Narratives of Financial Crisis, and their Factors: Estonia, Ireland and Iceland Compared

By Allan Vissor

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Supervisor: Professor Bela Greskovits

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Introduction

The Global Financial Crisis has been protracted. Studies have been published about the causes of the crisis in the United States\(^1\), how the crisis unraveled in the US\(^2\) and responses to it in the US\(^3\). In Europe the crisis is known as the “European Sovereign Debt Crisis” or the “Eurozone Crisis”. The causes of the Eurozone crisis have been attributed to flaws in the design of the European Monetary Union\(^4\), unregulated financial markets and failures by eurozone authorities\(^5\) as well as poor fiscal policy national governments\(^6\).

The time is ripe to study the crisis in Europe because one can already see the effects of early responses to the crisis. My research is a comparison of discourse stasis and change in Estonia, Ireland and Iceland. It is not a fully-fledged comparative study because the Icelandic case is used as source of contrasts to Estonia and Ireland to draw theoretical conclusions. The research is driven by the observation that these countries had a steep economic crisis but their political reactions to the problem and their narratives about the crises have been different.

The Irish initially perceived the causes of the crisis to be external but after formal investigations of causes and the election of a new government in March 2011 the public discourse changed. In Estonia it was also initially believed that the causes of the crisis were external but in contrast to Ireland the dominant discourse did not change. In Iceland the crisis was initially perceived to be caused by external factors but after a change of government and investigation into the causes of the problem the new government discourse viewed the principal causes of the crisis to be domestic. In sum, Estonia’s situation can be conceptualized as discourse stasis, and Ireland’s and Iceland’s situation as having different degrees of

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1 e.g. Stiglitz 2010.
2 e.g. Brunnermeier 2008.
3 Krugman 2012.
4 Scharpf 2011.
5 De Grauwe 2010.
6 Csaba 2012.
discourse change.

My study, then, helps to uncover weaknesses in Estonia’s politico-economic system. While Ireland is trying to learn from past mistakes and be better prepared for the future, Estonia seems to be ignoring its mistakes and walking on a slippery developmental path7. Iceland, although deeply divided, is also trying to learn the lessons of the crisis.

To identify narratives about the crisis among the elites I examine speeches of Prime Ministers and also the views of other domestic actors (e.g. businesses, trade unions, the opposition, scholars). To find out whether the views of the elites are shared by the common people I will use data gathered by public opinion polls, such as the Eurobarometer.

In explaining the change or stasis in the narratives I will draw from the theory of policy stasis and change8 stemming from the literature of the four “new institutionalisms” – historical (HI), rational (HI), sociological (SI) and discursive institutionalism (DI)9. I use the four theories to conceptualize different factors.

The theory of policy stasis and change is an underdeveloped area of discursive institutionalism10. Hope & Raudla11 maintain that DI can be used to explain policy change and policy stasis. Discursive factors can explain policy change when there are entrenched interests (RI), institutional obstacles (HI) and cultural blinkers (SI). But obstructive discursive factors can also explain policy stasis when there are eroding interest coalitions, loosening institutional constraints and cultural questioning (Figure 1).

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7 Nölke & Vliegenthart 2009.  
8 Hope & Raudla 2012.  
10 Hope & Raudla 2012, 402.  
11 Ibid.
In conceptualizing potential factors that explain discourse stasis and change I divide them into historical, rational, sociological and discursive factors. In addition I will also consider two other factors considered important by the existing literature– international factors and economic factors. In short, I will look at how historical, rational, sociological, discursive, international and economic factors explain discourse stasis and change in Estonia, Ireland and Iceland.

Figure 1.

![Diagram of new institutionalist model for policy stasis and change](source: Hope & Raudla)

In order to determine the difference in the narratives I use three possible framings of crises presented by Tindall. In the “business-as-usual” frame the severity is minimized and the

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13 Ibid.
14 Tindall 2009.
causes are considered to be exogenous. In the “crisis as a threat” frame the severity is acknowledged and the causes are considered to be exogenous. In the “crisis as an opportunity” frame the severity is maximized and causes are considered to be endogenous.

Raudla and Kattel\textsuperscript{15} argue that the theory of discursive institutionalism can effectively explain why Estonia chose fiscal retrenchment in 2009. They argue that historical, rational, and sociological factors all fed the neoliberal discourse which resulted in the underdevelopment of Estonia’s economic policy capacities making it impossible to choose any other policy measure. This conclusion can also be used to explain discourse stasis in Estonia – the underdevelopment of economic capacities made it impossible to start a discussion about alternative economic models.

Hope and Raudla\textsuperscript{16} conclude that Estonia exemplifies a case where in a simple polity the number of actors in public discourse becomes so constrained that there are simply no actors who could bring about a change. This is why it is important to compare the Estonian case to Ireland and Iceland – they are also simple polities with communicative discourses but the difference is that they experienced a discourse change, whereas Estonia did not.

In the first chapter I will give an overview of the research design, articulate research questions, explain the research puzzle and describe independent and dependent variables. I will also conceptualize and list the factors I will be analyzing. In the second chapter I will describe the narratives in Estonia, Ireland and Iceland. In the third chapter I will analyze the weight of various study factors in solving the research puzzle.

\textsuperscript{15} Raudla & Kattel 2011.
\textsuperscript{16} Hope & Raudla 2012.
Chapter 1: Methodology

1. Research design and questions

I am going to compare the cases of Estonia, Ireland and Iceland with the method of “controlled comparison”. According to the classification of George and Bennet my research would qualify as a “heuristic case study” the aim of which is to “inductively identify new variables, hypothesis, causal mechanisms, and causal paths.”

I am going to use the “most similar” cases research strategy in which two cases fall into the same category according to their independent variables but are different on the outcome or the dependent variable.

The main research question is: what explains discourse stasis and change in a simple polity with a communicative discourse? Or in other words: what factors explain the differences in the narratives about the financial crisis in Estonia, Ireland and Iceland? The related research question is: how was the crisis perceived among the elites and the common people?

2. The puzzle and independent variables

The research puzzle is that while Estonia and Ireland have common characteristics (small...
size, late development, neoliberal policies, a severe GDP contraction, implementation of fiscal retrenchment, simple polities, communicative discourse) they showed different political reactions to the crisis and different narratives about it (Table 1 in Appendix). This kind of approach allows me to control for some independent variables.

Let me elaborate.

Estonia and Ireland and Iceland are small states in terms of their population and the size of their economy. The population of Estonia is 1.3 million and that of Ireland 6.4 million. Iceland’s population is 319’000.

Both countries are late developers – Estonia joined the capitalist world system in 1991 when it regained independence and Ireland embarked upon a serious development path only after 1958. Iceland was one of the poorest places in Western Europe at the start of World War II. It began to cautiously liberalize in the 1960s. The start of the development of these countries is in stark contrast to the advanced small European sates which Katzenstein selected for his study - Sweden, Norway, Denmark, the Netherlands, Belgium, Austria and Switzerland.

Estonia and Ireland have been categorized as liberal market economies (LMEs) in the varieties of capitalism theoretical framework. Hardiman says that the Irish political economy has features that place it “clearly within the Anglo-American liberal market model of capitalism”. O’Riain argues that while developmentalism or the “flexible developmental state” was behind the success story of the Celtic Tiger in the 1990s, the 2000s were

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21 Wade & Sigurgeirsdottir 2012, 131.
22 Katzenstein 1985.
24 Hardiman 2012, 84.
characterized by increased liberalism. Thorhallsson & Kattel\textsuperscript{26} argue that also Iceland became increasingly neoliberal in the 2000s.

Estonia has been characterized as a liberal market economy\textsuperscript{27} and neo-liberal by Thorhallsson & Kattel\textsuperscript{28} by Bohle & Greskovits\textsuperscript{29}. Estonia decided to adopt a fixed exchange rate (initially pegged to the Deutschmark and later to the euro) and follow a strict budgetary discipline. The currency board regime, budgetary discipline and a proportional income tax became the three holy pillars of Estonia's economy.\textsuperscript{30}

Between 2008 and 2009 Estonia had the second largest GDP contraction in Europe - 18.3 % (in cumulative percentage changes)\textsuperscript{31}. Ireland had the fourth steepest contraction in the EU – 10%. Iceland's GDP diminished by 6.8% in 2009 and another 3.0% in 2010. The main cause of the GDP contraction in Estonia and Ireland was the housing bubble. Iceland also had a housing bubble but the mail cause of the crisis was self-lending by the banks.\textsuperscript{32}

Estonia experienced one of the biggest surges in housing prices in the world between 2002 and 2006 with real housing prices increasing by 150%.\textsuperscript{33} In comparison, the US and Spain had roughly 50% increase in housing prices in that period. IMF economists\textsuperscript{34} have found that the GDP downturn was the steepest in those Central and Eastern European (CEE) countries that had the largest increase in credit-to-GDP ratio before the crisis. Among the CEE countries the credit-to-GDP ratio of Estonia between 2003-2008 was the highest (50% in

\textsuperscript{26} Thorhallsson & Kattel 2012.
\textsuperscript{27} Feldmann 2006.
\textsuperscript{28} Thorhallsson & Kattel 2012.
\textsuperscript{29} Bohle & Greskovits 2012.
\textsuperscript{30} Raudla & Kattel 2011, 178.
\textsuperscript{31} All statistical data in this thesis from World Bank database or Eurostat, if not otherwise stated.
\textsuperscript{32} Nielsson & Torfason 2012: 27.
\textsuperscript{33} Reinhart and Rogoff 2009, 245.
\textsuperscript{34} Bakker and Gulde 2010.
2003 and 100% in 2008) and it also had the highest percentage of mortgages in outstanding credit (40%) in 2008. In Slovak Republic, Czech, Poland and Romania the credit to GDP ratio rose from 20% to 40% and the share of mortgages in credit in 2008 was only 12%. The authors show that the inflow of credit was correlated with the increase in domestic demand and that domestic demand and GDP decreased the most in the Baltic countries during the crisis. The study showed that Estonia was overheated with credit and most of it was in the real estate sector. In short, Estonia experienced a housing bubble. The argument about the housing bubble is shared by Bohle\(^{35}\) who writes that between 2003-2008 the average annual credit growth in Estonia was 40% and 80% of it was flowing into mortgages. The Baltic states clearly differ from central European countries in the respect that they had considerably higher credit growth (Figure 2) and considerably steeper GDP downturn during the crisis.

Between 2002-2006 the housing prices in Ireland rose by 50%.\(^{36}\) Between 1994 and 2006 the prices had tripled\(^{37}\). The credit to GDP ratio of Ireland jumped from 113% in 2003 to 220% in 2008.\(^{38}\) The bubble was not only driven by demand but also by the Irish banks who continued to ease loan conditions and maximum loan-to-value ratios. In addition, the state cut the capital gains tax in the beginning on 2000s and provided tax incentives to real estate developers\(^{39}\). As a result house completions soared and the share of labor force in construction increased from 7% in mid 1990s to 13% in 2007.\(^{40}\)

\(^{35}\) Bohle 2012, 5.
\(^{36}\) Reinhart and Rogoff 2009, 245.
\(^{37}\) Honohan 2009a.
\(^{39}\) O’Riain 2008.
\(^{40}\) Honohan 2009b, 11.
Iceland experienced the most rapid credit-to-GDP ratio growth increasing from 130% in 2003 to 320% in 2006. Huge increase can be seen also in total assets of the three largest banks (Glitnir, Landsbanki and Kaupthing). While in 2000 the total assets amounted to 109% on GDP, in 2007 the ratio was 870%\textsuperscript{41}. The three largest banks collapsed in October 2008 and Iceland guaranteed only the domestic liabilities of the largest banks Nevertheless, the total cost of trying to save the banks and re-establish them equaled to about 22.5% of the GDP.\textsuperscript{42} The government debt soared from 28% in 2007 to 96% of GDP in 2010. While the Icelandic banking crisis was largely due the high amount of “false equity”\textsuperscript{43}, they also had a housing bubble\textsuperscript{44}. Real housing prices rose by around 65% between 2002-2006.\textsuperscript{45} Household credit doubled from 2000 to 2007.\textsuperscript{46}

\textsuperscript{41} Nielsson & Torfason 2012, 7.
\textsuperscript{42} Thorhallson & Kirby 2012, 805.
\textsuperscript{43} i.e. banks financing their own stock.
\textsuperscript{44} Nielsson & Torfason 2012, 28.
\textsuperscript{45} Reinhart & Rogoff 2009, 245.
\textsuperscript{46} Nielsson & Torfason 2012, 7.
Although there are different views over whether Estonia implemented austerity measures or not\textsuperscript{47} there is agreement that Estonia used fiscal retrenchment (Table 2 in Appendix). Estonia introduced three austerity packages in 2009. In 2009 fiscal consolidation measures equaled to 9\% of GDP and in 2010 2.9\% of GDP.\textsuperscript{48} In the first austerity package the operational expenses of the government were cut by 7\%. The second austerity package cut governmental expenditure by further 8\%, unemployment insurance benefits were curtailed and the VAT tax was increased from 18\% to 20\%. Further actions were taken in autumn 2009, namely taking out dividends from state-owned enterprises. Thanks to fiscal retrenchment Estonia managed to fulfill the Maastricht criteria and keep their budget deficit under 3\%.

