Economic Anthropology

RESEARCH ARTICLE OPEN ACCESS

Moral Economies of Debt Forgiveness and Enforcement in Postcrisis Iceland

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Received: 12 January 2024 | **Revised:** 13 November 2025 | **Accepted:** 15 June 2026

Keywords: debt | equity | global financial crisis | Iceland | moral economy

ABSTRACT

Who deserves financial relief in times of crisis, and on what grounds? The 2008 collapse of Iceland's banking system prompted state intervention to mitigate household indebtedness, including forbearance, pension withdrawals, repayment adjustments, and debt reductions. Divergent claims by households about eligibility sparked public moralizations on deservingness, revealing moral tensions about who should receive assistance and why. Drawing on interviews with redress applicants, this article examines the ways claims for support were framed by notions of responsibility, self-sufficiency, and reciprocity, highlighting competing logics about economic and moral obligation. Findings show that redress policies were perceived as selective amnesties rather than as structural reform, generating horizontal frictions among citizens that reinforced questions about equality in a society with historically muted class identities. Calls for moral repair have arisen through rethinking the basis of reciprocity, shifting from capitalist accumulation to restoring moral symmetry. By situating these dynamics within anthropological theories of debt and obligation, the article argues that crisis and recovery are entangled moral and economic processes, shaping ideals of fairness and social repair.

1 | Introduction

In 2017, I sat in a coffeehouse in Reykjavík with 36-year-old Kristján, discussing the effects of the 2008 Icelandic banking collapse on the city's majority homeowners. Our conversation focused on the need for moral and institutional reform after heightened risk-taking. "It was a shock," he recalled, referring to the failure and nationalization of Iceland's three largest banks as part of the global financial crisis (GFC). Like many, Kristján entered the housing market in the mid-2000s, amid Iceland's rise as an international banking hub. "It was a shock going from what appeared to be stability to then a recession. I don't think people realized how far into hyperconsumption and a ridiculous way of living we'd gone. There was little warning or intervention." With combined loan books exceeding 10 times gross domestic product (GDP), it was the largest bankruptcy in history relative to the size of the economy (Sigurjónsson and Mixa 2011). After buying an apartment with his partner in 2008 using a collateralized loan, Kristján reflected that he too had joined "this ridiculous way of living."

A decade after the banking collapse, Kristján still felt the consequences of his decision. His relationship had ended, and he had no choice but to rent out the apartment.

> It was a mistake to buy an apartment with a 100% loan and to use my grandma's place [as collateral]. My partner and I ended up splitting because it was very stressful to continue servicing the loan [owing to currency volatility and rising repayments tied to the Consumer Price Index (CPI)]. It was not the dream we had in mind.

Households were vulnerable to distress because debt was calculated in real (not nominal) terms via credit indexation on the

CPI, spelling trouble when rates rose amid currency devaluation. Most mortgages, including Kristján's, were in Icelandic krona (ISK), but foreign-denominated (FX) loans were common. Responding to distress, the state introduced redress measures (2008–2013), including (a) forbearance and payment freezing to prevent foreclosures, (b) access to noncompulsory pension savings to pay down debts, (c) loan adjustments to make repayments manageable, and (d) debt reduction paths for FX borrowers.[1] These measures responded to public calls for assistance, reflecting close state–society ties in a populace of approximately 317,000 when the banks failed.

Low in the sky, the sun reflected off our water glasses on the walnut tabletop. As we drank coffee, our conversation deepened. Kristján acknowledged the government's task in stabilizing the economy but criticized its approach, stating, "Information was scarce, and people weren't consulted." "One thing that came of the crisis," he said, "was that we lacked critical thinking. Everything led up to this because our vision was blurred." Although most households were eligible for mortgage redress, Kristján's collateralized loan meant he was ineligible, necessitating a move to the countryside in search of financial ease. Initially viewed positively, redress led to social frictions about who deserved help. Redress measures were also seen as a temporary—if selective—amnesty rather than as meaningful reform. Since then, Kristján recalled, "We've been thinking critically, asking, 'What kind of society do we want to live in?'" National prosperity gave way to individual suffering and debate about who deserved support, exposing tensions between legal and moral obligation.

Following the GFC, anthropologists have revisited theories on debt and society, emphasizing their interdependence (Hann and Hart 2011). Studies have contrasted debt obligations, asking when and how debt should be repaid, who should receive support, and what logics underscore this (Narotzky 2016). Research examining legal and moral positions has followed, impressing the social—rather than just the economic—character of debt (Sabaté 2016). As Mauss (1966) showed, reciprocity structures social life; tensions about debt reflect competing ideals. Despite the scale of Iceland's banking crash, little attention has been given to the moral fallout over household debt. Typically, the literature deals with obligation vertically between institutions and borrowers (Stout 2019). Drawing on semistructured interviews in 2017 with redress applicants (four men, four women),[2] I inquire into horizontal tensions among the public, asking, What do claims of deservingness reveal about the moral economy of redress? and How do ideals shape arguments for assistance? Claims about deservingness are shown to pivot around loan type and public perceptions of borrowers as responsible (deserving) or not (undeserving).

Financial hardship and notions of deservingness have reanimated debate in Iceland about equality in a country with historically muted class identities (see Oddsson 2021). Calls for moral repair through rethinking the basis of reciprocity continue to mount, shifting from capitalist accumulation toward restoring moral symmetry. This includes those ineligible for redress using horizontal moralizations to vertically critique institutions and push for reform. After charting Iceland's economic boom and collapse, this article examines the property aspirations and borrowing practices that characterized the 2000s. It situates these dynamics within anthropological debates on debt and obligation to frame competing claims. It then turns to Iceland's constitutional reform experiment (2010–2013) as an example of moral repair: a crowdsourced effort to reimagine obligation as social rather than transactional, linking present hardship to established ideals of coherence. The article concludes that crisis and recovery should not be seen as distinct but rather as composing an entangled moral and economic nexus, with rupture and repair jointly unfolding to give a nuanced understanding of individual hardship and societal recovery (Heffernan 2024).

