

Globalization, Economic Success and Welfare Trends

The Case of Iceland 1995-2006



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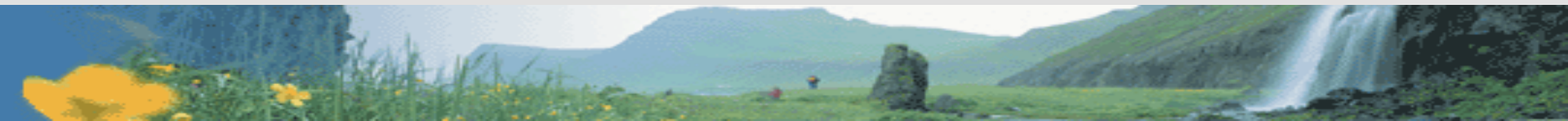
Nordic Center of Excellence in Welfare Research:

Reassessing the Nordic Welfare Model

Kick-Off Conference at NOVA in Oslo, October 24. 2007

Topics

- **Globalization**
- **Economic Success**
- **Welfare Trends**
- **Poverty and Inequality**
- **The Role of Work in Icelandic Economy and Welfare**
- **Conclusions**

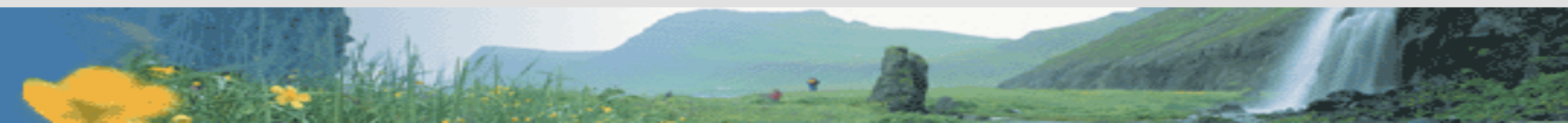




Globalization

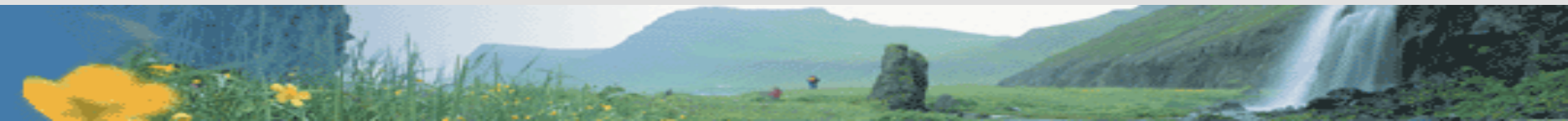
Societal context

- **Independence from Denmark in 1944**
- **Member of IMF 1945, UN in 1946 and NATO in 1949**
- **Social Security Act 1946-7**
- **Nordic Council Member in 1952**
- **GATT 1964 Free trade agreement**
- **EFTA member 1970**
- **EEA 1994: European Union regulative environment est.**
- **World Trade Organization (WTO) affiliation in 1995**
- **Full financial liberation from 1995**
- **Growing libertarian policies during the 1990s**
- **Marketization, Libertarian taxation policies, Privatization**
- **Privatization of state banks, in steps in 1998-2003**
- **Privatization of Icelandic Telecoms in 2005**

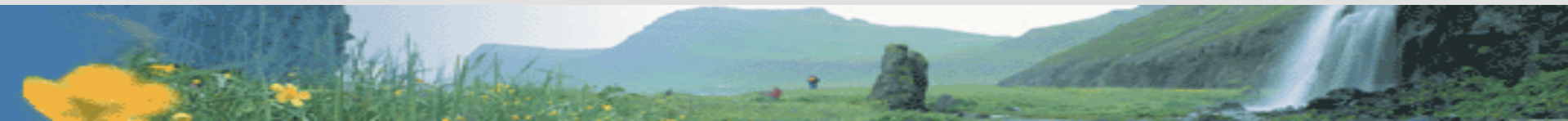
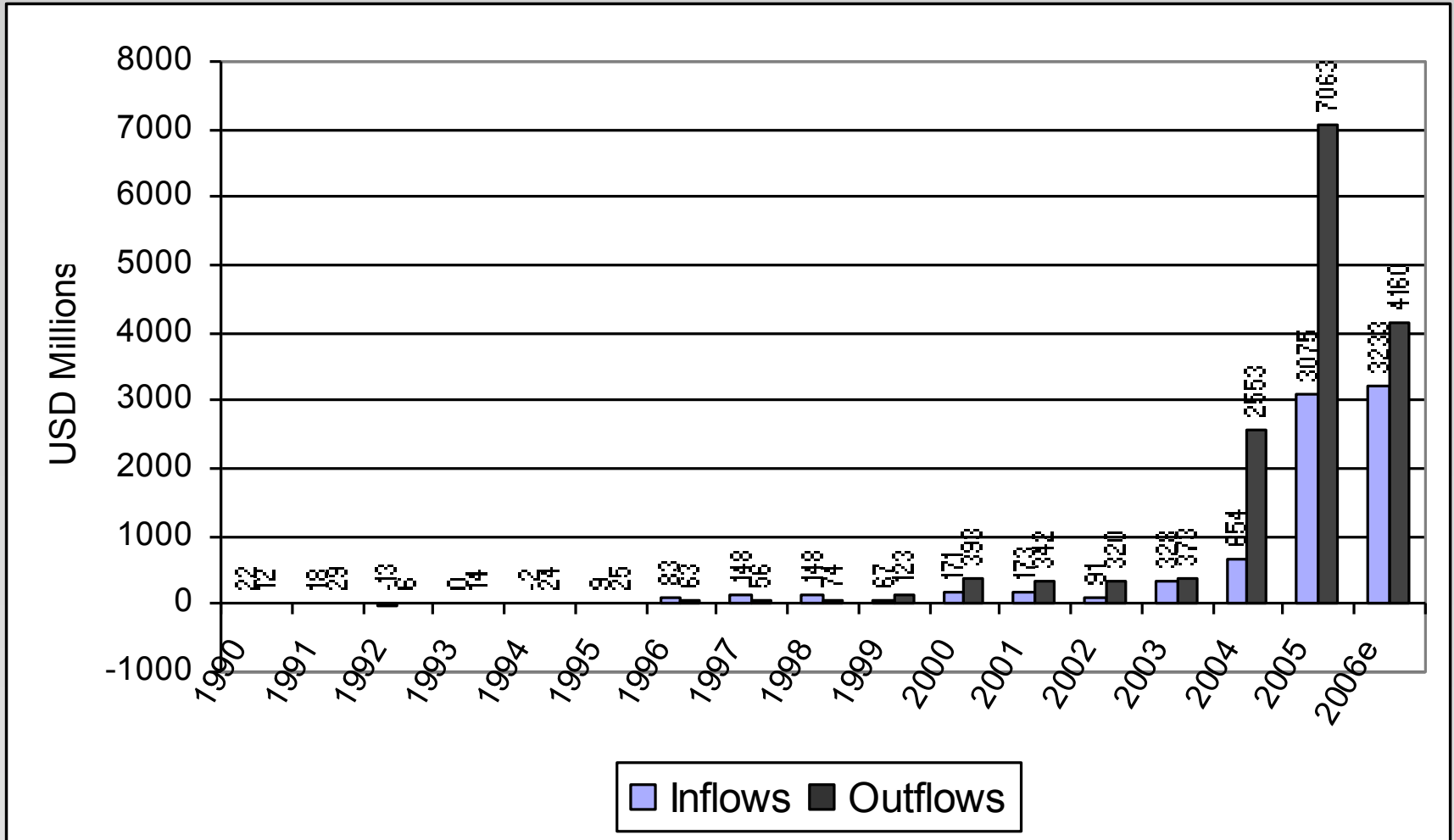


Societal context in the Last Decade

- **Last decade economic growth was above OECD average**
- **Overheating of Economy since 2000**
- **Globalization effects were growing from 1990s**
- **Immigration into lab. market quite extensive**
- **FDI to other countries extensive, since 2000**
- **Icelandic corporations have expanded abroad**
- **Real pay level has grown significantly**
- **Debt levels have also grown extensively**
- **So change has been fast ...**

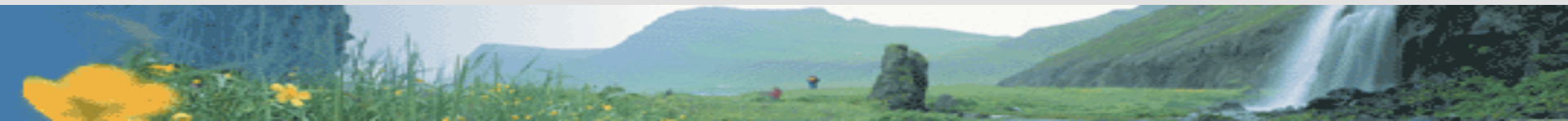
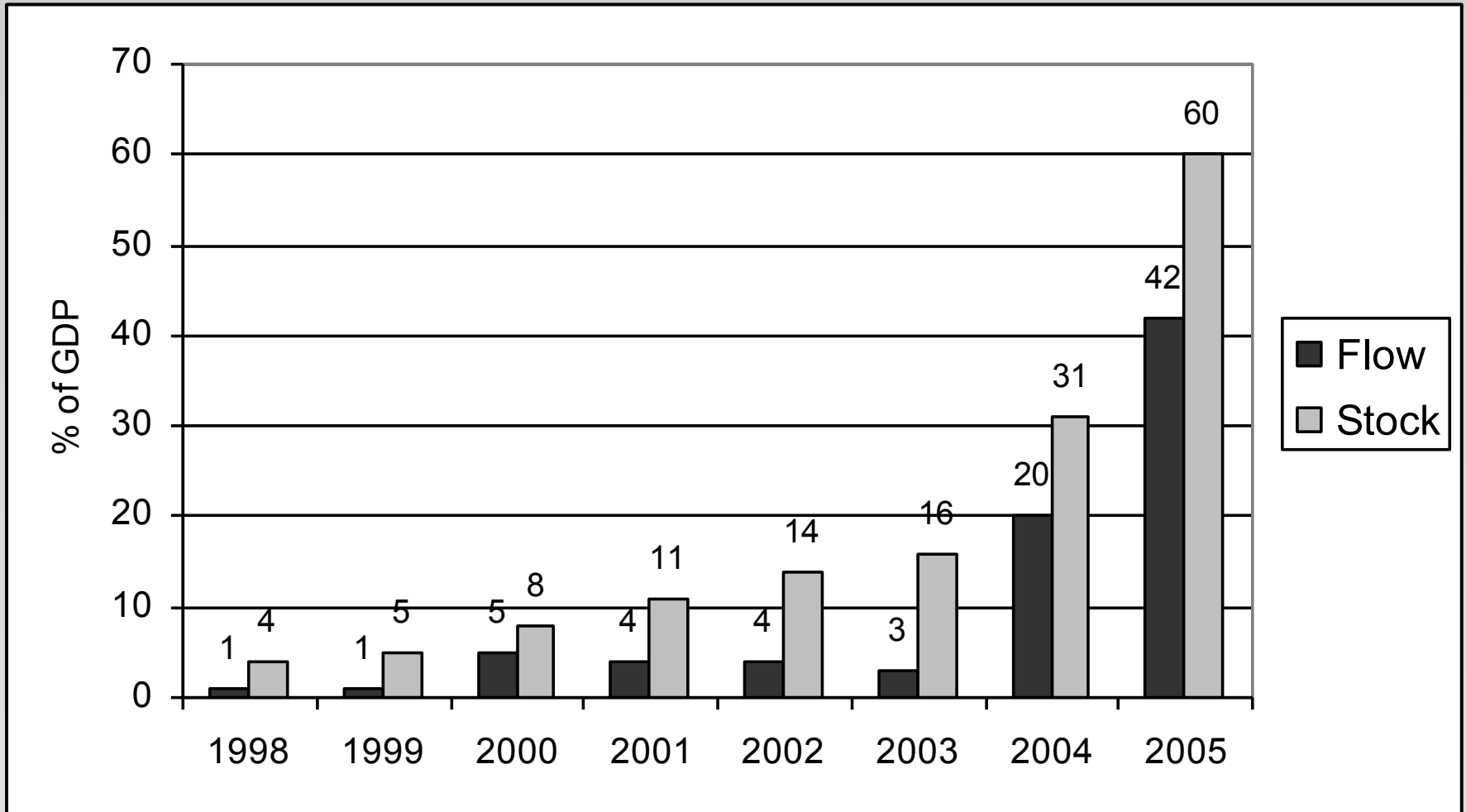


Foreign Direct Investment to and from Iceland 1998-2005 (US\$ millions)