In Ireland tax revenues decreased 12\% in 2008 and another 15\% in 2009 due to the dependency of revenues on transactions in the real estate market.\textsuperscript{49} Because of the collapse of the real estate sector Irish banks got into trouble. In November 2010 Ireland agreed to an 85 billion-euro bailout deal with the IMF-EU which required that Ireland achieves a budget deficit in the near future. This meant that Ireland had to implement austerity. The overall adjustment in Ireland between 2008-2014 amounts to 19\% of GDP (in 2010 prices).\textsuperscript{50} Fiscal adjustment in Ireland between 2009-2011 totaled to 11.3\% of GDP.\textsuperscript{51}

Although Iceland devalued its currency, it also underwent fiscal adjustment equaling 5.1\% of GDP in 2009, 6.4\% in 2010 and 2.5\% in 2011.\textsuperscript{52} The currency depreciated by roughly 48\%

\textsuperscript{47} See Ashlund 2011; Kattel & Raulda 2013.
\textsuperscript{48} Kattel & Raudla 2013, 8.
\textsuperscript{49} Lane 2010, 12; Hardiman 2012, 96.
\textsuperscript{50} Dellepiane and Hardiman 2012.
\textsuperscript{51} Darvas 2011, 11.
\textsuperscript{52} Ibid.
between 2007 and 2009.\textsuperscript{53}

Schmidt\textsuperscript{54} distinguishes between communicative and coordinative discourse. The difference between a coordinative and communicative discourse is that while the former is characterized by a fruitful exchange of information between multiple parties, in the latter information tends to move top down from the more powerful groups to the less powerful. Communicative discourse usually takes place in simple polities which are characterized by a strong executive. Coordinative discourse occurs usually in compound polities where there are multiple parties who exercise power. Simple polities are found typically in unitary states with majoritarian institutions. Compound polities are generally found in federalist states, corporatist states or in countries that have proportional representative systems.

Estonia is a simple polity because power is concentrated in the hands of the executive.\textsuperscript{55} Estonia is also a non-corporatist state because of weak labor unions and civil society organizations and the lack of sense of social partnership\textsuperscript{56}. The strong differences in power translate into the existence of communicative discourse with the aim of simply informing the public, as opposed to building a consensus through dialogue. During the crisis Estonia’s polity became even simpler. The adoption of the first austerity package was linked to the issue of confidence which meant that it could be adopted without lengthy discussions.

According to Hardiman\textsuperscript{57} Ireland and Britain are the extreme examples of executive dominance. In Ireland the government also exercises strong party discipline. The opposition parties do not have much power to amend legislation and to start corruption investigation.

\textsuperscript{53} Thorhallsson & Kirby 2012: 805.
\textsuperscript{54} Schmidt 2008, 305.
\textsuperscript{55} Thorhallsson & Kattel 2012.
\textsuperscript{56} Bohle & Greskovits 2007.
\textsuperscript{57} Hardiman 2010a, 56; 2012, 9.
Ireland stands out as having the most autonomous Finance Minister among the OECD countries. The parliamentary committees do not have specialized expertise available to advise them on complex issues. Hardiman\(^{58}\) concludes that that “disabling of active parliamentary engagement in a policy debate is itself a significant part of Irish political life.” The prevalence of executive power is indicates that Ireland is a simple polity. Also, the fact that Ireland is a unitary state implies that it is a simple polity. There is evidence that in recent years Ireland has moved from coordinative discourse to communicate discourse. The government, the labor unions and the employers were working under a social partnership agreement from 1987 to 2009 but in the 2000s the government has started to dominate these negotiations.\(^{59}\) The electorally dominant Fianna Fail Party had strong financial and personal links to the business and construction sectors. According to Hardiman (2012: 5) “impartial government institutions are the most problematic issues in Irish public life”. These factors imply that Ireland used to have a more coordinative discourse but in the recent decade it moved into a communicative discourse. This is exemplified by the fact that in 2009 the negotiations to sign a new social pact failed partly because the government decided to pursue it interests unilaterally.\(^{60}\)

According to Thorhallsson & Kattel Iceland used to have a coordinative discourse from 1980s to 2003 but since then they have become a more simple polity where communicative discourse has become dominant. A “stability pact” was signed in 2009 but later broke down. Iceland has become more and more characterized by simple polity features such as politicians trying to win votes instead of bridge-building between different interests. Also, Iceland’s “sectorial corporatism” also feeds the communicative discourse because when the

\(^{58}\) Hardiman 2010a, 56.  
\(^{59}\) Hardiman 2012, 88.  
\(^{60}\) Regan 2011: 487.
interests of the privileged are ignored, they tend to publicly prosecute the government.\textsuperscript{61}

3. \textit{Study factors}

Schmidt\textsuperscript{62} comes up with the idea that \textbf{historical institutionalism} (HI), \textbf{sociological institutionalism} (SI) and \textbf{rational institutionalism} (RI) is complemented by \textbf{discursive institutionalism} (DI). I use these four “new institutionalisms” to categorize potential factors as historical, sociological, rational and discursive.

RI focuses on the interests of groups to explain policy change. The role of ideology, different interest groups and actors (e.g. labor unions, opposition, government, elites) are taken into account. HI focuses on the path dependency of institutions. It takes into account previous policies and previous and current rules and political programs. SI puts emphasis on cultural norms and social practices. It considers the role of public opinion and national symbols. DI is related to communication and therefore corporatism. A country is corporatist when there is a ideology of social partnership and decisions are made based on a consensus with all important interest groups. Existing literature also suggests the following important factors – international (the role of institutional actors) and economic factors.\textsuperscript{63}

<table>
<thead>
<tr>
<th>Factor</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historical</td>
<td>previous policies, rules</td>
</tr>
<tr>
<td>Rational</td>
<td>Different interest groups, opposition, ideology.</td>
</tr>
</tbody>
</table>

\textsuperscript{61} Thorhallsson & Kattel 2012, 16.  
\textsuperscript{63} Haggard & Kaufman 1992, Avdagic 2010.  

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In Estonia references have been made to the communist regime during the latest economic crisis. The Prime Minister and the Estonian President have compared the contemporary difficult years to the difficult times under the Soviet occupation saying that the situation during the Communism was even worse and that is the reason why the austerity measures implemented by the government have been successful and have not been met with many protests. However, the postsocialist factor does not seem to play such an important role. Estonia has been an exception in the common trend of changes in national governments among the postsocialist countries. In Latvia the government has changed two times since the crisis broke out. In Hungary and Poland there is a discussion about the model of capitalism in dependent market economies. Among the postsocialist countries the government has changed for example in Romania, Bulgaria, Lithuania, Slovenia, Hungary. By April 2012, 8 out of 10 Central and Eastern European (CEE) countries had changed their government. The only exceptions were the center-right governments in Estonia and Poland. Taking into account that Poland did not negative GDP growth in 2008 or 2009, Estonia emerges as a strong outlier among the CEE countries.

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64 Orenstein 2010.
65 Aslund 2012a, 12.
Chapter 2: Narratives of the crisis

While Estonia and Ireland share a number of similarities (are same on independent variables), next I will demonstrate how they differ on the dependent variable. The primary difference is that Irish elites are talking about the failure of the Irish development model and consider the causes of the economic crisis to be mainly domestic. In Estonia, on the contrary, the causes of the crisis are essentially viewed as external/international. Subsequently there is no talk about the lessons of the disaster. In the Icelandic case I will describe how the government discourse went through a change but different domestic actors are still divided on a number of issues.

1. Estonia

Introduction
In this subchapter I will first demonstrate how the neoliberal discourse in Estonia developed after regaining independence in 1991. Then, based on Raudla & Kattel’s findings I will show which arguments were used by the political elites to justify austerity measures during 2009. After that I will show what Prime Minister Andrus Ansip said in his speeches while introducing three austerity packages in 2009. Next I will describe the views of other domestic actors (trade unions, employers’ representatives, different parties, etc). Then I will also analyze the influence of international actors during the crisis.

Discourse in the 1990s
The neoliberal discourse that dominated discussions in Estonia during the crisis has its
origins in the early 1990s, when Estonia regained its independence. Hope and Kattel\textsuperscript{68} think the reasons which influenced this discourse in Estonia in the 1990s were international and domestic. Although Bohle & Greskovits\textsuperscript{69} do not exclude the role of international factors, they argue that decisions made during this period were largely made independently of external actors. They assert that the most important decisions were made in 1992, before international influence materialized. According to Bohle & Greskovits\textsuperscript{70}, Estonia even defied the IMF because it initially suggested Estonia postpone monetary reform until it was technically more prepared. The second time they ignored IMF’s advice was when they introduced a flat tax rate regime. In general, Bohle & Greskovits\textsuperscript{71} and Bohle & Greskovits\textsuperscript{72} and Feldmann (2006) argue that in addition to the influence of international epistemic communities\textsuperscript{73} and domestic economic factors, an important role was also played by nationalistic factors. Although Hope & Kattel (2012) and Bohle & Greskovits (2012) seem to disagree on this, the difference being explained by the fact that the focus of Hope & Kattel (2012) is not on determining the most important factors, but on identifying the narratives which were used by the elites. A closer look reveals that the two views have in fact a lot in common.

According to Hope & Kattel (2012: 406), in the early 1990s a policy discourse emerged in Estonia that contained three policy arguments: (1) the importance of fiscal discipline to inject confidence in the kroon, (2) pleasing the IMF, (3) and fiscal independence.

The commitment to fiscal discipline became important in political debates at that time in

\textsuperscript{68} Hope and Kattel 2012, 406.
\textsuperscript{69} Bohle & Greskovits 2012, 97-113.
\textsuperscript{70} Ibid.
\textsuperscript{71} Ibid.
\textsuperscript{72} Bohle & Greskovits 2007.
\textsuperscript{73} Haas 1992.
Estonia because of the introduction of the currency board. Due to hyperinflation in the early 1990s, the currency board was thought to inject confidence as well as stability into the kroon. In order to maintain the reliability of the kroon, fiscal discipline became an integral part of the policy discourse. Pleasing the IMF became important because it was often mentioned in debates that the IMF’s opinions influence the country’s credit rating, which affects foreign investor confidence. This finding does not contradict the view held by Bohle & Greskovits\textsuperscript{74} that Estonia actually defied the IMF on two occasions. Estonia might have defied the IMF and domestic factors might have played a bigger role in the decision of choosing the currency board regime but this does not mean that in public discourse the elites could not have used references to the IMF. References to the favorable support of the IMF were also made in public narratives during the latest financial crisis in Estonia without bringing up the IMF’s opinion on the overheated Estonian economy.

