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"Small States": a Theme in Icelandic
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"Small States": a Theme in Icelandic Political Science and Politics

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RÉSUMÉ

Le thème des « petits États » a été développé par les Islandais à la fois dans la recherche et dans le débat politique afin de construire leur identité et de défendre leurs intérêts sur la scène internationale. Après avoir évoqué le cadre général de l'étude des petits États en science politique, cet article montrera pourquoi et comment elle s'est développée en Islande. Il montrera également des exemples de l'utilisation du discours sur la « petitesse » par les hommes politiques, avant et après le krach de 2008. Puis il se terminera par une réflexion sur l'interaction entre la vie politique et la recherche et par une évocation de nouveaux thèmes potentiels et de défis que les spécialistes des petits États auront à affronter dans le futur.

ABSTRACT

Icelanders have developed the "small" theme in study and in debate as a lever for constructing their wished-for identity, and for advancing their interests abroad. After sketching the general background of small state studies in political science, this article aims principally to tell the story of why and how such studies have developed in Iceland. It will also give examples of how public figures used the discourse of smallness, both before and after the fateful crash of 2008. The closing reflections return to questions of the interaction between academic and political life, and to potential new themes or challenges facing small state specialists in future.

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INTRODUCTION AND PROGRAMME

It is normal for the study of political science, and even more of international relations, in a given country to reflect the issues that country faces in real life. Such emphases can be directly generated by what the state is and what it does, or they may reflect elements of its constructed international posture where more indirect, value-related concerns come into play. Thus Britain and France have many experts on nuclear weapons; but so do the Nordic countries who have committed themselves to seeking international solutions for nuclear dangers – thereby both reflecting concrete regional interests, and projecting a concern for global peace.

Iceland, a country of 320,000 people with no armed forces, no close neighbours, and no past or present colonies, might at first glance seem to have no such ‘specializations’ to claim – unless it be the security impact of volcanoes. But it does have one compelling special experience to study and share: that of being small. Positioned between the massive US on one side and medium-power Britain on the other; it has less than one-tenth of the population of any other sovereign Nordic state. Yet it gained full control of its domestic and external affairs within the Danish realm as early as 1918, and since the 1940s – when it cut the last ties to Denmark – has developed a comprehensive diplomatic service, entered international organizations, defended its special interests such as fisheries, and joined in typically Nordic aid and humanitarian activities. Though spared the traumatic experiences of many ‘smalls’ in less stable regions, it has lived through a wide range of consequences, good and bad, of being so much weaker – in all concrete terms – than its main interlocutors. By self-examination through the lens of smallness it can offer interesting lessons not just to its fellow-smalls, but also to states of other sizes and to the institutions where small and large co-exist. An improved understanding of the destinies of small states, in Europe and internationally, has arguably never been so important as now: the great majority of member states in today’s European Union (EU) – 22 out of 28 – are commonly categorized as small states, and the same is true of the United Nations.

Icelanders have, however, also consciously developed the ‘small’ theme in study and in debate, as a lever for constructing their wished-for identity and for advancing their interests abroad. After briefly introducing small state studies as an academic discipline, this article will look at how such studies have developed in Iceland and how the discourse of smallness has been used in political debate there, before and after the economic crash of 2008. The closing section reviews the interaction between academic and political life, and suggests some new directions for future small state studies.

SMALL STATE STUDIES IN A NUTSHELL

Small state studies have mainly been concerned with the external challenges and roles of such states in the international system. They first focused on their obvious vulnerability and lack of capabilities¹ in terms of population,² economy, military strength and territorial size – assumptions that still dominate the field. In the 1960s, small developing states created by de-colonization were seen as unsustainable, economically and politically, while developed small states were seen as unable to defend themselves from military attack and economic vicissitudes.³ Such bleak assumptions have proved exaggerated in practice; but the literature still stresses the need for small states to find a protecting power (a nation and/or a powerful international institution) to ensure their prosperity and survival.⁴

In a brief period from the mid-1980s, small state studies shifted their focus to more prosperous examples such as Iceland and Ireland. Small states were suddenly viewed as smart, innovative, resilient and more flexible in responding to global competition.⁵ Iceland’s rapid growth was seen by many as due to standing on its own in the middle of the North Atlantic, untrammelled by the EU’s supranational institutions. Since then, however, increased understanding of globalization’s effects and the lessons of the 2008 crash have challenged these assumptions. Small states are exceptionally exposed to the broad swings of the international economy, which aggravate the intrinsic weaknesses of small markets with few saleable resources. They need prudent policies, and better-than-average economic management and administrative skills, to plan for and survive the inevitable external shocks.⁶ In this perspective the importance of finding economic ‘shelter’ through membership in

1 I.B. Neumann and S. Gstöhl, *Lilliputians in Gulliver’s World? Small states in international Relations*. Reykjavik, Centre for Small State Studies, 2004.

