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Executive summaries

**Executive summary, English**

The purpose of the study presented in the report was to collect, synthesise, assess, and present information about the Icelandic labour market with a view to enabling policy makers in Iceland and the EU to take further steps to prepare Iceland for accession to the European Union. The study was set in the context of the current policy strategies of Iceland and the European Union (Europe 2020 and Iceland 2020), but also, and importantly, in the real context of the aftermath of the economic crash in Iceland in 2008 and the subsequent recession.

Hence, the study would:
- describe main features and characteristics of the Icelandic labour market;
- describe and assess the performance of the labour market in the current economic circumstances; and
- identify challenges that should be addressed by policy makers and stakeholders.

Below, we present the main findings and conclusions together with a short summary of the recommendations based on these findings.

**A small country – a highly organised labour market with corporatist features**

Iceland has a population of less than 320,000 - about the size of many mid-size European cities. Even so, the administrative and organisational structure of the country is almost as complex as in countries tens of times its size.

The main characteristic of the Icelandic labour market is that collective agreements rather than legislation govern working conditions. There is a high density of organisations, both among employees in trade unions and employers in national federations. In addition to carrying out collective bargaining concerning pay and working conditions, the social partners have a strong influence on the welfare system, as they co-manage the occupational pension funds and the rehabilitation fund. Consequently, the labour market can be described as highly organised with strong corporatist features. An important feature of the Icelandic labour market is the high participation rate – the highest in Europe. However, Icelandic productivity is low compared to other advanced economies.

The Icelandic labour market is quite flexible. Hiring and firing is relatively easy, and real wages have historically been adjusted by devaluing the Icelandic Krona (IKr). At the same time, the Icelandic labour market has strong features of income security with a universal public social security system as well as universal labour market occupational pension funds operated by the social partners.

**The state of the Icelandic labour market – trends and current situation**

The study presents an overview of the current state of affairs of the Icelandic labour market. The statistical information mainly relies on Statistics Iceland, Eurostat and the OECD. For reference, the statistical information concerning the Icelandic labour market is compared to three “benchmark countries”, i.e. Denmark, Sweden, and Malta, and the EU average.

In Iceland, more than 80% of the population between 16 and 74 years old are active in the labour market. The participation rate has consistently remained above that of the benchmark countries and
considerably above the EU27 average, also during the current recession. However, Iceland has experienced a steeper decrease in the activity rate during the crisis than the benchmark countries. The activity rate has decreased most sharply among men, young people, and those with a low educational level. This indicates that the crisis has particularly affected the traditional male-dominated occupational groups and sectors such as skilled workers in construction and industry. It also indicates that the crisis has particularly affected the lower skill levels within these sectors and occupational groups.

Like the participation rate, the Icelandic employment rate is high and has remained so during the recession. However, none of the three benchmark countries or the EU27 as a whole has experienced such a significant drop in the employment rate as Iceland did between 2006 and 2009, and in particular in 2008. In particular, the drop in the youth employment rate was much more pronounced in Iceland than in the benchmark countries, while the employment rate for workers aged 65 to 74 was almost unaffected by the crisis.

However, the overall picture conceals a shift in the occupational structure. From 2008 to 2009, jobs were lost in all occupations except associate professionals. Then again, if we look at the changes since 2006 there has been a persistent loss of jobs in manual work, particularly in agriculture and fisheries and in the clerical occupations, while the number of jobs in professional and managerial occupations and within sales and service has increased. In addition to the occupational shift, the share of part-time work in Iceland grew from 2006 to 2009, probably partly due to the introduction of part-time benefits to counter growth in unemployment. This development is gender-skewed, as many more women than men work part time. In addition, part-time work has become more common among young people.

For decades, Iceland has ranked among the top 15 OECD countries with regard to GDP/capita, although Iceland’s GDP has tended to fluctuate more than is commonly found in OECD countries. However, productivity in Iceland has generally been below the OECD average and among the bottom 10-15 nations. An explanation for this is found in the historical sectoral composition of the labour market dominated by low value added sectors, but experts also point to long working hours as a possible explanation. However, according to current projections, productivity is expected to pick up significantly in 2011 and 2012 with resumed economic growth, and the shift in the occupational composition of the labour market towards higher value added jobs supports this expectation. Wages increased significantly from 2000 until 2007 after which they decreased rapidly. However, wage inequality has increased during the 2000s. Compared to the median wage, the salaries of managers increased while the salaries of craft workers and general machine and specialised workers decreased. At the same time, the at-risk-of-poverty rate has also increased for all groups except those who are inactive for other reasons than retirement. Almost one third of Icelandic unemployed people were at risk of poverty in 2009 – the share having more than doubled since 2006. In total, approx. 22,300 persons were at risk of poverty in 2009 compared to 18,300 persons in 2006.

From the late 1990s, the rate of unemployed persons in Iceland did not exceed 4% of the total labour force, and the unemployment rate in Iceland is still considerably lower than the average unemployment rate for the EU27. However, from 2007 to 2008, the number of unemployed persons in Iceland more than tripled from 4,200 persons to 13,100 persons, and compared to the benchmark countries, the unemployment rate increased more rapidly. Following the crash, more men than women lost their jobs in Iceland and this trend was more pronounced than in the benchmark countries. As mentioned above, male-dominated occupations have been more affected by the crisis, and
more women than men have become part-time employed. Youth unemployment is also a major issue for Iceland like in most EU Member States, but again, youth unemployment has risen more quickly in Iceland than in the EU. Finally, from 2009 to 2010, the share of long-term unemployed persons increased significantly. In geographical terms, unemployment has grown more in Reykjavík compared to the other regions of Iceland.

**Flexicurity**

For decades, Iceland has experienced a significant, but variable, flow of work-related immigration to the country. During the 1990s and 2000s, the inflow of foreign labour increased considerably, most of them citizens from Eastern European countries or Far East Asia looking for jobs in the construction industry or in elementary services. Likewise, following years of contracted wages or growing unemployment, native Icelanders have mainly emigrated to the other Nordic countries. The internal geographical mobility has also played a role for the flexibility of the labour market. In recent years, foreign workers have moved out of the Reykjavík region and into neighbouring regions, where jobs have been available and housing cheaper than in the Reykjavík area.

Iceland has seen a considerable upward shift in the occupational structure over the last ten years. The share of persons in better-paid jobs with more responsibility has increased while the share of persons employed in occupations with manual work and lower rewards has decreased. This trend is particularly pronounced for women. Women already hold a larger share of professional and technical jobs than men do, while men still dominate the managerial group despite significant gains by women.

With regard to the share of part time work, Iceland is placed between Denmark (lower levels) and Sweden (higher levels). As already mentioned above, the share of part-time employment came down from 2007-2008. However, after the crash it rose again to a peak of 23% in early 2010. Since then, the share of part-time employment has gone down and is approaching pre-crisis levels.

Before the crisis, Iceland had a rather low share of temporary contracts in the labour market (levels fluctuating between 6 and 13%, with a distinct annual variation), mainly due to the strong influence of the social partners in regulating the labour market. Temporary contracts are used most frequently in connection with immigrant workers, low-skilled service jobs, and women. The use of temporary contracts became more frequent during the crisis.

**Education and skills**

The overall educational attainment of the adult population in Iceland has been steadily increasing, but it is still somewhat below the EU average. One of the main concerns of the Icelandic educational authorities is the high dropout rate from secondary schools, especially among boys/young men.

Thus, with its ambitions to do well in the knowledge and innovation-driven economy of the future Iceland still needs to do better. Improving the vocational education and training part of the secondary schools is an important condition for attaining this goal, as there is currently, according to social partners and authorities, overemphasis on general education.

Participation in lifelong learning is higher in Iceland than in Sweden, but somewhat lower than in Denmark. Participation rates came down a little in Iceland during 2008-2009, while they increased in Sweden. The social partners have collaborated on setting up centres for continuing education in all regions. The right to continuing education and training is laid down in collective agreements,
and financial resources to support participants are available. The public educational institutions also offer continuing education courses, some leading to diplomas and access to further studies.

Currently, there is considerable unused capacity in Icelandic industries and a surplus of labour. Labour shortages are largely confined to the Reykjavík area, and skills shortages mainly occur within specialised service activities. Exporting companies and companies in the service sector are more likely to plan an increase in recruitment, whereas construction and manufacturing are still facing bleak job prospects. Only about half of the companies are expected to expand their staff numbers over the next couple of years.

The aluminium smelting, thermal energy, tourism and computer games sectors are expected to grow in coming years. There is plenty of skilled labour available to take part in expansion of aluminium, thermal energy and tourism sectors. Construction of new aluminium smelting plants and thermal power plants will create jobs for skilled and unskilled construction workers. The need for specialised engineering skills is expected to be covered by experts brought in by the companies themselves on a short time basis. The prospect of future shortages of specialised skills concerns mainly the small ICT and software sector and it is not likely to occur until later. There is an inadequate supply of study opportunities in ICT at all levels from secondary VET to university.

Skill mismatches (where employees are occupied below the level of their qualification) are fewer in Iceland than in the other Nordic countries and the number is decreasing. The mismatch levels for tertiary graduates are considerably higher than for those with secondary education and the difference between males and females in Iceland is quite large compared to the other countries of the study, indicating that many women graduates are working at lower skill levels than indicated by their level of education.

**The inclusive labour market**

With its very high employment participation rates, even in the midst of the present recession, Iceland clearly has a highly inclusive labour market. The most frequent reason for inactivity is participation in education or training. During the financial crisis in 2009, a significant number of unemployed people took up education or training, especially at university level, but also at secondary level and in short courses, often as a part of activation or rehabilitation measures. The second largest group of inactive individuals in Iceland are those suffering from illness or disabilities. The remaining groups are retired or care for children or disabled adults. The employment participation of both parents of young children and after maternity leave is high in Iceland. Few people remain outside the labour market as “family carers” or are engaged in household work as a full time activity.

From the early 1990s, an increase in the number of disability pensioners gave reason for concern among politicians and the management of the occupational pension funds. From 1990 to 2010, the share of disability pensioners in the adult population doubled. However, the increase in the number of disability and rehabilitation pensioners almost stopped in 2010 due to the introduction of changed methods for testing for disability, increased supply of rehabilitation and activation programmes, and increased discipline in pushing applicants towards these programmes.

Iceland does not have an early retirement pension scheme. Therefore, the disability pension scheme provides the main route for exit from the labour market for people over the age of 60 but still under
the official pension age. Icelanders (men as well as women) retire from the labour market significantly later than citizens in other Nordic countries do.

Contrary to what happened during earlier recessions, the foreign workers who came to Iceland during the high-growth period have largely stayed in Iceland, and currently foreign workers constitute a larger share of unemployed people than could be expected from their share of the labour force. Foreign workers are subject to some degree of prejudice and ensuing discrimination in Iceland just as in other Nordic countries, but the integration problems of this group into Icelandic society do not constitute a major problem.

The effective taxation of low wages increased in Iceland from 1994 to about 2006. However, during the last two years, when the government implemented tax increases to improve public finances, the tax burden of lower income groups (low-income pensioners, low-wage workers and the unemployed) was decreased, while the tax burden of higher income groups has been increased progressively and most pronounced in 2010. In a European context, the tax rate on employees is low in Iceland as are social contributions. Hence, the total tax wedge is lower in Iceland than in all the other Nordic countries, but comparable to the US and the UK. Overall, the tax regime for low-wage workers has been favourable for employment participation.

Iceland generally exhibits very low rates of poverty for the general population and pensioners in particular. However, the in-work poverty rate is close to the EU average. The in-work poverty rate is similar for males and females. The overall at-risk-of-poverty rate for females is, however, significantly higher than for males. This is primarily due to the rather high rate for single parents, the great majority of whom are females. In-work poverty is most widespread among people with lower work intensity, especially among one-parent families. As in other Nordic countries, minimum wages are determined in collective agreements between the labour market partners in Iceland and not by means of legislation. It is likely that a decreasing level of minimum wages is one cause for in-work poverty. Other causes may be the low access to in-work benefits, such as family benefits.

**Institutional environment and implementation capacities**

In general, the Icelandic labour market institutional structures are characterised by a high degree of corporatism. Trade union density is very high in Iceland (close to 85%) due to a form of a “closed shop-arrangement”, which is the result of collective bargaining. The trade union movement as well as the employers’ organisations are organised into central federations with organisational structures quite reminiscent of the other Nordic countries. Collective agreements are commonly accommodated to local and occupational special requirements by including common clauses and a special framework for special clauses. The social partners run a sizable system for lifelong learning with centres in all the main regions of the country to improve the skill and educational levels of low-skilled employees. The Ministry of Education, Science and Culture regulates and supervises this service.

State institutions that implement welfare and employment policy goals include the Directorate of Labour, the Social Security Administration, the Directorate of Health and Public Health, the Administration of Occupational Safety and Health, the Centre for Gender Equality, and the Office for State conciliation and Mediation. Outside the state, the social partners play a major role and contribute a large share of the capacity. Thus, they manage the Sickness Funds and the Occupational Pension Funds and contribute, alongside the state, to the new Rehabilitation Fund (VIRK). The state operates the employment service, which is overseen by the Directorate of Labour.
The beginning of 2011 saw the establishment of a new Ministry of Welfare through the merger of two former ministries, the Ministry of Health and the Ministry of Social Affairs and Security. This “super ministry” was created with a view to a better coordination of social security and employment policies, and it is now responsible for by far the largest part of public expenditures. Issues that primarily concern the labour market are placed in the Department of Social and Labour Market Affairs. Additional mergers of state institutions are underway with a view to increasing public administration efficiency.

**Mapping of current policies**

The recent DG ELARG Report on Iceland for 2010 stated that Iceland does not have a formal employment policy. This is correct in the sense that no particular regulation or strategy documents have been specifically devoted to the issue. In another sense, it is incorrect, since the outcomes of Icelandic employment policies have clearly been positive.

The small-scale society has reacted to changing conditions with various *ad hoc* measures, and often these measures have become a topic for social partner dialogue and collective bargaining.

Icelandic employment policy in action has traditionally involved emphasis on job creation. However, during the last decades, job creation has increasingly been regarded as a matter for the market. Nevertheless, in the present crisis there have been frequent calls for government initiatives to underpin job creation.

Similarly, Iceland has not had much experience in implementing active labour market policies, since the need for extensive ALMP has simply not been pressing due to the low unemployment rates. However, now there is awareness of the importance of this issue due to the change.

Flexicurity is implicit in the institutional architecture of the labour market and the security system. The legislation establishing the Directorate of Labour mainly addresses administrative structures. Given the priority of the unemployment problem, the most important policy focus for the Directorate since the advent of the crisis has been the active labour market policies. The functions of the PES (Public Employment Service) have been stepped up together with the activities of EURES for individuals considering job opportunities in other countries including the recent immigrant labourers.

Due to the efforts associated with benefit payments, the task of expanding and channelling more resources into activation and support measures was delayed during this first period of the crisis. However, towards the end of 2009 they were addressed with increasing effort through the creation of special programmes targeted at the young unemployed and long-term unemployed and expansion of general programmes. The Unemployment Benefits Fund financed a significant share of the measures. In 2009, about 40% of the registered unemployed took part in active labour market measures organised by the Directorate of Labour. In 2010, the goal was that all registered unemployed people should have an offer of participation in an active measure within 3 months of registration.

The Federation of Labour and the Confederation of Employers established the *Educational Centre of the Labour Market* in 2002. Its main goal is to provide individuals who have not completed education at secondary level with opportunities to obtain an education and improve their position in the labour market. There are regional centres in all provinces and grants are available to individuals in
the target group. A 2007 evaluation assessed the centres as successful. Overall, participation in adult education and training is relatively high by international standards, but improved quality assessment is called for.

The Icelandic pension system has three main pillars:

1. the universal social security system;
2. the mandatory occupational pensions (labour market occupational pension funds); and
3. individual pension accounts.

The social security system has a means-testing rule that complicates the relationship between the social security and occupational pensions, but the individual pension savings are independent of other income.

Before the crisis, there were indications that the disability pension system carried a too large share of inactive individuals. The policy reform process aimed at moving the disability pension system and rehabilitation measures towards a more targeted filtering of disability pensioners, an increase in the supply of rehabilitation measures, and a more targeted system of operations in the area. The new system was designed to restrict the number of exit ways from the labour market to unemployment benefits and disability pensions and to give strong incentives to delay an exit from the labour market.

The Rehabilitation Fund of the Labour Market Partners was established in 2010 by a tripartite agreement. The fund operates in collaboration with the union-based sickness funds. The main objective of the new rehabilitation fund is to offer early assistance to individuals who leave the labour market due to illness or accidents to retain their link to the labour market and facilitate re-entry into the labour market. The largest group of the users of VIRK’s consulting services are beneficiaries of the unions’ sickness funds. VIRK is expected to use part of its budget to pay for measures provided by private companies or NGOs.

The reform also included a change in procedures and criteria for allocating disability pension rights, and the most recent figures for disability pensions suggest that the new procedures have been effective.

Among the new crisis measures was the introduction of temporary access to part-time benefits from the unemployment benefits fund of the Directorate of Labour. In 2009-2010, about one percentage point of registered unemployed people was using the provision and it appears to have been a very successful measure.

Before the crisis, Iceland was generally seen to be among the countries with the highest degree of gender equality in the labour market, approaching that of the other Nordic countries. The crisis hit men the hardest in the beginning; but currently, Iceland is facing increased cuts in public expenditure and this may affect women more than men.

The most significant recent legislation against discrimination is from 2007 and concerns immigrants. The following year, the government announced a 12-point progress plan to achieve the main goals of the legislation. It remains to be seen whether the present crisis will make the relationship between the immigrant population and the Icelanders more difficult than before. To date, there are no clear signs of any major negative developments in this area.
Concerning the inclusion of other groups, work continues at government level, usually in cooperation with relevant interest organisations, to facilitate progress among, e.g., the disabled and the elderly.

The main new policy affecting Icelandic wages is the Stability Pact signed by employers, unions and the government June 2009. The Stability Pact was described as a major move toward a roadmap for reconstruction. It provided for temporary stability in the labour market and defined some of the pressing needs such as job creation, reduction in interest rates, and increased efforts in rehabilitation. The Stability Pact also defined reference goals for government finances. In addition, it put great emphasis on the need for job creation and projects with names such as the enlargement of an existing aluminium plant; pushing forward a planned aluminium plant; road works; maintenance works in public and private buildings; construction of a new national hospital; and the continued construction of a national musical hall in Reykjavik.

The Stability Pact became the subject of conflict between government and employers’ organisations. Employment projects were delayed and eventually the Stability Pact ran aground. However, before that happened, some of the initiatives had been implemented with a certain effect. The government claimed that by early March 2010, 56% of the planned new jobs had already emerged and it cited other job openings in the pipeline. Some projects are still running and others are still in the planning phase.

**Main challenges for the Icelandic labour market**

We have identified a number of key challenges facing the Icelandic labour market:

*Short-term challenges* include:

- The unusually high rate of unemployment by historical standards; high rates of youth unemployment and long-term unemployment; very high concentration of unemployment in construction, commerce, finance and low value services; low educational levels and low functional mobility among the unemployed; high share of migrants among the unemployed.
- Increasing the capacity of the Directorate of Labour and the PES to plan and implement active measures in cooperation with the social partners and private operators.
- Reorganising rehabilitation measures and procedures to avoid increased flows of unemployed people onto disability pensions:
- creating new jobs through private and public investment;
- ensuring gradualism in wage bargaining on the way out of the recession;
- enhancing the social inclusion of migrant labourers; and
- avoiding a net outflow from the country of persons in the active working ages.

*Long term challenges* include:

- Increasing productivity.
- Developing policies to counter the tendencies to a dual labour market.
- Increasing the share of the population who complete a vocational or higher education.
- Developing policies and measures to tackle the growth in in-work poverty.
**Assessment of capacity and policies**

For a small economy and a small labour market like the one in Iceland, we assess that the country is well equipped with institutional arrangements and policies to cope with the challenges before it. This overall assessment is based on the observed characteristics of the Icelandic labour market and the policy and governance structures:

- The high labour market participation means that most of the adult population, including women and older people, is active in the labour force and is immediately employable.
- The historically very high flexibility in the Icelandic labour market. It is an open question, however, whether the functional flexibility of the labour force, and hence the potential job mobility, will remain sufficient to ensure that emerging sectors and industries have access to staff with the right skill sets to ensure that Iceland retains its position in the globalised economy.
- The security component is also well developed. However, some features of the social protection system call for reform, most prominently the disability pension system.

Our interviews with Icelandic labour market actors have indicated a strong focus on the challenges that face the Icelandic labour market. *The interviews indicate that the cooperation between the social partners and the Directorate of Labour could be improved to achieve greater efficiency and effectiveness of the labour market policy implementation.*

Finally, it should be noted that Iceland shares many of its labour market policy challenges with other European countries after the finance crisis.

**Recommendations**

Based on the assessment, we have the following recommendations for the Icelandic Government, authorities and social partners:

*The Directorate of Labour should:*

- develop and strengthen active labour market measures, taking a competence perspective;
- study methods used by European PES for anticipating skill needs in the labour market;
- develop criteria and procedures for quality assurance of activities carried out by private service providers to the PES and in the field of rehabilitation; and
- facilitate a better match between supply and demand for skilled labour.

*The Ministry of Welfare and the social partners should:*

- continue and deepen the review of the benefit systems; and
- monitor migration closely with a view to react if the net outflow of persons in the labour force threatens the sustainability of the economy.

*The government should:*

- Increase the capacity of Statistics Iceland to improve a timely monitoring of the labour market; and
- develop a long-term plan for increased productivity and shorter working hours.
**Synthèse (français)**

L’étude présentée dans ce rapport a eu pour objet la collecte, la synthétisation, l’évaluation et la présentation d’informations relatives au marché islandais du travail dans le but de permettre aux décideurs islandais et européens de prendre les mesures nécessaires pour préparer l’adhésion de l’Islande à l’Union européenne. Cette étude a été réalisée dans le contexte des stratégies politiques actuellement poursuivies par l’Islande et l’Union européenne (Europe 2020 et Islande 2020) mais également dans celui des suites, particulièrement concrètes, du crash économique qu’a subi l’Islande en 2008 et de la récession qui en a découlé.

Cette étude a par conséquent cherché à :
- **Décrire** les principales caractéristiques du marché du travail islandais ;
- **Décrire et évaluer** les performances dudit marché du travail dans les circonstances économiques actuelles ; et
- **Identifier** les défis devant être relevés par les décideurs et les acteurs.

Nous présentons ci-après les principales constatations et conclusions de cette étude ainsi qu’un bref résumé des recommandations qui en procèdent.

**Un petit pays au marché du travail très organisé présentant des caractéristiques corporatistes**

L’Islande compte moins de 320 000 habitants, ce qui correspond à la taille d’une ville européenne moyenne. Et pourtant, la structure administrative et organisationnelle du pays est presque aussi complexe que celle de pays dix fois plus grands.

La principale caractéristique du marché islandais du travail réside dans le fait que ce sont les conventions collectives, et non la législation, qui dictent les conditions de travail. Les organisations sont légion, tant du côté des employés, qui se réunissent en syndicats, que des employeurs, qui s’assemblent en fédérations nationales. En plus de procéder aux négociations collectives concernant les salaires et les conditions de travail, les partenaires sociaux ont également une influence considérable sur le système de protection sociale, dans la mesure où ils participent à la gestion du fonds d’assurance-chômage, aux fonds de retraite professionnelle et au fond de réhabilitation. On peut par conséquent décrire le marché du travail comme très organisé et présentant de nettes caractéristiques corporatistes. L’un des autres aspects notables du marché islandais du travail est son taux de participation à la population active très important, le plus élevé d’Europe ; la productivité islandaise, par contre, est en retrait par rapport à celle des autres économies avancées.

Le marché du travail islandais est assez flexible : l'embauche comme le licenciement sont relativement simples et, historiquement, le pays a généralement ajusté les salaires réels en dévaluant sa monnaie, la couronne islandaise (IKR). Mais simultanément, il met aussi l’accent sur la sécurité des revenus : le pays est en effet doté d’un système de sécurité sociale public et universel et de fonds de retraite professionnelle universel géré par les partenaires sociaux.