The fiscal policy discourse also merged with the importance of having an independent country because having a balanced budget and low public debt was seen as a sign of independence\textsuperscript{75}. Conservative fiscal policy was associated with values that the political elites and the population shared - stability, prosperity and independence. This view is in line with the argument made by Greskovits & Bohle\textsuperscript{76} that the economic decisions made at that time in Estonia were considerably influenced by the process of nation-state building, which placed high symbolic value on independence.

Because of the pre-crisis success of Estonia’s economy during the 1990s and in the 2000s the balanced budget, together with the currency board and the flat income tax regime, became to

\textsuperscript{74} Bohle & Greskovits 2012, 97-113.
\textsuperscript{75} Hope & Raudla 2012, 406.
\textsuperscript{76} Bohle & Greskovits 2012, 97-113.
be seen as the three “holy pillars” of Estonia’s economy.\textsuperscript{77}

According to Hope & Raudla, the same neoliberal discourse played a role in policy reactions when the Global Financial Crisis hit Estonia.\textsuperscript{78} Adopting austerity measures was a path-dependent policy choice because of the aforementioned three “holy pillars.” This sentiment was further reinforced by the desire to join the euro-zone which was promoted by the political elites as a way of injecting even more confidence into the economy. In other words, the unwritten rule of a balanced budget was reinforced by the need to comply with the Maastricht criteria on fiscal deficits.

**Domestic narratives during the crisis by the elites**

Traces of the same neoliberal discourse which started in the 1990s can be found in the discussions that took place in 2009 when three austerity packages were implemented. According to Raudla & Kattel\textsuperscript{79} the political discourse at the time shows that three distinct - and at the same time inter-related – arguments were presented to defend austerity measures.

Initially it was argued (1) simply that the country did not have money. When the crisis worsened during 2009 it was argued that (2) fiscal retrenchment was the solution to the crisis. Finally, it was said that (3) the country needs to implement policies which are useful in the long term, rather than myopic.

In the first line of reasoning references to “common sense” and metaphors about the “family budget” were made. It was said that a country’s budget is like the budget of a family where it does not make sense to have more expenditures than revenues. Interim Finance Minister

\begin{footnotes}
\textsuperscript{77} Hope & Raudla 2012, 406.
\textsuperscript{78} Ibid.
\textsuperscript{79} Raudla & Kattel 2011, 174.
\end{footnotes}
Helir-Valor Seeder argued that “if we do not have money, we cannot spend”\textsuperscript{80}. It was also argued that borrowing was expensive and difficult. Due to the currency board system the government could not borrow from the central bank, and borrowing from international markets was too expensive due to the lack of investor confidence.

In the second line of reasoning it was argued that fiscal discipline would maintain the value of the currency and restore confidence in the economy. This would reassure international investors and ratings agencies and attract foreign investments. Finance Minister Jürgen Ligi it said that by implementing fiscal austerity, Estonia could set itself apart from the rest of the CEE region and attract further investments.\textsuperscript{81} He repeated this in the Parliament in October 2009\textsuperscript{82} saying that the bad ratings of CEE countries “kill investments” into the Estonian economy. Strongly connected to the previous argument was the objective of joining the euro-zone. In order to qualify for entry Estonia needed to fulfill the Maastricht criteria which stipulated that the budget deficit could not exceed 3% of GDP. Joining the euro-zone became one of the most important goals of the government during the crisis. The idea also won support among the populace – in May 2009 the people who expected positive consequences for their country after adopting the euro outnumbered negatively inclined people by 10\%.\textsuperscript{83} In May 2008 there had been 1% more non-supporters than supporters.

In the second line of logic it was also argued that if Estonia did not successfully deal with the crisis internally then it would lose the ability to take independent decisions. For example, the former Prime Minister Mart Laar said that “If Estonia does not cut the budget, then Estonia

\textsuperscript{80} Seeder 2009.
\textsuperscript{81} Ligi 2009a.
\textsuperscript{82} Ligi 2009b.
\textsuperscript{83} Eurobarometer Flash December 2010 N307, 39.
would become a serf to the IMF”\textsuperscript{84}. Another leading politician from the Pro Patria and Res Publica Union said that “If Estonia would not manage to cut 8 billion kroons, then IMF would take over the governing of Estonia and a total chaos would follow. After that we would have to cut expenditures and increase taxes as well”\textsuperscript{85}. In addition, references were made to external actors who praised Estonia for implementing austerity measures. It was often said that the IMF and the EU support Estonia for implementing austerity.\textsuperscript{86}

Finally, it was argued that in order to tackle the crisis a long-term view should be taken, instead of being short-sighted. For example, the Minister for Economic Affairs Juhan Parts said that if Estonia would take a loan, then it would have to be paid back in the future with interest, forcing Estonia to increase taxes. But raising taxes would have a bad effect on the competitiveness of the economy and would also do damage its reputation with investors.\textsuperscript{87}

**Reports by the Central Bank Governor**

When Governor of the Central Bank Andres Lipstok introduced the final reports\textsuperscript{88,89} of the years 2008 and 2009 in the Parliament, blame was put on the global financial situation. He reiterated the importance of conservative fiscal policy which is the cornerstone of a stable economy attracting foreign investments. The speech ended by making references to international ratings agencies and IMF officials who have approved Estonian policies during the crisis.

\textsuperscript{84} Laar 2009.
\textsuperscript{85} Anvelt 2009.
\textsuperscript{86} Ligi 2009a, Hankewitz 2009.
\textsuperscript{87} Raudla & Kattel 176.
\textsuperscript{88} Lipstok 2009a.
\textsuperscript{89} Lipstok 2010.
Austerity packages

On February 18th 2009, when the first austerity package was put to the vote in the Parliament, the government framed it in terms of confidence, allowing it to be passed without extensive discussion. In official speeches the Estonian Prime Minister conveyed the view that the causes were external and inevitable.

For example, before the Estonian Parliament voted on the first austerity package a speech was given by the Prime Minister. He started the speech\textsuperscript{90} by saying that the world economy is in the greatest recession since the Great Depression and that no continent, country nor region has been left untouched by the current crisis. In the second paragraph he said that small countries are practically defenseless against the crisis and that the “global ruptures” have also hit Estonia. He also said that it would be easy to blame the collapse of the financial system on the US, the Swedish banks, the real estate bubble, the export markets or devalued currencies and even easier to point fingers at the government or the opposition. The most important thing was to act quickly and decisively. In short, the Prime Minister mentioned the real estate bubble but downplayed its impact, treating it as one of the many causes of the crisis. The main causes in his speech were the “global ruptures” which have touched “every continent, region and country”.

No reference to the domestic causes of the crisis was made when the second austerity package was introduced in the Parliament by the Prime Minister Ansip on May 21th 2009\textsuperscript{91}. Ansip started his speech by reiterating that the country was facing a global financial crisis. He congratulated Estonians because due to conservative fiscal policies is the country was in a better situation than a number of other countries. He stated that conservative fiscal policy

\textsuperscript{90} Ansip 2009a.
\textsuperscript{91} Ansip 2009b.
meant higher international credit ratings which increased the credibility of the country’s economy. Better credit ratings meant a lower interest rate for mortgages and for enterprises. He also said that the adoption of the euro was a bonus that Estonians would get if they maintained investor confidence in the economy. In conclusion, no reference was made to the property bubble or to the credit bubble, or the possibility that the causes of the crisis could have been domestic. Instead, Ansip simply argued that better credit ratings were good for the economy because they meant lower mortgage rates.

On September 30th, when the third austerity package was introduced in the Riigikogu, any explicit reference to the numerous causes of the crisis was avoided. Most of the speech was a detailed description of the expenditure cuts. Ansip started the speech in his habitual way: making a reference to the global financial crisis. He ended the speech also in his habitual way by saying that conservative fiscal policy would help Estonians recover more quickly from the crisis.

The discourse did not change in the following years 2010-13. In 2010, at an international conference on the euro, Ansip praised Estonia’s conservative fiscal policies and blamed “the global financial crisis”. No reference was made to the possibility that the crisis was bred domestically. In the context of the European economy he said that the recent storms in global financial markets, especially in the European bond markets, highlighted the need for conservative fiscal policies and financial regulation.

In April 2011, after being victorious in the elections, Ansip again mentioned that Estonians must cope with a global financial crisis. In the same paragraph he also said that international

\[92\] Ansip 2009c.
\[93\] Ansip 2010.
economic experts all over the world agree that the way out is to follow conservative fiscal policies and low levels of debt which increase credibility. The same ideas were repeated on February 23th, the national independence day of Estonia. There were no references to the overheated economy or to other domestic factors.

**Other domestic actors**

Analysis of other political actors is necessary as well. According to Raudla and Kattel\(^94\), while the opposition disagreed about the content of the austerity measures, proposing tax increases instead, they did not come up with a real alternative fiscal program. The left Social Democrats went ahead with the first package of austerity measures but left the government before the introduction of the second package. The Reform Party and Pro Patria and Res Publica Union supported fiscal retrenchment in order to join the euro-zone. The Centre Party and People’s Union were critical of the cuts and raised concerns about its social costs. According to Hope and Raudla\(^95\) the fact that disagreements in the coalitions arose mainly about the content of the austerity measures rather than questioning austerity in general, show the dominance of the neoliberal discourse.

According to Hope and Raudla\(^96\) trade unions and the civil society did not join the fiscal policy discourse in Estonia because of their weakness. The press releases of the Estonian Confederation of Trade Unions (CTU) were poorly argued. A press release\(^97\) regarding the strike that was organized on June 3rd 2009 only briefly stated that the strike was a protest against the fact the government was breaching the social partnership contract signed between

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\(^{94}\) Raudla and Kattel 2011, 176.  
\(^{95}\) Hope & Raudla 2012, 411.  
\(^{96}\) Ibid, 412.  
\(^{97}\) ETUC 2009a.
the trade unions, the employers’ representatives and the government in 2008. In a speech given President of the CTU Harri Tali, it was mainly said that the government was breaching its commitments to negotiate with the CTU in implementing new labor laws. No economic arguments were made in the speech or in the press release. During 2009 there were only two press releases which dealt with the financial crisis, but these were also poorly argued and did not affect the dominant discourse.

During the crisis the Estonian Employers’ Confederation (EEC) supported the adoption of the euro and warned the government of the grave repercussion of not successfully qualifying for it. In October 2010 a majority (55%) of businesses believed that the effects of joining the euro area would be positive in the medium to long term. Only 14.2% believed that the consequences would be negative. Business representatives supported cutting more public expenditures, dropping the exception for pensioners regarding income tax and raising the personal income tax. Famous businessmen and economists were interviewed by the biggest newspaper in Estonia- Postimees – in August 2009 on their thoughts on joining the eurozone. Especially in favor were businessmen. Jüri Käo said that the opportunity should not be wasted at any cost and that adopting the euro would raise trustworthiness in the economy. Käo said “Foreign investors look at us in very suspicious way at the moment, partly thanks to the situation in Latvia”. A consultant on economic affairs Raivo Vare said that Estonia needs a “holy goal” which would motivate Estonians to meet the Maastricht criteria. Among economists, Andres Arrak argued that Estonia was already a part of the European economic area and that adopting the euro would be the most logical step because it would allow it to maximize the given opportunities. Economist Heido Vitsur was not blinded by the

98 ETUC 2009b.
99 Kaldoja 2009.
100 Eurobarometer Flash N310, 39.
opportunity of joining the euro-zone. He thought that there was a danger that a large amount of austerity would strange the economy. Nevertheless, he expressed that the idea of euro adoption was an interesting one and was worth thorough analysis.

