

# Referendums as Resistance

## International Pressures and Nationalist Recoil in Iceland

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## **Referendums as Resistance: International Pressures and Nationalist Recoil in Iceland**

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### **Abstract:**

This paper examines how referendums on internationally contested issues can activate nationalist discourses. To this end, it carries out a case study of the ‘Icesave conflict’ between Iceland, the UK and the Netherlands. This conflict centered on whether the Icelandic government should insure British and Dutch deposits in the online accounts of the Icelandic bank Landsbanki, which went bankrupt in the Global Financial Crisis. Departing from a discursive institutionalist framework, the paper performs a detailed analysis of the conflict over time, including two Icelandic referendums on repayment plans. It argues that although calling a referendum likely gave Iceland more bargaining power, doing so also activated novel nationalist discourses. A main contribution of the paper thus lies in illustrating how international pressures can ‘reverberate’ in the domestic realm. Another key contribution is the dynamic analysis of a case that spanned several years, allowing for a time-sensitive understanding of evolving political developments and discourses.

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## **Introduction**

Nationalism is on the rise in developed democracies (Schmidt 2020; Colantone and Stanig 2018). A growing literature attempts to explain why, pointing to the role of variables such as regional and class-based losses from globalization (e.g. Rodrik 2020), the politicization of immigration (e.g. Hutter and Kriesi 2021), the rise of right-wing parties unfettered by long-held taboos against nationalism-as-politics (e.g. Hooghe and Marks 2018), and the supranational political constraints that European integration imposes on states (e.g. Hutter and Kriesi 2019). This paper contributes to this scholarship by presenting an in-depth case study that highlights the extent to which the emergence of nationalistic discourses is a dynamic, incremental and inter-subjective process that can be mediated and structured by particular discursive practices and procedural mechanisms.

To this end, the paper presents an analysis of the ‘Icesave’ referendums in Iceland, which, over time and contrary to what a rational cost-benefit analysis would suggest, became increasingly politicized along nationalist lines. In examining this case, we ask: why did the Icelandic people reject an agreement with the United Kingdom (UK) and the Netherlands in two successive rounds of referendum, even as the terms offered in the second round were much more favorable, a better deal was not to be expected, and the material costs of a ‘no’ vote remained high? Or, to put the same question in more general terms: when do referendums generate political dynamics that prioritize matters of identity and national pride over economic concerns?

Our analysis suggests that the act of calling a referendum under specific scope conditions (charged political questions with international economic implications; high

degree of uncertainty; pre-existing political narratives that appeal to nationalist sentiment) serves to activate nationalist discourses. Here it should be stressed that we do not argue that referendums *per se* are the fundamental cause of the recent wave of nationalist and populist politics in Europe. Rather, as Hooghe and Marks put it, referendums are ‘elite-initiated events which can have elite-defying consequences’, by acting as ‘flash points’ for latent political tensions. (2009: 20).

Our argument that the rise of nationalist discourse is neither a spontaneous nor automatic response to external pressures, but rather one that is mediated by discourses and processes (such as a referendum), is indebted to the work of scholars that have brought attention to the institutional forms that are conducive to, if not sufficient for, the rise of nationalist rhetoric (Manow et al. 2018; Iversen and Soskice 2019), especially those that highlight the discursive dimensions of institutions (Schmidt 2020; Crespy and Schmidt 2014; Kriesi et al. 2012; Kriesi 2014).

The analysis presented in this paper contributes to the state of the art in the literature in two key ways: first, we present a case in which a groundswell of nationalist rhetoric was not a response to any of the ‘usual suspects’ that feature prominently in much of the literature on nationalism (i.e. concentrated losses from free trade; immigration; rise of right-wing parties). As such, it can help us isolate and better understand the dynamic role of procedural and discursive factors in stoking nationalism.

Second, we argue that referendums such as the Icesave ones, that center on matters of external economic and political pressures, should be treated as an analytically distinct form of referendum voting. Much of the existing literature on referendums treats them first and foremost as instruments of direct democracy (e.g. Kriesi 2005; Bogdanor

1981; Budge 1996; Bowler and Donovan 2000; Hobolt 2009) or as mechanism for European integration (e.g. Hooghe and Marks 2009; Risse and Kleine 2007; de Vreese and Boomgaarden 2005). By contrast, this paper seeks to unbundle the examination of referendums from these topics in favor of examining them as means of resistance to external pressures as national leaders face the increasingly challenging task of reconciling domestic demands with inter- and supranational imperatives (e.g. Rodrik 2011).

This is timely, as a number of recent European referendums have been on charged foreign economic policy questions with significant externalities for other countries. We argue that this is not incidental as these referendums are projections of national resistance at the international level.<sup>1</sup> We call this kind of voting *resistance-referendums*. Crucially, however, resistance-referendums, deployed to attenuate a set of external constraints, can impose a new set of internal constraints, as key actors can neither control the outcome of referendums nor the political debates that they engender. Reducing such referendums to direct democracy or parts of the process of European integration risks impoverishing the debate and diverting our attention from the dynamic realignment of interests and identities that referendums can set in motion.

The Icesave case is ideal for exploring the role of referendums in stoking nationalist discourses for a number of reasons: first, the call for a referendum was preceded by an episode of highly adversarial international interactions—the UK deployment of anti-terrorist legislation—that presents a most likely case for nationalist backlash and offers an in-case comparison between episodes with and without referendums. Second, in the end, negotiations between Iceland on the one side and the

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<sup>1</sup> For a similar view see Walter et al. 2018.

