Maintaining welfare in the wake of collapse – the case of Iceland

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Abstract

This paper details the state of affairs of welfare and social equality in Iceland in the wake of the financial meltdown of 2008. The main focus of the paper is on the perceived role of the welfare state and to what extent public policy departed from a neoliberal agenda in the wake of the meltdown. At the same time, we argue how the policy struggled in the context of an outdated geographical framework informing Icelandic governance. The paper unravels public policy in general discussing how and to what degree government austerity measures departed from the neoliberal ideal. Second, the paper outlines Iceland's status in comparison with neighbouring countries focusing on the Nordic context but with added insights from some of the British Isles. Thirdly, the paper will unpack the uneven geographies of Icelandic welfare policy in the wake of the meltdown. Finally, the paper will be summarised, concluding with a call for a coherent and socio-spatially sensitive regional policy as *the* collective decision that can underpin social equity and equality in the post welfare state.

Keywords

Iceland, IMF, public policy, welfare, regional geography

Introduction

This paper deals with the aftermath of the 2008 financial meltdown and how public policy in Iceland was reoriented for a period in its wake under the rubrics of Nordic welfare. The policy measures introduced were to move Icelandic society decidedly from and tackle the consequences of a 20-year legacy of neoliberal ideology informing Icelandic public policy till the financial meltdown. The ruling government of 2009-2013, dubbed itself a 'Nordic Welfare government' investing in the commonly perceived notion of the egalitarian Nordic welfare state. Yet at the same time a shift of state policy priorities away from the Nordic Welfare State Model (Esping-Andersen, 2004) are clearly manifest and according to Žižek (2007) the time of the welfare state has passed. We argue that a lingering legacy of the four main elements of the neoliberal ethos, as isolated by Harvey (2006), hampered the intentions of this government's policy measures manifest in:

- Privatisation
- Financialization
- The management and manipulation of crises
- State redistributions

A public Nordic welfare policy rolled out on the ground needs to negotiate the global expansion of these elements and its simply business as usual ethos as inscribed on subjective registers through everyday spaces (Thrift, 2005, 74). In the world of capitalism in general and neoliberal geopolitics in particular, the processes of capital accumulation, flows of goods and people and the supra-national corporation create the perception of a free-market utopia, a global natural system, somewhat akin to the weather (Peck and Tickell, 2002); uncertain and unstable. Indeed:

> Neoliberalism has, in short, become hegemonic as a mode of discourse, and has pervasive effects on ways of thought and political-economic practices to the point where it has become incorporated into the common-sense way we interpret, live in and understand the world (Harvey, 2006, 145, see also Pike and Pollard, 2010, 33).

However, the dominant imaginary of globalisation as one of unbounded flows and circulations informing neoliberal policy sits rather uneasily with geographical concerns (Amin, 2004; 2002). The realisation of public policy cannot be grasped in abstracted spatial forms but only in terms of the social relations through which these spaces are produced and maintained. Thus there are no universals only spatialised social practices and relations, and social power (Massey, 2005, 166, see also Thrift, 2005, 3). The neoliberal ethos is produced and maintained in e.g. the balance of local political forces and institutional legacies (Tickell and Peck, 2003). Thus in practice the neoliberal ethos will work through a host of machinations which according to Pike and Pollard (2010) entail three analytical themes:

- The extended and deepened social and spatial reach of financial intermediaries and practices;
- The generation and transmission of risk, uncertainty, and volatility;
- And the production of material, social and political unevenness (34, see also Thrift, 2005, 5).

In the most general sense “neoliberalization [induces] localities to compete by cutting social and environmental regulatory standards and eroding the political and institutional collectives upon which more progressive settlements had been constructed in the past” (Peck and Tickell, 2002, 385). People become consumers, actively seeking factors of production (Thrift, 2005, 98). The brand reigns supreme and social relations take on the properties of market exchange and change/crisis management.

If anything, state redistribution following a Nordic welfare model should address the above manifestations of the neoliberal ethos on a geographical scale of things. Wary of the malleability of neoliberalism (cf. Venugopal, 2015; Weller and O'Neill, 2014); the point of analysis is the perceived role of the welfare state in tempering the manifestations of the neoliberal lingering legacy in the wake of the financial meltdown and to what extent government public policy can actually be considered successful in doing so to the potential benefit of its citizens. This close study of the national scale and the relationships among state policies, economies, societies and national developmental trajectories underpins our conclusion that these policy initiatives struggled in the Icelandic context when redressing privatisation, financialization, crisis management and state redistributions; as they are built on an outdated geographical framework informing Icelandic governance and lingering structures of the collapsed system.

Following this introduction, which will in addition to the above present the pretext and context of the current state of affairs, the paper will proceed in two sections. First, an unravelling of public policy in general will be done, wherein it will be discussed how and to what degree government austerity measures in the wake of the financial meltdown departed from the neoliberal ideal. Second, the paper will set out how public policy played out in a regional context, unpacking the uneven geographies of Icelandic welfare policy. Finally, the paper will be summarised with some concluding points.

Meltdown Iceland

In 2006, 2 years before the meltdown of the Icelandic financial system in October 2008, the Icelandic Chamber of Commerce stated that Iceland should stop comparing itself to the other Nordic states as "we surpass them in most fields" (Viðskiptaráð Íslands, 2006, 22). The heading of the box in which this quote is to be found reads: "Let's depart from Scandinavian taxation" and captures what many have later referred to as the self-righteousness of the Icelandic business elite, pushing all other interests and values aside (Ólafsson, 2009). Indeed, as far back as the early 1990s "the country was ruled by zealous neoliberals, who believed that financial markets were 'efficient' and self adjusting" (Wade & Sigurgeirsdóttir, 2010, 8). These zealots domestically voiced a more general trend where "the Nordic welfare states became increasingly subject to critique by the spokespeople of the market economy, as they felt that they stifled market entrepreneurism and burden society and industry with taxation and interference" (Ólafsson, 2010, 141, for examples see: Gissurarson, 2002; Office of the Prime Minister, 2006). The ensuing step-by-step privatisation of various state-owned factories and service companies, culminated in the simultaneous privatisation of two of the Icelandic state owned banks in end year 2002 and beginning 2003, followed by the national phone company along with moves towards the deregulation of the energy sector. Concomitantly tax 'reforms' were implemented, these entailed a massive lowering of corporate tax (it was also made extremely easy to set up a private holding around even the smallest of assets), tax incentives for investors, lowering of capital income tax, lowering of income tax and the abolition of property and high-income tax.

