick's research on cultural management shows, one can early see an emphasis by authorities on culture as important in constructing Iceland as a modern nation (2013, 76-77). Although the role of the Icelandic banks in the context of the Icelandic economy and what may be described as its shortcomings (SIC 2010, Jon Danielsson & Gylfi Zoega 2009, Gylfi Zoega 2008), no studies have researched the role of banks in the wider community and cultural context nor how their role was re-defined in the expansion period. Gudmundur Jonsson has (1995), however, pointed out that Icelandic economic policy has been influenced by nationalism, which aims included ensuring economic independence of the country and security of the nation (76), but also as being necessary to establish a national economy and build an institutional infrastructure (80).

Compared to other European countries, the Icelandic banking system developed relatively late with Danish traders serving to some extent the same role as financial institutions by providing loans when it was necessary for trading activity. Iceland gained increased control of their own finances by the granting of a constitution in 1874 (Gudmundur Jonsson 2004). The National Bank of Iceland or *Landsbanki Íslands* was established by the government in 1885 and began operations a year later. The name reflected the bank's purpose, to be a bank for the whole population, as it was a mixture of being a traditional bank and a central bank; with permission from the government to print a limited amount of money insured by the State. Its purpose was to "facilitate money transactions in the country and support industrial progress" ("Althingi" 1885, 61). Savings banks came to the scene during this period but they were small and rarely

long-lived. Their names reflected their role as being primarily a service unit for their local area. Savings banks began achieving a stronger foothold from 1870, mainly with the introduction of the Savings Bank of Reykjavik (*Sparisjóður Reykjavíkur*). In 1904 Danish investors founded a bank in Iceland. Despite being owned by non-Icelanders and being the first financial indicator of an international connection, the Danes decided to name the bank The Bank of Iceland or simply *Íslandsbanki* (Asgeir Jonsson 2009). The bank received a license to issue lawful Icelandic currency, which made it indirectly some kind of central bank of Iceland. The state had granted to the industries various payments in different ways, which led to the establishment of the Agricultural Bank of Iceland (*Búnaðarbanki Íslands*) in 1929 that began operations a year later (Gudmundur Jonsson 2004). *Íslandsbanki* became bankrupt at the beginning of the Great Depression in 1930 with the Government of Iceland overtaking the operations of the bank and founding a new bank, The Bank of Iceland's Fisheries (*Útvegsbanki Íslands*), which became the main commercial bank for the fishing industry (Sveinn Agnarsson 2004, Asgeir Jonsson 2009). Despite the general sense that the role of the banks would be to service certain groups, the banks were also seen as having a parallel role in establishing Iceland as becoming both a modern and independent nation. A good example of this is the special issue of *Fálkinn* issued in 1938 on the occasion of 20 years of Iceland's sovereignty, combining a highly targeted promotion of Iceland as a country on a journey towards modernization. The magazine, mostly written in Nordic languages, introduces various institutions of the country and industries along with some arts. In the issue *Landsbanki Íslands* and the Bank of Iceland's Fisheries advertise their activities with full-page advertisements, probably aiming to show the modernization

and development of Iceland in line with other European countries (William Finsen & Skúli Skúlason 1938). As Gudmundur Jonsson (1995) has pointed out, nationalism did not have the effect of Icelanders wanting an unchanged economic situation, but there was on the contrary great interest in the development and modernization of industries (86).

This specialization of the banks' operations relating to special groups of borrowers continued during the next decades. Banks, which lent those who wanted cheap credit,⁷³ were established during the following decades. Their names reflect that their main purpose was lending to certain interest groups rather than focusing on some sort of specialization in the types of loans (Sigurdur Johannesson 2004). The Industrial Bank of Iceland (*Iðnaðarbanki Íslands*) was established in 1953, The Icelandic Bank of Commerce (*Verzlunarbanki Íslands*) in 1963 and the People's Bank of Iceland⁷⁴ (*Alþýðubanki Íslands*) in 1971 (Asgeir Jonsson 2009). These above mentioned banks bought the Bank of Iceland's Fisheries in 1989 (Sveinn Agnarsson 2004) and merged into one bank named Íslandsbanki.⁷⁵ Savings banks kept their specific association to local services, identifying themselves through their names that included the names of their towns and districts or even trade, as with the *Savings Bank for Engineers* (*Sparisjóður vélstjóra*), which was founded in 1961, during the same time as the banks associated themselves with certain professions. During the following decades the

⁷³ Real rates were often negative during this period, meaning that by investing in tangible investments, such as property, resulted in easy real profits.

⁷⁴ The people here refers mainly to union workers.

⁷⁵ This is the same name as the bank established in 1904 but there is otherwise no connection between those banks.

banks' slogans, e.g. in their marketing, constantly put in the forefront the mutual connection of financial institutions and their customers. Landsbanki Íslands referred to itself as a "bank for all Icelanders."⁷⁶ On the 100th anniversary of the bank in 1986 it was heavily advertised that the bank had been the bank for all Icelanders in 100 years, with very similar overtures being heard during the next decades, even in 2006 when the bank was focused on foreign growth. The Agricultural Bank's advertisements emphasized that it was a "Trustworthy bank." The slogan gained its credibility from the fact that the bank had been established to service agriculture, which was the basic foundation that the country and thus the nation could thrive. The slogan had a tremendous impact, as reflected in the fact that people referred to it when making transactions via the bank.⁷⁷ The savings banks emphasized the symbiotic common interests of the savings banks and the interest groups (usually local interests) they serviced by hammering in their nationwide ad campaigns that they were operating "for you and your people" (*fyrir þig og þína*), arousing a sense of a close-knit community, based to some extent on the view that Iceland was a small country where everyone knew everyone.

Iceland's banking system slowly crept from the highly regulated controls during the 1980s (Seðlabanki Íslands 2006, 31). Liberalization in terms of capital movements occurred at the beginning of the next decade with controls on capital movements being

⁷⁶ In Icelandic *Banki allra landsmanna*, which literally means the bank of all inhabitants but we use here the implied meaning, i.e. Icelanders.

⁷⁷ A personal experience of an employee of the brokerage unit of the bank. This happened especially often when older people were investing in the bank's mutual funds.

removed in full in 1995, a year after Iceland became a member of the European Economic Area (EEA), which also paved aside the removal of restrictions on foreign investment (Seðlabanki Íslands 2006, 31). Iceland's membership of the EEA market was one of two important junctures occurring at the same time, with major steps taken towards internationalization and with the liberalization of the banking system paving the way of its development towards a similar one as it was before Íslandsbanki (the initial one) went into receivership in 1930 (Seðlabanki Íslands 2006). Iceland's banking system was at the turn of the century operating mostly like other international modern banking systems, but lacked experience, both in regards to employees of the banks and the Financial Supervisory Authority, which was frantically adjusting to the rapidly changing banking scene. Simple and customary practices in international banking such as the separation of bankers dealing with the bank's proprietary investments and investments of behalf of their clients had only been enacted in 2002 (Fjármálaeftirlitið 2002). In 2000, Íslandsbanki merged with an investment vehicle, which had been transformed into an investment bank only two years before by the Icelandic government on the basis of various governmental loan funds. Íslandsbanki had at that point in time recovered after a difficult time during its formation in 1989 and had become powerful and solid bank.

The process of privatization began in 1998 and was completed in 2002⁷⁸ when the state sold the rest of its stake in two of the three major banks in the country. Originally, the idea was to sell a controlling stake in Landsbanki Íslands and the Agricultural Bank to

⁷⁸ The final payment was in 2003.

foreign banks and thus easily gain strong international connections and knowledge. The result was, however, to sell the banks to domestic residents.⁷⁹ Scholars have shown that neoliberal policies, where state owned enterprises have been sold, including banks, have often been released from the shackles of the politicization of the surface but sold to individual parties related to dominant political forces (Steger & Roy 2010, Duménil & Lévy 2011). There is no reason to believe that this does not apply to Iceland when state enterprises were privatized. The domestic investors were inherently more investment bankers than old-fashioned commercial bankers. Their goal was usually to expand the banks' balance sheets rapidly and become major players in international markets. Soon after the privatization was completed, the banks resembled more international investment entities than the local domestic service units Icelandic banking had been for decades (Ólafur Halldórsson & Gylfi Zoega 2010).

Iceland's entry in the EEA was obviously a big step towards the internationalization of the country and had a major impact on the country's financial system, which could now operate within such an international region. It was thus straight-forward that the Icelandic financial regulatory system was adapted in such a way that it would take account of the regulations in the European region. From the beginning of 2003 until the end of 2007, Icelandic banks financed themselves in the area in massive amounts, opening branches across Europe and buying financial companies (Þróstur Olaf Sigurjónsson, 2010). It is ironic that this rise in capital inflows came mostly from

⁷⁹ It has never been publicly explained why the stake was not sold to foreign entities. It can be argued that it was done to insure power on behalf of the controlling authorities during that time, who could choose who would be board members of the banks.

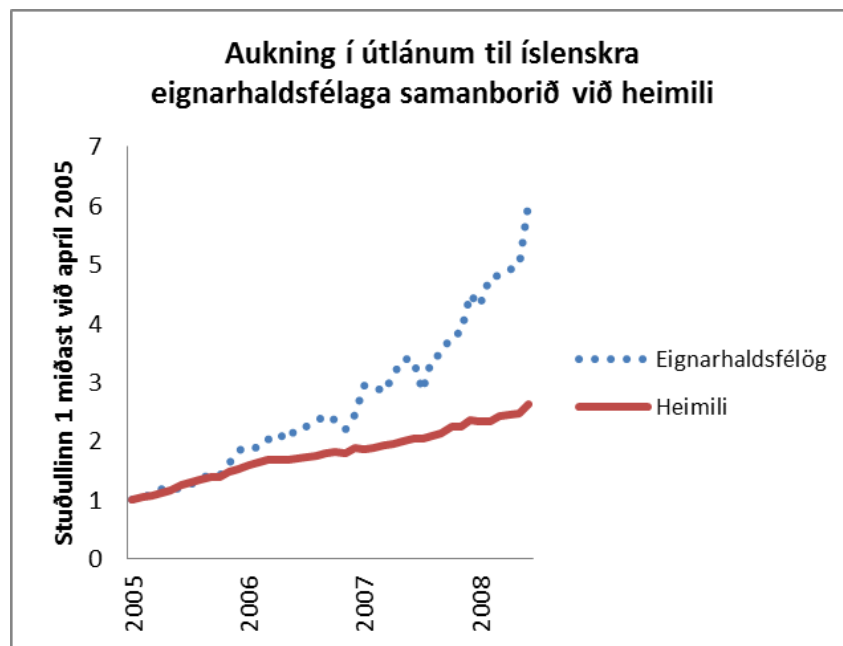
financial institutions in Europe providing local financial institutions loans. Icelandic parties, meanwhile, believed that they found few promising investment domestically⁸⁰ and thus used the funds to invest in European companies (Aliber 2010). German banks lent, for example, much of the money to Icelandic financial institutions, which then invested in projects that Germans themselves felt hardly be a sensible investment. The loss that the German banks collectively suffered due to lending Icelandic banks became, never-the-less, similar to the annual gross national product of Iceland (Lewis 2011). The strong belief in the efficiency of markets also had a major impact on the financing capacity of the Icelandic banks. There are examples of foreign banks having lent Icelandic banks hundreds of million Euros without reliable collateral for such loans (short-term loans), with almost no analytical study done by their credit departments and instead relying almost entirely on investment grading done by credit rating companies such as Moody's and Standard and Poors' (Héraðsdómur Reykjavíkur 2010, 2012).

Growth through such banking practices was much faster than traditional lending to households, which underscores the inversion of the alleged role of the Icelandic banks. This is clearly shown in Figure 1 that shows the increase in lending to holding companies compared with loans to Icelandic households from April 2005. This figure does not tell the whole story because such loans were sometimes given with the sole

⁸⁰ Kindleberger and Aliber (2010) provide an extensive discussion about capital flows between countries and the consequences on the economies of a nation when a sudden inflow occurs within the economy. Such inflow usually creates an asset bubble, which also happened in Iceland. The capital inflow was, however, so much that despite Icelanders increasing their debts, consumption, and the following asset bubble, yet a great deal of money had to find its way out (again) of the country.

purpose of buying shares in other companies (Jannari 2009) or even shares of the same banks that provided such loans (Rannsóknarnefnd Alþingis 2010, kafli 12).

Figure 1. Comparison of the increase in lending to Icelandic holding companies compared to households.



Source: Seðlabanki Íslands (2009)

Figure 1 shows how much the Icelandic banks lent to holding companies, many of which were undergoing foreign expansion. The comparison is even more interesting in light of the fact that mortgage loans, which had mostly been limited to the Housing Loan Fund by the state, exploded in size in 2004 and were exceptionally high during this period. Often owners of the holding companies contributed little equity in their acquisition spree or investments, which meant that they were highly leveraged.⁸¹

⁸¹ Leveraged investments take place when investments are financed to a great extent with loans as opposed to owner's equity. The higher the percentage of loans used to finance investments, the greater

Despite the emphasis on international opportunities regarding investments worldwide, the Icelandic banks sought surprisingly similar assets, many of them well known businesses to Icelanders prior to the expansion. Retailers in Oxford Street in London and downtown Copenhagen, places frequently visited by Icelanders on shopping trips to Europe, are examples of companies that Icelandic entrepreneurs bought and financed largely with foreign capital. These companies included Arcadia in London, which owned retailers such as Selfridges, Debenhams and House of Fraser and also clothing chains such as Topman, Topshop, Wallis, Burton, Dorothy Perkins, Evans, Miss Selfridge and BHS, Illum and Magazine in Copenhagen. A good example of the uniformity of the Icelandic economic expansion was the acquisition of the Danish Bank FIH Bank by Kaupthing Bank in 2004. Kaupthing Bank's assets nearly tripled that year, of which the acquisition amounted to about 80% of the total increase (Rannsóknarnefnd Alþingis 2010, kafli 7). The main competitors of Kaupthing Bank in this acquisition were the other two Icelandic banks, Landsbanki Íslands and Íslandsbanki. In light of the fact that the Icelandic government had little interest in connecting to the global financial environment by allowing foreign investors to become dominant investors in the Icelandic banking sector, it can be claimed that another type of globalization of Icelandic banks took place with the expansion of Icelandic investors, who were either the banks themselves or companies supported loyally by them. A CEO of Kaupthing

the risk becomes but also the rewards. If for example an investment is made for \$100 and the owner's equity is only \$10, a mere 10% rise in the value of the investment doubles the value of the owner's equity, making the investor look like an investment genius. If the investment, however, falls in value of merely 10%, the investor's equity has been wiped out. It is also worth pointing out that a few court cases have recently taken place where some Icelandic bankers have been accused of lending holding companies money for the sole purpose to invest in the bank's shares in order to stem their descent in the stock market.