UK and the Netherlands on the other resulted in two rounds of referendums with differing materials stakes, providing useful insight into the impact of material calculation in voter behavior. Third, the small size of the country and the broad availability of comprehensive data from all major media outlets, including print, television and radio, allow for a more exhaustive analysis of media framing than would be possible in most other cases. Finally, prominent scholars have identified this as a critical case for assessing how international and domestic politics intersect (Curtis et al. 2014; Walter et al. 2018).

The article proceeds in five parts. First we briefly outline the context of the case. A subsequent section presents our theoretical framework and puts it in the context of contemporary debates on the rise of nationalism. The following section details our data and methods and explains how we parsed our case into three different periods. A fourth section presents our empirical analysis of the three episodes under examination. A fifth and final section concludes.

## **Background**

The basic story of the ‘Icesave’ referendums is as follows: a few years before the Great Financial Crisis hit, the Icelandic bank *Landsbanki* began marketing high-interest online savings accounts under the name ‘Icesave’ in the UK and the Netherlands. They quickly became popular due to unusually high interest rates, garnering billions of Euros in deposits, mostly from British and Dutch citizens. When the crisis hit, the Icelandic government was immediately cut off from international financial markets and could not prop up its hyper-leveraged banks. Instead, Icelandic banks were put into receivership. In the process, the Icesave accounts, situated in a nebulous legal zone between national

jurisdictions, were left without direct access to deposit insurance.

Soon after, the British government deployed anti-terrorist legislation to freeze the assets of Icelandic banks in the UK and both British and Dutch authorities stepped in and guaranteed their citizens' lost deposits in full. In turn, they demanded that the Icelandic state reimburse them, exerting formal and informal pressures through various channels, including the International Monetary Fund (IMF) and the European Union (EU). But as the Icelandic government negotiated terms of repayment, the public demanded a referendum on whether to repay. After receiving a petition signed by more than 56,000 Icelanders – about a quarter of the total electorate – the President of Iceland, a largely ceremonial figurehead who nevertheless has veto power, refused to sign legislation on repayment, which resulted in a national vote on whether to agree to its terms.

In the end, there were two Icesave referendums. The first, in 2010, was on a repayment plan that had already been made redundant by further negotiations in which the British and Dutch, fearing a 'no' vote in the face of widespread anger, offered more favorable terms. Considered dead in the water and likely to be superseded by a more favorable agreement, this agreement was rejected by 93,2% of voters. The second referendum took place in early 2011. It was on a plan with less punishing terms and the Icelandic governing coalition, a number of civil society actors, and British and Dutch authorities all pushed hard for it. This agreement passed through parliament with a considerable margin but again, the president refused to sign it into law. Even so, in the second vote around 59.8% of voters rejected the plan while 40.2% accepted it.

## **Literature and Theoretical Framework**

Much of the literature on the rise of nationalism and populism takes a broad view, examining it across a host of cases and/or substantial periods of time (see Schmidt 2020 for an overview). This has yielded important insights about the sources of growing nationalist sentiment. For example, recently an older literature on the relationship between trade openness and welfare spending (Cameron 1978; Rodrik 1998) has been revisited and updated, with new work finding a link between trade openness and the rise of populism (Colantone and Stanig 2018; Rodrik 2020; Mansfield and Mutz 2013). Another strand emphasizes the role that the politicization of migration and national identity have played in the nationalist turn (e.g. Hutter and Kriesi 2021; Inglehart and Norris 2017; Ivarsflaten 2008). A closely related scholarship has been occupied with the rise of nativist right-wing parties that have capitalized on the refusal of many mainstream parties to explicitly politicize migration (e.g. Mudde 2007; Hooghe and Marks 2018; Kriesi et al. 2008; Oesch 2008). Yet another strand has analyzed nationalism as part and parcel of European integration—impelled by the strictures that European cooperation puts on national parties and governments (e.g. Marks and Hooghe 2009; Clements et al. 2018; Hutter and Kriesi 2019).

This paper is intended as a complement and counterpoint to these more panoramic analyses of the rise of nationalism. It offers a fine-grained and to-the-ground examination of the rise of nationalist discourses. This narrower focus is a response to Hooghe and Marks' observation that the research programme on politicization suffers from 'an incomplete account of the construction of identity'... 'elegant (read simplistic) expectations about the relative causal weight of identity and distributional calculus'... and



‘inadequate attention to geopolitics (2009: 23)’—all of which feature prominently in this analysis.

Our analysis takes the basic tenets of discursive institutionalism as a point of departure, notably the assumption that discourses can have both constraining and enabling effects on political outcomes and that it is crucial both to analyze the content of discourses and ideas and to examine actors’ discursive interactions in their institutional contexts (Schmidt 2008, 2010; Schmidt and Radaelli 2004).

Empirically, we rely primarily on a systematic analysis of media discourses, which we treat as proxy for broader societal discourses. There is evidence to suggest that the media exerts independent political influence, perhaps especially in the context of referendums, both because they are commonly held in conditions of uncertainty and information complexity (de Vreese 2007; Walter et al. 2018) and because the voting public is more dependent than political elites on information filtered by media (Fligstein 2009). However, both because such influence is difficult to assess and for the sake of parsimony, we do not treat the media as an agent *per se*, but rather as a crucial site of analysis. This is particularly suitable for the Icelandic context, where the link between the news media and society is both unusually strong and direct due to the small population and media market (Ólafsson 2020)

We argue that the recent round of referendums in Europe, including the Icesave referendums, are best understood not primarily as instruments of direct democracy but as forms of political engagement and resistance shaped by non-material factors, the most prominent of which is popular nationalism. But why should this be the case? Putnam famously argued that ‘in some instances, perhaps even unintentionally, international

pressures “reverberate” within domestic politics, tipping the domestic balance and thus influencing the international negotiations.’<sup>2</sup> He suggests that high levels of uncertainty are conducive to such ‘reverberations’, but also argues that:

...international pressure is more likely to reverberate negatively if its source is generally viewed by domestic audiences as an adversary rather than an ally. Nevertheless, predicting the precise effect of foreign pressure is admittedly difficult, although empirically, reverberation seems to occur frequently in two-level games (Putnam 1988, p. 456).