**État du marché du travail islandais : tendances et situation actuelle**

L’étude donne une vue d’ensemble de l’état actuel du marché du travail en Islande. Les données statistiques proviennent principalement de Statistics Iceland, d’Eurostat et de l’OCDE. À titre de référence, les informations statistiques concernant le marché islandais du travail ont été comparées à celles de trois « pays étalons », à savoir le Danemark, la Suède et Malte, ainsi qu’à la moyenne de l’UE.
En Islande, plus de 80 % de la population âgée de 16 à 74 ans est active sur le marché du travail ; ce taux de participation a toujours été plus élevé que celui des pays étalons et est considérablement supérieur à la moyenne de l'Europe des 27, même au plus fort de la récession actuelle. Cette dernière l'a toutefois fait chuter plus fortement que dans les pays étalons, en particulier chez les hommes, les jeunes et les personnes les moins qualifiées, ce qui indique que la crise a plus durement frappé les groupes et secteurs professionnels traditionnellement masculins, tels que la construction, l'industrie, l'agriculture et la pêche, et plus particulièrement les travailleurs les moins qualifiés de ceux-ci.

Tout comme le taux de participation à la population active, le taux d'emploi islandais est élevé et l'est resté malgré la récession. Cependant, ni les trois pays étalons ni l'Europe des 27 dans son ensemble n'ont connu une chute du taux d'emploi aussi vertigineuse que celle qu'a enduré l'Islande entre 2006 et 2009, et plus spécialement en 2008. Le pays a ainsi enregistré une baisse du taux d'emploi des jeunes nettement plus prononcée que les pays étalons, alors que l'emploi des travailleurs de 65 à 74 ans semble n'avoir pratiquement pas été affecté par la crise.

Cette vue d'ensemble dissimule toutefois un bouleversement de la structure du marché de l'emploi. De 2008 à 2009, des emplois ont été perdus dans toutes les catégories socioprofessionnelles à l'exception des professions intermédiaires. Toutefois, si l'on examine l'évolution de la situation depuis 2006, on constate une érosion constante de l'emploi dans les domaines manuels (et plus particulièrement dans l'agriculture et la pêche) ainsi que dans celui du travail de bureau, tandis que l'emploi a augmenté dans les professions libérales, chez les cadres, dans les ventes et dans les services. Outre ce bouleversement, on note également une hausse de la part du travail à temps partiel entre 2006 et 2009, probablement en raison de l'octroi d'avantages aux travailleurs à temps partiel dans le but de contrer la hausse du chômage. Cette évolution touche différemment les hommes et les femmes (ces dernières étant plus susceptibles que les premiers de travailler à temps partiel) et s'est par ailleurs fortement répandue chez les jeunes.

Depuis des décennies, l'Islande se trouve dans le top 15 des pays de l'OCDE en termes de PIB/habitant (malgré le fait que son PIB ait tendance à fluctuer plus que la moyenne) tandis que sa productivité a toujours été en net retrait et la classe plutôt dans les 10-15 dernières nations en la matière. Cette position s'explique par la composition sectorielle historique du marché du travail, lequel est dominé par des secteurs à faible valeur ajoutée ; les experts pointent également du doigt la longueur des horaires de travail. Selon les dernières projections, cette productivité devrait toutefois augmenter considérablement en 2011 et 2012 en raison du retour de la croissance économique ; l'évolution de la composition du marché du travail au profit des emplois à plus forte valeur ajoutée semble confirmer cette prévision. Les salaires, quant à eux, ont connu une hausse conséquente entre 2000 et 2007, après quoi ils sont légèrement retombés. Les inégalités de salaires se sont toutefois creusées tout au long des années 2000 : comparé au salaire médian, celui des cadres a augmenté tandis que celui des artisans et des travailleurs de base, sur machine et spécialisés a diminué. Parallèlement, le taux de risque de pauvreté a augmenté pour toutes les catégories sociales, à l'exception des personnes inactives pour une raison autre que la retraite : près d'un tiers des personnes sans emploi risquaient de passer sous le seuil de pauvreté en 2009, un taux plus que doublé par rapport à 2006 ; au total, environ 22 300 personnes couraient ce risque en 2009, contre 18 300 en 2006.

Depuis la fin des années 1990, l'Islande pouvait se targuer d'un taux de chômage ne dépassant pas 4 % de la population active ; aujourd'hui encore, celui-ci reste d'ailleurs considérablement inférieur.
à la moyenne de l'UE-27. Néanmoins, entre 2007 et 2008, le pays a enregistré un triplément du nombre de chômeurs, qui sont passés de 4 200 à 13 100 personnes ; par rapport aux pays étalons, cette hausse du chômage a également eu lieu plus rapidement. Suite à l'effondrement de l'économie, les hommes ont plus perdu leur emploi que les femmes, un clivage qui s'est manifesté de manière plus prononcée que dans les pays de référence : comme mentionné précédemment, en Islande, les emplois traditionnellement masculins ont été plus affectés par la crise, tandis que les femmes ont eu plus tendance à opter pour des emplois à temps partiel. Le chômage des jeunes constitue un grave problème pour l'Islande ; c'est également le cas dans les autres États membres de l'Union européenne, mais il a, une fois encore, augmenté plus rapidement sur l'île que dans le reste de l'UE. Enfin, la proportion de chômeurs de longue durée a fortement augmenté entre 2009 et 2010. En termes géographiques, le chômage a connu une évolution plus marquée à Reykjavík que dans les autres régions du pays.

**Flexicurité**

Cela fait des décennies que l'Islande enregistre un flux significatif mais variable de travailleurs immigrants se rendant dans le pays. Au cours des années 1990 et 2000, ce flux entrant de main-d'œuvre étrangère a considérablement augmenté ; il s'agissait essentiellement de ressortissants d'Europe de l'Est ou d'Extrême-Orient à la recherche d'emplois dans le secteur de la construction ou dans les services élémentaires. À l'inverse, après des années de travail temporaire et suite à la hausse du chômage, les Islandais de souche se sont mis à émigrer, principalement vers les autres pays nordiques. La mobilité géographique interne a également joué un rôle dans la flexibilité du marché du travail : ces dernières années, les travailleurs étrangers ont commencé à quitter la région de Reykjavík pour se rendre dans les régions voisines, où l'emploi est plus disponible et le logement moins onéreux.

La structure des professions en Islande a considérablement évolué ces dix dernières années : la proportion de travailleurs ayant un emploi mieux rémunéré et impliquant plus de responsabilité a augmenté, tandis que celle de ceux occupant un poste manuel et moins bien payé a diminué. Cette évolution se ressent particulièrement chez les femmes, qui détiennent déjà une plus grande part des professions libérales et des emplois techniques que les hommes ; ces derniers dominent néanmoins toujours les échelons de direction, malgré les progrès significatifs enregistrés par les femmes en la matière.

En matière d'importance du travail à temps partiel, l'Islande se situe entre le Danemark (où il est moins prédominant) et la Suède (où il est plus fréquent). Comme indiqué précédemment, la part du travail à temps partiel a baissé après 2007-2008 mais a de nouveau enflé après la crise pour atteindre un pic à 23 % au début de l'année 2010. Ce taux s'est depuis lors tassé et s'approche maintenant du niveau qu'il affichait avant la crise.

Avant son effondrement économique, l'Islande ne comptait qu'un nombre relativement faible de contrats de travail temporaire (entre 6 et 13 % avec une variation annuelle assez nette), principalement en raison de la forte influence qu'exercent les partenaires sociaux sur la régulation du marché du travail. Ils sont toutefois devenus plus fréquents durant la crise. Le travail temporaire concerne surtout les travailleurs immigrés, les employés peu qualifiés dans le domaine des services et les femmes.
Éducation et compétences
Le niveau d'éducation global de la population islandaise augmente progressivement mais reste encore quelque peu inférieur à la moyenne européenne. L'une des préoccupations majeures des autorités éducatives islandaises concerne le taux élevé d'abandon qu'enregistrent les écoles secondaires, en particulier chez les garçons et les jeunes hommes.

Au regard de ses ambitions consistant à tenter de se ménager une place de choix au sein de la future économie de la connaissance et de l'innovation, l'Islande doit donc encore progresser. Pour atteindre ses objectifs, elle va absolument devoir améliorer les systèmes d'enseignement professionnel de ses écoles secondaires, ces dernières se concentrant encore trop sur l'enseignement général de l'avis des partenaires sociaux et des autorités.

Le taux de participation aux programmes d'apprentissage tout au long de la vie est plus élevé en Islande qu'en Suède mais un peu moins qu'au Danemark ; notons qu'il a diminué sur l'île en 2008-2009 alors qu'il a augmenté en Suède à la même période. Les partenaires sociaux ont collaboré entre eux afin d'ouvrir des centres de formation continue dans toutes les régions du pays ; le droit à la formation continue est prévu dans les conventions collectives et les ressources financières sont disponibles. Les établissements d'enseignement publics proposent également des programmes de formation continue, certains menant même à des diplômes et offrant la possibilité d'accéder à des études supérieures.

À l'heure actuelle, l'Islande souffre d'un surplus de capacité industrielle et de main-d'œuvre ; les pénuries de main-d'œuvre sont principalement restreintes à la région de Reykjavik et celles de compétences aux services spécialisés. Les entreprises les plus susceptibles d'embaucher sont les sociétés exportatrices et les sociétés actives dans le secteur des services ; à l'inverse, les perspectives restent peu engageantes dans la construction et la fabrication ; globalement, seule la moitié des entreprises devraient procéder à une augmentation de personnel au cours des deux prochaines années.

On s'attend toutefois à une croissance dans les secteurs et industries suivants au cours des années à venir : fusion de l'aluminium, énergie thermique, tourisme et jeux vidéo. L'Islande ne manque pas de main-d'œuvre qualifiée pour satisfaire à l'expansion des activités dans les trois premiers domaines et la construction de fonderies d'aluminium et de centrales thermiques va générer de l'emploi pour les travailleurs qualifiés comme non-qualifiés ; les besoins en compétences d'ingénierie spécialisée devraient quant à eux être comblés par des experts amenés à titre temporaire par les entreprises concernées. C'est surtout le secteur de l'informatique et des logiciels (secteur de taille minime) qui devrait être confronté à une pénurie de compétences spécialisées ; cette pénurie ne frappera probablement pas dans l'immédiat, mais on note un manque de possibilités de formation en informatique à tous les niveaux, du secondaire professionnel à l'université.

La surqualification (employés occupant un poste pour lequel ils sont surqualifiés) est moins présente en Islande que dans les autres pays scandinaves et enregistre d'ailleurs un repli. Elle concerne cependant nettement plus les titulaires de diplômes de troisième cycle que les diplômés du secondaire, et la différence entre hommes et femmes est considérablement plus prononcée en Islande que dans les autres pays, indiquant que bon nombre de femmes travaillent en dessous de leur niveau de qualification.
Un marché du travail ouvert

Au regard de son taux de participation à la population, lequel reste particulièrement élevé même au plus fort de la récession actuelle, on peut sans hésitation affirmer que l'Islande possède un marché du travail très ouvert. En fait, la cause la plus fréquente d'inactivité est l'éducation ou la formation : durant la crise financière de 2009, un nombre significatif de chômeurs a repris l'enseignement ou entamé une formation (principalement au niveau universitaire mais également dans le secondaire ou sous la forme de cours accélérés), souvent dans le cadre de mesures d'activation ou de réhabilitation.

En termes de volume, le deuxième groupe d'inactifs du pays est celui des personnes malades ou handicapées. Viennent ensuite les retraités et les personnes prenant soin d'adultes handicapés ou d'enfants. De manière générale, le taux de participation à l'emploi est élevé chez les parents de jeunes enfants après le congé de maternité ; rare sont les Islandais qui restent en marge du marché du travail afin de s'occuper de leur famille ou des travaux ménagers à plein temps.

Au début des années 1990, l'augmentation du nombre de bénéficiaires de pension d'invalidité a commencé à préoccuper la classe politique ainsi que les gestionnaires des fonds de retraite professionnelle. Leur part dans la population adulte a doublé entre 2008 et 2010. Cette croissance s'est toutefois arrêtée net en 2010 suite à l'introduction de nouvelles méthodes de vérification des invalidités, à une multiplication des programmes de réhabilitation et d'activation et à un renforcement de la discipline visant à diriger les demandeurs de pension vers lesdits programmes.

L'Islande ne possède pas de régime de retraite anticipée. La pension d'invalidité constitue par conséquent le principal moyen de sortir du marché du travail pour les personnes ayant entre 60 ans et l'âge officiel de la retraite ; les Islandais (hommes comme femmes) quittent le marché du travail nettement plus tard que les citoyens des autres pays nordiques.

Contrairement à ce qui s'est produit lors des récessions précédentes, les travailleurs étrangers arrivés en Islande durant la période de forte croissance y sont pour la plupart restés. Ils représentent actuellement une plus grande part de la population sans emploi que ne pourrait le laisser penser leur part de la population active. Comme dans les autres pays scandinaves, les travailleurs étrangers établis en Islande sont victimes d'un certain nombre de préjugés et, par conséquent, de discriminations ; leur intégration dans la société islandaise ne semble toutefois pas constituer un problème majeur.

L'imposition effective des bas salaires sur l'île a augmenté entre 1994 et 2006 environ. Ces deux dernières années, par contre, le gouvernement a, dans le but d'améliorer les finances publiques, pris des mesures qui ont diminué la charge fiscale des groupes à plus faibles revenus (petits retraités, travailleurs à bas salaire et chômeurs) et augmenté progressivement celle des groupes à revenus plus élevés, le maximum ayant été atteint en 2010. Par rapport au reste de l'Europe, l'impôt touchant les employés est faible en Islande, de même que les cotisations sociales ; au total, la pression fiscale est inférieure à celle des autres pays nordiques, mais comparable à celle des États-Unis ou du Royaume-Uni. Dans l'ensemble, le régime fiscal des travailleurs à bas salaires contribue favorablement à la participation à l'emploi.

L'Islande possède un taux de pauvreté particulièrement faible, tant pour la population dans son ensemble que pour les retraités. Son taux de pauvreté active, par contre, est proche de la moyenne de l'UE ; s'il concerne de manière similaire les hommes et les femmes, le taux global de risque de
La pauvreté est nettement plus élevé chez ces dernières, essentiellement en raison du nombre élevé de familles monoparentales, un phénomène touchant très majoritairement les femmes. La pauvreté active, quant à elle, est plus répandue chez les personnes affichant une plus faible intensité de travail, surtout au sein des familles monoparentales. Comme dans les autres pays nordiques, les salaires minimaux sont déterminés lors des négociations collectives entre partenaires sociaux et non par la législation. Il est probable que la baisse de ceux-ci constitue l'une des causes du développement de la pauvreté active, les autres pouvant résider dans le manque d'accès aux avantages octroyés aux travailleurs, comme les allocations familiales.

**Environnement institutionnel et capacités de mise en œuvre**

De manière générale, les structures institutionnelles du marché islandais du travail se caractérisent par un corporatisme marqué. L'Islande possède un taux de syndicalisation très élevé, proche des 85 %, résultant des « accords en clubs fermés » que sont les négociations collectives. Les syndicats, de même que les associations patronales, se sont organisés en fédérations centrales disposant de structures rappelant fortement celles que l'on retrouve dans les autres pays scandinaves. Les conventions collectives sont d'ordinaire adaptées sur mesure aux exigences locales (voire à certains métiers) en prévoyant, en plus des clauses communes, un cadre spécial pour les clauses spécifiques. Les partenaires sociaux gèrent un vaste système de formation continue assorti de centres implantés dans toutes les grandes régions du pays et visant à améliorer le niveau de compétences et d'éducation des employés peu qualifiés. Ce service est réglementé et supervisé par le Ministère de l'éducation, des sciences et de la culture.

Diverses institutions gouvernementales ont pour tâche de poursuivre les objectifs des politiques adoptées en matière de protection sociale et d'emploi, parmi lesquels la Direction du travail, l'administration de la sécurité sociale, la Direction de la santé et de la santé publique, l'administration de la santé et de la sécurité au travail, le Centre pour l'égalité entre les sexes et le bureau gouvernemental de conciliation et de médiation. À côté de l'État, les partenaires sociaux jouent un rôle institutionnel majeur et participent largement aux capacités du pays : ils gèrent en effet la caisse de maladie et les fonds de retraite professionnelle et contribuent avec l'État au fonds de réhabilitation VIRK. L'État gère quant à lui le service d'aide à l'emploi, lequel est supervisé par la Direction du travail.

Au début de l'année 2011, le Ministère de la santé et le Ministère des affaires sociales et de la sécurité sociale ont fusionné pour former le nouveau Ministère de la protection sociale. Ce « super ministère » a été créé dans l'optique de mieux coordonner les politiques en matière d'emploi et de sécurité sociale et est dorénavant responsable de ce qui constitue, de loin, la plus grande part des dépenses publiques du pays. Les questions concernant principalement le marché du travail tombent dans l'escarcelle du Département des affaires sociales et du marché du travail. D'autres institutions gouvernementales sont en cours de fusion, l'objectif étant de rendre l'administration publique plus efficace.

**Cartographie des politiques actuelles**

Le rapport 2010 de la DG Élargissement sur l'Islande, récemment publié, indique que le pays ne possède pas de politique formelle en matière d'emploi. Cette affirmation est exacte dans le sens où il n'existe effectivement aucun document législatif ni stratégique spécifiquement consacré à la question ; elle est néanmoins incorrecte dans la mesure où les résultats de la politique islandaise dans le domaine de l'emploi se sont très clairement révélés positifs.
La société islandaise, une société à petite échelle, a réagi au changement par une série de mesures ad hoc qui sont souvent devenues des thèmes de dialogue social et de négociations collectives.

En termes d'actions, la politique d'emploi islandaise a traditionnellement toujours été axée sur la création d'emploi : même si, ces dernières décennies, cette tâche a de plus en plus été considérée comme relevant du marché, on a assisté lors de la crise actuelle à de fréquents appels à l'initiative gouvernementale dans ce domaine.

De la même façon, l'Islande ne possède qu'une expérience limitée des politiques actives de gestion du marché du travail (PAMT), la faiblesse persistante du taux de chômage ne les ayant jamais rendues indispensables. Comme nous allons le démontrer ci-après, l'évolution des circonstances semble toutefois avoir entraîné une prise de conscience de leur importance.

En Islande, la flexicurité apparaît implicitement dans l'architecture institutionnelle du marché du travail et dans le système de sécurité sociale. Si la législation qui a entraîné la création de la Direction du travail traite principalement de structures administratives, la principale tâche de cette direction depuis le début de la crise réside, en raison de la priorité du problème du chômage, dans les politiques actives de gestion du marché du travail. Les SPE ont vu leurs prérogatives étendues en même temps qu'EURES a intensifié ses activités à destination des personnes évaluant les possibilités d'emploi à l'étranger et des travailleurs récemment immigrés.

Au début de la crise, en raison des efforts liés au paiement des allocations, le déblocage et l'allocation de ressources supplémentaires aux mesures d'activation et de soutien ont été reportés à plus tard ; fin 2009, ces questions ont toutefois été abordées plus sérieusement, par la création de programmes ciblant spécifiquement les jeunes chômeurs et les chômeurs de longue durée et par l'élargissement de programmes généralistes. Les mesures ont en grande partie été financées par le fonds d'assurance-chômage. En 2009, environ 40 % des chômeurs inscrits étaient engagés dans les mesures d'activation organisées par la Direction du travail et, en 2010, l'objectif était de proposer à chaque chômeur, dans les trois mois suivant son inscription, de participer à une mesure d'activation.

Le Centre éducatif du marché du travail a été fondé par la Fédération du travail et la Confédération des employeurs en 2002. Son objectif principal est de fournir aux personnes qui n'ont pas terminé l'enseignement secondaire la possibilité de s'éduquer et d'améliorer leur position sur le marché du travail. Il dispose de centres régionaux dans toutes les provinces et propose des bourses aux personnes du groupe cible. D'après une évaluation menée en 2007, les centres sont une réussite. Dans l'ensemble, la participation aux programmes d'éducation et de formation pour adultes est relativement élevée par rapport au reste du monde, mais il reste à mettre en place un processus d'évaluation de la qualité.

Le système de retraites islandais se compose de trois grands piliers : le système de sécurité sociale universel, les cotisations de retraite professionnelle obligatoires (fonds de retraite professionnelle géré par les partenaires sociaux) et les comptes épargne-pension individuels. Le système de sécurité sociale est assorti d'un critère de revenus qui complique la relation entre sécurité sociale et retraites professionnelles, mais l'épargne-pension individuelle est prise en compte séparément du reste des revenus.

Avant la crise, plusieurs éléments semblaient indiquer que le système de pension d'invalidité couvrait une proportion trop importante de personnes inactives. Une réforme a alors été entreprise.
afin de filtrer plus strictement les bénéficiaires de ladite pension et des mesures de réhabilitation, d'accroître l'offre en matière de mesures de réhabilitation et de mieux cibler les activités dans ce domaine. Le nouveau système a été conçu de manière à restreindre les possibilités de sortie du marché du travail vers les allocations de chômage et les pensions d'invalidité et à inciter les citoyens à rester plus longtemps sur le marché du travail.

Le **Fonds de réhabilitation des partenaires du marché du travail (VIRK)** a été fondé en 2010 en vertu d'un accord tripartite et est géré en collaboration avec les fonds d'assurance-maladie des syndicats. Son objectif essentiel est d'offrir une aide précoce aux personnes qui quittent leur emploi en raison d'une maladie ou d'un accident, aide axée sur le maintien d'un lien avec le marché du travail et l'aide à la réinsertion dans celui-ci. Les plus grands usagers des services de consultation du VIRK sont les bénéficiaires des fonds syndicaux d'assurance-maladie. Il est prévu que le VIRK alloue une partie de son budget au financement des mesures mises en œuvre par les ONG et les entreprises privées.

La réforme a également compris une modification des procédures et critères d'octroi de la pension d'invalidité ; les derniers chiffres semblent indiquer que ces nouvelles procédures sont efficaces.

Parmi les nouvelles mesures de crise, citons l'introduction d'un **accès temporaire aux allocations de chômage à temps partiel** accordé par le fonds d'assurance-chômage de la Direction du travail. En 2009-2010, environ un pour cent des chômeurs inscrits faisaient usage de cette disposition ; la mesure est considérée comme une grande réussite.

Avant la crise, l'Islande était généralement considérée comme l'un des pays où l'égalité entre les sexes sur le marché du travail était la plus poussée, celle-ci étant proche du niveau des autres pays nordiques. Et effectivement, au départ, ce sont les hommes qui ont le plus gravement été touchés par la crise ; aujourd'hui cependant, le pays doit faire face à une réduction plus drastique des dépenses publiques, ce qui risque d'affecter les femmes plus que les hommes.

La législation récente la plus significative dans le domaine de la lutte contre les discriminations date de 2007 et concerne les immigrants. L'année suivante, le gouvernement a annoncé un plan d'intervention en 12 points visant à atteindre les principaux objectifs de cette législation. Il reste à voir si la crise actuelle va compliquer les relations entre Islandais et population immigrée ; à ce jour, on ne constate toutefois aucun signe clair d'évolution négative grave en la matière.

Dans le domaine de l'intégration des autres groupes de population, le travail se poursuit au niveau gouvernemental, généralement en collaboration avec les organisations compétentes, par exemple concernant la défense des personnes âgées ou handicapées.

En matière de salaires, l'acte politique le plus important est le **Pacte de stabilité** signé par les employeurs, les syndicats et le gouvernement en juin 2009. Décrit comme une étape essentielle sur la route de la reconstruction, ce pacte a assuré une stabilité temporaire sur le marché du travail, a défini certains des besoins les plus pressants, parmi lesquels la création d'emploi, la baisse des taux d'intérêts et l'intensification des efforts de réhabilitation et a fixé des objectifs de référence en matière de finances publiques. Il a par ailleurs fortement mis l'accent sur la nécessité de créer de l'emploi, et est allé jusqu'à citer certains projets, à savoir: élargissement d'une usine de production d'aluminium existante, avancement de la construction prévue d'une aluminerie, travaux routiers,
travaux d'entretien de bâtiments publics et privés, construction d'un nouvel hôpital national, continuation de la construction d'une salle de représentations musicales à Reykjavík.

Malheureusement, ce Pacte de stabilité est rapidement devenu un sujet de discorde entre le gouvernement et les organisations patronales ; les projets liés à l'emploi ont été retardés et le pacte a fini par s'embourber. Avant que cela ne se produise, certaines des initiatives ont toutefois pu être mises en œuvre avec un certain succès : le gouvernement a ainsi affirmé que dès le début du mois de mars 2010, 56 % des nouveaux emplois prévus avaient déjà été créés et que d'autres étaient en train d'émerger. Certains projets sont toujours en cours et d'autres restent prévus.

