

## **Financial Crisis, Governance and Sustainable Island Futures: Comparing Iceland and Newfoundland and Labrador**

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**ABSTRACT:** Economic sustainability is integral to full-spectrum sustainability and relates to governance, social, and environmental dimensions of sustainability. Financial crises can potentially cascade out from the economic sphere and amplify issues of political legitimacy and accountability, thereby becoming political crises. We compare the 2008 Iceland banking crisis and the ongoing Newfoundland and Labrador financial crisis to identify common factors that contributed to these separate crises. Methodologically, we take a comparative case study approach, relying on a broad range of secondary sources. Drawing on theoretical concepts from crisis studies and island studies, we identify several cross-cutting factors, including a political culture of anti-reflexivity in the pre-crisis period, as well as communication gaps in crisis response. As the crises unfolded, public anger played a provocative role, especially in Iceland. Lessons from this comparative analysis can contribute to building full-spectrum sustainability for small island states and subnational island jurisdictions.

**Keywords:** financial crisis, full-spectrum sustainability, governance, Iceland, island studies, Newfoundland and Labrador

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### **Introduction**

The “full-spectrum sustainability” framework is useful for conceptualising sustainable futures for small island states and subnational island jurisdictions. This framework sees sustainability as comprised of four dimensions: ecological, economic, social-cultural, and institutional/governance (Foley, Pinkerton, Wiber, & Stephenson, 2020). In this paper, we focus primarily on the dimension of economic sustainability as part of full-spectrum sustainability. In this framework, economic sustainability refers to practices and forms of development that are characterised by economic viability, fair distribution of resource access and benefits, economic benefits for local regions and communities, and ensuring livelihoods (Stephenson et al., 2019). Others similarly define economic sustainability as balancing

economic growth with “intergenerational equity” and “ecological and social concerns” (Iaquinto, 2015); as thriving economies that secure local benefits of development while also ensuring environmental and cultural sustainability (Edvarðsdóttir, 2016); or as development that is framed “through the rhetoric of local benefits” (Sandlos & Keeling, 2012, p. 34). Issues of economic sustainability have significant implications for the ability of small states and territories to pursue programs for implementing more sustainable ecological, social-cultural, or institutional/governance systems, policies, and practices. Conversely, as Walby (2015) notes, periods of economic crisis potentially “cascade” out to become crises of political legitimacy for ruling governments, or full-blown democratic crises of the political system, thereby disrupting institutional/governance sustainability.

To explore the relationship between economic sustainability and other dimensions of sustainable island futures, we engage in a qualitative comparative case study of economic crises in a small island state (Iceland) and a subnational island jurisdiction (Newfoundland and Labrador).<sup>1</sup> As such, we follow Randall and Boersma’s (2020, p. 117) recent call in this journal for increased comparative work on small island states and subnational island jurisdictions to better understand the “similarities and differences between island states and territories [and] the relative capacities of these jurisdictions to implement sustainable practices”. Our comparative analysis provides insight into how economic crisis and economic sustainability are navigated in the specific context of small island states and subnational island jurisdictions.

For the small island state of Iceland, we look at the 2008 banking crisis and its aftermath, which was part of the global financial crisis. This crisis was precipitated by the high-risk activities of core Icelandic banks and cascaded into a political crisis involving widespread public protest and challenges for the political legitimacy of the government (Aliber, 2011; Bernburg, 2019; Duffy, Northey, & Esch, 2017; Hallgrímsdóttir & Brunet-Jailly, 2015; Jónsson, 2016; Jónsson & Sigurgeirsson, 2016; Loftsdóttir, 2016; Ólafsson, 2016). Using any type of measurement, the banking collapse was a large-scale economic sustainability crisis, with Iceland being the costliest victim of the global 2008 financial crisis in terms of fiscal costs to GDP, at 44.2 percent of GDP (Laeven & Valencia, 2013).

For the subnational island jurisdiction of Newfoundland and Labrador, we look at the controversy around the Muskrat Falls hydroelectric mega-development, which is a core part of the still-unfolding economic crisis in this subnational jurisdiction (Allen, 2017; Bedford, 2020; Loo, 2019). Muskrat Falls is a major infrastructure investment which has been plagued by substantial cost overruns, delayed timelines, mismanagement, and concerns with downstream environmental and health risks. In contrast to Iceland, Newfoundland and Labrador could be defined as economically unsustainable prior to the Muskrat Falls project, due to boom-and-bust economic cycles (including high dependence on the oil and gas sector, which has been subject to a great deal of volatility and uncertainty since 2014). Economic

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<sup>1</sup> Treating the Canadian province of Newfoundland and Labrador (NL) as a subnational island jurisdiction is admittedly complicated. The province includes an island portion (Newfoundland), which is the locus of political power and decision-making, as well as where most of the population lives. Labrador is on the mainland of Canada and is where the Muskrat Falls hydroelectric project is located. Newfoundland and Labrador relates to the Canadian metropole (and the political centre in Ottawa) very much in ways described in both the island studies and small states and territories literatures. However, the mainland Labrador portion of the province has historically played a resource hinterland role in relation to Newfoundland island and particularly the capital city of St. John’s. As such, we feel it makes imperfect sense to consider NL a subnational island jurisdiction for analytical purposes.

instability has long been a hallmark of the jurisdiction, including a previous economic crisis in the 1930s that resulted in voluntarily giving up self-government (Bedford, 2020). As such, the differences in underlying fundamentals between the cases are contextual factors that shape their respective ability to respond to economic crisis.

