



The Icelandic welfare state doesn't measure up as a "Nordic welfare state"

Welfare expenditures in Iceland are smaller in scale than in other Nordic countries in nearly all categories of social security and health, measured as a proportion of GDP. In some fields, there is a significant difference. This greatly reduces Iceland's claim to be called a "Nordic welfare state".

This is especially clear in income transfers to households, both for pensioners and working people. In fact, public pension outlays are unusually low in Iceland compared with all OECD states. Child benefits to low income families are also unusually low in Iceland.

There was a time when Iceland fared better in these comparisons, but after cuts to health services in the last decade and a half, that has changed for the worse.

The Independence Party has usually been the firmest opponent of increased welfare expenditures, and it has seen success in that stance. Since other political parties haven't pushed hard enough for strengthening the welfare state, it is important for labour to direct its attention to the matter.

I. Abnormally low welfare expenditure

Image 1 shows the OECD's comparison of public expenditure on welfare, in % of GDP.

Public expenditure on welfare, 2019

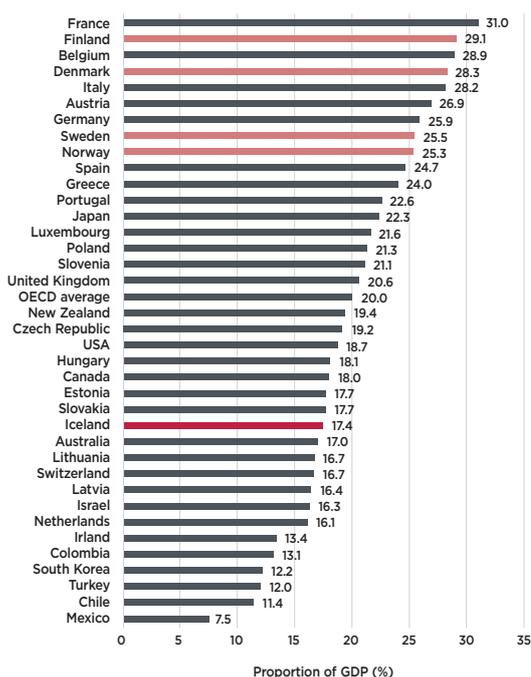


Image 1 Public expenditure on welfare, as a % of GDP in 2019. Source: OECD.

Total welfare expenditure, 2017
Compulsory pension funds' expenditure included

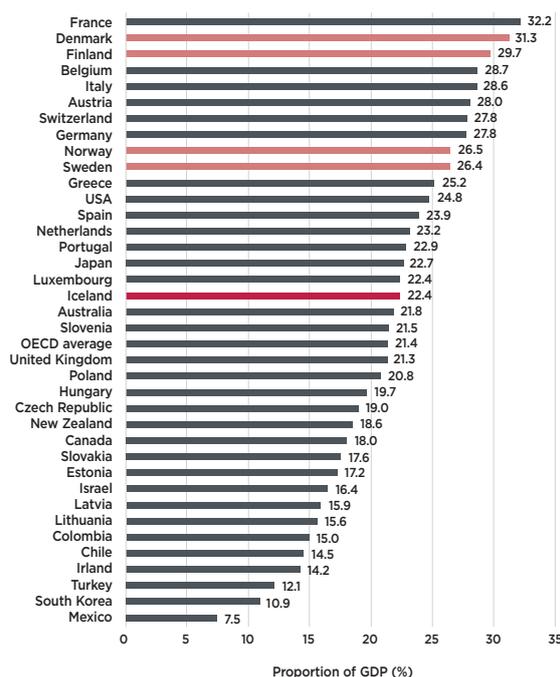


Image 2 Total welfare expenditure: The public sector and pension funds combined. Proportion of GDP in 2017. Source: OECD.

Iceland is in the 13th last place out of 37 OECD states. The other Nordic nations are in the ranks of the top nine, spending 25-29% of GDP on welfare, while Iceland is at 17%. This is an enormous difference. Iceland is on the one hand amongst the Anglophone nations, known for their weak welfare states, and on the other among much less developed, poorer states. Iceland is, therefore, not where it should be.

One of the signifiers of a Nordic welfare state is that the government has a large role in its financing, and even in the provision of the services, even if the latter isn't a necessary condition. Iceland departs quite widely from this Nordic norm.

