Vilhjálmur Árnason is professor of philosophy and chair of the Centre for Ethics at the University of Iceland. He chaired a parliamentary Working Group on Ethics that studied the meltdown and its causes. He offers an insider’s view of the deliberations of this important committee, which had little patience for any meltdown theories that echoed the rationale that caused it. By analyzing four sectors of Icelandic society, Árnason skewers “methodological individualism”—a companion of neoliberalism that blames individual bad behavior instead of a system of policies—for its failure to adequately explain the causes of the financial collapse.

Unfortunately, the diagnosis and cure share a basic misconception: that professional and corporate misconduct are problems caused by some few weak, uninformed, or misguided individuals making poor choices.

Susan S. Silbey, “Rotten Apples or a Rotting Barrel”

The Working Group on Ethics (WGE) worked in close cooperation with the Special Investigation Commission (SIC) of the Icelandic Parliament, which was charged with finding out the truth about the events that led to the financial crisis. The WGE addressed the question: Could the collapse of the banks and related financial setbacks to some extent be explained...
by morality and work practices? In this chapter, I try to shed light on how the WGE approached this complex task through a discussion of the example of the success story of the banks. I chose this example because it demonstrates the complex interconnection of agents and events at various levels of society. In order to discern the network of forces at work in “the production of truth” or the dynamics of image-making in Icelandic society and the lack of resistance to it, the analysis of this example draws upon Foucault’s notion of horizontal power. This approach rejects methodological individualism as an inadequate and distorting way to deal with complex social phenomena. Ethical analysis must not be restricted to individual actions and character traits, as is prevalent in the quasi-moral discourse about the causes of the financial collapse and the concomitant social and political crisis in Iceland.

There are many who want to tell the story differently. When Davíð Oddsson, former prime minister of Iceland and former chairman of the board of the Central Bank of Iceland, was asked about the financial collapse, he said, “Perhaps it can be said that in many ways we were very unlucky with the crew that came aboard these banks. They are competent men in every regard but they were seized by enthusiasm […] for an enormous profit” (quoted in Árnason, Nordal, and Ásgeirsdóttir 2010, 189). In this statement, two things are especially striking. First, that a handful of individuals, the bankers, are the main culprits in the collapse of the Icelandic banks. Second, that they were overtaken by greed, one of the seven deadly sins and a cardinal vice in Western thought. This is a clear example of a half-truth. Oddsson has much at stake in diverting attention from his own political legacy and neoliberal ideology to the bad behavior of bankers who betrayed the trust invested in them. But this is not my concern here. What interests me is the methodological individualism this kind of explanation demonstrates and how it covers up important explanatory factors.

The president of the Icelandic Parliament stated in the letter of ordinance to the WGE that the inquiry was not to be restricted to morality and working practices within the Icelandic financial sector; other sectors might come under scrutiny as well. This was of crucial importance for the WGE’s analysis. Group members realized early on that they could not explain the actions in the financial sector and their impact without examining them in a wider context. So they attempted to assess morality and work practice in three main sectors or social spheres and their interrelations: the business and financial sector, the administrative and political sector, and the social and cultural sector.

I will demonstrate this approach by showing how the various threads of the social discourse about the banks that developed in Icelandic society in the years before the financial crisis were interwoven in a complex net of social
relations. Success stories of the Icelandic bankers were conspicuous in the period preceding the financial collapse in 2008. These stories originated from within financial institutions where highly ranked public relations officers had direct access to their CEOs. During the course of the investigation, it became clear that much of the narrative about success was built on shaky ground, was at times largely fabricated, and was part of an image-making machine needed to perpetuate the process. And who should have resisted these processes? Anyone with a direct or indirect obligation to guard the public interest: professionals; politicians; media reporters; experts (e.g., in universities); and the general public.

PROFESSIONAL RESISTANCE

The WGE’s report argues that professionals never work exclusively in the interests of a company or institution that pays for their services but must also take the public interest into account. This is evident from most professional codes of ethics where the public responsibility of professionals is described by principles like the following, on honesty: “We adhere to the highest standards of accuracy and truth in advancing the interests of those we represent and in communicating with the public” (PRSA 2012, n.p.). A public relations officer who distorts facts about a company and hinders media access to truthful information undermines the structures of the democratic state (Weaver, Motion, and Roper 2006). The WGE analysis showed that, as a rule, professionals such as lawyers, accountants, and public relations people did not take their public responsibility seriously. Instead, they uncritically facilitated the dynamics of the financial companies.