Both periods of crisis looked sudden, but both also had deeper roots. The Icelandic banking crisis was preceded by the increasing political influence of neoliberalism, coupled with deregulation and privatisation. This supported the increasingly high-risk, high-reward orientation of the banking sector (Sigurjonsson, 2011). Overconfidence in policymaking can be noted during the pre-crisis (boom) periods in both cases. Iceland was positioned as an ideal candidate for an international finance centre, while the Muskrat Falls crisis was preceded by a period of political and public optimism bolstered by Newfoundland and Labrador's oil boom of the 2000s and the charismatic leadership of then Premier Danny Williams.

As we show, while decision-makers acted similarly in the lead-up to the crises, responses differed once the crises were apparent. It is worth noting that many countries were severely impacted by banking crises during the 2008 global financial crisis (Laeven & Valencia, 2013). Similarly, governments around the world have been overly ambitious and enthusiastic about hydroelectric and other infrastructure mega-projects. However, there are facets of small polities that shape responses to crisis and potential for recovery. Small states have less leeway for risk than larger states which can at least economically better sustain a loss (Reid, 1974), while the same absolute loss of economic infrastructure is seemingly more serious for a small state than for a larger one (Bernhardsdóttir & Svedin, 2004). Conversely, small polities are often characterised by close-knit social networks, informal communications, and easier access to policy makers (Baldacchino, 2018; Lévêque, 2020; Thorhallsson, 2002, 2018).

Through our comparative analysis, we answer the following research questions: What common factors led to these crises of economic sustainability? How did these factors shape the post-crisis response and recovery? In answering these research questions, we draw out three lessons focused on political anti-reflexivity, communication gaps, and public anger. By attending to these lessons, we may help mitigate similar crises of economic sustainability and thereby contribute to ensuring more sustainable futures for small island states and subnational island jurisdictions.

### **Theoretical framework**

Our analysis is informed by key concepts related to full-spectrum sustainability, crisis, and island and small state studies. First, we are interested in economic sustainability as one component of what Foley et al. (2020) call "full-spectrum sustainability." Developed through fisheries research, full-spectrum sustainability emphasizes the interdependence of four dimensions of sustainability: environmental, social-cultural, economic, and institutional or governance. While the first three dimensions are commonly invoked in "three pillars" approaches to sustainability, we agree with Foley et al. that sustainable institutions and processes of governance are a vital fourth dimension that helps ensure the other dimensions. As we see in our comparative case study, economic and institutional/governance dimensions of sustainability are often intertwined.

Both the Icelandic banking crisis and the Muskrat Falls controversy represent crises that challenged the economic sustainability of Iceland and of Newfoundland and Labrador, respectively. Sylvia Walby's (2015) theorisation of crisis, which is grounded in her analysis of the 2008 global financial crisis, is helpful for framing our analysis. Walby notes the potential for crises to emerge in one sector of society and to "cascade" out to other sectors.

For example, the 2008 crisis started in the financial sector and cascaded into the broader economy, with substantial negative impacts for masses of workers and homeowners who were far removed from direct involvement in the financial sector. In many places, as protest movements emerged against bank bailouts and austerity measures, the crisis further cascaded into a crisis of political legitimacy for many ruling parties and governments. In fewer instances, crises may cascade even further into a democratic crisis that goes beyond current ruling governments, but which brings into question the legitimacy of the entire political system. Crises also become periods of public and political contestation and conflict over appropriate responses. This points to the importance of attending to the different "narratives of crisis" that are articulated to the public by various political, social movement, and civil society actors. Austerity programs and market-driven plans for economic growth are common responses to periods of economic crisis. However, social movement and civil society actors can potentially play important roles in articulating counter-narratives to austerity-driven recovery strategies that promote more inclusive or equitable responses to crisis. Finally, Walby offers a typology of outcomes from crisis that includes the following possibilities: a) system breakdown; b) return to equilibrium; c) system renewal, wherein social systems evolve into "something different though still recognizably the same"; or d) revolutionary transformation into an entirely "new type of system" (Walby, 2015, p. 32-33).

Our analysis also bridges crisis studies with island and small state studies. Islands are marked by their intimate relationship with surrounding waters, which leads Brinklow (2013, p. 40) to characterise islandness in relation to,

... the demarcated yet liminal space found at the shore and in our interactions with it; the deliberate choice we must make to cross to and from an island; the isolation it brings; relative ease of access to nature and the possibility of living in tune with the rhythms of the ocean and land.

Many cold-water islands, including Iceland and the island of Newfoundland, share histories of dependency on natural resource extraction, with traditionally fisheries-oriented economies (Stoddart, Mattoni, & McLevey, 2020). The recent turn towards experiential alternatives to mass tourism have seen cold-water islands pursue tourism development as an economic diversification strategy, based on the combination of unique natural environments, recreational amenities, and cultural and historic experiences (Baldacchino, 2006). Both islands in our analysis have relatively low population densities with a dominant capital city (Reykjavik and St. John's) and have struggled with out-migration and youth retention from rural regions (Antonova & Rieser, 2019; Ommer, 2007). Other qualities attributed to islandness include tendencies towards distinct social identities and political cultures (including tendencies towards "island nationalism") that are related to the geographical and economic challenges of separation from continental mainlands (Vézina, 2014).

Characteristics of being a small state or territory often include limited domestic resources, dependency on international markets, limited administrative capacity, as well as frequent challenges related to transportation and out-migration (Baldacchino, 2018; Egeberg, 2003; Ingebritsen, 2002). Small states and territories are often subject to – and must react to – actions of larger states and extra-local events beyond their reach or control (Thorhallsson, 2018). As a result, as Baldacchino (2019, p. 41) notes,

The chronicle of ‘development’ in small states and territories is often much more easily constructed after the event, when a series of what are often discrete, disparate and serendipitous, sometimes contradictory, events coalesce as a coherent narrative of economic progress.