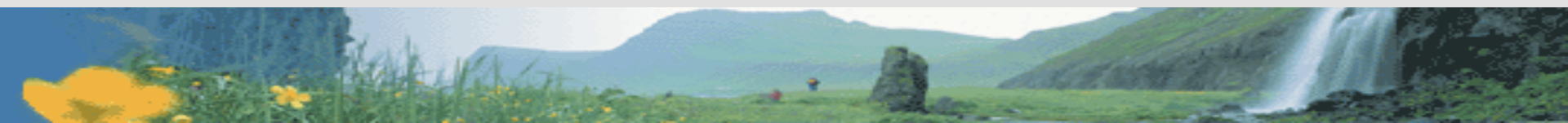
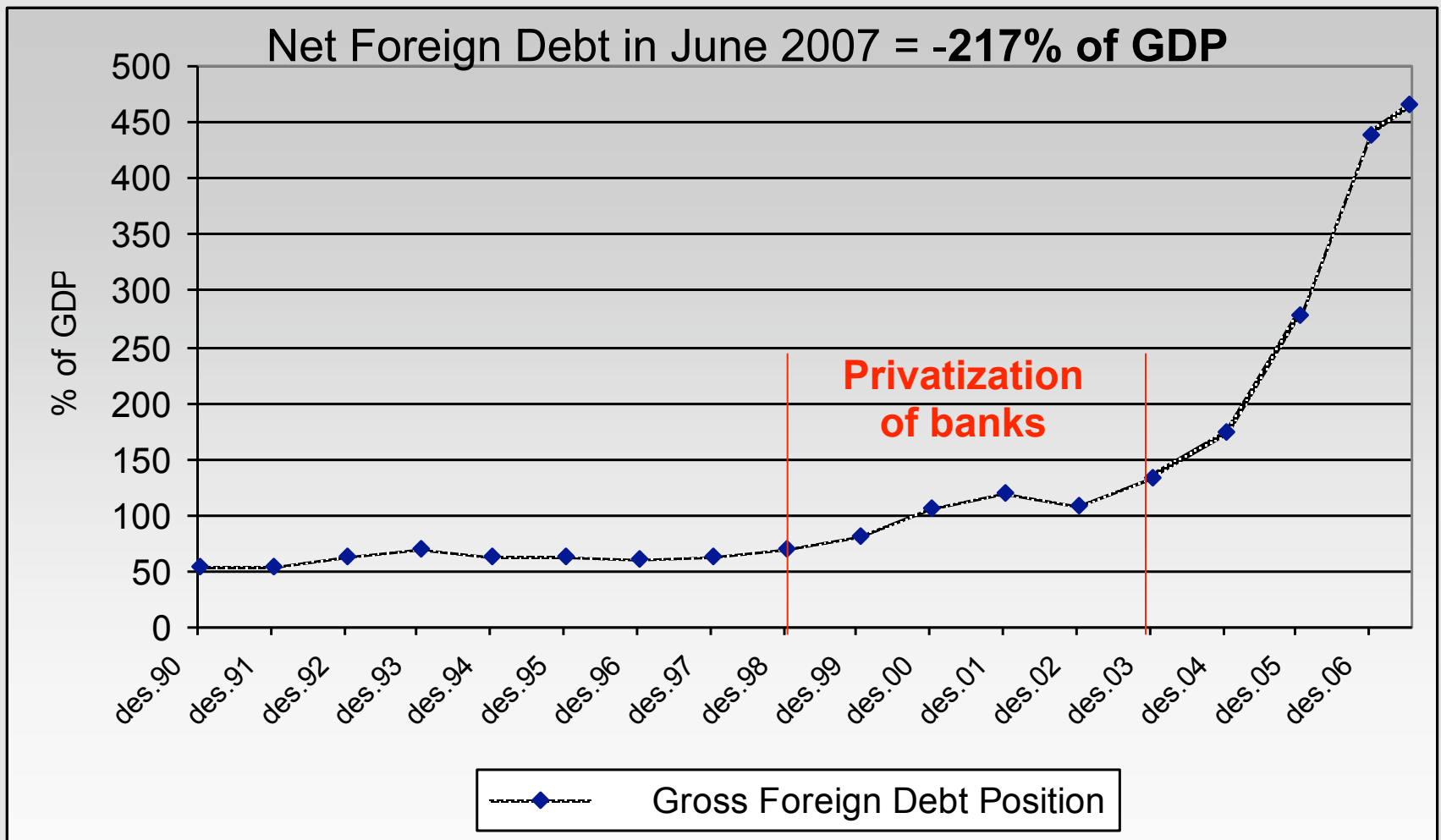


Foreign Direct Investment

from Iceland 1998-2005 (Flow and Stock as % of GDP)

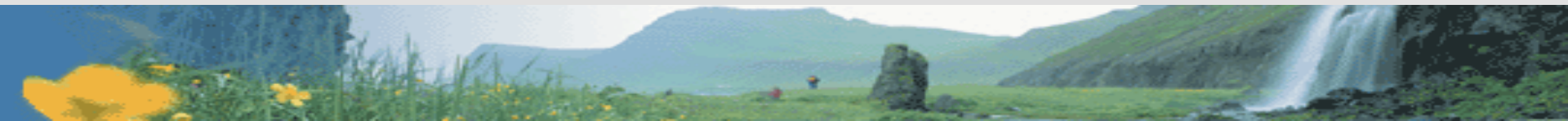
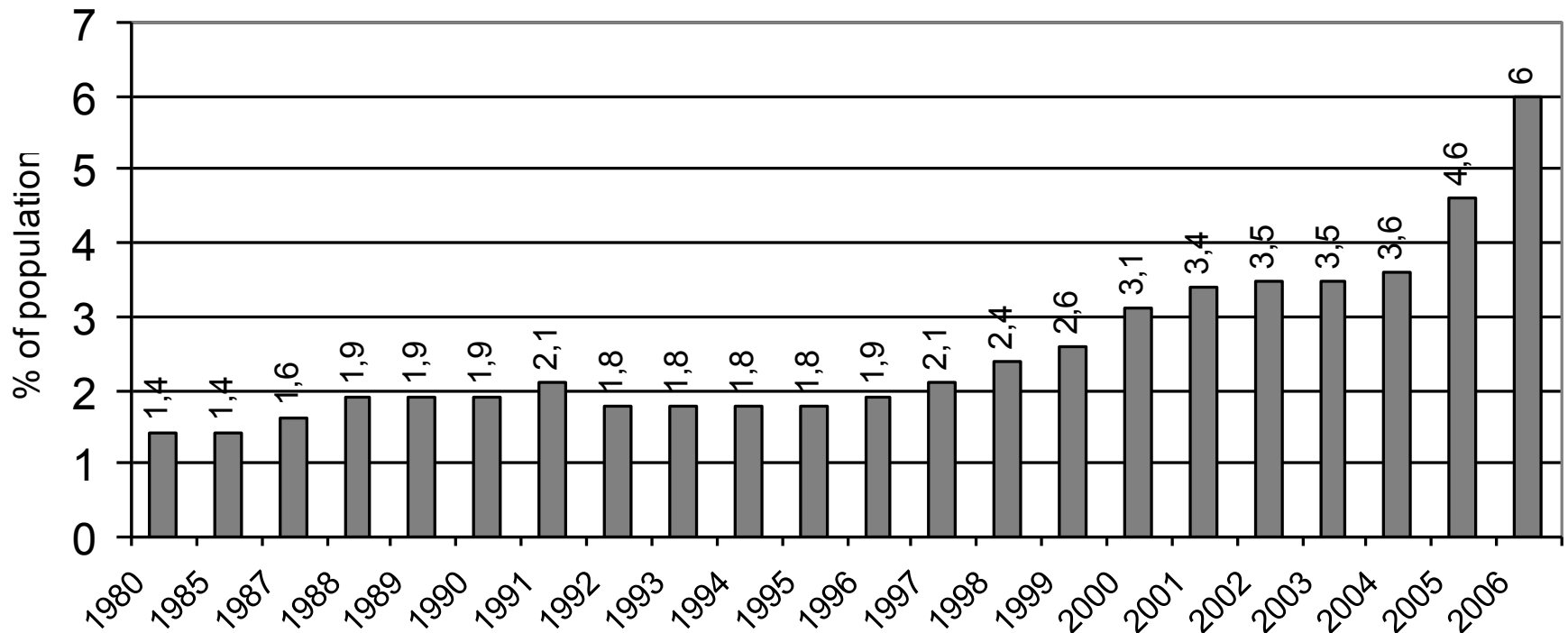


Gross Foreign Debt Position of the Icelandic economy 1990-2007 (% of GDP)



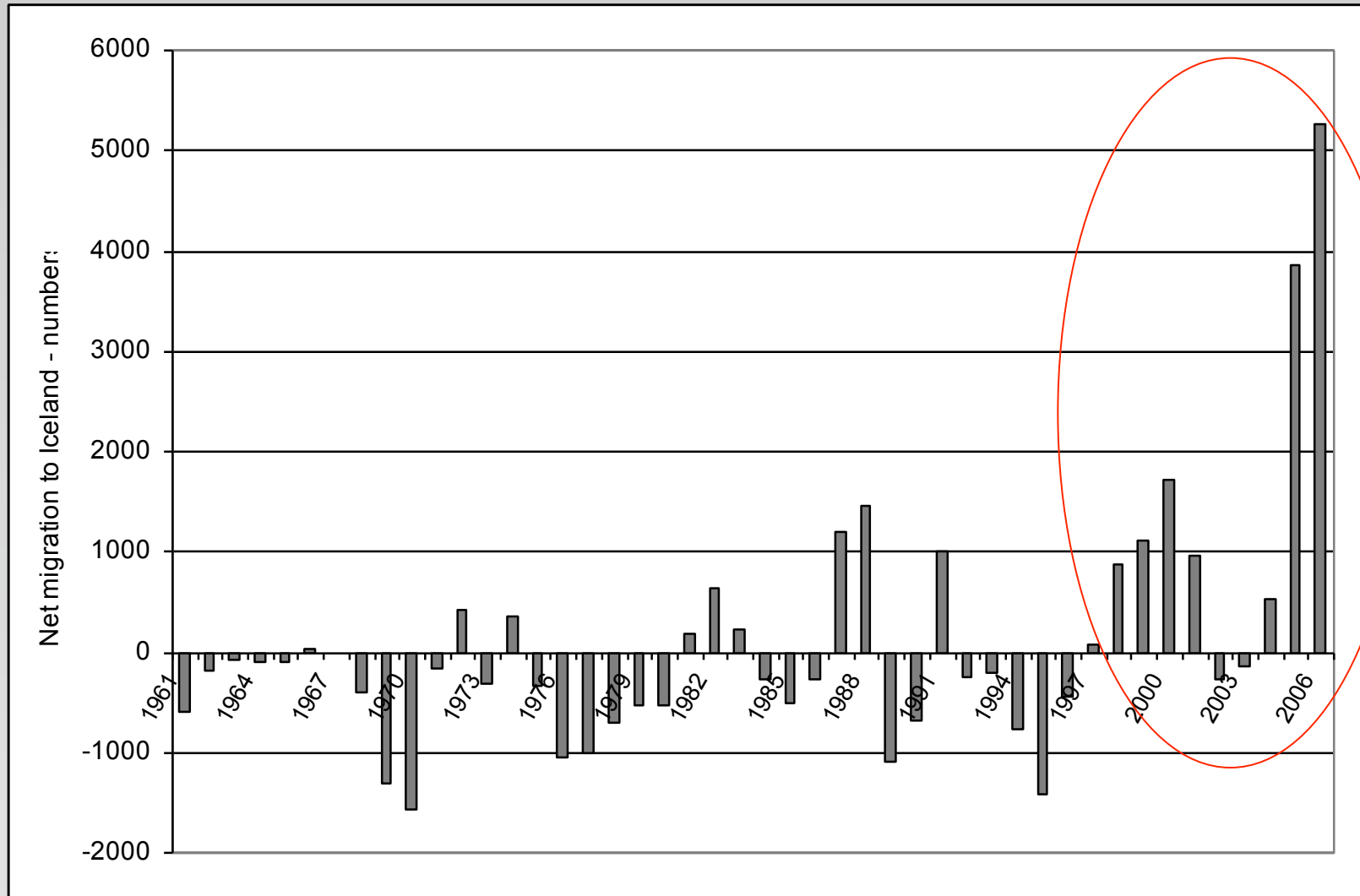
Growing immigration

Foreign nationals in Iceland
as % of population 1980 to 2006



Net migration to Iceland

1961-2006

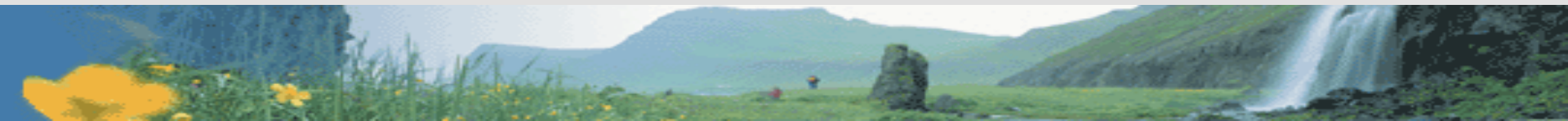
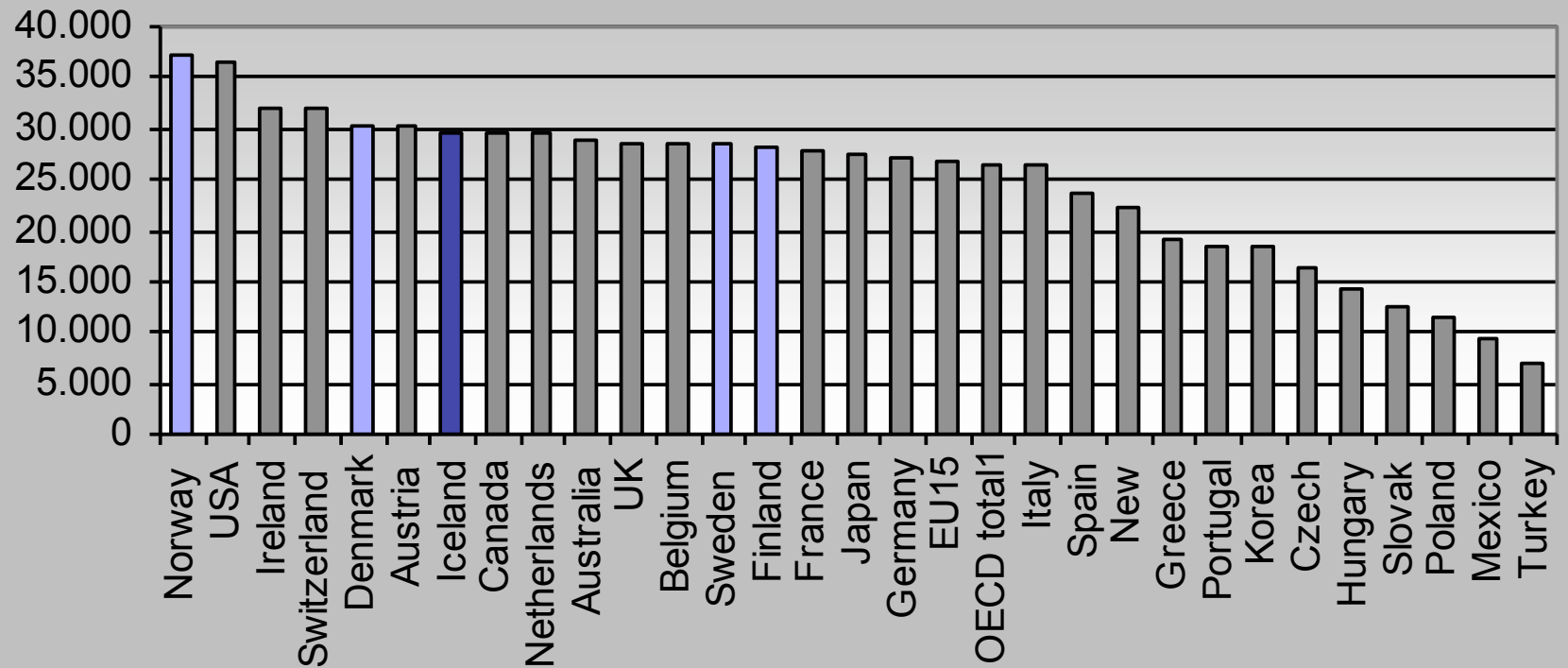