2 | Iceland's Economic and Mortgage Boom

In the 20th century, Iceland's economy transitioned from one of Europe's poorest after independence from Denmark (1944) to become a key player in international banking. Historically, the economy underwent undulations of high inflation and currency volatility. As reflected upon by Mæja, a mortgagor and owner of a now-bankrupt business aged in her mid-50s, "the thing with the economy is that it goes up and down. There hasn't been that much stability here. In fact, I think we're a little bit like our nature, the geysers and glaciers, ice-cold or steaming hot." Large fishing catches one year, for instance, could be followed by far smaller ones the next. From the late 1980s, the economy shifted from a reliance on primary industries to the service sector, growing steadily. The introduction of neoliberal policies further promoted economic stability. This was achieved by creating the Icelandic Stock Exchange (1985); liberalizing trade and joining the European Economic Area (1994); and privatizing government assets, including banks (2000s), to create growth opportunities (Durrenberger and Pálsson 2015).

Following economic restructuring, a nouveau riche class of business tycoons emerged—the owners of the privatized banks. New economic affordances enabled business development. Creating holding companies, loans were used to invest in the banks and acquire international fashion brands, football teams, grocery chains, and property. In media and political discourse, these figures became known as Business Vikings (*útrásavíkingur*), a "modern media version of the fabled medieval Vikings who heroically pillaged distant lands" (Durrenberger and Pálsson 2015, xv). The term references violent invasion (*innrás*), but in an outward direction (*útrás*). The public largely benefited through increased employment opportunities, stock and currency gains, and purchasing parity, with the 2000s an exciting period. "It was like a big party," Mæja stated. "People were spending money and there was a huge construction boom. … Everybody, well most people, were in a very good position … until they weren't." This period has been likened to the Roaring '20s in the United States amid the "collective craziness" (*hópbilun*) of Iceland's newfound banking success (Loftsdóttir 2019, 70).

Beginning in 2007 with the fall of US financial institutions, the interbank loan market that kept the financial services industry afloat began to dry up. Insecurity led to operating difficulties globally, as interbank lending became riskier and practiced more rigidly. Against prevailing assumptions, Iceland's commercial banks became nonoperational, requiring state takeover. Eva, a project manager and mother in her 40s, reflected on how, despite warning signs, the banks were still promoting stability just prior to the crash, offering attractive lending rates to exploit what she referred to as people "thinking big":

> I wanted to buy a bigger place. I had the choice to buy a three- or four-bedroom apartment or a [set of two-bedroom apartments] so that I could live in one and rent out the other. It was a crazy idea, but that's what I did, people were "thinking big." I had about 30% equity when I bought the two apartments so I thought I was being responsible and that, with time, I would gain more equity in this concrete block.

When the banks collapsed a few months later, Eva needed to use her rental income to stay afloat. Similarly "thinking big," Kristján, introduced earlier, reflected on how the economic boom period led him and his partner to leave the rental market to buy their first property. He viewed this as "catching up" to his peers after being a mature-aged student:

> At the time, everybody was buying and had plenty of access to loans. [My former partner] didn't want to buy. He came from the sort of environment [overseas] where the rental market is actually valid, and you can use it. We did some calculations and … really, really stretched ourselves to take out a mortgage for the kind of place we wanted. But we also used as collateral my grandma's apartment, which was a lot to ask. So, it was imperative we didn't default on the loan as rates went up, both in the lead-up to the collapse and, of course, when they skyrocketed afterward.

Access to credit was in this way used to increase economic participation or advance social standing (Heffernan 2024). When the banks collapsed, 84% of state-recorded mortgage debt had been issued between 2005 and 2008 (Ólafsson and Vignisdóttir 2012, 16). Increased lending supported the long-held social norm in Iceland of homeownership, with more people trying to buy a home before they were priced out of the housing market. Although many households weathered the crisis and later benefited from rising house prices and mortgage relief, others did not. Despite government interventions, the most vulnerable households often could not retain their homes (Sveinsson 2020).

3 | Homeownership Aspirations and the Realities of Predatory Lending

Iceland's housing system has been dominated by homeownership, being a policy aspiration since the 1940s. Social norms like this comprise implicit rules and expectations that organize conduct, establishing what is considered socially proper or even obligatory (Graeber 2011, 130–150). In this and the next section, I bring property ownership into conversation with predatory lending and household indebtedness. Social norms matter because they structure thinking, action, and reciprocation and shape interpretations of responsibility, thereby maintaining or contesting social order. After independence (1944), the state supported homeownership by facilitating access to and greatly modernizing private and public housing. Ownership rates rose from 56% in 1940 to 89% in 1990 (Sveinsson 2011, 60). They remained at this level until 2008, despite 24% population growth precipitating a large construction boom in the 2000s (Sveinsson 2020).