In this context, good governance (or “institutional sustainability” in the language of full-spectrum sustainability) is grounded in the ability to maneuver and respond quickly to economic or geopolitical risks and opportunities (Baldacchino, 2019).

Research indicates that the distinctive characteristics of smaller states and territories influence decision-making processes, including political cultures that value informal relationships, rather than strict adherence to formalised processes (Baldacchino, 2018; Thorhallsson, 2002, 2018). Lévêque (2020) argues that a political culture of personalism may characterise small polities regardless of whether they are small states or subnational jurisdictions. Personalism is marked by several characteristics including strong direct connections between politicians and their constituents, as well as a political culture where ideological differences between political parties are less important than the strong personalities of individual party leaders. Personalistic polities are further characterised by a “ubiquity of patronage” relationships within government and across government and the private sector, such that the boundaries between public life and the private sphere are often blurred (Lévêque 2020, p. 156). In the context of this paper, it is of particular importance to reflect on the influence of these characteristics on the crisis decision-making process. In these cases where core values of citizens are threatened, we further ask how societal cultures are influential in the situation leading to the crises as well as in crisis responses.

Both the Icelandic banking crisis and the Newfoundland and Labrador financial crisis have been examined elsewhere. Iceland has drawn much scholarly attention for being the first and biggest casualty of the global financial crisis but also for its speedy recovery. Duffy et al. (2017) analyse the key factors leading to the Icelandic banking crisis and note that deregulation led to an atmosphere of insufficient monitoring and regulation that encouraged “rampant speculation, enabled by a web of cronyism” (p. 331). In the lead-up to the crisis “banks were operating under the assumption that there was no prudential monitoring, there was no default risk and, in any case, banks would be insulated from default by the government” (p. 339).

For Bernburg (2019), Iceland provides an ideal example of Walby’s notion of cascading crises, as the crisis originated in the finance sector and moved out to the broader economy and then became a crisis of public trust in established political parties. Iceland was unique among developed countries embroiled in the 2008 global financial crisis in allowing banks to fail, imposing sanctions on those responsible, and implementing substantial reforms to the banking system (Duffy et al., 2017; Hallgrímsdóttir & Brunet-Jailly, 2015). In their analysis of the crisis, Hallgrímsdóttir and Brunet-Jailly (2015) attribute these outcomes to the political efficacy of the widespread “pots and pans” protest movement, which involved

mobilisation of people from across the political spectrum. Anti-government protest in Iceland was unusual prior to the 2008 crisis, but the crisis provoked protest that drew widespread participation and relied on frames centred around “economic inequality, political corruption favouring the wealthy, and authority” as main concerns (Bernburg, 2019, p. 1019). The after-effects of the pots and pans protest are still being felt through closer public attention to potential corruption and misconduct by political and economic elites, as demonstrated by the anti-government protests following the 2016 Panama Papers controversy (Bernburg, 2019).

The Newfoundland and Labrador financial crisis – and Muskrat Falls as a core component – has received less scholarly attention than the Icelandic case. Bedford analyses the Newfoundland and Labrador financial crisis and notes several structural factors that are leading the province towards the “road to insolvency” (Bedford, 2020, p. 539), including demographic challenges of low population density, an aging and declining population, and high unemployment rates. Reflecting these challenges, Bedford notes that during the period 1980-2016, which includes the offshore oil boom years, “the province posted only six surpluses” (p. 539). However, Bedford also notes the pursuit of “ill-fated” and costly hydro mega-project development, including Muskrat Falls, as a core “piece of the fiscal puzzle” (p. 540). Bedford (2020, p. 541) sums up the contribution of Muskrat Falls to the financial crisis as follows,

If the debt from Muskrat Falls is added to provincial debt, the debt to GDP ratio rises to 79%, or \$52,000 for each Newfoundlander and Labradorian. Starting in 2022, the \$750 million in annual interest on those loans will be charged indirectly to the taxpayer through higher electricity rates, which is projected to nearly double prices to 22.9 cents/kWh.<sup>1</sup>

As such, the Muskrat Falls controversy is integral to understanding the current financial crisis.

Tina Loo (2019, p. 272) emphasizes how the Muskrat Falls project was framed by government as much-needed retribution for the perceived injustices of the earlier Churchill Falls hydroelectric mega-project, which benefitted Quebec more than Newfoundland and Labrador. The dominant pre-crisis narrative used Muskrat Falls to connect “development [with] self-determination” as a province. However, as Muskrat Falls was sanctioned and proceeded, concerns were raised about downstream environmental health risks, as well as concerns about the lack of meaningful consultation with Labrador Indigenous communities (Allen, 2017).

## **Methodology**

Iceland is a small island state and Newfoundland and Labrador is a subnational island jurisdiction of Canada. There are several reasons for comparing these small states and territories to find common characteristics that led to periods of economic crisis, as well as points of divergence in how decision-makers and the public responded. First, both share North Atlantic and northern geographies, relatively small populations, and low population densities beyond their respective capital cities of Reykjavik and St. John’s. Both are traditionally fisheries-based societies, which have looked to energy development and tourism as forms of economic diversification (Antonova & Rieser, 2019; Stoddart et al., 2020; Ommer, 2007). There are also important differences. While both cases have democratic political systems, Iceland is characterised by a more consensus-oriented and corporatist political culture that

encourages higher levels of consultation with non-state actors. By contrast, Newfoundland and Labrador – a subnational jurisdiction of Canada – sits towards the majoritarian and pluralist end of the political spectrum, where policymaking is more strongly dominated by the ruling political party (Lijphart, 2012). The combination of similarities and differences provides fertile ground for comparative analysis and extends previous efforts to develop comparisons across North Atlantic research sites (Stoddart et al., 2020; Brinklow & Gibson, 2017; Vodden et al., 2015).