As the meltdown of the Icelandic financial system in October 2008 occurred, the newly privatised, and almost completely unregulated, banks had become 10 times the size of Iceland's GDP. As world liquidity dried up they came tumbling down. In a live television broadcast, the PM, a US-trained economist, announced that Iceland's debt was unsustainable and in conclusion asked the deity to salvage Iceland. The next day parliament passed emergency laws, later ratified by Iceland's supreme court (28th October 2011), granting the financial services authority (FME) and the government unprecedented powers to intervene in the financial markets. Most significantly the legislation gave all depositors (wholesale and retail) priority status over other creditors such as bondholders. On that basis all domestic deposits were moved into new banks along with loans and assets to match. The failed banks were then put into administration. The results in terms of the nation's gross foreign debt are shown in figure 1, reproduced from Magnússon (2010, 31). On paper it looks good but as always there were complications.

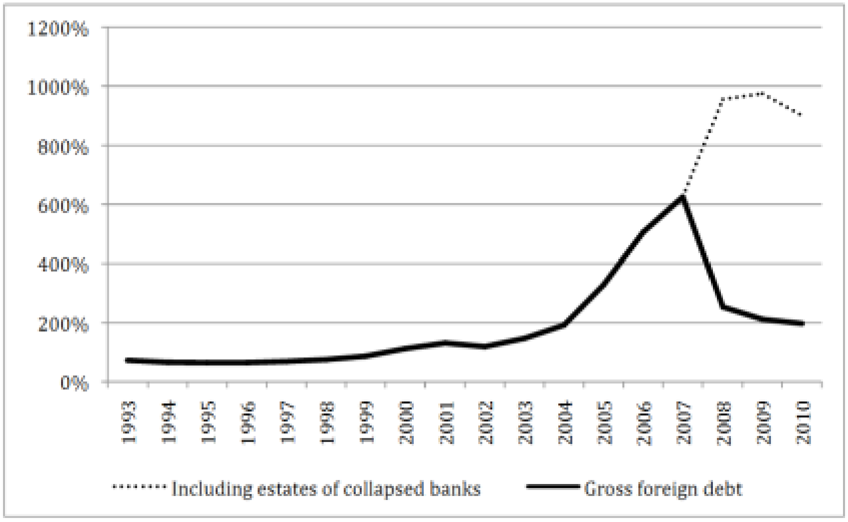

Figure 1: Saving Iceland? *Source*: Magnússon, 2010, 31

Nearly a week after absorbing the banks, the Icelandic government appealed to the International Monetary Fund (IMF) for US$2.1 billion assistance for the first time in 30 years the fund had to assist in a Western democracy. In addition, the government received extra loans from the Nordic governments (Norway, Sweden, Finland, Denmark), along with loans from Poland and the Faroe Islands. Table 1 sums a few key economic indicators to show the state of affairs in Iceland and how the economy changed during those pivotal autumn days of 2008.

Some of the figures in table 1 are striking, although remaining somewhat ambiguous. In total the fall in GDP was 10% by end year 2010. Even though Iceland may have seen worse recessions in the 20^{th} century the crash was multi-dimensional, entailing a currency crisis, banking crisis and a financial crisis all at once. For this reason the IMF called this recession unprecedented when they came to Iceland and Halldórsson and Zöega (2010, 1) described it as 'the perfect storm'.

Table 1: Macroeconomic indicators for Iceland, comparison 2003-07 and 2008-09 (Annual average growth (%) unless indicated otherwise). *Source*: Halldórsson & Zöega 2010, 6.

Macroeconomic indicators for Iceland

National accounts	2003-07	2008-09	**Asset prices**	2003-07	2008-09
Real GDP growth	5,6	-2,8	Real share prices growth	34,6	-72,4
Real private consumption growth	7,0	-11,3	Real residential house prices growth	11,9	-13,4
Real gross capital formation growth	17,2	-35,5	**Labour market**		
Gross capital formation (% of GDP)	26,9	14,1	Unemployment (% of labour force)	2,9	7,2
Real exports growth	6,2	6,7	Unemployment growth (% of itself)	-6,2	85,2
Real imports growth	12,8	-21,1	Unemployment growth (2009, % of itself)		140,0
Current account (% of GDP)	-14,3	-3,6	Total employment growth	2,5	-2,7
Savings			Total employment growth (% of pop.)	82,0	80,9
Gross household saving (% of disposable income)	16,3	23,9	Average real wage growth	2,8	-5,5
Public saving (% of GDP)	2,8	-9,1	Private sector real hourly earnings growth	3,2	-6,3
Money and banking sector			Labour share (% of GDP)	68,5	56,8
Real money stock (M1) growth	41,9	-0,1	**Other variables**		
Real domestic lending of banking sector growth	29,9	-34,2	Business bankruptcies (yearly average number)	598	910