Bank said in a private meeting that the company intended to become like the investment bank Merrill Lynch,⁸² recently visited by Kaupthing Bank members, and some of Kaupthing's employees at a later date said jokingly that they were becoming like Goldman Sachs in Iceland (Ásgeir Jónsson 2009). As discussed more closely in the next part of the article, the concept of "Vikings" became increasingly used in connection with these purchases abroad, with the ownership of the media was increasingly moving into the hands of the largest customers and owners of banks (Alda Guðrún Áskelsdóttir 2009). Instead of referring to the Icelandic banking system as a local system, a concept related to expansion was formed that intertwined with a vague idea of the Viking heritage of Iceland (Kristín Loftsdóttir 2009).

Globalization and nationalism

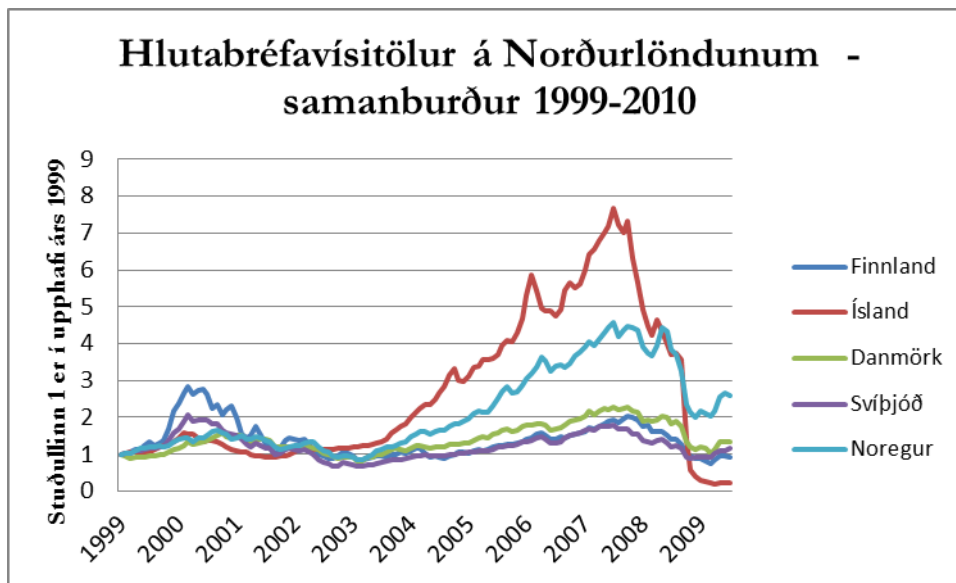
It should be emphasized that when the privatization process of the banks was completed, the following growth of the banking and securities markets in Iceland was historically unknown world-wide. The Icelandic stock index rose by 56% in 2003, 59% in 2004 and 64% in 2005, meaning the index rose fourfold during that period (Gylfi Magnússon 2006).⁸³ Even compared with other stock markets, which also rose a great deal during the same period, the rise in Icelandic shares was noticeably the most. Figure 2 shows how fast the Icelandic stock index rose compared with the other Nordic countries since the beginning of 1999. This success was coupled by the

⁸² This was said in a conversation with a banker who worked closely with Kaupthing Bank during those years.

⁸³ Fridson (1998) shows that the most historical rise of the stock market value in the U.S. during one year, measured from the first trading date to the last one each calendar year, was in 1933 when the stock index rose 54%. That rise occurred, however, after the Dow Jones stock index had fallen almost 90% from its peak value in the midst of the Great Depression.

conception that it was in some way a result of the "nature" of the Icelanders themselves, reflected in how the foreign acquisitions among Icelandic businessmen was linked to national characteristics of Icelanders.

Figure 2. Comparison of the stock markets of the Nordic countries.



Source: Eurostat (2012).

The increased emphasis on nationalism was reflected within the banks themselves, as can be seen in the names and transformation of the banks' slogans. Landsbanki Íslands kept both its name and slogan that refers obviously to no special sectors or groups. It also fitted well to the image of "us" Icelanders being Vikings on some sort of conquest, which related still to being the bank of all inhabitants/inclusive Icelanders, except now, the term "inhabitants" was probably not in the minds of the public associated with the role of banks in Icelanders' daily life, but the Vikings that were expanding in new territories. The advertisements during that period were also increasingly utilizing references to the country and nation with images

of Icelandic landscapes or unifying symbols of the Icelandic nation, such as works of art or artists. By looking at older banking advertisements one can see a the emphasis on quality customer service as being the key focus of the banks and additionally references to specific sectors or groups. When Kaupthing Bank and the Agricultural Bank merged in 2003 (Kaupthing Bank in reality overtook the operations) the name of the new bank was first changed to an abbreviation of the two banks, a neutral and non-localized name KB-Bank. It was then converted again to the name Kaupthing Bank, which was Icelandic but had become a well-known name abroad. The bank discarded the "Trustworthy Bank" slogan that had been damaged during the turn of the century, but the focus was anyway on growth rather than trust. Íslandsbanki changed its name to Glitnir Bank in 2006 to provide the bank an international ambience (despite that, many foreigners struggled to pronounce it), but held at the same time a connection to Iceland. In Iceland, a considerable emphasis was placed on the connection to the Nordic mythology in the new name although little effort was put in providing a detailed explanation of the concept: Glitnir was the dwelling of the Asa president that was maintained to be covered with silver, with the pillars, walls and beams made of gold.⁸⁴ Even savings banks were increasingly using abbreviations in their names and advertising campaigns, such as SPH instead of Savings Bank of Hafnarfjarðar and SPV instead Savings Bank for Engineers, making their relationship with certain professions or towns less clear and even invisible. When the above savings banks merged in 2006 the merged entity was renamed as Byr Savings Bank, thus leaving no longer any local

⁸⁴ <http://visindavefur.is/svar.php?id=22727>

or professional connection in its name. Joint promotional campaigns of the savings banks continued to focus on services with the use of the "for you and your people" slogan, but they were considered to have lost the competition against the banks during the years before Iceland's financial system collapsed.⁸⁵ The name of what may be translated as The Savings Bank of Iceland was in 2006 changed to Icebank, a name that had been used in relation to its foreign customers since its establishment in 1986 (Icebank 2006). By doing so, the name of the bank was no longer Icelandic but referred still to Iceland. It was changed back to its original name only a few days after the collapse of the Icelandic banking system in the autumn of 2008, when it was clear that the expansion had failed and the possible future life of the bank would only be based upon its former role of servicing domestic savings banks.⁸⁶

The re-definition of banks as institutions with no specific relations to certain sectors or (local) groups within society fit well to social discourses and main emphasis of many leading representatives of the nation on the new role of the banks, with a parallel emphasis on the ethnicity of Icelanders as an impact factor in the success of banks and Icelandic investors. It is particularly interesting how the media discourse during this time, both in terms of what journalists themselves wrote and their interviews with the major players in the business community and banks, shows a recurrent reference to

⁸⁵ It is beyond the scope of this paper but the savings banks began concentrating their profits to an alarming degree on one particular investment company that was highly leveraged. In fact, while the savings banks recorded record profits 2005-2007, all of them were derived from the ownership in that sole investment company. The investment company was worthless during the beginning of 2008 when the bad effects of leverage became obvious when stock prices were falling.

⁸⁶ Most of the domestic savings banks were merged with other Icelandic banks built from the ashes of the older banks, with Icebank being put into receivership in 2009.

"our" Iceland; success stories abroad thus becomes a part of "our" success, as well as being rooted in "our" specific national characteristics. References to Iceland's settlement heritage and the Vikings was particularly important when referring to the warehouse of memories. Those memories were selected from cultural scenarios, something that is worth keeping note of considering that the local textbooks from the early 20th century referred mostly to the settlers rather than the Vikings (Kristin Loftsdóttir 2009, 121). A speech by Iceland's President, Ólafur Ragnar Grímsson, at the Historian Society of Iceland (*Sagnfræðifélag Íslands*) in 2006, reflects clearly how the success of Icelandic investors abroad was linked to the settlement heritage of Icelanders, those investors being in most cases either the banks themselves or companies supported by them. According to the President, the Settlement Century was in a certain way "the beginning of all this" and "people who came here were part of a culture that sought new opportunities in exotic lands, going long distances in search of better opportunities, and had thus a similar expansion spirit as the one that has shaped our recent success"(Ólafur Ragnar Grímsson 2006). It was not only newspapers that evoked Iceland's settlement heritage but also public reports, including a report written by the Chamber of Commerce, which used terms like "Vikings" and "raid" (Þór Sigfússon & Halldór Benjamín Þórbergsson 2005, 21 & 33). A report written by a committee on Iceland's image set by the Prime Minister in 2007 reflects similar ideas, focusing on the settlement heritage Iceland (Forsætisráðuneytið 2008). A discussion in the Icelandic business journal *Markaðurinn* revolves around an interview that the Bloomberg news channel had with Björgólf Thor Björgólfsson where he talks about himself, seeing his role to be "an explorer" (*Markaðurinn* 2006a, 8). The journalists

sometimes use the phrase of Vikings as part of headlines or an explanation of the success of individuals, which reflects how normalized such references had become (see, for example, *Markaðurinn* 2006a). This focus on the settlement heritage of Icelanders intersected with an emphasis that the success of the expansion was based on the specific characteristics of the nation. The report issued by the Iceland's Chamber of Commerce regarding Iceland's image, as earlier mentioned, reflects this emphasis, stating that "Icelandic business is [characterized] by flexibility and rapid decision-making," and that Icelanders are quick to "adapt innovations," which is different for example from the British (Þór Sigfússon & Halldór Benjamín Þorbergsson 2005, 26). Similarly, the reporter of the journal *Markaðurinn* talks about Icelanders as entrepreneurs that "are willing to take great risks" (*Markaðurinn* 2007a, 14) and in an interview with the Executive Chairman of Auður Capital it is stated that some consider "us even a bit crazy people, because we get the idea of doing things that others consider impossible" (*Markaðurinn* 2007b, 16). The Icelandic government and interest groups supported this image. A vivid example of this is a key business symposium in 2007 entitled "Iceland is the best in the world? International reputation and image. (*Ísland best í heimi? Alþjóðlegt orðspor og ímynd*)" Iceland's Prime Minister and the Minister of Education were key participants with some important people from the business community. The symposium also invited an expert, Simon Arnholt, to introduce to the Icelandic government a proposal for long-term policies in shaping the image of Iceland (see *Viðskiptablaðið* 2007, 6). According to a comparative research conducted by Arnholt, the strength of Iceland's image was in 19th place world-wide. According to *Viðskiptablaðið*, Geir Haarde said on the occasion that he was unhappy with this

since "we know better and we need to communicate better that we are in the leading group" (*Viðskiptablaðið* 2007, 6). His words turn the emphasis from the image as such to what Iceland is in "reality." According to his words, "we „are in the top class in a vague classification of nations and the goal is to bring others to understand our legitimate position. This joint dialogue between Iceland's government and the business community at the symposium can connect to Guðmundar Hálfðanrson's and Olafur Rastick's discussion, mentioned earlier, on the importance of the government in taking up certain nationalistic discourses and legitimate them.

This does not mean that a perfect agreement was on this image Iceland so freely drawn up in the media. Some questioned the vision that something was uniquely Icelandic regarding the expansion, even those related to the so-called international expansion. This is slightly mentioned in a report by the Export Committee of Icelandic companies regarding Icelandic companies in the Nordic region, stating that it does "clearly offend various local managers when foreign success is attributed to some ill-defined Icelandic superiority" (Þorgeir Pálsson, Hákon Gunnarsson & Sveinbjörn Hannesson 2006, 15), although this is not covered in an accurate manner. The CEO of Össur emphasized in an interview during this period in *The Market* during this period that "Icelanders are not necessarily better than others though we are certainly just as good" (*Markaðurinn* 2006c, 10). The fact that the person finds it necessary to state this still provides a strong hint of how such ideas were widely accepted. It is also, however, clear that the nationalistic discussion in Iceland reflected itself also in foreign discussion about Iceland and in a mutual interaction with it. One chapter of the

Chamber of Commerce report is the assessment of British individuals of the Icelandic business environment, showing consistent themes from the Icelandic media such as the emphasis on flexibility Iceland and quick decision making (Þór Sigfússon and Halldór Benjamín Þorbergsson 2005, 28-29). The British media also reported news detailing "Icelandic Vikings" with *The Market* and *Viðskiptablaðið* constantly and diligently outlining in an exact manner the raves of foreign journalists regarding Iceland and its expansion on foreign shores. *The Market* published for example news regarding a discussion in *The Guardian* in the UK where it was stated that the "Icelandic expansionists" are "young, horny and hungry" (*The Market* 2007d, 12). It should be reminded, as is reflected in *The Market* during the 2006-2007 period, the discourse regarding foreign criticism of the Icelandic expansion abroad and foreign rating agencies being worried of leverage within the Icelandic banks were often reported as being something rooted from dubious points of views. This can be seen for example in the title of an article in *The Market* in November 2006: "The Danes are aggressive and there is no protection to be expected within that country: We must defend the lie ourselves" (Hafliði Helgason 2006, 12). The title focuses on "us" Icelanders as one united group as previously mentioned, where Icelanders are called upon to protect.