Principaux défis attendant le marché islandais du travail
Nous avons identifié un certain nombre de grands défis auxquels le marché islandais du travail va être confronté :

Défis à court terme :
- Le taux de chômage a atteint un sommet historique pour le pays : taux élevés de chômage des jeunes et de chômage à long terme ; concentration très élevée du chômage dans les secteurs de la construction, du commerce, de la finance et des services à faible valeur ajoutée ; faible niveau d'éducation et faible mobilité fonctionnelle des chômeurs ; part importante des migrants parmi les chômeurs.
- Accroître la capacité de la Direction du travail et du SPE à prévoir et appliquer des mesures d'activation en collaboration avec les partenaires sociaux et les opérateurs privés.
- Réorganiser les mesures et procédures de réhabilitation afin d'éviter d'accroître le flux des chômeurs se dirigeant vers les pensions d'invalidité.
- Créer de nouveaux emplois en procédant à des investissements privés et publics.
- Assurer la progressivité des négociations salariales au sortir de la récession.
- Améliorer l'intégration sociale des travailleurs migrants.
- Éviter un exode net du pays des personnes dans les tranches d'âge économiquement actives.

Défis à long terme :
- Accroître la productivité.
- Formuler des politiques permettant de contrer les tendances menant à un marché du travail à deux vitesses.
- Accroître la part de la population terminant un programme d'enseignement professionnel ou supérieur.
- Formuler des politiques et des mesures permettant de combattre la pauvreté active.

Évaluation des capacités et des politiques du pays
Pour une économie et un marché du travail aussi modestes, nous estimons que l'Islande est bien équipée, le pays disposant des structures institutionnelles et des politiques nécessaires pour faire face aux défis qui l'attendent. Cette évaluation globale se base sur les caractéristiques observées du marché du travail de l'île et de ses structures politiques et de gouvernance :
Le taux de participation à la population active est particulièrement élevé, ce qui signifie que la majeure partie de la population adulte, y compris les femmes et les personnes âgées, se trouve sur le marché du travail et est immédiatement employable.

Le marché du travail a historiquement toujours été très flexible en Islande. Il est toutefois permis de se demander si la flexibilité fonctionnelle de la main-d'œuvre et, par conséquent, sa mobilité professionnelle potentielle, resteront suffisantes pour offrir aux secteurs et industries émergents les travailleurs disposant des compétences dont ils auront besoin et ainsi permettre à l'Islande de retrouver sa place dans l'économie mondiale.

La composante « sécurité sociale » est elle aussi bien développée. Certains aspects du système de protection sociale appellent toutefois à une réforme, en particulier le système de pension d'invalidité.

Nos entretiens avec les acteurs du marché du travail islandais ont révélé un engagement très sérieux vis-à-vis des défis qui attendent le pays. Ils indiquent également que la coopération entre les partenaires sociaux et la Direction du travail pourrait être améliorée afin d'appliquer plus efficacement les politiques liées au marché du travail.

Enfin, il convient de rappeler qu'au lendemain de la crise financière, l'Islande partage avec les autres pays d'Europe bon nombre des défis auxquels elle est confrontée en matière d'emploi.

**Recommandations**

Sur la base de la présente évaluation, il est possible d'adresser au gouvernement, aux autorités et aux partenaires sociaux islandais les recommandations suivantes :

**La Direction du travail devrait :**
- Développer et renforcer ses mesures de gestion active du marché du travail et les axer sur les compétences.
- Étudier les méthodes employées par les SPE européens pour anticiper les besoins en compétences du marché du travail.
- Formuler des critères et développer des procédures d'assurance qualité concernant les activités exercées par les prestataires de services privés pour le compte du SPE et en matière de réhabilitation.
- Mieux mettre en correspondance l'offre et la demande de travail qualifié.

**Le Ministère de la protection sociale et les partenaires sociaux devraient :**
- Continuer à approfondir l'examen des systèmes d'allocations.
- Suivre de près les migrations afin de pouvoir réagir au cas où un exode net de la main-d'œuvre mettrait en danger la viabilité de l'économie.

**Le gouvernement devrait :**
- Accroître les capacités de Statistics Iceland afin d'être mieux à même de suivre les évolutions du marché du travail.
- Concevoir un plan à long terme visant à accroître la productivité et à réduire le temps de travail.
Zusammenfassung, Deutsch

Ziele der Studie waren also:

- eine Beschreibung der Merkmale und Hauptcharakteristiken des isländischen Arbeitsmarktes;
- eine Beschreibung und Bewertung der Leistung des Arbeitsmarktes unter den gegenwärtigen wirtschaftlichen Umständen; sowie
- ein Aufzeigen der Probleme, vor denen die politischen Akteure und Interessenvertreter stehen.

Im Folgenden präsentieren wir die Hauptergebnisse und Schlussfolgerungen sowie eine kurze Zusammenfassung der Empfehlungen, die auf diesen Ergebnissen basieren.

Ein kleines Land – ein hoch organisierter Arbeitsmarkt mit korporatistischen Zügen
Island hat eine Bevölkerung von weniger als 320.000 Einwohnern - das entspricht einer europäischen Stadt mittlerer Größe. Dennoch ist die Verwaltungs- und Organisationsstruktur des Landes nahezu so komplex wie in Ländern, die mehr als zehnmal so groß sind.


Der isländische Arbeitsmarkt ist recht flexibel. Einstellungen und Entlassungen sind vergleichsweise einfach und die Reallöhne werden traditionell durch die Abwertung der isländischen Krone (IKR) angepasst. Gleichzeitig herrscht auf dem isländischen Arbeitsmarkt ein hohes Maß an Einkommenssicherheit und es gibt ein umfassendes, öffentliches Sozialsystem sowie umfassende Fonds für die betriebliche Altersversorgung, die von den Sozialpartnern verwaltet werden.

Der Zustand des isländischen Arbeitsmarktes – Trends und gegenwärtige Lage


Flexicurity


Ausbildung und Kompetenzen

Der allgemeine Bildungsstand der erwachsenen Bevölkerung in Island steigt beständig an, bewegt sich jedoch noch immer knapp unter dem EU-Durchschnitt. Eine der Hauptsorgen für die isländischen Bildungsbehörden ist die hohe Schulabbrecherquote in der Sekundarstufe, besonders bei Jungen/jungen Männern.
In diesem Bereich hat Island noch einige Anstrengungen zu unternehmen, um seinen Ambitionen in Bezug auf eine wissens- und innovationsorientierte Volkswirtschaft der Zukunft gerecht zu werden. Die Verbesserung der Berufsausbildung und des Erwerbs von beruflichen Kompetenzen in der Sekundarstufe ist eine wichtige Voraussetzung, um dieses Ziel zu erreichen, denn den Sozialpartnern und Behörden zufolge wird gegenwärtig ein zu großer Schwerpunkt auf die Allgemeinbildung gelegt.


Eine Unterforderung der Beschäftigten betrifft weniger Island als die anderen skandinavischen Länder und nimmt ab. Die Fehlbeschäftigung von Absolventen der höchsten Berufskategorien auf der Ausbildung bezeichnete Island im Vergleich zu den anderen Ländern als relativ hoch. Es zeigt sich, dass viele weibliche Absolventen in niedrigere Beschäftigungen eintreten, als ihrer Qualifikation entspricht.
Der inklusive Arbeitsmarkt


In Island gibt es keine Möglichkeit, vorzeitig in Rente zu gehen. Daher ist das Verlassen des Arbeitsmarktes wegen Berufsunfähigkeit der Hauptausweg für Menschen über 60, die das offizielle Rentenalter noch nicht erreicht haben. Isländer und Isländerinnen verlassen den Arbeitsmarkt deutlich später als die Bürger der anderen skandinavischen Länder.


Die effektive Besteuerung von niedrigen Einkommen stieg in Island zwischen 1994 bis etwa 2006. Während der beiden vergangenen Jahre, als die Regierung Steuererhöhungen zur Verbesserung der öffentlichen Finanzlage erließ, nahm die Steuerlast der niedrigen Einkommensgruppen (Rentner mit geringen Einkommen, Arbeitskräfte aus den unteren Lohngruppen und Arbeitslose) aber ab, während die Steuerlast der höheren Einkommensgruppen schrittweise zunahm, am stärksten 2010. Im europäischen Vergleich sind die Steuersätze für die Einkommenssteuer in Island niedrig, ebenso wie die Sozialabgaben. Daher ist die gesamte Steuerlast in Island geringer als in allen anderen skandinavischen Ländern, aber in etwa vergleichbar mit den USA und Großbritannien. Generell war die Besteuerung der Arbeitskräfte im Niedriglohnbereich günstig für die Erwerbsbeteiligung.

Island hat allgemein eine sehr geringe Armutsrate, was für die allgemeine Bevölkerung ebenso gilt wie für Rentner. Die Armutsgefährdung von Beschäftigten liegt jedoch nahe am EU-Durchschnitt. Diese ist bei Männern und Frauen gleich. Das allgemeine Armutsrisiko ist jedoch für Frauen bedeutend höher als für Männer. Dies liegt vor allem an der ziemlich hohen Zahl Alleinerziehender, von

**Institutionelle Umgebung und Umsetzungsfähigkeit**


Zu den staatlichen Institutionen, die die Ziele der Sozial- und Beschäftigungspolitik umsetzen, zählen das Direktorat für Arbeit, die Verwaltung für soziale Sicherung, das Direktorat für Gesundheit und öffentliche Gesundheit, die Verwaltung für das betriebliche Gesundheitswesen, das Zentrum für Gleichstellung sowie das Büro für Schlichtung und Mediation. Außerhalb des Staates spielen die Sozialpartner eine Hauptrolle und tragen einen großen Anteil zur Kapazität bei: Sie verwalten den Krankheitsfonds und den Fonds für betriebliche Altersversorgung und leisten zusammen mit dem Staat einen Beitrag zum neuen Wiedereingliederungsstock VIRK. Der Staat betreibt die Arbeitsämter, die vom Direktorat für Arbeit überwacht werden.


**Übersicht über die gegenwärtigen Strategien**

Der jüngste DG ELARG Bericht über Island für 2010 stellt fest, dass Island keine formelle Beschäftigungspolitik hat. Das ist insofern zutreffend, als dieser Frage keine bestimmten Regulierungen oder speziellen strategischen Dokumente gewidmet sind. In einer anderen Hinsicht ist es aber nicht zutreffend, da die Ergebnisse der isländischen Beschäftigungspolitik eindeutig positiv sind.

Die kleine Gesellschaft hat auf die sich verändernden Bedingungen mit verschiedenen Ad-hoc-Maßnahmen reagiert, die häufig ein Gegenstand des Austausches und der kollektiven Tarifverhandlungen zwischen den Sozialpartnern waren.

Ebenso hat Island nicht sehr viele Erfahrungen bei der Umsetzung einer aktiven Beschäftigungspolitik, da der Bedarf einer extensiven aktiven Beschäftigungspolitik wegen der niedrigen Arbeitslosenraten nicht sehr hoch war. Dennoch gibt es jetzt angesichts des veränderten Umfelds ein Bewusstsein für die Bedeutung dieser Frage, wie wir im Folgenden zeigen werden.


Das isländische Rentensystem hat drei Hauptpfeiler: das generelle soziale Sicherungssystem, obligatorische Betriebsrenten (Fonds für betriebliche Altersversorgung) und individuelle Rentenanwartschaften. Das soziale Sicherungssystem hat eine Regelung für Bedarfsprüfungen, die das Verhältnis zwischen der sozialen Sicherung und den Betriebsrenten verkompliziert, doch die individuellen Rentenansparungen sind von anderen Einkommen unabhängig.

Vor der Krise gab es Anzeichen dafür, dass das Berufsunfähigkeitsrentensystem einen zu großen Anteil der Nichterwerbstätigen trug. Der politische Reformprozess zielte darauf ab, das Berufsunfähigkeitsrentensystem und die Wiedereingliederungsmaßnahmen so zu verändern, dass berufsunfähig-
hige Rentner stärker herausgefiltert werden, die Versorgung mit Wiedereingliederungsmaßnahmen steigt sowie das System bei den Operationen in diesem Bereich zielgerichteter wird. Das neue System war darauf ausgelegt, die Austrittsmöglichkeiten aus dem Arbeitsmarkt auf Arbeitslosenunterstützung und Berufsunfähigkeitsrenten zu begrenzen und starke Anreize für einen späteren Austritt aus dem Arbeitsmarkt zu geben.


Die Reform umfasst auch einen Wandel bei den Verfahren und Kriterien für die Verteilung der Berufsunfähigkeitsrentenansprüche, und die jüngeren Zahlen bei den Berufsunfähigkeitsrenten zeigen, dass die neuen Verfahren Wirkung zeigen.


Vor der Krise wurde Island als eines der Länder mit dem höchsten Grad an Gleichstellung zwischen den Geschlechtern auf dem Arbeitsmarkt angesehen, das sich dem Niveau der anderen skandinavischen Länder annäherte. Die Krise betraf anfänglich stärker die Männer, doch die zunehmenden Kürzungen bei den öffentlichen Ausgaben in der jüngeren Zeit könnten Frauen stärker treffen als Männer.


Was die Inklusion von anderen Gruppen betrifft, gibt es weiter Anstrengungen auf Regierungsebene, in der Regel in Zusammenarbeit mit den betreffenden Interessenverbänden, um Fortschritte gegenüber z. B. Behinderten und Senioren zu ermöglichen.

Die wichtigste politische Initiative in Bezug auf die Löhne in Island ist der Stabilitätspakt, der im Juni 2009 von Arbeitgebern, Gewerkschaften und der Regierung abgeschlossen wurde. Der Pakt wurde als zentraler Schritt in Richtung eines Fahrplans für den Wiederaufbau beschrieben. Er bot eine vorübergehende Stabilität auf dem Arbeitsmarkt und formulierte einige der dringendsten Erfordernisse wie die Schaffung von Arbeitsplätzen, die Senkung der Zinssätze und stärkere Anstrengungen bei der Wiedereingliederung. Der Stabilitätspakt definierte auch Referenzziele für die Finanzausgaben der Regierung. Zusätzlich legte er großes Gewicht auf die Notwendigkeit, neue Ar-


**Zentrale Herausforderungen für den isländischen Arbeitsmarkt**

Wir haben eine Reihe von zentralen Herausforderungen identifiziert, vor denen der Arbeitsmarkt in Island steht:

**Die kurzfristigen Herausforderungen umfassen:**

- Reorganisation der Wiedereingliederungsmaßnahmen und -verfahren, um größere Abflüsse von Arbeitslosen in die Berufsunfähigkeitsrenten zu vermeiden.
- Schaffung neuer Arbeitsstellen durch private und öffentliche Investitionen.
- Sicherstellung von schrittweisen Ergebnissen bei den Tarifverhandlungen auf dem Weg aus der Rezession.
- Förderung der sozialen Inklusion von Arbeitskräften mit Migrationshintergrund.
- Vermeidung eines Nettoabflusses von Personen in den aktiven Altersgruppen aus dem Land.

**Die langfristigen Herausforderungen umfassen:**

- Steigerung der Produktivität.
- Entwicklung von Strategien, um den Tendenzen in Richtung eines dualen Arbeitsmarkts entgegenzuwirken.
- Steigerung des Anteils an der Bevölkerung, die eine berufliche oder höhere Bildung abschließen.
- Entwicklung von Strategien und Maßnahmen, um die Zunahme von Armut in Beschäftigung zu bekämpfen.

**Bewertung der Kapazität und Strategien**

Für eine kleine Volkswirtschaft und einen kleinen Arbeitsmarkt wie den in Island schätzen wir ein, dass das Land gut ausgestattet ist mit institutionellen Arrangements und Strategien, um die Heraus-
forderungen zu bewältigen, vor denen es steht. Die allgemeine Beurteilung basiert auf den beobachteten Merkmalen des isländischen Arbeitsmarktes und der Politik und Regierungsstrukturen:

- Die hohe Beteiligung am Arbeitsmarkt bedeutet, dass die Mehrheit der erwachsenen Bevölkerung einschließlich Frauen und Älteren aktiv erwerbstätig und unmittelbar zu beschäftigen sind.
- Die historisch sehr hohe Flexibilität des isländischen Arbeitsmarktes. Es ist jedoch eine offene Frage, ob die funktionale Flexibilität der Erwerbstätigen und somit die potenzielle Mobilität auf dem Arbeitsmarkt ausreichend sein werden, um sicherzustellen, dass aufstrebende Sektoren und Branchen Zugang zu Beschäftigten mit den richtigen Kompetenzen und Qualifikationen haben, um sicherzustellen, dass Island seine Stellung in der globalisierten Wirtschaft behält.
- Auch die Sicherungskomponente ist gut entwickelt. Dennoch müssen einige Merkmale des sozialen Sicherungssystems reformiert werden, vor allem das Berufsunfähigkeitsrentensystem.

Unsere Interviews mit Akteuren auf dem isländischen Arbeitsmarkt haben einen starken Fokus auf die Herausforderungen gezeigt, vor denen der isländische Arbeitsmarkt steht. Die Interviews zeigen, dass die Kooperation zwischen den Sozialpartnern und dem Direktorat für Arbeit verbessert werden könnte, um eine größere Effizienz und Effektivität bei der Umsetzung der Arbeitsmarktstrategien zu erreichen.

Schließlich soll daran erinnert werden, dass Island nach der Finanzkrise viele seiner Herausforderungen bei den Arbeitsmarktstrategien mit anderen europäischen Ländern teilt.

**Empfehlungen**

Auf der Grundlage der Beurteilung können der isländischen Regierung, den Behörden und Sozialpartnern die folgenden Empfehlungen gegeben werden:

**Das Direktorat für Arbeit sollte:**

- aktive Arbeitsmarktmaßnahmen entwickeln und verstärken und dabei eine Kompetenzperspektive einnehmen
- Methoden untersuchen, die von anderen europäischen Arbeitsverwaltungen angewandt werden, um den Kompetenzbedarf auf dem Arbeitsmarkt zu antizipieren
- Kriterien und Verfahren für die Qualitätssicherung der von den privaten Dienstleistungsanbietern für die Arbeitsverwaltungen und im Bereich der Wiedereingliederung durchgeführten Aktivitäten entwickeln
- eine bessere Abstimmung zwischen dem Angebot und der Nachfrage bei Facharbeitern ermöglichen

**Das Sozialministerium und die Sozialpartner sollten:**

- die Überprüfung des Leistungssystems fortführen und vertiefen
- Migration genau überwachen, um zu reagieren, wenn der Nettoabfluss von Personen aus dem Arbeitsmarkt die Nachhaltigkeit der Wirtschaft bedroht

**Die Regierung sollte:**

- die Kapazität von Statistics Iceland steigern, um eine zeitnahe Beobachtung des isländischen Marktes zu verbessern
einen langfristigen Plan für eine Steigerung der Produktivität und eine Verkürzung der Arbeitszeit entwickeln.
1. Introduction
Iceland applied for EU membership in July 2009 in the midst of an unprecedented financial crisis, which was having a severe impact on the country’s labour market. As unemployment numbers had risen to almost 8%, the Commission recommended opening accession negotiations in February 2010. A central part of this process is to prepare Iceland for full participation in the Open Method of Coordination on the European Employment Strategy on the day of accession.

The purpose of this document is to advance Iceland’s labour market transformation, make progress in adapting the employment system to be able to implement the Employment Strategy, and thus prepare Iceland for accession to the European Union.

The report was prepared under contract to the European Commission, Directorate General for Employment, Social Affairs and Equal Opportunities by a team comprising: Tine Andersen, Section Manager, PhD, Danish Technological Institute, Centre for Policy and Business Analysis; Karsten Frøhlich Hougaard, Consultant, MSc, Danish Technological Institute, Centre for Policy and Business Analysis; and Professor Stefán Ólafsson, University of Iceland

The views expressed in the report are not necessarily those of the European Commission.
2. The Icelandic labour market in a European perspective

2.1. Country context: Small country, complex institutions

In the European context, Iceland is characterised by being a small, open economy. Traditionally, the country has relied on fishery, while energy intensive industry and tourism have grown fast in recent decades. Iceland modernised fast in the post-war period and has been among the top 10-12 most affluent nations since the 1970s. In 2008, the Icelandic financial system collapsed as the international financial crisis gathered momentum, with Iceland previously having experienced an extremely booming economy, especially from 2003 and onwards. Following the collapse of the major Icelandic banks, the economy has been in a deep recession that defines the context for the present study.

In comparison to most European countries, Iceland has a very small population (317,600 in 2010\(^1\)), which is about the size of many mid-size European cities. Even so, the administrative and organisational structure of the country is almost as complex as in countries tens of times its size.

2.2. Labour market: A Nordic model with pronounced corporatist features

Agreements not regulations govern the working conditions

The Icelandic labour market has many of the institutional characteristics commonly found in the Nordic countries, such as a high density of organisations, both among employees in trade unions and employers in national federations. The Federation of Labour (ASÍ) compares to the LO (confederations of labour unions) in the other Nordic countries. Overall, a great potential for centralised cohesion exists in the Icelandic labour market, even though the bargaining power resides in individual sectoral and local unions. When the organisations arrive at a collective agreement with national application, which is common, these agreements are based on a common understanding of shared interests in governing the labour market with as little interference from the state as possible.

Overall, the Icelandic labour market can be described as highly organised with strong corporatist features (Eðvaldsson 2008 and Ólafsson 2007). The unusually high level of trade union density, with about 85% of employees unionised, is an important feature of that landscape, as is the joint management by employers and unions of the occupational pension funds as well as some other undertakings in the area of welfare services.

Icelanders work - and work long hours

A prime characteristic of the performance of the labour market is a long-time very high employment participation rate, and generally low levels of unemployment. However, short-term recessions are relatively common in the highly fluctuating Icelandic economy. In particular, the country displays high employment participation among women, late retirement of older workers as well as a relatively high rate of employment participation of disabled individuals.

On the one hand, employees generally work long weeks. On the other hand, they enjoy long summer holidays and a fair number of general public holidays. The high level of work input into the Icelandic labour market is an important cause of Iceland’s high affluence. However, the high participation and long working hours do not result in a proportionally high output, as productivity is low compared to other advanced economies.

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\(^1\) Source: Statistics Iceland, http://www.statice.is/statistics/population
A flexible and secure labour market

Overall, the Icelandic labour market displays many of the features of flexibility. Hiring and firing is relatively easy, and real wages are easily adjusted to large setbacks in the economy, such as in the present crisis, by means of the flexibility of the national currency (the Icelandic Krona – IKr.). Thus, devaluating the currency induces inflation that adjusts the real wages to the large economic setbacks. At the same time, the Icelandic labour market has strong features of income security with a universal public social security system, as well as universal labour market occupational pension funds operated by the social partners. Consequently, the structure of the labour market environment should make it very easy for it to adjust to major fluctuations. However, it is of great importance to assess how the labour market performs in the unusually challenging current conditions, and how it can play a role in the economic restructuring processes needed in the short term as well as the long term in order for Iceland to continue the development of a knowledge-based and innovation-driven economy.

2.3. Iceland 2020

In January 2011, the Icelandic government presented “Iceland 2020” – a policy statement for an efficient economy and society”. The document presents a vision for Iceland towards 2020 as well as a number of recommendations and tasks that fall under the areas of responsibility of specific ministries (Prime Minister’s Office, 2011). The recommendation headlines of the document are as follows:

Policies and Projects

This recommendation includes a strategy for the economy and society; an economic and fiscal plan until 2020; an economic activity plan and a collaborative forum on preliminary measures for employment and the labour market.

The strategy for the economy and society contains fifteen social objectives and five economic and development objectives. The strategy is closely related to Europe 2020.

The social objectives are:

1. To reduce the percentage of people receiving disability pensions from 6.9% of the population to 5.7% by 2020.

2. To reduce the unemployment rate (> 12 months) to under 3% by 2020.

3. To achieve greater equality in Iceland, by lowering the Gini coefficient for disposable income to around 25 by 2020.

4. To narrow the gender gap in order to bring the Global Gender Gap Index close to 0.9 by 2020.

5. To improve well-being and sound mental health so that the average measurements on the WHO-5 well-being index rise from 64 in 2009 to 72 in 2020.