2 On the traditional and current definitions of ‘smallness’, see below.

3 A. Baker Fox, *The power of small states. Diplomacy in World War II*, Chicago, University of Chicago Press, 1959; D. Vital, *The inequality of states: a study of small powers in international relations*, Clarendon Press, Oxford, 1967.

4 R.O. Keohane, ‘Lilliputians’ dilemmas: small states in international politics’, *International Organization*, vol. 23, no. 2, 1969, pp. 291-310; M. Handel, *Weak states in the international system*. Frank Cass, London, 1981; P. Katzenstein, R. Steinmetz & A. Wivel, *Small states in Europe. Challenges and opportunities*. Ashgate, Farnham, 2010; A.J.K. Bailes and B. Thorhallsson, ‘Instrumentalizing the European Union in Small State Strategy’, *Journal of European Integration*, vol. 35, no. 2, 2013, pp. 99-115.

5 P. Katzenstein, *Small states in world markets: industrial policy in Europe*, Ithaca, Cornell University Press, 1985; L. Briguglio, G. Cordina and E.J. Kisanga, *Building the economic resilience of fragile states*. Formatek Publishing, Malta, 2006.

6 T.T. Ólafsson and T.G. Pétursson, ‘Weathering the Financial Storm: The Importance of Fundamentals and Flexibility’, *Working Paper No 51*, The Central Bank of Iceland, 2010; World Bank, *Small states and financial crisis*, 2011, retrieved 6 June 2013, <http://go.worldbank.org/YX770A97D0>; B. Thorhallsson, ‘The Icelandic economic collapse: how to overcome constraints associated with smallness?’, *European Political Science*, 2012.

institutions like the EU and International Monetary Fund (IMF) becomes even clearer, and has in fact proved a generally positive factor for small states striving to handle the crash.⁷

Small state studies see two ways that such states can improve their robustness: firstly by their domestic arrangements, where Katzenstein (for example) recommends the 'democratic corporatism' found in seven small European states.⁸ A recent study has confirmed that the seven states in question were much better prepared to deal with the latest economic crisis than the Baltic States and Iceland, who had less coordinated and consensual internal arrangements among state and non-state actors.⁹ Secondly, as already noted, small states can seek economic, political and societal shelter from a range of organizations – greatly increased since the 1940s – as well as from individual states. In Europe, the smaller nations have typically sought economic shelter and political solidarity from the EU and military security from NATO, although some (like Switzerland) preferred neutrality in order to preserve their independence. The very smallest European polities – Andorra, Monaco, San Marino, Liechtenstein and Iceland – meanwhile still seek economic and military protection chiefly from large neighbours.

The modern small states literature does not, however, discuss these states' roles only in terms of solutions for weakness. It recognizes that how 'small' a state feels – and appears to be – in practice does not depend only on mechanistic definitions of size (eg, having less than 5 or 10 million inhabitants). Also important are the state's image, the way it is perceived by domestic and international actors, and the aims and priorities of state leaders. A small state may benefit from a smaller policy making structure that allows faster, more united decisions and rapid adjustment to change. It may capitalize on smallness by presenting itself as a mediator and innovator, putting forward global norms and initiatives not tied to narrow national interests in what Ingebritsen defined as the stance of a 'norm entrepreneur'.¹⁰ The Nordic states have often been cited as examples of the latter, given their role in peace-keeping, development aid, and the development of the UN system and the part they have played in promoting human rights, women's rights and environmental protection among others. Further, the perception of smallness and how far it creates real vulnerability are substantially

7 'Domestic buffer versus external shelter; viability of small states in the new globalized economy', *European Political Science*, vol. 10, pp. 324-336. 2011.

8 P. Katzenstein, *Small states in world markets: industrial policy in Europe*, Cornell University Press, Ithaca, 1985. The states are Denmark, Sweden, Norway, Belgium, the Netherlands, Austria and Switzerland.

9 B. Thorhallsson and R. Kattel, 'Neo-Liberal Small States and Economic Crisis: Lessons for Democratic Corporatism', *Journal of Baltic Studies*, vol. 44, no. 1, 2013, pp. 83-103.