Discussion

Lehman Brothers collapsed in October 2008 and it was clear from that very moment how global processes are interconnected to local conditions (Moore 2004, Haugered 2003) and the compression of time and space that is often cited as the main features of a globalized world (Appadurai 1996). People across the world, including Iceland,

watched closely, knowing that the banks' collapse would have a major impact on the well-being and the future of their own, despite having no means to realize the extent. The collapse of the Icelandic financial market set in a similar manner its mark on the international situation elsewhere. Icelanders were active in interpreting the international context in which the Icelandic banking system progressed into during the 1990s, and not as part of the increased standardization of the Icelandic system or increased uniformity, but a very nationalistic manner. Kristín Loftsdóttir has talked about the participation of the Icelandic nation in globalized processes, which had been an "integrated discourse on identity and international image" where the "national and international are not opposites, but each feature in their own way the importance for a national identity" (2007, 160). Symbols of Icelandic nationalism can thus gain a new meaning in ever changing contexts, where they become part of marketing of Iceland for Icelanders themselves (Kristín Loftsdóttir 2007, 164 & 169). For certain ideas or ideologies to receive such custody in the community there needs to be harmony between them and the experience of individuals, and they must be in conjunction with their desires and expectations (Eagleton 1991, 14-15). The success abroad and the idea of the expansion was not separated from the experience of individuals but on the contrary, the expansion was "general knowledge, lived and touched and repeatedly proven in the pages of media" (Kristín Loftsdóttir 2011, 5).⁸⁷ In the constant discussion about the fascination of foreigners in Iceland and with such self-promotion it can be

⁸⁷ Such a view was largely due to the easy access to money from abroad that for a short while creates added production within society and thus well being. That view turned out scratching only the surface and is often the precursor of a financial crisis and massive contraction in the economy.

argued that expansion obtained a strong foothold within Icelandic society. This fits with Reinhart and Rogoff's description (2011) of preludes of previous financial crisis, who argue that public opinion during such upswings involves the belief that "(w) e are smarter, we have learned from past mistakes ... is built on sound fundamentals, structural reforms, technological innovation and good policy" (ibid, xxxiv). The boom in Iceland was financed with funds from foreigners, which is remarkable in light of the strong national discussion characterizing it.

If one looks at the history of the banking system in Iceland, as we have done here, it is interesting that the discussion that took place regarding the Icelandic investors and bankers within the framework of expansion had no visible connection with the historical development of the financial system in Iceland or banks. The focus was instead placed on a vague Viking nature that was out of step with the financial history of the country, which to a certain extent, as one international banker noted, simply did not exist in Iceland (interview taken in 2012). Within the history of banks and financial institutions there is little emphasis on "quick decision-making", "independence" or "flexibility" as important aspects, as was often associated with the vague Viking nature. Hobsbawm's (1983) concept of "invented traditions" describes this in a certain way, when modern times refers to the concept of the Settler or Viking and thus indirectly refers to the fight of independence in the early 20th century (Kristín Loftsdóttir 2009). Hobsbawm (1983) points out the importance of such an ideology at a time of immense changes within society, providing certain ideas custody, enhancing solidarity among specific groups and justifying the introduction of social layers in the

community. Increased hierarchies developed in Iceland's society, in parallel with a great deal (and positive) discussion in the media about the lifestyle of those who were in charge of the banks and the so-called Vikings who created the environment of expectations and confidence (Mar Wolfgang Mixa 2010).

The strong consensus surrounding the expansion was clearly reflected in the responses observed within business publications when international rating agencies began questioning the business practices of the Icelandic banks. The re-action clearly revealed how criticism regarding the expansion of the Icelandic banks was criticism of "us" and became, therefore, automatically part of some dubious points of views, as the above references reflect. This focus on "us" made criticism particularly difficult for Icelanders to swallow as can be seen in the words of one expert working at SPV Bank (formerly Savings Bank for Engineers), when he addresses the criticisms of the expansion in the wake of negative coverage by a rating agency and adds: "It is sadder, however, that parties in this country have chosen to echo the ill-founded statements and unjustified criticism of foreign competitors („Skoðun: Enginn er annars bróðir..."2006). This echoes the discourse before the Great Depression hit the United States. An excellent example is when Paul Warburg, one of the major forces in creating the Federal Reserve in 1913, voiced concerns of overheating within the financial system at the beginning of 1929; he was criticized harshly and even accused of "sandbagging American prosperity" (Sobel 1968, 126).

Conclusion

The Icelandic banking system changed in a relatively short period from being a closed system, which was based on political and strategic facilities, to being privatized banks that were supposed to promote greater efficiency in operations and reduce political interference. The selected way of globalization did not entail the involvement of foreign parties but primarily supported certain Icelandic individuals to expand their activities abroad. The banks' focus changed afterwards: Before their activities focused on servicing specific groups of Icelandic borrowers but following the privatization the banks' new focus was mainly investment opportunities with the aim to become important participants in the international markets. This change of emphasis gained permanent foothold after the privatization of banks. The enormous expansion in Iceland during the decade before the crash bore obvious signs that can be seen in the precursor to other major financial collapses throughout history, both in economic and social terms (Reinhart & Rogoff 2008, Shiller 2001). Concerns were being voiced during the beginning of the new century about the increase in lending, including lending in foreign currencies (Seðlabanki Íslands 2004, „Viðvörðun til allra bankanna“2004). This criticism was often answered with references to restrictions on loans having restrained Icelandic households from borrowing and capital liberalization was thus a factor in adapting to the Western world, a tone similar to what it was in the Nordic countries during the prelude of the crisis of 20 years ago (Jonung 2008). When material was sought in the warehouse of memories a special emphasis was placed on a legacy of Icelandic settlers and their unique ability surviving in a difficult country, while avoiding obvious but yet important factors such as how much was similar in Iceland

during this time compared to historical precursors of financial bubble elsewhere - how Icelanders continually ran at a red light as Már Wolfgang Mixa and Throstur Olaf Sigurjónsson (2010) termed it. Here we have pointed out that part of the explanation as to why the warning signs were ignored can be found in the way globalization was interpreted in a nationalistic manner in Iceland, underlining that it is often difficult to separate the analysis of culture and finance.

A strong consensus of the so-called expansion was formed within the Icelandic society, which was based among other things on how it was defined as "our" Iceland's project and criticism of its individual components was easily interpreted as a criticism of "us." It is quite difficult to state whether representatives of the expansion Vikings deliberately took advantage of such nationalistic themes, but they seem have to some extent tried to exaggerate this relationship, like when one major figure named his yacht "Viking" and had a three-meter high statue of Leifur Heppni (a figure related to Iceland's settlement) in the lobby of his company's headquarters in London (Guðni Eliasson 2009). It is ironic that this nationalistic expansion was largely financed by foreign sources, even the Danes, who were at the same time criticized harshly in the local media. Ultimately, it was also those foreigners who bore the brunt of the losses, having to finance most of the enormous losses associated with the expansion. The perception of the uniqueness of the Icelandic banking served the purpose well for the owners and key stakeholders associated with the banks. The picture of their role and characteristics was, however, not in any way parallel with historical facts and ideas concerning the role of the banks.

References: See following the original Icelandic version.

Icelandic version

Inngangur

Innan um snyrtilega bunka af kynningaefni á Landsbókasafni-Háskólabóksafni Íslands er að finna lítinn bækling frá Landsbankanum sem líklega var gefinn út á hápunkti útrásarinnar svokölluðu. Á forsíðu segir yfirskriftin: „Við þekkjum okkar fólk.“ Á hverri opnu er myndskreyting öðru megin og stuttur texti hinum megin. Það merkilega er að í bæklingnum eru engar upplýsingar um starfsemi bankans, þjónustu eða í raun neitt sem viðkemur bankastarfsemi. Tilgangur bæklingsins, samkvæmt inngangi hans, er að minna á „að starfsfólk Landbankans hefur gegnt lykilhlutverki í framfaraskrefum íslensku þjóðarinnar í meira en 100 ár“. Bæklingurinn útlistar þó ekki þetta hlutverk heldur „heillandi sérkenni“ Íslendinga sem gera „okkur einstök“ eins og það er orðað í textanum. Einkavæðing þriggja stærstu bankanna á Íslandi lauk árið 2003 en markmið hennar var meðal annars að „veita bönkunum framtíðarsóknarfæri og góða arðsemi“ eins og segir í fréttatilkynningu frá forsætisráðuneytinu (Forsætisráðuneytið, 2002). Mikið af kynningarefni bankanna var borið inn á hvert heimili landsins – eins og mögulega var raunin með þennan bækling – sem átti þátt í að gera banka hluta af daglegum veruleika fólks. Aðeins fimm árum eftir einkavæðingu tók íslenska ríkið bankana yfir til að forða þeim frá gjaldþroti. Erlendir kröfuhafar töpuðu því sem nemur tvöföldu virði allra fasteigna á Íslandi (Már Wolfgang Mixa, 2011). Bankar léku hér lykilhlutverk því íslenskir fjárfestar voru annaðhvort bankarnir sjálfir eða félög studd dyggilega af bönkunum.

Í þessari grein bendum við á að samhliða því sem íslenskir bankar urðu hluti af alþjóðlegu fjármálakerfi voru þeir endurskilgreindir á Íslandi út frá þjóðernislegum hugmyndum. Endurskilgreiningin á hlutverki bankanna snerist meðal annars um að í staðinn fyrir að bankarnir ættu að þjóna staðbundnu samfélagi hefðu þeir – og um leið Íslendingar – stærra alþjóðlegu hlutverki að gegna. Hlutverk bankanna var þannig talið endurspeglar hlutverk Íslendinga sem heild. Aukin alþjóðleg tengsl og hnattræn ferli hafa einmitt vakið upp nýjar spurningar fræðimanna hvað varðar hlutverk þjóðernislegra sjálfsmynda í breyttu umhverfi. Fyrir nokkrum áratugum síðan, þegar fræðileg umræða um hnattvæðingu fór á flug, veltu sumir fræðimenn fyrir sér hvort mikilvægi þjóðríkjanna myndi ekki fara minnkandi (Appadurai 1991). Þvert á þessar vangaveltur hefur þjóðin haldið áfram að vera mikilvægur vettvangur samsömunar (Ginsberg, Abu-Lughod and Larkin, 2002). Stöðluð sýn á menningu og menningarmun hefur þannig fengið vaxandi forræði í samtímanum, mögulega sem mótsvar við vaxandi uppbroti og auknu flæði fólks og hugmynda (Gupta og Ferguson 1997; Xavier, Rosaldo og Rosaldo 2002). Hugmyndir í anda eðlishyggju um þjóðmenningu hafa einnig fengið aukið vægi vegna þess að hugtakið menning hefur meðal annars verið tekið upp meðal þeirra sem aðhyllast hugmyndafræði frjálshyggju sem einskonar merkimiði eða vörumerki í hnattrænu markaðskerfi. Þannig hefur menning orðið markaðsvædd með aukinni hnattvæðingu sem stuðlar að frekari hlutgervingu hennar og mikilvægi þess að skipuleggja fjölbreytileika í hnattvæddum heimi (Moore 2004, 78). Eitt einkenni samtímans, eins og Andreas Huyssen (2001) bendir á, er linnulaus upprifjun á fortíðinni þar sem sögulegur atburðir eru notaðir til að skapa ákveðinn ramma til að skilja samtímamann. Mannfræðingurinn Arjun Appadurai (1996) talar um og vísar til vöruhúss

menningarlegra leikmynda (e. *warehouse of cultural scenarios*) þar sem valið er úr minningum til að ramma inn nútíðina. Í því dæmi sem hér er til umfjöllunar snýr markaðsvæðing menningar ekki síður að Íslendingum sjálfum og sköpun sjálfsmýnda þeirra sem Íslendingar.

Við leggjum áherslu á að íslenska fjármálakerfið óx með afar svipuðum hætti og gerst hefur í undanfara bankakreppa annars staðar með augljós bólueinkenni (Sigurjónsson og Mixa 2011). Við leggjum til að þjóðernisleg áhersla, þar sem sótt var í smiðju ákveðinna menningarlegra leikmynda og því lögð áhersla á sérstöðu Íslands, útskýri að einhverju marki af hverju aðvörunarmerki voru hundsuð þegar sagan átti að sýna að efnahagsleg kreppa og jafnvel sögulegt hrun væri í aðsigi. Nálgun okkar sem er þverfaglegt undirstrikar þannig að efnahagslegar breytur séu hluti af samfélaginu. Löng hefð er fyrir slíkri nálgun innan mannfræðinnar þar sem fræðimenn hafa rannsakað efnahagskerfi ólíkra þjóðfélaga sem samofna öðrum þáttum þess (Schwegler 2009). Innan hagfræðinnar má sjá aukna áherslu á að skilja efnahagsleg málefni út frá hugmyndum um menningu (Hofstede, Hofstede og Minkov 2010) sem og gagnrýni á hvernig efnahagsleg málefni hafa oft verið skoðuð fyrst og fremst sem tæknileg úrlausnarefni (Hageraud 2003). Í harðri gagnrýni á nýfrjálshyggjukenningar (e. *neoclassical economics*) bendir Steve Keen (2011, 15) á að söguleg nálgun hefur að mörgu leyti verið gerð útlæg úr verkfærakassa hagfræðinga og er ekki kennd í mörgum háskólum sem hluti af hagfræði. Eins og við sýnum fram á hér er ein leið til að tengja saman hagfræði og menningu sú að draga fram hvernig hagrænar breytur eru hvort tveggja í senn hluti af hnattrænu og staðbundnu umhverfi, sem og tengdar

samfélagslegum hugmyndum um þjóðerni og samkennd. Á Íslandi virðist alþjóðavæðing staðbundis kerfis hafa verið túlkuð með mjög þjóðernislegum hætti sem átti sér litlar stoðir í fyrri skilningi á Íslandi á hlutverki og eðli bankanna. Það er því nokkur þversögn fólgin í því að á sama tíma og íslenskt bankakerfi fylgdi í auknum mæli því sem var að gerast á alþjóðlegum mörkuðum var fjármálaumhverfið á Íslandi túlkað sem hluti af þjóðareinkennum Íslendinga.