To be sure, PR people and other professionals were acting in accordance with a corporate culture promulgated by the banks. An experienced and well-respected foreign compliance officer who worked in one of the Icelandic banks for a short period in 2007 described the atmosphere in the bank as “cultish.” There was considerable pressure for everyone to think alike. One way this was achieved was through generational change. Managers with traditional banking experience were replaced by young (mostly) males who had what was considered the appropriate mentality for investment banking. As one of the bank directors of Kaupthing Bank said, “It is very hard to change a culture without changing employees” (“Eftir höfðinu dansa limimir” 2006). This new organizational culture was characterized by a lack of professional detachment and a strong devotion to the institution. Growth became more important than following the rules (Árnason 2010).
In this way, the organizational setting and culture of the banks provided both the motivation and opportunities for misconduct as well as the thoughtlessness that enables it. Certainly, individuals make bad decisions and are guilty of wrongful action, but they do so within an environment that breeds it. By the same token, environmental conditions can also provide moral incentives that constrain bad actions. A major lesson to learn from the Icelandic banking experiment is that it was unrealistic of the Icelandic financial regulators to place trust in bankers who had no roots in a trustworthy banking culture and, in fact, undermined the industry’s traditional foundations by an excessively risky business model. Instead of trying to build a manageable banking system for a small nation that had no experience in international investment banking, Icelandic politicians let young bankers loose to build a banking sector that became almost nine times larger than the national economy with drastic effects on all sectors of society.

**THE RESPONSIBILITY OF POLITICIANS**

The primary responsibility of politicians is to work in the public interest and to promote the common good. The WGE analysis demonstrated how many Icelandic politicians failed to exercise this responsibility by siding unconditionally with the bankers. For example, politicians typically backed bankers’ characterization of criticism in foreign reports and media abroad as malicious attacks by competitors envious of Icelandic banking success. Key ministers participated in road shows meant to strengthen the image of the banks. In so doing, they also made it manifest that the Icelandic state was behind the banks, lending them credibility.

Uncritical support of the banks was also predominant among members of Parliament, for which the WGE report blames an immature political culture. The partisan bickering and strategic rhetoric that dominates political discussion is an obstacle in the way of dealing objectively with information and identifying the true state of affairs. The primary emphasis is on winning the political game, making the origin of the statement more important than its validity. Politicians tend to behave like the polemicist who “possesses rights authorizing him to wage war and making that struggle a just undertaking; the person he confronts is not a partner in the search for the truth, but an adversary, an enemy who is wrong . . .” (Foucault 1984a, 382).

The WGE inquired about the direct financial connection between the political sector and the financial companies. It turned out that with the exception of the Left-Green Party, all political parties and many individual politicians
had received donations from financial companies. While the US financial industry donated $180 million to political campaigns in 2010, or 60 cents per person, “the roughly comparable Icelandic figure, according to the SIC report, was $8 per person in 2006, or 14 times as much” (Gylfason 2012, 9). Moreover, ten members of Parliament were in considerable debt to the banks, an average of €9 million (US$12 million) per person (Rannsóknarnefnd Alþingis 2010, 2:200), or, in current exchange rates, €5.4 million (US$7.3 million) per person. For decades, until 2007, Icelandic politicians—especially members of the largest party, the Independence Party—resisted setting rules about financial donations to politicians.

Iceland has always scored very high on international monitoring of corruption, largely because one of the key measures is bribery of public officials. Such corruption hardly existed in Iceland, but the relationship between the financial and political sectors has always been close, if not “incestuous,” as one professor of economics put it (Gylfason 2012). Privatization of the banks was meant to be the remedy, but contrary to the principles established for the process, it ended as a political deal between the two main parties, the Independence Party and the Progressive Party. The banks were sold to relatively young and inexperienced bankers, favored by key politicians.