Ripe with the rhetoric of crisis management Iceland did initially absorb what it possibly could of the financial sector until it finally could no more. The plummeting GDP and the loans received to provide start-up capital for the new domestic banks and salvage a bankrupt Central Bank, left the public treasury stifled with debt. Iceland as other western democracies in fact dared not to "impose on its society another economic crisis of the dimension of the Great Depression of the 1930s, as punishment for the excesses of a deregulated financial sector" (Streeck, 2011, 20). Arguably Iceland's debt absorption, in effect, maintained the socio-economic structures established through the neoliberal legacy through strictures placed on the contravening public policy of state redistribution introduced in its wake (Wade & Sigurgeirsdóttir, 2010, 29, see also Wolf, 2011). During the period 2009-2013 the most prevalent example was the way in which the ethos of financialization permeated public discourse. The question whether creditors shared sufficiently in the pain as the government redubbed the countries financial institutions out of necessity rather than cunning want (Knight, 2011) is still on the agenda. In retrospect, it is abundantly clear that it was impossible to bail out the Icelandic banks. The Icelandic economy would have collapsed along with the financial sector (Darvas, 2011). Hence the division between domestic and foreign banks was made meaning a loss for creditors of about 5-6 times Iceland's GDP (figure 1). However, many commentators applaud the way in which the Icelandic government handled the almost over-night collapse (see: Chakrabortty, 2011; IMF, 2011; New York Times, 2011; Wolf, 2011). These commentators celebrate the way in which Iceland "let its bank fail" and "got away with it", leaving the banks' foreign assets and foreign debts behind. In the case of Chakrabortty (2011) and Wolf (2011), they compare this with Ireland, the former quoting the Irish MP Stephen Donnelly saying that in contrast to Iceland, "the entire Irish people were made collateral for the banking system". Commentators fail to note that emergency legislation was put in place after an attempted bank bailout had failed. As the IMF notes "Iceland and Ireland saw their government debt ratios increase by 60–70% of GDP, despite seemingly safe precrisis budget positions, as a result of outsized financial sectors that eventually needed massive public support." (IMF, 2013, 21) Iceland's rise to fame for being tough on creditors is in all actuality a story of the accidental hero (see also: Browne, 2012; Darvas, 2011; Finn, 2011; The Irish Times, 2009; Magnússon, 2010, 43-44; Milne, 2011; Byrne & Thorsteinsson, 2012). This accidental heroism has in effect allowed for the reproduction of the neoliberal ethos in the face of concerted efforts to rescind them through a Nordic welfare public policy.

Iceland's move from and back to Nordic welfare

Much like elsewhere in Europe the post war years entailed an unprecedented economic boom for Iceland. But in Iceland it was a mere continuation of a process already started during the war as Icelanders gained from selling fish to the warring nations of Europe. Thus the 'blessed war' as Icelanders refer to WWII, set in motion the building of the modern welfare state. The economic boom ended in Europe in the wake of the oil crisis of 1973 (Blyth, 2002). Responding to the demise of this 'golden era of prosperity' public policy turned to wholesale financialisation and privatisation in order to shift the burden of the welfare state, effectively eroding it (Blackburn, 2002; Blyth, 2002; Streeck, 2011). Iceland's modern resource based economy has always been subject to boom-bust cycles. Yet Iceland has remained one of the most egalitarian societies in the world till the late 1980s and early 1990s. Thereafter the policies of neoliberal bent being followed in Europe emerged triumphant in Iceland.

> ... in the period from around 1995 till the collapse of the financial system in 2008 Iceland followed more than ever the unbridled US market policy, without cutting down the welfare system (Ólafsson, 2010, 144)

The welfare system developed in Iceland during the post war years can best be described as following the social democratic role so common in Scandinavian welfare states emulating its lauded egalitarian prowess (see:

Ólafsson, 2010, 142, based on Esping-Anderssen, 1990; 1999 and Castles, 1993; 2004). With the post 1995 neoliberal policy implementation, the planning of welfare moved decidedly to the libertarian model of the Anglophonic countries as outlined by Ólafsson (2010, 146). A key indicator of the libertarian model according to Ólafsson (2010) is higher levels of income disparities. Table 2 shows the development of the GINI coefficient measured at disposable income as it has developed from 2005-2010 in selected Anglophonic countries as compared to the Nordic countries more generally.

Table 2: Income disparities (GINI), years 2005, 2007, 2010 and 2012 *Source*: Ólafsson, 2010, 165, and OECD, 2013.

	Income disparity GINI coefficient 2005	**Income disparity GINI coefficient 2007**	**Income disparity GINI coefficient 2010**
USA	0.38	0.38	0.38
UK	0.34	0.34	0.34
Ireland	0.32	0.3	0.33 (2009)
Canada	0.32	0.32	0.32
Australia	0.3	0.34 (2008)	0.33
New Zealand	0.34	0.33	0.32 (2009)
Average	*0.33*	*0.34*	*0.34*
Denmark	0.23	0.25	0.25
Finland	0.27	0.26 (2008)	0.26
Norway	0.28	0.25 (2008)	0.25
Sweden	0.23	0.26 (2008)	0.27
Average	*0.25*	*0.26*	*0.26*
Iceland	0.27	0.28	0.24
Nordic Average	*0.26*	*0.26*	*0.25*

As table 2 shows in terms of income disparity there is a decisive difference in terms of the Anglophone westernised economies and the Nordic ones. However, both move somewhat towards greater disparities, chiming with Harvey's (2005) statement that in the decades following 1980 worldwide income disparities are approaching pre-WWI levels. The year 2007 is generally held as the pinnacle of the pre-crisis bubble economy in Iceland. The move of Iceland towards that of the Anglophone average is evident towards that year, reflecting success in 'depart[ing] from Scandinavian taxation' to reiterate the mission of the Icelandic Chamber of Commerce. Indeed, the income gap in Iceland widened more than in most other European states and Iceland's Nordic neighbours in the period 2003-2007, fuelled mainly by a flat income tax rate of just over 37% (Ólafsson, 2010, 166-167, see also Oddsson, 2010, 8). However as can be gleaned from the figures, contrary to what could be expected of the forceful neoliberal policy indoctrination of Icelandic society, its fundamental welfare structure has not been too shaken and resembles that of the Nordic countries.