**Alternative domestic opinions**

A few days before that, on the 14\textsuperscript{th} of August, Indrek Neivelt\textsuperscript{102} expressed\textsuperscript{103} the idea that Estonia should not consider joining the euro-zone so soon because the main problem facing the economy was low productivity in the export sector. On October 2009, Indrek Neivelt published an article\textsuperscript{104} in the second largest newspaper in Estonia – Eesti Päevaleht arguing that adopting the euro and attracting foreign investments were not the magic remedies which would save Estonia, because the way to raise competitiveness is through increasing productivity. He also mentioned that Estonia had one of the largest GDP falls in the world and expressed concerns that there had been no independent analysis of what exactly went wrong in Estonia. He pointed fingers at the government and the Central Bank, saying that they had failed to analyze and explain what went wrong. In order to avoid economic bubbles in the future he proposed to start publishing a journal on economics in Estonia. According to him one of the reasons how the economic bubble was made possible was the lack of journals and magazines focusing on economics. An economist working for the Estonian Development Fund Heido Vitsur agreed\textsuperscript{105} that joining the euro-zone was not the most important goal Estonia should strive for. On April 27\textsuperscript{th} The Estonian Development Agency presented a White Paper on how to tackle the crisis in Estonia. It concluded that euro adoption was necessary but the main problem with Estonia’s economy was its lack of competitiveness and low

\textsuperscript{102} Former head of the Estonian largest bank Hansapank, which was taken over by Swedbank in 2004. In 2009 Neivelt was the Chairman of the Supervisory Board of the Bank of St Petersburg.

\textsuperscript{103} Ratt 2009.

\textsuperscript{104} Neivelt 2009.

\textsuperscript{105} Vitsur 2009.
productivity in the export sector\textsuperscript{106}.

In 2010 Neivelt repeated his concern in the business magazine Director\textsuperscript{107} that there was no discussion on the lessons learned from the financial crisis (Neivelt 2010). He wrote that in other countries many were talking about the causes of the crisis and new laws were being introduced but in Estonia everyone seemed happy with the current situation and the only laws introduced originated from Brussels. He listed 6 lessons that Estonia should learn from the crisis. One of the lessons was that somebody has to bear the responsibility in the Central Bank of Estonia. According to Neivelt, the Central Bank of Estonia trusted the Swedish banks blindly.

**Debate in November 2009**

In November 2011 there was a debate\textsuperscript{108} about whether to adopt the euro at the Ministry of Economic and Financial Affairs. The majority of participants favored adoption. According to Finance Minister Jürgen Ligi, changeover to the euro was more reasonable than keeping the kroon because an international currency is more trustworthy. Economist Andres Arrak said he supported the Finance Minister over Neivelt because Ligi had a long-term perspective. Indrek Neivelt repeated his earlier idea that the most important problem was is raising competitiveness and that the euro would not solve that problem. The head of the Estonian Chamber of Commerce and Industry Toomas Luman, who represented the employers’ views, said that it was not reasonable to stop at the finish-line when you have ran already over 40 km. Luman\textsuperscript{109} was caught saying “What does this sentence mean – “Let’s take some time off and think about this”? To hell with thinking! Get back to work!”

\textsuperscript{106} Estonian Development Fund 2009.
\textsuperscript{107} Neivelt 2010.
\textsuperscript{108} EPL 2009.
\textsuperscript{109} EBA 2009.
**International actors**

The discourse that valued the three “holy pillars” of the economy was also reinforced by international policy actors who praised Estonia for implementing austerity (Economist 2009, 2010) and receiving an invitation to join the euro-zone in 2011. During the crisis international actors played a much bigger role in Latvia than in Estonia. Initially they were critical of the exchange rate peg but after bailout talks with the Latvian government and the European Union ended in December 2008 they started to support it. According to the IMF’s regional representative to Central Europe and the Baltic countries Christopher Rosenberg, one of the reasons for this was that they thought that this move would have “severe regional contagion effects”\(^{110}\). Second, it was the EU which did not support devaluation because it thought it would produce a domino effect.\(^{111}\)

What kind of other international actors played a role in Estonia during the crisis? The IMF did not support devaluation after the bailout program with Latvia was agreed upon in December 2008. Support for the currency board and for the currency peg was explicitly stated on December 15\(^{th}\) 2008 in an official IMF statement\(^{112}\) about Estonia. The statement also showed support for euro adoption which the Estonian authorities “rightly consider to be their highest priority”. Support for joining the euro-zone was repeated in March 2009 when the IMF concluded Article IV consultations with the Estonian government\(^{113}\). As previously mentioned, neither did the EU support devaluation.

\(^{110}\) Rosenberg 2009.  
\(^{111}\) Kuokstis 2010, 6.  
Krugman vs Ilves debate

No real discussion about the lessons from the Estonian financial crisis emerged even after the internationally famous debate between US economist Paul Krugman and the President of Estonia Toomas Hendrik Ilves. The debate started on June 6th 2012 when Krugman posted a short message on his blog showing that Estonia’s GDP levels still had not reached pre-crisis levels. Ilves replied on Twitter with several tweets. For example:

“Let's write about something we know nothing about & be smug, overbearing & patronizing: after all, they're just wogs”.

“Let's sh*t on East Europeans: their English is bad, won't respond & actually do what they've agreed to & reelect govts that are responsible.”

“Guess a Nobel in trade means you can pontificate on fiscal matters & declare my country a "wasteland". Must be a Princeton vs Columbia thing”.

This exchange of messages gained attention internationally as well as in Estonia. A couple of days later Mart Laar wrote an article in Postimees explaining that the debate was between supporters of austerity and supporters of Keynesianism. The article lacked any economic analysis. Laar simply stated that Keynesians still live in the 1930s and that to use Keynesianism in 2000s is akin to putting a vampire in charge of a hospital. In Estonia there were many responses by politicians, academics and journalists but none of them concentrated on the lessons that could be learned from the financial crisis. One group of Estonians started to justify the austerity measures and another group of people discussed whether Ilves’s reaction was too strong. On June 12th an article by Andres Aslund was published in Postimees in which he supported austerity measures, arguing that Krugman ignored the fact

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115 Laar 2012.
116 Aslund 2012b.
that the cause of the crisis in the Baltics was the international credit freeze and not austerity measures. In the same article Aslund defended Estonia’s choice not to devalue its currency and argued that Southern European countries should follow its footsteps in implementing austerity measures. In his article Aslund failed to mention the credit boom in Estonia leading up to the crisis.

**The new Central Bank Governor**

The first time noteworthy reference was made to the overheated economy and real estate bubble by the political elites or public officials was after former World Bank economist Ardo Hansson took over as the Central Bank Governor of Estonia in June 2012. On November 27th 2012 he gave a presentation in Helsinki, where he concluded that the Baltic countries had “an unusually high degree of volatility in most of the economic variables” and made a reference to the unsustainable growth rate in the real estate sector.

It did not grab the attention of the media and common people. Instead, they have been talking primarily about corruption since March 2012. The discussion was triggered by a scandal in March 2012 when a member of the governing party – the Reform Party – confessed publicly that he had donated corporate money to his party, which is forbidden in Estonia. The scandal became so huge that eventually a People’s Assembly was set up in November 2012. The Assembly was a gathering of the intellectual elites of Estonia but also a virtual platform was set up so that every ordinary citizen could come up with a proposal how to improve the governance of the country. The President has pledged to bring the proposals that were accepted to the Parliament so that the Parliament could sign them into law. The topic of economic crisis did not emerge as one of the main themes under discussion. Rather they were

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117 Hansson 2012.
parties, elections, democratic participation, politization and the topic of how parties are financed.

Summary

In explaining why Estonia chose fiscal retrenchment during the crisis Hope & Raudla\textsuperscript{119} and Raudla & Kattel\textsuperscript{120} argue that the role of discourses was very important. Although they\textsuperscript{121} identify three different set of arguments (common sense, fiscal discipline increase investor confidence, long-term view) that were used during the recent financial crisis, it can be seen that the second set of arguments (about the trust generated by fiscal discipline) contains a set of ideas connected to independence. Thus it can be argued that characteristics of the same discourse that emerged in early 1990s (fiscal discipline, international trust, references to international actors in domestic discourse, independence) were also observable during the latest financial crisis. The largest difference is that while in the 1990s the international benevolent actor was the IMF, during the latest crisis this role was taken over by the EU. The IMF was sometimes even portrayed as the bad guy, for example by Laar when he said that if Estonia did not introduce austerity it would become a serf to the IMF. Conversely, the IMF was treated as the “good guy” in speeches by Central Bank Governor Lipstok. The speeches delivered by Lipstok and Ansip express ideas connected to fiscal discipline, international trust and references to international actors in domestic discourse were present but there were few allusions to independence.

\textsuperscript{119} Hope & Raudla 2012.
\textsuperscript{120} Raudla & Kattel 2011.
\textsuperscript{121} Ibid.
2. Ireland

Introduction

In this subchapter\textsuperscript{122} I will first show that similarly to Estonia in the early stages of the crisis the government argued that the crisis was caused by external factors, not domestic. Then I will demonstrate the position of other domestic actors – businesses, trade unions, political opposition - during the crisis. Next I will show through the speeches of the new Prime Minister Enda Kenny that the discourse of the new government differed considerably from the previous one because they put the main blame for the crisis on domestic actors. Finally, I refer to the findings of the Special Commission of Investigation to show that they found that the causes of the crisis are wholly home-made. In addition, I will also point to the position of other actors (politicians, scholars) who have argued that the causes of the crisis were internal.

Early stages of the crisis

A study by Masters\textsuperscript{123} analyzes the political discourse about the crisis in Ireland between July 2008 and March 2009. He examined speeches by key public figures during this period – Prime Minister Brian Cowen, Minister for Finance Brian Lenihan and the Governor of the Central Bank and John Hurley. Four key speeches of each person were selected according to their relationship to key events or the level of public response. In analyzing the media’s response, two biggest Irish dailies in terms of circulation – The Irish Independent and the Irish Times – were considered. Responses in the Sunday Business were also viewed because of its focus on economics.

According the study the politicians and the majority commentary in the media before March

\textsuperscript{122} Small parts in this subchapter were also used in my final essay in the course Debt & Democracy in 2013.
\textsuperscript{123} Masters 2009.
2009 thought that the causes of the crisis were external.\textsuperscript{124} The scholar found that the Irish political leaders first recognized the influence of the global financial crisis in July 2008 when the government revenues fell considerably. Before July 2008 the Irish authorities had viewed the situation in financial markets as linked to the sub-prime crisis in the US.\textsuperscript{125} 

The analysis by Masters showed that the public figures were successful in portraying the origins of the crisis to be external, that its eruption was beyond the control of the Irish government and that the majority of the responses in the media agreed with it.\textsuperscript{126} For example, on February 3\textsuperscript{rd} the Prime Minister Cowen described the situation as “the most profound global economic crisis in seventy years” and proposed to take measures against it restoring stability in public finances and improving the competitiveness of the economy. Most of the media commentary agreed with the severity of the crisis. However, there was no reflection about the causal factors because at that time Cowen made a reference to the global scope of the financial crisis in every speech which made it unnecessary to reinforce what was already well known.\textsuperscript{127} 

They also concluded that attempts by the opposition to hold the government accountable for the crisis were largely unsuccessful. Finally, the study showed that the Fianna Fail government was a key advocate for radical policy changes. The government called for a public sector reform with the aim of cutting its costs. Also, a modernization of the Irish economy was called for.
Dukelow\textsuperscript{128} shares the view that in 2008 the crisis in Ireland was framed as an threat and adds that it was argued that Ireland had the means to cope with it. In December 2008 a governmental programme was released which also echoed the above view. In 2009, however, when Ireland’s economic situation became aggravated, analyses started to appear which pointed to the domestic factors that played a role in the crisis. Nevertheless, the government kept defending itself by framing the crisis in the existing economic paradigm. The crisis was depicted through three core problems: excessive growth in public expenditure, loss of competitiveness and loss of international reputation.\textsuperscript{129}

The identification of these three problems was in line with the existing dominant economic paradigm in Ireland which emerged in 1990s.\textsuperscript{130} According to Hay\textsuperscript{131} the mid 1990s saw a gradual normalization of neo-liberal economic assumptions among politicians in Anglophone states. In Ireland the concepts of competitiveness, tax competition, and light touch regulation became more commonly expressed in the political discourse. Thus, framing the crisis around excessive public expenditures, competitiveness and international reputation did not require a fundamental review of the adequateness of the economic model. The same frame was used by the government in September 2008 when they justified the banking guarantee with international reputation and investor confidence.