Economic Success

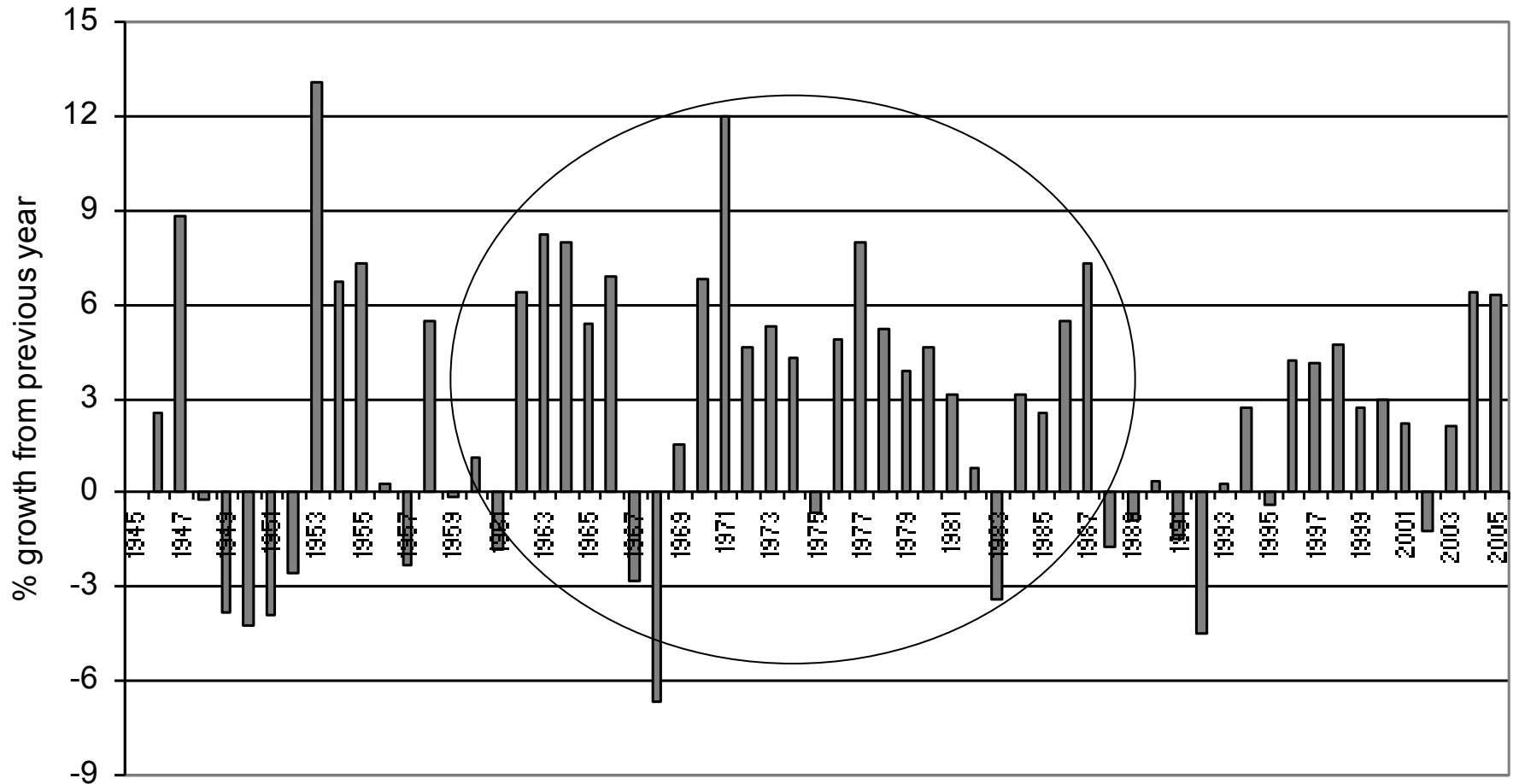
Economic prosperity

Economic prosperity of OECD-Countries
GDP per capita (PPP values), averages for 2000-2004

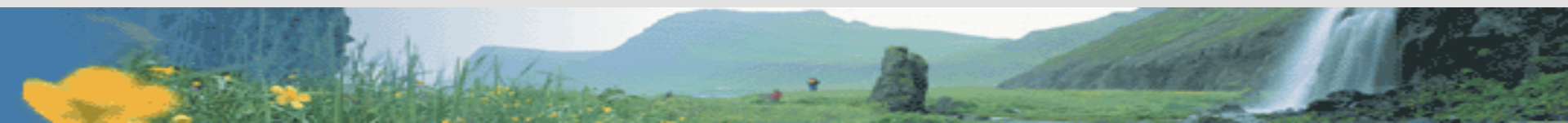


Economic growth from 1946 to 2005

% volume change of GDP per capita from previous year

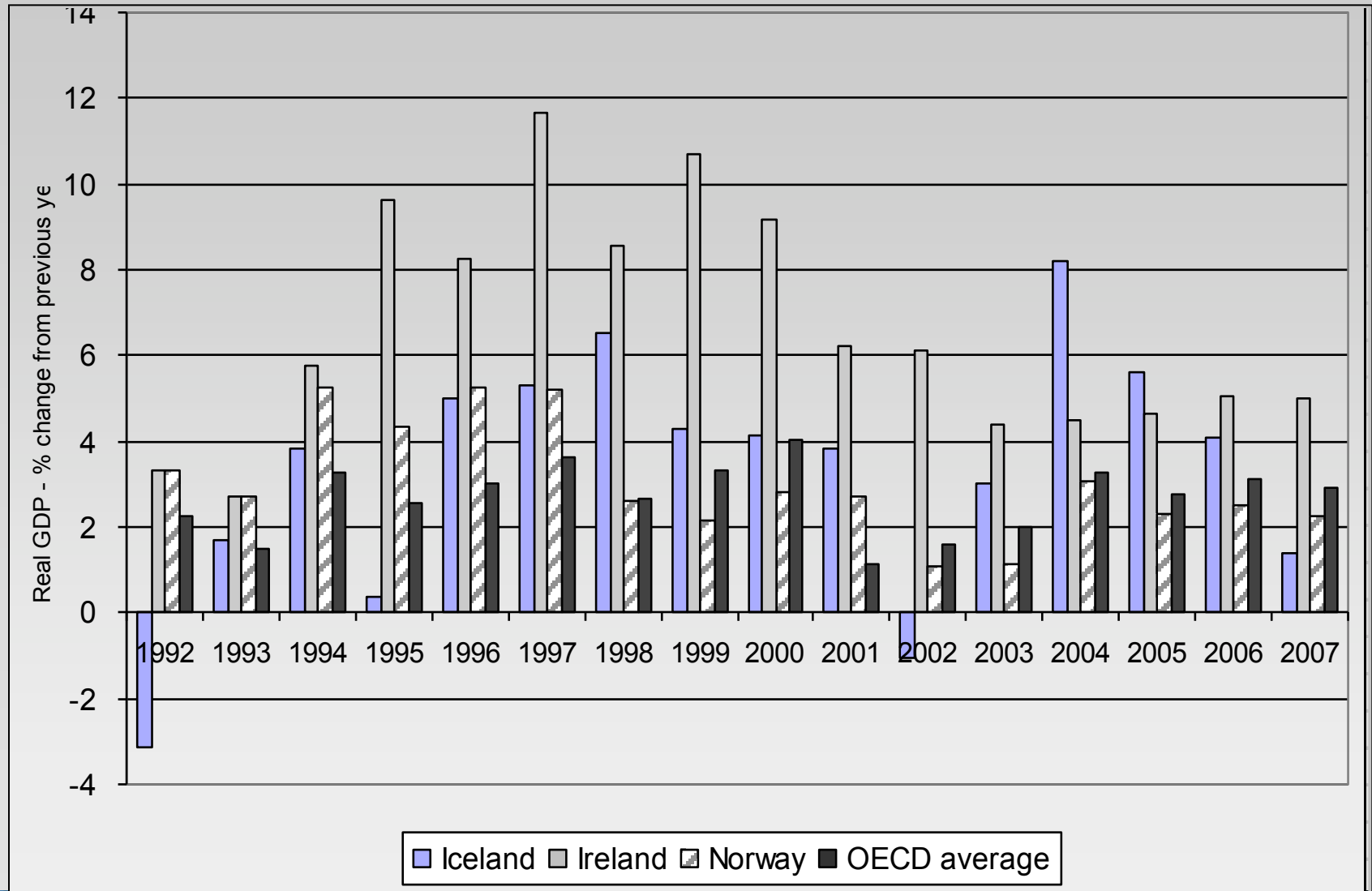


Source: Statistics Iceland



Economic Growth 1993-2007

Iceland, Ireland, Norway and OECD average (yearly % change)

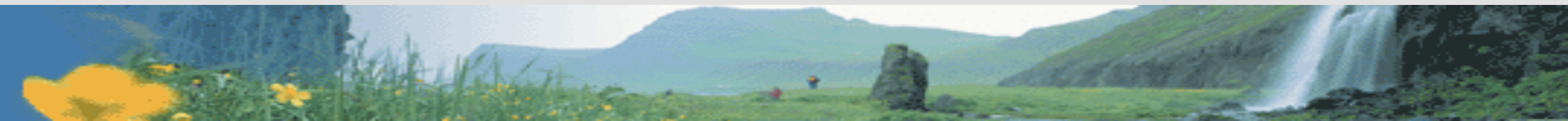
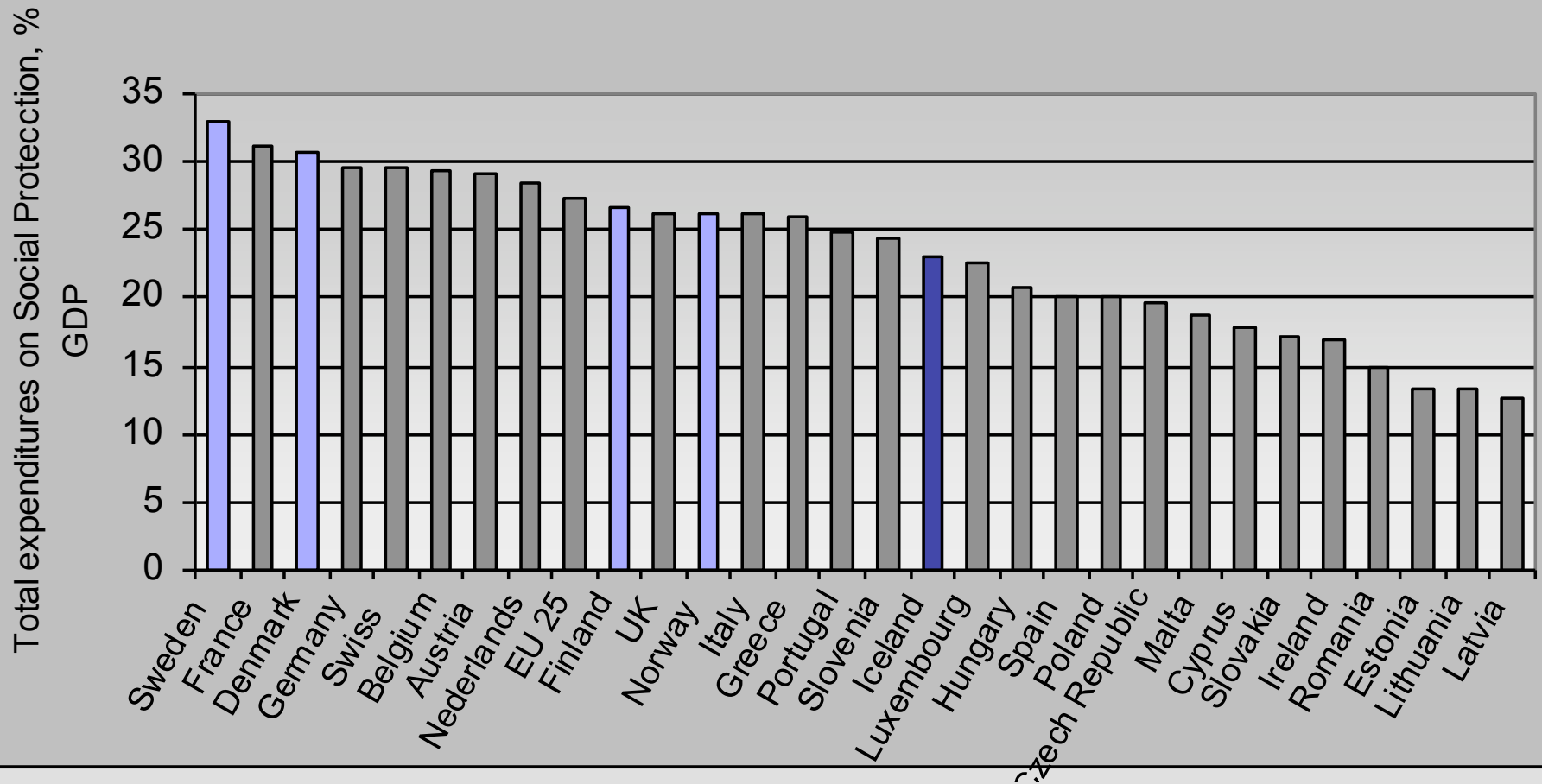