This income gap has abruptly narrowed again in 2010. The reason for this sharp decrease resides in public policy measures deliberately aimed at reintroducing the Nordic welfare state into Icelandic society.

The rocky road back to Nordic welfare

A few months after the collapse of the financial system and the infamous televised plead to the deity by the then PM, civil unrest erupted in to what was dubbed the 'kitchen-ware revolution'. The government was non-violently ousted and the first ever purely left of centre government in Iceland's history was elected in April 2009, a coalition of Social Democrats and the Left Green Movement. The government that took office after the 'kitchen-ware revolution' announced that it would seek its socio-economic model from the Nordic states. The challenges facing this government in regaining the Nordic welfare resemblance lost during the years of neoliberal policy indoctrination were however immense. Three points are particularly noteworthy in this respect, providing for the strictures on Nordic welfare policy measures:

a) *Fall in revenue*: The contraction in the economy amounted to 10% of GDP in 2009 and 2010 which in turn had negative effect on the government revenue. The surge in unemployment, from 1%-9%, led to a fall in income tax. Private sector losses, bankruptcies and indebtedness meant lower returns from tax on capital and fall in consumption led to lower return on VAT. Even though taxation of the private sector during the 'boom years' was low in international comparison the mere size of the financial sector secured substantial revenue for the State. That revenue evaporated when the bubble burst. The fall in revenue in 2009 for the government is estimated to be about 30% from the year 2007.

b) *Increase in expenditure*: Even though the Icelandic authorities in the end could not salvage the oversized banking system the direct costs of the crisis was great. Initially direct fiscal costs in terms of GDP were thought to be only second to Ireland (5-6 times vs. 7 times see: Darvas, 2011, 7). But with time the estimated costs of Iceland's crash has only increased. One of the main reasons being the de facto bankruptcy of the Icelandic Central Bank which accounted for 11.1% of GDP (OECD, 2011, see also Magnússon, 2010, 38; 2012). The country has surpassed Ireland but is presumably lower than most recent victims of the financial crisis; Cyprus (IMF 2013a). In addition to the direct fiscal costs of the financial sector the increase in unemployment called for more benefit expenses.

c) *Interest rate payments*: To service soaring debt the State will pay around 3-4% of GDP in interest rates each year from 2010. These go towards the loans for e.g. refinancing of the new banks and the Central bank, the loans from the IMF to bolster reserves and serving the negative fiscal balance (Magnússon, 2010, 40). These interest payments expose the country's economy e.g. if interest rates would go up.

The above points are all common factors shared by a lot of countries amongst advanced economies in the wake of recession, i.e. the fall in revenue and increase in expenditure. Iceland was at the extreme end of the spectrum when looking at all these factors combined. In order to challenge Iceland's new and grim reality, the newly elected 'Nordic welfare government' put forward in mid-year 2009 a policy that was doubly aimed at securing the delivery of welfare services, but at the same time cutting public spending and raising income. To get to grips with the new economic reality the policy was to minimize cuts in the core welfare system but slash spending in maintenance, investment (road projects, buildings etc.) and administration. As welfare expenditure uses a large part of the government revenue then choosing not to cut them as much as other expenditure led to measures to increase revenue. Tax levies and the introduction of new sources of taxation with progressive aims of equality and environmental protection (according to the polluter pays principle), proved decisive in providing revenue. These followed a vision set out by the then minister of finance Sigfússon already in 2006 (37) and entailed:

- A three-bracket personal income tax system (only one before), with increased tax-free allowance, no change to lowest bracket (22.9%) but two additional brackets introduced at 2.9% and 8.9% above bottom rate in 2010. Capital income tax rate raised from 10% in 2009 to 20% in 2011. Corporate income tax rate raised from 15% in 2009 to 20% in 2011.
- Increase in the standard VAT rate from 24.5% in 2009 to 25.5% in 2010.
- New tax on wealthy individuals 1.25% on net wealth above 90 million (individuals) / 120 million (couples); in 2011: 1.5% on net wealth above 75 million (individuals) / 100 million (couples) (1,5% of assets over 100 MISK for couples).
- New environmental and carbon emission taxes (carbon tax introduced in 2010 at 50% of ETS market price; raised to 75% to 100% of ETS price in 2011-2012) (energy tax introduced in 2010; 2% tax rate on hot water and quantity-based rate on electricity).
- Increase in Social security contributions from 5.34% in 2009 to 8.65% in 2010 and 2011; lowered in 2012 in line with declining unemployment.
- Excise taxes on petrol, diesel fuel, alcohol, tobacco, and other high ticket items increased.
- A special resource rent tax on fisheries that targeted substantial increases in profits of export driven fishing industry resulting from the depreciation of the króna.

At the same time, inherited from the preceding government, all of these public policy measures needed to be meted out under the terms of the International Monetary Fund's (IMF) programme of economic recovery for the country.

The role of the IMF

According to Harvey (2006, 151) the World Trade Organization (WTO) and the IMF are in effect the global executive bodies of the modern neoliberal ethos. From the outset the introduction of the IMF into Iceland raised concerns within the country of a possible 'shock therapy' (Klein, 2008) and for good reasons if note is taken of the first letter of intent sent by the then government to the IMF (15th November 2008). After the kitchen ware revolution IMF's familiar face as capital's watch dog was thought to be evident in the debate around the responsibility to depositors of the iniquitous Icesave accounts. Also the IMF's insistence that the Icelandic Central Bank should maintain high interest rates, given the indebtedness of regular households and companies and after a collapse in consumer demand, also proved controversial. Indeed, Broome (2010) described the role of the IMF as being a mediator between external creditors and sovereign debtors, providing information for the international financial community about the quality of the local institutional environment and the policy intentions and lender of last resorts (41-42, for its dealing with Iceland see: Ágústsson and Johnstone, 2013).