Capitalizing on ownership aspirations and public acceptance of debt taking, predatory lending became rife in the mid-2000s. Banks targeted mainly young adults, the elderly, and families in outer-metro areas. As Mæja recalled, "The banks were trying to sell loans to anyone. I heard about a lot of people that were content with their apartments, aged in their sixties. The banks were calling them, 'Don't you want to buy a bigger car?' 'Don't you want to travel abroad?' Many people just went with it [pause]. Then, they lost control." During interviews, examples of "thinking big" were relayed, with many describing what they perceived as a social expectation to participate in risk-taking: buying property, undertaking renovations, purchasing new cars, or planning vacations (Heffernan and Pawlak 2020). Household debt peaked at approximately 130% of GDP in 2008 (International Monetary Fund 2010). Of all indebted households (120,745), mortgages made up the majority of loans (70%), and almost one-third had both a car and a home loan (Ólafsson and Vignisdóttir 2012, 16).[3]

State data show that distressed households grew by 11% to reach 23% in 2008 (Méndez-Pinedo and Domurath 2015, 100). In addition to overindebtedness, distress stemmed from FX loans (i.e., a collection of securities bundled into a single loan in multiple currencies). Previously, CPI-linked mortgages, mainstream since the 1970s, reduced the effects of high inflation through banks distributing risk among borrowers. In the 2000s, FX loans became a new revenue source for banks and enabled households to further circumvent high interest rates. Sigurjónsson and Mixa (2011) provide useful context, noting that FX borrowers "enjoyed favorable interest rates for years and even had their underlying debts decrease in value due to the strength of the [krona]" (218). Appeal was "amplified when people [saw] others making money through speculative trading [e.g., housing loans in foreign-denominated currencies], adding a tendency to follow the crowd" (220). Approximately 15% of household mortgage debt was foreign denominated in 2008, 72% of which was loaned the year prior to the crash, illustrating heightened risk-taking during this period (Ólafsson and Vignisdóttir 2012, 16).

Risky lending practices (or subprime) have garnered attention following the GFC (Heffernan 2022; Schuster and Kar 2021; Stout 2019). Creditworthiness is used to assess risk and create new cohorts for exploitation. Such practices rely on giving financial products—usually mortgages and personal loans—to low credit scorers who assent to borrow in foreign currencies, use collateral, make higher repayments, or accept less favorable conditions to gain credit access. Predatory lending in the 2000s relaxed many of these conditions and was built on a dubious—if unscrupulous—logic of trading financial products among the vulnerable (Schuster and Kar 2021). Predation is an example of socializing risk by combining good and bad debts to hedge bets, broaden customer pools, and grow profits. In the wake of Iceland's economic boom, which encouraged risk-taking, households were left burdened with unmanageable debt. Risks dispersed across markets consolidated in the lives of those least equipped to bear them.

4 | Keeping Up, Paying Back: The Reciprocity of the Gift

Studies on debt after the GFC characterize this period as a hinge moment that reshaped living standards, creditworthiness, and household expectations (Knight and Stewart 2016). Returning to prominent economic literature, anthropologists have explored how credit and debt shape the reciprocal nature of relationships in and beyond crisis (Hann and Hart 2011). In *The Gift*, Mauss (1966) drew on the Kula ring to argue that exchange develops relationships, noting that gifting comprises giving, receiving, and importantly, reciprocating. This demonstrates the total phenomena of the gift, critiquing earlier ideas about the *utility* of economic relationships (Kapadia 2022). Rather, Mauss (1966) argued that reciprocity builds and maintains solidarity and contributes to wealth, status, and important sources of alliance, both within and between communities. Far from purely economic, debt is embedded in social life, linking ideas of economy, governance, and responsibility with custom, morality, law, cognition, emotion, and power (Polanyi 1944). Giving, receiving, and reciprocating, then, speak as much to sociality as they do to legality.

In Iceland's small populace, "thinking big" was pervasive during economic expansion, with anthropologists noting the influence of elites on household decisions. Given wholesale economic changes under neoliberal policies, Loftsdóttir's (2019) ethnography of the crisis years notes that "the Business Viking was an important conceptual touchstone for a project claimed by Icelanders and by the nation as a whole" (113). It symbolized collective escalation, not just the accomplishments of a few elites, to give coherence to otherwise diverse practices. The nature of this "joint project" meant that the Business Viking "could almost be you" (Loftsdóttir 2019, 113). The image conceptualized increased *civic* and *economic* participation as one. Loftsdóttir (2019) contextualizes that "the long-standing imagination of Iceland as a classless society [supported] mobilization around the economic expansion, where everyone could see themselves as the next [success story]" (113). The discourse and iconography of the boom years show the economic and social aspects that motivated unprecedented debt taking.

Eva, who bought two apartments while "thinking big," recounted a call with her bank. As the economy slowed before the collapse, rates fluctuated and repayments increased. Eva was unequivocally reminded of her legal obligation and the gift/giving distinction:

> In spite of feeling as though I'd made a responsible decision [holding 30% equity], just after the purchase in spring 2008, when mortgage payments commenced, the [debt] began to grow by an extra 5000 [US$374] per month, which was a lot. I called the bank and said, "I don't understand." She said, "Eh, that's how it is."

Giving, in this context, entails its obligatory counterpart: repayment with interest. For Eva, this revealed the "economy of appearances" (Tsing 2000) that had sustained the economy when collective risk-taking and speculative confidence were normalized as civic participation. The abrupt collapse of this order exposed tensions between legal and moral obligation, linking the exuberance of the boom years to the distress that followed.

Drawing on Mauss (1966), Testart (2013) contends that "obligation is coextensive with social life" and that "there is no social relation without obligation" (256–257). This matters for how reciprocity and the moral–legal tension are understood. Moral obligation underscores and reinforces social membership (e.g., citizen, friend, neighbor, colleague) by establishing what constitutes reciprocity among actors. By contrast, legal obligation "gives rights to the one who has [an] obligation over you" (Testart 2013, 257), including enforcing repayments and even evictions or foreclosures. Regarding the GFC, Langley (2009) argues that legal obligatory rights were not separate from predatory lending but rather a component of it. Examining this with reference to US mortgage foreclosures, Stout (2019) positions debt as a moral and contractual terrain where state and private institutions redefined reciprocity during the credit crunch, blurring the line between shelter rights and moral and legal obligation. Indeed, in times of unease, legal obligation may be enforced irrespective of personal difficulty because of "predatory bureaucracy."