Welfare trends

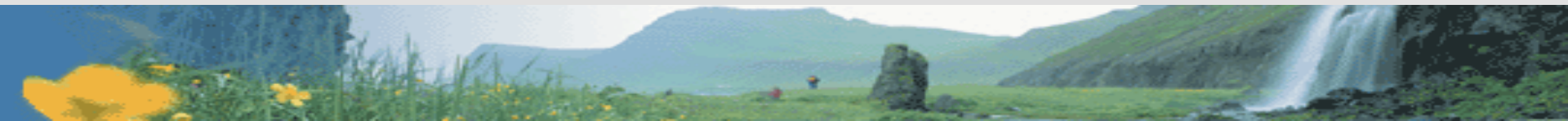
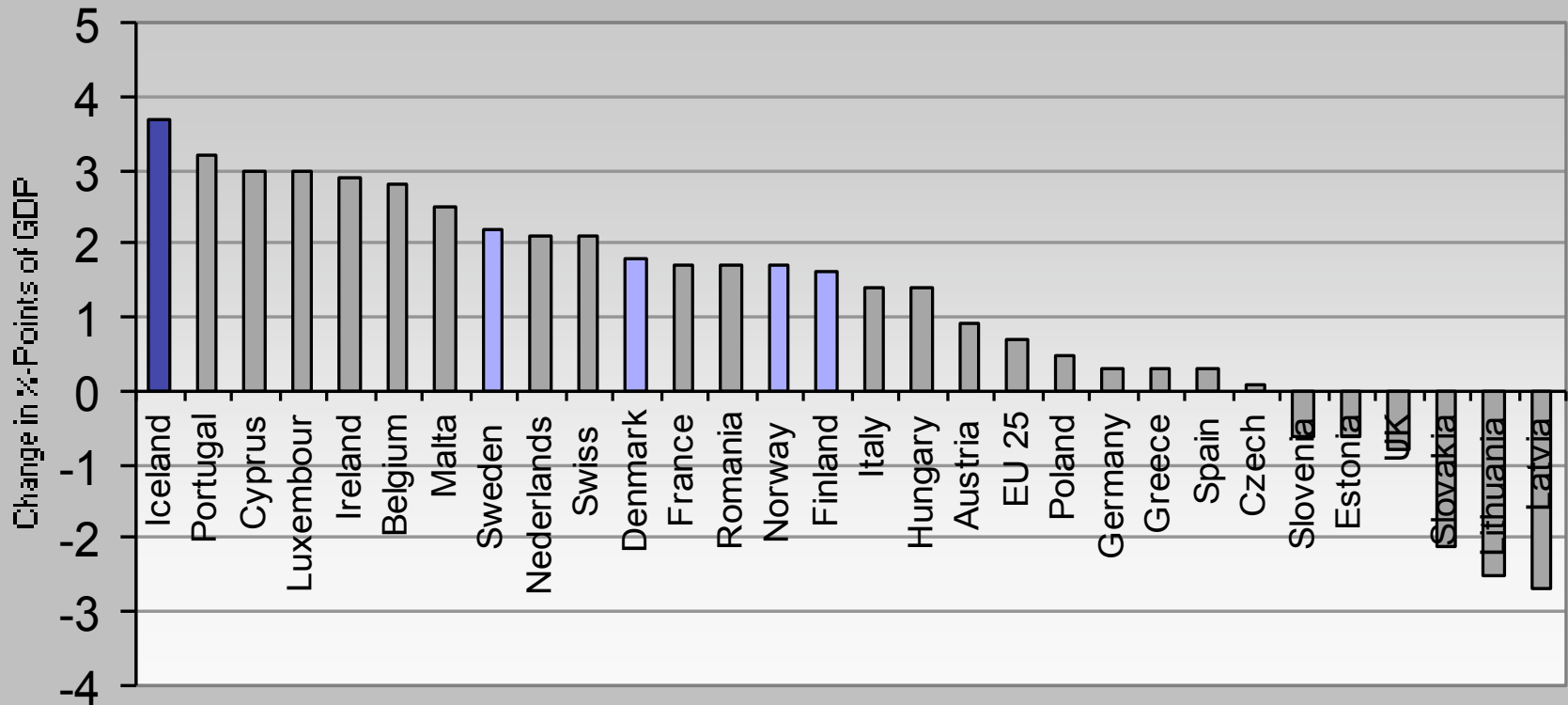
Social Expenditures as % of GDP

Social Protection Expenditures in EU-Countries in 2004
% of GDP



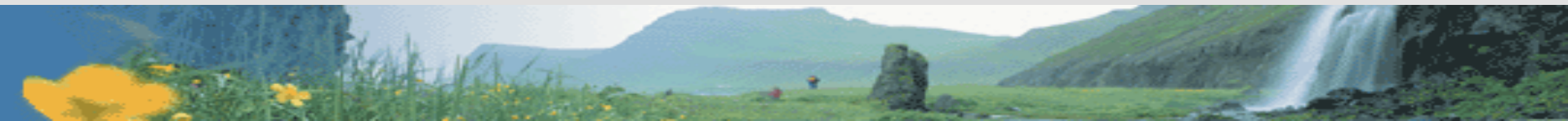
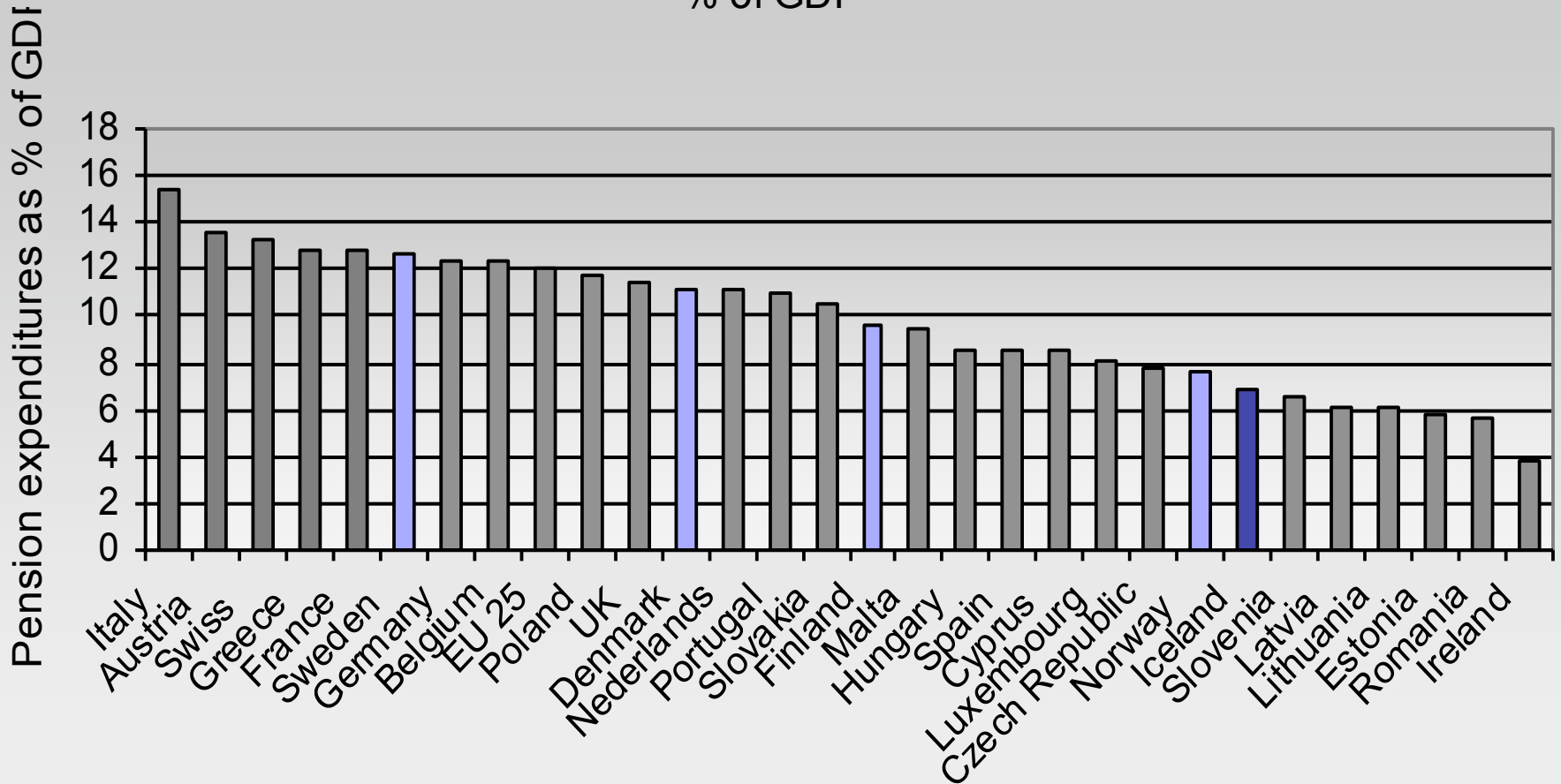
Iceland has been catching up

Change in Social Protection Expenditures 2000 to 2004
Change in % of GDP



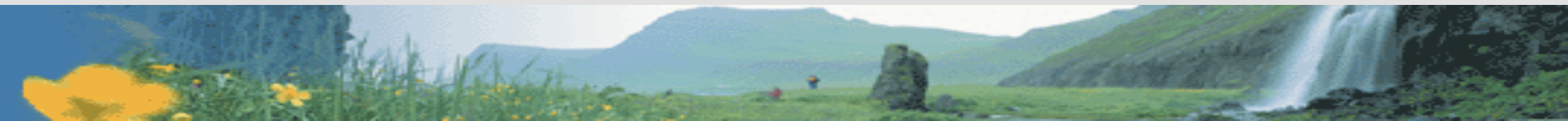
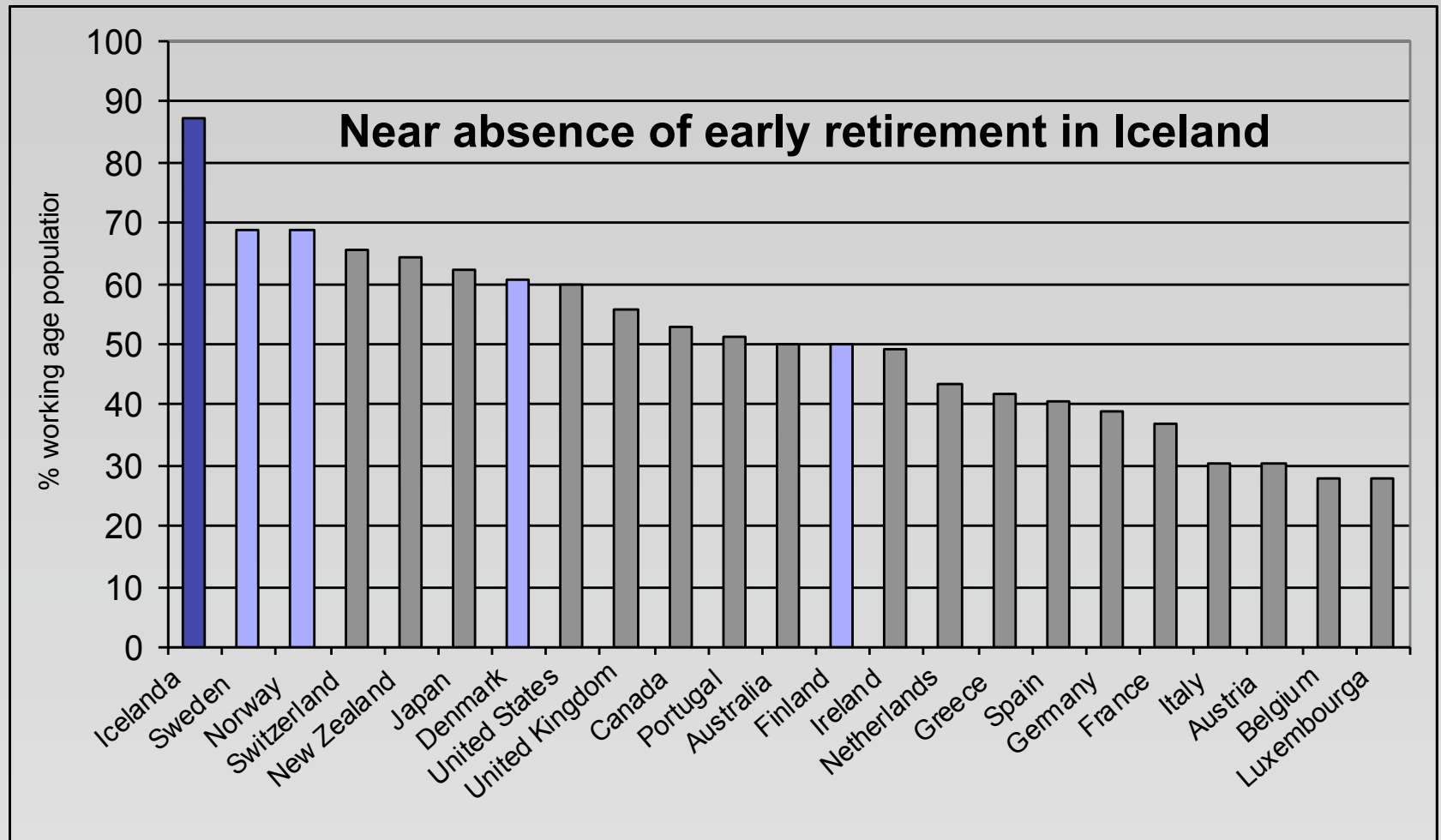
Old-age pension expenditures in 2004