Similarly to Estonia the justifications for austerity measures was based on references to international reputation, common sense and to the risk that any other way would jeopardize the huge economic success of the previous years.\textsuperscript{132}

\textsuperscript{128} Dukelow 2012, 10.
\textsuperscript{129} Cowen 2010.
\textsuperscript{130} Dukelow 2012, 12.
\textsuperscript{131} Hay 2007, 62.
\textsuperscript{132} Lenihan 2008.
Other domestic actors

The discourse and the diagnosis by the representative body of employers was similar to that of the government. Irish Business and Employers Confederation (IBEC) argued that Ireland should increase its attractiveness in the eyes of foreign investors and that the causes of the crisis were largely related to excessive public expenditure.  

This allowed the government to target the public unions for demanding excessive wages. The difference with the government was that the business representatives did not only call for a more competitive economy but for a super competitive economy. 

In contrast to the narrative of the government and the business leaders the trade unions called for a major paradigm shift. For example, in January 2009 the economic adviser to the Irish Congress of Trade Unions (ICTU) Paul Sweeney called for a “fundamental realignment” of the economy because the crisis proved the flaws of the “redundant economic model” based on “privatized and deregulated ultra-free markets”. While business leaders and the government argued for austerity since 2008 the trade unions and other civil society actors argued for radically different measures, including fiscal stimulus. 

When trade unions challenged the dominant discourse it also entailed questioning the diagnosis that the crisis was caused by excessive public expenditure. They questioned the logic of cutting wages to increase the competitiveness of the economy and argued contrary to the view of the government that public expenditure was the cause of the problem, not taxation. 

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133 Dukelow 2012, 13.  
134 Murphy 2009.  
135 Dukelow 2012: 13  
136 Sweeney 2009.  
137 Dukelow 2012, 15  
138 Dukelow 2012, 14; Regan 2011, 486.
The disagreement about whether excessive public expenditure through wage demands was 
the cause of the crisis was one of the reasons why the social partnership deal failed in 
2009.\textsuperscript{139} The social partnership talks were initiated in January 2009 but collapsed in 
December. It was the first time in the previous 23 years when the country was operating 
without a national partnership agreement. In general, Regan\textsuperscript{140} and Dukelow\textsuperscript{141} argue that the 
breakdown of the social partnership was due to a lack of political support and to the relative 
weakness of the unions compared to the government.

In Spring 2011 there were elections to the Irish Parliament. Fine Gael was the winner of the 
elections. They formed a coalition with the Labor Party. In the run-up to the elections Fine 
Gael was critical of Fianna Fail in playing a part in the crisis but they did not take an anti-
austerity position. Their “Programme for Government” showed support for the objectives 
(fiscal consolidation and structural reforms) laid down in the EU/IMF bailout program signed 
in December 2010. At the same time it entailed a clear promise to renegotiate the deal in 
relation to the unjust interest rate.\textsuperscript{142}

Establishing some sort of a citizens’ assembly was in the manifestos of all the major parties 
(Fianna Fail, Fine Gael, Labour Party, Sinn Fein, Green Party) before the 2011 elections but 
the idea was first proposed in April 2010 by the Labour Party on the grounds that “There has 
been justifiable criticism of the political system, which many people feel has let them down”.

\textsuperscript{139} Regan 2012, 484. 
\textsuperscript{140} Ibid, 487. 
\textsuperscript{141} Dukelow 2012, 16. 
\textsuperscript{142} Ibid, 17. 
\textsuperscript{143} Gilmore 2010.
The view that the causes of the crisis were mainly internal or concerns about the Irish politico-economic development model has been raised by several scholars\textsuperscript{144} and politicians such as Shane Ross\textsuperscript{145}, a former member of the Senate who won the second highest number of votes in the 2011 elections.\textsuperscript{146}

On January 19\textsuperscript{th} 2010 the Finance Minister Lenihan announced that there is a need to set up a special committee to investigate the origins of the crisis. He mentioned there that the idea was proposed by Patrick Honohan during a meeting of a Parliamentary Committee. Honohan, a former World Bank economist, became the Governor of the Central Bank of Ireland in September 2009. Just a few months before being appointed he wrote two research papers examining the causes of the crisis is Ireland where he concluded that the main factors were domestic. The first paper was prepared for the World Bank in May and the second paper was presented in Croatia in June.

**Special Investigation**

The inquiry had two stages – in the first stage two preliminary reports were to be written - by Patrick Honohan and by an “independent wise man or a woman with relevant expertise”. A German Klaus Regling\textsuperscript{147} together with an additional appointment of a Max Watson\textsuperscript{148} (British) were selected as the independent experts delivering the second report because of their extensive international and domestic experience in the field.

The second stage of the investigation involved the setting up of a Statutory Commission of

\textsuperscript{144} O’Riain 2008; Niamh Hardiman 2010a, 2010b, 2012; Patrick Honohan 2009a, 2009b; Philip Lane 2010

\textsuperscript{145} Shane Ross 2009, 2010

\textsuperscript{146} Byrne 2011.

\textsuperscript{147} Regling has worked for the IMF, European Commission and for the German Ministry of Finance. On July 1st 2010 he became the head of the European Financial Stability Facility.

\textsuperscript{148} Watson has worked for the IMF, the European Commision and the Bank of England.
Investigation\textsuperscript{149}, consisting of “a recognized expert of high ranking and reputation” that would complete the inquiry. Peter Nyberg\textsuperscript{150}, a Finnish economist, was appointed as the sole independent expert to conclude the inquiry. The formation of the Commission was approved by the Parliament in July 2010 and was formally established in September 2010. The final report\textsuperscript{151} was published in April 2011.

All three reports concluded that the main causes of the crisis were domestic and that the property bubble played a big role in it. To give an example:

“In short, although international pressures contributed to the timing, intensity and depth of the Irish banking crisis, the essential characteristic of the problem was domestic and classic.”\textsuperscript{152}

Ireland’s banking crisis bears the clear imprint of global influences, yet it was in crucial ways “home-made.”\textsuperscript{153}

“The speed and severity of the crisis was exacerbated by world-wide economic events. The main reason, however, was the unhindered expansion of the property bubble financed by the banks using wholesale market funding. Government policies and pronouncements tended to support this expansion. The attendant risks went undetected or were at least seriously misjudged by the authorities whose actions and warnings were modest and insufficient.”\textsuperscript{154}

\textsuperscript{149} http://www.bankinginquiry.gov.ie/
\textsuperscript{150} Nyberg has worked for the Bank of Finland, the IMF and the Finnish Finance Ministry.
\textsuperscript{151} Nyberg 2011.
\textsuperscript{152} Honohan 2010, 22.
\textsuperscript{153} Regling & Watson 2010, 5.
\textsuperscript{154} Nyberg 2011, 91.
The new Prime Minister

Elected in 2011, the new Prime Minister Enda Kenny (Fine Gael Party) has stressed the need of re-building of the country. In his first speech on March 8 2011, while nominating his government\textsuperscript{155}, he used phrases like the “recreation”, “reconstruction” and “reinvention” of the country. In the beginning of his second public speech in March 15 2011 – “On the Government Programme for National Recovery”\textsuperscript{156} - Regarding the causes of the banking crisis Kenny said that “A failure of regulation, and irresponsible behavior in financial institutions, has brought about the effective collapse of our banking system.” Not once did Kenny imply that the crisis was brought about international factors and that the Irish state was only a poor victim in a great storm. Instead, he said that the domestic financial institutions are responsible. In the speech Kenny proposed a thorough domestic reform, which included a reform of the financial sector, public finances, public service reform, a political reform and establishing a Constitutional Convention “to give Ireland a Constitution fit for the 21st Century”.

On December 6\textsuperscript{th} 2012, introducing the 2013 Budget, Kenny made a reference to the development model of Ireland: “This requires that we tackle with equal determination the two other economic legacies of recent Fianna Fail-led Governments - the damage done to our export- and FDI-led economic model during the credit-fuelled property boom, and the massive underlying deficit we inherited in the public finances\textsuperscript{157}.” In the Government Action Plan for Jobs 2013 it was suggested that the previous development model of Ireland was based on a house of cards. To give an example: “The previous Government built an economy based on debt and property that collapsed like a house of cards. We are rebuilding our economy brick-by-brick, making it stronger, ensuring that successes gained are here for the

\textsuperscript{155}Enda Kenny. Speech given 25 February 2011.
\textsuperscript{156}Enda Kenny. Speech given 15 March 2011.
\textsuperscript{157}Kenny 2013.
long term.”\textsuperscript{158}

On February 7th 2013 in an announcement concerning the replacement of promissory notes\textsuperscript{159} Kenny held the domestic banks accountable for the crisis: “Step-by-step, this Government is undoing the disastrous banking policies that brought this State to the brink of national bankruptcy.\textsuperscript{160}

**International actors**

In December 2010 a 85 billion euro Irish bailout package was concluded by the EU and IMF with contributions from Sweden, the UK and Denmark. The events that led to the bailout actually started in 2008 when in September Ireland announced that it would guarantee the liabilities of the 6 Irish-owned banks - Allied Irish Bank, Bank of Ireland, Anglo Irish Bank, Irish Life & Permanent, Irish Nationwide Building Society and the EBS. However, the costs of the bailout increased considerably which caused the deficit to surge to 32% of GDP in 2010 and governmental debt to skyrocket from 25% in 2007 to 95% in 2010.

Two aspects of the situation have been criticized in Ireland. First, that the ECB had advised Ireland to issue a blanket guarantee for the banks in September 2008.\textsuperscript{161} The second resentment towards the ECB stems from the fact that they demanded a high interest rate and refused to share any burden of the adjustment in the bailout.\textsuperscript{162} The issue that the government failed to achieve any burden-sharing was discussed during the run-up to the general elections in 2011. The issue of not imposing any losses to bondholders came up in talks before the bailout in 2010.\textsuperscript{163} The fact that Lenihan discussed the idea of imposing losses on

\textsuperscript{158} Department of Jobs 2013.
\textsuperscript{159} Spiegel and Smith 2013.
\textsuperscript{160} Kenny 2013.
\textsuperscript{161} Kirby & Thorhallsson 2011, 809.
\textsuperscript{162} Ibid, 2011, 803.
\textsuperscript{163} Ibid.
bondholders is also shared by Breen\textsuperscript{164}. According to Breen even the leader of the IMF mission A.J. Chopra was in favor of the idea but eventually it was shot down by the ECB, France and Germany.

The role of the ECB is creating the crisis in Ireland was seriously taken up by Irish former Prime Minister John Bruton in early 2011 when he wrote an open letter\textsuperscript{165} to President Barroso. According to Bruton the ECB played a role in the crisis because European countries’ banks lent money to Irish banks in the hope of profiting from the real estate bubble. A second point he made was that the ECB’s low interest rates were unsuitable for Ireland before the crisis. According to Kirby & Thorhallsson\textsuperscript{166} these examples accurately reflect the general view in Ireland that the Commission and the ECB had treated the country unfairly. The negative attitude towards the EU is confirmed by Eurobarometer data which shows that before the crisis in April 2008 62\% of the Irish tended to trust the EU but in October 2008, after the banking guarantee, the number was shot down to 50\%. Another decline happened right after the new government took office – in May 2011 the EU was trusted by 44\% of the people but in November 2011 the number of supporters had diminished to 24\%.\textsuperscript{167}

**Summary**

First I showed that during the early stages of the crisis the government argued that the causes of the crisis were external.\textsuperscript{168} Until March 2009 most of the responses in the media accepted that view because similarly to Estonia the government made references to the global scope of the crisis in virtually every speech. When justifying austerity measures similarly to Estonia the Irish government made references to international reputation, common sense and to the

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{164} Breen 2012, 9.
\item \textsuperscript{165} Bruton 2011.
\item \textsuperscript{166} Kirby & Thorhallsson 2012, 811.
\item \textsuperscript{167} Eurobarometer Interactive.
\item \textsuperscript{168} Masters 2009; Dukelow 2012, 2011.
\end{itemize}
\end{footnotesize}
risk that other ways would put the previous economic success of the country in jeopardy.

