

## **Dependency Theories and the Icelandic Pension Crisis**

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**Phillip Andrew Smith**, Nova Southeastern University (Fort Lauderdale, Florida)

**Abstract:** *The collapse of the financial market in 2008 ushered in a new era. No longer can the capitalist worship the gods of profit and sustainable production, instead the dreams of prosperity perished with the hopes of recovering. This work seeks to analyze the Icelandic financial crisis under the Marxist and Neo-Marxist lenses. Iceland was one of the first victims of the financial disaster and represents the prime case study for states that are financially dependent on each other. The systematic destruction is contributed to the global derivatives fall out and the intricate relationship between financial networks that control state treasuries and civilian pension funds. The end result has been catastrophic for civil society in Iceland.*

### **1. Introduction: Marxism and Neo-Marxist Tradition**

The financial crisis that has encompassed the globe derives its roots in conflict theory. The current global financial market concerns interdependent states relying heavily on each other for their markets to perform. However, the Capitalist system dictates the eventual demise of the global market due to natural economic fluctuations. The laws of gravity “What goes up must come down” define the allegorical spectrum of the international economic system. This paper seeks to compare and contrast Dependency theories through the multiple lenses Sociology (Wallerstein) and International Relations (Dos Santos) and how these two paradigms have relevancy in the pension crisis that occurred in Iceland 2008. The evolution of this social theory was developed through the examination of traditional Marxist believes through the perspective of inter-dependency amongst states in the international system.

Marxism examines the class system and its function in a capitalist society. In these capitalist societies lie social inequalities that are measured primarily through the

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struggle between the rich (bourgeoisie) and the working class (proletariat). Marx expands upon this relationship in the following insertion: “The modern bourgeois society that has sprouted from the ruins of feudal society has not done away with class antagonisms. It has but established new classes, new conditions of oppression, new forms of struggle in place of old ones.” (Lemert.,pg 37.) It is from this insertion that allows Marxist themes to be revolutionized in describing the world as an economic system. This is the essence of Neo-Marxism which utilizes Marxist principles and adopts them to international phenomenon. In the international system, the relationship between the rich states and the poor states exemplify the hierarchical relationships of Marx’s proletariat and bourgeoisie. This Neo-Marxist observation leads to the development of the World Systems theories and the Dependency theories. Marxism and Neo-Marxism fall under the general classifications of these conflict theories.

## **2. Wallerstein’s World System’s Analysis**

Immanuel Wallerstein is a Sociologist whose work *The Modern World System* sought to examine the capitalists’ apparatus of the economic machine its political effects on the relationships between core states and semi-peripheral areas (Lemert .,pg391). Wallerstein did not believe in the First World, Second World and Third World class system. Instead he sought to establish these roles with the political/economical status of the Core, Periphery, and Semi-Periphery (Lemert.,pg 394). These roles are defined through the International relations realm as developed, developing and semi developed states. Wallerstein exploited the Marxist principles of class struggle and used it as a basis to describe historical and present phenomenon. Yet, Wallerstein’s approach to the economic system is differs Marx. Marx establishes the role and relationship between the Bourgeoisie and the Proletariat as a constant struggle. This relationship is apparent and universal while never ceasing. However, Marx proposed a change in the system from the inevitability of a revolution caused by the Proletariat against the Bourgeoisie. The capitalist, according to Marx, eventually control all means of political power and use this power to

exploit the Proletariat. Under Wallerstein's model the relationship of the core, periphery and semi-periphery is interchangeable: "The external arena of one century often becomes the periphery of the next or its semi-periphery. But then too core-states can become semi-peripheral and semi-peripheral ones peripheral." (Lemert, pg 393). This is a sharp contradiction to Marx's roles and relationships.

### **3. North vs. South; Economic Dependency**

The North vs. South phenomenon is the relationship between developed states exploiting developing states. This exploitation can encompass a wide array of dysfunction between financial independence and natural resources. The North vs. South description given by Joan Spero and Jeffrey Hart expand upon the detailed relationship between these two entities in the following insertion:

Southern countries, Marxists argue, are poor and exploited not because they are illiberal but because of their history as subordinate elements in the world capitalist system. This condition will persist for as long as these countries remain part of that system. This conclusion will persist for as long as these countries remain part of that system. The international market is under the control of monopolistic capitalists whose economic base is in the developed economies. (Spero & Hart., pg 176).

The most prominent model used to support the North vs. South theory is the relationship between the United States and South America. Theotonio Dos Santos is a political scholar whose work entitled *The Structure for Dependence* examines this relationship. According to Dos Santos, dependency has taken on many forms throughout the ages. These manifestations include Colonial dependence, financial dependence and Technological Industrial dependence (Kaufman et al., pg 556). Dos Santos expands upon a new dependence in which financial currency correlates with the exploitation of raw materials in the following insertion:

The new form of dependence, is in the process of developing and is conditioned by the exigencies

*Phillip Andrew Smith, Nova Southeastern University (Fort Lauderdale, Florida)*

of the international commodity and capital markets. The possibility of generating new investments depends on the existence of financial resources in foreign currency for the purchase of machinery and processed raw materials not produced domestically. (Kaufman et al 557).

Dos Santos uses these multiple forms of dependence and conflate them into a sophisticated structure. The dependency theory has evolved from state on state relations to Non-governmental organizations and their indirect relationships to their home base. (Kaufman et al.,pg 556). Under the currency dependence examples, states such as the United States with the strongest world currency can enjoy the wealth of resources from other countries by buying their goods in their native currency. The valuation of the currencies allow for the former to sell such goods and services for relatively cheap prices within their home state. This exploitation would be the same between the Bourgeoisie and the Proletariat under Marx.