Við byrjum á að tala um þróun bankakerfisins á Íslandi fyrir miðjan tíunda áratuginn þar sem áherslan var fyrst og fremst lögð á að þjóna ákveðnum byggðarlögum eða starfsstéttum. Þeir meginþættir sem urðu til þess að þetta kerfi breyttist eru svo raktir sem og hvernig það var samþætt alþjóðlegu fjármálakerfi. Bent verður á hvernig almenningur var virkjaður til að styðja þessar breytingar með tilvísunum til þjóðernislegra hugmynda um eiginleika og hlutverk Íslendinga. Íslenskir fjármálamarkaðir og þróun þeirra höfðu þó einnig áhrif á alþjóðlegum fjármálamarkaði og þannig hnattræn áhrif. Við leggjum áherslu á að lokum að þrátt fyrir að útrásin byggi á þjóðernislegum stefnum sem lögðu áherslu á eiginleika Íslendingana sjálfra var útrásin þó að mestu leyti fjármögnuð af erlendu fé.

Greinin byggir á útgefnum heimildum og frumgögnum sem voru að mestu leyti fengin með eiginlegum aðferðum. Meginfrumgögn eru umræða fjölmiðla um íslensku útrásina á tímabilinu 2006–2007, sérstaklega eins og hún birtist árin 2007 og 2006 í dagblöðunum *Markaðurinn* og Viðskiptablaði *Fréttablaðsins*. Einnig var auglýsingum

og kynningaefni bankanna frá 1970 til ársins 2008, sem var að finna á Landsbókasafnið-Háskólabókasafnið, safnað saman.⁸⁸

Þróun íslenska bankakerfisins

Í samræmi við gagnrýnar rannsóknir fræðimenna á þjóðernishugtakinu (Anderson 1983) og hefðir sem pólitískt fyrirbæri (Hobsbawm (1983) hafa rannsóknir á mótun íslensks þjóðernis bent á hvernig íslenskt þjóðerni er sprottið úr ákveðnu sögulegu og pólitísku samhengi í stað þess að vera „náttúrulegt“ fyrirbæri eins og þjóðfélagleg umræða virðist oft gera ráð fyrir (Guðmundur Hálfðánarson 2000). Viðhorf Íslendinga til sögu lands og þjóðar voru lengi vel undir áhrifum frá Jóni Jónssyni Aðils en í alþýðufyrirlesturum sínum í byrjun 20. aldar tengdi Jón saman íslenska þjóðernisvitund og framfarir í landinu í anda hugmynda þýska heimspekingsin Johann Gottlieb Fichte (Sigríður Matthíasdóttir 1995, 41). Hugmyndin um eina þjóð með sömu sögu og framtíð hefur haldið áfram að vera mikilvæg (Guðmundur Hálfðánarson 2000, 7) sem og hugmyndin um yfirburði íslenskrar tungu og þjóðernis (Sigríður Matthíasdóttir 2004). Íslensk stjórnvöld hafa einnig lengi vel stofnanavætt sérvalin tákn íslenskrar menningar og þannig haft áhrif á skilning almennings á hvað er mikilvægt í íslensku þjóðerni (Guðmundur Hálfðánarson og Ólafur Rastrick 2006). Eins og rannsókn Ólafs Rastrick á hugmyndum ráðamanna um menningarstjórnun bendir á má snemma sjá áherslu á menningarlega endureisn Ísland sem nútímalega þjóð (2013, 76–77). Þrátt

⁸⁸ Gögn byggja á tveimur rannsóknarverkefnum: Rannsókn Kristínar Loftsdóttur, Íslensk sjálfsmynd í kreppu, sem styrkt hefur verið að af Rannsóknarsjóð Háskóla Íslands og RANNÍS - Rannsóknarsjóð Íslands. og doktorsverkefni Mús Wolfgang Mixa undir leiðsögn Vlad Vaiman við Háskólann í Reykjavík. Mús vann um árabíl í íslenskum bönkum og fjármálafyrirtækjum. Inga Hrönn Hasler, Ósk Sturludóttir og Sigurður Ágústsson aðstoðu við söfnun gagna sem nýtt voru við skrifun greinarinnar.

fyrir að ýtarlega hafi verið komið inn á hlutverk íslensku bankanna í samhengi við íslenskt efnahagslíf og brotalamir þess (Rannsóknarnefnd Alþingis 2010, Jón Daníelsson og Gylfi Zoega 2009; Gylfi Zoega 2008) hafa rannsóknir ekki fyllilega litið á hlutverk banka í víðara samfélaglegu og menningarlegu samhengi né hvernig hlutverk þeirra var endurskilgreint á útrásartímabilinu. Þó hefur Guðmundur Jónsson (1995) bent á að íslenska efnahagsstjórnun hefur verið undir áhrifum frá þjóðernisstefnu þar sem markmiðið var meðal annars tryggja efnahagslegt sjálfstæði landsins og því öryggi þjóðarinnar (bls. 76) en einnig hafi verið nauðsynlegt að setja á fót þjóðarhagkerfi og byggja innviði stofnanna (bls.80).

Samanborið við önnur evrópsk ríki þróaðist íslenskt bankakerfi tiltölulega seint með danska verslunarmenn sem nokkurs konar fjármálastofnanir sem veittu lán þegar slíkt var nauðsynlegt fyrir viðskipti. Íslendingar fengu fjárforræði með stjórnarskránni árið 1874, á þúsund ára afmæli landsfundar (Guðmundur Jónsson 2004). Landsbanki Íslands var stofnsettur af ríkisstjórninni árið 1885 og hóf starfsemi ári síðar. Nafnið endurspeglar tilgang hans, að vera banki allra landsmanna í víðum skilningi, enda var um að ræða blöndu af hefðbundnum banka og seðlabanka sem, með leyfi ríkisstjórnarinnar, mátti prenta takmarkað magn peninga sem tryggðir voru af ríkinu. Í frumvarpinu um stofnun hans segir að tilgangurinn sé að „greiða fyrir peningaviðskipum í landinu og styðja að framförum atvinnuveganna“ (*Austri* 1885, 61). Sparisjóðir komu til sögunnar á þessum tíma en voru smáir og sjaldan langlífir. Nöfn þeirra endurspeglar það að hlutverk þeirra var fyrst og fremst að vera þjónustuaðilar fyrir sitt heimasvæði, en sem dæmi ná nefna að sá fyrsti var kallaður

Sparnaðarsjóður búlausra í Skútustaðahreppi.⁸⁹ Upp úr 1870 náðu sparissjóðirnir sterkari fótfestu, aðallega með tilkomu Sparissjóðs Reykjavíkur. Árið 1904 stofnuðu danskir fjárfestar banka á Íslandi og þrátt fyrir að vera í eigu erlendra manna og vera fyrsti vísirinn að fjármálastarfsemi með alþjóðlegri tengingu kusu Danirnir að nefna hann Íslandsbanka (Ásgeir Jónsson 2009). Bankinn fékk leyfi til útgáfu löglegrar íslenskrar myntar, sem gerði hann óbeint að nokkurs konar seðlabanka Íslands. Ríkið hafði veitt atvinnugreinunum ýmsar fyrirgreiðslur með mismunandi leiðum sem leiddi til stofnunar Búnaðarbankans árið 1929 sem hóf svo starfssemi ári síðar (Guðmundur Jónsson 2004). Íslandsbanki varð gjaldþrota í upphafi kreppunnar miklu árið 1930 og tók ríkisstjórn Íslands yfir rekstur bankans og stofnaði nýjan banka, Útvegsbanka Íslands, sem varð að viðskiptabanka sjávarútvegsins (Sveinn Agnarsson 2004; Ásgeir Jónsson 2009). Þrátt fyrir að litið var svo á að hlutverk bankanna fælist í því að vera þjónustuaðilar ákveðinna hópa, var samhliða talið að bankar hefðu mikilvægu hlutverki að gegna fyrir nývæðingu landsins og þannig fyrir Ísland til að verða bæði nútímaleg og sjálfstæð þjóð. Gott dæmi um þetta er sérhefti *Fálkans* sem gefið var út árið 1938 í tilefni af 20 ára fullveldi Íslands en þar má sjá mjög markvissa kynningu á Íslandi sem landi á leið til nývæðingar. Blaðið er að mestu á norðurlandamálum og þar eru kynntar ýmsar stofnanir landsins og atvinnuvegir, ásamt listgreinum. Landsbankinn og Útvegsbankinn auglýsa þar starfsemi sína með heilsíðuauglýsingum sem hafa líklega það markmið að draga fram nývæðingu Íslands og þróun í samræmi við aðrar

⁸⁹ Það sama má einnig segja um eignarform þeirra, sem var lögfest árið 1915, þar sem eigendur stofnfjárskirteina áttu ekki ótakmarkað tilkall til hagnaðar sparissjóðana heldur fór hann einnig í varsjóð æltaður til samfélagslegra verkefna á heimasvæði þeirra.

Evrópuþjóðir (Vilhjálmur Finsen og Skúli Skúlason 1938). Eins og Guðmundur Jónsson (1995) hefur bent á hafði þjóðernishyggja í tengslum við efnahagsstjórnin landsins ekki þau áhrif að Íslendingar vildu óbreytt efnahagsástand heldur þvert á móti var mikill áhugi á uppbyggingu og nývæðingu atvinnuhátta (bls. 86).

Þessi sérhæfing banka út frá sérstökum hópum lánþega hélt áfram næstu áratugi á eftir. Bankar, sem lánuðu þeim sem vildu komast í ódýrt lánsfé, voru stofnaðir næstu áratugi. Nöfn þeirra endurspeгла að þeir áttu að lána ákveðnum hópum frekar en einblína á sérhæfingu í tegundum útlána (Sigurður Jóhannesson 2004). Iðnaðarbankinn var stofnaður 1953, Verzlunarbanki Íslands árið 1963 og Alþýðubanki Íslands árið 1971 (Ásgeir Jónsson 2009). Þessir bankar keyptu Útvegsbankann árið 1989 (Sveinn Agnarsson 2004) og fékk sameinaður banki nafnið Íslandsbanki.⁹⁰ Sparisjóðir héldu áfram þeirri sérstöðu að auðkenna sig við sín bæjarfélög og héruð eða jafnvel iðngrein, eins og á við um Sparisjóð vélstjóra sem var stofnaður árið 1961, á svipuðum tíma og bankarnir sem tengdu sig við ákveðnar starfsstéttir. Næstu áratugi á eftir var einnig í slagorðum bankanna, þ.e. í markaðssetningu þeirra, hamrað á gagnkvæmum tengslum fjármálastofnana og viðskiptavina þeirra. Landsbanki Íslands vísaði til sjálfs sín sem „banka allra landsmanna“. Á 100 ára starfsafmæli bankans árið 1986 var auglýst að hann hefði verið banki allra landsmanna í 100 ár og svipað stef mátti heyra næstu áratugi á eftir, jafnvel árið 2006 þegar áhersla bankans var á erlendan vöxt. Auglýsingar Búnaðarbanka Íslands vísuðu til þess að hann væri „traustur banki“. Slagorðið sótti trúverðugleika sinn til þess að bankinn hafði verið stofnaður til að þjónusta landbúnað,

⁹⁰ Hér eru um að ræða sama nafn á óskyldri stofnun og þeirri sem stofnuð var árið 1904.

sem var þá grunnundirstaða þess að hér gæti land og þjóð þrífist. Slagorðið hafði gífurleg áhrif, eins og endurspeglast í því að fólk vísaði stundum til þess þegar það átti viðskipti við bankann⁹¹. Sparisjóðir lögðu áherslu á sameiginlega hagsmuni sparisjóðanna og þeirra hópa sem þeir þjónustuðu með því að vísa í sameiginlegum auglýsingum þeirra að þeir væru „fyrir þig og þína“ og vöktu þannig tilfinningu fyrir nánu nærsamfélagi og byggðu að ákveðnu leyti á þeirri sýn að Ísland væri lítið land þar sem allir þekktu alla.

Á níunda áratugnum mjakaðist bankakerfi Íslands hægt og bítandi úr höftum eldri reglugerða (Seðlabanki Íslands 2006, 31). Afnáam hafta hvað varðar fjárflæði átti sér stað í byrjun 10. áratugarins og voru höftin numin að fullu árið 1995, ári eftir að Ísland varð aðili að Evrópska efnahagssvæðinu (EES), sem einnig ruddi til hliðar afnámi um höft á erlendum fjárfestingum (Seðlabanki Íslands 2006, 31). Aðild Íslands að EES markaði tvenn tímamót í senn þar sem stórt skref í átt að alþjóðavæðingu var stigið samhliða því sem frelsi í bankarekstri komst í svipaðan farveg og var fyrir fall Íslandsbanka árið 1930 (Seðlabanki Íslands 2006). Íslenska bankakerfið var upp úr aldamótum farið að starfa að mestu eins og alþjóðalegt nútímalegt bankakerfi en þar skorti reynslu, bæði hjá starfsmönnum banka og Fjármálaeftirlitinu (FME) sem var í óða önn að aðlaga sig að breyttum aðstæðum. Einföld tilmæli eins og að aðskilja starfsemi eigin viðskipti frá viðskiptum fyrir hönd viðskiptavina þess komust til að mynda ekki á koppinn fyrr en árið 2002 (Fjármálaeftirlitið 2002). Árið 2000

⁹¹ Persónuleg reynsla starfsmanns Búnaðarbanka Verðbréfa. Þetta átti sér oft stað þegar að eldra fólk var að fjárfesta í verðbréfasjóðum bankans.

sameinaðist bankinn Fjárfestingarbanka atvinnulífsins (FBA) sem hafði einungis tveimur árum áður verið stofnaður á grunni Fiskveiðasjóðs Íslands, Iðnlánasjóðs, Iðnþróunarsjóðs og Útflutningssjóðs. Íslandsbanki hafði á þeim tíma náð sér á strik eftir erfiða tíma í upphafi 10. áratugarins og var orðinn öflugur banki.