In 2009 several actors started to challenge the dominant discourse. The trade unions argued that the country needs a “fundamental realignment of the economy” because of the “redundant economic model”. Member of the Senate Shane Ross published his first book which pointed to the home-grown nature of the crisis. In addition, scholars started to publish papers which concluded that the underlying causes of the crisis were domestic. There was also an investigation into the causes of the crisis which concluded that the main causes were home-grown. Nevertheless, the government kept defending itself by framing it through the neoliberal discourse that started to win popularity in Ireland in the mid-1990s. The crisis was depicted through three central problems: excessive growth in public expenditure, loss of competitiveness and loss of international reputation. Portraying the crisis in that way allowed the government to escape a fundamental re-think of the current economic model. The disagreement about the nature of the economic problem led to the breakdown of the social partnership in December 2009, for the first time in the previous 23 years. The discourse of the government finally changed after the new government took office in March 2011.

3. Iceland

Introduction

In this subchapter I will first give an overview of the political reactions to the crisis and then contrast the rhetoric of the Prime Minister Haarde in the early stages of the crisis to the rhetoric of the new Prime Minister Sidurdardottir. Then I give voice to other actors – the Special Investigation Committee, various parties and the people – to demonstrate that there is
discussion about the causes of the crisis but that among Icelanders there is much disagreement over various fundamental issues.

After the crisis hit, the political reactions in Iceland have been very strong compared to Estonia. While in Estonia the government implemented austerity measures in 3 packages which were met by very few small protests, Iceland they had a “Kitchenware Revolution”. Sporadic protests started already in October 2008 and intensified in January 2009 after which the government stepped down. The Social Democratic Alliance and The Left-Green Movement formed a minority coalition on February 1st 2009. Johanna Sigurdardottir became the new Prime Minister. The same alliance also won the general elections in April 2009. It was the first time a center-left government was in power in Iceland in 18 years.

**Narratives by the Prime Minister**

Initially the crisis was perceived by the Prime Minister of Iceland Geir Haarde to have been caused by external factors. In his Address to the Parliament, the Althingi, in September 2008 Haarde said in the second and third paragraph:

“The challenges of our economic situation are essentially twofold. First, we are facing a traditional economic downturn in the wake of a period of rapid expansion that has done more to improve the standard of life of the nation than ever before. … On the other hand, we are facing the consequences of an international financial crisis in the wake of difficulties in the US housing market.” 169

In other words, he said that traditional economic downturn and the US housing market are the causes of the crisis. Similarly to Estonia the Estonian Prime Minister he also argued the

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openness of the economy and the size of the banks it was inevitable that Iceland would be hit by the crisis.

In his press releases in October 2008 the PM repeated that they are facing an international financial crisis. He called the crisis “an economic natural disaster” and added that “the whole world is experiencing a major economic crisis” due to “turbulences in international financial markets”. The cause of the crisis according to him was “complete lack of confidence in business between banks”. 170

On November 25th, the IMF published a Staff Report where they made references to the domestic factors in the eruption of the crisis: “Iceland’s overstretched; over-leveraged banking system was ill-positioned to cope with the global financial turmoil171.” At the same time the Prime Minister kept his narrative. He continued to portray the crisis as a global phenomenon172 (Dec 5th) and in the second paragraph compared it to a natural catastrophe, such as a volcano. In the New Year’s Address in 2008173 in the third paragraph he compared it to a tempest while making a reference to “storm clouds”.

**New Government**

When the new government took office in February they did not directly address the causes of the crisis but a central motive in their statements was the commitment to increased and more transparent democracy and more open and honest society. One of the promises they made was “the process of amending the Constitution by a special referendum”.

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170 Haarde, 3 September 2008. [http://eng.forsaetisraduneyti.is/news-and-articles/nr/3031](http://eng.forsaetisraduneyti.is/news-and-articles/nr/3031)
172 Haarde, 5 December 2012. [http://eng.forsaetisraduneyti.is/news-and-articles/nr/3282](http://eng.forsaetisraduneyti.is/news-and-articles/nr/3282)
173 Haarde, 31 December 2008. [http://eng.forsaetisraduneyti.is/iceland_org/nr/3303](http://eng.forsaetisraduneyti.is/iceland_org/nr/3303)
In her speech on the “Platform of the Government” in February the Sigurdardottir did not explicitly talk about the causes of the crisis but emphasized that the country needs to learn from the mistakes that they have made\textsuperscript{174}. A central theme in the speech was the need to increase democracy in the society and make sure that the voiced of “as many people as possible” are heard. The idea of a constitutional assembly was proposed which would open “a new chapter in public participation”.

A Constitutional Assembly was set up in 2010 which worked out a new constitution with a method of crowdsourcing. The new constitution, which included the right to the internet and the state ownership of natural resources, was adopted in a referendum in October 2012. However, the constitution has not been adopted because of opposing forces – including the Progressive Party and the Independence Party - in the Parliament.

After the elections in March 2009 the Prime Minister started to make stronger statements about the causes of the crisis. In June 18\textsuperscript{th} 2009 on the National Day of Iceland Sigurdardottir blamed domestic actors for the crisis – the greedy entrepreneurs and the failures of government and regulatory institutions\textsuperscript{175}:

Icelandic “expansion entrepreneurs” had travelled far abroad on a binge of greedy commercial conquest which left behind smoking ruins, not only in Iceland but also abroad. Faced with this situation, our government and regulatory institutions failed to fulfil their enforcement role with sufficient rigour. …We have to reconstruct business and industry on more solid financial foundations than before, and on real value creation.

\textsuperscript{174} Sigurdardottir, 6 February 2008. \url{http://eng.forsaetisraduneyti.is/news-and-articles/nr/3387}

\textsuperscript{175} Sigurdardottir, 18 June 2009. \url{http://eng.forsaetisraduneyti.is/news-and-articles/nr/3783}
Opening the Parliamentary Session in October 2009 the Prime Minister said that there is a need to “reconstruct the society on a new foundation” because “the ideology of neoliberalism and unrestricted markets has collapsed”. She also said that power needs to be removed from the greedy people who undermined the healthy foundations of Iceland’s economy.  

When the report by the Special Investigation Committee was published the government fully welcomed it in its official statement on April 12th 2010 putting the blame for the crisis directly on a number of domestic factors.

“Mistakes were certainly made. The private banks failed, the supervisory system failed, the politics failed, the administration failed, the media failed, and the ideology of an unregulated free market utterly failed. This has called for a fundamental review of many elements of our society. In that respect, democracy, the rule of law and close international cooperation have been and will continue to be our strongest weapons.”

**Special Investigation Committee**

The report by the Special Investigation Committee, published in April 2010, concluded that the crisis was largely caused by several domestic factors such as weak supervision, weak management, Icelandic banks which acted with too much haste, the failure of governmental authorities to react, self-lending the banks, too much risk taking, cross-financing, weak equity and failure in communication between public officials.

The Working Group on Ethics analyzed the morality of the financial sector, administrative sector and the political sector and concluded that the principal problem was “the flawed

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176 Sigurdardottir, 5 October 2009. [http://eng.forsaetisraduneyti.is/news-and-articles/nr/3948](http://eng.forsaetisraduneyti.is/news-and-articles/nr/3948)

177 Special Investigation Committee 2010.
process of privatization [of banks] where inexperienced owners gained large shares”. They added that the politicians trusted the bankers too much and that the supervisory institutions and public administration “failed to respect their primary obligations”. Fingers were pointed also at the media whose dominant discourse about the unique success of Icelandic bankers helped to facilitate the events.

**The high-level conference**

In August 2011 Iceland completed the IMF’s Economic Recovery Program and on October 27th, 2011 a high-level conference was held in Reykjavik to review the achievements. The participants included the Prime Minister Johanna Sigurdardottir, the Minister of Economy, representatives from Icelandic universities, representatives of the Central Bank and international guests such as Paul Krugman and Joseph Stiglitz.

In the speech given by the Prime Minister\(^{178}\) it was mentioned that that Iceland “was hit by a perfect storm” but nevertheless it was added that the most important lessons to learn from the crisis is to be “wary of unfettered capitalism and the financialization of society”. The Minister of Economy Arni Arnason said that the crisis was brought about by “reckless banking practices” and “the overheating of the economy the years before”.

**Other actors**

In stark contrast to Ireland, the Icelandic government did not give a full banking guarantee but announced that only domestic liabilities would be guaranteed which meant that foreign Icesave deposits would not be saved. This sparked a conflict with the UK and the Netherlands whose citizens had money on Icesave accounts because they gave an unusually high return.

\(^{178}\) IMF Iceland Conference 2011.
The UK used the Terrorism Act to freeze the assets of Landsbanki abroad. In order to agree on a bailout with the IMF Iceland had to agree to preconditions with the UK and Holland on repaying the debt. In reality, these preconditions have not been followed. The issue has been put on a referendum twice (in 2010 and 2011) because the President refused to sign the Parliamentary Act into law. Eventually the case was handed over to the Court of Justice of the European Free Trade Association States. The court ruled in favor of the Icelandic government in March 2013. According to Kirby & Thorhallsson\textsuperscript{179} the Icesave issue dominated political debates for nearly three years- from the crash until the second referendum. The economic crisis came to became to be seen by the ordinary people as evidence that the country should stand on their own because of the uniqueness of the nation, small size and geographical location.\textsuperscript{180} The nationalistic feelings also stem from the view that the EU and its member states blocked IMF's assistance to Iceland making it conditional on Iceland settling the Icesave dispute.\textsuperscript{181} The public opinion has clearly been affected by the Icesave dispute because before the crash the majority of voters supported EU membership but since early 2009 most of the people are opposed to it.\textsuperscript{182} Nevertheless Iceland applied for membership shortly after the Revolution in July 2009 because the Social Democratic Party and the Prime Minister argued that EU membership is increases the stability and the credibility of the economy on its path to recovery.\textsuperscript{183} The idea that nationalistic feelings played a large role is also implied by the fact that when the Progressive Party started to argue that does not have to pay back foreign Icesave depositors their poll rating suddenly jumped from 15% to 30%.\textsuperscript{184}

\textsuperscript{179} Kirby & Thorhallsson 2012, 809.
\textsuperscript{180} Kirby & Thorhallsson 2012, 809.
\textsuperscript{181} Graham, Bailes & Thorhallsson 2011.
\textsuperscript{182} Graham, Bailes & Thorhallsson 2011, 99.
\textsuperscript{183} Haarde 17 April 2009.
\textsuperscript{184} Milne 2013a.
However, the people are split over a variety of issues. The IMF has praised\textsuperscript{185} the government’s unorthodox economic policies during the crisis and Iceland’s economic indicators are not bad – economic growth was 2.6\%\% in 2011 and unemployment was only 7.1\%. Nevertheless, according to Wade and Sigurgeirsdottr\textsuperscript{186} the polls show that the Independency Party has somehow managed to convince the majority of the population that the government that took office after the crisis is somehow responsible for the troubles of the people and that the Independence Party would be re-elected. This prediction was correct because in the elections in April 2013 the Independence Party gained the most votes (26.7\%).\textsuperscript{187} The leader of the runner-up of the elections – the Progressive Party – who was in coalition with the Independence Party from 1995-2007, Gunnlaugsson has called the claim that his party contributed to the crisis “utter balderdash”.\textsuperscript{188} According to Wade and Sigurgeirsdottr\textsuperscript{189} the majority of the Independence Party members believe that the crisis in Iceland was not domestic, that it was hit by a perfect storm and have a vision of Iceland as a Nordic tax haven. They also support the privatization of natural resources. In contrast, Brigitta Jonsdottir, the head of the Pirate Party that won 3 seats in the Parliament in 2013: “It is the problem of the leftwing: they clean up the vomit after the cocaine party of the neocons, who go into rehab and then come back to reap the benefits”.\textsuperscript{190}