While we concur that it is usually not possible to predict the precise effects of foreign pressure, we expect that when citizens that are accustomed to nationalist narratives are given voice through a referendum against background conditions of material uncertainty and adversarial international negotiations, the outcome of two-level games is highly likely to be shaped by heightened nationalist discourses. Introducing a referendum under such conditions requires citizens to form individual opinions on matters that might otherwise have been left to the deliberations of their representatives, without offering them objective ‘information’ that can lead to a ‘rational’ decision via calculative means. A resort to non-calculative and non-material guideposts then becomes virtually inevitable (contrast with Curtis et al. 2014). This coincides with the conclusions of Walter et al. (2018), who stress the high level of uncertainty that characterizes

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<sup>2</sup> He does, however, concede that ‘[f]rom the point of view of orthodox social-choice theory, reverberation is problematic, for it implies a certain interconnectedness among the utility functions of independent actors.’ (Putnam 1988, 455).

referendums with international dimensions. In the case of Icesave this uncertainty was compounded by the fact that the sums at stake were far from clear, due to extreme valuation uncertainty surrounding the remaining assets of the bankrupt *Landsbanki* bank.

This conjecture is further informed by select insights developed in the IPE literature on uncertainty and economic nationalism (Schmidt 2017; Hooghe and Marks 2009; Johnson and Barnes 2015; Köstem 2018). According to this scholarship, the international political economy is constituted by both material structures and ‘social facts’, including national identities and the collective memories embedded in them (Schmidt 2017; Abdelal 2001; Helleiner and Pickel 2004; Crane 1999; Béland and Lecours 2008). Scholars working on these topics have argued that under conditions of Knightian uncertainty – as opposed to calculable risk – actors try to make sense of the world using dominant local ideas that make sense of ambiguity (Schmidt 2002; Ban 2016; Blyth 2002; Widmaier 2004).

More concretely, Abdelal (2001) suggests that nationalism has four significant and classifiable effects on economic policies. First, it endows policy with a fundamental social purpose, related to protecting and cultivating the nation. Second, it engenders the economic sacrifice necessary to achieve societal goals. Third, it lengthens the time horizons of the public and politicians. Finally, it specifies a direction for economic policy, away from the nation’s ‘other’. In our content analysis of news media coverage we find that over time, these effects came to play an important role in the Icesave referendums: rejecting the agreement came to be framed both as protective of future generations and national sovereignty. The pursuit of these goals made potential economic sacrifices, even for years to come, seem acceptable and justified risky resistance to the

British and Dutch, which were cast as the nation's oppressive 'other'. For the British in particular, this framing was reinforced by the recent history of the so-called 'Cod Wars' between Iceland and the UK—a heated clash centered on fishing rights that lasted until the late 1970s and which features prominently in Icelandic political memory to this day (Ingimundarson 2003).

### **Methods and Data**

Our analysis centers on a case study of the mass politics surrounding the Icesave referendums. This method is particularly useful for generating a better understanding of processes and mechanisms (George and Bennett 2005), which is a key goal of this paper. To that end, the article combines insights from an exhaustive content analysis of debates in the Icelandic news media with other relevant primary documents and secondary sources.

Our case study centers on three key episodes of international pressure that impacted the domestic politics surrounding Iceland's repayment of the Icesave 'debt' to the UK and the Netherlands. The choice of the three episodes is straightforward as they represent the key turning points in the clash between Iceland, the UK, and the Netherlands:

- (1) British use of anti-terrorist legislation to freeze assets of Icelandic banks (2008);
- (2) run up to the first referendum (2010);
- (3) run up to the second referendum (2011).

We compare and contrast these episodes to bring in-case variation to the fore. The first of

these episodes was at the peak of international hostility and before the mechanism of referendum voting was introduced; the other two centered on the two referendums. The first was on an agreement with draconian terms of repayment while the second was on an agreement much more favorable to Icelanders. Even as the first referendum was being held it was clear that there was room for further gains as a new round of negotiation was underway; by contrast, the second referendum was also an ultimatum from the perspective of the UK and the Netherlands, who made it clear that should this agreement not be accepted, the case would be taken before international courts, with potentially disastrous results for Iceland.

In addition to primary documents and the secondary literature, our media analysis encompasses all Icelandic newspaper, radio and television news items that contained the search term ‘Icesave’. For each of the three periods we analyzed news items on Icesave in the Icelandic media for a period of two months.<sup>3</sup> Using the search term ‘Icesave’, the first period yielded 414 items, the second 1121 and the third 851, resulting in a total of 2,386 news items that were manually coded. Of these, a significant number either referred to Icesave in passing or only offered routine updates on the negotiation process but did not contain discernible political themes. We did not include them in our substantive analysis, leaving a total of 645 items that we considered more closely.