6. To reduce the percentage of Icelanders aged between 20-66 who have not received any formal secondary education, from 30% to 10% by 2020.
7. That 4% of the GDP shall be allocated to research, development and innovation by 2020. The investment by the private sector shall be 70% against a 30% contribution from the public sector through contributions to competitive funds and research programmes.

8. That by 2020, Iceland be in the top 10 nations on the E-government development index and E-participation Index measured by the United Nations.

9. That by 2020, the high-tech industry will account for 10% of the GDP and 15% of the value of exports.

10. That a minimum of 20% of the fuels used in the fisheries industry will be eco-friendly by 2020 and that 20% of all fuels used in transport will be eco-friendly.

11. That by 2020 Iceland shall have made commitments comparable to those of other European nations with regard to the United Nations’ Framework Convention on Climate Change.

12. That eco-innovation and its products be the main growth sector of this decade, with an annual growth in turnover of 20%, which will double between 2011 and 2015.

13. That by 2020, 75% of new vehicles weighing less than five tons will run on eco-friendly fuel.

14. That the percentage of domestic food consumed by Icelanders will have increased by 10% by 2020.

15. That by 2020, the skills of Icelandic elementary school pupils be comparable to those of the top 10 nations classified by the OECD Programme for International Student Assessment (PISA) in the domains of reading and mathematical and scientific literacy.

The economic and development objectives are:

1. That Treasury debt shall not exceed 60% of the GDP by 2020.

2. That, by 2020, inflation shall be no more than two per cent higher than inflation in the three EU member states with the lowest inflation rates.

3. That, by 2020, interest rates (long-term interest rates) shall be no more than two per cent higher than the interest rates in the three EU member states with the lowest interest rates.

4. That the UN’s Human Development Index (HDI) for Iceland shall be comparable to those of the top five nations on the index.

5. That the Genuine Progress Indicator (GPI) shall always remain on a level with the growth in GDP.
**Integrated planning**
In order to implement the priorities and objectives of Iceland 2020, changes will have to be made to the structure of the public sector and the strategic tools that have been used over the past years will need to be reviewed.

**Specific projects to follow up the policy statement and economic activity plan**
A list of key factors underpinning the implementation of the Iceland 2020 vision including education, creation of new jobs within selected industries, strengthening of local government, increased focus on competitiveness; a review of the tax system, etc.

Iceland 2020 forms the basis for the Icelandic government’s policy-making and planning over the coming years. Hence, the assessment of the labour market in Iceland, which is the key focus of the present report, must be within the framework of Iceland 2020.
3. The current state of the Icelandic labour market

The following overview of the current state of affairs of the Icelandic labour market is primarily guided by the Employment Guidelines as set out in the EES and Europe 2020. The guidelines are:

- Guideline 7: increasing labour market participation and reducing structural unemployment.
- Guideline 8: developing a skilled workforce responding to labour market needs, promoting job quality and lifelong learning.
- Guideline 9: improving the performance of education and training systems at all levels and increasing participation in tertiary education.
- Guideline 10: promoting social inclusion and combating poverty.

As Guideline 9 is mainly directed at the education and training system, this guideline is not at the centre of the study, but we have analysed the interface between employment policies and lifelong learning policies.

In the following sections, statistics for the Icelandic labour market are compared with figures for other countries and for EU. The statistical information relies mainly on Statistics Iceland, Eurostat and the OECD. In most tables, the figures for Iceland are set against those of Denmark and Sweden in spite of their much bigger populations (Denmark: 5,534,738; Sweden 9,340,682)\(^2\), because they share important cultural and political characteristics with Iceland. In addition, Malta is included as a benchmark country being an island state like Iceland with a population of comparable size (412,970). Finally, the EU27 is included in the comparative analysis to complete the picture.

3.1. Participation in the labour market

Iceland has a long tradition for a high participation rate (more than 80% of the population’s 16-74 years old are active in the labour market). Indeed, the participation rate has consistently remained above that of the benchmark countries and considerably above the EU27 average, which was 63.4% in 2009. However, during the recent financial and economic crisis, the total activity rate decreased from 82.5% in 2006 to 80.3% in 2009.

---

\(^2\) Source: Eurostat, figures for 2010
Figure 3-1: Total activity rates, Iceland and benchmark countries

Source: Eurostat. The activity rate is calculated by dividing the number of active persons aged 15 to 74 by the total population of the same age group. Please note that the age group used for Iceland is 16 to 74.

While Iceland – in comparison to the benchmark countries – still has a high activity rate despite a decrease over the past two years, it is noticeable that Iceland has experienced a steeper fall in the activity rate during the crisis than the benchmark countries as illustrated in Figure 3-1. In fact, among the benchmark countries, only Denmark experienced a drop in the total activity rate from 2006-2009, while the other benchmark countries (Sweden, Malta and the EU27) saw a small increase in the activity rate in the same period.

The crisis has affected men more than women
The decrease in the Icelandic activity rate displays a gender difference. The activity rate among men has decreased most from 86.9% in 2006 to 84.1% in 2009. In comparison, the female activity rate dropped from 77.8% in 2006 to 76.4% in 2009. This gender difference indicates that the crisis has particularly affected the traditional male-dominated occupational groups such as craftsmen, skilled workers in construction and industry and in agriculture and fishery.

...and young people more than the older age groups
The crisis has also affected the activity rate for young people age group 16 to 24 significantly. In 2007, the activity rate for this group was 79.9%, but by 2009, it had decreased to 73.1%. Compared to the benchmark countries, the activity rate of young people in Iceland is still much higher. Thus, the average activity rate in the EU27 for young people in the age group 15 to 24 years was 44.2% in 2007 and 43.8% in 2009. Nevertheless, the decrease has been steeper in Iceland compared to the benchmark countries.

At the other end of the scale, the crisis has had no negative effect on the activity rate of senior workers in the age group 65-74 years. On the contrary, the activity rate in this age group increased by 2 percentage points from 33.1% in 2006 to 35.1 in 2009. This development is in line with the trend in the benchmark countries, although the activity rate for senior workers is much higher in Iceland compared to Denmark (10.5% in 2009), Sweden (12.7% in 2009) and the average for the EU27 (7.8% in 2009).
As illustrated in Figure 3-2 above, the starting point in 2006 for people with pre-primary, primary and lower secondary education was much lower than for those with upper secondary or higher education. In addition, those with the lowest level of education experienced the steepest drop in the activity rate from 78.1% in 2006 to 74% in 2009.

The capital region is hardest hit by the crisis

A final aspect in this overview of the activity rate is the differences between the geographical regions of Iceland. As illustrated in Figure 3-3 below, the crisis has affected the activity rate in all regions of Iceland. However, Reykjavík has experienced a slightly higher activity rate drop compared to the other geographical areas.
3.2. Employment

The following section provides an overview of the employment in Iceland. Before dissecting employment in terms of gender, age, educational background and occupational groups, a general overview of the Icelandic labour force is required to relate the development in percentage to real people.

Table 3-1: General overview of the labour force in Iceland 2006-2009

<table>
<thead>
<tr>
<th>Year</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour force</td>
<td>174,600</td>
<td>181,500</td>
<td>184,100</td>
<td>180,900</td>
</tr>
<tr>
<td>Employed persons</td>
<td>169,600</td>
<td>177,300</td>
<td>178,600</td>
<td>167,800</td>
</tr>
<tr>
<td>Unemployed persons</td>
<td>5,000</td>
<td>4,200</td>
<td>5,500</td>
<td>13,100</td>
</tr>
</tbody>
</table>

Source: Statistics Iceland

From 2006 to 2008 the labour force increased by 9,500 people from 174,600 persons to 184,100. However, from 2008 to 2009, the labour force dropped by 3,200 persons in one single year. This development is reflected in the activity rate described above. At the same time, the number of unemployed persons more than tripled from 2007 to 2009 from 4,200 persons to 13,100 persons.

Turning from real figures to relative figures, the development in the Icelandic employment rate can be described as shown in Figure 3-4.

Figure 3-4: Total employment rate

Compared to the benchmark countries, the Icelandic employment rate was significantly higher both before and after the financial and economic crisis. While the 2009 Icelandic employment rate was 74.5%, the average for the EU27 in 2009 was 57.7%. However, none of the three benchmark countries or the EU27 as a whole has experienced such a significant drop in the employment rate as Iceland from 2006-2009. Analysing the trends in employment by gender, the employment rate for men and women started dropping in 2007, but the drop from 2008-09 was much more pronounced than in the EU27. In addition, the employment rate for men dropped significantly more than for women as illustrated in Figure 3-5.
In the EU, the average participation rate for women has continued to increase during the crisis. This increase was fuelled by countries with a very low employment rate among women in the mid-2000’s (such as Malta with 29.4% in 2006) which experienced a considerable growth in women’s employment rate.

As mentioned in Section 3.1, the recent crisis has largely affected young people. As illustrated in Figure 3-6, the employment rate for persons aged 16 to 24 in Iceland dropped 12.8 percentage points from 2007 to 2009 from 74.3% to 61.5%. Thus, the drop in the youth employment rate is much more pronounced in Iceland compared to the benchmark countries. Then again, the employment rate for senior workers aged 65 to 74 has been almost unaffected by the crisis. In 2009, the employment rate for this group was 34.3% in Iceland compared to 34.7% in 2008. The average employment rate for this group in EU27 was 7.7% in 2009.

Figure 3-6: Employment rate among 15-24 year old persons

Source: Eurostat. The employment rate is calculated by dividing the number of employed persons aged 15 to 24 by the total population of the same age group. Please note that the age group used for Iceland is 16 to 24.
Comparing the different regions of Iceland in terms of employment rate, Reykjavík has been the most affected by the crisis. From 2007 to 2009, there was a drop in the employment rate by 8.2 percentage points in Reykjavík while the “other regions” experienced a less significant drop in the employment rate with 5.2 percentage points.

Figure 3-7: Employment rate in Iceland by region

This difference between regions can partly be explained by a significant loss of jobs in Reykjavík within the occupational groups of clerks, crafts and related trade workers as well as so-called elementary occupations.

Table 3-2 below provides a detailed overview of the development in the number of employed persons by occupational groups for the whole country. With the exception of associate professionals, all occupational groups have lost jobs from 2008 to 2009. However, if we look at the changes back to 2006, the table shows that significant job losses among clerks and workers in agriculture and fishery were already evident in 2007. Hence, job losses cannot be ascribed to the crisis alone, but also to some extent are signs of more profound changes in the business structure.

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Note: This occupational group according to ISCO 88 covers a diverse selection of non-academic occupations, including all types of technicians (all sectors) as well as assistants and technicians in health, social services and education.
Table 3-2: Index of employed persons by occupational groups

<table>
<thead>
<tr>
<th>Occupational Groups</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legislators and managers</td>
<td>100,0</td>
<td>115,2</td>
<td>118,6</td>
<td>116,6</td>
</tr>
<tr>
<td>Professionals</td>
<td>100,0</td>
<td>104,7</td>
<td>119,9</td>
<td>117,2</td>
</tr>
<tr>
<td>Associate professionals</td>
<td>100,0</td>
<td>109,2</td>
<td>112,6</td>
<td>113,0</td>
</tr>
<tr>
<td>Clerks</td>
<td>100,0</td>
<td>95,2</td>
<td>84,1</td>
<td>73,8</td>
</tr>
<tr>
<td>Service and sales workers</td>
<td>100,0</td>
<td>108,9</td>
<td>105,4</td>
<td>97,0</td>
</tr>
<tr>
<td>Agricultural and fishery workers</td>
<td>100,0</td>
<td>87,8</td>
<td>81,7</td>
<td>80,5</td>
</tr>
<tr>
<td>Craft and related trades workers</td>
<td>100,0</td>
<td>95,9</td>
<td>99,5</td>
<td>86,0</td>
</tr>
<tr>
<td>Plant and machine operators</td>
<td>100,0</td>
<td>102,1</td>
<td>94,8</td>
<td>86,6</td>
</tr>
<tr>
<td>Elementary occupations</td>
<td>100,0</td>
<td>108,5</td>
<td>95,4</td>
<td>80,8</td>
</tr>
<tr>
<td>Total</td>
<td>100,0</td>
<td>104,6</td>
<td>105,3</td>
<td>98,9</td>
</tr>
</tbody>
</table>

Source: Statistics Iceland. (2006 =Index 100).

Employed. Persons are classified as working if they worked one hour or more in the reference week or were absent from the work they usually carry out. Individuals on birth leave are considered absent from work if they went on leave from a paid job, even if they have no intentions of returning to the same job.

Occupational groups. The respondent’s occupation or last occupation is classified according to the international job classification ISCO88, as adapted to Icelandic conditions.

The fact that the loss of jobs during the crisis mainly affected manual labour occupations can be seen in Figure 3-8, which shows the Icelandic employment rate by the highest level of education obtained. The patterns of change in the occupational structure that emerge from Figure 3-8 are in line with the long-term trend during the last two decades or so. However, the crisis exaggerates the decline in manual and low service jobs, and some of these jobs will most likely be regained once growth resumes.

Figure 3-8: Employment rate in Iceland by highest level of education attained

From 2006 to 2009, the employment rate for persons with pre-primary, primary and lower secondary education dropped 8 percentage points. At the other end of the educational spectrum, the employment rate for persons with tertiary education as their highest level of education “only” dropped 3.6 percentage points in the same period. Comparing to the benchmark countries, the trend is more complex. In Denmark, Sweden and Malta as well as the EU27, persons with tertiary education experience a significantly higher employment rate compared to persons with a lower educational
background. However, the decreasing employment rates caused by the recent crisis are more equally distributed among the three educational groups. For further details, please see the charts in Annex 2.

A final aspect of the employment situation in Iceland is the ratio between part-time and fulltime employed persons. As illustrated in Figure 3-9, a larger share of the total number of employed persons in Iceland was employed part-time in 2009 compared to 2006. This is also the case in the benchmark countries. However, the part-time employment ratio has increased more substantially in Iceland. A part of the explanation to this development is the introduction of part-time benefits (see Section 7.4, p. 91f. for further details).

The share of part-time employed women is three times higher than that of part-time employed men in Iceland. The crisis has cemented this gender difference. The largest increase in the part-time employment ratio is among young people. Hence, in 2006 the part-time employment ratio for persons between 16 and 24 in Iceland was 30.5. In 2009, the ratio had increased to 48.7.

Figure 3-9: Part-time employment as a percentage of the total employment

![Chart showing part-time employment as a percentage of total employment.](chart)

Source: Eurostat. The part-time employment rate is calculated by dividing the number of part-time employed persons aged 15 to 74 by the total number of employed persons in the same age group. Please note that the age group used for Iceland is 16 to 74.

### 3.3. Wages and productivity

Since the 1970s, Iceland has had a comparatively high GDP per capita. Most of the time it has ranked among the top 15 OECD countries, and at times it has moved up into the rank of the top 10 countries. Iceland’s GDP generally fluctuates more than is commonly found in OECD countries. In that sense, Iceland has been a member of the most affluent Western countries for decades. However, if we look at productivity, as reflected in GDP per hour actually worked, a different picture emerges, as can be seen in Figure 3-10.
On that score, Iceland has generally been below the OECD average and among the bottom 10-15 nations. In 2008, as shown in the Figure 3-10, the level was at its highest, with Iceland then being at the top of the boom preceding the collapse in October that same year. Productivity was thus more favourable in that year than generally in the decade before.

**High output, but also high labour input – low productivity**

The low productivity is possibly associated to the sectoral composition of the labour market with a historical dominance of low value added sectors. However, experts also point to another explanation: Most occupational groups in Iceland have had a high work participation rate as well as long weekly working hours for a long time. Long summer holidays (commonly about 6 weeks) and frequent public holidays during the year counteract the long weekly hours. Nevertheless, Iceland generally ranks among the OECD countries with the highest average number of annual hours actually worked among the working population (Employment Outlook 2010). The long working hours are clearly associated with low productivity levels in the Icelandic labour market (Porter and Ketels 2007). A relatively large overall labour input is thus a significant part of Iceland’s high affluence level, as measured by GDP per inhabitant, and has been so for a long time.

Table 3-3 gives an overview of productivity in the total economy from 2000 up to 2009 with a prognosis up to 2012 from the OECD as well as data from Icelandic sources on nominal wage developments and unit labour costs. The overall productivity increased significantly from 2000 to 2005, and then did not change much from 2006-2008. A recent study of multifactor productivity in Iceland found that productivity increases in this period were more characteristic of the financial sector and power generation and public utilities (Jónsson 2010). The contribution of R&D to multifactor productivity was highest in manufacturing (explaining about 16% of productivity increases) and lowest in fishing (less than 2% explained). Excessive injections of foreign capital into the Icelandic economy from 2003 onwards were decisive for increasing the volume of GDP in those years. This also explains the most of the productivity increases in the financial sector. This was clearly unsustainable and there was a setback in the productivity figures as seen in the first column of the table in 2009 and 2010. However, the productivity of the total economy is expected to increase significantly in 2011 and 2012 with resumed economic growth according to the current prediction.

**Table 3-3: Unit labour costs and contributions of their components 1996 – 2013. Year-on-year exchange**

<table>
<thead>
<tr>
<th>Year</th>
<th>Labour productivity in the total economy (OECD figures)</th>
<th>Trend labour productivity (CBI figures) 1)</th>
<th>Nominal wages (SI)</th>
<th>Labour costs other than wages (CBI)</th>
<th>Unit labour costs (CBI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>2.3</td>
<td>-2.64</td>
<td>8.58</td>
<td>0.24</td>
<td>6.04</td>
</tr>
<tr>
<td>2001</td>
<td>2.2</td>
<td>-2.38</td>
<td>7.39</td>
<td>0.71</td>
<td>5.63</td>
</tr>
<tr>
<td>2002</td>
<td>1.6</td>
<td>-1.94</td>
<td>7.49</td>
<td>0.73</td>
<td>6.21</td>
</tr>
<tr>
<td>2003</td>
<td>2.3</td>
<td>-1.96</td>
<td>3.25</td>
<td>0.99</td>
<td>2.26</td>
</tr>
<tr>
<td>2004</td>
<td>8.2</td>
<td>-2.53</td>
<td>7.82</td>
<td>0</td>
<td>5.14</td>
</tr>
<tr>
<td>2005</td>
<td>4.1</td>
<td>-2.33</td>
<td>7.97</td>
<td>0.11</td>
<td>5.62</td>
</tr>
<tr>
<td>2006</td>
<td>-0.5</td>
<td>-2.24</td>
<td>11.59</td>
<td>0.46</td>
<td>9.64</td>
</tr>
<tr>
<td>2007</td>
<td>1.4</td>
<td>-1.35</td>
<td>10.17</td>
<td>0.65</td>
<td>9.41</td>
</tr>
<tr>
<td>2008</td>
<td>0.2</td>
<td>0.19</td>
<td>3.27</td>
<td>0</td>
<td>3.48</td>
</tr>
<tr>
<td>2009</td>
<td>-0.8</td>
<td>-2.08</td>
<td>0.64</td>
<td>1.16</td>
<td>-0.26</td>
</tr>
<tr>
<td>2010</td>
<td>-2.9</td>
<td>-0.48</td>
<td>4.44</td>
<td>2.44</td>
<td>6.47</td>
</tr>
<tr>
<td>2011</td>
<td>3.0</td>
<td>-0.2</td>
<td>3.46</td>
<td>0</td>
<td>3.25</td>
</tr>
<tr>
<td>2012</td>
<td>1.9</td>
<td>-1.29</td>
<td>4.53</td>
<td>0</td>
<td>3.22</td>
</tr>
<tr>
<td>2013</td>
<td>--</td>
<td>-1.92</td>
<td>3.88</td>
<td>0</td>
<td>1.93</td>
</tr>
</tbody>
</table>

1) Positive labour productivity growth is shown as a negative contribution for an increase in labour costs. Central Bank baseline forecast 2010-2013. 

**Sources:** Statistics Iceland, Central Bank of Iceland and OECD Economic Outlook 2010, Issue 2.

**Wage developments and productivity**

Wages increased significantly from 2000 up to 2007. There were also some increases in other labour cost. Overall, the yearly unit labour cost increased from 2.3% up to 9.6% in the period from 2000-2007. In 2008-09, it fell slightly, but increased again in 2008-2010, the main reason being a significant increase in the employers’ insurance contributions to the unemployment benefits fund. The aim of this increase was to cover the increasing cost of benefits accompanying the high growth in unemployment.

**Table 3-4: Productivity development in an international perspective, 2006-2012**

<table>
<thead>
<tr>
<th>Year</th>
<th>Iceland</th>
<th>DK</th>
<th>Sweden</th>
<th>Malta</th>
<th>EU27</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>-0.5</td>
<td>1.3</td>
<td>2.6</td>
<td>0.8</td>
<td>1.5</td>
</tr>
<tr>
<td>2007</td>
<td>1.4</td>
<td>-1.1</td>
<td>1.0</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>2008</td>
<td>0.6</td>
<td>-2.9</td>
<td>-1.5</td>
<td>2.6</td>
<td>-0.4</td>
</tr>
<tr>
<td>2009</td>
<td>-0.9</td>
<td>-2.2</td>
<td>-3.4</td>
<td>-3.1</td>
<td>-2.5</td>
</tr>
<tr>
<td>2010</td>
<td>-2.9</td>
<td>4.2</td>
<td>4.4</td>
<td>1.4</td>
<td>2.3</td>
</tr>
<tr>
<td>2011</td>
<td>0.2</td>
<td>1.6</td>
<td>2.4</td>
<td>0.8</td>
<td>1.4</td>
</tr>
<tr>
<td>2012</td>
<td>1.1</td>
<td>1.5</td>
<td>1.4</td>
<td>0.8</td>
<td>1.4</td>
</tr>
</tbody>
</table>

**Source:** Eurostat: Real Labour productivity per person employed. Percentage change on previous period.

Table 3-4 shows a comparison of productivity developments in Iceland and the benchmark countries through the crisis from 2006 to 2010, including forecasts for 2011 and 2012. As illustrated in the table, all countries experienced a decreasing productivity development in 2009, when the crisis
peaked. However, the low or even negative productivity development seems to be a continuous problem for Iceland and to a larger extend than in the benchmark countries.

As mentioned earlier, Icelandic wages increased significantly from 2000 to 2007 and even continued to increase during the crisis as illustrated in Figure 3-11. The main reason for this development is a collective agreement about wage regulation in accordance with the development of the price index.

**Figure 3-11: Wage index – annual average**

![Wage index graph]

*Source: Statistics Iceland (2005= index 100)*

**Increasing inequality during the 2000s**

The increase in wages was unevenly distributed as shown in Table 3-5. Whereas salaries of managers increased to 208% of the median salary and subsequently fell to 202%, which was still 3 percentage points more than in 2000, the salaries of craft workers and general, machine and specialised workers decreased as a percentage of the median salary during the whole period from 2000-2009.
Table 3-5: Distribution of median regular salaries for full time occupational groups (1000 ÍKr and Percentages)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>All occupational classes</td>
<td>155</td>
<td>187</td>
<td>209</td>
<td>250</td>
<td>274</td>
<td>293</td>
<td>309</td>
</tr>
<tr>
<td>Managers</td>
<td>308</td>
<td>361</td>
<td>413</td>
<td>515</td>
<td>570</td>
<td>610</td>
<td>623</td>
</tr>
<tr>
<td>Professionals</td>
<td>307</td>
<td>328</td>
<td>370</td>
<td>428</td>
<td>470</td>
<td>527</td>
<td>527</td>
</tr>
<tr>
<td>Technicians and associate profes-</td>
<td>247</td>
<td>286</td>
<td>307</td>
<td>313</td>
<td>339</td>
<td>362</td>
<td>372</td>
</tr>
<tr>
<td>sionals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clerks</td>
<td>142</td>
<td>175</td>
<td>202</td>
<td>228</td>
<td>257</td>
<td>283</td>
<td>295</td>
</tr>
<tr>
<td>Service workers, shop and sales</td>
<td>139</td>
<td>170</td>
<td>189</td>
<td>236</td>
<td>257</td>
<td>262</td>
<td>278</td>
</tr>
<tr>
<td>workers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Craft workers</td>
<td>186</td>
<td>212</td>
<td>236</td>
<td>273</td>
<td>297</td>
<td>310</td>
<td>315</td>
</tr>
<tr>
<td>General machine and specialised</td>
<td>117</td>
<td>132</td>
<td>149</td>
<td>173</td>
<td>191</td>
<td>207</td>
<td>221</td>
</tr>
<tr>
<td>workers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of median</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All occupational classes</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Managers</td>
<td>198.7</td>
<td>193.0</td>
<td>197.6</td>
<td>206.0</td>
<td>208.0</td>
<td>208.2</td>
<td>201.6</td>
</tr>
<tr>
<td>Professionals</td>
<td>198.1</td>
<td>175.4</td>
<td>177.0</td>
<td>171.2</td>
<td>171.5</td>
<td>179.9</td>
<td>170.6</td>
</tr>
<tr>
<td>Technicians and associate profes-</td>
<td>159.4</td>
<td>152.9</td>
<td>146.9</td>
<td>125.2</td>
<td>123.7</td>
<td>123.5</td>
<td>120.4</td>
</tr>
<tr>
<td>sionals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clerks</td>
<td>91.6</td>
<td>93.6</td>
<td>96.7</td>
<td>91.2</td>
<td>93.8</td>
<td>96.6</td>
<td>95.5</td>
</tr>
<tr>
<td>Service workers, shop and sales</td>
<td>89.7</td>
<td>90.9</td>
<td>90.4</td>
<td>94.4</td>
<td>93.8</td>
<td>89.4</td>
<td>90.0</td>
</tr>
<tr>
<td>workers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Craft workers</td>
<td>120.0</td>
<td>113.4</td>
<td>112.9</td>
<td>109.2</td>
<td>108.4</td>
<td>105.8</td>
<td>101.9</td>
</tr>
<tr>
<td>General machine and specialised</td>
<td>75.5</td>
<td>70.6</td>
<td>71.3</td>
<td>69.2</td>
<td>69.7</td>
<td>70.6</td>
<td>71.5</td>
</tr>
<tr>
<td>workers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Statistics Iceland.