**Summary**

In the run-up to the crisis the euphoria about the “Icelandic outvasion” and comparisons to old Vikings was supported by the media which was largely controlled by the right-wing

\textsuperscript{185}Valdimarsson 2012.
\textsuperscript{186}Wade and Sigurgeirsdottr 2012, 141.
\textsuperscript{187}Milne, 2013b.
\textsuperscript{188}Milne, 2013c.
\textsuperscript{189}Wade and Sigurgeirsdottr 2012, 142.
\textsuperscript{190}Milne 2013c.
Independence Party. In the early stages of the crisis in the rhetoric of the Prime Minister Haarde framed the crisis as a threat while making references to natural disasters such as volcano eruption, storm and a tempest. The new Prime Minister from the Social Democratic Party did not continue this kind of discourse - instead she reiterated the need to increase democracy, transparency and solidarity in the country. Even before the report by the Special Investigation Committee was published she was holding domestic actors accountable for the crisis. When the report was published she fully agreed with the conclusion that the causes of the crisis had been wholly domestic. However, in the run-up to the elections the leader of the Progressive Party called the view that his party was responsible for the crisis “utter balderdash”. Their former coalition partner – the Independence Party – also believed that the main causes of the crisis were external, not internal. This view is strongly challenged by the Pirate Party. The Progressive Party has gained support by taking advantage of by the people’s nationalistic feelings and economic hardship stemming from expensive mortgages.

In conclusion, Icelanders are divided over a number of issues – e.g. the causes of the crisis, EU membership, the fate of natural resources and the new constitution. This view of the situation is Iceland is also shared by Thorhallsson & Kattel who say that “a corporatist decision-making framework based on consensus has not been the outcome of the crash in 2008”. He adds that since the crisis there have been even more conflicts than before.

Although it is easy to romanticize the events in Iceland the political crisis there is far from solved because of disagreements over fundamental issues. Nevertheless, political reactions in Iceland have been much healthier than in Estonia. The new constitution has been blocked in the Parliament but there is still a chance that it will be adopted. In Iceland there has been an

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191 Wade & Sigurgeirsdottr 2012, 137.
192 Thorhallsson & Kattel 2012, 15.
investigation of the causes of the crisis which found that the main causes were domestic. The Independence Party and the Progressive Party do not agree with this but there is at least the Pirate Party and the Social Democrats make sure that the alternative view is also heard.
Chapter 3: Analysis

Raudla and Kattel\textsuperscript{193} and Hope & Raudla\textsuperscript{194} argue that discursive institutionalism explains Estonia’s opting for fiscal retrenchment in 2009. They claim that historical, rational and sociological factors played a role in the development of a dominant neoliberal discourse. This resulted in the underdevelopment of Estonia’s economic policy capacities, leading to a path-dependent neoliberal response to the crisis. This theory also explains why Estonia has not discussed the causes of the crisis because the underdevelopment of alternative economic capacities makes it difficult to discuss alternative economic ideas.

The historical factors that the authors mention are the following: Estonia reacted to previous crises with austerity, Estonia has had no experience in alternative economic policies since regaining independence, and the rule of a balanced budget has been held in high regard. The pre-existing unwritten rule of following conservative fiscal policies was reinforced by the goal of joining the euro-zone and meeting the Maastricht criteria. Also, economics as an academic discipline has developed in Estonia along neoliberal lines.

Regarding interest groups (rational factors), they suggest that the opposition did not propose any viable alternative to austerity and that the trade unions and civil society were ineffectual in spurring change.

Regarding sociological factors, they argue that due to the pre-crisis economic success of the

\textsuperscript{193} Raudla & Kattel 2011.
\textsuperscript{194} Hope & Raudla 2012.
1990s and 2000s the balanced budget, currency board and flat tax rate came to seen as the three “holy pillars” of the Estonian economy. They also mention that trust in government was favorable of the government during the crisis.

The authors also add that international actors had influence because Estonia was praised by the international media for implementing austerity measures. In addition, Estonia was invited to become a member of the euro-zone in 2010. My research also pointed out that the IMF had an influence by approving Estonia’s objective to maintain conservative fiscal policies and join the euro-zone.

Hope and Raudla\textsuperscript{195} conclude that Estonia exemplifies a case where in a simple polity the number of actors in public discourse becomes so constrained that there are simply no actors who could bring about change. This is why it is important to study the cases of Ireland and Iceland because even as they are also simple polities with communicative discourses, the discourses changed in these two countries, whereas in Estonia they did not.

Next, I will analyze how historical, rational, sociological, discursive, international and economic factors played out in the Irish and Icelandic cases to see which factors are likely to have stronger explanatory power in explaining the change in the narratives.

\textbf{Two levels of analysis}

I differentiate between two levels of analysis – the level of the government and the level of the people. I argue that the actions and reactions of the governments can be explained by corporatism and the actions and reactions of the people can be explained by sociological

\textsuperscript{195} Hope & Raudla 2012.
factors (e.g. protest culture, voter turnout, trust in government). I argue that the sociological factor has the most weight because it directs the action of the people who, in turn, influence the actions and reactions of the government.

**Sociological factors**

The people’s perceptions and habits have the highest explanatory power for their reactions to the crisis.

According to the Eurobarometer Interactive\textsuperscript{196} the people in Estonia have historically trusted the government highly and so was the case during the crisis. Before the crisis, between 2004-2007, on average 56% of the people trusted the government in Estonia, compared to only 40% in Ireland. Trust in government remained high when the crisis was at its peak in 2009 - 39%. Trust in government in Ireland has been historically low and so was the case during the crisis. Between 2004-2007 40% of people trusted the government in Ireland and 54% tended not to trust. In Ireland the share of people who trusted the government in June 2009 was only 16%. That fact that Ireland experienced a discourse change but Estonia did not can be explained by the fact that trust in government was extremely low. In Iceland trust in government has also been low – in 2010 and 2011 only 33% of the people trusted the government and 63% did not.

Estonia has had a historically very low if existent record of strike.\textsuperscript{197} Voter turnout in the last elections was 64% compared to the OECD average of 72%.\textsuperscript{198} In Ireland voter turnout has been intermediate - 70%\textsuperscript{199} - and also the protest culture has been intermediate. Between

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\textsuperscript{196} Eurobarometer Interactive.  
\textsuperscript{197} Bohle & Greskovits 2007, 41.  
\textsuperscript{198} Society at a Glance 2011: OECD Social Indicators.  
\textsuperscript{199} Ibid.
1997-2006 the rate of labor disputes was 47, compared to the EU14 advanced economies average of 42 and Iceland’s 486.\textsuperscript{200} The people in Iceland have a culture of protest. Historically Iceland has been the country with the highest strike rate among OECD countries.\textsuperscript{201} Icelanders are also very active in elections- the voter turnout during the last elections was 84\%.\textsuperscript{202} The voter turnout during the elections in 2009 was 85\%, 84\% in 2007 and 89\% in 2003.\textsuperscript{203} These numbers show that there is little apathy among Icelanders when it comes to political questions. This data would predict that the people would protest during the early stages of the crisis, which indeed occurred.

This data would also suggest that Iceland would have the strongest reaction to the crisis because it had a strong culture of protest, a politically engaged populace and a low level of public trust in government. The data predicts that reactions of the people in Estonia would be the mildest because the people generally trusted the government, had a low interest in politics and a culture of patience.\textsuperscript{204} The data suggests that Ireland would have significantly stronger reactions to the crisis than Estonia because trust in government was very low and the culture of protest and voter turnout was higher. But the reaction would not be strong as in Iceland because the culture of protest in significantly lower and interest in politics is also significantly lower.

Estonia’s public reaction can also be explained by the fact that the people supported the adoption of the euro and generally trusted the EU. The average Estonian trusted the EU significantly more than the average European.\textsuperscript{205} In 2009 trust in the EU in Estonia was 69\%.

\textsuperscript{200} Office for National Statistics 2008, 33.
\textsuperscript{201} Ibid.
\textsuperscript{202} Society at a Glance 2011: OECD Social Indicators.
\textsuperscript{203} Statistics Iceland. \url{http://www.statice.is/Statistics/Elections/Elections-overview}
\textsuperscript{204} Greskovits 1998.
\textsuperscript{205} Eurobarometer Standard 76, 2011.
compared to 48% in the EU. In 2009 the number of people who supported the adoption of the euro was 10% higher than non-supporters.\textsuperscript{206} Another piece of data also suggests the tendency of the people not to challenge the dominant discourse about the external causes of the crisis - it was believed that the most capable actors to tackle the crisis are mainly international actors. In early 2009 73% of Estonians believed that the most capable actors to deal with the crisis are international actors (G8, IMF, USA and the EU).\textsuperscript{207} In contrast, in Ireland only 55% of the people believed that international actors are most capable to deal with it. Only 11% of the people in Estonia believed that domestic actors are most capable to tackle the crisis. In Ireland the percentage of people that shared that belief was 20%.

When EU citizens were asked which measures are most effective in combating the crisis, Estonians emerged as the most pessimistic people in the EU on the efficacy of supervision of the most important financial groups. Only 52% of Estonians believed this, as opposed to the EU average of 67%. 25% of Estonians were not sure, opposed to 16% of Europeans.\textsuperscript{208} The aversion to taking a position on this issue and the very weak support for supervision might be explained by the fact that Estonians believe the dominant discourse about the external causes of the crisis.

**Corporatism**

Hancke & Rhodes\textsuperscript{209} argue that after euro introduction the countries that had corporatist features were likely to internalize them but those who lacked corporatist characteristics were likely to follow their own course. I argue that the level of corporatism determined the reaction

\begin{footnotes}
\item[207] Eurobarometer Standard EB 71, 2009.
\item[208] Ibid.
\item[209] Hancke & Rhodes 2005.
\end{footnotes}
of the governments during the crisis. Jelle Visser’s database (See Table 3 in Appendix) shows that Estonia is clearly a non-corporatist country, Ireland is intermediately corporatist and Iceland is highly corporatist. The level of corporatism corresponds to the events during the crisis.

In Iceland, the new government that took office in 2009 tried to build a more transparent democracy through consensus. The social stability pact did not last because Icelandic society is divided on many fundamental issues such as membership to the EU and the new constitution. Nevertheless, the government increased the number of actors in the public discourse by signing a stability pact in 2009 and supporting the investigation of the crisis. In Ireland, in contrast to Iceland, the government did not sign a social partnership agreement, but nevertheless made efforts to negotiate one and also initiated an investigation into the crisis. The Estonian government, in stark contrast to both countries, chose to ignore the social partnership signed before the crisis without any consequences. The government depicted the crisis as an external shock, took no responsibility for creating it and did not initiate a discussion about the lessons of the crisis.

**Historical institutional factors**

Whereas in Estonia the Maastricht criteria with its concrete fiscal goals set the policy agenda along with the fact that Estonia has never implemented non-liberal economic policies in its history, the situation in Ireland is different. Ireland was already in the euro zone when the crisis hit, meaning that they couldn’t depict the European Monetary Union as their savior and they did not have a “holy goal” in the form of the Maastricht criteria to strive towards.

Also, Ireland has a different politico-economic history. During the Celtic Tiger times in the 1990s the country was more developmental but in the 2000s it became increasingly liberal.