The global credit crunch seems to have re-legitimised the IMF and it "is back in business indeed" (Broome, 2010, 38). This re-legitimised IMF however departs somewhat from its Keynesian founding principles as described by Stiglitz (2002, 12-13).

> Over the years since its inception, the IMF has changed markedly. Founded on the belief that markets often worked badly, it now champions market supremacy with ideological fervor. Founded on the belief that there is a need for international pressure on countries to have more expansionary economic policies – such as increasing expenditures, reducing taxes, or lowering interest rates to stimulate the economy – today the IMF typically provides funds only if countries engage in policies like cutting deficits, raising taxes, or raising interest rates that lead to a contraction of the economy. Keynes would be rolling over in his grave were he to see what happened to his child.

Perhaps the IMF learned some more flexible crisis management after the East Asia crisis as Broome (2010) argues. But Stiglitz (2002) claims that the IMF emphasises the role of public spending as cut backs could be detrimental to economic growth (see also Ostry, Berg and Tsangarides, 2014). This change seems to be reflected in the way the IMF dealt with Iceland. The IMF did not pursue its classic means of austerity in Iceland whilst seemingly doing so in Ireland and other countries that had to follow Iceland's appeal to the fund. Till their final economic policy approval in August 2011 and ultimate departure in March 2012 (see: IMF, 2012), the IMF was willing to cooperate with the left-wing government on progressive multi-step tax levies in combination with budget cuts, as opposed to draconian budget cuts and unjust revenue measures. The IMF also allowed the government to maintain capital controls in stark contrast to their former opposition and unlike e.g. Ireland and Latvia (Darvas, 2011). Likewise, the IMF did not oppose the government in running a large budget deficit for its term, and no demands were made for the privatisation of resources or companies. Krugman (2010) calls this leeway provided by the IMF a heterodoxy and compares the Icelandic programme to the Irish one which he deemed orthodox IMF:

> Oh, and while the IMF is demanding that Ireland cut minimum wages and reduce unemployment benefits, its mission to Iceland praised the "focus on preserving Iceland's valued Nordic social welfare model." What's going on here? In a nutshell, Ireland has been orthodox and responsible — guaranteeing all debts, engaging in savage austerity to try to pay for the cost of those guarantees, and, of course, staying on the euro. Iceland has been heterodox: capital controls, large devaluation, and a lot of debt restructuring — notice that wonderful line from the IMF, above, about how "private sector bankruptcies have led to a marked decline in external debt". Bankrupting yourself to recovery! Seriously. And guess what: heterodoxy is working a whole lot better than orthodoxy (Krugman, 2010)

However, given this leeway the question remains if there was a genuine shift from the neoliberal ethos returning to the ideal egalitarian principles of the acclaimed Nordic welfare state? Figure 2, demonstrates to us how this policy has fared. The IMF backed safeguarding of the Icelandic Social Welfare system was by and large successful it would seem and health and education as % of GDP, albeit in decline, exceed pre-2000 levels. In terms of public spending for welfare as % of GDP, Iceland's comparatively low average age and income-linked benefits, save some taxes being spent on welfare in addition to the tradition of low unemployment and late retirement age, till 2008. Social protection deserves a special note.

Moving from 1% unemployment to over 9% increased the cost of unemployment benefits after the financial meltdown. The means to tackle this rise could be to lower the benefits to curb expenditure towards pre-crisis levels in terms of GDP. However, that was not the route chosen and unemployment benefits sustained the level of welfare expenditure. People have also registered as invalids to a greater extent after the collapse and benefits accruing to family and children have increased (see also Davies, 2011, 67). These three factors explain the rise in the cost of social protection as shown in figure 2.

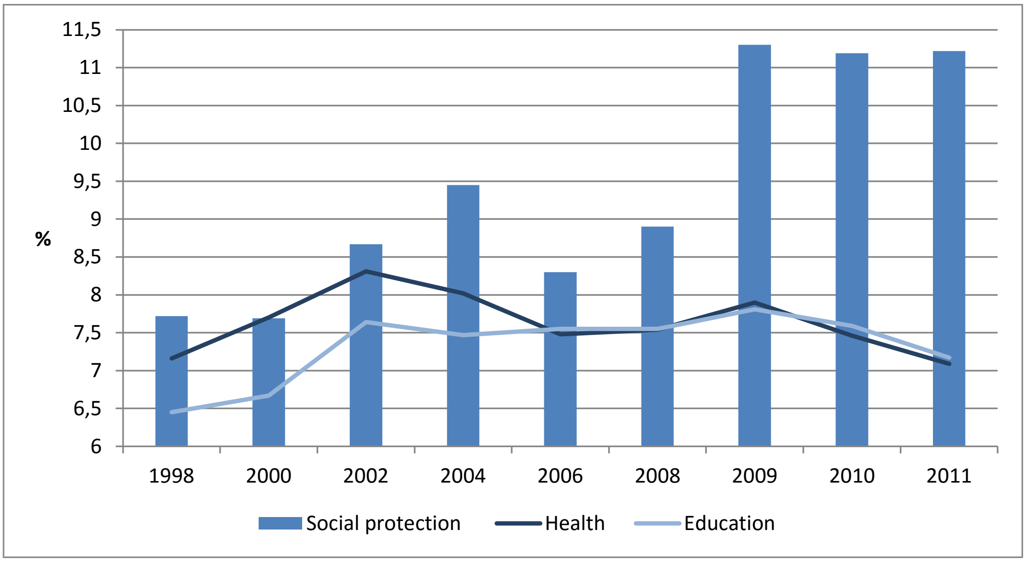

Figure 2: Government expenditure on welfare, health and education as % of GDP 1998-2011. *Source*: Statistics Iceland, 2012a, 39-41.