This project uses a comparative case study approach to the Icelandic banking crisis and the Muskrat Falls controversy. We draw on multiple sources of existing and publicly accessible data. We assembled an archive of secondary sources and written documents for analysis, including the report of the Investigation Commission of Althing (The Icelandic Parliament), submissions to the Muskrat Falls Inquiry and the Joint Panel Environmental Assessment on the Lower Churchill, as well as news articles and academic and grey literature. Analysis of textual data was complemented by expert interviews. For the Newfoundland and Labrador case, we also viewed public events including public hearings of the Muskrat Falls inquiry held in St. John’s and Happy Valley-Goose Bay (Labrador) during the summer of 2019, which were available online.

**Table 1: Qualitative Comparison Table for Cross-Case Comparison.**

<b>Dimension</b>	<b>Iceland</b>	<b>NL</b>	<b>Key points of comparison</b>
Place the crisis in its proper historical, institutional, and political context			
Preparedness, Prevention, and Mitigation (Risk Reduction)			
Leadership: Decision Making Units			
Crisis Communication (Information Management)			
Learning			
Which actors and organisations were included and excluded from the political and media sphere debates during and following these periods of financial crisis?			
Which narratives and justifications were mobilised during and following these periods of financial crisis?			
What legal and policy mechanisms were employed, eliminated, or generated to allow these crises to happen?			
What lessons and approaches can be taken in the future to prevent similar crises?			

Each case study team carried out inductive, qualitative data analysis based on shared analytical themes that have proved important in crisis management research (Hermann, Dayton, & Svedin, 2006; Renn, 2008; Stern & Sundelius, 2002) including: Preparedness, Prevention, and Mitigation (Risk Reduction); Leadership and Decision-Making Units; Crisis

Communication (Information Management); and Learning. The analysis evolved through discussion among research collaborators with expertise in economics, community engagement, and regional studies. Preliminary results were shared with community partners who were given the opportunity to comment. This iterative approach to the case study analysis helped ensure face validity for our results.

The synthesis and comparison of the two cases was done with qualitative comparison tables (Stoddart et al., 2020). [Table 1](#) shows the template for the framework used for synthesizing results from the two cases, with analytical dimensions in the rows and case studies and their points of comparison making up the columns. The draft comparative analysis was shared, discussed, and revised across the two case study research teams.

## **Results: Three lessons**

### *Political culture of anti-reflexivity*

The first lesson from our case study comparison is that a political culture of anti-reflexivity enabled high-risk decision making leading up to these crises. Failure to detect or heed early warnings is a common cause of risk governance problems (Renn, 2008). This is demonstrated in both our cases. Analysing any pre-crisis period entails potential hindsight bias, in terms of assessing decision-makers' actions relative to the information and expert opinions available at the time, as well as assessing decision-making amid the uncertainties of the global financial system or energy markets. In addition, the limited capacity of governments in small polities may also make complex decision-making more difficult in situations of high uncertainty. With these qualifications in mind, in both cases we see that early warnings were raised by experts about the deregulation of the Icelandic banking system, as well as the necessity for the Muskrat Falls development. Decision-makers purposefully reduced review opportunities and operated in echo chambers and often did not seek the data they needed to make prudent decisions.

In Iceland, early warning signals began to appear in 2006. International media reported worries about the stability of the banks. The Fitch and Merrill Lynch reports published in the first quarter of that year harshly criticised the Icelandic banks, which led to the 2006 “mini crisis” that was described as a 10-day bank run (Jónsson, 2006). The Danske bank produced their “Geysir Crisis” report, which warned that the Iceland economy was on the point of exploding. Finally, the International Monetary Fund (IMF) gave warning signals in its 2006 report on Iceland. However, the Icelandic banking system did not respond by following suggestions to limit its size. The banks collapsed two years later for many of the reasons they were criticised for in 2006. Responses to the 2006 mini crisis also demonstrated the anti-reflexivity that helped pave the way to the 2008 crisis. Icelandic bankers and politicians took to the defensive and interpreted the mini crisis as the result of a lack of information about the banks, or as a mere problem of reputation (Wade & Sigurgeirsdóttir, 2010). As part of its PR campaign, the Iceland Chamber of Commerce commissioned a report on the financial system from American and Icelandic economists affirming the stability of the banks, which stood in marked contrast to the IMF report written at the same time (see Mishkin & Herbertsson, 2006). The Minister of Industry and Trade responded by saying that discussions about the economy running aground were rooted in envy from neighboring nations for Icelandic prosperity and power (‘Endalok íslenskrar útrásar,’ 2006). Danish critics were particularly viewed as envious critics in the eyes of many Icelanders, which also worked to temper critical voices among Icelanders who also had to withstand attacks from abroad (Loftsdóttir, 2016).



Before the crisis, there were mixed opinions among experts between those advocating for more restrictions because the banking system was characterised by high risk and vulnerability, contrasted with those (including from the Central Bank and Financial Supervisory Authority) that claimed the system was well-prepared and stable (Aliber, 2011). Reflecting the difficulties of making decisions under conditions of high uncertainty, financial authorities were unable to respond rapidly by assessing the banks or providing sufficient information to government (Baudino, Sturluson, & Svoronos, 2020). Furthermore, domestic media did not play a pivotal role in framing the crisis, but generally joined the game of encouraging the high-risk behaviour of the financial sector that provoked the crisis. Dominant media narratives before the crisis echoed the euphoria of the boom years and valorised the wealth and success of bankers and the business sector (Ingimundarson et al., 2016; Loftsdóttir, 2016). It was largely left to protest movements to articulate a more critical counter-narrative as the crisis unfolded (Bernburg, 2019; Hallgrímsdóttir & Brunet-Jailly, 2015).

