The government's lightweight support for collective agreements

Efling comments on the government's statement made in support of the private sector collective agreements

Yesterday, the government presented actions meant to pave the way for collective agreements in the private sector, focusing on higher child benefits and increased housing support, as had in fact already been announced in the government's draft budget for next year.

These actions are announced as important improvements, meant to help the low and middle income groups. But not all is as it seems. The increase in child benefits is not enough to bring the real value of child benefits to the level they were at when the last private sector collective agreements were signed in 2019. A bigger contribution for housing support is meagre when compared with the government's reductions in that system in recent years. This will be demonstrated below.

Child benefits lower in real terms – despite an announced increase

Alongside the signing of the 2019 collective agreements, child benefits were raised by 5% and cuts for middle income groups were sharpened. The finance ministry then didn't correct child benefits for inflation in 2020 and 2021, and earlier this year they were finally raised by 5.8%, which was not enough to correct for the inflation in the meantime. This is shown in the graph below.

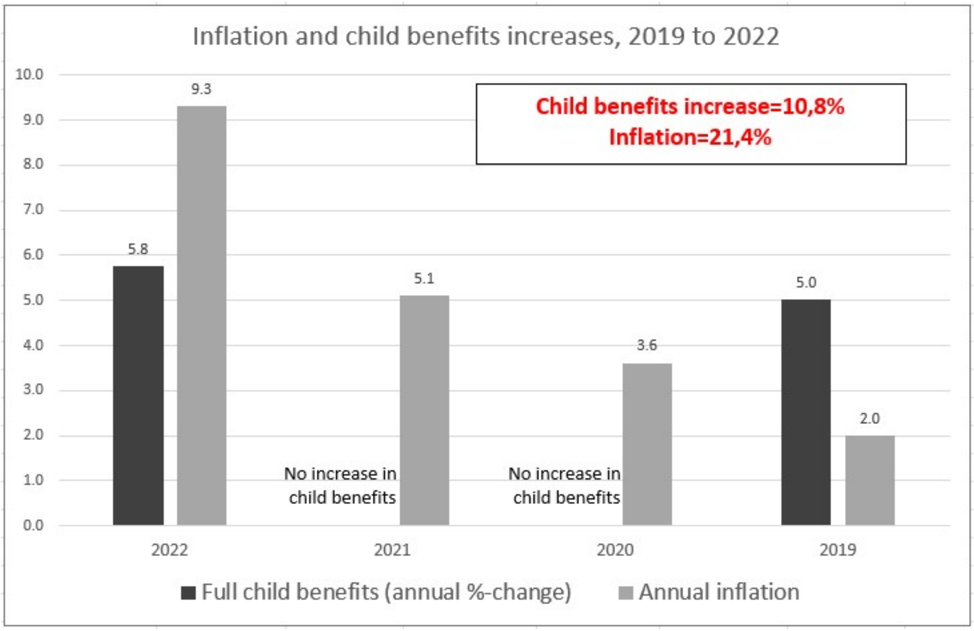

Image 1: Increases to basic child benefits and inflation, 2019 to 2022.

Prices rose by 21.4% during the term of the 2019 collective agreements, while child benefits rose by less than half that, or about 10.8%. In real terms, they decreased. Their purchasing power dropped.

The increase now announced as a support for collective agreements is meant to come into effect over two years, i.e. it <u>won't take full effect until 2024.</u> Even if it was done in full in January 2023, it would still not be enough in most cases to correct the real value of child benefits to their 2019 level. This is shown in the table below.

There, we can see how much is being paid in child benefits now per child, for couples and single parents, and increases for the supplement paid for children under 7 years of age. We also see how much people would be getting now if the benefits had been corrected for inflation in recent years, and finally we compare that to the amount as it will stand in 2024. The result shows that even given the announced increase, the purchasing power of child benefits will decrease when compared with their value after the signing of the 2019 collective agreements.

Table 1: Current value of child benefits, inflation-corrected value and announced increases as of 2024

	Child benefits in 2022	If benefits were inflation corrected since 2019	Amount **as of 2024**	Deficit vs. Inflation corrected amount
Couple, first child	248,000	301,072	**310,000**	8,928
Couple, additional child	295,000	358,130	**310,000**	-48,130
				0
Single parent, first child	413,000	501,382	**460,000**	-41,382
Single parent, additional child	423,000	513,522	**460,000**	-53,522
				0
Supplement for each child under 7	148,000	179,672	**130,000**	-49,672

Real decreases in the tens of thousands – more decreases coming

Even if the announced increase would be paid out immediately, it wouldn't be enough to maintain the real value of the benefits in most cases. Due to a system change (simplification), the benefits to each additional child will be decreased, and a supplement for young children will be lowered. This means that the real value (purchasing power) of the child benefits decreases by about 48,000kr per year for each additional child of a couple, and for single parents the benefits for any child decrease in real terms by 41,382kr to 53,552kr per year (the fourth line in the table). Those with children under the age of seven see a reduction per child of 49,672kr per year.

This would be the result if the announced increases would happen in January. But they won't be paid in full until January 2024. By that point, the amount will have lost even more of its value, by the amount of inflation next year (6% according to most projections). The result will be even worse than seen in the table.