Expenditures on old-age and survivors benefits in 2004
% of GDP



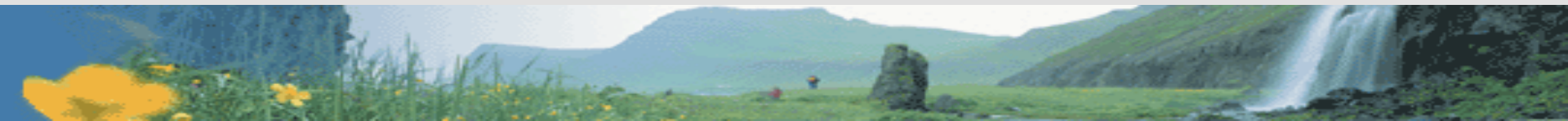
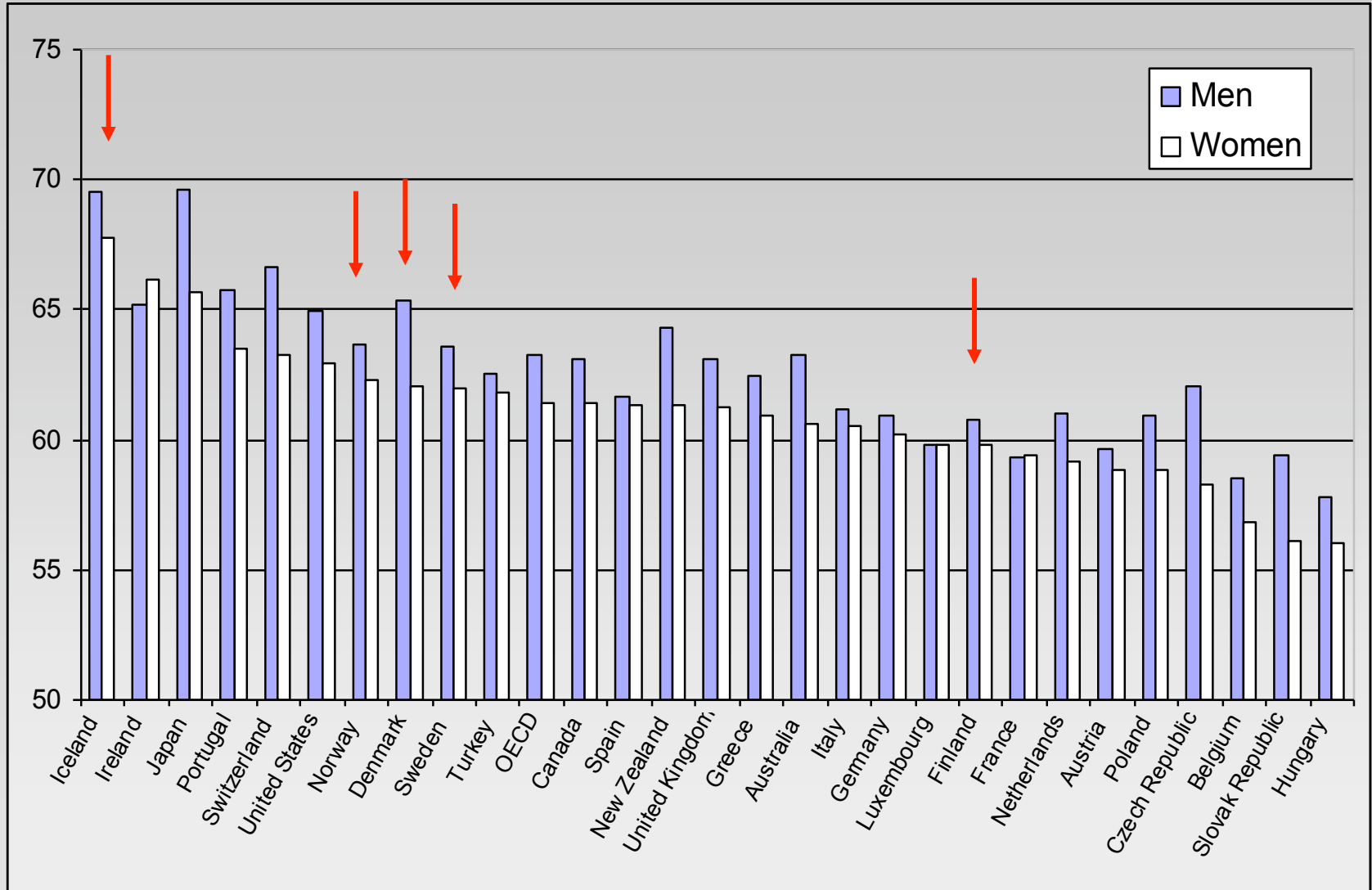
Seniors' Participation

People aged 55-64, at work, year 2003



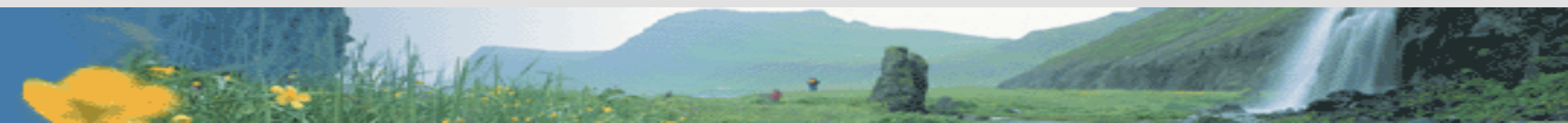
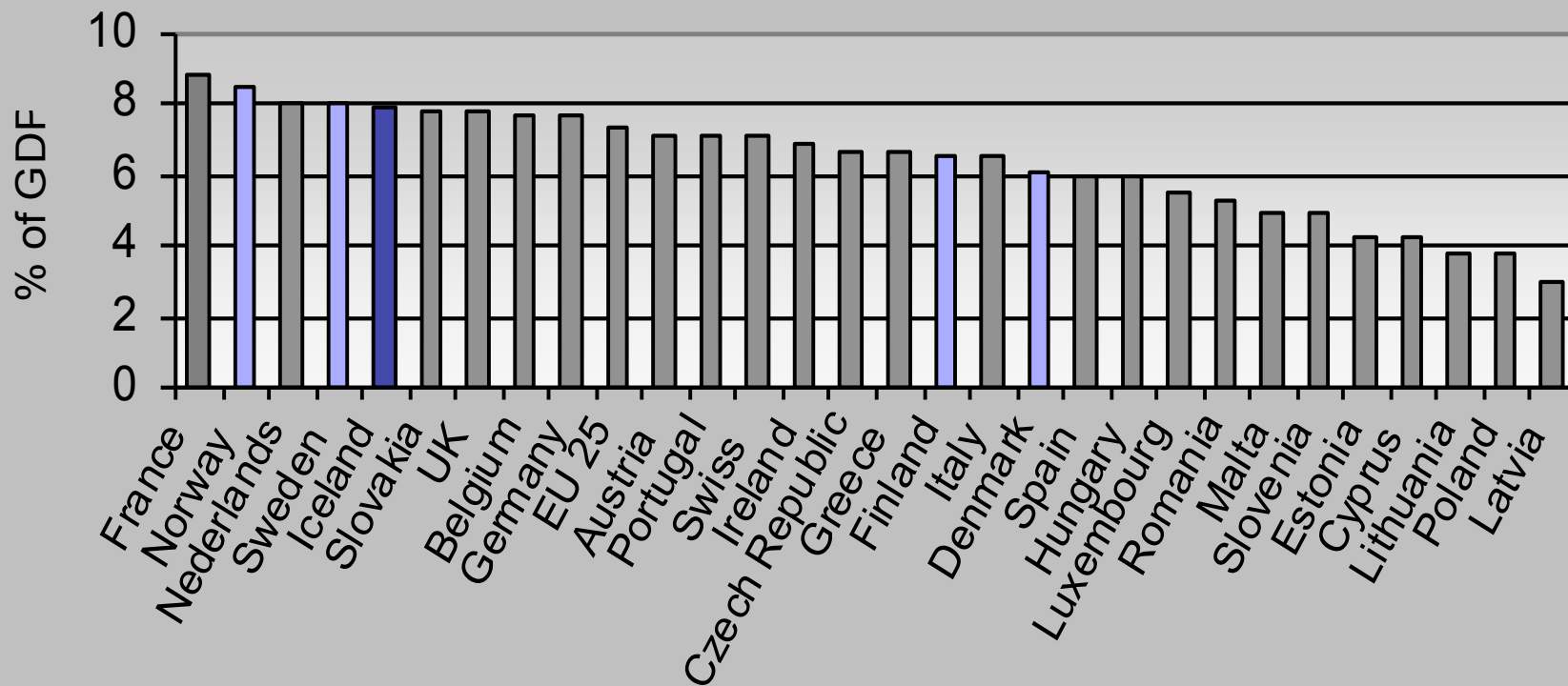
Late retirement

Average age at retirement 1997-2002



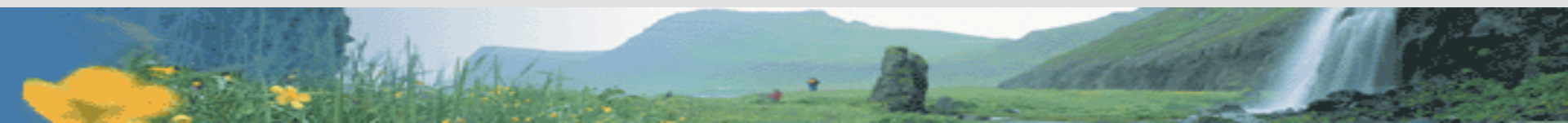
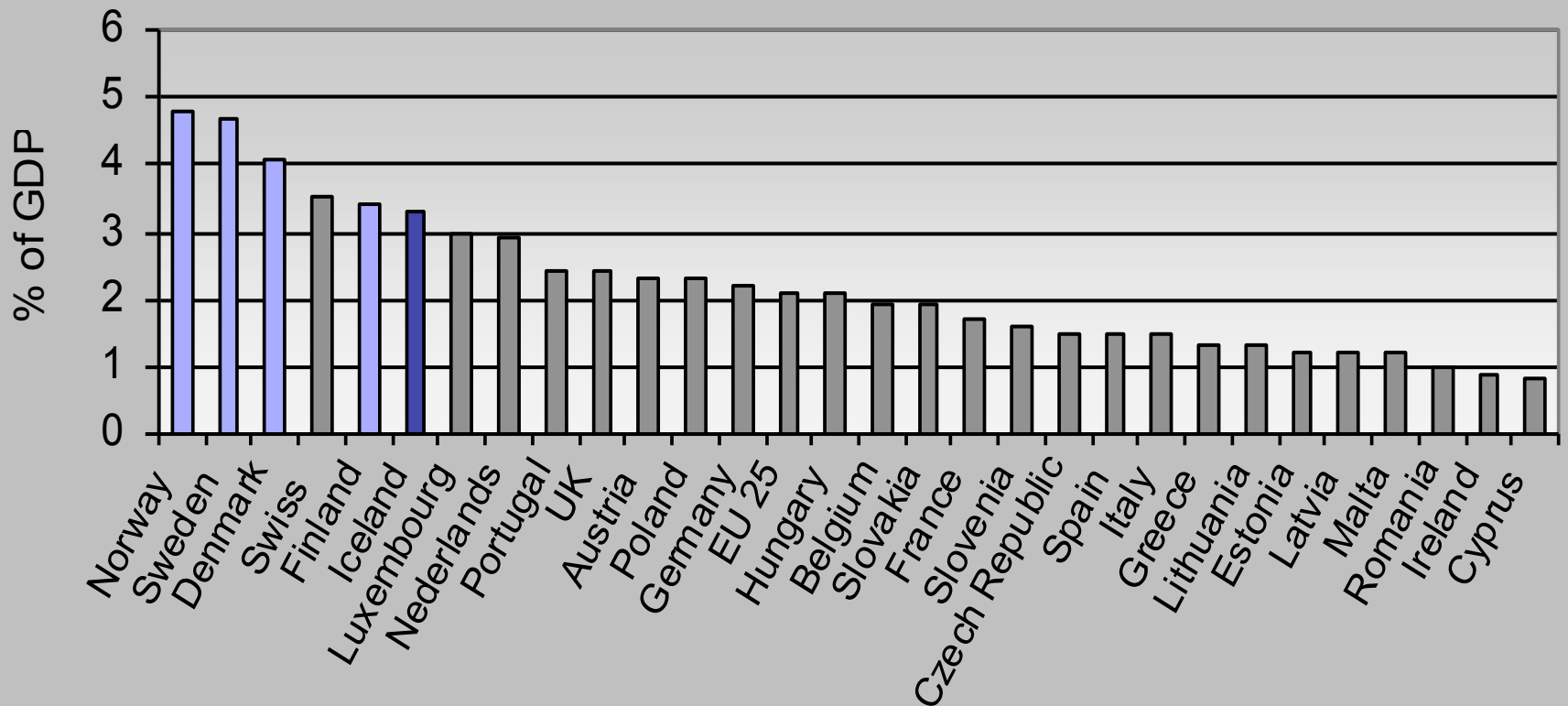
Sickness and health expenditures 2004