Ferli einkavæðingar hófst árið 1998 og var lokið árið 2002 þegar ríkið seldi afganginn af sínum hlut í tveimur af þremur helstu bönkum landsins. Upphaflega hugmyndin var sú að selja ráðandi hlut í Landsbankannum og Búnaðarbankanum til erlendra banka og ná þannig með auðveldum hætti í sterk alþjóðleg tengsl og þekkingu. Niðurstaðan var hins vegar sú að selja hlutinn til innlendra aðila.⁹² Erlendis hafa fræðimenn sýnt fram að nýfrjálshyggjustefnur, þar sem ríkisfyrirtæki, meðal annars bankar, hafa oft verið losuð úr viðjum stjórn málafla á yfirborðinu en seld til, samhliða valdatilfærslu, til einstakra aðila sem tengdust ráðandi öflum innan stjórn mála (Steger og Roy 2010; Duménil og Lévy 2011). Engin ástæða er að ætla að slíkt hafi ekki átt við um Ísland þegar ríkisfyrirtæki voru einkavædd. Innlendu aðilarnir voru í eðli sínu frekar fjárfestingabankamenn en bankamenn í þeim skilningi sem almenn bankastarfssemi er tengd við. Takmark þeirra var alla jafna að stækka efnahagsreikning sinn afar hratt og verða stórir þátttakendur á alþjóðlegum mörkuðum. Fljótlega líktist starfsemi bankanna meira alþjóðlegum fjárfestingabanka en hefðundinni íslenskri viðskiptabankastarfsemi (Ólafur G. Halldórsson og Gylfi Zoega 2010).

⁹² Aldrei hefur fengist opinber skýring á því af hverju ákveðið var að selja ekki erlendum aðilum. Leiða má að því líkum að verið væri að tryggja völd þáverandi valdhafa sem gátu valið þá sem þeir kusu í stjórnir einkavæddu bankanna.

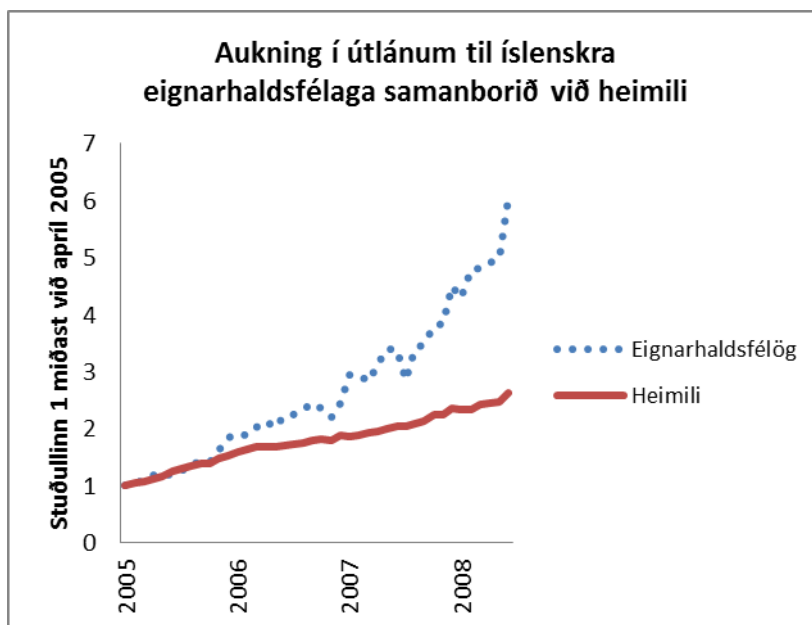
Innganga Íslands í EES var augljóslega stórt skref í átt að alþjóðavæðingu landsins og hafði mikil áhrif á fjármálakerfi landsins, sem mátti nú vera með starfsemi innan svæðisins og að því leyti til eðlilegt að regluverk íslenska fjármálakerfisins væri aðlagð á þann hátt að það tæki mið af evrópska svæðinu og reglugerðum þess. Þetta var þó aðeins byrjunin því frá ársbyrjun 2003 til ársloka 2007 fóru íslenskir bankar að fjármagna sig á svæðinu af fullum krafti, opna útibú víðs vegar um Evrópu og kaupa fjármálafyrirtæki í miklum mæli (Þróstur Olaf Sigurjónsson 2010). Það er kaldhæðnislegt að þetta innflæði fjármagns kom að mestu frá fjármálastofnunum í Evrópu sem veittu íslenskum fjármálastofnunum lán. Íslensku aðilarnir töldu sig finna fáa vænlega fjárfestingakosti innanlands⁹³ og fóru að nota fjármagnið til að fjárfesta í evrópskum fyrirtækjum (Aliber 2010). Þýskir bankar lánuðu til dæmis mikið til íslenskra fjármálafyrirtækja sem fjárfestu í verkefnum sem Þjóðverjar sjálfir töldu vart vera skynsamur fjárfestingar. Tapið varð hins vegar þeirra þegar íslensku bankarnir urðu gjaldþrota þannig að samanlagt tap þeirra varð meira en árleg verg landsframleiða Íslands (Lewis 2011). Ofurtrú á skilvirkni markaða, sem náði hámarki fram að hruninu haustið 2008, hafði einnig mikil áhrif á fjármögnunargetu íslensku bankanna. Dæmi eru um að erlendir bankar hafi lánað íslenskum bönkum mörg hundruð milljónir evra án haldbærra veða (skammtímalán) eftir nánast enga greiningarvinnu nema athugun á

⁹³ Kindleberger og Aliber (2011) fjalla um flæði fjármagns á milli landa og áhrif þess á efnahag þjóðar þegar að skyndilegt innflæði á sér stað í hagkerfið. Slíkt veldur almennt eignabólu og gerðist einnig á Íslandi. Fjárflæðið var aftur á móti það mikið að þrátt fyrir mikla skuldasöfnun Íslendinga, aukningu í neyslu og eignabólu þá þurfti fjármagn samt í stórum stíl að leita út fyrir landsteinanna.

lánshæfismati fyrirtækja eins og Moody's og Standard og Poor's (Héraðsdómur Reykjavíkur, 2010, 2012).

Vöxtur í gegnum slík bankaviðskipti varð miklu meiri en hefðbundin lánastarfsemi til heimila, sem undirstrikar umsnúning á meintu hlutverki íslenskra banka. Þetta kemur skýrt fram á mynd 1 sem sýnir aukningu útlána til eignarhaldsfélaga samanborið við lán til íslenskra heimila frá apríl 2005. Þessi mynd segir þó ekki alla söguna því slík lán voru stundum veitt í þeim tilgangi einum að kaupa hlutabréf í öðrum félögum (Jannari 2009) eða jafnvel hlutabréf í sömu bönkum og veittu lánin (Rannsóknarnefnd Alþingi 2010, 12. kafli).

Mynd 1. Samanburður á aukningu útlána til íslenskra eignarhaldsfélaga samanborið við heimili.



Heimild: Seðlabanki Íslands (2009).

Á mynd 1 sést hvað íslensku bankarnir lánuðu mikið til eignarhaldsfélaga sem fóru í útrás. Samanburðurinn er jafnvel ekki alveg raunhæfur því lán til heimila voru mikil á þessu tímabili þar sem íslenskir bankar höfðu þá nýverið hafið lánastarfsemi í vegna húsnæðislána. Oft lögðu eigendur eignarhaldsfélaga lítið eigið fé fram í kaupin sem þýddi að þau voru afar voguð⁹⁴.

Þrátt fyrir áherslu á að vera alþjóðlegir með möguleikum á fjárfestingum út um allan heim ásældust íslenskir bankar furðu svipaðar eignir, margar hverjar þekktar af Íslendingum fyrir útrás. Verslunarkeðjur á Oxford-stræti í London og miðbæ Kaupmannahafnar eru dæmi um félög sem íslenskir athafnamenn keyptu og fjármögnuðu að stórum hluta með erlendu fjármagni en hvort tveggja voru staðir þar sem Íslendingar höfðu undanfarin ár helst verslað í Evrópu. Meðal kaupa voru Arcadia í London sem átti verslunarkeðjur eins og Selfridges, Debenhams og House of Fraser og einnig fataverslunarakeðjur eins og Topman, Topshop, Wallis, Burton, Dorothy Perkins, Evans, Miss Selfridge og BHS, Illum og Magazine í Kaupmannahöfn. Gott dæmi um einsleitni íslensku bankanna í útrásinni voru kaup Kaupþings á danska FIH-bankanum árið 2004, en eignir Kaupþings þrefölduðust því sem næst það árið og nam sú eignaryfirtaka 80% af heildareignaaukningunni (Rannsóknarnefnd Alþingis 2010,

⁹⁴ Voguð kaup eru þegar að lánsfé er uppspretta stórs hluta fjárfestinga. Þegar að vel gengur magnast hagnaðurinn því að lítil hækkun á fjárfestingu myndar mikla hækkun á það fé sem lagt er í fjárfestingu. Sé til dæmis fjárfest fyrir 100 krónur og 90 krónur fengnar að láni til þess, sem þýðir að eiginfjárframlag er aðeins 10 krónur, þá myndar 10 króna hagnaður 100% arðsemi eigin fjár. Ef fjárfestingin lækkar hins vegar örlítið, til dæmis 10 krónur, þurrkast eiginfjárframlagið út. Því getur velgengni í ákveðin tíma virst vera gríðarleg án þess að áhætta henni tengd sé sjáanleg flestum.

7. kafli). Helstu keppinautar Kaupþings í þessum kaupum voru hinir Landsbankinn og Glitnir banki.

Í ljósi þess að ráðamenn höfðu lítinn áhuga á að tengjast alþjóðlegu fjármálaumhverfi á þann hátt að erlendum aðilum væri boðið að eiga ráðandi hlut í bönkum á Íslandi má segja að önnur tegund af alþjóðavæðingu íslenskra banka hafi hafist með þessum auknu umsvifum íslenskra fjárfesta, sem voru annaðhvort bankarnir sjálfir eða félög studd dyggilega af þeim. Forstjóri Kaupþings sagði til dæmis á lokuðum fundi að fyrirtækið stefndi að því að verða eins og fjárfestingarbankinn Merrill Lynch,⁹⁵ sem Kaupþing hafði nýverið heimsótt, og sumir starfsmenn bankans sögðu í gríni að þeir væru að verða eins og Goldman Sachs á Íslandi (Ásgeir Jónsson 2009). Líkt og nánar er fjallað um í næsta hluta greinarinnar mátti fljótlega sjá í fjölmiðlum og ræðum ráðamanna hugtakið „útrásarvíkingar“ í tengslum við þessi kaup Íslendinga erlendis, en eignarhald fjölmiðla var í sífelld auknum mæli að færast í hendur stærstu viðskiptavina og eigendur bankanna (Alda Guðrún Áskelsdóttir 2009). Í stað þess að vísa til íslensks bankakerfis sem staðbundins kerfis sem var að færast í átt að aukinni samtengingu alþjóðlegra fjármála markaða var myndað hugtak sem var samofið hugmyndum um óljósa víkingaarfleifð Íslands (Kristín Loftsdóttir 2009).

Alþjóðavæðing og þjóðernishyggja

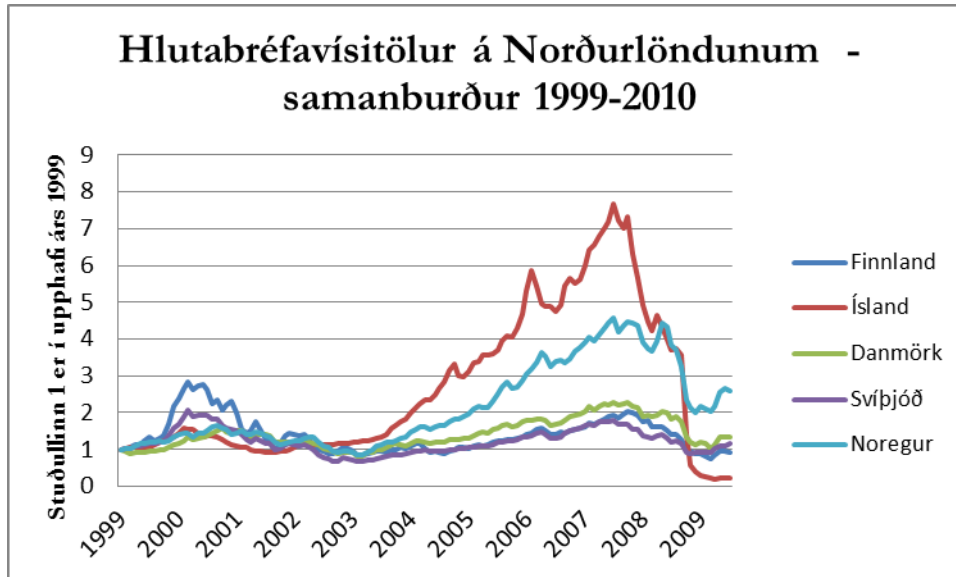
Leggja má áherslu á að þegar einkvæðingarferli bankanna var lokið var þessi vöxtur banka og verðbréfamarkaða Íslands sögulega óþekktur í veröldinni. Íslenska

⁹⁵ Þetta kom fram í viðtali við bankastarfsmann sem vann náið með Kaupþingi á þessum árum.

hlutabréfavísitalan hækkaði um 56% árið 2003, 59% árið 2004 og 64% árið 2005 sem samsvarar fjórfaldri hækkun vísitölunnar (Gylfi Magnússon 2006).⁹⁶ Jafnvel samanborið við aðra hlutabréfamarkaði, sem hækkuðu líka mikið á sama tímabili, var hækkun íslenskra hlutabréfa áberandi mest. Mynd 2 sýnir vel hversu hratt íslenska hlutabréfavísitalan hækkaði miðað við önnur Norðurlönd frá upphafi ársins 1999. Þessi velgengni hélst hönd í hönd við þá sýn að velgengnin væri á einhvern hátt afleiðing af „eðli“ Íslendinganna sjálfra sem birtist einna helst í því hversu víða í samfélaginu var farið að vísa til viðskipta erlendis sem þátt í íslenskri útrás og það tengt við þjóðareinkenni Íslendinga.