There was a political culture wherein decision makers downplayed these risks. The banks re-oriented towards aggressive leveraged mergers and acquisitions. Incentive schemes led to grossly misreporting bank equity levels, leading to expansion of poor-quality loan portfolios. The banks also facilitated the use of offshore tax havens among Icelandic financiers. A culture of high-risk behaviour came to characterise the Icelandic financial and business environment in the lead-up to the 2008 crisis (also Duffy et al., 2017). While egalitarianism and strong social relations are core cultural values, these were tested by the emergence of a super-rich class that emerged in the build-up to the crisis (Bernhardsdóttir, 2015). Before the crisis, the Financial Supervisory Authority (FME) and Central Bank were largely passive and did not impose restrictions on banks, despite forewarnings of the high risks within the banking sector. Those who were critical of the “new order” were often marginalised for expressing envy and a lack of foresight. As such, the high-risk activities of the banking sector took on symbolic importance beyond their economic impacts (Johnsen, 2014; Loftsdóttir, 2016).

Turning to Newfoundland and Labrador, we similarly see that there were contrasting opinions between expert economists about the feasibility and value of the Muskrat Falls project (Feehan, 2012; Locke, 2012). Review of the Muskrat Falls project was provided by the Public Utilities Board (PUB) and through Environmental Assessment (under the Federal government). These independent and arm’s length reviews flagged problems early on but were generally ignored by decision-makers. Initially, the Lower Churchill development was excluded from PUB review, but following public pressure, received simplified review with a narrow scope. The PUB review flagged problems with the transparency and quality of information from Nalcor. Similarly, the Joint Environmental Assessment Panel review also received insufficient information from Nalcor and worked within a constrained scope regarding terms of reference, including lack of consideration for alternatives to Muskrat Falls or for Indigenous land use. This panel report recommended against the project but was ignored by the province.

Personalistic political cultures oriented around the strong personalities of party leaders are characteristic of small polities (Lévêque, 2020). Consistent with this perspective, the offshore oil boom of the early 2000s and charismatic leadership of Premier Danny Williams led to an atmosphere of undue optimism that facilitated the Muskrat Falls project despite early red flags. As House (2021) notes, Williams was in many ways the “luckiest” Premier in post-confederation history, as he was in office during the time of booming oil royalties and an

unprecedented “seven years of abundance,” which cemented his popularity with the public. However, the authoritarian styles of powerful leaders tend to over-rule others’ decisions, are closed to new information, and have low tolerance for dissent (Hermann, Preston, Korany, & Shaw, 2001). These characteristics have also been attributed to Premier Williams (House, 2021; Marland & Kerby, 2014). Muskrat Falls was also symbolically important as retribution for the perceived injustices of the earlier Churchill Falls hydro mega-project on the upper Churchill River, which had seen most of the economic benefits flow to the neighbouring province of Quebec since the 1970s (Loo, 2019). The 2007 report “Focusing Our Energy” asserted the need to be prudent in developing the Lower Churchill in a way to ensure maximum provincial benefit. Additionally, most of the public did not question governmental decision-making. As David Cochrane (2017, p. 60) critically points out, a culture of “patriotic correctness” limits public discourse, “Where the simple questioning or criticism of the government or the premier is viewed as an unpatriotic assault upon the very fabric of Newfoundland and Labrador”. Bannister elaborates on this concept, stating “Accompanying this patriotic correctness was an optimistic correctness that viewed public skepticism towards government policy as unhealthy negativity towards the province’s future” (Bannister, 2012, p. 218). This political culture constrained opportunities for dialogue during the Williams era (House, 2021).

The subsequent Conservative government, under Kathy Dunderdale, officially authorised the project. Decisions to sanction the project, secure loan guarantees, accept mounting cost estimates, ignore recommendations of the Public Utility Board and Environmental Assessment panel were under her authority. The provincial government took a blank cheque approach to Muskrat Falls in its 2011 Letter of Commitment, providing an unlimited amount of money for the project. Coupled with the Federal loan guarantee this allowed Nalcor to obtain favourable credit ratings for the project. The provincial Liberal Government assumed power and inherited the project under ever-increasing costs (Author, 2021). They proceeded based on a path dependency argument that the project was too far along to reverse course.

A political culture of undue optimism, where the high-risk pursuit of deregulating banks and mega-project development took on symbolic value, worked against political reflexivity about the long-term viability and risks of these projects when early red flags were raised by agencies like the IMF, or in processes including Environmental Assessment and Public Utility Board reviews.

### *Communication gaps*

As both crises became apparent and were acknowledged by decision-makers, there were issues of transparency and communication, both internally in the “back stage” among government agencies and decision-makers, as well as in the “front stage” between the government and decision-makers and the public and media (Wong, 2018).

In the Icelandic case, on September 29, 2008, there was a public announcement of nationalising the bank Glitnir as a way of communicating the emerging crisis to the public. This was the first step in admitting the crisis and the first concrete government response. The announcement was jointly made by both Glitnir and the government. The key message was that nationalisation would ensure the stability of the bank. Despite the announcement, the Icelandic krona (ISK currency) declined further, reflecting the growing distrust of markets for the Icelandic financial system. The public acknowledgement of the crisis shifted the communication context that decision-makers operated within. This marks the point where the

crisis “cascaded” (Walby, 2015) from a “private” financial crisis to a public economic crisis through nationalisation and public ownership in the banks. Soon after, on October 6, 2008, Prime Minister Geir Haarde gave a national television address about the crisis and need for regulatory measures by government. He “narrated” the crisis (Walby, 2015) as part of a broader international storm, referring to the unfolding global financial crisis. There was public admission that the banks were in trouble but also calls for the public to show solidarity and optimism (Bernburg, 2016).