As a result of the introduction of progressive levels of taxation, raised capital gains tax and wealth taxes, the tax burden of the lowest income family households decreased after the financial crisis whereas it substantially increased for those households at the higher end of the income spectrum (Statistics Iceland, 2012, see also Ólafsson and Kristjánsson, 2012). This is reflected in the GINI co-efficient cited in table 2, but in 2011 it stood at a record low 0,236 (Statistics Iceland, 2012). This led the OECD to note that "income inequality fell substantially in Iceland, moving down eleven places on an OECD countries' inequality ranking to the lowest level. Consolidation policies appear to have been designed in an overall equalising manner" (OECD, 2013a, 3). Furthermore, Iceland was the only country within the OECD where the average income at the top earners scale fell more than at the bottom end. In addition, it would seem that the observed correlation between the % of people seeking municipal welfare support and unemployment for the period 1991-2008, became unhinged. The growth in unemployment was not directly translated into municipal financial support, arguably showing government success in sheltering societies lowest income tier (Ólafsson, 2013).

All in all, the tax incentives amounted to an increase of revenue of about 6% of GDP whilst the cuts amounted to 8% of GDP. Combined these delivered 14% of GDP of fiscal consolidation, 3% up from the necessary 11% for the year 2011. This 'surplus' allowed the government to put in place a social stimulus package in 2011, which entailed a general pay raise and increase in social benefits. These were much needed and welcomed with falling purchasing power of households and helped the government in battling growing labour market unrest.

Despite these positive results in terms of sustaining welfare in the wake of collapse, the strictures imposed by the IMF programme and the debt absorption, in effect, maintained the socio-economic structures established through the neoliberal legacy. Privatisation and financialization were only partly moved away from, although at current most of the financial sector is publicly owned in Iceland, but pegged for privatisation. The banks were resurrected and soon became dominant in society again without government policy on future ownership. The 2009-2013 government tried to tackle privatisation, however, especially in policy introduced to restructure fisheries policies and resource management. All in all, it would seem that the management and manipulation of crises was explicitly in favour of progressive taxation and the protection of the welfare state in public policy. At the same time, however, it provided justification for slack asset management in the private sector, to the interest of some. Harvey's (2006) final point on state redistributions warrants specific scrutiny as although redistribution between social groups seems to be towards equalisation, they have a distinctively uneven geography.

Geographies of austerity

> An important element of governmentality is space. Why? Because to govern it is necessary to render visible the space over which government is to be exercised (Thrift, 2005, 134).

As made clear in the introduction, the markers of the neoliberal ethos as it plays out on the ground entails people becoming consumers or actively seeking factors of production where social relations take on the properties of market exchange and change/crisis management. The four markers of the neoliberal ethos are abundantly evident in the post-crisis national public policy measures and the way in which they played out in the attempted reintroduction of the 'Nordic Welfare state'. In our mind however the clearest example of the prevalence of the neoliberal ethos in the context of the attempted reintroduction of the Nordic welfare state resides in the marker dubbed 'state redistribution' by Harvey (2006). Some scene setting is required for this argument to be sustained. What follows is an emphasis on "the extent and nature of the relative growth in the power of financial interests and actors within the broader institutional webs that constitute predominantly national 'varieties of capitalism' (Pike and Pollard, 2010, 32, see also Amin, 1999).

The seedbed for the Icelandic variety of capitalism was sown during the 20th century alone. During that time, but especially pronounced in the post war period with the booming of traditional industry, there has been massive rural to urban migration as has occurred in most places of the Western world, but occurring more rapidly and considerably later. The latter half of the 20th century saw the second phase of the demographic transition, i.e. society moving from "a resource-based commodity economy to a 'cultural economy' of signs and images" (Jóhannesson, Skaptadóttir and Benediktsson, 2005, 13). This is not only manifest in rural areas where traditional farming prevails but also in small villages all around the country where fishing dominates. Restructuring and changes in fisheries management in the early 1980s further compounded the general trend, to the detriment of smaller settlements (cf. Skaptadóttir, Mørkøre, and Riabova, 2001). By now this restructuring has turned into the wholesale financialisation of the fisheries through the introduction of individually transferable quota rights that can even be mortgaged (cf. Benediktsson, 2014; Benediktsson and Karlsdóttir, 2011). All these structural changes have led to a continuous in-migration to the capital region and select urban nuclei. The former has for long grown out of proportion with the rest of the country. At current, a region within 45 minutes driving distance to Reykjavík holds some 240,000 inhabitants of the country's total population of 330.000. The city thus established itself as the centre and hot bed for the rapid appropriation of modern capitalism in Iceland, not least fuelled by US military interest in the island, but during WWII Iceland was occupied by Allied forces and a sizeable US naval base was near Reykjavík till 2006.

These population dynamics and the pronounced suffering of some rural localities in terms of demographic decline, provides for the rational of a series of growth strategies which have been pursued to counter the prevailing trend of outmigration. These are mainly of two kinds (Benediktsson and Skaptadóttir, 2002). Growth policies have relied on the view that a propulsive enterprise can be central to a region's economic activity and this would establish relations with related industries to propel a region's economy (Huijbens, Jóhannesson and Jóhannesson, 2014). These growth policies are manifest in the introduction of large scale multinationally owned aluminium smelters to small peripheral communities, arguing that these will establish forward and backward economic linkages and thus propel multiplier effects that will benefit the region and the country (Mackay & Probert, 1996). During the same period, growth policies have also revolved around building regional development strategies. These regional development strategies have a history of around half a century in Iceland and entail small scale entrepreneurial incentives and support from the central government trying to finance what has become fashionable at each time, going from fish-farming, to mink farming to tourism.

The growing core-periphery dichotomy has lent the regional development strategies an ever growing momentum. Whilst neoliberal pundits argue for the introduction of globalised finance through aluminium smelters, drawing Icelandic energy resources into their realm, the Nordic welfare government opted for boosting entrepreneurial incentives. Brain storming sessions were set in motion around the country to come up with strategies that would underpin a

Vision 20/20 for Iceland (Office of the Prime Minister, 2011). The regions which applied to each of the brain storming sessions are shown in figure 3. However, these regions are based on the regional division of the associations of Icelandic municipalities, based on voters districts from 1959 and do not reflect the ways in which the rural-urban migration has unfolded in a regional context.