The difference between Dos Santos's structural dependence and Marxism lie with the methodology used by the North. According to Marx it is simple, Bourgeoisie exploit the labor of the proletariat in the name of profit and thus the alienation of one's labor occurs. Dos Santos would state this same exploitation occurs but through indirect and sophisticated structures. The current event that can strengthen both Dos Santos's structural theory and Wallerstein's system theory is the financial collapse of Iceland.

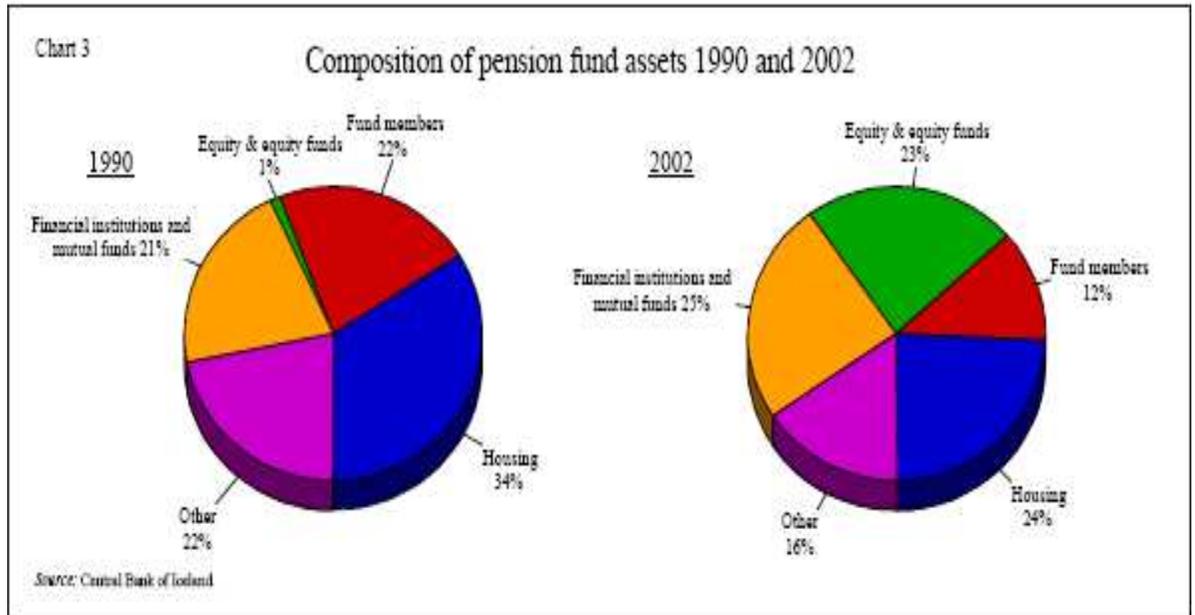
#### **4. Icelandic Financial Collapse and Collapse of the Pension System**

Iceland's financial failure is the paramount example to use as a current event that exhibits the Dependency theories presented. The financial infrastructure of Iceland's banking system in 2007 according to the CRS report

At the end of 2007, almost half of the total assets of the largest commercial banking groups were accounted for by foreign subsidiaries, most

of them located in Northern Europe, and in 2007 about 58% of their overall income was generated from their subsidiaries located abroad. By the end of 2007, Iceland's three largest banks relied on short-term financing for 75% of their funds, mostly through borrowing in the money markets and in the short-term interbank market. (CRS 2008., pg 3).

This insertion sets the stage for the interdependent relationship with foreign banks and Iceland's banking structure. This interdependent relationship exemplifies the intricate relationship between banks through the international economic system. The pension fund invested at least half of its value in the international equity market. Thus, the Marxist link to the market system lies with the connection between worker and capitalist. This is exemplified in the pension structure of state employees involved in the pension program in Iceland. The following chart was from a proposal speech held by Mar Gudmundsson at the International Pension Conference in Moscow, Russia.



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The Equity funds shifted from 1% in 1990 to 23% in 2002, this exemplifies the foreign equity investment which led to the collapse in 2008. The movement of equitable distribution from 1% to 23% can create a financial crisis regarding pensions for employees. The financial crisis in the United States creates a shutdown of Lehman Brothers; Merrill Lynch is acquired by Bank of America. This stagnation of the credit and equity markets transformed the economic system. The financial crisis has an advert effect on the world economy and the connection from the developing world to the developed world systems is evident in the selling off of liquid assets by NGOs.

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<sup>1</sup> Gudmundsson, Mar. (2003). *The Icelandic Pension System: Design Lessons for others*. Speech given at International Pension Conference, Moscow, Russia.

## **5. Dependency Conclusion**

The financial meltdown of the Icelandic banking systems and the pension system is attributed to the dependency theories presented. Iceland's financial system was intricately tied into the British banking system. Whenever Britain's banks fail this has an overall reaching effect to the workers of Iceland. The Marxist theory of class struggle would lie with the relationship between the workers in Iceland and their pension systems to that of the capitalist leaders of the banking system.

This liquidation of retirement benefits is very damaging to the proponents of a free market approach to investment banking. Under the Neo-Marxist microscope, the liquidation of these banks and the assets of the banking system in Iceland are an indirect cause of the capitalist greed that has plagued Wall Street for the past twenty years. Dos Santos would conclude that the capitalists on Wall street caused the meltdown, while Wallerstein would contend that this is the relationship between the core states and the periphery. This was an inevitable event that was caused by one state solidifying its economic prowess. The Icelandic crisis was one of the first indicators to world economist that a global financial meltdown was underway. The causes of this meltdown remain clear, Wall Street has enormous leverage over world financial markets, and simply put when the United States has a small cold the rest of the world gets the flu.

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