10 C. Ingebritsen, *Scandinavia in World Politics*. Rowman and Littlefield Publishers, Lanham, 2006.

affected by the regional context – the size, nature and relationships of a small state's neighbours, plus the institutional setting. It will be seen that when all these points are combined, a single state may be 'small', ie weak, in one dimension or relationship but 'larger' and more powerful in another.¹¹ These complexities and ambiguities of 'smallness' are well illustrated by the Icelandic treatments of the theme discussed below.

SMALL STATE STUDIES IN ICELAND

The Centre for Small State Studies (CSSS)¹² at the University of Iceland has established itself as one of the main research centres for small state studies in the world, focusing on European small states and their experiences of the ongoing European integration process and globalization. It was first planned in 2001, and formally opened two years later with an international conference on small states in the international system and a Summer School on Small States in European Integration. It brings together scholars worldwide on an interdisciplinary platform, working with a network of foreign research institutions and think-tanks. It is formally a part of the Icelandic Institute of International Affairs, and governed by the same Board. It cooperates with the Icelandic Ministry for Foreign Affairs, the Federation of Icelandic Industries and the Confederation of Iceland Employers, and with several other actors and research institutes in Iceland. Most of its funding comes from Icelandic donors including the University but it also regularly gains EU and Nordic grants for research and educational activities. A recent example of a successful Nordic-funded project was the 'Nordic and Baltic Small States' workshop series, where the CSSS worked with partners from the Faroes and Greenland as well as neighbouring states.¹³

The location of the Centre in Reykjavik allows it to promote cooperation and dialogue among officials and parliamentarians, the public and others interested in Icelandic foreign affairs and international politics generally. It holds frequent conferences, seminars and lectures at its premises in association with foreign and domestic partners. These help among other things to strengthen Icelandic knowledge of international affairs and to stimulate debate on how Iceland can respond to the opportunities and challenges of smallness. The Centre's publication programme includes both books and two series of freely available online papers, often providing case studies on small European states and their institutional experiences.¹⁴

11 H. Mouritzen and A. Wivel, *The geopolitics of Euro-Atlantic relations*. Routledge, London, 2005.

12 <http://ams.hi.is/en/node/17>

13 Materials from the project are accessible at <http://ams.hi.is/node/363>.

14 See <http://ams.hi.is/en/csss-publication-series>

The Centre's annual Summer School on small states¹⁵ is a two-week event, covering themes of European integration but also the security of small states, the challenges of increased globalization, and regional case-studies ranging from Africa and the Arab Spring to the Arctic. Lecturers come from both home and abroad, with wide cross-disciplinary expertise. The event is co-sponsored by seventeen universities who nominate both undergraduate and postgraduate students to attend it, while further students may attend on a self-financed basis.

Political science has been taught at the University of Iceland since 1970 and the postgraduate programme in international relations began in 2005.¹⁶ Postgraduate programmes are also offered in European Studies and Gender Studies. Together with the Faculty of Political Science at the University of Iceland, the CSSS offers a graduate diploma (30 ECTS) in Small-State Studies with the focus on small states in Europe. The curriculum offers a detailed study of small state theories and explores how European small states are coping with integration, new security threats, globalization and other domestic and international challenges. Iceland itself provides one of the case-studies. The programme is well attended by students from Europe, North America, and – increasingly – Europe's neighbour regions. The University of Iceland's students of international affairs also regularly enroll in courses on small states and many write their final thesis on related subjects. The Faculty has already graduated a number of doctoral students who based their theses on the small state literature.

The initial creation of the CSSS, while well received in the academic community at home and abroad, drew a mixed response from Icelandic politicians. The reaction by one politician was to ask why the University had decided to focus on states like San Marino, Monaco, Liechtenstein and Andorra: 'Iceland is not a small state'. A Minister publicly criticized the Centre for labeling Iceland as a small state, arguing that this would damage Iceland's 'reputation' abroad since being seen as small was detrimental for foreign policy. An ambassador in the Icelandic Foreign Service made numerous attempts to convince employees at the Centre not to speak about Iceland as a small state abroad, even if they had to do so domestically. He asked one of the Centre's speakers at a conference in China not to mention the number of inhabitants in Iceland! In 2004, Halldór Ásgrímsson¹⁷ – previously a long-serving Minister for Foreign Affairs (1995-2004) – made his first public speech as Prime Minister at an international conference on small states organized by the CSSS, and admitted that he had always had difficulties with the

15 See <http://ams.hi.is/node/19>

16 See http://english.hi.is/school_of_social_sciences_departments/faculty_of_political_science/main_menu/home

17 Ásgrímsson was a former leader of the centrist (agrarian) Progressive Party, which was repeatedly included in right-of-centre governments up to 2006. More recently he served as Secretary-General of the Nordic Council of Ministers.