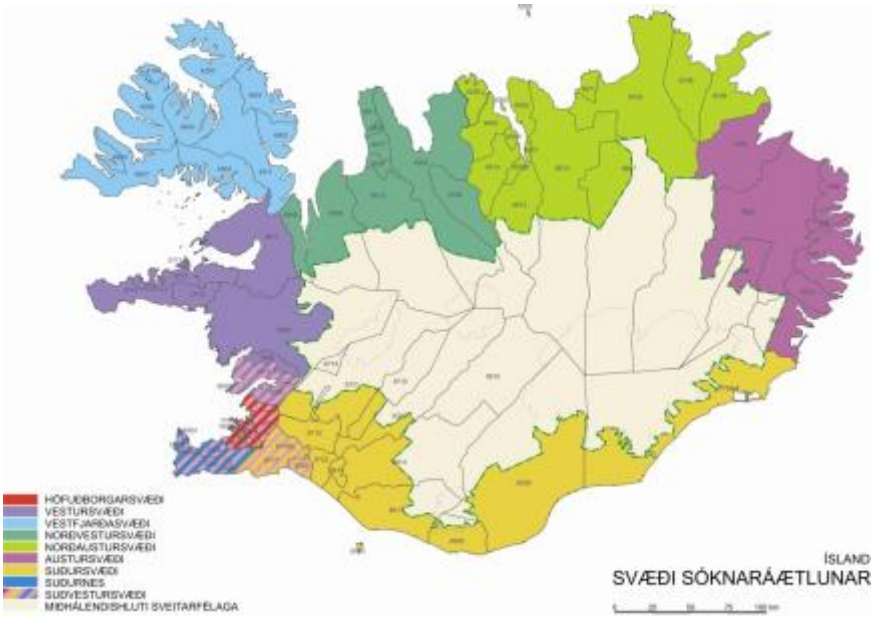

Figure 3: Regions of Iceland and municipalities. *Source*: Office of the Prime Minister, 2011

As a comparison figure 4 shows demographic trends in the Icelandic regions, drawing together those that are gaining and those that are losing population, reflecting the developments through the latter half of the 20th Century. What becomes quite clear from a simple comparison between the two figures is the way in which the system of governance seems not to reflect regional demographic dynamics.

Trying to outline a vision for Iceland through the structures of governance organised around figure 3, in response to the different challenges evident in figure 4 is problematic at best. Arguably it reflects that institutions of regional development are seeking legitimacy through policy isomorphism, whilst in actual fact decoupled from the challenges regional development is faced with around Iceland. The discrepancy between figures 3 and 4 became abundantly clear through the work undertaken under the terms of Iceland's accession to the European Union. How EU accession fits with Nordic welfare policy implementation cannot be dealt with here. But for our purposes we have scrutinised a screening report published in September 2011 (European

Commission, 2011) on regional policy and the coordination of structural instruments.

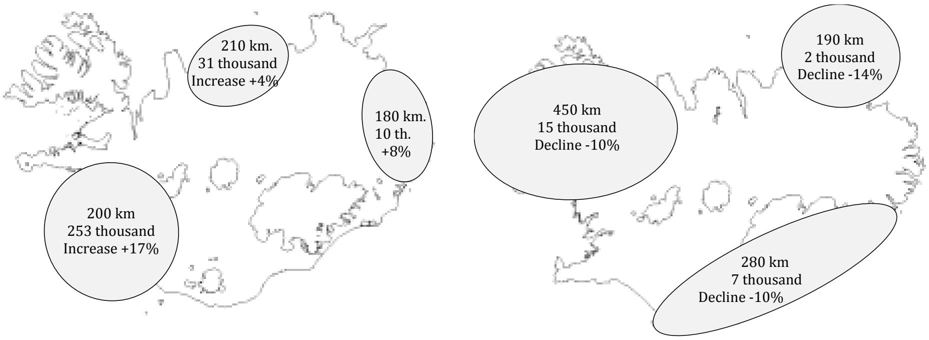

Figure 4: Regions of Iceland gaining in population (left) and declining in population (right), years 2001-2010. Diameter of circle shown covers region figures apply to. Figures shown are total population and % change. Source: Bjarnason, 2011

There the European Commission assessed the degree of alignment and implementing capacity of five interrelated points in terms of regional policy:

- Legislative and institutional framework
- Administrative capacity
- Programming
- Monitoring and evaluation
- Financial management and control

Underpinning the assessment was *Vision 20/20 for Iceland*, a governmental regional strategy considered the basis for the preparation of the National Strategic Reference Framework in the framework of EU Cohesion Policy. The report described the work as: "in itself a fairly solid document, [however] it is too early to judge on the operational value and effectiveness of Iceland 2020" (9). In the context of a later comment on the same page; "[t]here is no apparent State mechanism to identify 'best practise' or mechanism to replicate it in other parts of Iceland" it is no wonder that the permanent representative of Poland to the European Union Jan Tombiński concludes that: "Iceland cannot be considered sufficiently prepared for negotiations on this chapter" (Tombiński, 2011). The Polish representative was assigned the task of informing the Icelandic government as Poland chaired the EU. The EU basically concluded that there is no effective regional policy in Iceland. How entrepreneurial incentives and Nordic welfare policies are to thrive in this context begs questions on how public policy begets the specific geographies of austerity and welfare in Iceland and ultimately the production of material, social and political unevenness (Pike and Pollard, 2010, 34)

In this context we look into welfare provisions and the way in which public policy measures of the post-crash government were meted out in a regional context in Iceland.