Cuts are kept – and increased on the lower end

The cuts in child benefits will continue starting at the minimum wage, which is unusual in the OECD. Very few parents working full-time jobs will get the full amounts mentioned above. The change announced in means testing means that people on the minimum wage and up to 500,000kr a month will face more cuts, while cuts for people over 500,000kr a month will see lower cuts. The increased cuts in that group implemented in 2019 is thereby withdrawn. The payments will only be increased in that group (especially the lower middle incomes). Couples with one or more children will have their child benefits cut more when their wages go over the minimum wage. Their cuts go from 4% to 5%. This is therefore not a real improvement for low wage couples compared with 2019. It is also no improvement for single parents or parents of children under 7 years of age.

The announcement says child benefits will, all in all, increase by 5 billion kr "compared with an unchanged system in 2024". The system today has been largely uncorrected for inflation, so the increases are being measured against what they would have been if they had continued not to be corrected for inflation until 2024. That is not a real increase in child benefits by 5 billion. It is a lot less. This will be clear in the final budget for 2023 and the fiscal plan next spring.

Trickery, not improvements

Some will get higher child benefits. They are mostly lower middle income groups (people on the average wage seldom get child benefits here), but that increase will only in a few cases be enough to correct for the inflation since 2019 – and most will get lower purchasing power of their child benefits. The inflation next year will erode the increase even further. To present this as an contribution to improve the collective agreement for the lowest paid is an illusion and a cheat.

One may point to recent information on how insufficient child benefits in Iceland are compared with other OECD countries in the *Efling economic analysis* vol. 1 (see the Efling home page), both for married couples and single parents.

Housing support

Building more homes?

The government's statement repeats promises given by the infrastructure minister already on a compact with the municipalities to build 35,000 new homes. This is nothing new and it is difficult to see what this will end up providing. Payments to capital contributions will be increased, the statement says, above what the budget already contains, so they will not rise by less than inflation (as they were about to).

Higher rent support – without a rent cap or rent brake

Rent support is increased by 13.8%, in addition to a 10% increase earlier this year. They will therefore keep their real value and even increase somewhat. The average rent support was 36,800kr in October. It will rise to 41,878kr, which is an improvement. However, rent support is still too low as a share of average rent in the capital area, less than 20%.

Nothing is promised about introducing **a rent cap or rent brake**. The danger is that raising rent support, without rent control, will make it easy for landlords to raise rent even more, so that the housing support ends up in their pocket. The regulation of the rental market continues to be very unsatisfactory, which hurts the lowest paid the most.

Rising interest relief

The interest relief system has been broken for most capital area residents in the last decade. Those who have gotten any interest support at all have become much fewer each year and the amount has dropped significantly. At the same time, the need for it has increased greatly with rising prices, as the accompanying graph shows.

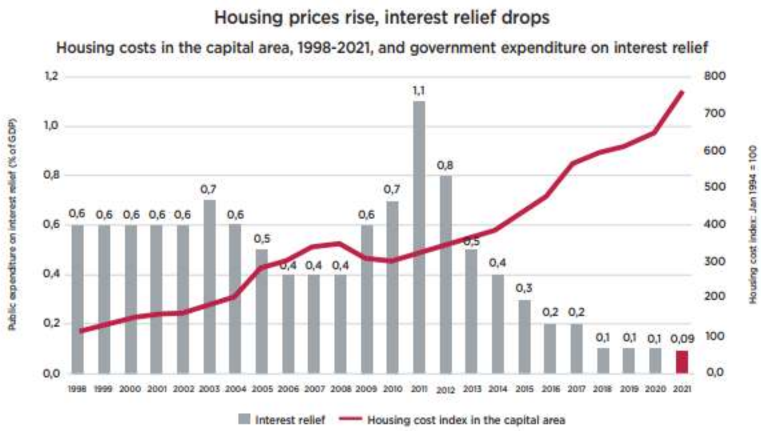

Image 2: Lowering interest support, rising home prices 1998 to 2021. Source: [Efling economic analysis vol. 2]()

This happened especially because the finance ministry didn't bother to update the equity level where cuts started in the system, nor other baselines. The system has collapsed. Now, the baseline for equity will be raised by 50%. That seems to be a big increase and is a change in policy.

However, it remains unclear what this will give and to whom. The rules on maximum interest relief are the same as they were in 2019. They have not been corrected for inflation, like so many other things in the welfare system. It is therefore unclear what benefits will redound on homeowners in this change, though presumably they'll move the system in the right direction.

Other things

The permission to use private pension savings to purchase a home is extended until 2024. This is most useful for higher income groups, as the ASÍ economics department has shown. Low income people still have insufficient support to buy a home, and the share of Efling members living in rental flats has risen sharply in recent years, from 32% in 2017 to 47% in 2022.

All in all, the actions of the governments are disappointing. The scale is nowhere near enough given the erosion of the welfare system in recent years, and the harder times faced by low-wage workers. It is sad to see the government employ trickery to try to shine up and exaggerate their contribution.

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