To analyze this data, we follow an inductive content analysis approach (Chong and Druckman 2013), mapping out the frames that quantitatively dominated mediated

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<sup>3</sup> For the first first episode this is for two months *after* the use of terrorist legislation, for the second two it is for two months *before* a referendum. In choosing a period of two months we followed the example of Curtis et al. 2014.

debates concerning Icesave. We define frames as ‘clusters of discursive elements’ (Creed et al. 2002: 37 cited in Crespy and Schmidt 2014). This yielded four working frames, which we used to construct a codebook, on the basis of which all the remaining news items were coded. The four frames were:

- (1) Focus on international pressures (i.e. creditor demands; EU conditionality), framing them as a matter of rational negotiation between actors with unequal resources and power rather than as a threat to sovereignty or the ‘nation’.
- (2) Focus on nationalistic reasoning, as defined by Abdelal (2001) (endowing policy with a fundamental social purpose related to protecting the nation; justifying economic sacrifice necessary to achieve national goals, encouraging longer time horizons with national aims in mind; specifying a direction for economic policy away from the nation’s ‘other’).
- (3) Claims that the Icelandic public could not be held accountable for the liabilities of foreign bank branches and/or because private banks.
- (4) Claims that the Icelandic public was liable, emphasizing practical diplomatic and legal concerns and/or moral obligations.

It should be noted that while the first and second frames are mutually exclusive, the third

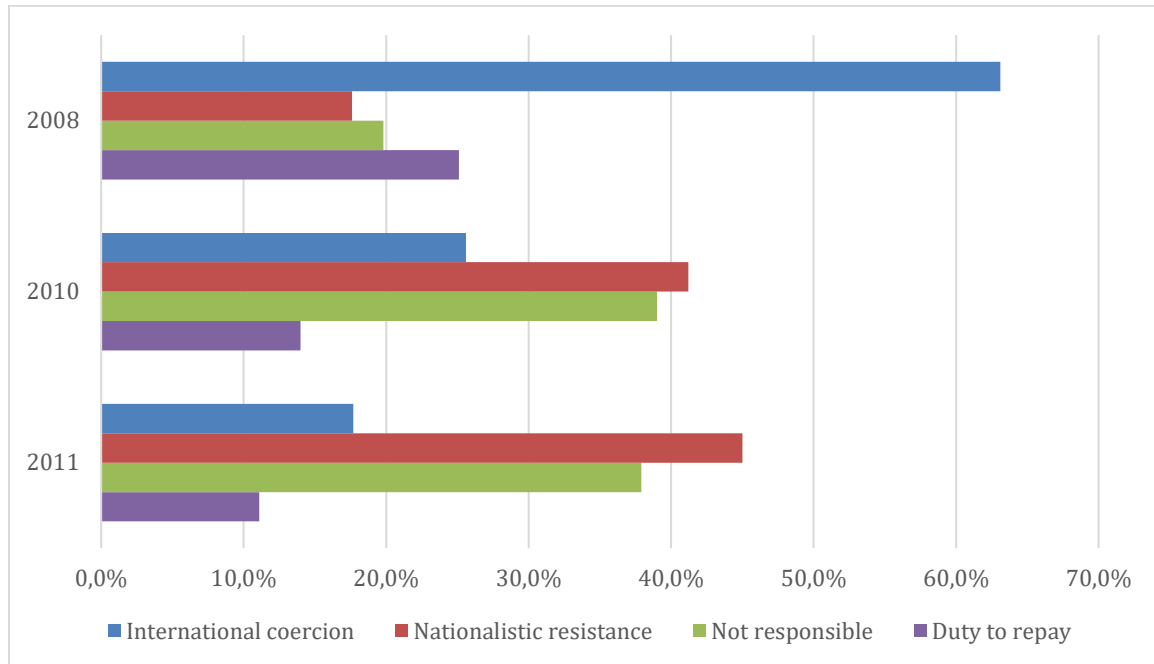
and fourth need not be. Some articles can therefore contain more than one frame. For example, the same article can appeal to nationalist reasoning and argue that Icelanders were not liable for the debt. The prevalence of each of the frames across the three episodes is discussed in greater detail in the empirical analysis below.

### **International Pressures and Domestic Reactions**

In what follows, we trace events both at the international level of bargaining and at the domestic level, relying on a combination of primary data and secondary literature. We contextualize this with the results of our content analysis. Here it is important to remember that the first episode was, on the face of it, a most likely case for nationalist mobilization (Bennett and George 2005): while international hostilities were present throughout, they were at their peak when British authorities used anti-terrorist legislation to freeze the assets of Icelandic banks in the UK in the immediate aftermath of the Icelandic crisis.

Yet this was also before international bargaining had been turned into an explicit two-level game by calling a referendum. Including this episode in the analysis is therefore crucial to evaluate our conjecture that the act of calling a referendum catalyzed nationalist mobilization. And, indeed, our analysis shows that themes of nationalist resistance in the media were comparatively rare during this episode, even as domestic discussion of international coercion was at its peak. By contrast, reactions to foreign pressures took on a much more nationalist tenor after a referendum had been called. This

disjuncture supports our claim that referendums on international questions can act as catalysts for nationalist discourses.