During the peak crisis period, it became clear that communication and collaboration within the government was not working well, which created increasing pressure and contributed to poor decision-making. Communication was a major problem among decision-makers, and between decision-makers and external audiences, including Icelandic media and the public, as well as international governments and experts. Inadequate information management, including a lack of media strategy, was a key shortcoming in managing the crisis. The sense that information and truth were withheld from the public amplified the public resentment, protests, and crisis of legitimacy for government.

Turning to the Muskrat Falls case, according to political scientist Kelly Blidook (2019), there was a workplace culture within the Newfoundland and Labrador civil service of focusing on the risks and negative implications of information transparency. The result was that civil servants often avoided written documentation and avoided voicing critical positions out of a perception that this was high-risk behaviour. This organisational culture led to communication failures, lack of transparency, and lack of accountability. Throughout the Public Utilities Board and Environmental Assessment reviews, concerns were also raised about Nalcor’s unwillingness to share information, as well as the quality of information. The Federal Independent Engineer endorsed much of Nalcor’s work but noted the unrealistic schedule and risks from the lack of contingency planning, but this report was heavily edited by Nalcor and it was not provided to the provincial government.

Particularly early on, before the project reached crisis, public participation and critique were constrained by dominant narratives of economic development and support for government. Furthermore, media access to Premier Williams was often limited for those who were critical of the Premier and government, leading to a tempering of media oversight and critique. Messaging and information flow were tightly controlled by government to minimise public concern and dissent.

Across our cases, there are two related issues with crisis communication. First, within-government communication failures and lack of transparency were factors in the crisis. For example, the Minister of Commerce was often excluded from communication in the Icelandic case. A key difference is that in the Newfoundland and Labrador case, there were also ongoing issues of information transparency and accountability in the chain of communication between Nalcor and the government. In terms of internal communication gaps between governmental decision-makers and agencies like the Icelandic central bank or Nalcor, these gaps were in the flow of important information across agencies and among decision-makers, rather than issues of mutual misunderstanding of the roles or mandates of the different agencies. These “back stage” (Wong, 2018) communication gaps demonstrate how risk governance problems are often created from lack of clarity about who is responsible or accountable (Renn, 2008).

Second, “front stage” (Wong, 2018) communication between decision-makers and media and the public was also an issue. In both cases, in the lead-up to the crisis there was little space for media and public dissent from dominant narratives of economic boosterism and optimism. As both crises unfolded, there was a perception of a lack of information transparency from decision-makers to the public. These communication failures demonstrate the importance of clear and early communication with stakeholders and the public (see Renn, 2008).

### *Public anger and political legitimacy*

As these crises unfolded, political reflexivity about governance failures generally did not originate from government actors or agencies responsible for oversight of the banking sector or the Muskrat Falls project. Instead, political reflexivity emerged primarily as a reaction through public protest after these crises were apparent. In part, this reflects that there were few opportunities for meaningful public participation before both crises became apparent. Once mobilised, protest movements presented a channel for financial or economic crises to potentially “cascade” (Walby, 2015) into crises of political legitimacy. Our discussions of political cultures of anti-reflexivity and communications gaps highlight the similarities across cases in the emergence of crisis. However, when we turn to issues of public anger and political legitimacy, we see clear differences in how the crises were addressed and the pathways towards post-crisis recovery.

In the Icelandic case, protest was widespread and vocal (see also Bernburg, 2019; Hallgrímsdóttir & Brunet-Jailly, 2015). Public protests emerged in October, with a first rally drawing approximately 1,000 people. The initial protests followed closely from PM Haarde’s television address. The subsequent January 20 protest outside parliament involved 2,000 people, with demands for the resignation of the Prime Minister. Protesters also objected to the use of “terrorist” legislation by the UK against Iceland to enable the freezing of bank assets. Collective action included frequent large protest rallies at the national legislature, where the loud banging of kitchenware earned the movement the name the “pots and pans revolution.” This pots and pans revolution escalated through January 2009. The protests focused primarily on government and political leadership (Bernburg, 2016; Ólafsson, 2016).

Most often, the first framing of crisis holds (Boin, Hart, Stern, & Sundelius, 2017); but such was not the case in Iceland. While PM Haarde described it as a serious global crisis that was caused somewhere else and was therefore somewhat unavoidable, the public’s initial focus on the local causes of the crisis disrupted the government narrative. The crisis was re-narrated by the public and protesters as an expression of an underlying systemic crisis of legitimacy in the political system, with claims of corruption and elitist behaviour (Bernburg, 2016, Ólafsson, 2016). Protest framing emphasized that those who did not benefit from the financial bubble should not be punished for the mistakes of financial and governmental elites. This public counter-narrative framed the crisis as a crisis of political legitimacy made worse by decision-makers’ actions. In conflicts, issues may be connected to social themes to heighten participation (Rochefort & Cobb, 1994). This was the case in Iceland where protesters emphasized that core societal values such as justice and democracy needed to be protected.