The development in real wages

Looking at the real wages, the development looks rather different as shown in Figure 3-12.

Figure 3-12: Real wages – annual rate based on the change in the last 12 months

Source: Statistics Iceland. Refers to the change in the wage index deflated by the CPI. (2000 = index 100)
From 2007, real wages have decreased significantly as a result of an exploding inflation rate from an annual average of approx. 5% in 2007 to an inflation rate exceeding 18% annually average for December 2008 and January 2009.

3.4. **Poverty**

The at-risk-of-poverty rate is defined as the rate of individuals that fall under the at-risk-of-poverty threshold defined as 60% of the median equivalised disposable income. The equivalised disposable income depends on the disposable income of a household and on how many people live on that income. For instance, two adults with two children need 2.1 times more disposable income than a person who lives alone to have comparable disposable income (Statistics Iceland, online). Table 3-6 shows the development in the at-risk-of-poverty rate from 2006-2009 and, thus, the consequences of the recent economic crisis.

<table>
<thead>
<tr>
<th>Activity status</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>8.9</td>
<td>9.3</td>
<td>9.5</td>
<td>9.9</td>
</tr>
<tr>
<td>Employed</td>
<td>6.6</td>
<td>7</td>
<td>6.7</td>
<td>7.7</td>
</tr>
<tr>
<td>Not at work</td>
<td>16.2</td>
<td>17.3</td>
<td>18.8</td>
<td>17.3</td>
</tr>
<tr>
<td>Unemployed</td>
<td>13.8</td>
<td>20.6</td>
<td>25.1</td>
<td>29.3</td>
</tr>
<tr>
<td>Retired</td>
<td>11.8</td>
<td>16.3</td>
<td>18.1</td>
<td>14.9</td>
</tr>
<tr>
<td>Other inactive</td>
<td>24.3</td>
<td>18.8</td>
<td>19.3</td>
<td>19.8</td>
</tr>
</tbody>
</table>

*Source: Statistics Iceland.*

Most notable is the increase of the at-risk-of-poverty rate amongst unemployed persons, which has more than doubled from 13.8% in 2006 to 29.3% 2009. In total, approx. 22,300 persons were at risk of poverty in 2009 compared to 18,300 persons in 2006.

3.5. **Unemployment**

From the late 1990s, the rate of unemployed persons in Iceland did not exceed 4% of the total labour force. This changed very suddenly due to the financial and economic crisis from a total unemployment rate of 2.3% in 2007 to a 7.2% unemployment rate in 2009 and continuing to increase.
Increasing unemployment is a general issue all across the European Union. As illustrated in Figure 3-13, the average unemployment rate for the EU27 exceeds the unemployment rate for Iceland. However, it should be noted that compared to the benchmark countries the unemployment rate has increased at a higher speed in Iceland the past few years.

We have already seen that the crisis in Iceland affected the participation rate for men more than for women. This trend can be seen in the following two figures below showing the unemployment rates of women and men.

**Figure 3-14: Unemployment rates among women**

Source: Eurostat. The unemployment rate is calculated by dividing the number of unemployed females by the total number of females in the labour force aged 15 to 74. Please note that the age group used for Iceland is 16 to 74.
Generally, in all benchmark countries more men have lost their jobs than women have. In Iceland, however, this development is especially pronounced. As mentioned above, the key explanatory factor for this development is that the male-dominated occupations have been more affected by the crisis compared to typical female-dominated occupations. Another explanation is that more women have become part-time employed.

A major issue for Iceland as well as for the benchmark countries is the increasing youth unemployment.

From 2007 to 2009, the Icelandic unemployment rate for persons aged 16 to 24 increased by 8.9 percentage points reaching 16% in 2009. This is not as high as the average unemployment rate for the EU27 as a whole, but the increase in the unemployment rate is more pronounced in Iceland. Conversely, the senior group aged 55 to 74 has been far less affected by the crisis. Hence, the unemployment rate for this group in Iceland increased only by 2.3 percentage points from 2007 to 2009 from 1.1% to 3.4%.
We have already seen that the employment rate decreased most significantly for people with pre-primary, primary and lower secondary education as their highest level of education compared to the other educational groups. This difference between the three educational groups is illustrated in Figure 3-17. The unemployment rate is higher among persons with a low degree of education and the increase in the unemployment rate has been more pronounced during the crisis. While the unemployment rate increased by 3.1 percentage points from 2007 to 2009 for persons with a tertiary education; the unemployment rate increased by 6.7 percentage points for persons with a low degree of education in the same period. The reason for this development has already been discussed in Section 3.2.

Figure 3-17: Unemployment rate by highest level of attained education

![Unemployment rate by highest level of attained education](image)

Source: Statistics Iceland. The unemployment rate is calculated by dividing the number of unemployed persons by the total number of persons in the labour force aged 16 to 74. Please note that the source of the unemployment rate for ISCED level 0-2 (pre-primary, primary and lower secondary education) is Eurostat.

A major issue in the aftermath of an economic crisis is the long-term unemployment. Figure 3-18 illustrates the development in the unemployment rate in Iceland for persons who have looked for a job for 12 months or more.

Figure 3-18: Unemployment rate by duration of search for job – 12 months or more

![Unemployment rate by duration of search for job – 12 months or more](image)

Source: Statistics Iceland

From 2009 to 2010, the share of long-term unemployed persons increased significantly even though the average unemployment rate only increased from 7.2% in 2009 to 7.6% in 2010. This is a result
of the many people who lost their jobs in 2008/2009 at the height of the crisis, who have not found a new job yet. In real persons, the number of long-term unemployed increased by 1,900 persons from 2009 to 2010.

A final aspect in this context is the geographical distribution of unemployment. As illustrated in Figure 3-19, the economic crisis has affected all Icelandic regions resulting in increasing unemployment rates. However, the unemployment rate has grown more in Reykjavík compared to the other regions of Iceland.

**Figure 3-19: Unemployment rates in Icelandic regions**

Source: Statistics Iceland. **Capital region:** Reykjavík, Kópavogur, Seltjarnarnes, Garðabær, Hafnarfjörður, Sveitarfélagið Álftanes, Mosfellsbær and Kjósahreppur. **Reykjavík – Capital:** - Reykjavík. **Surrounding Reykjavík:** Kópavogur, Seltjarnarnes, Gardarber, Hafnarfjörður, Sveitarfélagið Álftanes, Mosfellsbær and Kjósahreppur. **Other regions:** Southwest, West, Westfjords, Northwest, Northeast, East and South.
4. Flexicurity: Mobility, flexibility, lifelong learning

4.1. Mobility

External geographical mobility
Since the early 1970s, Iceland has enjoyed a significant, but variable, flow of immigrants to the country. In earlier decades, immigration primarily involved people recruited into the fish processing industry. During the 1990s and 2000s, the inflow of foreign labour increased considerably. At the same time, the sectoral profile of the foreign workforce changed towards the construction industry and lower skilled services jobs. The currently most frequent countries of origin of non-Icelandic workers include Poland (the largest group of immigrants), the Baltic republics and Far East Asian countries (particularly the Philippines and Thailand). Previously, many immigrants came from the former Yugoslavia.

From 1995 to 2002, the flow of immigrants increased rapidly and culminated from 2005 through 2008 as can be seen in Figure 4-1. It is more common that Icelanders immigrate, mainly to the other Nordic countries, especially following years of contracted wages or growing unemployment. Foreigners have counteracted this emigration trend among Icelanders and have produced a net inflow to the population, especially between 1998 and 2001 and then decisively from 2005 through 2008.

Figure 4-1: External migration – Immigration, emigration and net yearly migration

![Graph showing net yearly migration, immigration, and emigration](source: Statistics Iceland)

During the crisis years of 2009 and 2010 (2009 in particular), there was a net outflow of migrants from Iceland, which was larger than previously experienced. The accumulated net loss of population in 2009-2010 corresponds to just over 2% of the overall population, which is a sizable loss.
These figures illustrate that Iceland enjoys considerable external flexibility in its labour supply defined as freely flowing labour between Iceland and other countries, primarily the neighbouring countries. While external mobility was greatly enhanced after 1994, when Iceland joined the European Economic Area zone (EEA), this development was in effect only an extension to EU Member States of an intra-Nordic agreement that had been in effect for decades. However, The EEA agreement did facilitate a flow of population from outside the Nordic area into Iceland evidenced by the large share of Polish immigrants in recent years.

No doubt, this flexibility in labour supply has contributed toward maintaining unemployment at lower levels than the average EU level. For example, many Icelanders, especially construction workers, have emigrated to Norway over the last two years. It is also common for Icelandic students to undertake university education abroad. In effect, Icelandic citizens have enjoyed a certain extent of job security by virtue of their geographical mobility.

In Iceland, there is a concern for all losses of population out of the country, as the population is so small. Nevertheless, experience shows that a large share of those who move to other countries return when prospects become better in Iceland. When looking at those who have moved abroad to study, in the past the majority have returned to pursue a carrier in Iceland after their studies.

**Internal geographical mobility**

Migration from the regions bordering the Reykjavík area and from the southwest part of the country in general has been a persistent feature of modernisation of the Icelandic society for the whole of the post-war period. Only during the 1970s did this process reverse, with an unusually strong developmental effort on behalf of regional and fishing sector promoted by the Icelandic government (Ölafsson 1998). The net flow of population towards the Reykjavík-area has slowed somewhat, e.g., because many foreign workers have chosen to move out of the Reykjavík region and into the neighbouring regions where jobs have been available and housing cheaper than in the Reykjavík-area.

**Figure 4-2: Internal migration**

![Figure 4-2: Internal migration](source: Statistics Iceland)
Figure 4-2 shows that inter-regional migration increased during the boom economy years from 2003 to 2008. Moves within municipalities, caused by the boom in the housing market, also increased greatly during these years.

During the crisis years of 2009 and 2010 there has been a significant decline in the frequency of migration. However, the decline came from a very high level, so the resulting inter-regional net mobility has only come down to levels similar to those of the early 2000s.

**Occupational mobility and gendered opportunities**

We have not had access to current data on occupational mobility from year to year or between generations. However, a previous study indicated that the Icelandic society at the time was open to inter-class mobility to extents similar to those of the other Nordic societies (Ólafsson 1984). In addition, recent data on shifts in the occupational composition of the Icelandic population indicate that there have been plenty of opportunities in Iceland for upward occupational mobility in the last decades (see Table 4-1).

<table>
<thead>
<tr>
<th>Table 4-1: Shifts in occupational distributions between 1997 and 2009, by gender</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1997</strong></td>
</tr>
<tr>
<td>Males</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Managerial</td>
</tr>
<tr>
<td>Professionals</td>
</tr>
<tr>
<td>Technical staff</td>
</tr>
<tr>
<td>Clerical</td>
</tr>
<tr>
<td>Service and sales, low skill</td>
</tr>
<tr>
<td>Farmers and fishermen</td>
</tr>
<tr>
<td>Skilled manual</td>
</tr>
<tr>
<td>Semi-skilled manual</td>
</tr>
<tr>
<td>Unskilled manual</td>
</tr>
</tbody>
</table>

**Source:** Statistics Iceland

Table 4-1 table tells an interesting story about shifts in the occupational structure with great relevance for mobility as well as gender segregation. The main ingredient of the story is a considerable upward shift in the occupational structure, i.e., a growth in the share of persons in better paid jobs with more responsibility and a decline in the share of persons employed in occupations with manual work and lower rewards. The number of low-skilled service and sales jobs has grown slightly, but mainly for males. Conversely, the transition of females towards the higher job end is significantly more marked, especially in the managerial and professional categories. In 2009, the share of the female working population in such jobs was close to double that of 1997, while the share of the male working population at this level had increased by less than 2 percentage points. The share of the female working population employed in technical jobs went from 18% to about 23%, while the share of males remained constant.

Overall, the table indicates that women were more successful than men have in moving to higher paid jobs in the period between 1997 and 2009. No doubt, this is an important explanation for the significantly reduced gender gap in overall pay (Ólafsson 2010). While the occupational structure points to a labour market that is less gender segregated now than it was just over a decade ago, gen-
der segregation still exists in the labour market. One explanation is that while more women have completed a university education, their choice of study subject still has a gendered structure linked to the gendered labour market. Nevertheless, women already hold a larger share of professional and technical jobs than men do, while men still dominate the managerial group despite significant gains by the women.

4.2. **Flexibility in employment and wages**

Another indicator of flexibility is the relationship between unemployment and wage levels as shown in Figure 4-3. Unemployment rates increased from 1992 to 1995. From then on, the economy picked up, among other things due to the peak in the business cycle before the dot.com bubble burst. Real wages increased in Iceland from 1995, while unemployment rates came down. Following the contraction after the dot-com bubble burst, unemployment increased slightly from 2002-2004, and after that time, the economy was characterised by real wage growth and steeply decreasing unemployment rates.

![Figure 4-3: Indicator of flexibility: Unemployment and real wages 1990-2010](source: Statistics Iceland and Directorate of Labour)

Following the collapse of the finance sector in 2008, real wages came down drastically and, at the same time, unemployment increased at an unprecedented rate.

The fluctuations described above reflect an important characteristic of the Icelandic labour market, i.e., a high degree of flexibility of real wages and unemployment in the face of major changes in the economy.
Comparatively high share of part-time work
Given the institutional landscape of flexicurity in the Icelandic labour market, and the high level of general employment participation, it is not surprising that we find a rather high level of part-time employment, especially among women.

The share of part-time employment came down to 15% from 2007-2008, but then it started to increase again as unemployment rates grew, passing 20% in 2009 and approaching 23% in early 2010 when it reached a peak. Since then, the share of part-time employment has gone down and is approaching pre-crisis levels.

Figure 4-4: Part-time employment as a % of total employment (ages 20-64)

Figure 4-4 shows that most years the share of part-time employment in Iceland has been a little higher than the EU average, but still below the Danish and Swedish levels, while part time employment in Malta is at a much lower level, indicating a less flexible labour market.

Comparatively low share of temporary contracts
Iceland has generally had a rather low share of temporary contracts in the labour market, due to, among other things, the strong influence of the social partners in regulating the labour market. In Iceland, parts of collectively bargained agreements usually come into law or gain “law-like” status in that they become universally applicable regardless of whether a specific company is a member of the confederation of employers and regardless of whether a specific employee is a member of the trade union (cf. the legislation from 1980).

This does not rule out temporary contracts, but it restrains their use as a buffer to control labour supply against the interests of employees. Nevertheless, it is worth noting that the use of temporary contracts, while fluctuating somewhat, showed a decisive increase during the crisis as shown in Figure 4-5 in 2009 and 2010. Our interviews indicate that temporary contracts are used more in connection with immigrant workers, low-skilled service jobs and women.
When the share of temporary contracts peaked in 2010, they approached the average EU level but remained slightly below the Swedish level and significantly higher than the Danish level, where Malta has the lowest rate of temporary contracts in its labour market.

4.3. Skills and competences

Education of the labour force

For a long time, it has been one of the greatest concerns of the Icelandic educational authorities that there has been an unacceptably high dropout rate from secondary schools, especially among boys/young men (Óskarsdóttir 1995, Jónasson 1998, Ólafsson and Arnardóttir 2008). This is one of the main reasons for the relatively low level of overall educational attainment in the Icelandic population in comparison to other advanced nations.

Progress in educational attainment – but still some way to go

Figure 4-6 shows the overall measure of educational attainment (% of population with secondary or higher education) between 2000 and 2009. Iceland was almost 10 percentage points below the EU average during this period. Nevertheless, and like the EU average, Iceland experienced significant progress between 2000 and 2009 from about 50% of the population of working age having completed at least a secondary education to about 59% having done so in 2009. Denmark and Sweden are significantly higher than Iceland on this score, as are many of the Western nations, where Malta has a much lower rate of educational attainment.
Thus, Iceland with its ambitions to do well in the knowledge and innovation-driven economy of the future still needs to do better (Ólafsson and Stefánsson 2005; Porter and Keitels 2007). Improving the vocational education and training part of the secondary schools is an important condition for attaining this goal. Traditionally the emphasis of the secondary as well as the tertiary levels of the Icelandic educational system has been on general education rather than VET subjects. This is particularly associated with the high dropout rate for boys (Ólafsson and Arnardóttir 2008).

High dropout rates

Figure 4-7 shows the dropout rates from education among 18-24 year olds from 2006 to 2009.

Source: Eurostat: Early leavers from education and training refers to persons aged 18 to 24 fulfilling the following two conditions: first, the highest level of education or training attained is ISCED 0, 1, 2 or 3c short, second, respondents declared not having received any education or training in the four weeks preceding the survey (numerator). The denominator consists of the total population of the same age group, excluding no answers to the questions “highest level of education or training attained” and “participation to education and training”
Iceland, while lowering its rate from about 25% to 22% during the period, is still well above the EU average of around 15%. Denmark and Sweden were approaching the 10% level in 2009, while Malta was in the region of 37-40%. Consequently, Iceland still has some way to go to reach the level of nations to which it likes to compare itself (Ministry of Education 2010).

**Lifelong learning**

In the field of lifelong learning, Iceland has done rather well for a considerable time (Jónasson, J. T., & Tuijnman, A. 2001). One reason for this is the fact that the social partners have joined forces and set up centres for continuing education throughout all regions of the country (starfsmenntastöðvar).

The right to continuing education and training is laid down in collective agreements, and funds to aid participants have been set up. The formal public educational institutions also offer significant options for short as well as long courses, some leading to diplomas and giving the right to full-time education at university level.

In this respect, Figure 4-8 shows that participation in lifelong learning is higher in Iceland than in Sweden according to Eurostat statistics but somewhat lower than Denmark. Participation rates came down a little in Iceland during 2008-2009, while they increased in Sweden.

![Figure 4-8: Participation in lifelong learning, 2006-2009](image)

**Source:** Eurostat. The participation rate refers to persons aged 25 to 64 who stated that they received education or training in the four weeks preceding the survey (numerator). The denominator consists of the total population of the same age group, excluding those who did not answer to the question 'participation to education and training'. The information collected relates to all education or training whether or not relevant to the respondent's current or possible future job.

The EU average is significantly lower than the Nordic figures in this aspect, and Malta is at the lower end of this comparative group.

**Labour and skills gaps**

Another important measure of the success of the educational and labour market systems is the degree of matching between educational supply and job opportunities. Two types of mismatches can occur: Mismatch concerning skill levels (employees working either below or above the level of skills associated with their qualifications); and mismatch concerning types of skills (i.e. employers requiring skills not found in the labour market, or jobseekers having skills not in demand).
**Expectations concerning recruitment and layoffs**

Currently, there is considerable unused capacity in Icelandic industries, as could be expected following the sudden contraction of output as followed the financial collapse of October 2008. A recent Capacent-Gallup survey (March 2011) to managers of the 400 largest companies in the country indicates that only 8% of firms are faced with a shortage of labour. According to the survey, labour shortages are largely confined to the Reykjavík area, and skills shortages mainly occur within specialized service activities. About 63% of companies who express that they have a shortage of labour plan to increase hiring in the next 6 months; 16% say they intend to increase hirings (but not when); and 20% are planning layoffs. Many companies are facing debt problems and the debt restructuring process is in some cases taking more time than planned. This hampers investments and expansion of activities. Exporting companies and companies in the service sector are more likely to plan an increase in recruitment, whereas construction and manufacturing are still facing bleak job prospects. The expectations in March 2011 are however not as negative as the outcome from a similar survey in December 2010, so the trend is improving but very slowly.

The Central Bank of Iceland in its most recent Monetary Bulletin (April 2011) assesses that the share of companies with a real intention to increase recruitment is 5 percentage points lower than the share of companies that intend to increase layoffs; however, the largest share of companies expect no change of labour volume in the near future.

Overall, currently available figures and projection indicate that the unemployment rate will come down more slowly this year and the next than indicated by previous projections (from 2010).

**Skill needs and skill types**

The most highly qualified part of the labour force is still in employment in companies that can be expected to utilize the competences of their employees more productively in the near future (otherwise they would presumably have laid them off already).

There is plenty of skilled labour available to take part in expansion of aluminium, thermal energy and tourism. The advantage of an expansion of aluminium activities is that it requires mainly skilled and unskilled manual workers, who can move in from the ailing construction industry or from the unemployment registers (where many of them are now). The experts interviewed do however not foresee that this sectoral mobility will cause any problems with lack of skills. Most of the jobs created in aluminium and thermal energy are related to the construction period. The construction of new aluminium smelting plants and thermal power plants will create jobs for skilled and unskilled construction workers. When the facilities are in operation, most of the jobs in the aluminium industry are for unskilled or skilled manual workers, and there is a history of mobility between construction and the aluminium industry. Unskilled construction workers generally find unskilled jobs in aluminum attractive, especially for the security and the pay, which is above average for such jobs.

At the other end of the occupational spectrum, the need for engineering or specially qualified technicians in aluminium is small, and there is a supply of labour with the right qualifications, who are employed (e.g. as private engineering consultants), but may increase their hours or change job with short notice. The same goes for the geothermal industry. In the case of foreign ownership of plants, as in aluminium, the foreign owners sometimes import the few specialists that are required and not locally available. Finally, these industries, also offer special training and retraining if needed.

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4 SA-Federation of Employers, see the newsbrief with main results of the survey on http://www.sa.is/frettir/almennar/nt/5142/
5 CBI 2011, Monetary Bulletin, April, pp. 35-36
To sum up, the industries most likely to expand in the near future are not liable to give rise to labour shortages or skill gaps.

The prospect of future shortages of specialized skills concerns mainly the small ICT and software sector and it is not likely to occur until later. There is an inadequate supply of study opportunities in ICT at all levels from secondary VET to university.

Given the state of general surplus of labour in the economy in the near future the strengthening of specialized skill supply should thus primarily be seen as a longer-term concern for the labour market and the educational system.

**Skill levels and occupational requirements**

Table 4-2 below gives a comparative view on the degree of mismatch between the qualification levels of employees and the skill levels required in their occupation. The table shows figures for the development of occupational mismatches. It gives figures for graduates at secondary as well as tertiary level between 2003 and 2007 in the Nordic countries compared to the development of the OECD average.