⁹⁶ Til samanburðar var mesta sögulega hækkun hlutabréfa í Bandaríkjunum árið 1933 þegar að hlutabréfavísitalan hækkaði um 54% (Fridson, 1998) - en sú hækkun kom í kjölfar tæplega 90% lækkunar á gengi hlutabréfa í skugga kreppunnar miklu. Hér er verið að vísa í hækkun á almannaksári frá 1. janúar til 31. desembers, S&P 500 hlutabréfavísitalan í Bandaríkjunum hækkaði til dæmis um rúmlega 66% frá mars 2009 til mars 2010.

Mynd 2. Samanburður á gengi hlutabréfavísitalna Norðurlanda, fimm lönd.



Heimild: Eurostat (2012).

Aukin áhersla á þjóðernishyggju endurspegladist í bönkunum sjálfum eins og sjá má í nöfnum og umbreytingu á slagorðum bankanna. Landsbanki Íslands hélt bæði nafni sínu og slagorði sem vísar augljóslega ekki til neinna sérstaka starfsgreina eða hópa. Það féll því vel að ímynd „okkar“ Íslendinga sem (útrásar)víkingar, sem tengist banka allra landsmanna nema hvað nú var hugtakið „landsmenn“ líklega ekki í hugum almennings tengt við hlutverk banka í umsýslu daglegs lífs heldur víkinga sem numu ný mið. Auglýsingar þess tíma fara einnig í vaxandi mæli að nýta sér tilvísun til lands og þjóðar með myndum af íslensku landslagi eða sameiningartáknum íslensku þjóðarinnar, svo sem listaverkum eða listamönnum. Í eldri auglýsingum má sjá ríkari áherslu á gæði þjónustu við viðskiptavinum sem lykil áhersluatriði bankanna og tilvísun til ákveðna starfsgreina eða þjóðfélagshópa. Nafni Búnaðarbankans var í fyrstu breytt í

skammstöfun þess og Kaupþings, sem varð hið hlutlausa og staðlausa heiti KB-banki. Því var síðan breytt aftur í nafn Kaupþings sem var íslenskt en hafði þó orðið þekkt erlendis. Bankinn hætti með slagorðið „traustur banki“ sem beðið hafði hnekki um aldamótin enda var þá frekar lögð áhersla á vöxt frekar en traust. Íslandsbanki breytti nafni sínu í Glitnir banki árið 2006 til að veita bankanum alþjóðlegan blæ (þrátt fyrir það áttu margir útlendingar í erfiðleikum með að bera það fram) en héldu á sama tíma tengingu við Ísland. Hérlandis var lögð töluverð áhersla á tenginguna við norræna goðafræði en lítið fór þó fyrir nánari útskýringu á hugtakinu. Glitnir var bústaður ássins Forseta sem sagður var vera þakinn silfri og borinn af súlum, veggjum og bitum úr gulli.⁹⁷ Jafnvel sparisjóðir fóru í auknum mæli að nota skammstafanir í auglýsingaherferðum sínum, svo sem SPH í stað Sparisjóðs Hafnarfjarðar og SPV í stað Sparisjóðs vélstjóra, sem gerðu tengsl þeirra við ákveðnar starfstéttir eða bæjarfélög óljósari og jafnvel ósýnileg. Þegar ofangreindir sparisjóðir sameinuðust árið 2006 var nýtt nafn sameinaðs sparisjóðs Byr sparisjóður og þannig voru ekki lengur að finna nein staðbundin tengsl í nafninu. Sameiginleg kynningarstarfsemi sparisjóða hélt þó áfram að einblína á þjónustu „fyrir þig og þína“ en þeir þóttu vera orðnir eftirbátar bankanna árin áður en fjármálakerfi Íslands hrundi. Nafni Sparisjóðabanka Íslands var árið 2006 breytt í Icebank, nafn sem notað hafði verið gagnvart erlendum viðskiptavinum þess frá stofnun bankans árið 1986 (Icebank 2006). Með því var nafn bankans ekki lengur íslenskt en vísaði engu að síður til Íslands. Því var aftur breytt í sitt upprunalega nafn nokkrum dögum eftir hrun íslenska bankakerfisins haustið 2008,

⁹⁷ <http://visindavefur.is/svar.php?id=22727>

þegar ljóst þótti að útrásin hefði misheppnast og hugsanlegt framhaldslíf bankans yrði einungis byggt á sínu gamla hlutverki að þjónusta innlenda sparisjóði.

Endurskilgreiningin á bönkum sem stofnanir ótengdar ákveðnum starfsgreinum eða hópum í samfélaginu passaði vel við samfélagslegu umræðu og áherslur helstu framamanna þjóðarinnar á nýju hlutverki þeirra samhliða áherslu á þjóðerni Íslendinga sem áhrifaþátt í velgengi banka og íslenskra fjárfesta. Það er sérlega áhugavert hvernig umræða fjölmiðla á þessum tíma, þá bæði í orðum blaðamanna sjálfra og viðtölum við forkólfa viðskiptalífs og banka, má sjá sí endurtekna tilvísun til „okkar“ Íslendinga; velgengnin erlendis verður þannig hluti af „okkar“ velgengi, ásamt því að vera sprottin frá sérstökum þjóðareinkennum „okkar“. Tilvísun í landnámsarfleifð Íslands og víkinga var sérlega mikilvæg þegar vísað var í vöruhús minningana, en þó benda má á að í íslenskum námsbókum frá byrjun 20 aldar er frekar vísað til landnámsmanna en víkinga (Kristín Loftsdóttir 2009, 121). Ræða forseta Íslands, Ólafs Ragnars Grímssonar hjá Sagnfræðingafélagi Íslands árið 2006, endurspeglar skýrt hvernig árangur íslenskra fjárfesta erlendis var tengdur við landnámsarfleifð Íslendinga en þessir fjárfestar voru í flestum tilfellum annaðhvort bankarnir sjálfir eða félög studd af þeim. Að sögn forseta var landnámsöldin á ákveðinn hátt „upphafið að þessu öllu saman“ og „fólk sem hingað kom var hluti af menningarheild sem sótti nýjan efnivið á framandi lendur, hélt í langferðir í leit að betri tækifærum, bar í brjósti svipaðan útrásaranda og mótað hefur árangur okkar að undanfögnu“ (Ólafur Ragnar Grímsson 2006). Það voru því ekki aðeins dagblöð sem á þessum tíma skírskotuðu til landnámsarfleifðar Íslands heldur voru þessar vísanir einnig að finna í opinberum

gögnum, þar á meðal skýrslu Viðskiptaráðs þar sem notuð eru hugtök eins og „víkingar“ og „strandhögg“ (Þór Sigfússon og Halldór Benjamín Þorbersson 2005, 21 og 33). Skýrsla nefndar um ímynd Íslands sem forsætisráðherra skipaði árið 2007 endurspeglar svipaðar hugmyndir með áherslu á landnámsarfleifð Íslands (Forsætisráðuneytið 2008). Í umfjöllun *Markaðarins* um viðtal við Björgólf Thor Björgólfsson fengið af Bloomberg-viðskiptafréttaveitunni kemur fram að Björgólfur tali um það að hlutverk sitt sé að vera „könnuður“ (*Markaðurinn* 2006a, 8). Blaðamennirnir sjálfir nota stundum skírskotun í víkinga sem millifyrirsagnir eða sem útskýringu á velgengni einstaklinga sem endurspeglar vel hversu eðlileg slík tilvísun var á þeim tíma (sjá til dæmis *Markaðurinn* 2006b). Þessi áhersla á landnámsarfleifð Íslendinga skaraðist á við þá útskýringu að velgengni útrásarinnar byggðist á sérstökum einkennum Íslendinga. Skýrsla Viðskiptaráðs um ímynd Íslands sem fyrr var nefnd endurspeglar slíkar áherslur en þar segir að „íslenskt viðskiptalíf [einkennist] öðru fremur af miklum sveiganleika og skjótri ákvarðanatöku“, sem og að Íslendingar séu fljótir að „tileinka sér nýjungar“ og skeri sig þannig til dæmis frá Bretum (Þór Sigfússon og Halldór Benjamín Þorgeirsson, 2005, 26). Á svipaðan hátt er talað um Íslendinga hjá blaðamanni *Markaðarins* sem frumkvöðla sem „séu tilbúnir að taka mikla áhættu“ (*Markaðurinn* 2007a, 14) og í viðtali við starfandi stjórnarformann Auði Capital kemur fram að sumir telji „okkur jafnvel ‘léttgeggjaða‘ þjóð, því við látum okkur detta í hug að framkvæma það sem aðrir telja ómögulegt“ (*Markaðurinn* 2007b, 16). Einnig má sjá hvernig ríkisvaldið og hagsmunahópar studdu við þessa ímynd. Skýrt dæmi um þetta er Viðskiptaþing árið 2007 þar sem yfirskriftin var „Ísland best í heimi? Alþjóðlegt orðspor og ímynd“ þar sem sjá mátti forsetisráðherra og

menntamálaráðherra sem eina af lykilþáttakendum í bland við ýmsa forkólfa viðskiptalífsins. Á þessu þingi var jafnframt fengin ímyndasérfræðingur, Simon Arnholt, til að kynna íslenskum stjórnvöldum tillögur hvað varðar langtímastefnumótun varðandi mótun ímyndar Íslands (sjá *Viðskiptablaðið* 2007, 6). Samkvæmt samanburðarrannsókn Arnholt voru Íslendingar í 19. sæti í samanburði hans á styrkleika ímyndar landsins. Geir Haarde sagði í tilefni þess, samkvæmt *Viðskiptablaðinu*, að hann væri ósáttur við þetta enda „vitum við betur og við þurfum að miðla því betur að við erum í fremsta flokki“ (*Viðskiptablaðið* 2007, 6). Orð Geirs snúa áherslunni frá ímyndinni sem slíkri yfir í hvað Ísland er í „raun og veru“. Samkvæmt orðum hans erum „við“ í fremsta flokki í einhverju óljósu flokkunarkerfi þjóða og markmiðið er að koma öðrum í skilning um réttmæta stöðu okkar. Þessa sameiginlegu umræðu stjórnvalda og viðskiptalífsins á málþinginu má tengja við umræðu Guðmundar Hálfðanarsonar og Ólafs Rastick sem minnst var á fyrr, sem bendir á mikilvægi stjórnvalda í því að taka upp ákveðna þjóðernislega umræðu og gefa henni aukið vægi.

Þó ber ekki að skilja þetta sem svo að fullkomin sátt hafi verið um þessa ímynd Íslendinga sem svo frjállega var brugðið upp í fjölmiðlum. Sumir settu spurningamerki við þá sýn að eitthvað væri séríslenskt við útrásina, jafnvel hjá þeim sem tengdust svokölluðum útrásarverkefnum. Þetta kemur lítillega fram í skýrslu Útflutningsráðs Íslands um íslensk fyrirtæki á Norðurlöndum þar sem fram kemur að það fari „greinilega fyrir brjóstið á ýmsum íslenskum stjórnendum þegar erlendur árangur er rakinn til einhverra lítt skilgreindra íslenskra yfirburða“ (Þorgeir Pálsson, Hákon

Gunnarsson og Sveinbjörn Hannesson 2006, 15), þótt ekki sé fjallað um þetta á nákvæman hátt. Einnig er að finna stutt viðtal við forstjóra Össurar í *Markaðnum* þar sem hann leggur áherslu á að „við Íslendingar erum ekkert endilega betri en aðrir þótt við séu alveg örugglega jafn góðir“ (*Markaðurinn* 2006c, 10). Það að viðkomandi telji nauðsynlegt að staðhæfa slíkt gefur þó vísbendingu um hversu viðteknar slíkar hugmyndir voru. Þó er einnig ljóst að þjóðernisleg umræða á Íslandi speglaði sig einnig í erlendri umræðu um Ísland og var í gagnkvæmu samspili við hana. Einn kafli í skýrslu Viðskiptaráðs Íslands fjallar um mat Breta á íslensku viðskiptaumhverfi og þar má sjá þrástef sem eru kunnuleg úr íslenskum fjölmiðlum, svo sem áherslu á sveigjanleika Íslendinga og skjótar ákvörðunartökur (Þór Sigfússon og Halldór Benjamín Þorbergsson 2005, 28-29). Breskir fjölmiðlar fluttu einnig fréttir þar sem talað var um „íslenska víkinga“ og í *Markaðnum* og *Viðskiptablaðinu* var lögð áhersla á að flytja fréttir þar sem hól erlendra blaða um Ísland og útrásina voru útlistuð nákvæmlega. *Markaðurinn* birti til dæmis fréttir af umræðu *The Guardian* í Bretlandi þar sem sagt er að „íslensku útrásarvíkingarnir“ séu „ungir, graðir og hungraðir“ (*Markaðurinn* 2007d, 12). Minna má á að samhliða, eins og endurspeglast í *Markaðnum* á tímabilinu 2006–2007, er fjallað um fréttir af gagnrýni á íslensku útrásina og áhyggjur erlendra matsfyrirtæka af skuldsetningu íslensku bankanna sem eitthvað sem runnið væri af rótum annarlegra sjónarmiða. Þetta endurspeglast til dæmis í fyrirsögn leiðara *Markaðarins* nóvember 2006: „Danir eru í árásarham og engra varna að vænta þar í landi: Verðum að verjast lyginni sjálf“ (Hafliði Helgason 2006, 12). Í fyrirsögninni er lögð áhersla á „okkur“ Íslendinga sem einn samhentan hóp eins og fyrr var talað um þar sem Íslendinga eru kallaðir til varnar.