Centre's description of Iceland as a small state. He was, however, now willing to accept the Centre's use of the term 'small', on condition that it promised never, ever, to describe Iceland as a micro-state!

"SMALLNESS" IN ICELANDIC POLITICAL THINKING AND DISCOURSE

To understand such personal reactions to the start of 'small state' studies in Iceland, we should now trace the part played by smallness in the country's actual political life. Overall, Icelandic political discourse has not been characterized by a notion of 'little Iceland', as Danish political discourse has been by the concept of "lille Danmark" (small Denmark). Rather, policy leaders have picked up or dropped the language of smallness according to context and convenience. In its numerous fisheries clashes with Britain and other larger European nations up to the mid-1970s, for instance, the Icelandic government played on its smallness and vulnerability to win sympathy abroad. Iceland also cited smallness to gain exceptions from OEEC rules so that it could receive Marshall Aid, and to justify a long adjustment period when joining EFTA in 1970. More generally, Iceland made the most of its smallness and associated 'vulnerability' to maximize economic assistance from the US up to the late 1960s.¹⁸

By the late 20th century, however, economic advances coupled with Iceland's greater assertiveness and international activism had seemingly removed most reasons for Iceland to portray itself as a small vulnerable community. One exception was the political discourse of the centre-right in Iceland, which continued to argue against Iceland's joining the EU and seeking a seat at the UN Security Council on the grounds that it would be too small to effectively defend its interests in those bodies. Slowly and steadily, the focus shifted to what Iceland could achieve by itself – and even to ways in which it might out-perform its larger, more ponderous peers. This climate, as further discussed below, still prevailed at the time of the CSSS's inauguration, and helps to explain why many Icelanders at the start of the 21st century found smallness an unfamiliar and even unwelcome notion.

By the mid-2000s, however, the tide had turned again and public references to Icelandic 'smallness' by government representatives and other politicians became more common.¹⁹ The causal link with the rise of academic small-state studies is not straightforward: Iceland's actual international experiences – with the tactical

18 B. Thorhallsson, 'What features determine small states' activities in the international arena? Iceland's approach to foreign relations until the mid-1990's', *Stjórnsmál og stjórnsýsla*, vol.1, no.1, 2005; B. Thorhallsson, 'Iceland's involvement in global affairs since the mid-1990's: What features determine the size of a state', *Stjórnsmál og stjórnsýsla*, vol.2, no.2, 2006.

19 M. Cela and J.T. Kristjánsson, *Iceland as a "powerful" small state in the international community*, Centre for Small State Studies, University of Iceland, Working Paper 1-2011.

uses of smallness that they inspired – may have been more decisive. Yet one may trace some signs of leaders, consciously or unconsciously, drawing upon terms and concepts developed on the academic side. In the remaining sections we shall look at the different ways Icelandic political parties have deployed the ‘small’ theme to serve their diverging views of Iceland’s nature and needs; and then at the shifting rhetorical uses of ‘smallness’ before and after the catastrophic economic crash of 2008.

A SINGLE PREDICAMENT, DIVERGING ANSWERS

While most Icelanders probably understand, consciously or not, that their nation needs ‘shelter’ at the strategic level, the conclusions drawn from this at the level of policy and politics have depended greatly on party status and ideological leanings. In the post-war period up to 2009, the right of centre (conservative) Independence Party (IP) dominated Icelandic governments. Their strategic response to smallness, and the fact that Iceland had chosen not to have military forces, was to shelter beneath the United States’ wing both through NATO and a bilateral defence agreement. Later this view was to become especially associated with the long-standing IP leader Davíð Oddsson, both as Prime Minister and Foreign Minister.²⁰ When strategic attention shifted from the Soviet menace to ‘new threats’ like terrorism, which were *prima facie* rather remote from Iceland, the argument was simply updated: thus in 2006 Foreign Minister Geir H Haarde warned that ‘Iceland’s geographical position is not a protection against a wide range of threats and challenges facing the world today’.²¹

However, IP reasoning on smallness was not predominantly defensive. By the 2000s, when Iceland was experiencing rapid growth and popular prosperity as a result *i.a.* of the overseas adventures of its bankers, government leaders more often presented smallness combined with openness to globalization as the key to national success. Here is a typical statement by Halldór Ásgrímsson as Foreign Minister:

The smallness of the market is no longer an obstacle. Tariffs have been reduced and the rules made simpler for foreign investments... These circumstances will create new opportunities that are important to exploit. A lot of opportunities come with being a small state. Our decision making and our responses proceed fast.²²

20 See e.g. D. Oddsson, *Speech on foreign affairs in the Alþingi*, Icelandic Parliament, 11 November 2004. Retrieved 1 June 2013, <http://www.utanrikisraduneyti.is/frettaefni/Raedur:DO/nr/2436>.