<table>
<thead>
<tr>
<th></th>
<th>Mismatch for secondary level graduates</th>
<th>Mismatch for tertiary level graduates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
</tr>
<tr>
<td><strong>Iceland</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>2003</td>
<td>3</td>
<td>13</td>
</tr>
<tr>
<td><strong>Denmark</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>2003</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td><strong>Finland</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>2003</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td><strong>Norway</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>2003</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td><strong>Sweden</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>2003</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td><strong>OECD average</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>2003</td>
<td>6</td>
<td>6</td>
</tr>
</tbody>
</table>

1) Ratio of 25-29 year-old workers not in education with an upper secondary education, working at skill level 1 (ISCO 9) to all 25-29 year-old workers not in education with an upper secondary education

2) Ratio of 25-29 year-old workers not in education with a tertiary education degree, working at skill levels 1 or 2 (ISCO 4-9) to all 25-29 year-old workers not in education with a tertiary education


The first part of the table shows the share of graduates with secondary level education working at skill level 1 (i.e. in elementary occupations). The second part of the table shows the share of graduates of tertiary education working at skill levels 1 or 2 (i.e. elementary occupations plus those requiring skills comparable to those acquired in secondary vocational education and training). In both cases, the age group reference is 25-29 year old.
Occupational mismatches have decreased – but many women remain “over-qualified”

In Iceland, the mismatch has decreased at both secondary and tertiary level for females, while there is not much change for males during the same period. Nevertheless, the difference between males and females in Iceland is rather large compared to the other countries. The level of mismatch for secondary graduates in Iceland compares to that of Denmark and Norway but is lower than in Sweden and Finland, which have the highest rates of mismatch among the Nordic countries.

Looking at the mismatch levels for tertiary graduates (which are considerably higher than for those with secondary education), we find that Norwegian graduates are close to the OECD average together with Icelandic females. Nordic nationals also have lower levels of mismatch between educational skills and job opportunities than the OECD average according to this measure.

Overall, it appears that the mismatch between skill levels and job opportunities is significantly more common among female employees at ages 25-29 than for male employees in Iceland, but still not above the OECD average. Overall, there is not much difference between males and females in the OECD countries, and Iceland clearly needs to address the position of female graduates in this area.
5. The inclusive labour market

5.1. Who are inactive in Iceland and why

With its very high employment participation rates, even in the midst of the present recession, Iceland clearly has a highly inclusive labour market. Nonetheless, there are frequently voiced concerns in Iceland that too many people are inactive and that not everybody who wants to work has the opportunity, such as people with disabilities or special requirements. The issue is therefore of importance in Iceland and looking at the positions of the main contender groups for exclusion, we can throw some further explanatory lights on the characteristics of the Icelandic labour market.

Figure 5-1 shows the main reasons for inactivity among people at working ages.

Figure 5-1: Main reasons for inactivity in Iceland

![Graph showing main reasons for inactivity in Iceland]

Source: Eurostat. Inactive persons are those who neither classified as employed nor as unemployed.

The figures are self-reported by respondents to the Icelandic labour force survey. The most frequently mentioned explanation for inactivity is participation in education or training, and this group increased during the financial crisis in 2009. It appears that a significant number of unemployed people took up education or training, especially at university level, but also at secondary level. Short-course participation also increased, often as a part of activation or rehabilitation measures.

The second largest group of inactive individuals in Iceland are those with illness or disabilities. This group declined proportionally in 2009. The share of inactive individuals who report to be retired declined between 2006 and 2008 and then increased a little in 2009. The figures for those who care for children or disabled adults or have other personal or family responsibilities are each about 5% of the inactive individuals, and this share has remained stable with a very slight decrease. The employment participation of both parents of young children and after maternity leave is quite high in Iceland. Consequently, few people remain outside the labour market as “family carers” or are engaged in household work as a full time activity.

As disability or illness is one of the main causes for exclusion from the Icelandic labour market, we will look into the main candidate groups of inactive or excluded individuals, of which the disabled
are by far the most important, especially since there are no early retirement pension programmes in the Icelandic pension system (Nososko 2008).

5.2. Disability pensioners

Trends in the share of disability pensioners

From the early 1990s, the number of disability pensioners in Iceland began to increase at much higher rates than before to the great concern of both politicians and the management of the occupational pension funds (Herbertsson 2005; Ólafsson 2005). Table 5-1 gives an overview of the proportion of receivers of disability or rehabilitation pensions and the rates of change.

Table 5-1: Proportion of disability pensioners of population aged 16-66 and percentage change from previous year

<table>
<thead>
<tr>
<th>Year</th>
<th>Invalidity and rehabilitation pensioners, plus invalidity allowance recipients (% of pop. 16-66)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>3.9%</td>
<td>4.8</td>
</tr>
<tr>
<td>1991</td>
<td>4.1%</td>
<td>5.8</td>
</tr>
<tr>
<td>1992</td>
<td>4.2%</td>
<td>4.2</td>
</tr>
<tr>
<td>1993</td>
<td>4.5%</td>
<td>8.4</td>
</tr>
<tr>
<td>1994</td>
<td>4.8%</td>
<td>7.1</td>
</tr>
<tr>
<td>1995</td>
<td>5.1%</td>
<td>7.7</td>
</tr>
<tr>
<td>1996</td>
<td>5.4%</td>
<td>5.6</td>
</tr>
<tr>
<td>1997</td>
<td>5.5%</td>
<td>2.8</td>
</tr>
<tr>
<td>1998</td>
<td>5.5%</td>
<td>2.5</td>
</tr>
<tr>
<td>1999</td>
<td>5.6%</td>
<td>2.7</td>
</tr>
<tr>
<td>2000</td>
<td>5.8%</td>
<td>4.9</td>
</tr>
<tr>
<td>2001</td>
<td>6.0%</td>
<td>5.1</td>
</tr>
<tr>
<td>2002</td>
<td>6.2%</td>
<td>4.3</td>
</tr>
<tr>
<td>2003</td>
<td>6.6%</td>
<td>7.5</td>
</tr>
<tr>
<td>2004</td>
<td>7.0%</td>
<td>7.9</td>
</tr>
<tr>
<td>2005</td>
<td>7.2%</td>
<td>6.3</td>
</tr>
<tr>
<td>2006</td>
<td>7.2%</td>
<td>3.4</td>
</tr>
<tr>
<td>2007</td>
<td>7.1%</td>
<td>2.5</td>
</tr>
<tr>
<td>2008</td>
<td>7.4%</td>
<td>4.4</td>
</tr>
<tr>
<td>2009</td>
<td>7.7%</td>
<td>3.6</td>
</tr>
<tr>
<td>2010</td>
<td>7.7%</td>
<td>0.3</td>
</tr>
</tbody>
</table>

Source: Social Security Administration (www.tr.is and direct contact).

The proportion of all categories of disability pensioners has increased from 3.9% of the population at working ages (16-66) to 7.7% in the last two years. The last few years, the trend has been toward lower rates of increase in this group, and it is particularly interesting that the growth in the number of disability and rehabilitation pensioners almost stopped in 2010. Previous research has shown that the incidence of disability pensioners increases faster when unemployment increases (with one year time lag), and this was also the case for another two periods of increased unemployment rates, i.e. 1992-1995 and 2002-2004 (Thorlacius and Ólafsson 2010).

Thus, the trend towards increased numbers of disability pensioners has slowed, and in the midst of the crisis, the previously observed relationship between unemployment levels and incidence of dis-
ability pensioners has been broken. We return to this subject in Section 7.2. However, changed ways of testing for disability and increased discipline in pushing applicants towards rehabilitation and activation programmes as well an increased number of such measures have clearly played a role in creating this outcome. This is even more interesting because the minimum pension for disability pensioners increased by 20% on 1 January 2009, making it about 15% higher than the unemployment benefit. It appears that the aim to avoid having too many individuals stuck on disability pensions appears to have been reached to a significant extent, to this date at least.

5.3. The elderly (early retirees)

As mentioned above, Iceland does not have an early retirement pension scheme. Therefore, the disability pension scheme provides the main route for exit from the labour market for people over the age of 60 but still under the official pension age (67 in the social security and 65 in the occupational pension funds (Nielsen et. Al. 2009 and Ólafsson 1999).

Figures 5-2 and 5-3 provide an interesting exposition of to what extent and how people, who have reached the age of 60 or more, retire from the labour market in each of the five Nordic countries. The lines represent the proportion of each one-year age group receiving any form of pension (old-age pension, disability pension, early retirement benefit, etc., i.e., other than unemployment benefit). Figure 5-2 shows the figures for males, and Figure 5-3 shows the figures for females.

Figure 5-2: Labour market exit: Individuals receiving any form of pension by age 60 to 74 - Males

![Labour market exit: Individuals receiving any form of pension by age 60 to 74 - Males](source: Nielsen et.al. 2009)
Icelanders retire from the labour market significantly later than citizens in other Nordic countries do. This applies to both males and females. Females retire earlier than males in Iceland as well as in the other countries except Finland. One reason for the earlier exit of females is, e.g., the fact that females are exposed to arthritis and rheumatic diseases leading to higher disability rates among females (Ólafsson 2008).

At 65 there is a jump upwards in the Icelandic figures, as 65 is the age when people who have rights in the occupational pension funds can claim a full pension (some groups of public employers can retire earlier if they have reached the “joint life and pension contribution age” of 59). The other decisive break in the rates is at age 67, i.e., the public pensionable age in the social security system. However, even after reaching 67, a significant number of individuals do not claim a pension. The main reason for this is a provision in the social security system giving those who delay the take-up of their pension a 5% increase in the pension amount for every year they remain in the labour market, and this can continue up to the age of 72, thus raising the social security pension by 30% altogether. Delaying also raises the yearly pension amount received from the occupational pension funds, equal to the saved cost of the extra years(s). Moreover, even after individuals start taking their pensions some of them continue working part-time, even above the age of 70 (Nielsen et al. 2009; Nososko 2008).

Consequently, Iceland has a rather special position as regards the late age of effective retirement (OECD 2009), and this has played a significant role in keeping Iceland’s employment participation rate so high.

5.4. **Migrants outside the labour market**

Most of the migrants that flowed into Iceland during the years of the bubble economy were between 18 and 45. During this time, many single workers were flown in to work on two major construction projects, i.e., the construction of a large hydroelectric power plant in the central highland in the eastern part of the country and a new large aluminium smelter in the same area. Many of these migrants were always expected to emigrate again once the big construction works had ended. This
happened about the same time as the financial collapse, and as a consequence the outflow of foreign nationals from Iceland was quite drastic in 2009 as can be seen from Figure 5-4.

**Figure 5-4: Migration to and from Iceland, 1990-2009, absolute figures**

![Bar chart showing net migration numbers for Icelandic nationals and foreign nationals from 1990 to 2010.]

*Source: Statistics Iceland.*

2009 was also a record emigration year for Icelandic nationals, but no more than could have been expected from experiences from previous recessions. The unusual extent of the present crisis should also have produced a record number of Icelandic emigrants, but as can be seen from Figure 5-4, the total number of emigrating Icelanders was not drastically higher than in 1995, which was a time of a modest recession compared to the present one.

In 2010, the outflow of foreigners dropped significantly as did the emigration of Icelanders. Job opportunities in Norway have been an important factor for emigrating Icelanders, especially construction workers, but the unemployment problems of this group of workers are similar or worse in most EU countries. We would therefore not expect emigration from Iceland to be as high in the years to come compared to 2009-2010, even though we should expect continuing net emigration for some time to come.

Regarding migrant workers as candidates for social exclusion, an indicator is shown in Figure 5-5. The figure clearly shows that foreign workers constitute a larger share of unemployed people than could be expected from their share of the labour force.
Thus, more foreign workers were laid off more often than Icelandic nationals were in the early months of the recession. This is logical, given that many of the foreign workers were employed in the construction sector, which contracted rapidly in the crisis. Many foreign workers were also employed in low-skilled services and shops and these activities suffered as the purchasing power of the public declined rapidly in 2009.

Thus, migrant workers and foreign nationals are clearly more prone to unemployment than Icelandic nationals are, but the difference is not pronounced. It is evident that foreign workers are subject to some degree of prejudice and ensuing discrimination in Iceland, just as in other Nordic countries, but the integration problems of this group into Icelandic society cannot be described as a very large problem at present (Thorarinsdóttir et.al. 2009).

5.5. Economic barriers to inclusion

The effective taxation of low wages increased in Iceland from 1994 to about 2006. However, the increase was not correlated to any reduction in employment participation or working hours (Ólafsson 2007 and 2010). The increase in the tax burden of lower income groups was a result of a reduced value of the personal tax-free allowance. The policy was changed in 2007. In fact, when the Icelandic government have implemented tax increases the last two years to deal with the very difficult public finances in the depth of the recession, it also reduced the tax burden of lower income groups (low-income pensioners, low-wage workers and the unemployed) as shown in Table 5-2.
The table shows the average effective direct taxes as a percentage of total earnings by income groups in 2008 and 2009. On the one hand, it is clear that the tax burden of the lowest income groups (up to 6–7 million Krona per year, which approaches average pay) was lower in 2009 than in 2008. On the other hand, the tax burden of higher income groups has increased progressively and most pronounced in 2010. Thus, the level of the increased tax burden is somewhat lower than in 2009, and taxation at the higher income levels increased even more due to the introduction of a special high-income supplementary tax rate. Taxation of financial earnings also increased somewhat in 2010 (cf. Ministry of Finance).

Table 5-3 shows OECD figures on the overall tax rate (government direct taxes and employee social security contributions) on low-wage workers (those with 67% of average worker wages) in 2009. It emerges that the tax rate on employees is low in Iceland, indeed comparable to USA and UK rates. On the one hand, Sweden and Finland also have low rates on low-wage workers, i.e. at similar level as Iceland. On the other hand, they also have rather high contributions from employers to social security driving up the total tax wedge, which can have a detrimental effect on employment creation or pay levels. Thus, the total tax wedge is lower in Iceland than in all the other Nordic countries, but comparable to the USA and the UK. Germany and France have significantly higher tax wedge rates than Iceland.
Figure 5-6 shows the total tax wedge for different family groups (marital status, presence of children and wage levels) for the years 2000 and 2009. The figure shows that the tax rates for these family groups in Iceland have increased in all cases except for the highest wage level (167% of average worker wages), while the comparable rates for the OECD countries as a whole have gone down. Consequently, there has been a trend of convergence between Iceland and the rest of the OECD (Ólafsson 2007 and Baldursson et.al. 2008). Eurostat labour market statistics also show the Icelandic tax wedge as among the lower in Europe.

Overall, the tax regime for low-wage workers has been relatively favourable for employment participation. Increased tax burdens in the period from 1994 to 2006 or 2007 did not lead to reduced employment participation or to reduced working hours at all (Ólafsson 2010). It also seems clear that tax rates have not been the sole or even the prime driver of employment participation in Iceland in recent decades.

5.6 In-work poverty
Iceland has generally very low rates of poverty, for the general population and in particular for pensioners (OCED 2008; Ólafsson 1999). In this context, it is interesting to profile the main patterns of in-work poverty. Thus, it may also come as something of a surprise that Iceland’s in-work poverty rate is close to the average for EU as well as for the OECD, rather than being close to the lowest rates.

EU-SILC data indicates that the at-risk-of-poverty rate in Iceland has been in the region of 9-10% since 2004 (Income year of 2003), while the poverty rate for employed individuals has been in the region of 6.5-7.9% in the period since 2004, when Statistics Iceland started to undertake the surveys in Iceland (cf. Table 5-4).
<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>9.4</td>
<td>9.4</td>
<td>8.9</td>
<td>9.3</td>
<td>9.5</td>
<td>9.9</td>
</tr>
<tr>
<td>Employed</td>
<td>6.9</td>
<td>7.9</td>
<td>6.6</td>
<td>7.0</td>
<td>6.7</td>
<td>7.7</td>
</tr>
<tr>
<td>Men</td>
<td>8.9</td>
<td>9.3</td>
<td>8.2</td>
<td>8.4</td>
<td>9.0</td>
<td>8.8</td>
</tr>
<tr>
<td>Employed</td>
<td>7.2</td>
<td>8.5</td>
<td>6.9</td>
<td>6.9</td>
<td>7.0</td>
<td>7.4</td>
</tr>
<tr>
<td>Women</td>
<td>10.0</td>
<td>9.5</td>
<td>9.5</td>
<td>10.3</td>
<td>10.1</td>
<td>11.0</td>
</tr>
<tr>
<td>Employed</td>
<td>6.7</td>
<td>7.3</td>
<td>6.2</td>
<td>7.1</td>
<td>6.4</td>
<td>8.0</td>
</tr>
</tbody>
</table>

Source: Statistics Iceland

The rate is similar for males and females, but at times somewhat higher for males. The overall at-risk-of-poverty rate for females is, however, significantly higher than for males. This is primarily due to the rather high rate for single parents, the great majority of whom are females. The rate for that group was 23% in 2007, which was one of the lower rates at that time.

It should be noted that the figures for 2009 in the tables actually refer to 2008, which, in the case of Iceland, marked the start of the financial crisis. Since the crisis started as late as October 2008, the effect of the crisis on these figures is generally minimal. Figures for the income year 2009 will show the real consequences for living standards much better.

Another feature of in-work poverty in Iceland is that the rate goes down with increased work volume. Thus, jobless households have about four times the rate of fully working households. Two earners in a household are the norm in about 90% of households of people at working ages in Iceland. Fully working households with children have experienced a poverty rate in the region of 6-7% for most of the period since 2004, but reached a low of 4.9% in 2008. Those without children have tended to have a slightly lower rate in most years. Figure 5-7 shows the 50% poverty rates for households with dependent children, where both parents are working (work intensity=1).

Figure 5-7: Poverty rates (50%) for households with dependent children in 2008.
Both parents working (Work intensity=1). International comparison.

Source: Eurostat
In this instance, Iceland has one of the lowest rates (2%). Thus, the clear indication is that in-work poverty is more common among people with lower work intensity, especially households with children who have only one low-wage earner. This situation may have worsened in 2009 and 2010 since unemployment has increased due to the financial crisis. In third quarter of 2010 the unemployment rate was 6.4%. However, this is low by international standards and it is significantly lower than predicted at the start of the crisis.

Table 5-5 shows that minimum wages were generally in the region of 50% of average worker pay in the period between 1999 and 2008 and in the region of 40-43% of average employee pay in the same period. Minimum wages are determined in collective agreements between the labour market partners in Iceland and not by means of legislation. This is also the case in the other Nordic countries.

In the other Nordic countries, the minimum pay seems to have been higher than in Iceland in the last decades. A study by Neumark et.al (2004) shows the minimum wages in the other Nordic countries to be in the region of 51-64% of average pay, compared to Iceland’s 40-45%. This suggests that a rather low level of the lowest wages may be a major cause of the higher rates of in-work poverty that OECD and Eurostat/Statistics Iceland find in Iceland compared to the other Nordic countries. Iceland’s minimum wage level appears to be closer to what is common in many of the more affluent EU nations.

Table 5-5: Minimum wage rate as a % of average pay and average workers’ pay, 1998-2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Min. wage as a % of average worker pay</th>
<th>Min. wage as a % of average employee pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>54.8</td>
<td>45.3</td>
</tr>
<tr>
<td>1999</td>
<td>51.8</td>
<td>42.0</td>
</tr>
<tr>
<td>2000</td>
<td>49.0</td>
<td>40.0</td>
</tr>
<tr>
<td>2001</td>
<td>52.1</td>
<td>42.9</td>
</tr>
<tr>
<td>2002</td>
<td>52.9</td>
<td>43.4</td>
</tr>
<tr>
<td>2003</td>
<td>49.6</td>
<td>42.0</td>
</tr>
<tr>
<td>2004</td>
<td>50.0</td>
<td>42.3</td>
</tr>
<tr>
<td>2005</td>
<td>48.8</td>
<td>40.6</td>
</tr>
<tr>
<td>2006</td>
<td>48.1</td>
<td>40.5</td>
</tr>
<tr>
<td>2007</td>
<td>47.6</td>
<td>40.0</td>
</tr>
<tr>
<td>2008</td>
<td>51.4</td>
<td>43.4</td>
</tr>
<tr>
<td>2009</td>
<td>57.3</td>
<td>46.8</td>
</tr>
<tr>
<td>2010</td>
<td>56.1</td>
<td>45.8</td>
</tr>
</tbody>
</table>

Source: Statistics Iceland and Social Security Administration

Thus, it is likely that the low level of minimum wages has much to do with the in-work poverty that recent data from EU and OECD show. Low level of in-work benefits is also a contributing factor, especially for families with children. Low volume of work can also be a contributing factor, but that is likely to have had a less important role than the above-mentioned factors in the years before the crisis. If the level of unemployment in future years is higher after the present crisis than in the preceding decades, the role of restricted work volumes in creating in-work poverty may increase.
In-work benefits, such as family benefits are relatively low in Iceland for couples on relatively low earnings. Income supplements for fully working individuals are also rare (Kristjánsson 2011). This may also contribute to in-work poverty rates being higher than poverty rates among pensioners.
6. Institutional structure of the Icelandic labour market

6.1. Institutional environment and implementation capacities

Two facts should be kept in mind when assessing Iceland’s labour market policy framework:

1. The limited size of the country, and, consequently, the public sector’s capacity for governance and administration.
2. As indicated in the previous sections, Icelandic labour market conditions are not so much policy driven as they are driven by the social dialogue between the social partners and government and are regulated through collective agreements in the labour market. This extends beyond the labour market itself, as the social partners control pension funds and centres of continuing training.
Figure 6-1: Institutional structure of the Icelandic labour market – Main features

State: Main aspects of institutional structure relating to the labour market

**Systems:** Social Security, Health, Educational, Unemployment ben/ALMP, Benefits system; Tax and redistribution; Housing fund

**Institutions**
- Ministry of Welfare: Soc. Sec. Admin; Health Sec. Admin; Dir. of Labour (Unempl. Benefits; ALMP); Directorate of health and welfare; Administration of Occupational Safety and Health; Center for gender equality; The State Conciliation and Mediation Officer
- Ministry of Education: Schools; Life-long learning; R&D (RANNIS); Innovation Center; Surveyance and supervision

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Labour Market
Work, Pay and Services

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Social Partners: Main aspects of institutional structure relating to the labour market

**Systems:** Occupational pension; Union Sickness funds; Life-long learning system; Rehabilitation and activation; Benefits and holiday funds;

**Institutions:** Occupational pension funds (Federation); Life-long learning centers (regional); Rehabilitation fund (VIRK); Union services and grants to members; Universally applied rules and regulations (bargained or concerted)

---

Unions
Interest representation
Provision of Services
High density and centralization

Collective agreements:
Unions, Employers; Government
Pay, benefits, services, rights

Employers
Interest representation
Provision of Services
Highly centralized and resourceful
Figure 6 outlines the main institutional features of the labour market environment from the point of view of the state or government and from the point of view of the labour market partners. From the point of view of the state the main aspects of the welfare state have a bearing on the labour market functioning, such as social security, health care services, education, benefits and ensuring various provisions by means of redistribution and entitlements, as well as by supervising and quality surveillance. The state runs institutions to implement the goals of the various welfare and work related systems, such as the Directorate of Labour, Social Security Administration, Directorate of Health and Public Health, Administration of Occupational Safety and Health, Centre for Gender Equality as well as an office of state conciliation and mediation.

Interestingly, there are some correlating activities in the institutional architecture on the side of the state and the side of the labour market partners. Thus, the Occupational Pension Funds are a major pillar of the overall system of protection, sharing responsibilities with the public social security system. The pension funds not only secure old-age pensions but also disability pensions. The new Rehabilitation Fund (VIRK) provides services and rights in cooperation with the unions’ sickness funds and together they share the responsibility for activation and rehabilitation with the state agencies. Concerns have been voiced about lack of coordination in the system and fear of ineffective duplications, but the new rehabilitation fund should be seen as an addition to the system that was generally seen as lacking in terms of capacities for rehabilitation and thus countering the growing number of disability pensioners, which became a great concern during the 1990s. These functions are under the supervisory authority of the new Ministry of Welfare, which is working towards the goals of improving synchronisation between the various parts of the public and private service environment.

The labour market partners run a sizable system for lifelong learning with centres in all the main regions of the country. The aim of these centres is to improve the skill and educational levels of lower skilled labour market employees. They also offer various short-term courses and training facilities. This service is regulated and supervised by the Ministry of Education, Science and Culture. In this area there are no doubt various possibilities for improving synchronisation as well as utilising common resources in the public educational system and the private labour market facilities. The Ministry of Finance regulates the occupational pension funds, thus also bordering on the labour market regulatory and institutional structure.

The state also exerts direct influence, particularly in the field of labour exchange, as the state operates the employment service, and the social security system is part of the state and financed by taxes.

In general, the institutional structures in the labour market are characterised by a high degree of corporatism. The extent and character have varied over time. Sometimes the employers’ organisations have been stronger and more influential than the labour movement, at other times there has been a more balanced situation between the three partners (Ólafsson 1984, Magnússon 2004, Kjaran 2004, Eðvaldsson 2003, Ólafsdóttir 2010).