**Fig. 1. Percentage of news reports containing the four frames for each of the three periods.**

### *Adversarial International Politics*

In the fall of 2008, as it was becoming clear that the three big Icelandic banks were headed for serious trouble, the Icelandic government passed emergency legislation that gave the Financial Supervisory Authority of Iceland the power to take over troubled financial institutions.<sup>4</sup> This legislation was a turning point in the response to the

<sup>4</sup> E.g. Peston, “Markets call time on Iceland,” *BBC News*, 4 Oct. 2008

<[http://www.bbc.co.uk/blogs/thereporters/robertpeston/2008/10/creditors\\_call\\_time\\_on\\_iceland.html](http://www.bbc.co.uk/blogs/thereporters/robertpeston/2008/10/creditors_call_time_on_iceland.html)>



burgeoning banking crisis. With assets of more than ten times Icelandic gross domestic product, the Icelandic banks were far too big for the Central Bank to act as a lender of last resort and early plans to bail them out were quickly abandoned. Instead troubled banks were to be allowed to go bankrupt and taken into receivership (Hreinsson, Benediktssdóttir and Gunnarsson 2010). The emergency legislation stipulated that if banks went into receivership, new and corresponding banks should be set up to take over the management of domestic accounts and performing assets. Other assets were to be left in the old, bankrupt ‘bad banks’ and creditors could make claims on these assets, but not on those transferred to the new banks (Alþingi 2008).

The aim of this policy response was to preserve the basic functioning of the financial system and minimize the costs of bankruptcy and refinancing (Pinedo 2013; Baldursson 2011). But this also meant that foreign account holders, such as those with deposits in the Icesave accounts, were left with extremely uncertain prospects. Indeed, immediately after the emergency legislation was passed, the Icesave website posted a message stating that no deposits or withdrawals were being processed for the time being, providing no further information for concerned account holders.<sup>5</sup>

Soon after, Árni Mathiesen, the Icelandic Minister of Finance, made it clear to Alistair Darling, the British Chancellor of the Exchequer, that Iceland would not be insuring the deposits of British citizens.<sup>6</sup> Moreover, Central Bank Governor Davíð

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<sup>5</sup> Osborne and Brignall, “Icesave freezes deposits and withdrawals,” *The Guardian*, 7 Oct. 2008 <

<http://www.theguardian.com/money/2008/oct/07/banks.savings>>

<sup>6</sup> Hipwell “Transcript of conversation between Chancellor and Icelandic Finance Minister”, *The Times*, 24 Oct. 2008

<[http://business.timesonline.co.uk/tol/business/industry\\_sectors/banking\\_and\\_finance/article5005915.ece](http://business.timesonline.co.uk/tol/business/industry_sectors/banking_and_finance/article5005915.ece)>

Oddsson appeared on national television and announced that ‘we do not intend to pay the debts of the banks that have been a little heedless...we do not intend to pay the foreign debts of the banks...and sadly foreign creditors will only get 5-10-15% of their claims.’<sup>7</sup>

It was at this point that the relations between Iceland and the affected European countries moved into a fully adversarial mode. Convinced that the Icesave accounts would not be guaranteed, British and Dutch authorities intervened to insure their citizens’ Icesave deposits. They also deployed unusually aggressive means to try to ensure that the Icelandic government repay these costs. Thus, on October 8, two days after the Icelandic emergency legislation was passed, the British government invoked ‘The Anti-terrorism, Crime and Security Act’ of 2001 to freeze *Landsbanki*’s assets in the UK.<sup>8</sup> Speaking to *Sky News*, Prime Minister Gordon Brown stated that he would seize assets and take legal action against the Icelandic government.<sup>9</sup> The Dutch backed the British move and the two states presented a united front in demanding that Iceland pay back the full deposit insurance amount.<sup>10</sup>

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<sup>7</sup> *Mbl.is*, 7 Oct. 2008.

<[http://www.mbl.is/frettir/innlent/2008/10/07/rikid\\_borgi\\_ekki\\_skuldir\\_oreidumanna/](http://www.mbl.is/frettir/innlent/2008/10/07/rikid_borgi_ekki_skuldir_oreidumanna/)>

<sup>8</sup> Donaldson and Vina, “U.K. Used Anti-Terrorism Law to Seize Icelandic Bank Assets,” *Bloomberg*, 8 Oct. 2008 <<http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aXjIA5NzyM5c>>

<sup>9</sup> “Brown Blasts Iceland Over Banks,” *Sky News* 10 Oct. 2008 <<http://news.sky.com/story/640086/brown-blasts-iceland-over-banks>>

<sup>10</sup> “Emergency Loans Delayed: Waiting for Financial Aid in Iceland,” *Spiegel* 11. Nov. 2008

<<http://www.spiegel.de/international/business/emergency-loans-delayed-waiting-for-financial-aid-in-iceland-a-589724.html>>

In an attempt at rapprochement, Icelandic Prime Minister Geir H. Haarde stated that his government intended to meet all obligations, but nevertheless denounced the use of terrorist legislation as ‘a completely unfriendly act.’<sup>11</sup> The Central Bank similarly argued that British actions had made Iceland’s economic plight much harder than need be and undermined its financial sector as a whole.<sup>12</sup> Soon, the adversarial style spread to Iceland’s relations with other actors as international financial institutions and a number of other states threw their support behind the UK and the Netherlands.

While all this was going on, the Icelandic government, in dire financial straits, was trying to secure emergency loans from a number of sources, including the IMF and other European states. However, the process was considerably slowed by the fact that initially many states, including the Nordic states, traditionally Icelandic allies, insisted that any agreement with the IMF be made contingent on solving the Icesave dispute.<sup>13</sup>

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<sup>11</sup> Wintour and Summers, “Treasury officials head to Iceland to resolve banking crisis,” *The Guardian*, 10 Oct. 2008 <<http://www.theguardian.com/business/2008/oct/10/banking-creditcrunch>>

<sup>12</sup> Central Bank of Iceland, “Status of domestic and international payment intermediation,” 21 Oct. 2008 <<http://www.sedlabanki.is/?PageId=e4ebb4db-0460-11e5-93fa-005056bc0bdb&newsid=caad9088-e929-449b-9e91-6ef803da68ea>>; “Address by Davíð Oddsson, Chairman of the Board of Governors of the Central Bank of Iceland, at a breakfast meeting of the Iceland Chamber of Commerce, Nov. 18, 2008” <http://www.sedlabanki.is/lisalib/getfile.aspx?itemid=6604>>

<sup>13</sup> “Alþjóðagjaldeyrissjóðurinn frestar aftur,” *Stöð 2*, 6 Nov. 2008; “Össur segir Breta tefja IMF lán,” *RÚV*, 9 November 2008; “Ísland stefnir í gjaldþrot,” *Bylgjan*, 13 November 2008; “Enginn góður kostur í Icesave deilu,” *RÚV*, 31 Nov. 2008.