In the Icelandic case, public anger was an effective force for provoking a crisis of political legitimacy and subsequent reflexivity about governance failures and the need for reforms. Responding to demands for accountability and learning is important in recovery from crisis (Boin et. al, 2017). The investigation commission appointed by the Althing was an important step in the learning process. The commission delivered an eight-volume report that covered antecedents and causes of the collapse and related events (Investigation Commission of Althing, 2010). There were demands for prosecution and punishment of guilty individuals as part of the reconciliation process (see also Duffy et al., 2017). Outside the formal systems of punishment, individuals were judged by the “street court” and social media, making it uncomfortable for former financial tycoons to continue to live in Iceland. Iceland became the only country impacted by the 2008 global financial crisis to bring those responsible to criminal prosecution and punishment. Post-crisis, there has also been a focus on accountability (looking back at politicians’ actions) and learning (looking forward) to evaluate and redesign institutions, policies, and practices. Public responses supported stronger leadership and more centralised government as a response to the crisis. The experience of the crisis resulted in tighter government control over economic and market forces. A constitutional reform process was also launched, which used a highly participatory process of deliberation involving the public, bypassing political parties. As such, in the Icelandic case, we see how public anger and collective action led to the development of new formal arenas for more meaningful citizen participation as one outcome of the crisis, although constitutional reform is still ongoing (Shiota, 2019). Here, we see how citizen mobilisation helped channel the crisis recovery towards “system renewal” (Walby, 2015) in the financial and political spheres.

While public protest was widespread in the Icelandic case, the situation was quite different in Newfoundland and Labrador. Much of the concern and protest over the project came from Labrador Indigenous community members (Allen, 2017). Protest against the project was led by the grassroots Grand Riverkeepers and Labrador Land Protectors (which included Indigenous community members and settler supporters). These grassroots groups had limited resources and capacity and were often in tension with official Inuit and Innu government leadership. Tactics for gaining voice in political and media spheres included hunger strikes, demonstrations in Labrador and St. John’s, and occupations of the work site. These tactics were met with arrests and legal charges for breaking protest injunctions at the work site. This opposition to Muskrat Falls focused on concerns about environmental risks and environmental health impacts to downstream (predominantly Indigenous) communities. There was a lack of willingness by decision-makers to reopen public participation based on new scientific evidence related to potential methyl-mercury contamination. Risk governance issues can arise when there is a lack of appropriate and meaningful consultation, failure to incorporate checkpoints for ongoing feedback, as well as failing to revisit decisions based on new knowledge (Renn, 2008). The Muskrat Falls crisis demonstrates all these risk governance failures in relation to downstream communities. As such, it is not surprising that the environmental health concerns of downstream communities grew as the project moved forward.

In contrast, the public was not significantly engaged in the discussion around Muskrat Falls in the lead up to the crisis. Public anger over the economic impacts of the project were voiced by a relatively small group of public intellectuals and journalists based in the capital city of St. John’s that used blogs, media-work and formal submissions to protest the project. Highly visible public critics that focused on the economic unsustainability of the project were often publicly vilified by government. Even though their critical perspective on the project was vindicated by the Muskrat Falls inquiry, those individuals that spoke out against Muskrat Falls

were villainized by the government, Nalcor and other supporters of the project. Their involvement was motivated by the public interest but was often seen as an unpatriotic assault (House, 2021). The response towards these individuals likely dissuaded others from participating, particularly due to the social or economic risk of retribution. The interconnectivity of personal politics in small jurisdictions means that these risks may be higher than in larger, less connected jurisdictions.

The lack of widespread protest has been attributed to the “nationalist memory of loss” that often characterizes NL political culture and leads to public acceptance or dejection (Bannister, 2012). In contrast to the Icelandic case, public anger with decision-makers never reached the same scale. In the aftermath of the crisis, a public inquiry on Muskrat Falls was established, which invited public input through sessions in Labrador and in St. John’s. However, unlike Iceland, we have not yet seen significant reforms to improve citizen participation or address the governance failures that led to the crisis. While critics of Muskrat Falls often faced challenges for speaking out, especially in the pre-crisis period, Nalcor employees and Conservative government decision-makers have faced few social or legal repercussions post-crisis. As such, in comparison with Iceland, decision-makers appear to be taking a “return to equilibrium” (Walby, 2015) approach to crisis recovery. Among the lessons we identify, this represents the clearest point of divergence between the two cases.

## **Discussion and conclusion**

Achieving “full-spectrum sustainability” (Foley et al., 2020) means integrating environmental, economic, social, and governance/institutional dimensions of sustainability. Island societies are characterised by distinct social identities and political cultures (Vézina, 2014), which create unique contexts for navigating economic challenges and working towards full-spectrum sustainability. We have drawn three lessons from a comparison of the small island state of Iceland and the subnational island jurisdiction of Newfoundland and Labrador, both of which experienced crises of economic sustainability that were tightly coupled with issues of governance/institutional sustainability. As such, both economic crises had the potential to “cascade” (Walby, 2015) into crises of political legitimacy, though the actual translation of the economic crisis into a political crisis was more apparent in Iceland than in Newfoundland and Labrador. On the surface, the Icelandic banking crisis, which was embedded in the 2008 global financial crisis, is very different from the ongoing financial crisis in Newfoundland and Labrador, which is largely driven by the spiralling costs of the Muskrat Falls hydroelectric mega-project. However, a comparison of these disparate economic crises illuminates three theoretically generalisable lessons about governance failures and the ways in which governance/institutional sustainability can be improved to support economic sustainability for small islands and subnational island jurisdictions.

First, while political hubris is not unique to small states and territories, we see that similar political cultures of anti-reflexivity led decision-makers to downplay early warning signs raised by experts and review processes about the risks of bank deregulation and mega-project development. Our analysis aligns with earlier findings on how Icelandic crisis management reflects egalitarianism (as a dominant cultural value in the country) by displaying distrust of experts. There are shared cultural norms that everyone within a group should have equal access to risk reduction and hostility is shown to the idea of any one individual or expert being dominant in decision-making (Bernharðsdóttir & Svedin, 2004; Coyle & Ellis, 1994). In the Newfoundland and Labrador case, a personalistic political culture oriented around strong party leaders and informal processes similarly reinforced tendencies towards anti-reflexivity. As such, the Newfoundland and Labrador case extends Lévêque’s (2020)

argument that personalism may be characteristic not just of small states, but of small polities more generally.

