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Why didn't anyone stop the bankers?

Author: **Guðrún Johnsen**

Title: **Down the Banking System: Lessons from Iceland**

Critic Maximilian Conrad, associate professor.

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Despite the attention that the collapse of Iceland's three major international banks Kaupthing, Glitnir and Íslandsbanki has attracted in the international mass media in the fall of 2008, most are still puzzled by the inability of key policy makers to avert the virtually complete collapse of the country's financial system. How is it possible that three banks were allowed to grow so big that by the time they ultimately collapsed, they were indeed far "too big to fail"? In April 2010, Icelanders – and indeed all those fortunate enough to be able to read Icelandic – received an answer that was as detailed as it was shocking, in the form of a 2,400 page report commissioned by the Icelandic Parliament *Alþingi* and written by a *Special Investigation Commission* (SIC) created specifically for the purpose of investigating the causes of the collapse of the three banks. Gudrun Johnsen's new book *Bringing Down the Banking System: Lessons from Iceland* is an extremely important and still highly timely contribution in this regard, aiming as it does to condense the findings of the 2010 SIC Report into a more digestible format of around 200 pages. More importantly, Johnsen's declared aim is to present the findings of the SIC Report to an international lay audience instead of merely to the usual target audience of financial experts. Considering the myths that have been spun not only on the causes of the crisis, but maybe more importantly on the democratic awakening in Icelandic society in the aftermath, it is evident that a much broader audience – especially outside Iceland – should have a keen interest in understanding the political and societal climate that facilitated the emergence of the phenomenon that has also been termed "Viking

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Capitalism". This applies as much to understanding the actions of those involved directly in the absurd rise and subsequent fall of the three banks, as it does to the *inaction* of other key actors – whether in the Icelandic government, Central Bank or financial supervision – that had the means and to varying degrees also the information to steer the country onto a different trajectory.

Gudrun Johnsen is an extraordinarily competent author to write such an important book, having served as a Senior Researcher on the SIC herself and thus obviously knowing the material inside and out. The book is certainly also a highly courageous project, never shying away from naming names and spelling out numerous extremely uncomfortable truths. At the same time, the book maintains a remarkably analytical tone, never once falling prey to the temptation of sensationalizing its findings. The tone of the book is objective-analytical throughout, even with regard to some of the issues that were most controversially (and emotionally) debated in Iceland, the clearest example of which was arguably the debate on the "Icesave Agreement(s)". Despite this objective-analytical style, the subtext of the book clearly presents the inevitability of the collapse of the three banks as a revealing story of incompetence as much as ignorance on the part of a whole range of key actors, or rather as a story of *not wanting to know* the dangers of the "illusion of prosperity" that was created in part by the three banks. As such, the phenomenon that others have termed "Viking Capitalism" certainly also reflects a much bigger societal and political phenomenon. Gudrun Johnsen knows this better than most, being the co-author of a working paper of the International Monetary Fund (IMF) that already in 2005 listed Iceland as one of the countries most likely "to experience a financial crisis as a result of too-rapid credit growth" (p. 10). Her concern, however, was taken seriously neither by the Central Bank of Iceland nor by the Prime Minister's Office at the time, arguing that her work was "too technical and too theoretical".

One point worth discussing further is the extent to which Johnsen succeeds in her ambition to explain the crisis to lay audiences. While the book overall provides very good examples illustrating the significance of the policy mistakes and the unwillingness to respond to very obvious warning signs, some of the chapters in the third part of the book (dealing with "why the bankers did it") are indeed a bit technical. This is in part connected to the loose manner in which Johnsen presents her material. The book's 17 chapters do not begin with an introduction or end with a conclusion, but are organized instead more as a series of factual notes on a variety of issues connected to the overall subject of each chapter. This may have been done with the ambition of giving the analysis a more objective, matter-of-fact feel, to some extent letting readers draw their own conclusions; but as a more unfortunate consequence, quite a few of the chapters end a bit abruptly, without revisiting and evaluating the most important findings of the respective chapters. Considering that the book has a rather clear (albeit somewhat implicit) normative message, it would certainly have been adequate for the author also to discuss this message explicitly.

In discussing the question of the driving forces of the bankers (implicit in the question of "why the bankers did it") and the failure to policy makers to respond adequately to seemingly obvious warning signs, the book focuses on the institutional and legal environment that paved the way to the rise and fall of the banks. The book argues that financial supervision in Iceland was inadequate from the outset, but more importantly that it simply did not grow in parallel with the growth of the banks and ultimately did not have the manpower to be able to disentangle (or even become aware of) the cobweb of cross-ownership that was one of the key ingredients in the collapse of the Icelandic financial system. This is certainly relevant policy advice that at least to some extent has also resulted in enhancing financial supervision in Iceland. Still, this institutional and legal focus brings up a number of uncomfortable questions regarding the broader political and societal climate in which such shortcomings played out. In the language of political science, such questions could be framed in terms of the perennial structure-and-agency debate, highlighting for instance the simple fact that neither bankers nor policy makers operated in a political and societal vacuum, but that their actions were nourished by as well as contributed to a highly specific reading of capitalism – one that certainly did *not* exist *only* in Iceland at the time. In this context, Johnsen's commitment to as well as defense of a more traditional, less greedy form of capitalism is certainly worth noting. She connects her defense of capitalism in a highly personal way to her grandfather Pétur Snæland and a more honest form of entrepreneurship, embodied in a willingness on the part of entrenpreneurs to "risk their money and forego consumption with the hope of future gains" (p. 3).

Gudrun Johnsen's book clearly deserves a large readership. Considering the extent of the crisis that all living in Iceland had to experience after the collapse of the three banks, it is evidently essential not only for Icelanders, but also for international audiences to know about the magnitude of the mistakes that were made in the run-up to the crisis. The international appeal of the book is further underlined by the subtitle of the book, suggesting that the lessons to be learned from the Icelandic crisis are *lessons from*, instead of merely lessons *for* Iceland. To some extent, the book can also be read as a reminder that there were indeed voices – not least within the academic community – that pointed out the impossibility of the Viking capitalist "illusion of prosperity" long before the crisis actually struck. Maybe most importantly, the book is also a reminder that capitalism is essentially about entrepreneurship, and that the greed of Viking Capitalism indeed had nothing in common with this more honest, entrepreneurial vision of capitalism.