The European Commission also announced that no European state would lend to Iceland until the clash had been resolved.<sup>14</sup>

Given all this, it is not surprising that international demands and pressures were the subject of a great deal of discussion in Icelandic media. A total of 63.1% of articles and news reports on Icesave revolved around the theme of international coercion and terms like ‘extortion’<sup>15</sup> and ‘abuse’<sup>16</sup> were used to describe the actions of the British and Dutch governments during this period. However, even in this atmosphere of highly adversarial international negotiation, nationalist reasoning was not yet a prominent response and appeared in only 17.6% of news items on Icesave. Relatedly, assertions that Icelandic citizens could not be held responsible for the debt appeared in only 19.8% of the news items. By contrast, 25.1% of news items held that Icelanders had a moral and political duty to pay. As the next sections show, it was only later, once a referendum had been called, that the nationalist backlash gained momentum.

### *The First Debt Referendum and Informal International Policy Conditionality*

In late 2009, the Icelandic parliament ratified an agreement with the UK and the Netherlands to repay the Icesave debt. However, under a great deal of pressure from civil society, President Ólafur Ragnar Grímsson refused to sign the bill into law, which led to

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<sup>14</sup> “Emergency Loans Delayed: Waiting for Financial Aid in Iceland,” *Spiegel*, 11 Nov. 2008

<<http://www.spiegel.de/international/business/emergency-loans-delayed-waiting-for-financial-aid-in-iceland-a-589724.html>>; “Ekkert ESB-lán fyrr en Icesave deilan leysist 2008,” *Bylgjan*, 10 Nov. 2008.

<sup>15</sup> “Afgreiðsla IMF,” *Bylgjan*, 6 Nov. 2008.

<sup>16</sup> “Össur segir Breta tefja IMF lán,” *RÚV*, 9 Nov. 2008.

a national referendum, thus derailing the agreement and transforming the international negotiations into an explicit two-level game.<sup>17</sup> Immediately, the Icelandic government issued a statement emphasizing that it remained fully committed to reaching an agreement with the UK and Netherlands and new Prime Minister Jóhanna Sigurðardóttir stated that Iceland intended to honor its international obligations.<sup>18</sup> Most of the Icelandic population, by contrast, sided with the President, with polls indicating that 62.4% of voters supported his refusal to sign the bill into law.<sup>19</sup>

The Icelandic ruling coalition's efforts at damage control notwithstanding, British and Dutch state officials were not assuaged and a strongly adversarial tone resurfaced in the negotiations. British Commercial Secretary to the Treasury Lord Myners stated that Iceland's refusal to comply with its international obligations could lead to its exclusion from the global financial system.<sup>20</sup> Wouter Bos, the Dutch finance minister, and Alistair

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<sup>17</sup> "Iceland's president blocks £2.3bn Icesave deal to compensate the UK," *The Telegraph*, 5 Jan. 2010. <<http://www.telegraph.co.uk/finance/financialcrisis/6936239/Iceland-president-blocks-2.3bn-Icesave-deal-to-compensate-the-UK.html>>

<sup>18</sup> Ward, "Iceland races for Icesave face-saver," *Financial Times*, 12 Jan. 2010 <[http://www.ft.com/intl/cms/s/0/6b3b0f38-ffb4-11de-921f-00144feabdc0.html - axzz3fTnb95Vi](http://www.ft.com/intl/cms/s/0/6b3b0f38-ffb4-11de-921f-00144feabdc0.html - axzz3fTnb95Vi;)>; Statement from the government of Iceland, 5 January 2010 <<http://eng.forsaetisraduneyti.is/news-and-articles/nr/4209>>.

<sup>19</sup> Mason, "Angry Icelanders back President Grimsson's decision to block Icesave deal," *The Telegraph*, 11 Jan. 2010 <<http://www.telegraph.co.uk/finance/financialcrisis/6957851/Angry-Icelanders-back-President-Grimssons-decision-to-block-Icesave-deal.html>>

<sup>20</sup> Moore, "British fury after Iceland blocks £2.3bn repayment," *The Independent*, 6 Jan. 2010 <<http://www.independent.co.uk/news/world/europe/british-fury-after-iceland-blocks-16323bn-repayment->

Darling, the British Chancellor of the Exchequer expressed similar sentiments.<sup>21</sup> In response, President Grímsson, speaking to the international press, cautioned that ‘[i]t is very important for Alistair Darling and Gordon Brown and all the others to realize that a few minutes after they speak to their home audience in Britain everything they say is being talked about in Icelandic fishing plants, and every village and every office. Indeed, we live in a global village where leaders in Britain can have a negative or a positive impact on a referendum in Iceland.’<sup>22</sup> In other words, the antagonistic process of negotiation was sure to reverberate in the domestic sphere and galvanize Icelandic voters against an agreement.

