



According to new OECD data, Iceland supports families with children a lot less than most prosperous western countries. Iceland is far below the OECD average and the other Nordic countries have much more generous benefits for low-income families. Here, cuts begin at the minimum wage, which is unusually low. Few parents thus get the uncut benefits.

In next year's budget, higher child benefits and limits for cuts are introduced, but they are only an update in line with price- and wage increases, which were not provided in full in 2020 and 2021, and thus produce no real improvements for families with children.

## Child benefits are too low

Child benefits are an important part of families' income, especially for the lower-paid. In most modern societies, it is seen as important to lighten the load of young families, when their expenses in getting a home and having children are at their highest. Child benefits are not a grant to families, but a transfer between periods in life. People get child benefits at the start of their working lives, when the need is greatest, but after children leave the home people pay higher taxes to fund the next generation's child benefits.

In Iceland, child benefits have long been low and linked to income. The uncut amount of benefits for the first child is now about 19,500kr per month for a married couple but 32,550kr for single parents. Even though the basic amount for children under age 7 (where a premium is paid on top of the benefits) is not very low compared with other countries, the cuts begin right at the minimum wage, which are today 351,000kr per month. This means that few parents working full time get these uncut benefits in Iceland. It would be better if these cuts didn't start until medium wages were reached.

Denmark is the only Nordic countries where child benefits are income tested. There, cuts start at a much higher level than in Iceland, at about 1.3 million kr per month. The ratio of cuts is also lower, about 2%, while it is 4-9.5% in Iceland. Thus, cuts to child benefits are much broader in Iceland than in Denmark (see Kolbeinn H. Stefánsson's report, *Barnabætur á Íslandi í samanburði við hin Norðurlöndin*, prepared for BSRB in 2019)..

Here we show the recent OECD data on the generosity of child benefits in Iceland compared with other member countries, and comparisons of amounts spent on child benefits. OECD normally counts the sum of child benefits and parental leave payments (transfers to families with children) and child benefits tend to be the larger part. We also show the devel-

opment of expenditure on child benefits in Iceland from 1988-2021, as well as the projection for 2022. These data indicate that the generosity of child benefits is very limited in Iceland, close to the bottom of the OECD comparison.

### Generosity of child benefits in OECD countries

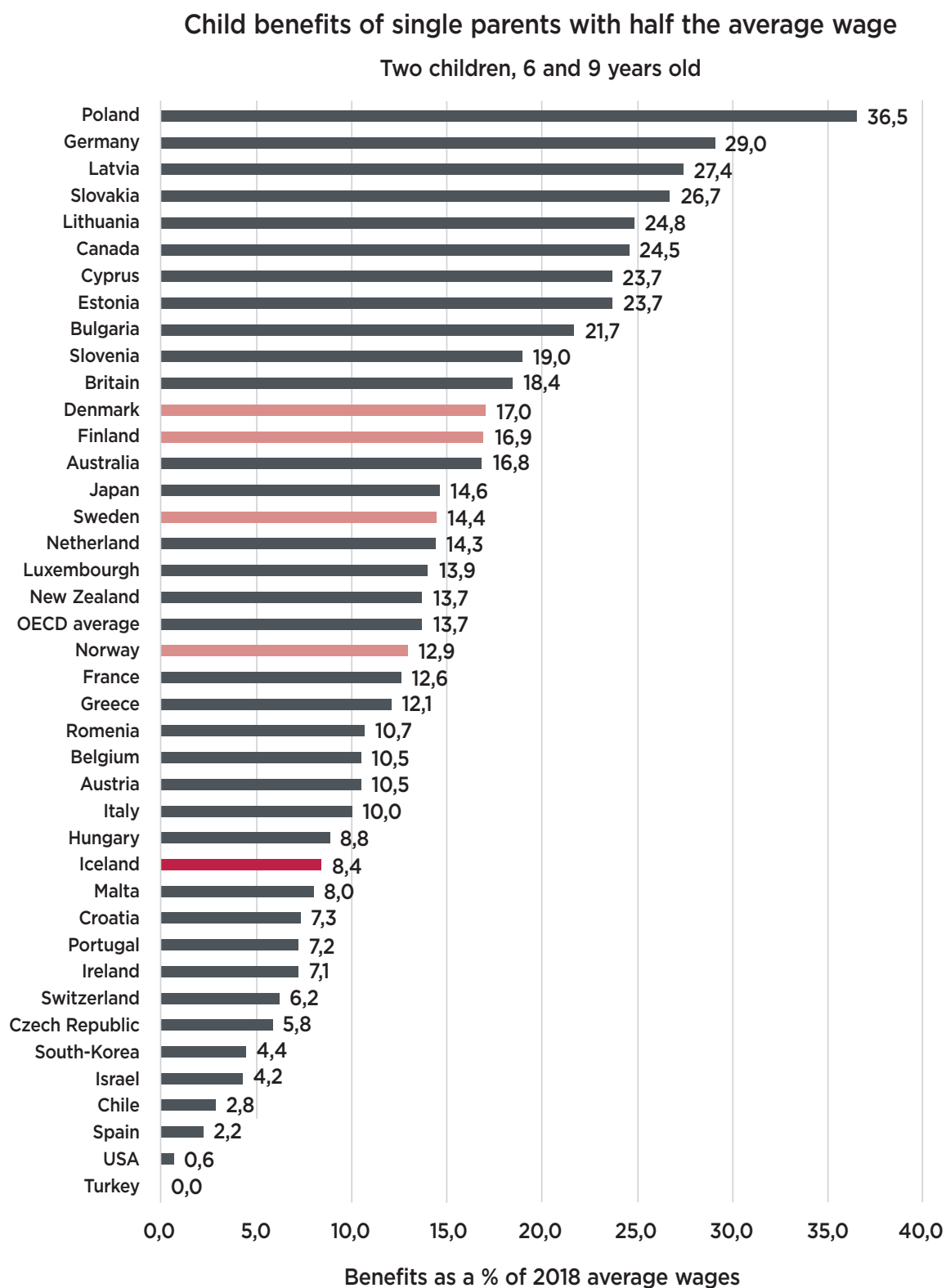
We look at the amount of child benefits to both households with single parents and with married or cohabiting couples with two children (6 and 9 years old). Single parent incomes are estimated at half the medium wage, which is close to the minimum wage in the private sector, the subgroup getting the highest benefits in this country. The income of couples is estimated at one fully employed person on the average wage and the other working half time on the average wage, adding up to 75% of the average income of couples. They are thus 25% below the average family income. The amount of benefits is calculated by the OECD as a proportion of the average wage in each country. By average wage is meant the gross wage before taxes and pension deductions.