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210 Visser 2013.
Iceland also had a point of comparison in their history because the country had had stronger corporatist features before becoming increasingly neo-liberal in the 2000s. This means that it was easier in Ireland to compare the 2000s to the 1990s and come to a conclusion that something went wrong in the 2000s. Estonians did not have a point of comparison with which to contrast the contemporary situation. On the contrary -the goal of joining the euro-zone and sticking to the Maastricht criteria made perfect sense in a country that has followed neoliberal policies since regaining independence.

**Rational factors (interest groups)**

In Estonia the opposition did not propose any viable alternative to austerity and to the dominant discourse. Nor did the trade unions challenge the prevalent discourse, offering only weak arguments. Only a few actors attempted to challenge the dominant discourse: Indrek Neivelt, the Estonian Development Fund and Ardo Hansson.

In Ireland several actors challenged the dominant discourse - Patrick Honohan, trade unions, Shane Ross, scholars, the investigation committee, the opposition and the new Prime Minister Enda Kenny.

In Iceland it was first the people who challenged the government with strong protests which eventually resulted in its stepping down. The new government challenged the dominant discourse about the external causes of the crisis and started to talk of the need to build a more transparent democracy. The prevalent narrative was also challenged by the investigation committee and the head of the Pirate Party – Brigitta Jonsdottir – who was also a member of a grassroots movement – the Citizens’ Movement – that won 4 seats in the 2009 elections. In short, the dominant discourse was challenged in Iceland by the people, grassroots
movements, the opposition, the investigation committee and the new Prime Minister (name). The role of scholars should also be considered because of their argument about the domestic causes of the crisis.²¹¹

A common characteristic among the countries is the influence of an external actor. In Estonia and Ireland a former World Bank economist, appointed as the new Central Bank Governor, pointed attention to the domestic origin of the crisis in a presentation given in a foreign country. The difference between these two cases is that Honohan explicitly stated that the main causes of the crisis were domestic and proposed an investigation in the Parliament, while Hansson only made a mild reference to the overheated economy and did not propose an investigation. A proposition for a discussion about the lessons of the crisis was made by another external actor – Indrek Neivelt. The influence of external actors emerges in the Icelandic case as well because of Icelandic scholars working abroad – Danielsson, Zoega, Sigurgersdottir, Nielsson and Torfason.

**International factors**

International actors had an influence on the narratives in Estonia because they praised it for implementing austerity measures. The EU and the IMF also approved Estonia’s goal of joining the euro-zone. In Ireland, the international actors have had a different influence on the discourses. As I showed, the people and the new government thought they had been treated unfairly by the ECB and IMF. Finally, Iceland has also been praised by international actors such as the IMF for their recovery. A controversy happened with the Icesave dispute. The demand by international actors to be compensated for their losses caused a nationalistic reaction among the Icelandic people. What follows from this is that in the context of a

discourse change or stasis the important thing is how the people perceive the actions of the international actors, not their actions *per se*.

**Economic factors**

Regarding the severity of the crisis Estonia introduced austerity measures amounting to 12% of GDP between 2009 and 2010\(^\text{212}\). The total cost of re-establishing the banking sector in Iceland was 22.5% and in Ireland 50%. The difference in the nature of the crisis is that while Estonia and Ireland experienced housing bubbles and maintained their exchange rates, Iceland devalued, and the main problem in its banks was self-lending, not housing. Estonia differs from the rest because it did not experience a banking crisis. In general, the nature of the crises in these countries was rapid credit-to GDP growth caused by lending by domestic banks in Ireland and Iceland and by Swedish banks in Estonia. It is difficult to evaluate which country was more overheated because they were at different development levels. What seems to matter more is the length of the crisis because it can be argued that the longer the duration, the more probable a negative reaction becomes. In terms of high unemployment Ireland has experienced the longest crisis, Iceland has had the shortest and Estonia one of intermediate length. Even more important is how badly the crisis was perceived. In summer 2009 16% of Estonians tended to view the situation in the national economy positively, as opposed to 75% before the crisis. In Ireland the percentages were 7% in 2009 and 90% before the crisis. It follows that the Irish considered the crisis to be more severe than Estonians did. In Estonia you can also see a clear indication that the situation was viewed as getting better because the number of people who tended to view the situation positively went up from 16% in summer 2009 to 40% in May 2011. In Ireland people became even more negative over time. In Iceland dissatisfaction with the economy was 75% in summer 2011 and satisfaction 16%. In

\(^{212}\)Kattel & Raudla 2013.
short, the Irish perceived the crisis very badly, the Estonians fairly positively and the Icelanders fairly badly. 213

Summary

In evaluating the explanatory power of different factors I differentiated between two different levels of analysis – the level of the government and that of the public. I argue that the sociological factor has the most weight in explaining discourse change and stasis among the public. Statistics about trust in government, voter turnout and strike rate accurately predict the reactions of the populace during the crisis.

The discursive factor – corporatism – has the most weight in explaining discourse change and stasis at the governmental level. In the weakest corporatist state Estonia the government made no effort to include other actors in the public discourse but in Iceland the government made the largest effort.

The rational factor is partly dependent on the discursive factor because the culture of corporatism determines how many actors are given voice. In the least corporatist country – Estonia – there were only a few actors who challenged the dominant discourse. The most corporatist country had the most actors who questioned the prevalent narrative. The amount of interest groups also depends on sociological factors.

The historical factor does not have much weight per se because the culture of corporatism and the sociological factor can also be viewed as historical factors - they predicted the behavior of the government and the public during the crisis.

213 Eurobarometer Interactive.
All in all, the sociological factor was more important than the corporatist factor because eventually the people vote on which government is going to take office. In Ireland and Iceland the discourse changed after the new government took office.

It is hard to evaluate the weight of the economic and international factors because their influence depends on how the public perceives them.
Conclusion

This thesis analyzed discourse change and stasis in three simple polities – Estonia, Ireland, and Iceland – during the global financial crisis. This topic is relevant for the fact that Estonia is experiencing discourse stasis could indicate that it is walking on a slippery development path.

I used the method of “controlled comparison“ and selected these cases because they are similar on the independent variables (small size, late development, neoliberal policies, a severe GDP contraction, implementation of fiscal retrenchment, simple polities, communicative discourse) but different on the dependent variable (different narratives of the financial crisis). Based on existing literature six major factors were identified - rational, historical, sociological, discursive, international and economic – as study factors.

The first part of my research identified narratives of the financial crisis among the political elites and the perceptions of the crisis by the common people. In the Estonian case it was found that the crisis was initially framed as a “threat,” which is characterized by the acknowledgement of the severity of the problem and interpretation of the causes of the crisis as exogenous.

According to Hope & Raudla, in a simple polity the circle of actors participating in discussions becomes so small that there would be no agents who could potentially voice

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214 George & Bennet 2005, 81.
215 Tindall 2009.
216 Hope & Raudla 2012.
alternative ideas. According to Raudla & Hope this is exactly what happened in Estonia. Since the 1990s Estonia had a neoliberal discourse with nationalistic elements. During the crisis most of the domestic actors supported austerity and the dominant discourse. This belief was reinforced by international actors who praised Estonia. The only actors that tried to challenge the discourse were the Estonian Development Fund, Indrek Neivelt and Ardo Hansson.

While Estonia’s situation can be conceptualized as discourse stasis, Ireland and Iceland underwent a discourse change.

First I showed that during the early stages of the crisis the Irish government framed the crisis as a threat. In 2009 several actors started to challenge the dominant discourse--the trade unions, politicians, scholars, the opposition and the special investigation committee--but the government kept defending itself by framing the issue along neoliberal lines. The discourse changed after the new government took office in March 2011. The crisis was then framed as an opportunity with the emphasis on severity and the causes considered to be endogenous.

Similarly to Estonia and Ireland, the Icelandic Prime Minister Haarde framed the crisis as a threat while making references to natural disasters. The new Prime Minister Sigurdardottir, who took office after intense public protests, depicted the crisis as an opportunity and made serious efforts to expand democratic institutions. The actors that challenged the earlier discourse were the public, the opposition, the investigation committee and scholars. Although the discourse changed in Iceland there remains much disagreement on fundamental issues.

I demonstrated that the actions and reactions of the respective governments can be explained
by corporatism and the actions and reactions of the people can be explained by sociological factors. I argue that sociological factors have the most weight because they direct the action of the people who, in turn, influence the actions and reactions of the government.

In the least corporatist country – Estonia – the social partnership agreement was ignored, the neoliberal discourse was maintained, and discussions about the lessons of the crisis did not occur. In the most corporatist country – Iceland – the reactions of the government were the strongest. In intermediately corporatist Ireland the reactions of the government were significantly stronger than in Estonia but weaker than in Iceland.

Sociological factors explain the reactions of the public. Estonia had a high level of trust in government, low voter turnout, and a very low strike rate. This data predicts that Estonians would not react strongly to the crisis. In addition, Estonians’ trust in the EU was very high and they supported adoption of the euro. The public tended to believe the government’s discourse about the external causes of the crisis.

Sociological factors – public opinion and political participation – carry more weight than corporatism because, as I showed in the Icelandic and Irish cases, the dominant discourse eventually changed thanks to a change in the government. A change in the government happens because the public demands it. In a simple polity with a communicative discourse this becomes especially relevant because a strong executive can ignore alternative voices. This happened in Estonia – Indrek Neivelt challenged the dominant discourse but the government chose to ignore him. Things could have changed if the people would have listened to him but rather they put their trust in the government and the EU.
Appendix

Table 1. Independent and dependent variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Estonia</th>
<th>Ireland</th>
<th>Iceland</th>
</tr>
</thead>
<tbody>
<tr>
<td>IV Small states</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>IV Neoliberal</td>
<td>Since 1991</td>
<td>Increasingly neoliberal since 2000s</td>
<td>Increasingly neoliberal since 2000s</td>
</tr>
<tr>
<td>IV Late developers</td>
<td>From 1991</td>
<td>From 1958</td>
<td>After 1960s</td>
</tr>
<tr>
<td>IV Severe crisis</td>
<td>GDP contraction between 2008-09: 18%. Housing bubble</td>
<td>GDP fell 10%. Housing bubble</td>
<td>Collapse of the financial system. Housing bubble.</td>
</tr>
<tr>
<td>IV Fiscal retrenchment</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>IV Simple polity</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>IV Communicative discourse</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
</tr>
</tbody>
</table>

| Dependent variable | Different narratives and different political reactions | 1 | 2 | 3 |

Table 2. Fiscal adjustment in Estonia, Ireland and Iceland.

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonia</td>
<td>2%</td>
<td>9%</td>
<td>2.9%</td>
<td></td>
</tr>
<tr>
<td>Expenditure side</td>
<td>2</td>
<td>6.2</td>
<td>1.6</td>
<td></td>
</tr>
<tr>
<td>Revenue side</td>
<td>0</td>
<td>2.7</td>
<td>1.3</td>
<td></td>
</tr>
</tbody>
</table>
### Table 3. Corporatism

<table>
<thead>
<tr>
<th></th>
<th>Union density</th>
<th>Bargaining coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Estonia 1996-98</strong></td>
<td>n/a</td>
<td></td>
</tr>
<tr>
<td><strong>Estonia 2000s</strong></td>
<td>9</td>
<td>27</td>
</tr>
<tr>
<td><strong>Ireland 1995-2000</strong></td>
<td>44</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>2000s-2011</strong></td>
<td>35</td>
<td>43</td>
</tr>
<tr>
<td><strong>Iceland 1990-99</strong></td>
<td>88%</td>
<td>89%</td>
</tr>
<tr>
<td><strong>2000-05</strong></td>
<td>93%</td>
<td>87%</td>
</tr>
<tr>
<td><strong>2006-08</strong></td>
<td>85%</td>
<td>88%</td>
</tr>
</tbody>
</table>

Source: Jelle Visser database (2013)

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