In spite of the initial opposition of the UK, Netherlands and the Nordic states, the IMF had, in the end, approved a stand-by arrangement with Iceland in 2008, marking the first time in over thirty years that a developed western country was to receive aid from the IMF. Until President Grímsson vetoed the repayment agreement, the second review of this arrangement was set to take place at the end of January 2010. This was postponed after news of the call for a referendum broke. The official line of the IMF was that reaching an agreement on the Icesave agreements was not a precondition for the next loan tranche being made available. In practice, however, payment was delayed due to wrangling over Icesave in the IMF board and the installment was only paid out in April,

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1858988.html; Wolf, “How the Icelandic saga should end,” *Financial Times*, 14 Jan. 2010

<<http://www.ft.com/intl/cms/s/0/ca8f222e-0141-11df-8c54-00144feabdc0.html#axzz3fTnb95Vi>>

<sup>21</sup> “Íslendingar varaðir við algjörri einangrun,” *Morgunblaðið*, 6 Jan. 2010.

<sup>22</sup> Wearden, “Failed bank’s assets may pay Icesave bill,” *The Guardian*, 7 Jan. 2010.

<<http://www.theguardian.com/business/2010/jan/07/iceland-president-warns-uk-government>>

after the first referendum had taken place.<sup>23</sup> It was also intimated, if not stated officially, that Iceland's accession negotiations with the EU would not progress until the dispute was resolved.<sup>24</sup>

All this contributed to ongoing political and financial uncertainty for Iceland. Yet, it also granted the Icelandic government greater leverage in the negotiations. As a result of this evolving game, a new and more advantageous deal was already in the works by the time Icelandic citizens voted in the first referendum. The first referendum itself therefore became a formality, with around 93% of voters rejecting the already outdated agreement and less than 2% voting in favor of it.

In the Icelandic media, the theme of international coercion was much less prevalent this time around, with only 26.5% of news items centering on this frame compared to 63.1% in 2008. However, in line with our expectations, the nationalist recoil had now picked up speed and was central to 41.2% of news items, up from 17.6% in 2008. Some of the nationalist rhetoric was quite heated and clearly served to specify a direction for economic policy away from the nation's 'other' with arguments such as: 'British actions are tantamount to an attack on the nation's sovereignty'<sup>25</sup> and 'the Icelandic nation is still free and sovereign and will not let itself be trapped into mortal debt bondage by a deeply flawed international financial system and the mobsters that run

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<sup>23</sup> "Iceland given another \$160m by IMF to re-build economy," *BBC News*, 16 Apr. 2010

<<http://news.bbc.co.uk/2/hi/business/8626641.stm>>

<sup>24</sup> "Iceland EU bid gets European Commission support," *BBC News*, 24 Feb. 2010

<<http://news.bbc.co.uk/2/hi/europe/8533706.stm>>

<sup>25</sup> "Hvað er til ráða Íslendingur góður?," *Morgunblaðið*, 22 Feb. 2010

it.’<sup>26</sup> In other words, the message in the media on resistance to repayment became synonymous with protecting the nation and taking on foreign and international ‘others’, in spite of the potential material consequences. In total, 39% of news items now argued that Icelanders were not responsible for the Icesave debt, up from 19.8% in 2008, while a mere 14% concluded that Icelanders had a duty to repay, down from 25.1% in 2008. This suggests that far from being a mechanistic function of material interests, the domestic space for maneuver was shaped by evolving inter-subjective logics.

### *Second Debt Referendum and Last Chance Negotiations*

International pressures on Iceland did not abate following the first referendum in 2010. Just a few of months after it, the European Free Trade Association Surveillance Authority (ESA) sent the Icelandic government formal notice that it was obliged to reimburse British and Dutch depositors.<sup>27</sup> A month later, European leaders announced that the EU was ready to start formal accession talks with Iceland, albeit with the caveat that they could not be completed until the Icesave dispute was solved. The fact that this was announced on June 17, Iceland’s national day and a traditional occasion for high celebration, likely served to further stoke nationalist sentiment.<sup>28</sup>

Once unleashed, nationalist discourses seem to have limited the ability of the Icelandic government—now quite desperate to settle the matter—to get an agreement

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<sup>26</sup> “Segjum þvert nei við Icesave,” *Morgunblaðið*, 3 Mar. 2010

<sup>27</sup> See <<http://www.eftasurv.int/media/internal-market/lfn-icesave.pdf>> for details.

<sup>28</sup> Barber, “EU tells Iceland to meet Icesave obligations,” *Financial Times*, 17 Jun. 2010

<<http://www.ft.com/intl/cms/s/0/d6048ce8-7a1d-11df-9871-00144feabdc0.html#axzz3fbQ0wXNv>>



ratified. In December of 2010 the three countries reached a new deal, with far better terms for Iceland.<sup>29</sup> In February of 2011 the Icelandic parliament passed the new deal by a considerable margin, whereas the previous one had passed only narrowly.<sup>30</sup> Media discourses, on the other hand, remained critical of the agreement. In sync with these mediascapes, a new popular petition demanding that the President of Iceland also put the new law to a referendum quickly gathered steam.<sup>31</sup> Again President Grímsson refused to enact the law and a second referendum was called for April 9.<sup>32</sup>

The British and Dutch authorities reacted to the news that this agreement would also be put to a referendum with a clear and unified message: there would be no further negotiation. Rejecting this agreement would mean taking the case before the EFTA Court, with all the attendant costs and risks.<sup>33</sup> It was widely believed that a loss in the EFTA Court might result in Iceland having to pay substantially more than anticipated if the agreement passed, the implication being that a ‘no’ vote could entail significant—and avoidable—economic sacrifices for all Icelanders.<sup>34</sup> Moreover, Dutch members of parliament were quoted in the Icelandic media saying that Iceland’s accession