The union density is very high in Iceland, close to 85% of employees. This is largely due to a form of a “closed shop-arrangement” which is the result of collective bargaining. The trade union movement is organised into central federations with organisational structures quite reminiscent of the other Nordic countries. For example, ASÍ (the Federation of Labour in Iceland) is equivalent to the LO organisations (the National Federation of Trade Unions) of the other Nordic countries. Collec-
tive bargaining rights lie with individual unions, but that has not stopped them from joining forces in centralised agreements (Ólafsdóttir 2010).

Bearing this structure of bargaining in mind, the wage dispersion has been relatively modest in Iceland for a longer time than could be expected. Nevertheless, wage inequalities did increase during the latest boom.

Collective agreements are commonly accommodated to local and occupational special requirements by including common clauses and a special framework for special clauses and at times even special frameworks for firm-level bargains in addition to the general terms (Magnússon 2004, Eðvaldsson 2003).

All of this may seem to imply a highly regulated and organised labour market as well as a candidate for lack of flexibility, but this is not the case. In research literature, the Icelandic labour market is commonly described as very flexible (cf., e.g., Magnússon 2004, Eðvaldsson 2003). This flexibility is a part of the negotiated features of the labour market environment. Thus, the trade unions have accepted rules and frameworks that make it easy to hire and fire employees. The continuous collaboration between the social partners also makes for flexibility in conditions and terms and in dealing with specific cases of inflexibility. In section 3.3, we demonstrated how flexibility is created by adjusting real wages to changing economic fundamentals (usually engineered through inflation while basic rates remain unchanged, thus inducing cuts in real wages), as well as flexibility in employment volumes and by external migration. There is also educational flexibility.

As regards the institutional environment in the Icelandic labour market and its long-term tradition for tripartite concertation or corporatism, Iceland’s implementation capabilities should be good. Clearly, Iceland has actors capable of organising between themselves the necessary measures of the utmost importance and for executing them. The government would need to be the central actor, but the labour market partners have relatively important implementation roles compared to the neighbouring countries in some respects. Right now, the main question is more likely to be whether there are sufficient accessible financial means to make implementation effective in view of the depth of the financial crisis and the poor state of government finances. However, there have been significant policy novelties in 2009 and 2010, and in Chapter 7 we survey the most important and most consequential of these policy novelties.

### 6.2. New Ministry of Welfare

The beginning of 2011 saw the establishment of a new Ministry of Welfare through the merger of two former ministries, the Ministry of Health and the Ministry of Social Affairs and Security. Both were large ministries before merging. Consequently, this super ministry is now responsible for by far the largest part of public expenditures. The merger of the ministries was a part of a comprehensive reorganisation of the public administration aimed at rationalising and utilising resources better. As such, this policy is a part of the general reactions to the financial crisis and particularly difficult public finances. In Appendix 2, we show the main organisational structure of the fields of health, social protection and work. Appendix 2 clearly shows what was involved in the merger of the two ministries into the new Ministry of Welfare. There are also plans for merging public institutions with the same rationalisation goals. An example the merger of the Directorate of Health and the Institute of Public Health into a new Directorate of Health and Welfare, which is currently being finalized. Other institutions are also under consideration for reorganisation.
Figure 6-2 shows the present organisational structure of the Ministry of Welfare. The issues that primarily concern the labour market are unified under the Department of Social and Labour Market Affairs. A part of the rationale behind that structure is the tenets of active social policy aimed at coordinating the social security policies better with activation policies. This is an issue of growing concern in a time of crisis when Icelandic unemployment has reached historical heights, even if it is not particularly high by international standards.

The restructuring is a token of the awareness within the Icelandic public administration that there is a great need for synchronisation and rationalisation in the administration to enable Iceland to tackle prevailing as well as new crisis-related problems. As such, it speaks for Iceland’s determination to effectively tackle problems and implement solutions. Since some of the problems are new, the results of the implementation goals will require some years to be fully born out.
7. Mapping of current policies

7.1. Introduction

In the following, we survey the main policy initiatives undertaken and implemented during the crisis. We organise the discussion in line with existing legislation concerning the four components of flexicurity as identified by the European Commission.

Overall, Iceland has operated with a very successful labour market environment in the last decades given the high success rates of employment participation and generally low unemployment problems as well as a high level of gender equality and general opportunity. At the same time, the recent DG ELARG Report on Iceland for 2010 states that Iceland does not have a formal employment policy. In one sense, this is correct, i.e. in the sense that no particular regulation or strategy documents have been specifically devoted to the issue. In another sense, it is incorrect, since Iceland has clearly done many things right in the area of employment in past decades, otherwise the success with some of the main indicators would hardly have been so positive.

This perhaps strange state of affairs in the area of the labour market can be explained by the fact that one of the strengths of the Icelandic labour market environment has been a good sensitivity to pressing problems, often in a local context, which needed tackling. The small-scale society has reacted to this with various ad hoc measures, and often these measures have become a topic for social partner dialogue and collective bargaining. Here the labour market partners and government address the issues with measures that work or have a good chance of working. In a way, this can be said to be a normal feature of a small-scale social environment and it is a significant part of the flexible nature of the Icelandic labour market. When we add to this the great concern concerning the importance of people having jobs, it becomes a social mechanism that appears to have worked in many areas, even if it is often informal. This ‘modus operandi’ of labour market regulation has grown from the strong social capital embedded in the social fabric as the labour market sociologist Mark Granovetter (1985) would probably argue.

Icelandic employment policy in action has often involved a great deal of concern and emphasis on job creation. Before the 1990s, this was often perceived as a legitimate role for central and local government. However, with growing marketisation and privatisation in the last two decades this has come to be considered more properly as the role of the market and the private sector. Nevertheless, government still has a role to play and in the present crisis there have been frequent calls for government initiatives in new job creations and facilitations. There have even been calls for government financial procurement for job investments, even though the state of the Icelandic state’s finances is truly dismal in the middle of the financial crisis. This sentiment thus speaks for itself on the workings of an employment policy in Iceland, and it is clearly too much to say that Iceland does not have an employment policy. However, it has a somewhat different style of implementing employment goals compared to many other European countries.

The noted absence of extensive experience with implementing active labour market policies has much to do with Iceland’s great success in past decades in ensuring that a very high proportion of people at working age have paid work. The need for extensive ALMP has simply not been pressing. However, now there is awareness of the importance of issue due to the changed environment as we demonstrate in the following.
7.2. Flexicurity and activation

While flexicurity has been a feature of the Icelandic labour market environment, there is no specific legislation dealing with flexicurity as such. Nevertheless, it is implied in the institutional architecture of the labour market, which has also developed a security system (in the public social security system and the labour market occupational pensions) and flexible employment relationships. Thus, it is embedded in the environment similarly to the informal employment policy explained above. The legislation concerning the Directorate of Labour (presently from 2006: no 55, from 14\textsuperscript{th} July) deals with administrative structures (including regional labour market advisory councils - \textit{Vinnumarkaðsráð}), unemployment benefits, public employment services, and labour market measures, including assessments of employability. The Directorate also works with private employment agencies and educational and rehabilitation providers. It also collects and publishes statistics on labour market developments and participation in various measures. Iceland is a member of the Council of Europe and has accepted the 1996 European Social Charter.

The most important policy area since the advent of the crisis has been the activation sector, given the priority of the unemployment problem. Unemployment increased from approx. 1\% before the crisis to some 8\% in four months. This was unprecedented in modern Iceland. Rights to benefits are nearly universal for those who have been in the labour market in the previous 12 months. Initially, the Directorate of Labour (\textit{Vinnumálastofnun}) concentrated on coping with the gigantic task of paying out unemployment benefits to the rapidly increasing number of unemployed persons. This task proved to be quite overwhelming in the first half of 2009, and the Unemployment Benefits Fund would have run dry in early 2010 had it not been because of a significant increase in the insurance premium levied on employers. The Directorate of Labour also runs the Public Employment Services (PES) that are responsible for matching in the labour market. In addition to the PES, there are a number of private employment agencies in Iceland, some of which primarily cater to the professional and managerial market sectors. The functions of the PES were stepped up together with the activities of EURES for individuals considering job opportunities in other countries including the recent immigrant labourers.

Active labour market policies

Due to the efforts associated with benefit payments, the task of expanding and channelling more resources into activation and support measures was delayed during this first period of the crisis, but they were addressed with increasing efforts in the last 6 months of 2009 and in 2010. Two new programmes were created. The first programme concentrated on the unemployed youth (Youth to activity). The second programme, which was initiated late 2010, concentrated on long-term unemployed people (“Dare” – an acronym referring to “skill” and “experience” in Icelandic). The latter is also a special targeted programme like the “Youth to activity” programme. General programmes were also greatly expanded and new contracts signed with private providers of services to unemployed people, such as educational courses, counselling, promotion of work experience programmes, and jobs with wage subsidies. The Ministry of Social Affairs (from January 2011 the Ministry of Welfare after the merger with the former Ministry of Health) took an active part in stepping up these measures in cooperation with the social partners and the Directorate of Labour.

The Unemployment Benefits Fund financed a significant share of the measures in the activation area, an area where Iceland used to have rather low expenditure levels compared to the other Nordic countries (Ólafsson and Stefánsson 2005).
In 2009, about 40% of the registered unemployed people took part in labour market or activation measures organised by the Directorate of Labour (cf. their annual reports, the latest one is from October 2010). In 2010, the goal was to reach every one of those registered as unemployed within 3 months of registration and to offer them participation in activation measures of some kind (voluntarily chosen by the individuals concerned). Given the greatly expanded stock of unemployed people already in 2009, it appears to be a relatively good result. However, in 2010 the participation in activation measures and other organised activities by the Directorate of Labour increased to about 65% of the registered unemployed. A considerable number took part in more than one of these activities. Table 7-1 is an overview of the types of measures and the participation rates for each activity.

<table>
<thead>
<tr>
<th>Activity</th>
<th>% distribution in 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic support measures</td>
<td>20.9</td>
</tr>
<tr>
<td>Workshops and clubs</td>
<td>8.5</td>
</tr>
<tr>
<td>Computing, book-keeping and office work courses</td>
<td>11.5</td>
</tr>
<tr>
<td>Language courses</td>
<td>9.5</td>
</tr>
<tr>
<td>Vocational courses</td>
<td>12.8</td>
</tr>
<tr>
<td>Labour market partners' Lifelong educational programmes</td>
<td>5.8</td>
</tr>
<tr>
<td>Study contracts (for the public educational system)</td>
<td>11.6</td>
</tr>
<tr>
<td>Work-place training and experience contracts</td>
<td>6.1</td>
</tr>
<tr>
<td>Innovation programmes</td>
<td>2.0</td>
</tr>
<tr>
<td>Special effort assignments</td>
<td>5.0</td>
</tr>
<tr>
<td>Study grants</td>
<td>6.4</td>
</tr>
<tr>
<td>Total %</td>
<td>100.0</td>
</tr>
<tr>
<td>N</td>
<td>12,771</td>
</tr>
</tbody>
</table>

Source: Directorate of Labour (2010) and direct contact

The basic support measures aim at a general strengthening and empowerment of the individual, and most of registered unemployed people participate in these measures. By 2010, many may already have participated in 2009. Vocational courses (computing, bookkeeping, office-work training, other work-place training and various specific vocational courses) are a significant part of the general supply of measures. Educational options also feature very highly in the Directorate’s programme. About 58% of the participation in the measures took place in the Reykjavík area and 42% in the provincial areas around the country. Outside Reykjavík, the area with the highest participation in active measures was Reykjanesbær in the southwest part of the country. This is not surprising since this area has suffered most from unemployment from the onset of the crisis. Some years prior to the financial collapse, the local labour market suffered a significant blow when the US navy base at

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^6 Note that the figures for registered unemployment are generally about a 1 percentage point higher rate than what emerges from the labour market surveys of Statistics Iceland (comparable to Eurostat surveys). Thus when registered unemployment is at about 8% the labour market surveys generally show the rate near 7%.
Keflavik airport was closed with a significant loss of jobs. In some of the fishing communities in the provinces, the economy is stronger because the collapse of the currency gives the export industries (of which the fishing sector is the most significant) a strong position. Consequently, there have not been significant layoffs in many of these provincial communities, e.g., in the Vestfjords. The eastern fjords benefit from the new gigantic aluminium smelter at Reyðarfjordur, which gave a boost to the local economy, even though the construction industries in that area over-extended themselves with investments in new homes in the financial bubble after 2002. However, since the proportion of immigrant labour (primarily single males) was particularly high in the construction work around the hydro-electric dam, energy plant and the aluminium plant itself, a considerable part of the negative adjustment of the employment level was solved by the workers emigrating, many of whom had no particular intention to settle in Iceland.

Lifelong learning
Education has played a large role in the adjustment to the crisis in the labour market. Not just lifelong learning measures (short courses, mainly vocational) organised by the educational centres of the labour market partners (Fræðslumiðstöð atvinnulífsins; Starfsmenn; Mímir and others), with active participation from both unions and employer organisations. They offer a wide range of courses, ranging from human-interest courses, language studies to direct vocational training for specific occupations or industrial sectors. It is difficult to get comprehensive up-to-date statistics on participation in these courses and measures.

Fræðslumiðstöð Atvinnulífsins (Educational Centre of the Labour Market) was established by the Federation of Labour (ASÍ – www.asi.is) and the Confederation of Employers (SA – www.sa.is) in 2002. Its main goal is to provide individuals who have not completed education at secondary level opportunities to obtain education and improve their position in the labour market. There are regional centres in all provinces and grants are available to individuals in the target group to cover the cost of education, which can take place alongside their work or in temporary breaks.

In 2007, ParX, a private consultancy firm, evaluated the activities of the Educational Centre of the Labour Market. The evaluation showed that the centres had delivered the outcomes as stipulated in the service contracts and they were assessed as being successful. They offer a large variety of courses. Most of the courses are short courses, and only rarely do they lead to diplomas or certified rights. Critics have complained of a lack of contact and synchronisation with the formal secondary educational system because it limits the potential effects for the individuals. Nevertheless, these activities have clearly been important for taking the lifelong learning facilities in Iceland to a higher level. Overall, participation in adult education and training is relatively high by international standards, but more quality assessments could be useful for further assessment of adult education activities and for better strategic planning.

Finally, there have been initiatives to facilitate an increase in the share of population with a higher education. Statistics on educational enrolments (www.hagstofa.is) show that during 2009 the number of university enrolments increased significantly. The number of enrolments continued to increase in 2010 but at a slower rate. At the same time, enrolment in secondary education slowed somewhat in 2010, particularly participation in distance learning programmes and evening classes (primarily “education with work” programmes). It is not clear why this has happened in the secondary schools. The increased intake of university level students in 2009 was countered by a slower increase in 2010 and may thus primarily have involved a transfer of educational flow between 2009 and 2010. It seems likely that the relatively large emigration rates in 2009 and 2010 may have nega-
tively affected the flow into education during the crisis (language courses for immigrants and study along with work, etc.).

**Vocational rehabilitation measures and the pension system**

In 2005, there was much debate in Iceland about what was considered an unsustainable and unfortunate increase in the number of disability pensioners (Herbertsson 2005, Ólafsson 2005). Their numbers had grown rather rapidly from the early 1990s. Politicians criticising the welfare provisions as well as employers’ organisations interpreted this increase as evidence that disability pension and related benefits (discounts on medication and health services) had become too generous, thus providing a strong incentive for individuals in low paid jobs to leave the labour market for the more easy life of a disability pensioner. In fact, the disability pension was still relatively low compared to wages (Hannesdóttir et.al 2010) and had lagged behind average wages in the period from 1995-2005. The increase in the number of disability pensioners had more to do with a growing awareness of people with mental disabilities, their rights, and campaigns to support the groups against prejudice. The largest group of the new disability pensioners was in fact people with mental disabilities, a development that had become common in European nations from the early 1980s (OECD 2003). The increase in the number of Icelandic disability pensioners came a decade later and resembled comparable development in many European countries. Nevertheless, the increase in the number of disability pensioners was of great concern to caretakers of the occupational pension funds (the labour market partners), since they saw this development as a threat to their ability to deliver on their pension promises to the elderly because the growth was beyond previous predictions.

**Disability pension reform**

The Icelandic pension system has three main pillars: the universal social security system, mandatory occupational pensions (labour market Occupational Pension Funds), and individual pension accounts. The social security system has a means-testing rule that complicates the relationship between the social security and occupational pensions, but the individual pension savings are independent of other income. Occupational pension funds and the social security system are the main insurers of the disabled. Before the crisis, Ólafsson (2005) argued that the disability pension system was carrying a too large share of inactive individuals, and the unemployment system and the sickness pension provision were carrying a too small share. Policy changes in the last few years, and after the crisis hit, have aimed at rectifying this inequality to some extent.

The policy reform process, which started in 2005, led to a major public debate. The reform aimed at moving the disability pension system and rehabilitation measures towards a more targeted filtering of disability pensioners, an increase in the supply of rehabilitation measures, and a more targeted system of operations in the area. The debate lead to work at government level and among the labour market partners to restructure the disability pension system with changed organisations and a move from a disability test to a more capability-based assessment of rights to disability pension. Given that Iceland does not have a provision for early retirement in its pension system, the pressure on the disability pension system is bound to be greater than it would otherwise have been. Figure 7-1 shows the main exit routes from the Icelandic labour market.
Figure 7-1: Exit routes from the Icelandic labour market into the pension system

Figure 7-1 illustrates the Icelandic pension system. As evident from the figure, the system is designed with a view to restrict exit ways from the labour market to unemployment benefits and disability pensions. Moreover, there are strong incentives to delay an exit from the labour market even beyond the legal pension age of 67 and up to 72 in the social security system. Those who retire at age 72 can increase their social security pension by 30% (depending on other incomes due to income testing). Apart from the disability pension, the main exit way is the occupational pension system that gives employees the right to retire at 65, but a retirement delay will increase the annual pension proportionally. Public employees have a limited right to earlier retirement after a long career in public service according to the “95-rule”. This rule specifies that if the sum of life age and career years exceeds 95, the employee can to retire with full rights. Fishermen have a special provision in the social security system that enables them to retire at age 60. Finally, in theory, anybody can retire early and rely on individual pension account savings, but as only a limited part of the population has savings in such schemes, this option is more theory than reality (Nielsen et.al. 2009).

The rehabilitation fund
An important innovation in the area has been the Rehabilitation Fund of the Labour Market Partners (VIRK Rehabilitation – www.virk.is). The Icelandic government has joined this effort and contributed to the fund (for public employees). The fund operates in collaboration with the union-based sickness funds that provide working people with a general right of maintaining (in most cases) up to 80% of their former pay in case of serious sickness or accidents for up to 9 months. In addition,
most employees have the right to full pay during the first weeks of illness, for one to three months, depending on their length of service to the present employer.

The main idea with the new rehabilitation fund is to initiate assistance sooner than before to individuals who leave the labour market due to illness or accidents. The aim is to maintain their link to the labour market and facilitate their re-entry into the labour market. The fund employs counsellors jointly with the union sickness funds in all areas of the country and it is able to finance rehabilitation activation activities provided by private companies or NGOs.

After the first 12 months of absence due to illness, employees are entitled to disability pension from social security if they qualify in the disability/capability test. They may also be entitled to sickness benefit from social security. However, the last decades has seen a significant reduction in sickness benefits. Therefore, sickness benefit is only an option for the individual if it is supplemented with social assistance from local authorities.

According to information from VIRK-Rehabilitation in January 2011, some 1150 individuals with health difficulties were in regular interview/contact with consultants (corresponding to close to 8% of the registered unemployed people). Most of these people are dealing with serious health problems, physical as well as mental. About 64% of them found that their former job was physically challenging, and about 50% of them said their former job was mentally challenging. About half of the individuals are 35-54 years old and the remainder mainly come from the age groups 25-34 and 55-64. There are more than twice as many women as men in the group.

Table 7-2: Subsistence means of VIRK clients at start of relationship

<table>
<thead>
<tr>
<th>Subsistence means</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid job</td>
<td>27</td>
</tr>
<tr>
<td>Unemployment benefit</td>
<td>8</td>
</tr>
<tr>
<td>Study loans</td>
<td>0</td>
</tr>
<tr>
<td>Union sickness fund</td>
<td>37</td>
</tr>
<tr>
<td>Rehabilitation benefit</td>
<td>8</td>
</tr>
<tr>
<td>Disability benefit</td>
<td>9</td>
</tr>
<tr>
<td>Other</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: VIRK Rehabilitation (February 2011)

Table 7-2 shows that the largest group of the users of VIRK’s consulting services lived on benefits from union sickness funds (37%). The second largest group (27%) came more directly from active work (presumably still maintaining their pay according to their wage contracts, i.e. in their first to third month of illness). 8% of the users were on unemployment benefit and another 8% on rehabilitation benefit (often acting as a “corridor” to disability pension). We could perhaps expect the last figure to be higher given that this group is required to take active part in various rehabilitation measures, including from VIRK. Only about 9% of the clients were already on disability pension. Perhaps the largest chance of achieving increased work participation from people with restricted health comes from activating those already on disability pensions. The 9% figure indicates that the VIRK services are not making a large inroad into this group. This is logical, given that their services are primarily targeted at individuals who have recently exited the labour market due to illness or accidents.
Decentralisation and outsourcing in rehabilitation

Another important change in the area of activation, rehabilitation, and disability that has emerged during the last few years is an increase in the number of organisations (from the private and third sectors) providing rehabilitation services. This is the result of the intensified debate about these issues, and the creation of VIRK may now give an extra impetus to such initiatives. Thus, VIRK is expected to use part of its budget to pay for measures provided by private companies or NGOs.

New entitlement criteria

Last, but not least, the reform included a change in procedures and criteria within the social security system for allocating disability pension rights. The new procedures came into force in 2009. Previously, it was relatively easy for citizens to gain the right to a disability pension without having to make full use of other means of provisions (i.e. in the union sickness funds). Applicants had to have tried all available means of rehabilitation and support before applying for disability pension, but this rule was not enforced systematically before 2009. From 2009, the Social Security Administration changed its procedures and made stricter demands as well as administered the disability/capability test more strictly (direct information from SSA – www.tr.is). As seen in Table 5-1 on page 67, this led to a considerable reduction in the number of new disability pensioners, especially in 2010. So far, at least, we are witnessing a change in the old relationship between the rate of unemployment and an increase in the numbers of disability pensioners during a crisis. Given the exceptional rise in unemployment during the crisis, previous experience would have predicted a steep increase in the number of new disability pensioners. The unexpected outcome can be related to the changing SSA procedures as well as the other new features of the rehabilitation environment, including the creation of VIRK, even though it is only a short time since they came into full operations. It remains to be seen, if the presently observed decline in the numbers of new disability pensioners is a delay or a permanent change in patterns.

Considering the number of clients of the rehabilitation fund and the number of recipients of disability pensions, it should also be kept in mind that the number of registered unemployed people is much higher. This means that in the present situation the activation measures for unemployed people are the most important for gaining real benefits in activation. After all, Iceland has a very high rate of employment participation among individuals at working ages even now in the middle of the crisis. Iceland is still a society characterised by the willingness to work, and when, or if, unemployment can be reduced significantly it seems likely that Iceland will return to the status of having the highest work participation in the advanced world.

Flexible and Contractual Arrangements

One of the innovations introduced at the beginning of the crisis was the option of applying for part-time benefit from the unemployment benefits fund of the Directorate of Labour. This meant that firms could afford to keep more people on their payrolls with a supplement from the unemployment benefits fund. Self-employed individuals can also apply for the benefit. The part-time benefit was introduced as a temporary measure. In 2009-2010, about one percentage point of registered unemployed people were using the provision (which also explains the difference in the two measures of the unemployment rate, i.e. the registered and the survey-based one). It appears to have been a very successful measure and it has been favoured by the labour market partners.

7.3. Equal opportunities

Before the crisis, Iceland was generally seen to be among the countries with the highest degree of gender equality in the labour market, approaching that of the other Nordic countries (WE-Forum:
Iceland has not passed any decisive legislation on equal pay or equal opportunities of the genders during 2009-2010. The unemployment crisis hit males significantly harder in the early days of the crisis. This is logical given that the construction industry was the hardest hit. Females suffered though significant job losses in shops and services, even though their numbers have been relatively lower than the male job losses to date. Iceland is currently facing increased cuts in public expenditures and this may affect women more than men because that the proportion of female workers is much higher there than that of males workers.