Since Thompson's (1971) and Scott's (1979) work on political economy among the peasantry, attention has turned to moral reasoning to examine economic shifts and social responses. Scott (1979) argued that exchange is bound by local worldviews. Rather than being viewed through a legal or systems lens, moral economy focuses on the moral consequences of exchange. It enquires into the social and moral underpinnings of obligation to reveal claims for debt assistance and forgiveness despite legal mandate (Narotzky 2016). In Iceland, evictions and foreclosures were initially prohibited based on the centrality of the family to the nation-form. Yet full redress eligibility was based on legal interpretations of debt obligation. The terms *eligible* and *ineligible* are value-laden. They index not merely decision-making but also how decisions are viewed across time and space. This is important when examining emerging public interpretations of obligation, with notions of equality, responsibility, and fairness shifting after the collapse (Heffernan 2020).

Central to equality and responsibility is empathic "togetherness" (*samkennd*) anchored in Iceland's Norse migration and settlement (870–930 CE), centuries of endured hardship under Scandinavian imperialism (1262–1944 CE), and the present-day postimperial state. The nation-form (*þjóðin*) is viewed as a small, family-like community, "creating a powerful sense of 'us' that speaks to people from different [family] backgrounds" (Loftsdóttir 2019, 113). Skúlason (2014) outlines three emic understandings of equality that illuminate reciprocity within this "family." He distinguishes among (a) equal treatment, (b) equal standing, and (c) mutuality. Equal treatment (*jafnrétti*) refers to the enjoyment of legal parity; equal standing (*jafnræði*) refers to shared participation in the common good; and mutual equality (*jöfnuður*) refers to reliance on one another to meet and realize potential. Skúlason maps a progression of equal parity to interconnectedness to explore the idea of justice and morality in the Icelandic lifeworld. In the next section, I examine redress measures and use Skúlason's work to frame legal parity as perpetuating mortgage obligation and equal standing and mutuality as speaking to moral obligation.

5 | A Moral Economy of Debt Forgiveness and Enforcement

5.1 | Government Intervention Into Overindebtedness

A range of state redress measures were introduced between 2008 and 2013 (Table 1). Initially, a moratorium on foreclosures and evictions was implemented. For approximately 10,000 FX loan borrowers, principal and interest payments were frozen for 2 years. This was followed by a policy allowing extra repayments using noncompulsory pension deposits. Approximately 60,000 people withdrew roughly US$600 million. Interest rate rebates were also provided in 2011 and 2012 to help 63,750 households meet repayments, valued at up to US$61 million (Ólafsson and Vignisdóttir 2012, 123). These methods comprised indirect support for the broadest number of borrowers through a mix of public and private funds.

Direct measures were also introduced, including loan adjustments (*lánaleiðrétting*) and debt reductions (*skuldaleiðrétting*). Loan adjustments assisted borrowers of conventional local currency loans to restructure debts. Between 2009 and 2012, 37,963 borrowers had their payments rescheduled, temporarily easing repayments and adding up to 3 years to the loan (Ólafsson and Vignisdóttir 2012, 18–25). Approximately 2500 FX loans were also rescheduled amid currency volatility (Ólafsson and Vignisdóttir 2012, 25). As reported by the Central Bank, payments were reset to their May 2008 values (or the first installment thereafter) and recalculated (Ólafsson and Vignisdóttir 2012, 25). Following a 2010 Supreme Court ruling, FX loans were converted into local currency. However, loan adjustment was no panacea: distress surged again after it came to an end, stratifying borrowers by loan type (Méndez-Pinedo and Domurath 2015).

The second measure (debt reduction) aimed to lessen overindebtedness among mostly FX borrowers, as their total indebtedness often surpassed property valuations. This measure was distinct from the loan adjustment scheme. The government worked with self-selecting borrowers to repay no more than 100% of their property value, plus taxes (10%, calculated as 110%). Half the redress funds were financed by Treasury through a bank tax. Overall, the two schemes offered support to ensure that debts were adjusted or reduced. Indeed, as presented in Table 1, hundreds of billions of krona in household debt was forgiven or recalculated. However, each scheme was moralized by the public in particular terms, especially in relation to socially sanctioned ideas of permissible borrowing and responsible actions, sparking arguments about who was most deserving of support.

5.2 | Debt Forgiveness and Acceptable Risk-Taking

During conversations with my landlady, Freyja, a redress applicant and semiretired grandmother in Reykjavík's western suburbs, moral positions on loan taking were expounded. Freyja struggled to understand risk-taking in the context of economic volatility, warning against excessive borrowing and spending based on social convention and her six decades of life:

> I was taught you should own your home. It's OK to have a loan, you must start somewhere, otherwise you're beholden to the rental market. If you want to be somewhere steadily, then you buy your home. Of course, you can't entirely save, you need a loan. But you shouldn't use credit to buy a car or furniture; you save for these.

Some decisions are viewed as legitimate, and debts permissible. Access to loans allows people to enter the housing market. However, inherent in this decision is that asset-based securities via mortgage-enabled homeownership contribute to collective insecurity (Weiss 2014), even when people feel they are acting responsibly. As reflected on by Freyja, who was paying off a local currency loan, the mortgage suddenly doubled:

> The apartment was now worth less. I thought, well, I must live somewhere, and there is more security in paying down the loan and having a steady home. So, the first thing I did each month was pay off this *big* loan. The loan was too much for me; it was too much for *everyone*. But the first thing I paid each month was the loan.