Expenditures on sickness and health care
% of GDP



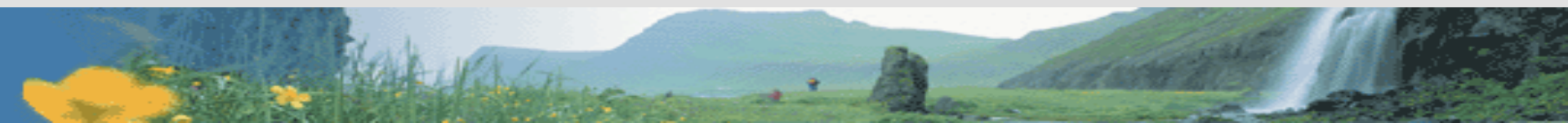
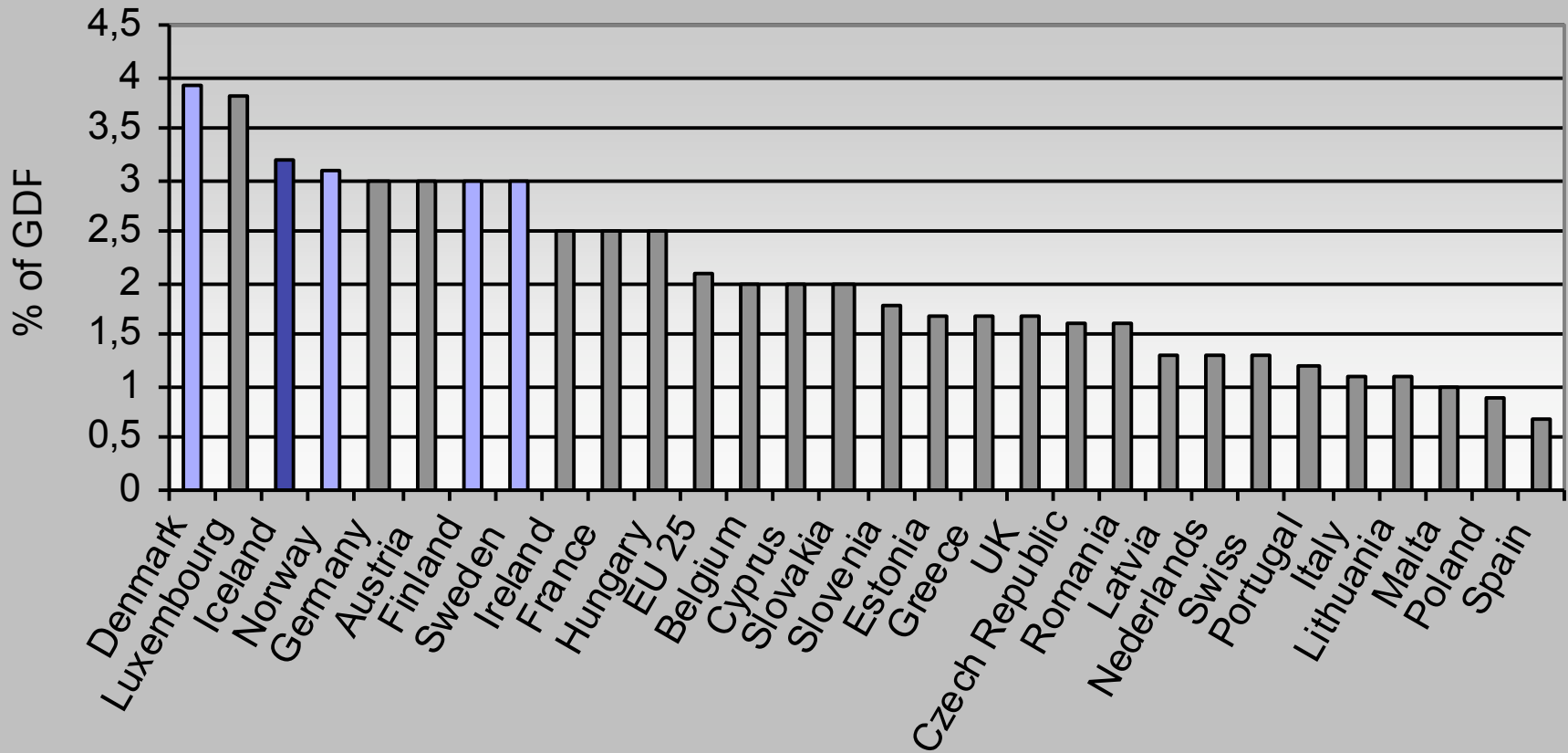
Disability expenditures in 2004

Disability expenditures in 2004
% of GDP



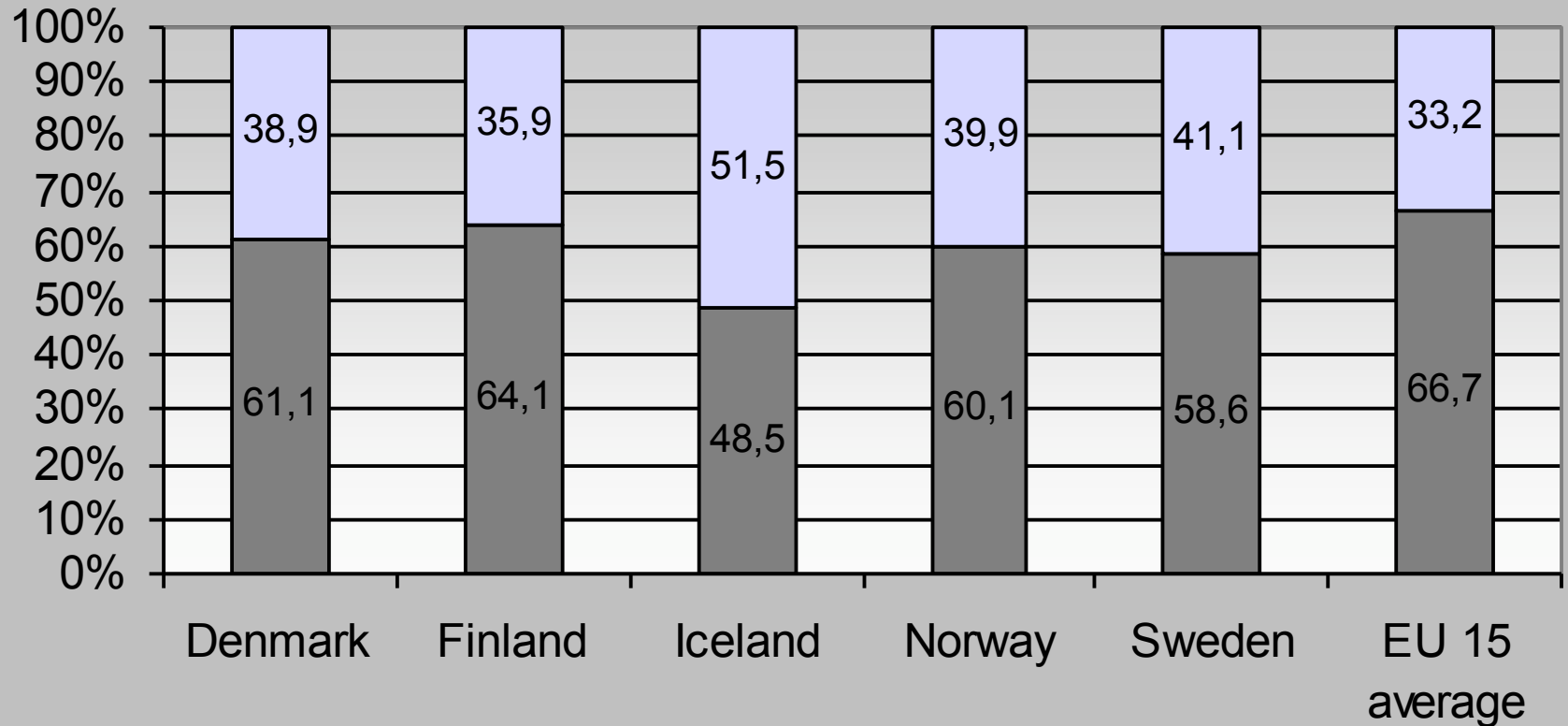
Family and child expenditures in 2004

Expenditures on families and children in 2004
% of GDP

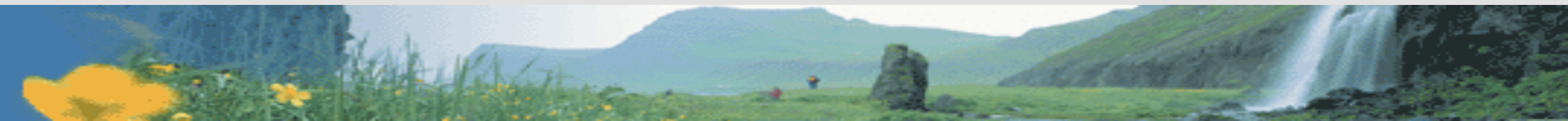


Benefits in cash and services in 2004

Percentage shares



■ Cash benefits % ■ Services in kind %



Rather Inexpensive Welfare System

- **The Icelandic Welfare State is one of the less expensive in NW-Europe**

-Why?

- **Extensive use of income-testing of benefits**
- **Basic soc. sec. pensions are rather low**
 - **Population is young**
 - > **Lower expenditures on old-age**
 - > **But should be more on families and children**
 - **High employment participation**
- **Role of Third Sector is relatively large**

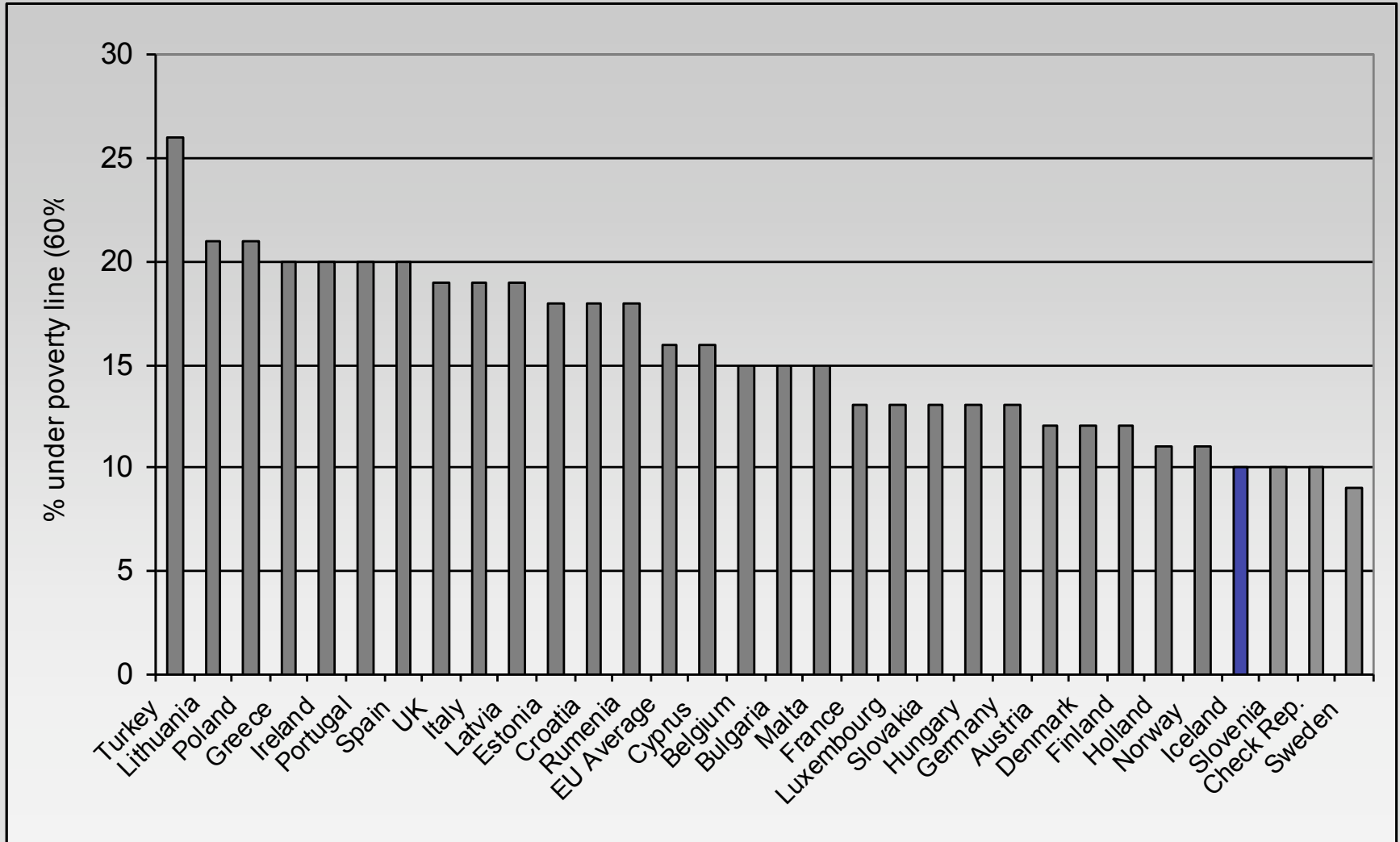




Poverty and inequality

Poverty rates in Europe in 2004

% of population under 60% poverty line



Income inequality 1993 to 2005

Before and after taxes and benefits

Development of earnings inequality from 1993 to 2005

GINIs: Total earnings, before and after taxes; for singles and couples

	<u>Gross earnings, before direct taxes</u>		<u>Disposable earnings, after taxes and benefits</u>	
	1. Singles	2. Couples	3. Singles	4. Couples
1993	0,40	0,27	0,34	0,21
1994	0,39	0,27	0,34	0,21
1995	0,40	0,28	0,34	0,21
1996	0,39	0,28	0,34	0,22
1997	0,40	0,29	0,35	0,23
1998	0,40	0,29	0,34	0,24
1999	0,40	0,30	0,35	0,25
2000	0,40	0,30	0,35	0,26
2001	0,41	0,31	0,36	0,28
2002	0,42	0,32	0,37	0,28
2003	0,43	0,33	0,39	0,30
2004	0,43	0,34	0,39	0,31
2005	0,44	0,38	0,40	0,36
Increasing inequality 1993 to 2005, in %	10,0%	40,7%	17,6%	71,4%