The first image shows the result for single parents with two children, with income near the minimum. This is important for the comparison, because in Iceland the single parents on low wages get the highest benefits. Still, the generosity of child benefits for single parents in Iceland is at the lower end of the OECD comparison, much lower than in the other Nordic countries. We have them at 8.4% of the average wage, while the OECD average is 13.7%, and in Denmark it's at 17% of the average wage, double what single parents in Iceland get.

The most generous provision of child benefits in this group is in continental Europe, e.g. 29% of the average wage in Germany. In Eastern Europe the average wage is much lower than farther North and West, so the benefits add up to a higher

proportion of income. But child benefits are often used to reduce childhood poverty, with good effect where they are generous. Poverty is often more common for single parents

than in households with two breadwinners. Therefore, they often get higher benefits than cohabiting or married couples.



**Image 1** Child benefits of single parents close to the minimum wage in 2018. *Source: OECD.*

Image 2 shows the results for married or cohabiting couples under the minimum wage (halfway between the average wage and the poverty level). Here we also assume two children, 6 and 9 years old. Iceland scores even worse here, since we have one of the least generous child benefits of countries that supply them to couples at all.

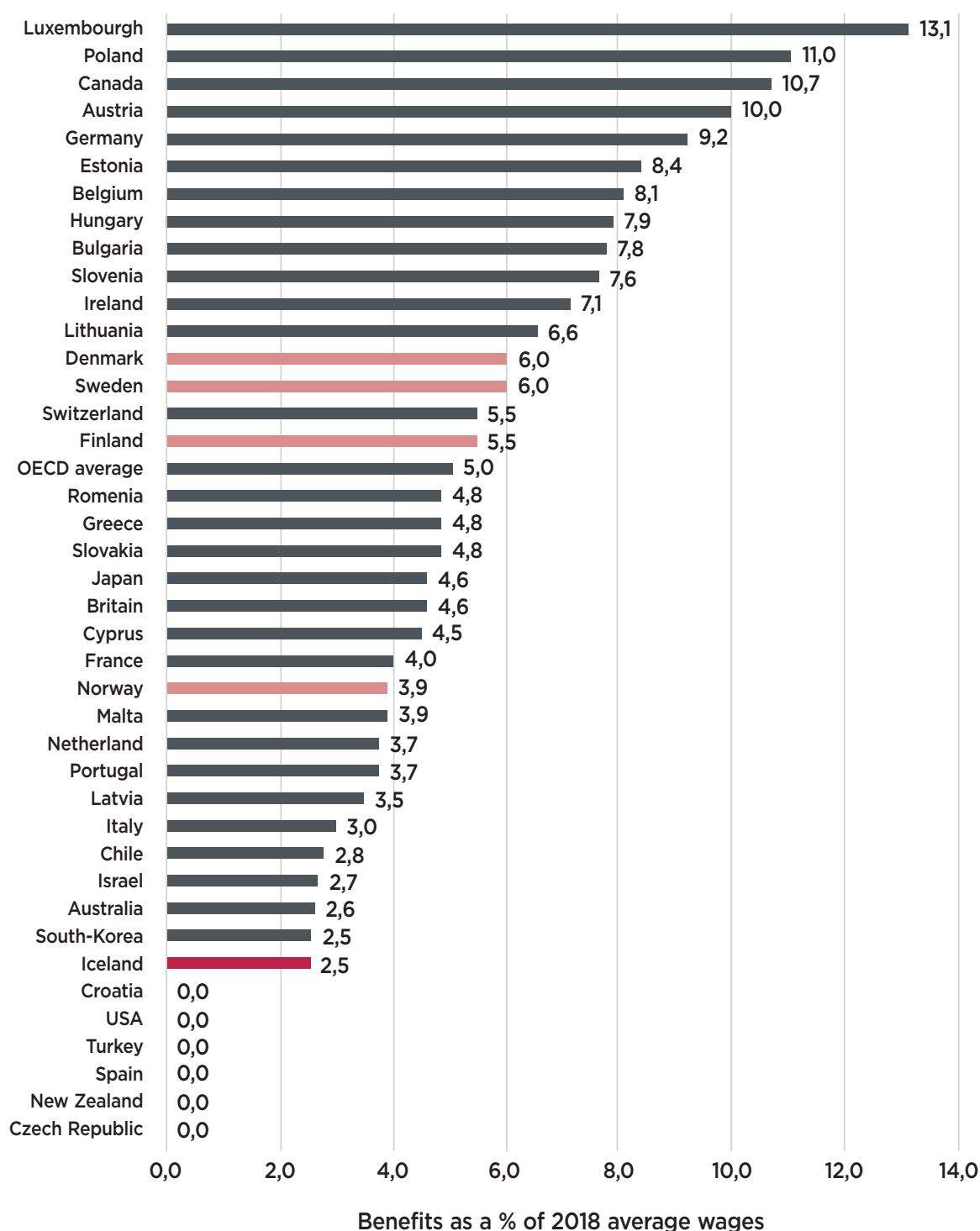
The average amount of child benefits for parents of two children with less than the average wage in Iceland is 2.5% of the average wage. This number is double in the OECD on average,

5%, and the Nordic countries range between 3.9% and 6.0% of their respective average wages. The countries scoring worse are either well known for weak welfare systems (such as the USA and New Zealand) or have a much lower level of prosperity than Iceland (such as Turkey and Croatia).

Iceland thus has a much weaker child benefits system than our neighbours in the other Nordic countries and the burden on people with children is thus, other things being equal, higher in Iceland.

## Child benefits of couples with two children, 6 and 9 years old

One parent working full time, the other half-time, on average wages



**Image 2** Child benefits to married or cohabiting couples with 75% of the average family income in 2018. Two children, 6 and 9 years old. *Source: OECD.*