21 G.H. Haarde, *Icelandic foreign policy in a changing world*, speech at Deutsche Gesellschaft für Auswärtige Politik, Berlin, 29 March 2006, Retrieved 3 June 2013, <http://www.mfa.is/speeches-and-articles/nr/3020>.

22 H. Ásgrímsson, *Alþjóðavæðing* (Globalization), speech at The Trade Council of Iceland, 8 May 2002, Retrieved 6 June 2013, <http://www.utanrikisraduneyti.is/frettaefni/raedur:HA/nr/1751>.

Politicians specifically claimed – echoing the contemporary small state researchers mentioned above²³ – that the small had more to gain than the large from globalization. Not only did the new global market free them from the constraints of smallness, but it allowed them to explore the comparative advantage of greater flexibility and agility. We shall see below how this notion became specially attached to the Icelandic bankers and their supposedly ‘unique’ invention of new paths to profit. In 1999 the Social Democratic Party (SDP) joined with two other left-of-centre parties – the People’s Alliance and Women’s Alliance – to create the Social Democratic Alliance (SDA), thereby becoming Iceland’s second-largest party. Historically, the Social Democrats sometimes joined IP-led coalitions and then normally took the Foreign Minister post – as happened with the SDA leader, Ingibjörg Sólrún Gísladóttir, in 2007-2009. In the post-crash general election of 2009, the SDA won the largest group of parliamentary seats and became the leader in an unprecedented left-of-centre coalition with the Left Green Movement (LGM), where the SDA’s Foreign Minister Össur Skarphéðinsson served as Foreign Minister. The most radical difference between the thinking of the SDA and the IP on compensating for Iceland’s smallness is that while right-of-centre politicians see any engagement in the European integration process as fatal for Iceland’s sovereignty, national interests and special identity, the social democrats see participation in European integration as the best and perhaps only strategic solution. It was the Social Democrats who, in the past, pushed for Iceland’s entry to EFTA and the European Economic Area (EEA), prevailing upon the IP to support their moves.²⁴ On entering government in 2009, the SDA seized the chance to launch an application for full EU membership: accession talks started soon after, but were slowed down – essentially to reduce SDA/LGM friction – in the run-up to the general election of May 2013. A new centre-right coalition government of the IP and Progressive Party then took power and put the EU accession process on hold, pending a review of whether to abandon it altogether.

Social Democrat leaders have particularly emphasized the value of the European institutional shelter for Iceland’s small economy, its weak currency (which they seek to replace with the Euro), and general exposure to risk. Össur Skarphéðinsson put it clearly: ‘The European Union will in the long run provide Iceland with a shelter, side by side with culturally likeminded nations in Western Europe’.²⁵ As his words suggest, the SDA have handled the concern about small-

23 See footnote 6.

24 It was however a coalition government of the Progressive Party and IP that decided to join Schengen, despite the reluctance of the then IP Prime Minister.

25 Ö. Skarphéðinsson, ‘The future and the freedom of choice’, *Morgunblaðið*, 12 October 2010, Retrieved 3 June 2013, <http://www.utanrikisraduneyti.is/radherra/raedur-og-OS/nr/5995>.

state identity by stressing the compatibility of Iceland's and the EU's political/cultural values. They argue that little Iceland need not be swamped in a larger Union but could make positive inputs to Europe's development as a peaceful, democratic, egalitarian, gender-aware and globally active polity.