Between 2009 and 2014, Freyja was one of thousands of loan adjustment applicants. Debt forgiveness was based on having taken out a local currency loan and making regular repayments. Indeed, servicing debts was important for household eligibility, thus meeting one's legal obligation, resulting in state support. "Afterward, the mortgage finally went down because the government made these arrangements [*lánaleiðrétting*]."

In a small society experiencing calamity, financial diligence informed interpretations of responsibility, couched in ideals of reputation, responsibility, and independence. In his work on equality and individual difference in Iceland, Durrenberger (1995) shows the importance of reputation to establishing the nation-form. He identifies the sagas, written in the 13th century, as foregrounding reputation as a key quality. The sagas chronicle Iceland's settlement (870–930 CE) and commonwealth (930–1262 CE) before Scandinavian control. They tell of great leaders and battles, combining ideas of personhood and custom with the ability to settle farmlands, trade, and resolve disputes.

> Sagas are stories that establish a person's reputation by recounting [their] actions. … The motives count much less than the actions themselves, so there is little attention to internal states. The kind of social order in which reputation is important is one in which people have to count on each other.
>
> (Durrenberger 1995, 93)

A person's actions are, therefore, important for establishing social membership. Individual conduct contributes to creating

TABLE 1 | Mortgage redress schemes implemented by the Icelandic government (2008–2013).

	Forbearance	Pension contribution	Loan adjustment	Interest rate rebate	Debt correction
Description	A foreclosure moratorium (2008–2010) irrespective of loan type. Payment freezing (2008–2009) on FX loans to alleviate overindebtedness amid currency volatility.	The ability to draw down on voluntary pension contributions (*séreignarsparnaðar*, i.e., contributions additional to mandated employer payments).	A loan adjustment path (*lánaleiðrétting*) was established in 2008 to reduce mortgage distress through payment rescheduling to ease the burden of payments over time.	At year end 2010, 0.6% of mortgage debt was rebated in 2011, and again in 2012, financed through a tax on Icelandic banks.	A principal and interest correction was introduced in 2009 to reduce debts to 100% of the property's market value, plus taxes (known as the 110% option, *skuldaleiðrétting*).
Eligibility	Moratorium applied to all mortgages. Repayment freezing applied to all FX home loans.	Few comprehensive data exist outside government records, as eligibility shifted several times.	Applied to all local currency loans (opt-out measure) and, from 2009, to FX loans (opt-in measure).	Rebates phased out as positive housing equity increased. Singles with ≤ISK 20 million (US$170,000) in positive housing equity received partial to full rebates. Couples and single parents with ≤ISK 30 million (US$260,000) in positive housing equity received partial to full rebates	Households subject to a negative financial margin and negative housing equity (opt-in measure).
Conditions	Moratorium applied to all mortgages. Repayment freezing applied to all FX home loans.	Debtors could gain access to voluntary contributions, subject to caps, that were normally off-limits before the age of 60.	Repayments were linked to a modified mortgage payment index, rather than to CPI or foreign currencies. Restructuring meant loan duration was extended by ≤3 years.	≤ISK 200,000 (US$1700) was rebated for singles and ≤ISK 300,000 (US$2600) for couples or single parents.	Other assets (e.g., cars, holiday homes) rendered some ineligible. Collateralized households were ultimately excluded.
Uptake	Moratorium applied to all mortgages. Freezing applied to 10,000 FX loans.	Between 2009 and 2012, ~60,000 individuals accessed ISK 74.6 billion (US$574–597 million) to service debts.	Approximately 37,963 local currency debtors (50% of those eligible) and 2500 FX debtors (28% of those eligible) had repayments adjusted (2009–2012).	63,750 households in 2011 alone were estimated to receive a share of around ISK 6.9 billion (US$61.6 million) in rebates.	11,700 households (or 70% of applicants) received a share of ISK 44 billion (US$338–352 million) in write-offs between 2009 and 2012.

Note: Based on approximately 120,745 indebted households (for the limitations of the state's data set, see Ólafsson and Vignisdóttir 2012).
Source: International Monetary Fund (2010), Méndez-Pinedo and Domurath (2015), Ólafsson and Vignisdóttir (2012) and Viðskiptablaðið (2014).

and maintaining the whole, establishing an axiom of equality to the exclusion of class identities (Durrenberger 1996), illustrating how the Business Viking "could almost be you." Personal traits remain embedded in Icelanders' reading of the sagas as the basis of national identity (Hastrup 1985). Connecting past traits with contemporary finance, Durrenberger (1995, 93) argues that reputation once defined a person much like credit scores do today. As financial diligence builds credit, honor built social standing. When society shifts, people often document its values, as the sagas did, by recording and querying acceptable conduct, including who is seen as honorable or responsible based on their past actions (Durrenberger 1995, 93).

Past actions and their relationship to deservingness were elaborated on by Páll, a middle manager and father in his 40s. After the crash, Páll's local currency mortgage rose to 125% of his initial loan. Yet as someone who felt he "understood" the adjustment policy, he stressed the importance of prudence and responsibility. "The most important thing," he emphasized, "was to make repayments and then wait, wait, wait." Páll also used noncompulsory pension contributions to make additional repayments. This reflected conventional debtor–creditor relations: Debts needed to be repaid, and debtors viewed as prudential were duly supported. He later refinanced, paid off the loan, and sold his apartment, recovering an ISK 7.5 million loss (US$57,000) by generating more than ISK 35 million (US$284,000) in equity over 7 years as the housing market improved. He felt that his entitlement was justified by past actions that were being rewarded in the present.