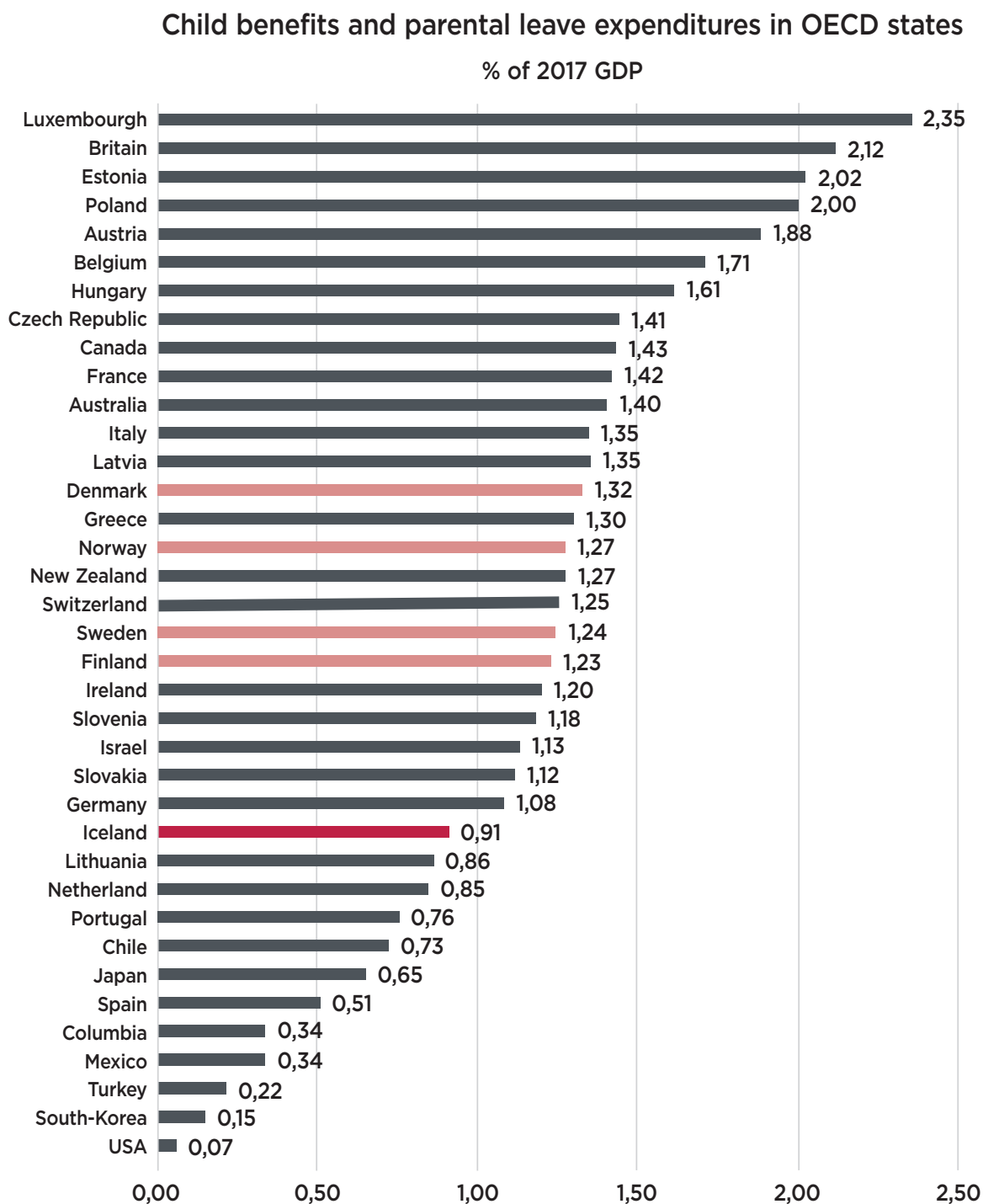
In Iceland, children under age 7 get extra support, which these numbers take into account, since one of the children assumed in the OECD calculations is 6 years old. If we consider children at the age of 3 and 6, Iceland fares better, due to the supplement for children under age 7, though still at the 15<sup>th</sup> lowest place out of 40 OECD countries.

When child benefits are broken down by the number of children in the household, the numbers look similar. Though they rise with more children, Iceland remains in the group of coun-

tries doing worse by families with children, even if these children are numerous.

### Child benefits expenditure

If child benefits are low, then the amount spent on them should be lower, the number of children remaining about equal. As we can expect from the data above, public expenditure on child benefits is not too high in Iceland. We are in place 12 out of 37 OECD countries, as seen in image 3.



**Image 3** Child benefits and parental leave expenditure in OECD countries in 2017, as a % of GDP. Source: OECD. In Iceland the proportions are: child benefits=0.4%, parental leave=0.5%.