Source: Inland Revenue



Income inequality 1993 to 2005

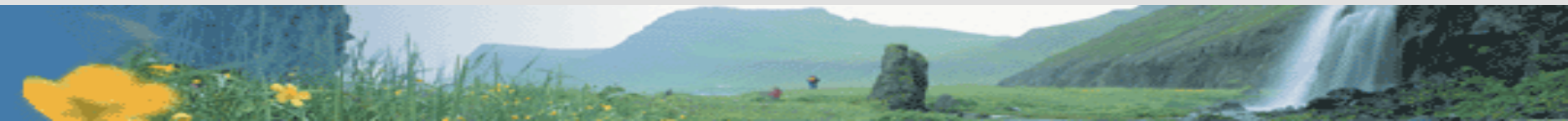
With and without financial earnings

Inequality development for couples 1993-2005

GINIs, with and without financial earnings

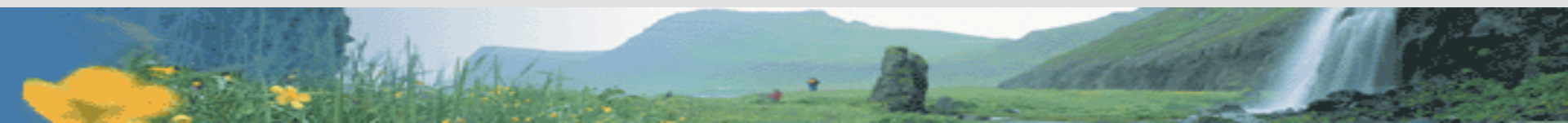
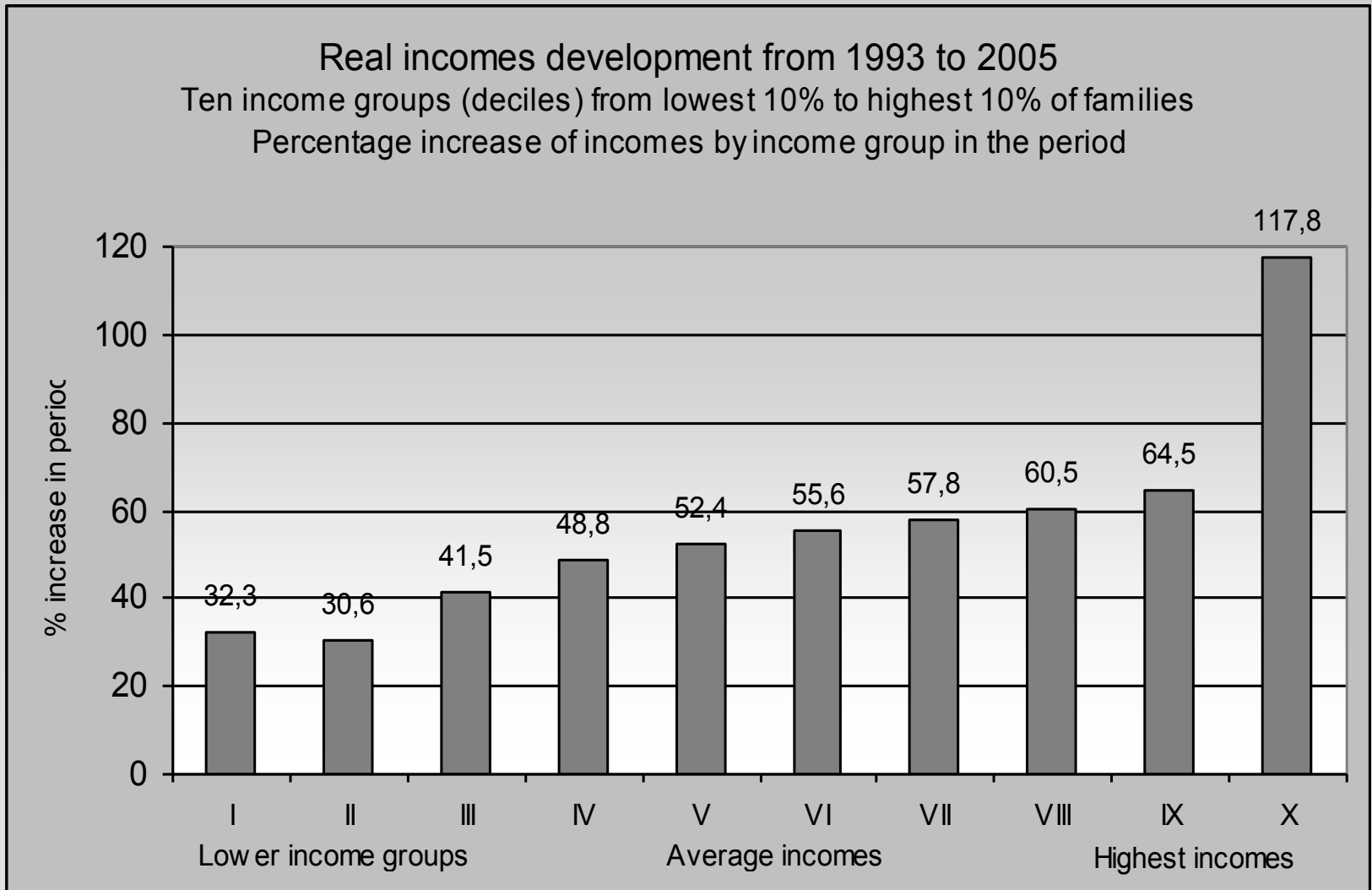
Tekjuár	Inequality of disposable earnings, after ax and benefits	
	Without financial earnings	With financial earnings
1995	0,204	0,206
1996	0,211	0,213
1997	0,213	0,229
1998	0,224	0,238
1999	0,228	0,251
2000	0,230	0,260
2001	0,231	0,273
2002	0,233	0,281
2003	0,232	0,300
2004	0,240	0,310
2005	0,277	0,360
Increase of inequality 1995 to 2005, in %	35,8%	74,8%

Source: Ministry of finance and Statistics Iceland



Increasing Income Inequality

Disposable real earnings change, excluding capital gains
Couples 1993 to 2005 – Increase by Deciles (%)



Main Reasons for Increasing Income Inequality in Iceland

At the bottom:

Pensioner earnings lagged behind

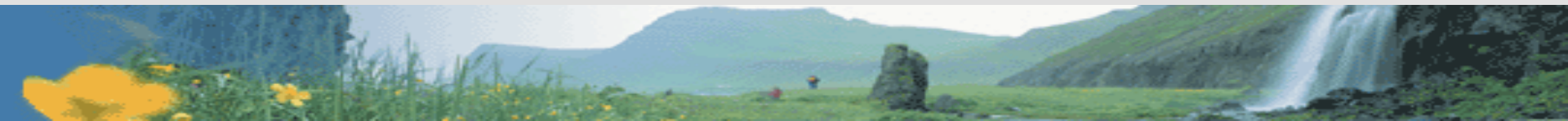
Tax burden on lower earner groups increased

At the top:

Financial earnings increased greatly

Tax burden on financial earnings greatly lowered

Top employment earnings galloped ahead

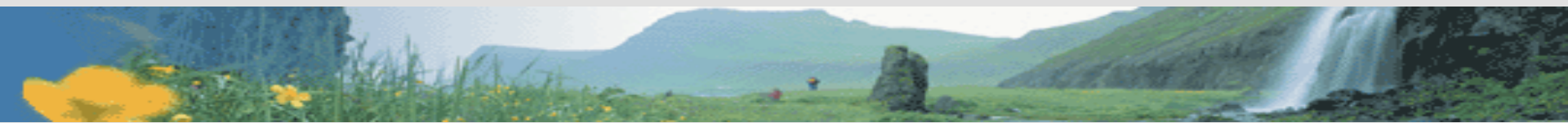
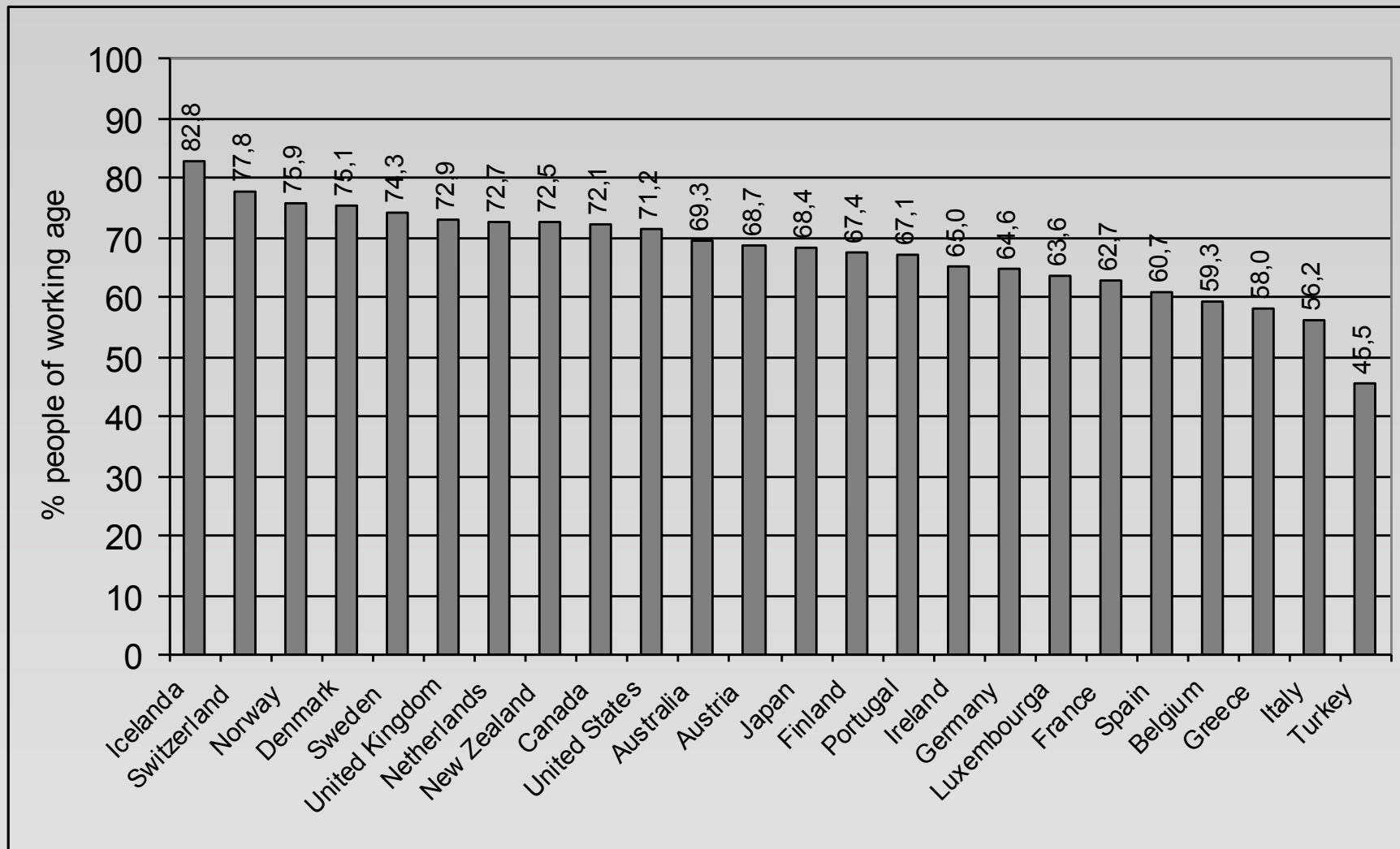