The Social Democrat discourse on smallness also extends more globally. As Foreign Minister, Gísladóttir stressed solidarity with suffering small peoples such as the Palestinians – and Iceland duly recognized Palestine as a state in 2012. She tried to move away from the Right's focus on military defence and US protection by stressing a larger range of modern security challenges, and a small state's dependence on multilateral cooperation for tackling them:

New international legislation, or new trade agreements, whether they are initiated by the World Bank, European integration or through Nordic cooperation, directly affect Iceland, Icelandic families and Icelandic businesses. New threats, such as climate change, epidemics and human trafficking know no borders and the only way to fight against them is with international cooperation.²⁶

Gísladóttir's mention of the Nordic connection is significant, as both main Icelandic parties started looking to their closest neighbours for help after the US unilaterally withdrew all its troops from Iceland in 2006. However, in its own past choices Iceland has often deviated from the average 'Nordic' model of strategic adaptation to smallness. For decades it was far more directly US-dependent than any other Nordic player (except arguably Greenland) would have accepted; and its political culture especially on the Right has been more adversarial, more aggressively liberal and competitive, than what most would see as a Nordic norm. Thus while Nordic cooperation remains popular across the Icelandic party spectrum, only the vision of the Social Democrats – combining international altruism, a many-sided definition of security, and selective but growing engagement in European integration – could be said to conform well with 'small state' models in the wider North European region.²⁷

More atypical reactions to smallness are found among groups furthest to right and left on the political spectrum. The unrepentant nationalism and exceptionalism of both extremes defies smallness which in its own way by assuming that one can be in the right regardless of size and even when in a minority of one ('All the rest are out of step'). Both strongly oppose European integration, while the far Left are

²⁶ I.S. Gísladóttir, *Report on Foreign and International Affairs*, Alþingi, 8 January 2008, Retrieved 1 June 2013, <http://www.utanrikisraduneyti.is/media/Skyrslut/Skyrslan.pdf>.

²⁷ There is also an evolutionary *décalage* in that Iceland has been much slower than the other Nordics to develop a coherent public 'strategy' for facing its security challenges, or for external policy generally. See A.J.K. Bailes, 'Does a Small State need a Strategy?', Centre for Small State Studies, University of Iceland, Occasional Paper 2-2009, available at http://stofnanir.hi.is/ams/sites/files/ams/Bailes_Final_0.pdf.

also virulently anti-US, and the far Right (though accepting the US alignment) are less inclined than the Icelandic mainstream to trust any supranational protector. Both emphasize Iceland's need and right to maintain absolute control of its limited but valuable primary resources. Fisheries are the prime example, but the far Left also argue for keeping Iceland's abundant geothermal energy in the ground rather than letting it be used for wrongful capitalist or – even worse – international cooperative purposes. The most isolationist rhetoric often comes from cultural and activist rather than political circles, and tends to side-step practical questions such as Iceland's dependence on foreign capital, trade, food supplies and tourism. However, such stances may appeal to wider segments of Icelandic public opinion at times when the nation feels bullied by larger players, such as the 'Icesave' dispute (see below).

SMALLNESS BEFORE AND AFTER THE ECONOMIC CRASH

As noted, in the early 2000s Iceland's leaders linked smallness chiefly with the advantages of informality, flexibility and innovative capacity. They rarely acknowledged vulnerability and economic challenges such as the small domestic market and small public administration, let alone discussed how to guard against the dangers. In particular, they did nothing to assess strategic risk or to limit Iceland's economic exposure flowing from the massive growth of the Icelandic financial sector following its privatization in 2003.

To understand how the language of smallness may be combined with such (as it turned out) unwarranted confidence, we may turn to Iceland's President for the last 17 years, Ólafur Ragnar Grímsson – an accomplished orator who did more perhaps than anyone else before 2008 to advertise the achievements of Iceland's 'Viking' bankers and the country's new wave of entrepreneurship in general. Reaching into history and culture for explanations of the apparently unstoppable banking boom, he often talked about smallness and linked it with other supposedly special Icelandic qualities. A speech he delivered on 10 January 2006 at Reykjavík²⁸ provides a characteristic example. The President began by recalling points he had made at his inauguration in 1996:

'Often, small entities prove to have the quickness and agility that are no less effective than the might of a giant when it comes to exploiting the opportunities of modern technology... No-one need fear us because of our size... Small states could serve as a sort of laboratory, particularly in the areas... most likely to prove crucial in human development in the years ahead.'²⁹

²⁸ President Ólafur Ragnar Grímsson, *Icelandic Ventures*, a lecture on 10 January 2006 in the series promoted by the Icelandic Historians' Society.

²⁹ *Ibid.*, pp. 4-5.