One may think that this is all in order, since Iceland has very large pension funds. On Image 2, we see total welfare expenditure, adding up public outlays and the expenditure of pension funds with compulsory membership. Still, Iceland lags far behind the Nordic countries, remaining at about the OECD average.

The other Nordic countries spend between 26 and 31% of GDP on welfare while Iceland is at just over 22%. France is in first place and many countries in the North of continental Europe spend much more on welfare than Iceland, taking all things into account. The USA, which has many job-linked pension funds, are somewhat more generous than Iceland, but are known for having a weak public welfare state, especially for those on low incomes.

On the other hand, it is not a given that large pension funds in Iceland should lead to low public welfare expenditure. The Danes and Finns also have large pension funds, but their states spend much more on welfare than Icelanders do.

Looking at the big picture, with or without pension funds, Iceland does not measure up to a "Nordic welfare state". Let's look closer at individual pieces of the welfare state.

II. Strangely low expenditure on social security pensions

Pension payments are everywhere a large part of public welfare expenditure - except in Iceland, as seen in Image 3.

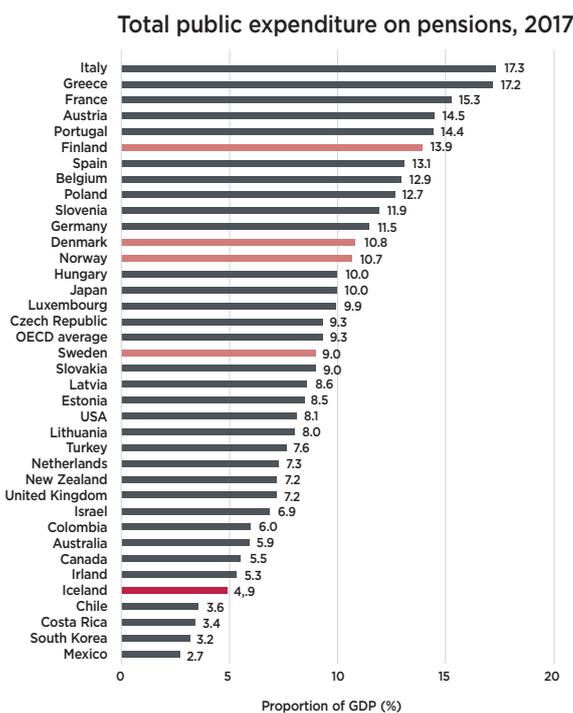


Image 3 Total public expenditure on pensions (old age- and disability pensions from social security combined) in 2017. Proportion of GDP. Source: OECD.

Here we see the combined public outlay on old age- and disability pensions. Iceland is in fifth-to-last place. We share a corner with developing countries such as Mexico, Costa Rica and Chile on the one hand, and Anglophone countries such as Ireland, Canada and Australia, countries known for limited welfare provision, on the other. Even the USA and Britain are considerably higher on the scale, with 8.1% as opposed to 4.9% in public pension expenditure.

If we only look at public outlays on old age pensions, Iceland is at rock bottom. The other Nordic countries would be way above Iceland, at about 7 to 12%, in contrast to Iceland's 2.4%.

One could say that this is due to the large pension funds. But even though old age pensions from social security and pension funds would be combined, Iceland would still be below the OECD average (at 6.2% vs 7.2%). The other Nordic countries are always higher.

These strangely low public outlays on pensions in general and old age pensions in particular draw attention to the fact that the Icelandic government's contribution to the income of retirees is abnormally low. Private sector pension funds were founded via collective agreements in 1969 to raise pension payments, not to relieve the government of its social security expenditures, but that has been the case with ever increasing cuts in recent decades.

III. Little goes to income transfers for households

Next we look at the welfare state's income transfers to households. These are first and foremost child support, interest relief and rent subsidies, as well as pension payments, but also subsidized services such as kindergartens.

Image 4 shows public expenditures on all such transfers (benefits and services), while Image 5 shows only transfers (benefits) to households of working people.