In the case of Iceland and how public policy has played out in the wake of the financial collapse, the distinctive modes of meeting out the measures was tainted by the way the country's regional governance is in real terms structured (figure 3). The government's vision entails equal access to services regardless of residence, evidenced in a draft constitution emerging in 2013 after a protracted process of a constitutional assembly deemed illicit (see: Bergmann, 2013). However, in interrogating the needs and wants of the rural countryside through a procedure reliant upon this very structure of governance, has led to strategies that are not place specific or based on an engagement with socio-spatial specificities in each region, manifest in e.g. demographic dynamics (figure 4). Interventions, such as reorganising and downsizing the public sector and welfare provisions, was done without a regional strategy to fall back upon antagonising the population. As noted above the government slashed spending in maintenance, investment (road projects, buildings etc.). In the regions of Iceland, suffering the demographic dynamics outlined, road improvement may be key to welfare, getting the services safely and quickly to the people.

With a lack of understanding of e.g. this basic requirement, people in the countryside see themselves very much pitched against the government, located in the heartland of Reykjavík 101 (city centre post-code). This became more prominent with the post-crash austerity in three distinct ways:

1. where political mobilisations in; e.g. the elections to the constitutional assembly set up after the crash, were critiqued on the point that an egalitarian voting scheme (one vote per person) led to the countryside being underrepresented. Similar critique is levied against a bill to reform the complex parliamentary voting system to this extent,
2. in the tackling of household indebtedness, as no voices where raised in support of those who lost their housing equity in wake of the introduction of the individually transferable quota system which pulled the carpet from underneath many settlements,
3. in the reorganising of public welfare provisions, where the services are to be reoriented towards the heartland, leaving regions with no direct connections or good road access to the capital to fend for themselves without a regional policy of e.g. infrastructural improvements to fall back on.

The consequence of austerity measures being meted out onto a rural society through an outdated system of governance and no effective regional policy results in political mobilisations occurring around the welfare provision nearest to people. Each town and village fights for, e.g. its hospital or health-care facility irrespective of what is occurring in neighbouring communities. In one way this is certainly positive as the people of Iceland want to hold on to public welfare provisions, but set within an outdated geographical framework and within no coherent regional policy in transport, finances, investment or otherwise, these measures will only exasperate existing differences and polarisation that bear no resemblance to the spatio-social specificities of the island. Moreover, these seem to fuel the already pervasive neoliberal ethos of hypermobile subject looking for ways to optimise self-interest under the conditions of permanent crisis and change.

What kind of geography for what kind of public policy

As the Nordic welfare policies struggled within an outdated geographical framework of the country, neoliberal ideas of pre-crash bent, gained ground within their reinstated socio-economic structures. With a revaluing of the resource harvesting economy the voice of the Icelandic Chamber of Commerce has been dampened and now the chairman of the Confederation of Icelandic Employers announced that the Nordic welfare government should be sent to Moscow to learn a thing or two on lowering taxes (Magnússon, 2011). Zealous self-righteousness of the Icelandic business elite seems back and perhaps never gone.

We have demonstrated how the neoliberal agenda was sustained through resurrected ruling financial institutions and the ways in which globalised heavy industry is to reap benefits from Iceland energy resources. With citizens seemingly stripped of their democratic defences in the face of economic power of these capital behemoths, class mobilisations became animated around private housing equity and local welfare provisions in Iceland, pitching individuals, generations and localities against each other under the terms of crisis (Pike and Pollard, 2010, 34). As Mark Blyth a professor of international political economy at Brown University, made clear in a televised interview on the national radio RUV (27th March 2011), the neoliberal creative destruction mantra is in actual fact the destruction of creation, and what to us is being destroyed is the possibility of collective action. The pitched battles of individuals and localities resulted from the neoliberal "…forms of governmentality that privilege the mass production of knowledgable and enterprising subjects, subjects who can simultaneously optimize their relationship to themselves and to work" (Thrift, 2005, 110), foreclosing a progressive and inclusive agenda of social equity and equality. The uneven regional geography of Iceland is being sustained by the myth of flow in the wake of the financial crash. With cut-backs people are to seek without problem their welfare provisions where it is economically most feasible to locate them (Peck and Tickell, 2002) without recognising the necessary regional policy framework to sustain this. This results in subjects able and willing to be hyper mobile will thrive in the countryside. Those not able or willing will have to physically relocate.

Žižek (2007) cited in the introduction, claimed we live in post welfare times and concludes by stating “the risk will have to be taken to endorse again large collective decisions” (no p.). Harvey (2006) argues for the resurgence of worker-based movements and alternative local based political movements, around issues of social equity, inclusiveness and environmental justice. These will animate the modern day class struggle, where classes are hard to determine in advance. This is in part what the local based political movements around protecting welfare provisions in their home areas are about. They are vehemently protecting their social equity in the wake of austerity meted out as a consequence of the restructuring of the fisheries system, compounded by the financial collapse, sustained by neoliberal myths. This they do running the risk of parochialism in the absence of alternatives apart from becoming hyper-mobile and buying into the practices sustaining the finance sector and neoliberal self-righteousness, reliant on abstracted spatial myths of flow. These locally based political movements are keen to be included in the decision making process of how austerity is meted out, but lack the structure of governance to function through in a regional context. To what extent these local based political movements, around issues of social equity, represent a genuine shift from the neoliberal ethos remains to be seen, but there is cause for concern. At this point it is clear that these mobilisations manifest in the Icelandic post-welfare Nordic state come about due to state redistribution in the wake of the financial meltdown (Harvey, 2006). Austerity measures were ignorant of the country’s geography and its constitution, and used the lexicon of neoliberal capitalism itself in terms of rationalisations. The result in effect is the production of material, social and political unevenness (Pike and Pollard, 2010, 34). The title of the conclusion is from Harvey’s (1974) article and the question remains how Icelandic post financial crash austerity measures set out the co-ordinates for local based political movements? We call for a coherent and socio-spatially sensitive regional policy to endorse the collective decision that can underpin social equity and equality in the post welfare state.

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