Umraða

Lehman Brothers féllu í október 2008 og þá þegar mátti sjá hvernig hnattræn ferli eru samtengd staðbundnum aðstæðum (Moore 2004; Haugerud 2003) sem og þá samþjöppun tíma og rýmis sem oft er nefnd sem megineinkenni hnattvædds heims (Appadurai, 1996). Einstaklingar víðs vegar í heiminum, þar á meðal Íslandi, fylgdust náið með, vitandi að fall bankans myndi hafa mikil áhrif á afkomu og framtíð þeirra sjálfra, þrátt fyrir að gera sér engan veginn grein fyrir að hversu miklu leyti. Hrun íslenska fjármálakerfisins setti á svipaðan hátt sitt mark á alþjóðlegar aðstæður annars staðar.

Íslendingar voru virkir í að túlka það alþjóðlega umhverfi sem íslenskt bankakerfi sigldi inn á tíunda áratug síðustu aldar, og þá ekki sem hluta af aukinni stöðlun íslenska kerfisins eða aukinni einsleitni heldur á mjög þjóðernislegan hátt. Kristín Loftsdóttir hefur talað um að þátttaka íslensku þjóðarinnar í hnattvæddum ferlum hafi verið „samofin orðræðum um sjálfsmyndir og þjóðarímynd“ þar sem hið „þjóðlega og alþjóðlega eru ekki andstæður, heldur hvort fyrir sig mikilvægt í sjálfsmynd þjóðarinnar (2007, 160)“. Þannig geta tákni íslenskrar þjóðernishyggju öðlast nýja merkingu í síbreytilegu samhengi, þar sem þau verða þáttur í markaðssetningu Íslands fyrir Íslendinga sjálfa (Kristín Loftsdóttir 2007, 164 og 169). Til þess að ákveðnar hugmyndir eða hugmyndafræði fái slíkt forræði í samfélaginu þarf að vera samhljómur milli þeirra og reynslu einstaklinga, sem og vera í samspili við þrjár og væntingar þeirra (Eagleton 1991, 14–15). Velgengni Íslendinga erlendis og hugmyndin um útrásina var ekki aðskilin frá reynslu einstaklinga heldur þvert á móti, útrásin var „almenn þekking,

lifuð og snert og margsönnuð á síðum fjölmiðla“ (Kristín Loftsdóttir 2011, 5).⁹⁸ Í stanslausri umræðu um hrifningu útlendinga á Íslendingum og með slíkri sjálfshyllingu má líta sem svo á að útrásin hafi hlotið sterkt forræði innan íslensks samfélags. Þetta er í samræmi við lýsingu Reinhart og Rogoff (2011) sem halda því fram að almenningsálitið á slíkum uppgangstímum feli í sér þá trú að „[v]ið [séum] klárari og við höfum lært frá fyrri mistökum... byggt á traustum grunni, umbættum stoðum, tæknilegri nýsköpun og góða stjórnarstefnu“ (þýðing okkar, bls. 1681). Á Íslandi var uppgangurinn fjármagnaður með fé útlendinga sem er merkilegt í ljósi þeirra sterku þjóðernisumræðu sem einkenndi hann.

Ef litið er á sögu bankakerfis á Íslandi eins og við höfum gert hér er forvitnilegt að sú umræða sem átti sér stað um íslenska fjárfesta og bankamenn innan ramma útrásarinnar hafði engin sýnileg tengsl við sögulega þróun fjármálakerfis á Íslandi eða bankana. Áherslan var þess í stað lögð á óljóst víkingaeðli sem var úr takti við fjármálalegasögu landsins sem að ákveðnu leyti, eins og einn alþjóðlegur bankastarfsmaður benti á, var einfaldlega ekki til staðar á Íslandi (viðtal tekið 2012). Innan sögu banka og fjármálastofnana má sjá litla áherslu á „skjöta ákvörðunartöku“, „sjálfstæði“ eða „sveigjanleika“ sem mikilvæga þætti einstaklinga. Að sumu leyti á hugtak Hobsbawm „tilbúnaðar hefðir“ (invented traditions) við (1983) þar sem í nútímanum er sótt í smiðju hugmyndarinnar um landnámsmanninn eða víkingsins og þannig vísað óbeint til sjálfstæðisbaráttunnar í upphafi 20. aldar (Kristín Loftsdóttir 2009). Hobsbawm (1983)

⁹⁸ Sú ásýnd var að stórum hluta tilkomin vegna auðvelds aðgengis að fjármagni frá útlöndum, sem til skemmi tíma veldur sögulega aukna þjóðarframleiðslu og velmegun. Sú ásýnd reynist oft vera yfirborðskennd og oft undanfari fjármálakreppa og mikils samdráttar í efnahagslífinu.

bendir einmitt á mikilvægi slíks á tímum mikilla þjóðfélagsbreytinga, þegar vinna þarf ákveðnum hugmyndum forræði, auka samstöðu ákveðins hóps og réttlæta tilkomu lagskiptingar í samfélaginu. Á Íslandi mátti sjá aukna stéttskiptingu í íslensku samfélagi, samhliða mikilli umræðu í fjölmiðlum um lífsstíl þeirra sem voru í forsvari fyrir bankana og hina svokölluðu útrásarvíkinga sem skapaði umhverfi eftirvæntingar og trausts (Már Wolfgang Mixa 2010).

Sú sterka samstaða sem var um útrásina endurspeglast vel í þeim viðbrögðum sem fram komu á síðum viðskiptablaðanna þegar erlend matsfyrirtæki settu spurningarmerki við starfsemi íslensku bankanna. Þar kemur skýrt í ljós hvernig gagnrýni á útrás bankanna var gagnrýni á „okkur“ og því sjálfkrafa hluti af annarlegum sjónarmiðum eins og fyrrnefndar tilvísanir endurspeгла. Þessi áhersla á „okkur“ hefur gert gagnrýni sérstaklega erfiða eins og sjá má á orðum eins sérfræðings hjá SPV (áður Sparisjóður vélstjóra) þegar hann fjallar um gagnrýni erlendis á útrásina í kjölfar neikvæðrar umræðu matsaðila á þenslu bankanna og bætir við: „Dapurlegra er þó að aðilar hér á landi hafa kosið að enduróma illa ígrundaðar yfirlýsingar og órökstudda gagnrýni erlendra samkeppnisaðila (*Markaðurinn* 2006d, 16).“ Þessu svipar til umræðunnar fyrir kreppuna miklu í Bandaríkjunum þegar Paul Warburg, einn af helstu hugmyndasmiðum við stofnun seðlabanka Bandaríkjanna árið 1913, lýsti yfir áhyggjum af ofþenslu í fjármálakerfinu í upphafi árs 1929; þá var hann gagnrýndur harðlega af löndum sínum að gera lítið úr velgengni landsins (e. *Sandbagging American Prosperity*) (Sobel 1968, 126).

Lokaorð

Íslenskt bankakerfi breyttist á tiltölulega stuttum tíma úr lokuðu kerfi, sem byggði á pólitískri stefnumörkun og fyrirgreiðslu, í einkavædda banka sem áttu að stuðla að meiri hagræðingu í rekstri og minnka pólitísk afskipti. Sú leið alþjóðavæðingar sem valin var fól þó ekki í sér aðkomu erlendra aðila heldur fyrst og fremst stuðning við íslenska einstaklinga við að auka umsvif sín erlendis. Áherslur bankanna breyttust í kjölfarið: Áður var höfðað til sérstakra hópa íslenskra lánþega en nú beindu bankarnir sjónum sínum aðallega að fjárfestingatækifærum með það að markmiði að verða mikilvægir þátttakendur á alþjóðlegum mörkuðum. Þessi áherslubreyting náði varanlegri fótfestu eftir einkavæðingu bankanna. Sú gífurlega þensla sem hér varð áratuginn fyrir hrun bar augljós merki sem sjá má í undanfara annarra stórra efnahagshruna í gegnum söguna, þá bæði út frá efnahagslegu og samfélagslegu tilliti (Reinhart og Rogoff 2008, Shiller 2001). Viðvörunarraddir voru farnar að heyrast í upphafi nýrrar aldar varðandi aukningu í útlánum, meðal annars tengdum erlendum myntum (*Morgunblaðið* 2003; Seðlabanki Íslands 2004). Þessari gagnrýni var þá oft svarað með tilvísun til þess að höft á lánnum hefðu haldið aftur af íslenskum heimilum til lántöku og að afnám haftanna væri þannig þáttur í að aðlaga sig að vestrænum heimi, svipað og sagt var á Norðurlöndunum í aðdraganda bankakreppunnar þar fyrir 20 árum síðan (Jonung 2008). Þegar sótt var í vöruhús minninganna var lögð sérstök áhersla á landnámsarleifð og einstakt atgervi Íslendinga sem talið var mótast af þessari arfleifð og veru í harðbýlu landi og beindi sjónum frá þáttum eins og hversu margt var líkt á Íslandi á þessum tíma og í undanfara fjármálabóla annars staðar sögulega – hvernig

keyrt var áfram á rauðu ljósi eins Már W. Mixa og Þróstur Olaf Sigurjónsson (2010) hafa orðað það. Hér höfum við lagt til að hluti af útskýringunni á því af hverju viðvörunarmerki voru hundsúð megi finna í því hvernig alþjóðavæðingin var túlkuð á þjóðernislegan hátt á Íslandi, sem undirstrikar að oft er erfitt að aðskilja greiningu á menningu og fjármálum.

Sterk samstaða myndaðist innan íslensks samfélags um hina svokölluðu útrás sem byggði meðal annars á því hvernig hún var skilgreind sem verkefni „okkar“ Íslendinga og gagnrýni á einstaka þætti hennar var þannig auðveldlega túlkuð sem gagnrýni á „okkur“. Það er nokkuð erfitt að staðhæfa um hvort forsvarsmenn í hópi útrásarvíkinga hafi meðvitað nýtt sér þjóðernisleg stef, en þeir virðast þó að einhverju leyti hafa reynt að ýkja þessi tengsl eins og þegar Jón Ásgeir nefndi snekkjuna sína „Viking“ og hafði þriggja metra háa stytta af Leif heppna í móttökunni á höfuðstöðvum sínum í London (Guðni Elíasson 2009). Það er kaldhæðnislegt að þessi þjóðernislega útrás var að stórum hluta til fjármögnuð af erlendum aðilum, jafnvel Dönnum, sem voru á sama tíma gagnrýndir harðlega í íslenskum fjölmiðlum. Á endanum voru það einnig útlendingarnir sem tóku skellino og þurftu að fjármagna að mestu það gífurlega tap sem ævintýrið ól af sér. Ímynduð sérstaða íslenskrar bankastarfsemi þjónaði vel tilgangi eigenda og helstu hagsmunaaðila sem tengdust bönkunum. Sú mynd af hlutverki þeirra og einkennum var hins vegar í engu samræmi við sögulegar staðreyndir um hugmyndir varðandi hlutverk bankanna.

Heimildir

- Alda Guðrún Áskelsdóttir. 2009. *Áhrif eigenda á íslenska fjölmiðla*. (Óbirt M.A.-ritgerð), Háskóli Íslands. Sótt 2. mars 2012 af <http://skemman.is/handle/1946/6145>
- Aliber, R. Z. 2010. „Monetary turbulence and the Icelandic economy“. Í R. Z. Aliber og Gylfi Zoega (ritstj.), *Preludes to the Icelandic Financial Crisis*, (bls. 302-325). London: Palgrave Macmillan.
- Austri*. 1885. Alþingi. Laugardagurinn, 18. júlí, nr. 16, bls. 61.
- Anderson, Benedict. 1983. *Imagined Communities: Reflections on the Origin and Spread of Nationalism*. London, New York: Verso.
- Appadurai, Arjun. 1996. *Modernity at Large: Cultural Dimensions of Globalization*, Minneapolis: University of Minnesota Press.
- Ásgeir Jónsson. 2009. *Why Iceland?* New York: McGraw Hill.
- Duménil, G. og Lévy, D. 2011. *The crisis of neoliberalism*. United States of America: Harvard University Press.
- Eagleton, T. 1991. *Ideology: An introduction*. London: Verso.
- Eurostat. 2012. Share price indices (rebased) - Monthly data. Sótt 12. febrúar 2012 af http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=mny_stk_spy_m&lang=en í gegnum datamarket.com af <http://datamarket.com/data/set/190r/#ds=190r!ncy=3:ncz=m.a.7.t.5>.