Public expenditure on income transfers: Benefits and services

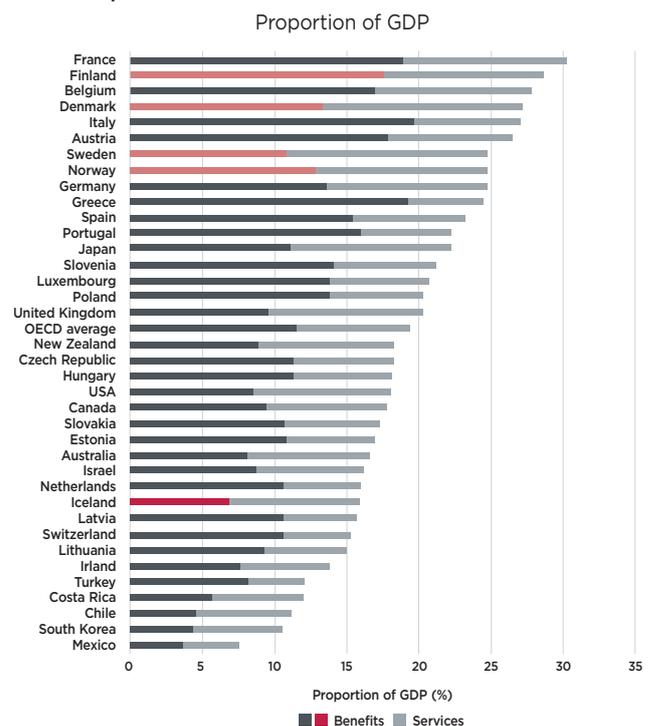


Image 4 Total public expenditure on income transfers to households. Benefits and subsidised services shown separately. Proportion of GDP in 2017. Source: OECD.

Iceland is in tenth-to-last place out of 37 OECD countries, while the other Nordic countries are among the top eight in combined income transfers to households, both in benefits (direct payments) and in subsidized services. Iceland's expenditure on benefits is at about 7%, as opposed to 12 to 18% in the other Nordic countries. For services, the figures are 9% in Iceland but 12 to 15% in the other Nordic countries. This is a significant difference. It is especially noteworthy that both Britain and the USA are above Iceland in this ranking.

Image 5 narrows the view, excluding pension payments, leaving income transfers to working people. This is mostly child benefits and housing support (interest relief and rent subsidies) as well as parental leave.

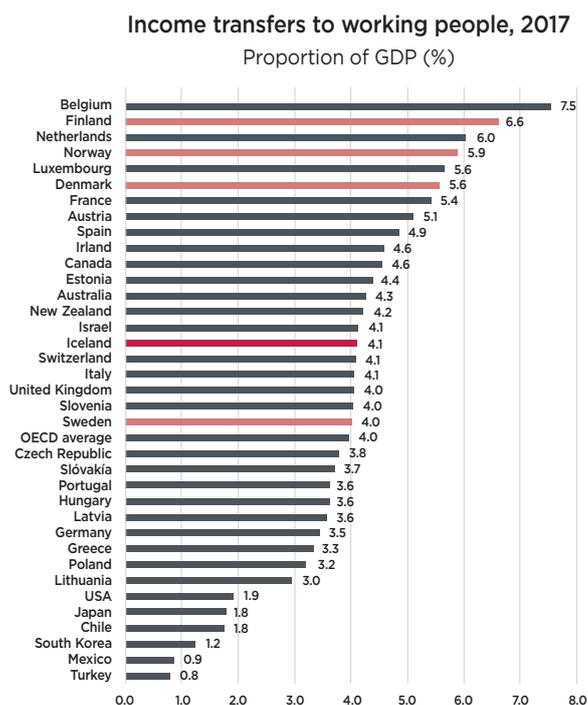


Image 5 Expenditure on income transfers to working people's households, especially children's benefits, housing support and parental support. Proportion of GDP in 2017. *Heimild: OECD.*

In this category the result is somewhat better for Iceland, since we have, for the first time, outdone one Nordic country, Sweden, though not by much. The reason is mainly that the generosity of these payments was reduced substantially in the last two decades, especially during Reinfeldt's right wing governments (2006 to 2014). However, Finns, Norwegians and Danes are well above Iceland.

Interest relief has dropped by a lot in recent years in Iceland, while housing benefits and child benefits have stood steadier. These are, on the other hand, not very high. Payments for parental leave have risen.

Let's look at child benefits more closely.

IV. Weak child benefits to low earners

Like the *Efling Economic Analysis no. 1* ("Child benefits are too low") outlined, Iceland has a high degree of means-testing and cuts to child benefits. Even though the full amount is high in Iceland, cuts have already started at the minimum wage, so no working families get the full amount. Danes are the only other Nordic country with any cuts to child benefits at all. In Denmark,

they start at about the 1.3 million kr monthly income level, while in Iceland it's 378 thousand.