Role of Work In Economy and Welfare

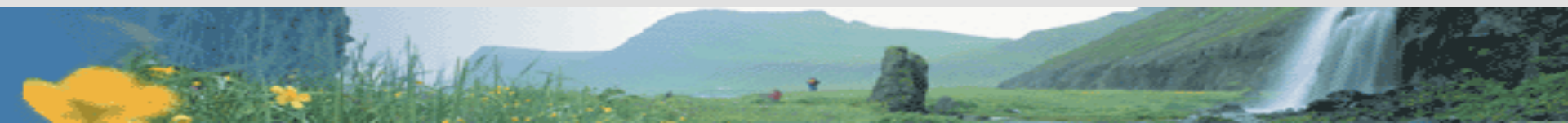
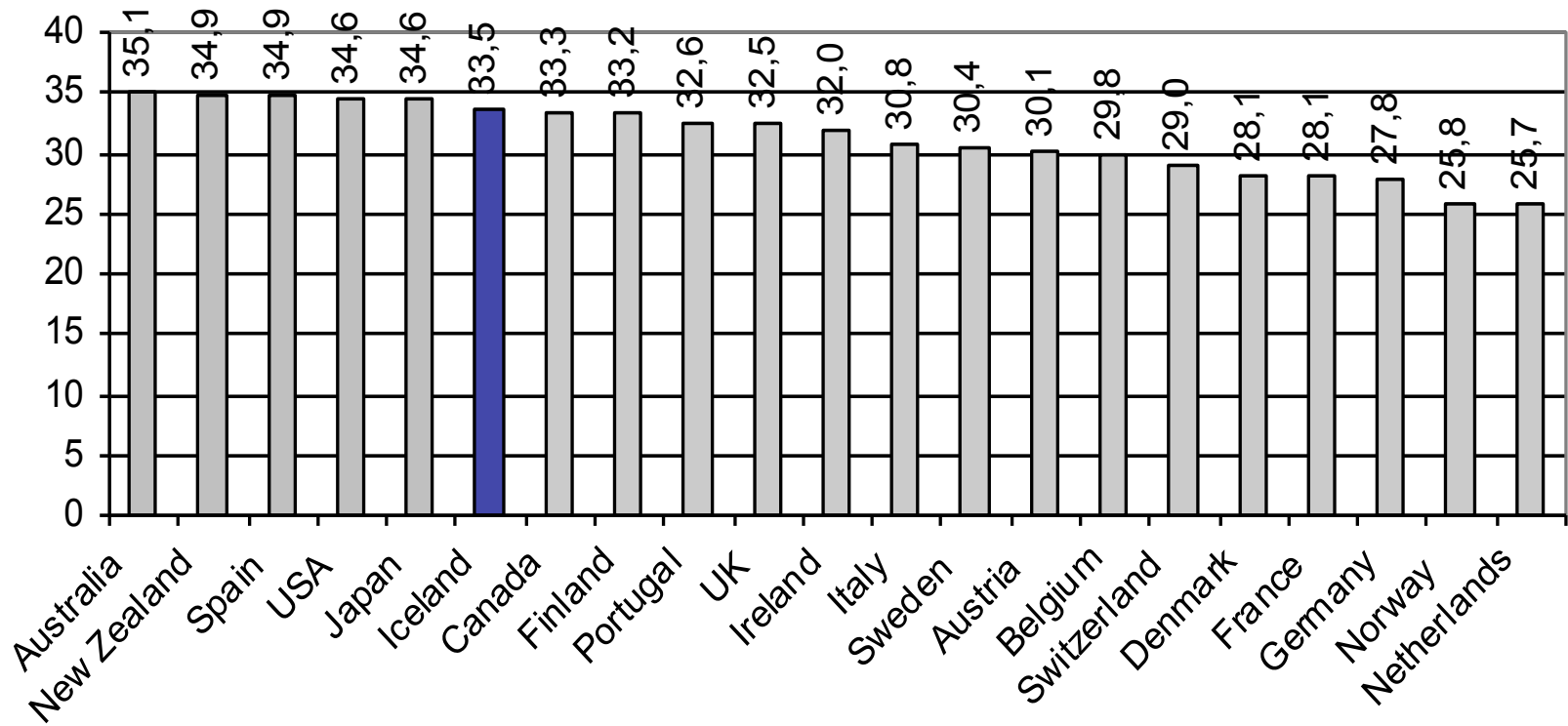
Employment Participation

% males and females, at working age



Patterns of Work 2002: Actual hours worked, per week

Weekly Hours Actually Worked, by those in employment
(Definition: Annual working hours - holidays and absence/52)



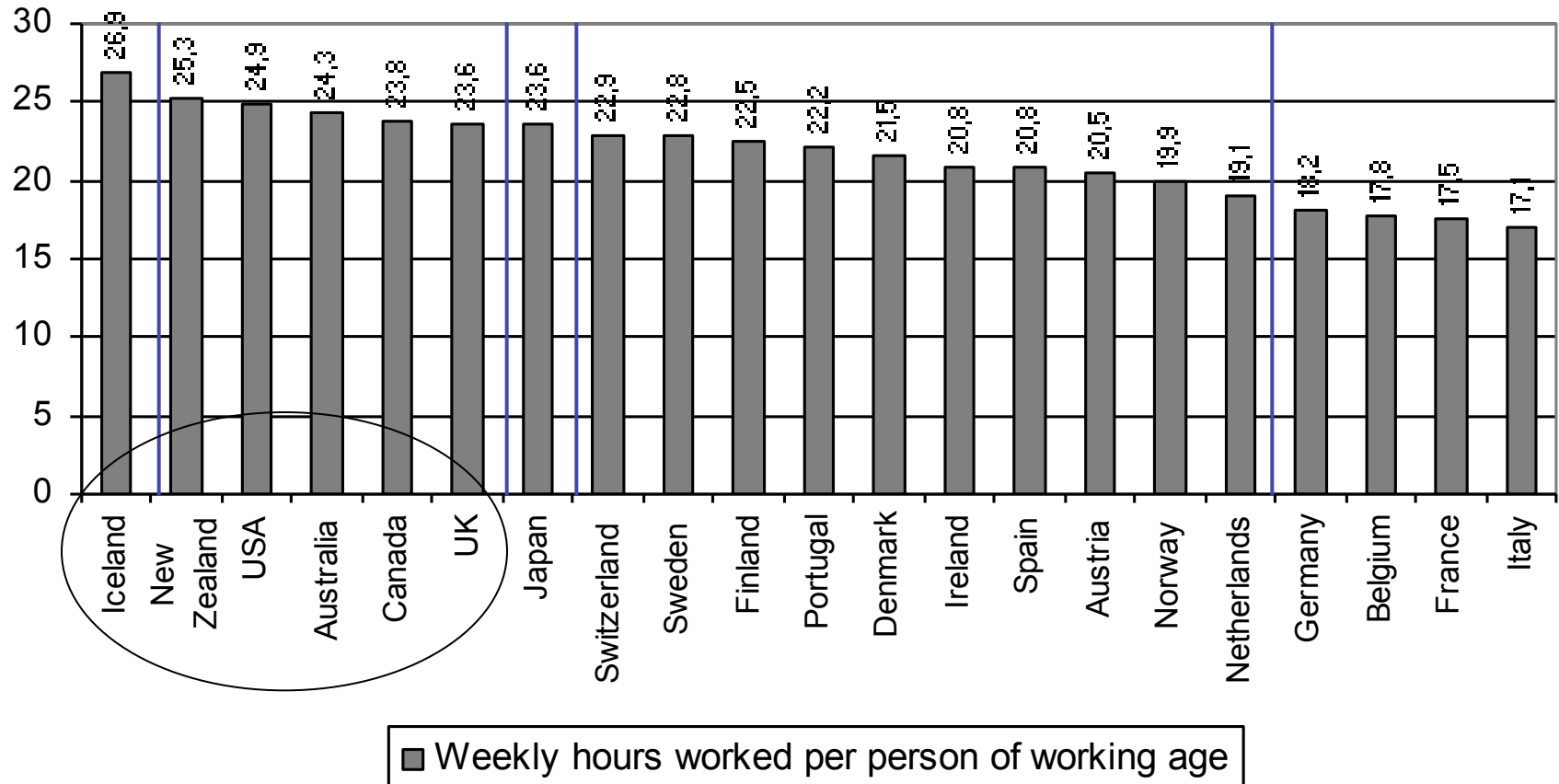
Patterns of Work

Overall Volume of Work

Gross National Work per capita in the Labour Market

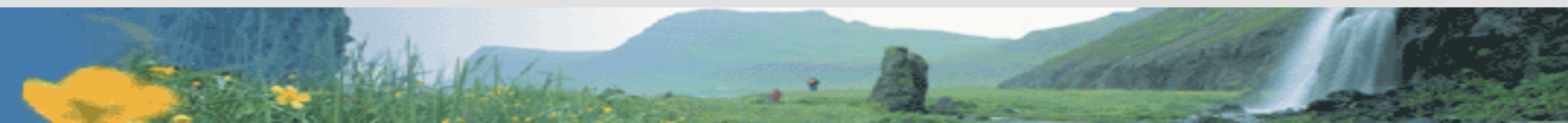
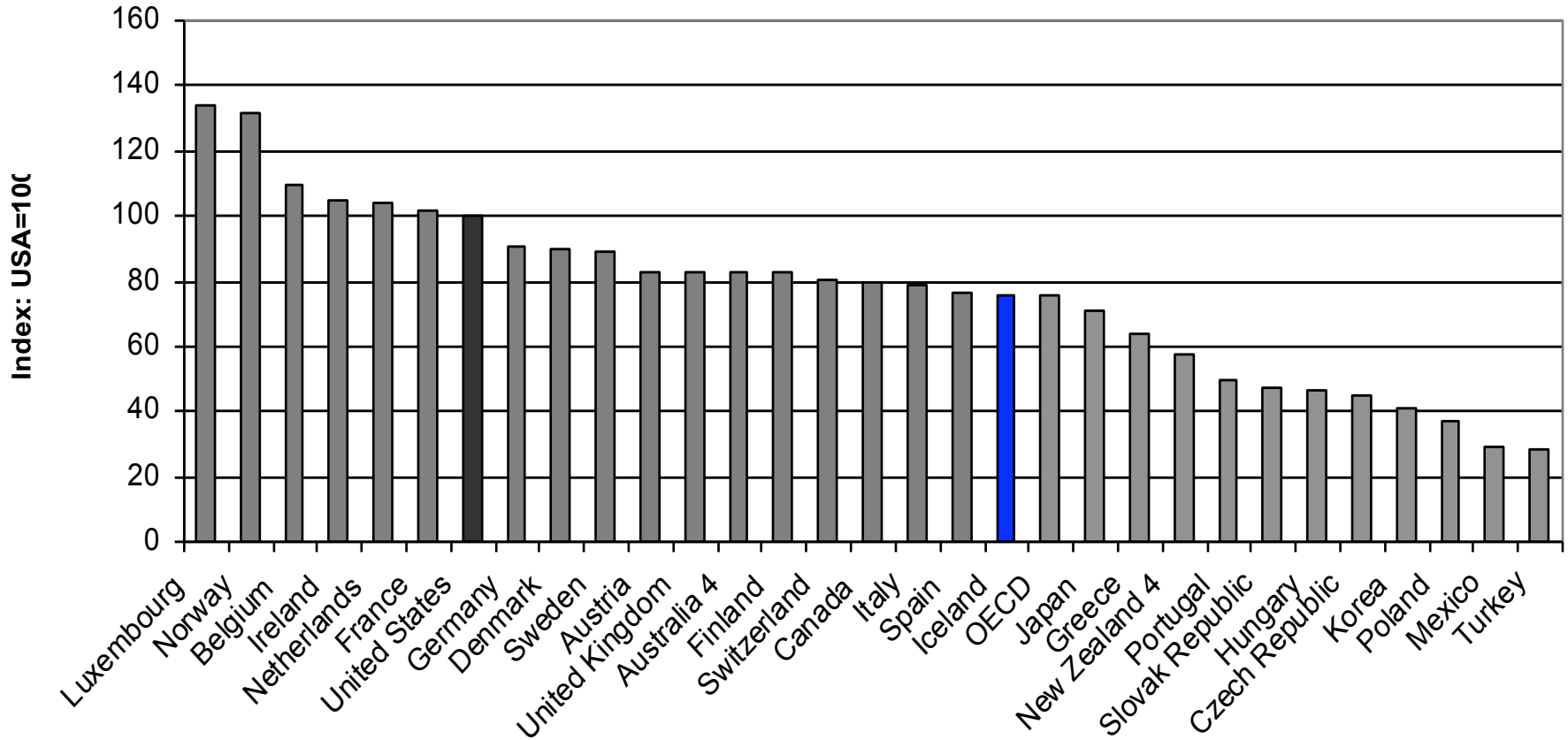
Weekly hours worked per person of working age

(Employment population rate*Actual hours worked)



Affluence and Work: Productivity per Hour Worked 2005

GDP per Hour Actually Worked, 2005

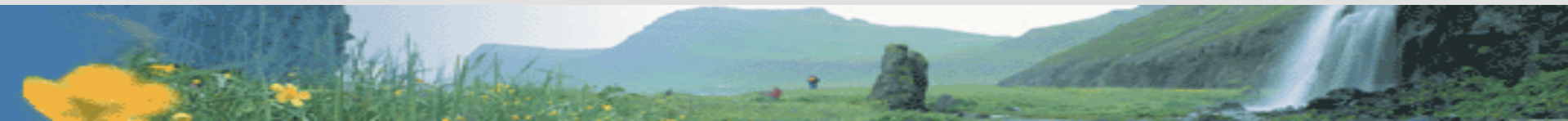




Conclusions

Conclusions

- Globalization has been very rapid in the 1990s
- Libertarian policies also became more prominent
- Rapid economic growth after 1995
- Economy became greatly overheated after 2001
- FDI out of Iceland expanded greatly
- Following privatization of banks, foreign debt exploded
- Welfare expenditures expanded
- Taxation burden of the general public increased
- Taxation on financial earnings were lowered (to 10%)
- Income inequality increased greatly from 1995,
due to increased financial earnings and taxation effects
- Poverty remained low
- The Outcome: **Mixed developments...**





Thank you!