The Icelandic Welfare State in an International Comparison

Stefán Ólafsson
NRR Conference, Grand Hotel, Reykjavík, September 13th 2007
Contents

• Iceland in Context
• Characteristics of the Icelandic Welfare State
  – International comparison
• Iceland, USA, Scandinavia
• Welfare changes during the 1990s
• Current issues and prospects
Societal context

- Rapid modernization in the 20th century
- Culture: Strong individualism, materialism and a forceful work ethic
- Reservations about state protectionism
- Resistance to taxation
- Iceland’s Welfare Model deviates a little from the Nordic Model
- Iceland is not fully a social-democratic country
- Part Scandinavian – Part American culture...
Societal context

- Last decade growth was above OECD average
- Real pay level has grown significantly
- Debt levels have also grown extensively
- Overheating of Economy since 2000
- Globalization effects were strong from 1995
- Immigration into lab. market quite extensive
- FDI to other countries extensive since 1995
- Icelandic corporations have expanded abroad
- So change has been fast ...
Welfare state comparisons
- Profiles in figures -
Economic prosperity of OECD-Countries
GDP per capita (PPP values), averages for 2000-2004
Social Expenditures as % of GDP

Social Protection Expenditures in EU-Countries in 2004

% of GDP

Total expenditures on Social Protection, %

GDP

- Sweden
- France
- Denmark
- Germany
- Swiss
- Belgium
- Austria
- Nederlands
- EU 25
- Finland
- UK
- Norway
- Italy
- Greece
- Portugal
- Slovenia
- Iceland
- Luxembourg
- Hungary
- Spain
- Poland
- Czech Republic
- Malta
- Cyprus
- Slovak
- Ireland
- Romania
- Estonia
- Lithuania
- Latvia
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

Pension expenditures as % of GDP

Italy, Austria, Greece, France, Sweden, Germany, Belgium, EU 25, Poland, UK, Denmark, Portugal, Slovakia, Finland, Malta, Spain, Cyprus, Luxembourg, Czech Republic, Norway, Iceland, Slovenia, Latvia, Lithuania, Estonia, Romania, Ireland
Seniors’ Participation
People aged 55-64, at work, year 2003

Near absence of early retirement in Iceland
Late retirement
Average age at retirement 1997-2002

OECD Society at a Glance 2005
Sickness and health expenditures 2004

Expenditures on sickness and health care
% of GDP

% of GDF

France, Norway, Sweden, Iceland, Slovakia, UK, Belgium, Germany, EU 25, Austria, Portugal, Swiss, Ireland, Czech Republic, Greece, Finland, Italy, Denmark, Spain, Hungary, Luxembourg, Romania, Malta, Slovenia, Estonia, Cyprus, Lithuania, Poland, Latvia.
Disability expenditures in 2004

% of GDP

Norway
Sweden
Denmark
Swiss
Finland
Iceland
Luxembourg
Netherlands
Portugal
UK
Austria
Poland
Germany
EU 25
Hungary
Belgium
Slovakia
France
Slovenia
Czech Republic
Spain
Italy
Greece
Lithuania
Estonia
Latvia
Malta
Romania
Ireland
Cyprus
Family and child expenditures in 2004

Expenditures on families and children in 2004
% of GDP

% of GDP

Denmark
Luxembourg
Iceland
Norway
Austria
Finland
Sweden
Ireland
France
Hungary
EU 25
Cyprus
Slovakia
Slovenia
Estonia
Greece
UK
Romania
Latvia
Netherlands
Swiss
Portugal
Italy
Lithuania
Malta
Poland
Spain
Unemployment expenditures in 2004

Unemployment benefit expenditures in 2004
% of GDP

Belgium
Denmark
Spain
Finland
Germany
France
Sweden
EU 25
Netherlands
Austria
Greece
Ireland
Malta
Portugal
Swiss
Luxembourg
Slovenia
Cyprus
Norway
Czech Republic
Poland
Slovakia
UK
Hungary
Iceland
Italy
Romania
Latvia
Estonia
Lithuania

% of GDP

0
0,5
1
1,5
2
2,5
3
3,5
4

Unemployment expenditures in 2004

% of GDP
Housing and social exclusion expenditures in 2004

% of GDP

Denmark
UK
France
Greece
Cyprus
Sweden
EU 25
Ireland
Switzerland
Finland
Iceland
Norway
Germany
Slovakia
Romania
Luxembourg
Belgium
Hungary
Malta
Austria
Slovenia
Spain
Lithuania
Estonia
Latvia
Poland
Portugal
Italy

% of GDP
Benefits in cash and services in 2004
Percentage shares

<table>
<thead>
<tr>
<th>Country</th>
<th>Cash benefits %</th>
<th>Services in kind %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>61,1</td>
<td>38,9</td>
</tr>
<tr>
<td>Finland</td>
<td>64,1</td>
<td>35,9</td>
</tr>
<tr>
<td>Iceland</td>
<td>48,5</td>
<td>51,5</td>
</tr>
<tr>
<td>Norway</td>
<td>60,1</td>
<td>39,9</td>
</tr>
<tr>
<td>Sweden</td>
<td>58,6</td>
<td>41,1</td>
</tr>
<tr>
<td>EU 15 average</td>
<td></td>
<td>33,2</td>
</tr>
</tbody>
</table>