- Fjármálaeftirlitið. 2002. *Leiðbeinandi tilmæli um innra eftirlit og áhættustýringu hjá fjármálafyrirtækjum nr. 1/2002*. Sótt 8. mars 2012 af <http://www.fme.is/log-og-tilmaeli/leidbeinandi-tilmaeli/nr/908>.
- Forsætisráðuneytið. 2002. Frá framkvæmdanefnd um einkavæðingu. Sótt 10. mars 2010 af <http://www.forsaetisraduneyti.is/raduneyti/verkefni/Einkavaeding/nr/250>
- Forsætisráðuneytið. 2008. *Ímynd Íslands: Styrkur, staða, stefna*. Reykjavík.
- Fridson, M. S. 1998. *It was a very good year: Extraordinary moments in stock market history*. New York: John Wiley og sons.
- Ginsburg, Faye D. Lila Abu-Lughod og Brian Larkin. 2002. Introduction í Faye D. Ginsburg, Lila Abu-Lughod og Brian Larkin (ritstj.), *Media Worlds: Anthropology on New Terrain* (bls. 1–36). Berkeley: University of California Press,.
- Guðni Elíasson. 2009. Vogun vinnur ... Hvar liggja rætur íslenskra fjármálahrunsins? *Saga*, 47(2): 117-146.
- Gupta, A. og Ferguson, J. 1997. Culture, Power, Place: Ethnography at the End of an Era, í Akhil Gupta og James Ferguson (ritstj.), *Culture, Power Place: Exploration in Critical Anthropology*, (bls. 1–30) Duke University Press.
- Guðmundur Hálfðanarson. 1995. Social Distinctions and National Unity: On Politics of Nationalism in Nineteenth-Century Iceland. *History of European Ideas*, 21(6):763-779.

- Guðmundur Hálfðanarson. 2000. Þingvellir: An Icelandic 'Lieu de Mémoire'. *History and Memory*, 12(1):4–29.
- Guðmundur Hálfðanarson og Ólafur Rastrick. 2006 „Culture and the Constitution of the Icelandic in the 19th and 20th Centuries.“ *Culture, Empire and Nation*. Pisa: Pisa University Press, bls. 87–104.
- Guðmundur Jónsson. 2004: „Myndun fjármálakerfis á Íslandi“, *Rætur Íslandsbanka. 100 ára fjármálasaga*. Ritstjóri Eggert Þór Bernharðsson. Íslandsbanki (Reykjavík 2004), 9–54.
- Guðmundur Jónsson. 1995. Þjóðernisstefna, hagþróun og sjálfstæðisbarátta. *Skírnir* 169(vor):65-93.
- Gylfi Magnússon. 2006. Rannsóknir á íslenskum hlutabréfamarkaði - Fyrirlestur fyrir Landssamtök lífeyrissjóða 28. nóvember 2006. Sótt 20. febrúar 2012 á http://www.ll.is/files/bbgehddaaf/Gylfi_Magnusson.pdf
- Gylfi Zoega. 2008. Iceland faces the music. Sótt 30. ágúst 2012 á <http://www.voxeu.org/article/iceland-s-historical-moment>
- Hafliði Helgarson 2006. Danir eru í ársarham og engra varna að vænta þar í landi: Verðum að verjast lyginni sjálf. *Markaðurinn*, 1. nóvember, bls. 12.
- Haugerud, A. 2003. „The Disappearing Local: Rethinking Global-Local Connections.“ Í Ali Mirsepassi, Amrita Basu, and Frederick Weaver, (ritstj.),

- Localizing Knowledge in a Globalizing World: Recasting the Area Studies Debates*, (bls. 60–81) Syracuse University Press.
- Huyssen, A. 2001. Present Past: Media, Politics, amnesia. *Globalization*, Ritsj. Arjun Appadurai. (bls. 57–77). Durham og London: Duke University Press.
- Héraðsdómur Reykjavíkur. 2010. Dómur 22.12.2010. Mál nr. E-2832/2009. Sótt 20. október 2012 á <http://www.domstolar.is/domaleit/nanar/?ID=E200902832&Domur=2&type=1&Serial=1>
- Héraðsdómur Reykjavíkur. 2012. Dómur 26.6.2012. Mál nr. E-8613/2009. Sótt 20. október 2012 á <http://www.domstolar.is/domaleit/nanar/?ID=E200908613&Domur=2&type=1&Serial=1>
- Hobsbawm, E. 1983. Introduction: Inventing Traditions. Í E. Hobsbawm and T. Ranger (ritstj.). *The Invention of Tradition*. (bls. 1-14) Cambridge: Cambridge University Press.
- Hofstede, G., Hofstede, G. J., og Minkov, M. 2010. *Cultures and organizations: software of the mind: intercultural cooperation and its importance for survival – 3.útgáfa* New York: McGraw-Hill.

- Icebank 2006. *Fréttatilkynning Sparisjóðabankinn verður Icebank – öflugur viðskiptabanki á fyrirtækjamarkaði* Reykjavík, 23. Nóvember 2006. Sótt 15. mars 2012 á <http://www.icebank.is/IS/category.aspx?catID=1633>
- Jannari, K. 2009. *Report on Banking Regulation and Supervision in Iceland: past, present and future*. Sótt 15. júlí 2009 á http://eng.forsaetisraduneyti.is/media/frettir/KaarloJannari__2009.pdf
- Jonung, L. 2008. Lessons from financial liberalisation in Scandinavia. *Comparative Economic Studies*, 50, 564–598.
- Jón Daníelsson og Gylfi Zoega. 2009. Dáleidd af bankastarfsemi. Sótt 6. júlí 2012 af <http://www.riskresearch.org/files/vi.pdf>
- Keen, S. 2011. *Debunking economics – revised and expanded edition: the naked emperor dethroned?* New York: Zed Books.
- Kindleberger, C. P. 1996. *Manias, panics, and crashes: A history of financial crises*. New York: John Wiley og sons.
- Kindleberger, C. P. og Aliber R.Z. 2011. *Manias, panics, and crashes: A history of financial crises*. New York: Palgrave Macmillan.
- Kristín Loftsdóttir. 2007. Útrás Íslendinga og hnattvæðing hins þjóðlega: Horft til Silvíu Nætur og Magna. *Ritið*, 7(1), 159–176.

- Kristín Loftsdóttir. 2009. Kjarnmesta fólkið í heimi: Þrástef íslenskrar
þjóðernishyggju í gegnum lýðveldisbaráttu, útrás og kreppu. *Ritið*, 9(2-3), 113–
140.
- Kristín Loftsdóttir. 2010. Ímynd, ímyndun og útrásin: Vegvísir fyrir rannsóknir á
kreppunni. *Þjóðerspegillinn*, Félagsvísindastofnun Háskóla Íslands. Rafræn útgáfa:
[http://skemman.is/is/stream/get/1946/6789/18458/3/185-
193_KristinLoftsdottir_FELMAN.pdf](http://skemman.is/is/stream/get/1946/6789/18458/3/185-193_KristinLoftsdottir_FELMAN.pdf)
- Lewis, M. 2011. *Boomerang: travels in the new third world*. New York: W.W.
Norton & Company.
- Markaðurinn*. 2006a. Bloomberg segir sögu Björgólfs Thors. 5. apríl, bls. 8.
- Markaðurinn*. 2006b. Viðskiptaárið gert upp. 28. desember 2006, bls. 16.
- Markaðurinn*. 2006c. „Íslenskt“ ekki endilega aðalmálið. 25. október, bls. 10.
- Markaðurinn*. 2006d. Skoðun: Enginn er annars bróðir í leik. 2. Maí, 2006, bls. 16.
- Markaðurinn*. 2007a. Íslenskir frumkvöðlar taka Hollendinga í læri, 22. ágúst, bls. 14.
- Markaðurinn*. 2007b. Áfram numinn ný lönd, 27. desember, bls. 15.
- Markaðurinn*. 2007c. Ísland, best í heimi. 27. desember, bls. 16.
- Markaðurinn*. 2007d. Strandhögg víkinga á Bretlandseyjum, 16. júlí, bls. 12.

- Már Wolfgang Mixa. 2010. Once in khaki suits - Socioeconomical Features of the Icelandic Collapse. Ingjaldur Hannibalsson (Ritstj.), *Rannsóknir í Félagsvísindum* X, (bls. 435–447). Reykjavík: Félagsvísindastofnun Háskóla Ísland.
- Már Wolfgang Mixa. 2011. „Hrun, íbúðarhúsnæði og Facebook“, *Fréttatíminn* helgin 21.–23. janúar, 2011. Sótt 5. janúar 2012 á http://www.ru.is/media/hr/skjol/Frettatiminn_03_tbl_2011_LR.pdf
- Már Wolfgang Mixa og Þröstur Olaf Sigurjónsson. 2010. Áfram á rauðu ljósi – fjármálahrunið á Íslandi og reynsla Norðurlandanna. *Tímarit um viðskipti og efnahagsmál*, 7(1), 21–40.
- Moore, H. L. 2004. Global Anxieties: Concept-Metaphors and Pre-Theoretical Commitments in Anthropology *Anthropological Theory*, 4(1): 71–88.
- Morgunblaðið. 2003. „Viðvörðun til allra bankanna“, 24. mars, 2004. Sótt 15. mars 2012 á <http://mbl.is/greinasafn/grein/788668/>.
- Ólafur G. Halldórsson og Gylfi Zoega. 2010. *Iceland's Financial Crisis in an International Perspective*. Sótt 15. mars 2012 á http://www.hi.is/files/skjol/felagsvisindasvid/deildir/hagfraedi/2010/GZ_OGH_ice-land-paper-10october2010x.pdf
- Ólafur Ragnar Grímsson. 2006. *Útrásin: Uppruni – einkenni – framtíðarsýn*. Fyrirlestur í fyrirlestraröð Sagnfræðingafélagsins 10. janúar 2006. sótt 17. desember af slóðinni <http://forseti.is/media/files/06.01.10.Sagnfrfel.pdf>

Ólafur Rastrick. (2013). Háborgin: Menning, fagurfræði og pólitík í upphafi tuttugustu aldar. Reykjavík: Háskólaútgáfan

Rannsóknarnefnd Alþingis. 2010. *Skýrsla rannsóknarnefndar alþingis um rannsókn á aðdraganda og orsök falls íslensku bankanna og tengdra atburða*. Páll Hreinsson, Sigríður Benediktsdóttir og Tryggvi Gunnarsson (ritstj.).

Reinhart, C., og Rogoff, K. 2008. *Is the 2007 U.S. Sub-Prime Crisis So Different? An International Historical Comparison*. University of Maryland and Harvard University.

Reinhart, C., og Rogoff, K. 2011. *From financial crash to debt crisis*. American Economic Review, 101(5): 1676–1706.

Seðlabanki Íslands. 2004 *Ræða formanns bankastjórnar Seðlabanka Íslands 23. mars, 2004*. Sótt 15. mars 2012 á

<http://www.sedlabanki.is/>

<http://www.sedlabanki.is/uploads/files/%C3%81varp%20BIG%2023.3.04.pdf>

Schwegler, Tara A. (2009). The Global Crisis of Economic Meaning. *Anthropology News*, 50(7):9-12.

Seðlabanki Íslands. 2006. *The economy of Iceland*. Sótt 20. febrúar 2012 á

<http://www.sedlabanki.is/lisalib/getfile.aspx?itemid=4689>.

Sedlabanki Íslands. 2009. Útlán tímaraðir. Sótt 11.september 2009 á

<http://sedlabanki.is/?pageid=444&itemid=5a037662-26ea-477d-bda8-d71a6017cc05>.

Shiller, R. J. 2001. *Irrational exuberance*. New York: Broadway Books

Sigríður Matthíasdóttir. 1995. Réttlætning þjóðernis: Samanburður á

alþýðufyrirlesturum Jóns Aðils og hugmyndum Johanns Gottlieb Fichte. *Skírnir*, 169(vor):

Sigríður Matthíasdóttir. 2004. Hinn sanni Íslendingur: Þjóðerni, kyngervi og vald á Íslandi 1900-1930. Reykjavík: Háskólaútgáfan.

Sigurður Jóhannesson. 2004. Frelsi á fjármagnsmarkaði eftir 1980. Eggert Þór

Bernharðsson (ritstj.), *Rætur Íslandsbanka 100 ára fjármálasaga*. Reykjavík: Íslandsbanki.

Steger, M. B. og Roy R. K. 2010. *Neoliberalism: a very short introduction*. New York: Oxford University Press

Sveinn Agnarsson. 2004. Fjármagnið og útgerðin. Í Eggert Þór Bernharðsson

(Ritstjóri), *Rætur Íslandsbanka 100 ára fjármálasaga* (bls. 95–132), Reykjavík: Íslandsbanki.

Viðskiptablaðið. 2007. Ísland best í heimi? 8 febrúar, bls. 6.

- Vilhjálmur Finsen og Skúli Skúlason 1938. Nutidens Island I tekst og billeder. I anledning af tyveaarsdagen for Islands selvstændighed. Útgefið af tímaritinu Fálkinn, Reykjavík.
- Xavier, Ina, Jonathan Rosaldo, and Renato Rosaldo. (2002). Introduction: A World in Motion. Í J. Rosaldo and R. Rosaldo, (ritstj.), *The Anthropology of Globalization*. Oxford: Blackwell Publishing.
- Þorgeir Pálsson, Hákon Gunnarsson og Sveinbjörn Hannesson. 2006. *Íslensk fyrirtæki á Norðurlöndum: Aðferðir og orðspor*. Reykjavík, Útflutningsráð Íslands
- Þór Sigfússon og Halldór Benjamín Þorbergsson. 2005. *Útrás íslenskra fyrirtækja til Lundúna*. Ritroð Viðskiptaráðs Íslands um íslenskt viðskiptaumhverfi. Reykjavík: Úttekt unnin á vegum bresk-íslenska viðskiptaráðs.
- Þróstur Olaf Sigurjónsson. 2010. „Privatization and Deregulation: A Chronology of Events“. Í R. Z. Aliber og Gylfi Zoega (ritstj.), *Preludes to the Icelandic Financial Crisis* (bls. 26-50). London: Palgrave Macmillan.
- Þróstur Olaf Sigurjónsson og Már Wolfgang Mixa. 2011. Learning from the ‘worst behaved’: Iceland’s financial crisis and Nordic comparison. *Thunderbird International Business Review* 53(2): 209–223.