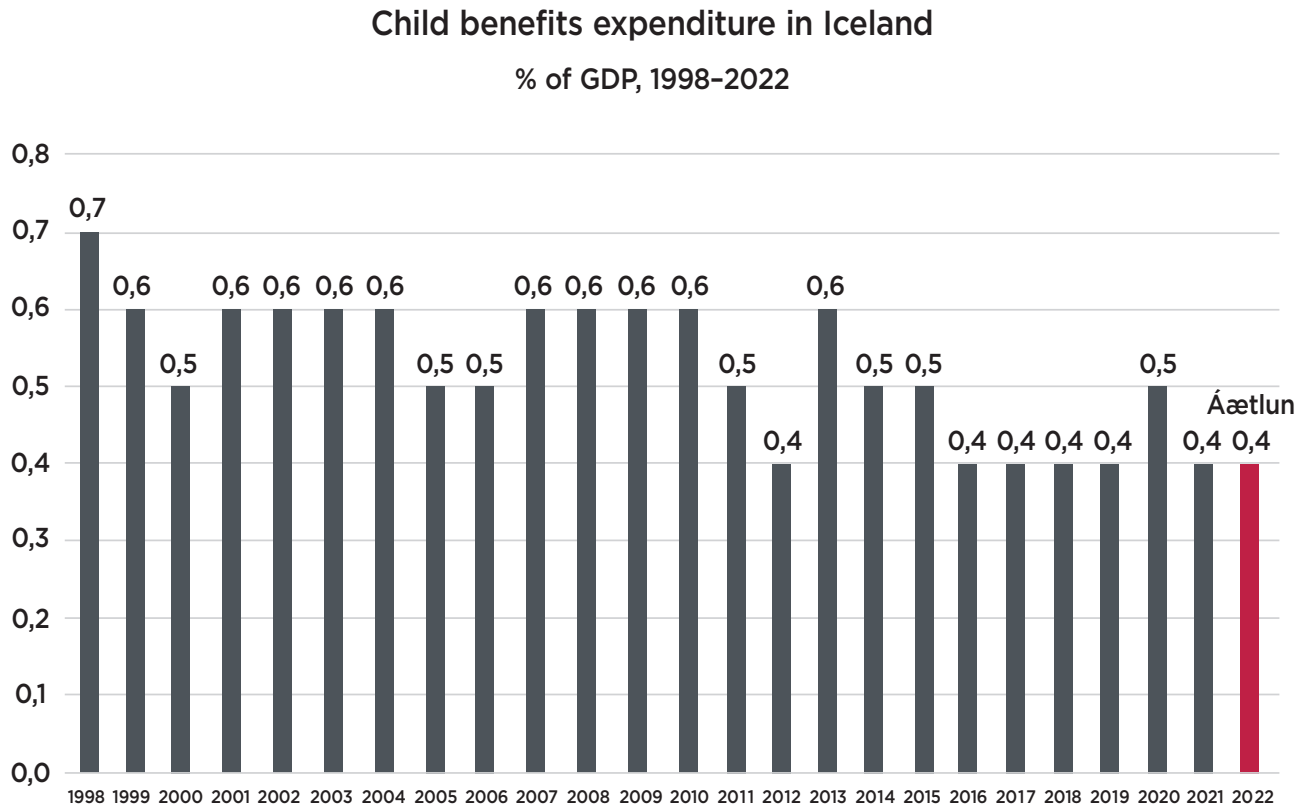
If the generosity of child benefits was similar in Iceland as in the other Nordic countries, then the expenditure on them should be highest here, as there are more children in households. But the reverse is the case, the proportion spent is significantly lower here.

**The government says it will raise child benefits:  
Is that true?**

Government support for working families, in the form of child benefits, interest relief and housing benefits, was much higher generally in 1988-1996 than it is nowadays. Such support was eroded over the years leading to the crash but increased during the left-wing term after the crash - mostly in interest

relief. After 2013, support for households has been lowered again and is now at its lowest ebb.

Image 4 shows direct expenditure on child benefits alone, excluding parental leave, from 1998-2021, including a projection for 2022, as a proportion of GDP. We see a drop from 2013-2016. Alongside collective agreements in 2019, the threshold of cuts to child benefits was raised and the amount of benefits slightly increased. This brought child benefits expenditures from 0.4% of GDP up to about 0.5%. This was, in other words, a much lower raise than it seemed at first. It didn't shift the big picture on child benefits in Iceland that we've seen in images 1 and 2.



**Image 4** Expenditure on child benefits alone, from 1988-2022. The number for 2022 is a projection based on the budget and economic forecast. *Source: Statistics Iceland.*

In its budget announcement for 2022, the government presented plans for raising the threshold of cuts and the amount of child benefits again, in a similar manner as in 2019. The documents of the budget indicate that the proportion to be spent on child benefits will again drop from 0.5% to 0.4% in 2021.

According to these same data, the Finance Ministry assumes no increase in costs in 2022, instead keeping it at the 2021 level (14 billion kr – just under 0.4% of GDP). This is therefore a change that will mostly involve increases in accordance with price and wage rises – which haven't been upheld since 2019.

The rise in 2022 will be 5.5% but would have to be 10% to maintain the real level of 2019. The lower threshold for cuts will still be at the minimum wage. This is therefore no real improvement for families with children.

The situation of child benefits in Iceland will therefore be maintained in the state shown by the OECD data, with abnormally low support for families with children, given the country's level of prosperity. It would be desirable for this to be mended in relation to the coming collective agreements.