He argued that a small society benefited from its closely linked elites – ‘Iceland is like a Renaissance society, where flourishing growth is based equally on business, science and the arts’. Above all, he saw current commercial successes as built upon social tradition and character, including readiness for risk-taking, leadership from the front and respect for the pioneer, a preference for direct and rapid solutions, and a lack of bureaucracy. Trust and sensitivity to reputation completed the picture: ‘It would be of no advantage or credit to an Icelander to try to get ahead in other countries by resorting to dubious means, since an attempt of that type could ruin their reputation at home’.³⁰

These words sound ironic after the catastrophic crash of autumn 2008, which revealed among other things how little the Icelandic banking pioneers really understood what they were doing, and how they were endangering the whole nation for their personal profit. Some of them were also using decidedly ‘dubious means’ and have been found guilty of, or are being investigated for, large-scale economic crimes. If such revelations have rapidly transformed the international view of Icelanders’ economic skill and judgement, they have been even more traumatic for Icelanders’ own self-respect. Shocks on this scale are not quickly absorbed and it is perhaps too early to assess how the interpretation of smallness will ultimately evolve in Iceland as a result. But may we observe any short-term changes of discourse?

Most obviously, a new narrative has arisen of smallness as vulnerability and victimhood. It is psychologically and politically easier for Icelanders to see their economy as a small boat tossed by the waves of the US banking crisis and stock market collapse, than to attribute the crisis to their own mistakes. It is particularly difficult for them to admit that they might be ‘big’ enough to have hurt other people and other countries by their bankers’ excesses. As proved in two popular referendums on ways of dealing with British and Dutch ‘Icesave’ claims,³¹ the great majority of Icelanders felt that the UK and Netherlands were pressing Iceland for repayment of these funds just because it was so easy for them to bully a small state. This kind of language was used equally by figures in the government

³⁰ *Ibid.*, pp. 6–10.

³¹ These were held in 2009 and 2011 to seek public endorsement of two successive draft agreements that would have reimbursed the UK and Netherlands in respect of their citizens’ losses on ‘Icesave’ deposit accounts in Icelandic banks. In both cases the public voted to reject the deal. In 2013 the EFTA Court ruled that the Icelandic Government was not in fact obliged to pay compensation.

coalition and by opposition politicians, with the difference that the latter blamed the government for giving in to the bullying.³²

Beyond this, however, the conclusions drawn from perceived smallness and vulnerability in Iceland’s two main political camps have been as widely divergent as ever. For the Social Democrats, and also for a minority of Europe-minded figures within the Independence Party and Progressive Party, the strongest lesson of 2008 is that a small state cannot afford to go it alone and least of all, to try to maintain an independent currency. Safety can only lie in deepening Iceland’s integration and adopting the Euro as soon as possible. Foreign Minister Skarphéðinsson put it plainly in his annual foreign affairs report to the Alþingi in May 2010:

‘I think we cannot rebuild our economy unless we participate with other states. Experience has taught us that an independent micro-currency will always be vulnerable and an easy prey for the hedge funds.’³³

In his next annual report of May 2011 he argued that small states facing the crisis within the EU had not lost their sovereignty but rather found it strengthened, and been better able to defend themselves. Skarphéðinsson implied that had Iceland been in the EU, it would have been harder for the UK and Netherlands to exert such crude pressure against it over Icesave and to seek leverage, as they did, by holding up IMF assistance until Iceland promised to pay its debts. Like other SDA leaders, he argued that small states have the loudest voice when they work within institutions, and especially if they club together.³⁴

Icelandic pro-Europeans have not found it easy to defend these positions in the light of what looks – to their eyes – like harsh and unfair treatment of ‘small’ like Ireland and Cyprus within the EU. If they have still not given up the argument, that also reflects a clearer understanding since 2008–9 of how few other possible shelters there are for Iceland to turn to. NATO was no help in an economic crisis. The US precipitated the crash and had too many troubles of its own to even think of supporting Iceland. The larger Nordic states held back loans to Iceland until the IMF had approved its programme, which in turn only became possible after Iceland offered the UK and Netherlands a deal on Icesave. At one desperate

³² For examples see Þ. Sveinbjarnardóttir, *Adildarumsókn að Evrópusambandinu*, Alþingi, 28 May 2009, Retrieved 6 June 2013, <http://www.althingi.is/altext/raeda/137/rad20090528T163845.html>; S.D. Gunnlaugsson, *Ríkisábyrgð á lántöku Tryggingasjóðs innistaðueigenda og fjárfesta*, Alþingi, 22 October 2009, <http://www.althingi.is/altext/raeda/138/rad20091022T151754.html>.

³³ Ö. Skarphéðinsson, *Utarríkis- og alþjóðamáli*, Alþingi, 14 May 2010, Retrieved 3 June 2013, <http://www.althingi.is/altext/138/sl/pdf/1070.pdf>.

