A Song of Ice and Ire: Iceland in context

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Why the rest of us pay attention to Iceland:

• Iceland zigged when all the conventional wisdom was that it should zag

• Iceland’s heterodoxy therefore gives us a test of economic doctrine

• One key issue: internal devaluation versus actual devaluation

• Another key issue: the costs of default
Why not the worst?

Unemployment rates

Source: Eurostat, Statistics Iceland
An alternative comparison

Employment, peak=100
Huge external adjustment

Real net exports, % of GDP

Source: OECD
Nominal wages are rigid downward

Source: Ireland NSO, Statistics Iceland
There are not large penalties for heterodoxy