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<sup>29</sup> “Iceland agrees Icesave deal with UK and Netherlands,” *BBC News*, 10 Dec. 2010

<<http://www.bbc.com/news/business-11962885>>

<sup>30</sup> Ward, “Iceland’s parliament backs new Icesave deal,” *Financial Times*, 16 Feb. 2010

<<http://www.ft.com/intl/cms/s/0/8c03ff8c-39e6-11e0-8dba-00144feabdc0.html#axzz3fbQ0wXNv>>

<sup>31</sup> “Icesave Petition Handed to the President of Iceland,” *Iceland Review*, 18 Feb. 2011

<<http://icelandreview.com/news/2011/02/18/icesave-petition-handed-president-iceland>>

<sup>32</sup> “Synjun forsetans á Icesave frumvarpinu,” *RÚV*, 20 Feb. 2011

<sup>33</sup> “Samningaviðræðum um Icesave er lokið,” *Morgunblaðið*, 21 Feb. 2011; “Ekki verður samið frekar um Icesave,” *Fréttablaðið*, 22 Feb. 2011

<sup>34</sup> “Skuldin gæti hækkað um 665 milljarða,” *Fréttablaðið*, 28 Feb. 2011

negotiations with the EU should be stopped if Icelandic voters were to reject the deal.<sup>35</sup> Adding to the pressure, the international credit rating agency Moody's predicted that a 'no' vote would result in a sovereign bond downgrade to 'junk' status.<sup>36</sup> All in all, then, the likely costs of rejection remained very high, while repayment was less costly than ever. From a rational materialist perspective, Icelanders should have been inclined to accept the new agreement.

Even so, 59,8% of voters rejected the agreement. The vote reflected prevailing media sentiment. For this final period, debates in the Icelandic media tended not to dwell on international coercion, with only 17.7% of new items centered on this theme, compared to 26.5% in 2010 and 63.1% in 2008. Nationalist backlash, by contrast, remained central to the discussion, with 45% of articles containing this frame, up from 41.2% in 2010 and 17.6% in 2008. Again, the tone was often one of outrage, with the government's lobbying for the agreement referred to as 'an attempt to create a culture of coercion, subservience, submission, lack of judgment and vulnerability'<sup>37</sup> and assertions that, 'Icelanders are a sovereign nation that will not be coerced by lawless demands.'<sup>38</sup>

This time around 37.9% of news items argued that Icelanders could not be held responsible, while the figure was 39% in 2010 and 19.8% in 2008. Meanwhile, the proportion arguing that Icelanders had a duty to repay dropped even further to only 11.1%, down from 14% in 2010 and 25.1% in 2008. Again, then, nationalist discourses, according to which repayment was inimical to a national sense of sovereignty and shared

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<sup>35</sup> "Vilja að aðildarviðræðum Íslands verði frestað," *Stöð 2*, 21 Feb. 2011

<sup>36</sup> "Höfnun Icesave gæti sent lanshæfismatið í ruslflokk," *Fréttablaðið*, 21 Feb. 2011

<sup>37</sup> "Skattgreiðendur eru meðhöndlaðir eins og búfé," *Morgunblaðið*, 1 Mar. 2011

<sup>38</sup> "Nei sendir skýr skilaboð," *Morgunblaðið*, 4 Apr. 2011

destiny, were very prevalent and coincided with most voters' willingness to accept the prospect of future economic sacrifice.

In the end, the Icesave story took a surprising turn: the matter was brought before the EFTA Court after the second referendum, but Britain and the Netherlands found themselves on the losing side of that ruling. In 2013, the EFTA court ruled that in the midst of the GFC, Iceland had been met with a *force majeure* for which it could not be held accountable (Cotterill 2013). Then, in a final ironic twist, as markets regained equilibrium, the assets of the old Landsbanki recovered enough to cover all priority claims associated with the Icesave accounts (LBI Financial Information). With cooler heads, it seems the costly and drawn out Icesave saga might have been prevented altogether.

## **Conclusions**

European citizens are increasingly aware that the gains of international cooperation are unevenly distributed, both between and within states. Add to this the fact that over the course of the last decade, the combined torsion of financial, economic and migration crises has generated a great deal of friction between international and national levels of governance and it is not entirely surprising that nationalist and populist political movements are resurgent; a fact that is now garnering more scholarly attention. Yet the concrete mechanisms connecting international pressures with nationalist recoil are not adequately well known.

Presenting a case study that centers on the ‘Icesave’ referendums in Iceland, this article has made the case that referendums on political questions with supra- or international externalities can act as one such mechanism, incrementally giving rise to nationalist discourses that simplify and polarize debates. We show that before a referendum was called in Iceland, a level of foreign coercion that is highly unusual between OECD states correlated with discourse emphasizing the responsibility of Icelanders to repay the Icesave debt and generally shying away from nationalistic framing of the issue. This is in line with research that suggests that international pressures can help induce cooperative international behavior (Walter et al. 2018).

However, this pattern was reversed after a referendum was called and nationalist arguments became more prominent in the media. Indeed, resistance mounted even as foreign threats of retaliation remained costly and credible and the repayment deal on offer was made more favorable to Icelanders. We argue that this is because rallying around a nationalist interpretation of political events stands to alter electorates’ interpretations of both sticks and carrots: once nationalist interpretations of political events become prevalent, punishment in particular can incite voters as much as it intimidates them.

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