³⁴ Ö. Skarphéðinsson, *Utarríkis- og alþjóðamáli*, Alþingi, 16 May 2011. Retrieved 11 June 2013 at <http://www.althingi.is/altext/139/sl/pdf/1416.pdf>.

moment near the start of the crisis Iceland even sent a delegation (fruitlessly) to Moscow to seek financial help.

How have the right-of-centre parties responded? In opposition from 2009 to 2013, they concentrated on attacking the governing Left coalition for being 'soft' in international negotiations, Now back in government, they remain firmly opposed to EU entry and, as one would expect, have used every possible example of Iceland's bad treatment or the sufferings of other small states to justify their view. They advocate independence, flexibility, self-reliance and a market-led approach to recovery, as distinct from state dirigisme or structural reform.³⁵ It is hard to see what long-term solution they offer for Iceland's demonstrated vulnerabilities: but at least, after the banking fiasco, one does not find them any more boasting about the benefits of smallness as such. Rather, they try to avoid mentioning Iceland's small size in the context of present challenges, since that would merely risk underlining the limits of its self-sufficiency and the lack of alternatives to Europe as a shelter. The more radical fringes who advocate full self-reliance and isolationism also prefer to evade the discourse of smallness or at least, insist that it cannot undermine the power and legitimacy of Icelandic home-grown values.

EVALUATION AND PERSPECTIVES

This article offers an Icelandic case-study in the relationship between definitions and ideas developed in academia and those used in current policy discourse. One can hardly pretend that Iceland also demonstrates an ideal state of affairs in this regard. The Icelandic research community has chosen logically in developing a 'small state' speciality and has gone at least some way – with foreign partners' help – towards finding answers for the typical challenges small polities face. Icelandic politics, however, are too adversarial and personalized, and perhaps also too short-termist, to have absorbed the findings of research and operationalized them in a constructive way. Rather, political discourse on 'smallness' has waxed and waned and taken different directions under the pressure of immediate events. Different parties and schools of thought have drawn their own, often contradictory, consequences from smallness, and have rarely if ever discussed these differences in search of common ground. Only on the centre-Left has the awareness of smallness produced policies – specifically, a deeper entry into Europe's institutional "shelter" – that conform to the mainstream choices of other Nordic and European small states.

³⁵ The centre-right currently propose to keep the Icelandic krona indefinitely. Earlier, there were suggestions to use the Norwegian krona or Canadian dollar, or adopt the Euro *unilaterally* (with no permission from or obligations to the Union).

With all its imperfections, however, the Icelandic story holds lessons for small state studies in general. Most emphatically, it underlines that small state scholars a decade ago were too hasty in equating economic success for innovative small states with economic security or strategic wisdom. Small states do need to be nimble and often unconventional in their competitive tactics, but they must also work hard to balance the inevitable risks with assurance of shelter and resilience. The merits of institutional shelters like the EU are both controversial, and essential to clarify, in this context. Secondly, the shifting range of issues with which smallness has been linked in Iceland's modern history underlines that the challenges for a small state – like any other – are constantly changing, and demand equally up-to-date analyses and solutions. This is true of today's wider, more diverse definitions of threats and risks, which require similarly complex solutions;³⁶ and in 2014 the CSSS and its partners are publishing a multi-author volume on the challenges of comprehensive security for small states both inside and beyond Europe³⁷ Geopolitical shifts can also transform individual small states' roles as potential assets or targets, and an example relevant for Iceland is the new set of opportunities and risks for small Northern states linked with the progressive opening-up of the Arctic.

Last and not least, our analysis of Icelandic discourse brings out the importance of singularities in national political culture, which in turn is a major component of national identity. The recognition and protection of identity matters for all small states: but what they seek to protect, and their reasoning on acceptable shelters for identity, can vary hugely even among close neighbours and friendly partners. Work done recently at CSSS to compare Nordic and Baltic small nations has underlined the gulf in how smallness is understood and its consequences drawn in, for example, Greenland and Estonia, or between Norway and Finland. There is a rich vein here to be mined in future research on the Nordics themselves, and scope for interesting parallel studies on sets of small neighbours elsewhere.

³⁶ A.J.K. Bailes and B. Thorhallsson, *op.cit.* (note 5 supra).

³⁷ C. Archer, A.J.K. Bailes and A. Wivel (eds.), *Small States and International Security: Europe and Beyond*. Routledge, London, 2014.