Justification for support such as this framed deservingness based not on *individual circumstance* but on *systemic vulnerability*. Interlocutors stressed that most households acted responsibly, for example, taking out local currency loans to participate in economic growth, meriting assistance when the system collapsed. In contrast, those who took out FX or collateralized loans were seen as having endangered others by overextending themselves, precluding them from full state support. Páll contrasted his "responsible" actions with "riskier" debtors who, in his view, did not deserve redress:

> A lot of people had to face the consequences of their decisions. Like those who took foreign loans. Usually, people who make poor decisions aren't brought to account quickly. But after the crash, a lot of people had to face the consequences of their bad choices. Ultimately, those who were in trouble after the crash were in trouble before it or didn't have many assets before—that's why they accepted so much risk.

If system instability justified debt forgiveness among "responsible" borrowers, personal "irresponsibility" by risk-takers justified debt enforcement. And yet, such "responsible" conduct enabled some to enrich themselves while casting judgment on others. The pension scheme is a prime example: As a mechanism to empower debt management, it disproportionately benefited higher-income groups. This not only exacerbated existing inequalities but also shifted the onus of financial recovery from collective state responsibility to individualized prudence. In moral terms, access to one's pension became a marker of self-discipline and foresight. Privileging prudence over need mirrors what Graeber (2011) identifies as a key feature of debt societies: the tendency to collapse complex obligations into narrow logics, obscuring questions of fairness and shared risk.

5.3 | Debt Enforcement, Unacceptable Risk-Taking, and Equality

Understanding redress as a measure of moral worth exposes debt enforcement not only as a financial mechanism but as a moral practice grounded in cultural expectations of responsibility. Financial risk-taking was viewed by Páll, Freyja, Eva, and others as irresponsible because it brought individual households and the country close to economic ruin, endangering personal and collective self-sufficiency and independence.

Independence (*sjálfstæður*) is valued owing historically to the island's imperial past and topographical and climate extremes. Historically, the population was severely reduced by disaster, disease, and starvation, requiring a hardness of mind and character through meeting one's potential (Hastrup 1993). The basis of society is shared togetherness (*samkennd*) dating back to settlement, against all odds, seen as formidable figures that contemporary Icelanders trace their lineage to today (Durrenberger 1996). Independence is a multivocal term, ranging from "independence from Danish monarchs ... or the interference of family members and/or self-sufficiency and self-fulfilment. Independence of the nation and self-determination are tightly bound" (Gurdin 1996, 134). Independence combines ideas of sovereignty and political autonomy with citizenry equality and autonomy (Pálsson and Helgason 1996, 63). It builds the individual and society to place less burden on either, which may not be manageable amid hardship.

Freyja invoked independence as she described the second scheme (debt reduction, the 110% way, *skuldaleiðrétting*), aimed primarily at FX borrowers. Self-sufficiency was celebrated during the boom through economic participation and homeownership aspirations. However, public discourses shifted afterward, equating hardship with poor self-management. Taking out FX loans "was the worst thing people did in their lives," Freyja lamented, as they were under bureaucratic control: "They had no independence and weren't in control of their salary and earnings decisions." Some were even worse off or were exited early from the scheme. "After a year, as their applications were being processed," Freyja explained, "representatives said to some people, 'No, you don't fit the criteria, so you can just—' and then everything fell apart." Eva elaborated on how it individualized experience: "They couldn't get loans or credit afterward. They were in a bad situation and remain so today [2017]." "In my family," she continued, "some effectively became bankrupt. They lost their home—their dream home—and became weak spirited. They went through a hard time."

An advocate of the other policy, the loan adjustment (*lánaleiðrétting*) was libertarian Sigmundur Davíð Gunnlaugsson, who entered Parliament in 2009 and later served as prime minister (2013–2016). Gunnlaugsson (2014) described the scheme as a matter of justice ("leiðréttingin er réttlætismál"), stating that homes are the cornerstone of society and that, "by returning funds to households that suffered unforeseen losses, this large-scale correction will not only directly improve the situation of tens of thousands of households, but also the entire society."[4] He viewed household stability as assisting borrowers to support the nation. Debt reduction, then, upheld economic obligation by reducing but still enforcing debts.

Debates about eligibility and the household reveal competing notions of fairness and deservingness, splitting economic from moral obligation via legal parity (*jafnrétti*). Such assistance was premised on supporting the broad majority rather than the realities of those with nonstandard loans. While full support was discussed, it was never granted to these nonstandard borrowers, as the scheme's expansion was paused until after a parliamentary election in 2013, when Gunnlaugsson became prime minister. As Kristján elaborated:

> There were 4000 people in this position. The government made an agreement that they would cut the same deal. … Under the deal, the government would front a percentage of the costs and the banks would front the rest. It was a good deal in that we would receive similar treatment. But then came the knight in shining armor [Gunnlaugsson], who reneged on this after becoming prime minister [because the banks were not willing to further write-down mortgages], so a deal wasn't reached.

In contrast to legal parity, Kristján insisted that deservingness should incorporate social ideals, such as shared identity and empathic solidarity (*samkennd*). Equality, in this view, transcends legal parity to include equal standing (*jafnræði*) and mutual dependence (*jöfnuður*).

> [The schemes tried to] help everyone, but it wasn't taking new money and giving it to the people. It wasn't taking money from the vultures [the Business Vikings] behind the banking collapse. … It was just using taxpayer money. So, why wouldn't we try to help those who were in the worst situation, instead of a flat solution for everyone? There's such a big group in Iceland who don't need assistance. In a sense, that shows you just how well we've recovered. But still others have ended up worse off, further behind.