These are a few of the reasons why politicians were not motivated to resist the message of Icelandic banking success. They had themselves invested in their success, both politically and financially, and were unlikely to undertake a critical analysis of the banks, as would have been consistent with their primary responsibility of protecting the public interest. A parliamentary proposal to investigate power and democracy in Icelandic society, as some other Nordic countries had done (Togeby et al. 2003), was sent to a committee for consideration but never implemented. The Nordic countries had launched such an investigation because power had been gradually moving from elected representatives to financial corporations in the private sector.

Nowhere in the Nordic countries had this development been as drastic as in Iceland. The same authorities who had purposefully facilitated the growth of the banks by various political decisions related to the liberalization of the financial environment later stood paralyzed in front of their own creature. This is well analyzed in the executive summary, provided in English, of the Special Investigation Commission (2010, 17):

The powerlessness of the government and the authorities, when it came to reducing the size of the financial system in time before a financial shock hit, is evident when looking at the history . . . It is also clear that when the size
of the financial system of a country is, for instance, threefold its gross domes-
tic product, the competent authorities of the country have, in general, the
potential to set rules for the financial system to comply with and to ensure
compliance with such rules. However, when the size of the financial system of
a country is nine times its gross domestic product the roles are reversed. This
was the case in Iceland. It appears that both the parliament and the govern-
ment lacked both the power and the courage to set reasonable limits to the
financial system. All the energy seems to have been directed at keeping the
financial system going. It had grown so large, that it was impossible to risk
that even one part of it would collapse.

THE ROLE OF THE MEDIA

The role of the media in a democracy is to keep citizens informed about
what is happening in society (Preston 2008). The WGE prepared a special
report (Guðmundsson et al. 2010) on the media in the years preceding the
collapse. It concluded that the Icelandic media had failed badly in this regard.
Media reporting about the financial sector was largely built on press releases
issued by the companies, framed in such a way that it served their interests
(Árnason, Nordal, and Ástgeirsdóttir 2010, 265). Independent, critical profes-
sional analysis was minimal. All the main media were owned by the financial
corporations except the state-owned radio and television. Editors of Icelandic
media reported to the WGE interesting anecdotes about the interaction
between the media and the financial sector. For example, in some cases busi-
ness reporters had befriended spokespeople of the company and formed such
a “cozy relationship” that they lost all credibility as reporters.

This is characteristic of the change in the workings of power in Iceland dur-
ing these years. Consider the following remark from the news director of the
Icelandic National Broadcasting Service (RÚV), appointed after the meltdown:

It could be said that our main energy in the last few years has been spent on
making us independent of the political power. For example, I happen to be the
first director of RÚV who is hired without direct political interference, without
being selected by a politically appointed council. In other words, I think that
we have become experts in defending ourselves against politicians, but this big
change in society regarding increased power of the business sector may have
escaped us and we had no proper experts in analyzing the business life. And
those who became close to being knowledgeable were simply bought out by the
banks (quoted in ibid., 199).
The descending, intervening power from above in the form of orders, backed by a threat or a sanction, had changed to a horizontal power that never threatens but invites and befriends. Moreover, this power “is not that which makes the difference between those who exclusively possess and retain it, and those who do not have it and submit to it” (Foucault 1980, 98). The phenomenon of self-censorship repeatedly came up in the interviews with the editors. In a small society with a small media circle, there is self-imposed pressure to avoid a reputation for being difficult. Or in the words of an editor of an Icelandic newspaper: “There were here a few corporations that dominated everything and if people wanted to work with certain trades they didn’t have many options. If they came into opposition with one or two men even, they would literally not have any job opportunities. I think that this is at least part of the explanation, that people were afraid of losing their very subsistence” (quoted in Árnason, Nordal, and Ástgeirsdóttir 2010, 206).

It proved unusually difficult for journalists to get information from the financial system for the same reason. The editor observed, “It was bit scary when we were looking for information how the collusion in the system was pervasive.” According to the editor, this was not because there was some systematic silencing terror going on. “People simply kept silent because they did not dare to speak or did not want to speak. They had perhaps some knowledge about something they found suspicious in the system, but they all had a good salary or took part in lucrative projects etc.” (quoted in ibid., 205).