Second, as both crises became increasingly apparent, there were important communication gaps that impeded the flow of vital information. These communication gaps were internal to the “back stage” between governmental decision-makers and other key agencies, but they also unfolded in the “front stage” between decision-makers and the public and media (Wong, 2018). These communication gaps created challenges for the rapid mitigation of the economic crisis. On the surface, it seems counter-intuitive or ironic that there can be significant communications gaps in such small polities. However, this is consistent with the notion that political cultures in small states and territories are characterised by informal processes of social interaction and communication (Baldacchino, 2018; Katzenstein, 1985; Lévêque, 2020). The informality of communication is likely a contributing factor to both anti-reflexivity and the communication gaps described here, particularly if it leads decision-makers to overstep formal procedures.

Third, political cultures of anti-reflexivity were disrupted by public anger and protest after the crises emerged. A key characteristic of small polities is that relationships between decision-makers and their constituents are often experienced as more direct and personal (Baldacchino, 2018; Lévêque, 2020). Looking to the Icelandic case, one implication of this small polity dynamic is that if political leadership is perceived as failing to manage a crisis with widespread social impacts, then widespread resentment and volatility are triggered. Part of the crisis counter-narrative articulated through public protest was that social values shifted away from egalitarianism towards individualism during the pre-crisis period. According to this crisis narrative, Icelandic society had become too market-driven at the expense of other values of equality and justice (Bernhardsdóttir, 2015).

While all three processes were present in both case studies, the most notable difference was the scope of public anger and mobilisation, which was stronger in Iceland (also see Bernburg, 2019; Duffy et al., 2017; Hallgrímsdóttir & Brunet-Jailly, 2015; Jonsson, 2016; Loftsdóttir, 2016). This may have been a key factor that tipped Iceland towards a more proactive response to the economic crisis and led to containing the crisis more quickly than in Newfoundland and Labrador. At the same time, the ability to respond rapidly to economic or political threats is seen as a strength of small states when supported by a bedrock of good governance (Baldacchino, 2019). Returning to Walby’s (2015) typology of outcomes from crisis, the Icelandic case shows more signs of system renewal, where crisis recovery involved increasing the oversight and transparency of the financial sector, as well as initiating a process of constitutional reform. By contrast, the economic crisis in Newfoundland and Labrador continues to unfold. While there was protest against the Muskrat Falls project – led primarily by downstream, largely Indigenous communities – public anger never reached the same high point and the economic crisis did not cascade into a political crisis in the same way. As such, it is unsurprising that we have seen more substantial measures to restore political legitimacy and improve governance/institutional sustainability through system renewal in Iceland. By contrast, decision-makers in Newfoundland and Labrador seem to be pursuing “a return to equilibrium” approach to crisis recovery (Walby, 2015), rather than using the crisis to engage in financial or political system renewal. At the same time, this period of crisis is still playing out and the possibility remains that public anger will emerge more strongly if the full costs of Muskrat Falls are transferred to the public in the form of substantially higher electricity costs.

The difference in public anger and the political efficacy of protest bears further scrutiny as a potential key factor that can instigate the cascading of an economic crisis into a political crisis. This begs the question of why public anger was more widespread in the Icelandic case, which is difficult to answer based on the secondary data that underlies our case studies. For tentative answers, we could look to differences in political culture, where Iceland has a more consensus-oriented political system in comparison to Canada's more federalist-oriented system (Lijphart, 2012). Relatedly, there appear to be differences in the level of citizen engagement and role of civil society in the political culture more broadly, with an arguably stronger history of political engagement and civil society participation in Iceland than in Newfoundland and Labrador. In his comparison of Iceland and Newfoundland and Labrador, Alexander (1980, p. 33) points to the historical persistence of illiteracy and slow growth of mass public literacy as social factors that explain the poorer "quality of public life and public decision making," as well as an "unwarranted deference" to political elites in Newfoundland and Labrador.

Another contextual factor that likely helps explain the different crisis responses of the two case study regions gets to the core of the island sovereign state versus sub-national island jurisdiction comparison. There have long been provincial-national tensions, particularly around fisheries and oil development. However, Newfoundland and Labrador can navigate its economic crisis with the assumption that the Federal government in Ottawa will ultimately intervene if necessary to prevent a provincial bankruptcy (Bedford, 2020). As a sovereign state, by contrast, Iceland does not have access to a similar fail-safe. As such, the potential consequences of the economic crisis are more severe for Iceland.

Our work follows Randall and Boersma's (2020) call for more comparative research to identify key similarities and differences among small island states and subnational jurisdictions, particularly regarding the implementation of sustainable practices. In comparing the small island state of Iceland and the subnational island jurisdiction of Newfoundland and Labrador, we identify three key factors that contributed to periods of economic crisis and highlighted lessons for economic sustainability and governance/institutional sustainability. By learning these lessons and addressing issues of political anti-reflexivity and communication gaps, we can better mitigate against future crises and contribute to full-spectrum sustainable futures for small island states and subnational island jurisdictions.

### **Acknowledgements**

For assistance throughout the development of this research, we thank Laurie Brinklow, James Feehan, Bojan Fürst, Robert Greenwood, and James Randall. We also wish to thank Godfrey Baldacchino and the anonymous reviewers for their comments though the development of this article.

### **Disclaimer**

Research funding was provided by the Social Sciences and Humanities Research Council of Canada (SSHRC) through the Sustainable Island Futures Project Partnership Development Grant (PI: James Randall), as well as through the Office of Public Engagement and the Harris Centre, Memorial University of Newfoundland, Canada.



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