The result is that even when people are well under the average wage in Iceland, they still get greatly reduced child benefits and a lower improvement in their lot than in other Nordic countries. Image 6 shows a comparison of child benefits generosity for married or cohabiting couples with two children where the household income is halfway between the poverty limit and the average wage.

We see that Iceland has the lowest child benefits (as a proportion of average wages) of countries which pay them to this demographic at all. The generosity of child benefits to this low income couple is about three to five times higher in the other Nordic countries and much higher in many continental European countries.

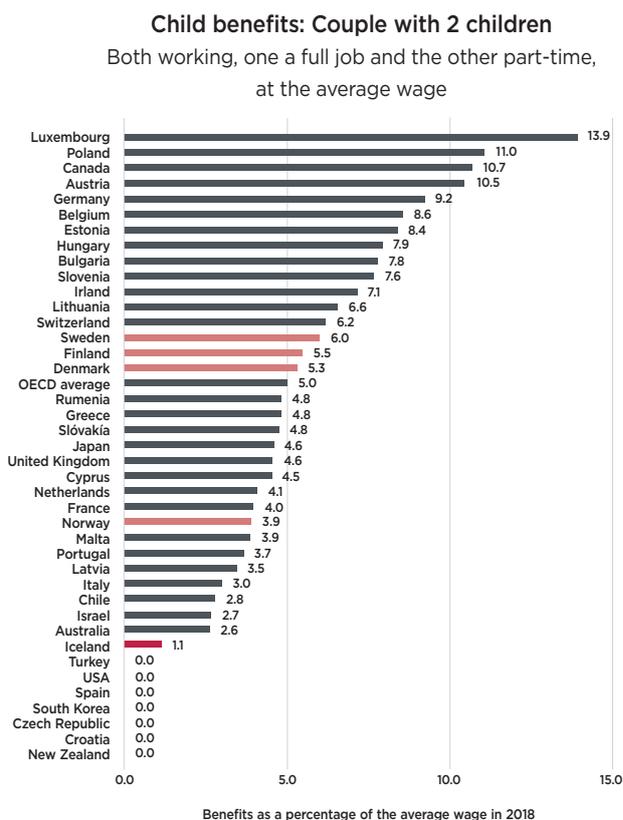


Image 6 Generosity of child benefits to families with 75% of the average income. Child benefits shown as a proportion of average wages in 2018. *Source: OECD.*

The aforementioned issue of *Efling Economic Analysis no. 1* also showed the result for single parents with two children working full-time at the minimum wage. That is the group getting the highest child benefits in Iceland. In their case, Iceland pays 8.4% of the average wage, while the other Nordic countries pay 13 to 18%.

The OECD's comparison of expenditures on rent subsidies in 2020 shows it to be considerably higher in Finland, Denmark and Sweden than in Iceland, despite rent being higher in Iceland. Interest relief dropped precipitously in recent years despite the need for them having risen greatly due to the rapidly rising housing prices (see *Efling Economic Analysis no. 2* - "Íbúðaverð hækkar og hækkar - en vaxtabætur lækka og lækka").

V. Health expenditure under the OECD average

In 2003, Iceland had the second highest health expenditure of the Nordic countries, with Norway in first place. Since then, Iceland has dropped down the list and in 2019, before the pandemic hit, it had the second lowest health expenditure of the Nordic countries and had dropped under the OECD average.

Relentless cuts and austerity from 2003 to 2008 preceded this, with additional cuts after the 2008 crash. More has been spent on health since but not enough to bring Iceland to the pre-2008 level, or indeed the 2003 level. The increased demand resulting from a larger population and a great increase in tourism hasn't been taken into account. This has led to a tightening of health-care provision. Now, the sector is facing a crisis of exhausted workers after the pandemic, risking a vicious cycle of staff flight and more strain.