Judging from this description, the reason why the success story of the banks met with so little resistance in Icelandic society can be put in terms of the subtle workings of horizontal power, which normalizes behavior in much more effective ways than traditional forms of subjugation and domination. This is because the individuals who are subject to the power are employing it at the same time: “Power is employed and exercised through a net-like organization. And not only do individuals circulate between its threads; they are always in the position of simultaneously undergoing and exercising this power. They are not only its inert or consenting target; they are always also the elements of its articulation. In other words, individuals are the vehicles of power, not its point of application” (Foucault 1980, 98).

**ACADEMIC EXPERTS**

The editors interviewed by the WGE criticized experts in Icelandic universities for being unwilling to take part in the public discussion about the state of the Icelandic banks and the financial sector in general. In a small country...
where the media are both financially and professionally weak, it is important that journalists can seek the assistance of academics in analyzing facts and assessing complex situations such as those which frequently arose in the years preceding the financial collapse. Complex financial products, such as financial derivative instruments, as well as multiple cross-lending and cross-ownership relationships, characterized the period and made the situation opaque and difficult for the media to discern and interpret. In 2008 a Danish business editor said that it was unusually difficult to obtain information about the ownership and operation of the Icelandic financial companies (“Segja danska fjölmiðla ósanngjarna” 2008).

Do academics have an obligation to take part in public debate or contribute to public literacy, for example, in financial matters? Should they have provided resistance to the narrative about the success of the Icelandic bankers? Often academics alone have the knowledge that is necessary to analyze the issues, place them in a sensible context, and reveal distorting statements. According to Foucault, this has implications for the role of the intellectual in contemporary society: “The role of the specific intellectual must become more and more important in proportion to the political responsibilities which he is obliged willy-nilly to accept, as a nuclear scientist, computer expert, pharmacologist, etc.” (Foucault 1984b, 72).

This relates to the role of the university and the civic obligations of academics. The primary responsibility of academics is to teach and perform research, for which they are granted academic freedom. This is fleshed out in the third principle of the *Magna Charta Universitatum*: “Freedom in research and training is the fundamental principle of university life, and governments and universities . . . must ensure respect for this fundamental requirement” (Magna Charta Observatory 1988, n.p.). It is important to take both an internal and external perspective on the conditions for this principle. Internally, this relates to the culture and practices of universities, while externally it concerns the social and cultural atmosphere in which a university either thrives or doesn't. One of the major preconditions of fruitful academic work is that it is carried out in a tolerant democratic environment that fosters informed public opinion. “This means,” a commentator on the principles of the Magna Charta declaration writes, “exercising a critical part—well informed, constructive and relatively free from those special interests most people are affected by. The third Magna Charta principle thus implies that academics, because of their professional standing and capacity for critical thinking, have also the obligation to take up issues that they know to be ignored by others, due to various pressures” (Jónasson 2008, 62–63).
Foucault writes that the intellectual is obligated whether he or she likes it or not. That implies that every intellectual or academic accepts or neglects this responsibility by the way he or she acts. It is crucial, however, to see the task as one not of separating the truth from the effects of power and ideology “(which would be a chimera, for truth is already power), but of detaching the power from the forms of hegemony, social, economic, and cultural, within which it operates at the present time” (Foucault 1984b, 74–75). The hegemony, or overwhelming presence and power of the financial discourse in “the production of truth” or image-making in Icelandic society, required critical resistance from academics, who were in a unique position to analyze it.

Some Icelandic intellectuals tried, but the soil for receiving their criticism was not fertile. There were also striking examples of the reverse, of academics going uncritically into the service of the “financial regime of the production of truth,” to use Foucault-inspired terminology. In 2006 the Danish Central Bank issued a report that proffered a negative prognosis of the financial situation and exposed many weaknesses of Icelandic banks (Danske Bank 2006). In response, the Iceland Chamber of Commerce commissioned its own report, authored by Frederick S. Mishkin, professor of economics at the Columbia Business School, and Dr. Tryggvi Thor Herbertsson, director of the Economic Institute at the University of Iceland (Mishkin and Herbertsson 2006). That report played a major role in assuring both Icelandic politicians and the international community at a critical time in the period leading up to the financial collapse.