Justice is understood by Kristján as equal standing (*jafnræði*) with a view to mutuality (*jöfnuður*) linked to the axiom of equality that has long characterized Icelandic identity. In the end, the promise of equitable recovery gave way to policies privileging symbolic independence over structural justice, leaving some to bear the full weight of their debts.

6 | Toward Moral Repair: Iceland's Constitutional Experiment (2010–2013)

Questions posed by Kristján about the kind of society Icelanders want to live in precipitated discussion about ethics and institutional reform. Reduced working hours or periods of unemployment saw an increase in tertiary study, with ethics and sustainability in business and society common among those I spoke with. "I wanted to gain a deeper understanding of how we are linked as a community, and what kinds of ideas this is based on," Kristján noted, referring to his master's degree. For him, sustainability in business and society is linked, harkening back to ideas of togetherness and the required hardness of mind and character. This reflected a broader societal reckoning with economic and collective values. Kristján linked this to the public push for a new constitution (Figure 1), recognizing that while such a document provides a legal framework for identity, connection, and belonging, it does not determine what is deemed acceptable regarding risk and reward, as these judgments must be made collectively. While equal respect (*jafnrétti*) creates legal parity, equal standing (*jafnræði*) and mutuality (*jöfnuður*) reinforce moral obligation.

After the banking collapse, a new constitution was crowdsourced by specialists and members of the public between 2010 and 2013 (for a description of the process, see Gylfason 2020). It emerged as part of protests following the banking collapse and became a key public demand when a new government was elected in 2009. Indeed, many Icelanders believed that the constitution, originally drafted by Denmark in 1874, did not provide sufficient protections against social inequities. This includes protections against the exploitation of natural and cultural heritage and enrichment by elites, including the Business Vikings (Jakobsdóttir 2021). By contrast, the principles of solidarity, reciprocity, and obligation appear at the core of the crowdsourced draft. As noted in the proposed constitution's preamble:

> We … wish to create a just society with equal opportunities for everyone. … Together, we are responsible for the heritage of the generations, the land and history, nature, language and culture. Iceland is a free and sovereign state, resting on the cornerstones of freedom, equality, democracy and human rights. The government shall work for the welfare of the inhabitants of the country, strengthen their culture and respect the diversity of human life, the land and the biosphere.
>
> (Stjórnlagaráð 2011, 2)

The emphasis on justice, sustainability, and social protections reinforces public calls for equitable policies to address mortgage hardship and for improved social and economic reform, premised on equality. This is connected to social protections and state support. Indeed, interlocutors mentioned the importance of the democratic social welfare state for supporting citizens—to the extent of it being an expectation throughout the life course (e.g., welfare, health care, education, eldercare). For Kristján, this system

> is ready to grab you if something happens. You can't build a society without people, so you can't leave some out or make access easier for another simply because

FIGURE 1 | Signage at a 2017 antigovernment protest reads "New constitution immediately!", highlighting its continued absence at the hands of politicians.

> they have money or relatives or whatever. It's not fair. We're all in this together, aren't we?

In this sense, social protections are not merely safety nets but expressions of collective obligation, reinforcing a shared understanding of mutual obligation in society. The experience of the postcrisis years made clear that obligation and reciprocity could not be restored through financial adjustment alone. The mortgage redress measures, while framed as mechanisms of justice, relied on an economic logic of debt obligation that reproduced, rather than repaired, existing asymmetries among citizens and institutions. Economic compensation could not in itself deliver moral symmetry—the sense that all members of society stand in reciprocal relation, equally accountable and equally valued.

7 | Discussion and Conclusion

Mortgage redress schemes introduced after the 2008 Icelandic banking collapse reveal the moral fault lines embedded within the management of economic crisis. These measures—ranging from forbearance, debt reduction, and debt write-offs to early pension savings access—were not mere technical responses to household indebtedness. Rather, they became arenas for negotiating competing visions of deservingness, responsibility, equality, and solidarity. As Polanyi (1944) suggests, contestation surfaces most sharply when market forces threaten social cohesion. Indeed, Icelanders' experience shows how redress can simultaneously stabilize the economy and intensify financial and moral stratification (Méndez-Pinedo and Domurath 2015). In a country where reputation, responsibility, and independence are interwoven, stratification led to sharp inequities—to the extent that "historically muted" class differences are no more (Oddsson 2021). This, in turn, has precipitated discussion about the importance of solidarity to the makeup of the nation-form (Loftsdóttir 2018), reifying ideas of mutuality.

Internationally, the state's management of the crisis has been viewed in positive terms, especially for supporting households. Yet my analysis shows that the design of redress often privileged more "prudential" borrowers, on the basis of their past actions, rendering them as more "deserving" of support. On one hand, policies like payment freezes and judicial interventions gave essential relief. These interventions resonated with emergent moral claims around mutual obligation, opening a discursive space to contest the idea that individual borrowers should solely shoulder the burden of the economic crisis. Yet redress also risks reentrenching market discipline by deferring rather than resolving structural inequalities (Langley 2009). In Iceland, this became evident when payment freezes ended, exposing households to accumulated debts and cementing household stratification by loan type.

Redress analysts observed that ambiguous criteria for early pension withdrawals enabled opportunism, even though the policy was framed as prudent. Two-thirds of payouts went to the highest income quintiles, contrasting with patterns of financial distress, which were most pronounced among low earners (Ólafsson and Vignisdóttir 2012, 63). The account by father and middle manager Páll shows how easily personal success can obscure the uneven realities of recovery, where those deemed less deserving are often left behind. Polanyi's (1944, 48) reflections on Plato are instructive, observing that moral and economic order are inseparable. A just society harmonizes self-interest with collective well-being. Equality, in this view, comprises not only legal parity (*jafnrétti*) but also equal standing (*jafnræði*) and mutuality (*jöfnuður*). When moral complexity is subsumed into narrow economic reasoning, public discourses about debt can erase the collective dimension of social obligation and reciprocity (Graeber 2011; Schuster and Kar 2021).