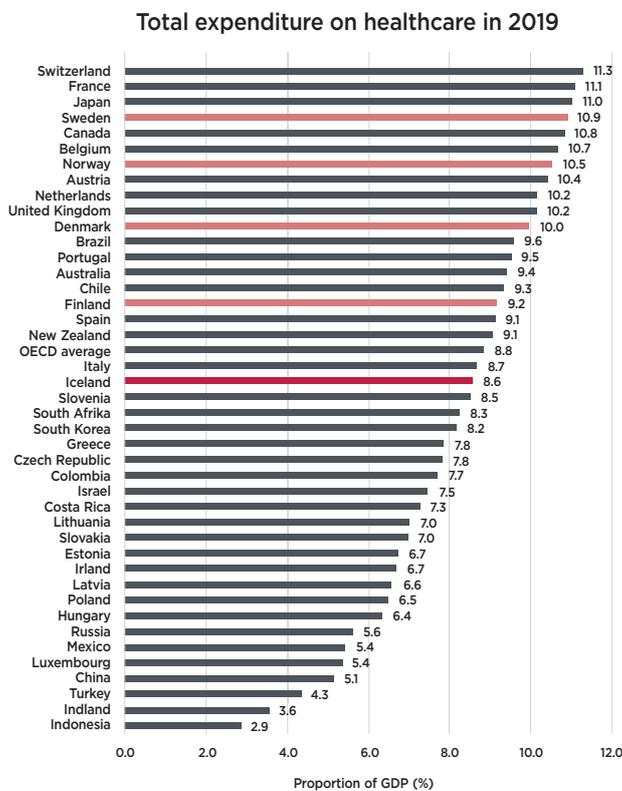


Image 7 Total healthcare expenditure. Proportion of GDP in 2019. Source: OECD.

The experience of the covid pandemic shows that the system contains good and powerful workers which moved mountains during these difficult times. But regular tasks had to be delayed and most waiting lists have gotten longer, some of them by a lot. Due to an insufficient number of beds and limited home care for older citizens, the problem of discharging people from Landspítalinn has grown difficult. Iceland spends less on the long term care of the elderly (nursing homes etc.) than the other Nordic countries (see here). The system as a whole has a deep-seated problem to deal with.

In some other parts of welfare provision the situation in Iceland is better than what we've seen here, e.g. in education. Primary school expenditures count for most, since there are many small rural schools. Expenditure on universities and on research are

closer to the OECD average. Spending on kindergarten operations and subsidies is high in Iceland, since that service, provided by municipalities, is heavily used.

It is of course quite bad for healthcare to have been eroded since 2003 while demand for it has increased greatly. Economies should of course be sought, but in Iceland, this has been done to the detriment of its quality and extent.

VI. The ill-equipped Icelandic welfare state

The outlook on Icelandic welfare isn't pitch-black across the board, but key factors of it are too weak, compared with the neighboring Nordic countries. The state's contribution to pension payments via social security is abnormally low and has grown smaller by ever-increasing cuts. Income transfers to working households, such as child benefits to low income families, are much lower here than in the other Nordic countries. Housing support has contracted just as records have been set in the increased need for this support, as housing prices and rent rise. And healthcare is worse for wear after excessive and chronic austerity.

It's evident from these data on expenditure on the main items of welfare that the Icelandic welfare state doesn't add up to a "Nordic welfare state". The state's contribution is too small, abnormally low given the wealth of the nation. Reservations must be made when claiming that Iceland has a Nordic welfare state. Key items are lacking for that to be the case.

Labour has through the years tried to fix the welfare state where the need has been greatest, such as by the founding of the private sector pension funds in the 1969 collective agreements, to raise the pension payments which, then paid from social security, were very low. The same can be said of the unions' sickness benefits funds and the VIRK rehabilitation service, as well as other rights.

All this was done to compensate for the insufficient contribution of the state and meager payments from the public welfare system. On the other hand, experience shows that the state has drawn down its contribution instead of allowing these additions to lead to a strengthened welfare system. This is most evident in pensions. The founding of the pension funds and the gains made by them has mostly been used to get the state out of social security pension payments (by way of ever increasing cuts and taxes) so the lesser part of the funds' assets has gone into benefitting pensioners. This is highly irregular and may even be called a cheat.

How did this happen? Possibly the government doesn't have enough understanding or willingness to construct and operate a better welfare system. The Independence Party is the one political party which has for most of the time kept guard against increased welfare expenditures to improve the nation's lot. It has, in fact, often talked against having a welfare state at all and rejected the path of Nordic welfare states. It is also the party which has held most power in the national government, for instance directing the finance ministry for 25 out of the last 30 years. It is obvious that this is the party most responsible for the course of welfare expenditures.

It may thus be said that the Independence Party has to a large extent achieved many of its goals in welfare, by ensuring the Icelandic welfare state is weaker and worse equipped than in other Nordic countries.

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Further information

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