The Iceland Chamber of Commerce was instrumental in shaping the political ideology and atmosphere in the years preceding the financial collapse. A very clear statement of the chamber’s social vision is to be found in another report, entitled *Ísland 2015* (Viðskiptaráð Íslands 2006). Its message is that the state, not the banks, needs to downsize. Solutions are to be sought in privatizing many government functions. It explicitly states that Iceland should no longer compare itself with other Nordic countries because it had already exceeded them in most important economic aspects (i.e., indicators of competitiveness).

This report was a product of a committee on the future of Icelandic society, Framtíðarhópur Viðskiptaráðs Íslands, set up by the Chamber of Commerce and chaired by the rector of the semiprivate Reykjavík University, owned in part by the Chamber of Commerce. The rector of the Icelandic Academy of the Arts was also a member of the committee, as was the chair of the Association of Icelandic Artists, the director of the National Theater, representatives of two of the biggest banks and investment firms, the chairman of a major pension fund, the director of one of the largest audit companies, and
representatives of several other leading Icelandic companies. The composition of this committee clearly shows how the prevailing ideology saturated many levels of society in the period before the collapse and how the various sectors of society cooperated in creating and conveying the message.

In 2007 the Chamber of Commerce published yet another report in the same spirit, with ninety suggestions for Iceland to improve its competitiveness. The common thread throughout is laissez-faire economics with a minimal state, emphasizing self-regulation of the financial institutions: “It would be much more sensible to let players on the market set their own rules and implement them rather than rely on public regulation which is burdensome and costly” (Viðskiptaráð Íslands 2007, 19). This was also the tone set by the government and the policy implemented by the Icelandic regulatory agencies. The Iceland Chamber of Commerce clearly functioned as an ideological think tank that strongly influenced the politics in the years before the financial collapse.

The chamber commissioned another report on the Icelandic financial sector, published in late 2007, written by academics Richard Portes, professor of economics at London Business School, and Friðrik M. Baldursson, professor of economics at Reykjavík University (Portes and Baldursson 2007). That report was less influential than the one by Mishkin and Herbertsson, but the chamber and its allies used both reports strategically in “the production of truth” about the Icelandic financial sector. In May 2006, soon after the publication of his report, Mishkin participated in a meeting set up by the Iceland Chamber of Commerce in New York with Icelandic prime minister Geir H. Haarde. The meeting was entitled “Financial Crisis or Economic Opportunity: The Real Story about Iceland.” The press announcement described Mishkin as “a leading world authority on financial stability” (Consulate General of Iceland 2006).

A week later the Icelandic newspaper Morgunblaðið published an interview with the chief financial analyst at Landsbankinn. She said, “The report by Herbertsson and Mishkin about the state of economy has already had impact on the markets. It is crucial that such a well-known economist as Mishkin contributed to the report. This shows as well that it matters who speaks about these issues” (“Miklu skiptir að Mishkin tók þátt” 2006, n.p.). Portes took part in a business conference held in Copenhagen in March 2008, along with the Icelandic prime minister and the chairman of Kaupthing Bank. Judging from Icelandic media reports, Portes heroically defended Icelandic businessmen from foreign criticism. On March 25, 2008, he appeared on the US television network CNBC to say that Icelandic banks were well-run, sound
corporations (“Icelandic Crown Rallies” 2008). The director of the Iceland Chamber of Commerce commented that it was “very positive to see a turn of the tide in the reports in the foreign media. . . . This also shows that a joint effort of all stakeholders to convey correct information has now succeeded” (“Við nýjan tôn” 2008).

This joint effort of politicians, academics, and businessmen in defending the image of the banks is a testimony to the pervasive collusion in “the production of truth” about the financial regime in Iceland. It should be noted that the Iceland Chamber of Commerce paid Mishkin US$124,000 for coauthoring his report, and Portes received £58,000 (US$76,000). Robert Wade, professor of political economy at the London School of Economics, and Silla Sigurgeirsdóttir, lecturer in public policy at the University of Iceland, reflect on this: “It is not clear to what extent their willingness to assert the ‘highly professional’ quality of Iceland’s financial regulator and the basic stability of the banks was influenced by the size of their fees from an organization which had a strong vested interest in securing their favorable ‘expert’ opinion; and to what extent their willingness reflects the wider epistemology of economics, which since the neoclassical ascendancy has given little weight to meticulous observation of people and organizations . . . ” (Wade and Sigurgeirsdóttir 2012, n.p.).