As Polanyi and Mauss remind us, economic life is embedded in social relations, where expectations of mutual care, reciprocity, and fairness must continually be negotiated. The postcrisis push for constitutional reform, the valorization of the welfare state, and ongoing public discourse around policy equity point to an enduring collective aspiration to restore solidarity. However, as the selective and stratifying effects of redress show, this aspiration remains fragile, contested by the very mechanisms designed to uphold it. Iceland's experience thus underscores a broader theoretical insight. In the aftermath of crisis, the work of repair is not only technical or economic but fundamentally moral, demanding sustained debate over who owes what to whom and on what grounds. Similar outcomes have been observed following the GFC (Sabaté 2016; Stout 2019), especially in southern Europe (Knight and Stewart 2016), where quality of life suffered amid contestation over debt relief between institutions and households (Hann and Hart 2011).

A common theme in moral economy research concerns *vertical* cleavages among institutions and borrowers. This article has inquired into *horizontal* schisms to examine public tensions of "deservingness." These tensions were also used by "ineligible" redress recipients to mount vertical criticism as a means of pushing for social reform. Methodologically, longer-term analysis enabled consideration of unfolding claims of obligation a decade after the collapse, by charting initial forbearance, the introduction of redress, and then the ways that people experienced and critiqued these measures. One affordance is that, when viewed over time, crisis and recovery are shown not as distinct phases but as an entangled moral and economic nexus. Examinations of mortgage debt show how the financial effects of crisis do not end through introducing redress policies, nor does recovery begin when assistance is announced. Rather, economic rupture and repair jointly unfold to give nuanced perspectives of individual hardship and of solidarity.

Rupture exposes the social foundations of economic life, making visible the contested principles that hold society together. Icelanders' recovery was as much about managing debt as it was about renegotiating belonging. Such dynamics invite reconsideration of how redress might better foster inclusive and enduring solidarities. The constitutional reform process reflects moving from a social order organized around capitalist accumulation toward one grounded in equal standing and mutuality—not a static or presocietal morality but proximal and reciprocal solidarity. Rewriting the constitution was imagined as a collective moral project to restore balance and legitimacy by reembedding solidarity and shared responsibility (Heffernan 2020). This project remains ongoing, as the draft constitution is yet to be enshrined into law, coming to represent an outstanding "debt" owed by parliamentarians to present and future Icelanders (Ćirić 2020). Symmetry, then, considering this failing, should be seen as rebalancing relations that were disrupted by the economic boom.

Repair seeks to transform economic harm into renewed moral coherence, restoring the sense that society's members and its institutions remain bound by reciprocity. Indeed, the crash was followed by a wholesale rejection of the Business Viking image and the foundation from which it arose. As Durrenberger and Pálsson (2015) observe:

> [The image] neglected the archetypical biography of the saga hero [who dies] young in glorious combat. Those young warriors who lived to be old are treated as tragic because they had been denied that necessary warrior's end. Intoxicated by their financial greed, their economic creed, their easy access to money via their political connections to make new rules [such as predatory approaches to lending], and the creation of new forms of wealth from nothing, [the Business Vikings] were more akin to the medieval model of the berserker. (xxiii–xxiv)

In the crisis-recovery nexus, it has been the Icelandic people, and often those who felt the crash intimately or were moved by its effects, who have modeled repair. Rewriting the constitution invites reflection on the ethical work that redress performs and how it helps to reestablish norms, boundaries of solidarity, and collective identities. To this end, future research would do well to keep tracing this nexus, in economic and moral terms.

Two decades after the GFC, a focus on the social embeddedness of the economy remains vital. Not only are the effects of the GFC still experienced today internationally, but housing inequity and cost-of-living pressures continue to rise in many countries. Moral obligation shows that people expect assistance not only based on citizenry participation and taxes paid but through a return on a shared sense of collectivity and solidarity. Such expectations highlight the importance of moral obligation, where fairness, reciprocity, and mutual care mediate relations between institutions and citizens, and where the legitimacy of economic policy is judged as much by its ethical and fiscal outcomes.

Acknowledgements

Open access publishing facilitated by Australian National University, as part of the Wiley - Australian National University agreement via the Council of Australasian University Librarians.

Funding

This research was funded by an Australian Government Research Training Program scholarship and the UNSW Faculty of Arts, Design, and Architecture.

Endnotes

[1] Unless otherwise indicated, details of the redress schemes have been sourced from Ólafsson and Vignisdóttir (2012). Currency conversions and Icelandic translations were undertaken by the author.

[2] This research received ethics clearance from the University of New South Wales, Sydney (no. HC17110). All names are pseudonyms.

[3] Ólafsson and Vignisdóttir (2012, 16) use data from 54,041 singles and 66,704 nuclear families (i.e., single parents and couples with and without dependents). Nuclear families were most indebted (90%) (Ólafsson and Vignisdóttir 2012, 123).

[4] "Heimilin í landinu eru hornsteinn samfélagsins. Með því að skila fjármagni til heimilanna sem urðu fyrir ófyrirséðu tjóni mun þessi umfangsmikla leiðrétting ekki aðeins bæta stöðu tugþúsunda heimila með beinum hætti heldur einnig samfélagsins alls" (Gunnlaugsson 2014).

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