The most significant recent legislation against discrimination is from 2007 and concerns immigrants. The government implemented the first large-scale legislation on inclusion of foreign immigrants into the community. The following year, the government announced a 12-point progress plan to achieve the main goals of the legislation. The plan involved the following points:

- a change in the governance structure relating to matters of immigration;
- immigrants were ensured the same rights and conditions in the labour market as natives;
- increased emphasis was placed on improving the information flow about matters of immigration to immigrants;
- procedures for work and residential permits were to be simplified;
- rights to interpretation were secured;
- social plans for reception of immigrants at local community level were defined;
- improved recognition of foreign education and skills was to be improved;
- plans working against prejudice are to be implemented in schools and communities; and
- improved training and education in the Icelandic language and about Icelandic society was promised (Thorarinsdóttir 2009).

While this legislation constitutes important progress, it came rather late after the immigrant population had reached 7-8% of the population. The fact that immigration problems had not reached any great scale in Iceland before the advent of this legislation and progress plan indicates that the capacity of the Icelandic society to adjust to such a big change is substantial. It remains to be seen whether the present crisis will make the relationship between the immigrant population and the Icelanders more difficult than before. To date, there are no clear signs of any major negative developments in this area.

Work continues at government level, usually in cooperation with relevant interest organisations, to facilitate progress in inclusion, such as among the disabled and the elderly. The Directorate of Labour, for example, runs the project “50+” aimed at increasing opportunities for people to work (part-time) when they become older. This project will continue, even though Iceland has had one of the highest effective rates of retirement in the Western world for a long time. According to recent data from Eurostat and the OECD, Icelanders with disabilities or long-term health problems have the highest employment participation rate in the Western World (Hannesdóttir, Thorlacius and Ólafsson 2010).

When the crisis is over, it will be very interesting so see whether Iceland have succeeded in avoiding an increased disability population due to the increased unemployment problem. This is likely to depend on the success in containing the size of long-term unemployment.
7.4.  Wages, taxes and benefits

The Stability Pact

The main new policy affecting Icelandic wages is the Stability Pact. About a month after the formation of the new government following the 2009 spring election, employers, unions and the government signed the Stability Pact on the 25 June 2009. The Stability Pact was described as a major move toward a roadmap for reconstruction. It took into account other issues than those covered by the agreement between the government and the IMF on the financial reconstruction of the Icelandic economy.

The Stability Pact was important in the sense that it provided for temporary stability in the labour market and defined some of the pressing needs such as job creation, reduction in interest rates, and increased efforts in rehabilitation. The Stability Pact also defined reference goals for government finances, such as tax increases must not contribute to more than 45% of what is needed for balancing the budget, the rest must come from expenditure cuts.

As regards wage bargaining, increases were primarily agreed for the very lowest wages. The government pursued a similar policy, raising primarily the lowest benefits and pensions while implementing cuts for pensioners earning higher pensions.

Table 7-3 is an overview of pay development by occupational classes from 2005 through 2010. All the figures in the table are nominal rate increases. Prices increased heavily during 2008-2010, meaning that the real wages of all groups dropped. However, the table also shows that the drop in real wages was more marked for the higher occupational classes. Thus, regular pay at the managerial level increased nominally by 2.8% jointly in 2009 and 2010, while the increase for unskilled manual workers amounted to 12.4%, and among these, the increase was even higher for the very lowest wage groups. The lower skills groups in clerical and sales occupations and services also experienced a higher average increase in earnings than the top earning groups. Consequently, the lowest wages were prioritised during the crisis, while higher earning groups suffered significant reductions of their purchasing power.

Table 7-3: Pay development by occupational classes, 2005-2010. Average change from previous year (%), and accumulated change 2009 and 2010

<table>
<thead>
<tr>
<th></th>
<th>All groups</th>
<th>Managerial</th>
<th>Professional</th>
<th>Technical</th>
<th>Clerical</th>
<th>Services and sales</th>
<th>Skilled manual</th>
<th>Unskilled manual</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>10,3</td>
<td>10,4</td>
<td>11,5</td>
<td>10,7</td>
<td>10,0</td>
<td>10,0</td>
<td>8,8</td>
<td>10,8</td>
</tr>
<tr>
<td>2007</td>
<td>10,4</td>
<td>9,8</td>
<td>11,9</td>
<td>10,9</td>
<td>12,7</td>
<td>10,6</td>
<td>8,7</td>
<td>10,5</td>
</tr>
<tr>
<td>2008</td>
<td>8,0</td>
<td>6,1</td>
<td>8,7</td>
<td>6,9</td>
<td>8,6</td>
<td>8,4</td>
<td>7,4</td>
<td>9,7</td>
</tr>
<tr>
<td>2009</td>
<td>2,4</td>
<td>-2,3</td>
<td>-0,9</td>
<td>2,3</td>
<td>5,1</td>
<td>3,4</td>
<td>2,0</td>
<td>5,8</td>
</tr>
<tr>
<td>2010</td>
<td>6,0</td>
<td>5,1</td>
<td>5,6</td>
<td>5,5</td>
<td>6,3</td>
<td>7,2</td>
<td>5,2</td>
<td>6,6</td>
</tr>
<tr>
<td>Sum 2009-2010</td>
<td>8,4</td>
<td>2,8</td>
<td>4,7</td>
<td>7,8</td>
<td>11,4</td>
<td>10,6</td>
<td>7,2</td>
<td>12,4</td>
</tr>
</tbody>
</table>

Source: Statistics Iceland

In Chapter 5, we showed that child benefits as well as mortgage interest tax rebates increased significantly during 2009. The overall tax burden was also reduced in the lower incomes groups (while
it was raised in the higher earning groups). Consequently, the lower wage groups were sheltered to some extent against the worst consequences of the crisis (see also Kristjánsson and Ólafsson 2010).

7.5. **Job creation initiatives in Reykjavík and other parts of the country**

**Investment and public works**
The Stability Pact of June 2009 put great emphasis on the need for job creation. The Icelandic government needed to pave the way for large-scale investment projects in cooperation with the Occupational Pension Funds (OPFs). Specific projects were named and included the enlargement of the aluminium plant (and related energy plant development) at Straumsvík near Reykjavík; pushing forward a planned aluminium plant at Helguvík in Reykjanesbær (where unemployment is pervasive); road works; maintenance works in public and private buildings; construction of a new national hospital; and the continued construction of a national musical hall in Reykjavík.

**Strategy of the pension funds**
The Occupational Pension Funds established an investment corporation with the aim of using dormant capital in the funds for investment in innovation as well as in sustainable and promising companies to facilitate continued operations and innovation activities. Given that many of the previous options for investing pension fund money in stocks and related avenues had disappeared, this was a logical measure to be taken by the OPFs. Too much of their steady stream of in-payments had ended up in savings accounts after the advent of the crisis.

The Stability Pact became the subject of conflict between government and employers’ organisations due to the stated government goal to revise the fishing quota system even against the opposition from owners of fishing companies. The employers threatened to withdraw from the Stability Pact cooperation unless the government quit its plans. As the government failed to withdraw its plans, the employers withdrew from the pact by mid-2010. There followed accusations of breaches of promises, etc., including accusations that the government was overtaxing, not cutting expenditure enough, and that it was hindering the progress of investment in the aluminium project.

The government and the public energy company (Landsvirkjun) explained that the projects had been delayed due to difficulties with securing finance for them due to Iceland’s damaged reputation in the financial markets and the stalemate in the so-called Icesave case between Iceland, the UK and Holland (excess payment of deposit insurance fees for branches of the Icelandic banks in these countries). Eventually, the Pact ran aground.

In late May 2010, the government issued an overview of successful job creation initiatives together with a report on the numbers of jobs created. The government claimed that by early March 2010, 56% of the planned new jobs had already emerged and it cited other job openings in the pipeline. The new jobs amounted to about 17-19% of the average number of registered unemployed individuals during the year 2010. The following are some of the main new job projects activated up to spring 2010:

- The government initiated new temporary jobs in public services and public institutions (at central and local levels), primarily aimed at individuals in the unemployment register (from 6 weeks up to 6 months).
The funding of the Students’ Innovation Fund was increased five-fold. The fund provides grants for financing the work of university level students in R&D projects in companies or research institutes.

- New prison building project started.
- New national hospital project and continued building of the Harpa-Music Centre; both projects are seen as “stimulus” projects for job creation in the context of the crisis.
- Work at popular tourist venues in Iceland; environmental work, financed by charging visitors.
- Construction of nursing facilities for the elderly and infirm in various places of the country (accounting for a third of the 56% of new jobs).
- Work on maintenance of private and public houses. The project “Everyone wins” involved a significant VAT rebate on work for maintenance of private housing and summer cottages. This has proved useful for encouraging work for construction workers. Significant maintenance work on public buildings was also planned.
- Energy-related work, on new power plants, for aluminium industry expansions and Greenfield plans. Also for energy-intensive data centres.
- Expansion of the Straumsvík Aluminium Plant.
- Start of the Helguvík Aluminium Plant (Reykjanesbæ).
- Energy-related projects in the North-Eastern part of the country (near Húsavík).
- Facilitating investment in data centre industry, e.g., at Keflavík airport (Verne Holding Data Centre) and other related projects.
- Significant numbers of roadwork in many parts of the country with financing from OPFs and possibly with fees for users of some of the roads. Construction of bus transportation centre in Reykjavík and enlargement of the air terminal at Akureyri.
- Other government facilitation measures were mentioned in the Stability Pact.

As indicated above, most of the projects on this list had already created some jobs by the spring of 2010. The projects are still running and an expansion is planned with a hospital project and various roadwork projects, etc. It is also hoped that the greenfield aluminium plant in Helguvík will start up soon.

Other influences on job creation include the Central Bank interest rates having come drastically down from the level just before the collapse and immediately following it. It is hoped that this will facilitate investments in industry and help ailing companies to deal with their debt burden and expand their operations at the same time.

The rebuilding of the Icelandic banking system has also progressed considerably and the new banks are now actively restructuring the debts of sustainable companies, which, when finished, will facilitate more normal conditions in industry, thus strengthening conditions for renewed growth (see Central Bank of Iceland, Monetary Bulletin, various issues).

7.6. **Main challenges for the Icelandic labour market**

The challenges facing the labour market in Iceland can be divided into short-term challenges connected to the current economic situation and long-term, structural challenges connected to Iceland’s position in the world economy and in the global competition.
Based on our data analysis and interviews with key representatives of the labour market actors, we have identified the following key challenges:

**Short term challenges**

- The unusually high rate of unemployment by historical standards:
- among young individuals, particularly at the ages of 16-29, including school leavers;
- increasing long-term unemployment rate, which is higher than ever before;
- very high concentration of unemployment among construction workers (unskilled and skilled), employees in commerce (shop assistants), and unskilled service workers; the majority of those concerned have low educational levels and low functional mobility;
- specific higher level occupations are also affected, in particular occupations within the previously over-expanded financial sector; and
- Migrant workers have higher rates of unemployment than native Icelanders.

- Strengthening activation measures:
- planning and implementing measures of the Directorate for Labour and the PES;
- managing the use of private operators supplying labour market measures; and
- increasing the stock of options for measures as well as resources for implementation.

- Avoiding increased flow of unemployed people onto disability pensions:
- reorganising rehabilitation measures and procedures; and
- ensuring new resources and increased facilities for vocational rehabilitation (education, physical and psychiatric rehab and guidance).

- New job creation, through private and public investment.
- Gradualism in wage bargaining on the way out of the recession.
- Better social inclusion of migrant labourers.
- Avoiding a net outflow of persons in the active ages.

**Long term challenges**

- Increasing productivity.
- Developing policies to counter the tendencies to a dual labour market.
- Increasing the share of the population who complete a vocational or higher education.
- Developing policies and measures to tackle the growth in in-work poverty.

7.7. **The short term**

The short-term challenges primarily concern the resurrection from the consequences of the deep recession of which the unemployment problem is by far the greatest. Although Iceland’s present unemployment rate is below the EU average, it is still significantly higher than at any time since the end of the Second World War. Iceland has always been a traditional “work society” with plenty of opportunities for jobs and overtime in case of temporary financial hardship in a family. Thus, in the past decades, Icelandic families have been used to solving their financial problems (e.g. associated with periodic recession and pay cuts, or in relation to financing of home buying or ambitious consumption levels) by increasing their work load (frequently that of the man of the family). Consequently, high levels of employment participation and extensive opportunities for extra work and overtime have featured in Iceland as an important means of adapting to fluctuations in the economy.
Higher unemployment and lower job rates have made this option more difficult to pursue. This explains why Icelanders – and the Icelandic government – tend to look at the present level of unemployment as a more serious problem than is the case in countries that are more used to long spells of high unemployment.

**New patterns of unemployment**

The unemployment problem is unevenly distributed across social groups, with the young and new school leavers being particularly badly affected. Some industries have also been more affected than others have, and a number of specific groups must become the focus of specific measures. The number of immigrants increased rapidly in the 2000s, particularly in the last 5 years before the financial collapse, and only about a fifth of them left the country after the onset of the crisis. Given the higher unemployment rate among members of this group, there clearly is a great need to improve social integration on the way out of the crisis. There is also a need for awareness of relatively small groups with particular difficulties in the present circumstances (such as unemployed people above the age of 50), since they may find it particularly difficult to re-enter the labour market because of the tougher competition from younger labour and migrants.

**Lack of preparedness as concerns active measures**

Strengthening the variety and effectiveness of activation measures is particularly important since Iceland has not had to put great efforts into this area in past decades because of the then long-term high employment level. While measures have obviously been in place, they have been few and far between. Accordingly, expenditure on activation measures has been rather low (Ólafsson 1999 and Ólafsson and Stefánsson 2005). It is therefore quite a challenge to strengthen the measures and resources in this area in a very short time. The recession is felt all over the country, but the capital area and the Southwest (Reykjanesbær) are by far the hardest hit, and the measures should therefore concentrate more on these areas.

**Dangers associated with using the disability pension system as a buffer**

Research has shown that from the early 1990s, the flow of new entrants into the disability pension system typically increased in the wake of increased rates of unemployment (Thorlacius and Ólafsson 2008 and 2010; Ólafsson 2005). In view of the present crisis, it was therefore to be expected that the flow of people into disability pensions would have reached unprecedented heights. This could have had severe long-term consequences for the economy as well as for individuals who have the ability to work, but, in some cases, would be stuck outside the labour market due to the stigmatisation associated with being a disability pensioner. The Icelandic welfare systems has been aware of this threat and many have mentioned the difficult consequences that Finland experienced in this respect following its deep financial crisis in 1990-94. The Finns talk about the “lost generation”, referring to groups of individuals lost to the labour market and society because of the crisis (Kiander et.al. 2001). In Iceland, there has been considerable public concern that this must not happen, and the government has taken steps to avoid it happening as described in the previous chapters.

**Access to finance for job creation**

The most efficient means against unemployment is job creation. One of the immediate consequences of the crisis was that investments dropped to an all-time low in 2009 and 2010. Government finances were in turmoil and private firms were often over-indebted due to excessive leverage levels and/or increase in foreign debts levels with the collapse of the currency (Zoega et.al. 2010). However, in Iceland the occupational pension funds represent a source of finance that has not been exploited for direct commercial investments until now. Thus, the management of the funds is currently considering how to invest the capital without jeopardising the rights of future pensioners.
**Danger of inflation**  
There is a considerable danger of a growing wage-price spiral similar to that of the periods of high inflation experienced before the advent of the Social Pact in 1990. The demands of the trade unions for wage rises in collective bargaining may again become aggressive in an attempt to regain the considerable losses of purchasing power. During the 1960s and 1970s in particular, pay increases following policy-induced reductions in real pay tended to be quite high, usually leading to an explosive inflation with a wage-price spiral threatening to run out of control. Given the unusually large reduction in real wages over the last two years, such a development is a real danger if collective bargaining runs into problems. The problem is aggravated by the high debt levels of many households. Most mortgages and other loans are indexed to the price level, and the debt burden therefore increases with rising inflation. Another underlying difficulty is that it is much easier for the export industries to pay higher wages, while other sectors (especially construction, commerce and low-value services) are in grave difficulties. Thus, the importance as well as the difficulty of the art of balancing in centralised bargaining is considerable this time.

**Social inclusion of the immigrant population**  
Lastly, given the overall size of the immigrant population in Iceland (some 8% of the population) and their higher unemployment rates due to the crisis, the problem of social inclusion of this group into the labour market and the society in general may present significant challenges in the years to come.
8. Assessment and recommendations

8.1. Assessment of capacity and policies

For a small economy and a small labour market like the one in Iceland, the country is well equipped with institutional arrangements and policies to cope with the challenges listed above – or rather, the country is equally as well equipped as comparable EU Member States.

Participation in the labour market has historically been very high, and so most of the adult population is active in the labour force and is immediately employable. Women also participate in the labour market to a considerably higher degree than most other European countries.

Until now, the Icelandic labour market has been significantly more flexible than most European labour markets. This flexibility has been achieved internally, through flexible working arrangements agreed by the social partners at local level, and externally, through migration.

However, it is a question whether the functional flexibility of the labour force, and hence the potential job mobility, is sufficient to ensure that emerging sectors and industries have access to staff with the right skill sets to ensure that Iceland retains its position in the globalised economy.

The security component is also well developed.

However, some features of the social protection system call for reform, most prominently the disability pension system.

The previous section pointed to the serious challenges that Icelandic policy makers and labour market actors will have to work to overcome. Some of these challenges are specific to Iceland and are associated with specific features of the Icelandic labour market. They particularly apply to the high migration levels and the relative lack of experience in planning and executing an active labour market policy.

However, our interviews with Icelandic labour market actors indicate a strong focus on these problems. The interviews also indicate that the cooperation between the social partners and the Directorate of Labour could be improved to achieve greater efficiency and effectiveness of the labour market policy implementation.

Finally, it should be recalled that Iceland shares many of its labour market policy challenges with other European countries after the finance crisis:

- The structural character of unemployment associated with changes in the global division of labour, leaving few low-skilled jobs in the European labour markets and increasing the educational requirements of the labour market in general.
- Too many young people who do not complete secondary education, especially vocational or technical education.
- Difficulties in avoiding that a share of unemployed people enter a downhill slide beginning with long-term unemployment and ending in inactivity.

8.2. Recommendations

Following from the above observations made, we can make the following recommendations:
Develop and strengthen active labour market measures, taking a competence perspective
We recommend that the Directorate of Labour coordinate the efforts of the PES, the social partners and the funds at their disposal, and VIRK to ensure that resources in this field are spent more efficiently than appears to be the case at present. While the recession is felt all over the country, the capital area and the Southwest (Reykjanesbær) are by far the hardest hit and the measures should be concentrated proportionally more on these two areas.

Study methods used by European PES for anticipating skill needs in the labour market
The European PES have been very active in developing their ability to be able to respond to skill demands. Since 2008, the PES have undertaken joint work to contribute actively to the Lisbon Strategy and since 2010, to Europe 2020 Strategy. The outcome of this work is described in reports and good practice descriptions that should be considered by the Icelandic labour market policy makers, and in particular, by the Directorate of Labour, who is responsible for the PES.

Continue and deepen the review of the benefit systems
The current benefit systems appear to be less suited to aid flexibility in the labour market. There is already focus on the disability pension system, but we recommended a proper review of the whole system of benefits available for persons in and outside the labour market to synchronise as well as pinpoint and remove barriers in the system.

Develop criteria and procedures for quality assurance of activities carried out by private service providers to the PES and in the field of rehabilitation
It demonstrated that the quality and efficiency of activities carried out by private providers of employment services varies considerably. VIRK, the rehabilitation institute, has developed criteria for quality assessment of their providers. These should be studied by the PES. Experiences from other European PES (e.g. the Dutch PES) could also provide useful inspiration in this respect. This also applies to private providers of rehabilitation services.

Monitor migration closely with a view to react if the net outflow of persons in the labour force threatens the sustainability of the economy
There is currently a large outflow of migrants from Iceland, and some interviewees raised concern about a possible brain drain. However, it appears that the evidence base concerning the skill levels of migrants (immigrants as well as emigrants) lacks in precision.

Facilitate a better match between supply and demand for skilled labour
There is a growing concern that there is an insufficient supply of technically skilled labour, particularly in the fields of high-tech, software and information technology.

Increase the capacity of Statistics Iceland in order to improve a timely monitoring of the labour market
The current capacity of Statistics Iceland appears to be insufficient as detailed labour market data can only be made available with a delay of more than 3 months. This means that the labour market actors are often unable to respond in a timely manner. More data appears to be available at Statistics Iceland than is readily accessible to the labour market actors and researchers. This appears to be caused by restricted manpower resources at Statistics Iceland.

Make a long-term plan for increased productivity and shorter working hours
The report shows that relative to the overall affluence level of the country, the productivity level is rather low in the Icelandic economy. This indicates that too much of the prosperity is based on
heavy labour input (high work participation in conjunction with long weekly working hours), so that contrary to the situation elsewhere in Europe, increasing working hours by increasing the labour force is not a priority in Iceland. There are clearly great possibilities for improving quality of life and improving work-life balance by shortening working hours in conjunction with a plan for increased productivity levels.
9. Bibliography


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Statistics Iceland [Online]

http://www.statice.is/temp_en/Dialog/Footnote.asp?File=VIN07116.px&p=0&obe=1&lang=1&ansi=1&noofvar=4
[Accessed the 2nd of February 2011].

Annex 1: Completed interviews

Vigdis Jónsdóttir, director VIRK – Rehabilitation Fund of the Labour Market Partners

Halldór Grönvold, deputy director of the Federation of Labour and Gylfi Arnbjörnsson, president of LO (ASÍ)

Gissur Pétursson, director of the Directorate of Labour

Hannes Sigurdsson, deputy director of the Federation of Employers (SA)

Thorolfur Matthiasson, professor of labour economics, University of Iceland

Katrin Ólafsdottir, lecturer in economics, University of Reykjavík (Business university)

Hanna Sigríður Gunnsteinsdóttir, director of division of work and welfare, Ministry of Welfare
Annex 2: Additional tables and charts

PARTICIPATION IN THE LABOUR MARKET

**Activity rate - Females**

Source: Eurostat. The activity rate is calculated by dividing the number of active females aged 15 to 74 by the total population of the same age group and sex. Please note that the age group used for Iceland is 16 to 74.

**Activity rate - Males**

Source: Eurostat. The activity rate is calculated by dividing the number of active females aged 15 to 74 by the total population of the same age group and sex. Please note that the age group used for Iceland is 16 to 74.
Source: Eurostat. The activity rate is calculated by dividing the number of active persons aged 15 to 24 by the total population of the same age group. Please note that the age group used for Iceland is 16 to 24.

Source: Eurostat. The activity rate is calculated by dividing the number of active persons aged 65 to 74 by the total population of the same age group. No data available for Malta.
EMPLOYMENT AND UNEMPLOYMENT

Source: Eurostat. The employment rate is calculated by dividing the number of employed males aged 15 to 74 by the total population of the same age group and sex. Please note that the age group used for Iceland is 16 to 74.

Source: Eurostat. The employment rate is calculated by dividing the number of employed females aged 15 to 74 by the total population of the same age group and sex. Please note that the age group used for Iceland is 16 to 74.
### Index of Employed Persons by Occupational Groups – Capital Region

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**Occupational group**

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Source: Statistics Iceland. (2006 = Index 100).

The capital region consists of Reykjavík, Seltjarnarnes, Kópavogur, Hafnarfjörður, Garðabær, Mosfellsbær, Álftanes and Kjósahreppur. Remaining Regions are considered as “other regions”.

### Index of Employed Persons by Occupational Groups – Other Regions

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**Occupational group**

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Source: Statistics Iceland. (2006 = Index 100).

The capital region consists of Reykjavík, Seltjarnarnes, Kópavogur, Hafnarfjörður, Garðabær, Mosfellsbær, Álftanes and Kjósahreppur. Remaining Regions are considered as “other regions”.

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Source: Eurostat. The employment rate is calculated by dividing the number of employed persons aged 15 to 74 by the total population of the same age group. Please note that the age group used for Iceland is 16 to 74. ISCED levels of education.
Source: Eurostat. The employment rate is calculated by dividing the number of employed persons aged 15 to 74 by the total population of the same age group. Please note that the age group used for Iceland is 16 to 74. ISCED levels of education.

Source: Statistics Iceland
FLEXICURITY

Net immigration of foreign citizens to Iceland

![Net immigration of foreign citizens to Iceland](image1)

Source: Statistics Iceland

Emigration of Icelandic citizens

![Emigration of Icelandic citizens](image2)

Source: Statistics Iceland