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
  • Role of Third Sector is relatively large
    • High employment participation
Welfare system characteristics:
USA, Scandinavia, Iceland
## Comparing USA, Scandinavia and Iceland

<table>
<thead>
<tr>
<th>Welfare roles</th>
<th>American</th>
<th>Scandinavian</th>
<th>Icelandic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Role of the state:</td>
<td>Small</td>
<td>Large</td>
<td>Medium-Large</td>
</tr>
<tr>
<td>Role of the market:</td>
<td>Large</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Role of NGOs:</td>
<td>Large</td>
<td>Medium-large</td>
<td>Very large</td>
</tr>
</tbody>
</table>

### Social security system:

<table>
<thead>
<tr>
<th>Universality of coverage:</th>
<th>Medium</th>
<th>Large</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main beneficiaries:</td>
<td>The Poor</td>
<td>All citizens</td>
<td>All citizens/the poor</td>
</tr>
<tr>
<td>Income-testing of benefits:</td>
<td>Large</td>
<td>Small</td>
<td>Large</td>
</tr>
</tbody>
</table>

### Primary services:

<table>
<thead>
<tr>
<th>Main provision of care:</th>
<th>Market/family</th>
<th>State/family/market</th>
<th>State, NGOs, family and market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitals:</td>
<td>Mainly private</td>
<td>State run</td>
<td>State run</td>
</tr>
<tr>
<td>Education:</td>
<td>Big private role</td>
<td>Primarily state</td>
<td>Primarily state</td>
</tr>
<tr>
<td>Public expenditures on welfare:</td>
<td>Small</td>
<td>Large</td>
<td>Medium</td>
</tr>
<tr>
<td>Taxation levels</td>
<td>Low</td>
<td>High</td>
<td>Medium</td>
</tr>
</tbody>
</table>
## Comparing USA, Scandinavia and Iceland

<table>
<thead>
<tr>
<th>Distribution effects:</th>
<th>American</th>
<th>Scandinavian</th>
<th>Icelandic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income inequality:</td>
<td>Large</td>
<td>Small</td>
<td>Small-Medium</td>
</tr>
<tr>
<td>Extent of poverty:</td>
<td>Large</td>
<td>Small</td>
<td>Small</td>
</tr>
<tr>
<td>Gender and class effects:</td>
<td>Neutral</td>
<td>Pro-equality</td>
<td>Pro-equality</td>
</tr>
<tr>
<td>Home ownership:</td>
<td>High</td>
<td>Medium</td>
<td>Very high</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employment regimes:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment participation:</td>
</tr>
<tr>
<td>Work week length:</td>
</tr>
<tr>
<td>Actual retirement age:</td>
</tr>
</tbody>
</table>
Characteristics of Welfare State

Main features of comparison:
Icelandic Welfare state versus Scandinavian WS:

• Cash Benefits in Iceland:
  - Have some anglo-saxon characteristics

• Welfare services in Iceland:
  - Similar to the Scandinavian societies

• Higher work participation in Iceland
Explaining different national systems
Influences on Welfare Development: Scandinavian Model

Labour movement
- Struggle for rights
- Collective bargaining

Politics
- Social democrats
- Center parties

Social conditions
- Social problems,
- Prevailing values

Union pressure → Scandinavian universal Welfare Model

Social democrats strong
Egalitarian culture
Influences on Welfare Development: American Model

Labour movement
- Struggle for rights
- Collective bargaining

Politics
- Republicans
- Democrats

Social conditions
- Social problems,
- Prevailing values

American residual Welfare Model

New Deal - F.D. Roosevelt
Against state protectionism
Influences on Welfare Development: Icelandic Model

Labour movement
- Struggle for rights
- Collective bargaining

Politics
- Right of center strong
- Left parties weaker

Social conditions
- Social problems,
  - Prevailing values

Influences on Welfare Development:

Pressure from unions

Independence party strong
Priority on industry

Egalitarian culture

Icelandic Welfare Model
Contemporary issues and prospects
Changes since the 1990s

• Welfare restraint and expansion
  – Social Security Pensions lagged behind wages
  – Increasing user fees in health sector + education
  – Child benefits were cut relative to early 1990s, but raised again in the last years

• Unemployment now at a higher level
  – Unemployment pension lagged behind wages from 1997-2005; new better unemployment benefit from 2006

• Income inequality increased since 1994
  – Taxation has increased inequality

• Maternal and especially paternal leaves for birth were improved

• Private pensions are getting a larger role
Current issues

What consequences of current changes?

- Increasing privatization and marketization
- Growing inequality > different social environment
- What future for welfare citizenship?
- Public pensions – private pensions?
- Increasing user charges?
- Increasing class differences in health, welfare and housing?

- Increasing globalization:
- Increasing immigrant population
- Work life – home life tension
- New problems – new design of welfare state
Thank you!