THE ICELANDIC PUBLIC

There were honest attempts among Icelandic academics and intellectuals to raise critical voices about the standing of the Icelandic banks, but, as I stated above, the soil was not fertile for their criticism. This leads us to the role of the Icelandic public, which embraced the message with enthusiasm and almost no resistance, contributing to and maintaining the atmosphere for the success message of the banks. Clearly, the common Icelander had neither the incentive nor the means to be critical of this social development. The times during the economic boom were characterized by an excessive consumerism; many used ample opportunities for access to loans as well as unprecedented ways of saving with high interest. Icelanders could also free themselves from the lowest-paid jobs in the service sector, leaving those to foreigners. Traveling abroad became relatively cheap, largely due to changes in international air travel but also to the strong standing of the national currency.

The highly consumerized Icelandic public was neither motivated to act as citizens nor provided with favorable conditions in which to do so. It is questionable whether a public sphere “in which critical public discussion of matters of
general interest was institutionally guaranteed” (McCarthy 1991, xi) has ever really existed in Iceland. But clearly the elements sustaining it, such as the media, were largely colonized by the financial sector. Moreover, the media in Iceland are very open to articles from the public that give the impression that they are serving their democratic function well. As a consequence, however, the media are full of opinions on matters of public interest, but short of objective and critical scrutiny of the issues. Lacking both in financial strength and professional competence, the media have not been able to provide objective reporting based on research in order to provide the conditions optimal for informed public opinion and social debate. This is a major reason why the Icelandic public had no resources to draw upon in order to resist the success narrative flowing from the banks.

It is also true that financial institutions used their corporate social responsibility programs to create goodwill among members of the Icelandic public. Supporting charity, sports, education, and cultural programs, the financial moguls created their image as public benefactors while simultaneously feeding into the attitude that these contributions were indispensable for thriving cultural institutions. Again, the workings of power come through generous invitation and support, not through order and domination. The docile citizenry went willingly into the service of the financial regime that at the same time was threatening the very economic structure of society through the high-risk policies of the bankers.

The WGE commissioned a report from a social psychologist about how general group dynamics as well as the characteristics of a small nation contributed to the course of events that led to the financial collapse. The report used a vivid metaphor to illustrate that individualistic explanations are not useful: “In relation to the collapse of the Icelandic banks, explanations of social psychology are primarily aimed at exploring whether the barrel was rotten and therefore many apples rotted. The emphasis is not on finding a few rotten apples which caused the entire barrel to rot” (Þórisdóttir 2010, 297).

The report charges that people have a strong tendency to receive and interpret information in accordance with their system of aims and beliefs. The Icelandic public had strong incentives to believe that the economy was going well and the financial sector was successful and thriving. As consumers, they gained from this state of affairs, and as citizens of a small nation they took pride in it. Almost everything in their surroundings reinforced their belief, and they were likely to reject or deem invalid information that contradicted it. This approach provides an important corrective to the simplistic moral demand that people should think more critically and be more vigilant citizens.
(even though these are important guidelines for citizenship education in a
democratic society).

I have used the story of the success of the Icelandic banks as an example to
demonstrate the need for a multidimensional analysis of the financial collapse.
The creation and maintenance of the image of the banks required interplay
between professionals in the banks, actors in the political sphere, the media,
experts, and the general public. I have argued that methodological individual-
ism is gravely misleading and inadequate to deal with such a complex net of
relations as that which existed during the events preceding the meltdown. In
addition to analyzing the interplay between the social actors, we must factor in
the enabling background conditions, structural processes, institutional culture,
and social norms that contributed to the event. The problem was not isolated
to a few rotten apples—a handful of greedy, risk-taking bankers—but was
rooted in a lack of resistance at all levels of Icelandic society.