



From Neo-Liberalism to Increasing Income Inequality

Globalization, Politics and Inequality in Iceland 1995-2008

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Contents

- **Some Globalization Characteristics**
- **Iceland's Neo-Liberal Experiment-Timeline**
- **Neo-liberalism and Inequality: US history**
- **Increasing Inequality in Iceland**
- **Poverty in Iceland**
- **Income levels: Comparing Nordics and Anglo-Saxons**
- **Conclusions**



Globalization: Neoliberal Characteristics

- Facilitated by new ICT technology and new policy
- New Policy: Globalization as global Neo-liberalism (Washington Consensus etc./ Cf. J. A. Scholte 2005; Held and McGrew 2002; Castells 2001; Stiglitz 2002/5)
 - Lower barriers for trade and flows
 - Marketisation; Privatization; Tax Competition
 - Deregulation (laissez-faire supervisory approach)
 - Freer flow of capital, goods, services, firms, people, etc. > Death of distance and borders
 - “Space of flows”/Supraterritoriality
 - Global Capitalism = One market
 - Most effective for Finance
 - Collapse of Soviet system facilitated neoliberalism



Globalization characteristics

- *Continued...*
 - **Primacy of business and finance > increased power**
 - **Privileges in taxation for business and finance**
 - **Enhanced opportunities for financial accumulation through offshore centres (“black holes” of finance), transnational companies, and increasing concentrations of wealth (Scholte 2005; Stiglitz 2005)**
 - **Growth of materialism, Consumerism by Borrowing**
 - **Increasing competition for labour – Less security**
 - **Changing power balance – Labour least globalized**
 - **“Race to the Bottom” or “Raise of the top”?**
 - **Welfare state and equality constrained**
 - **Increasing inequality of income (and wealth)**

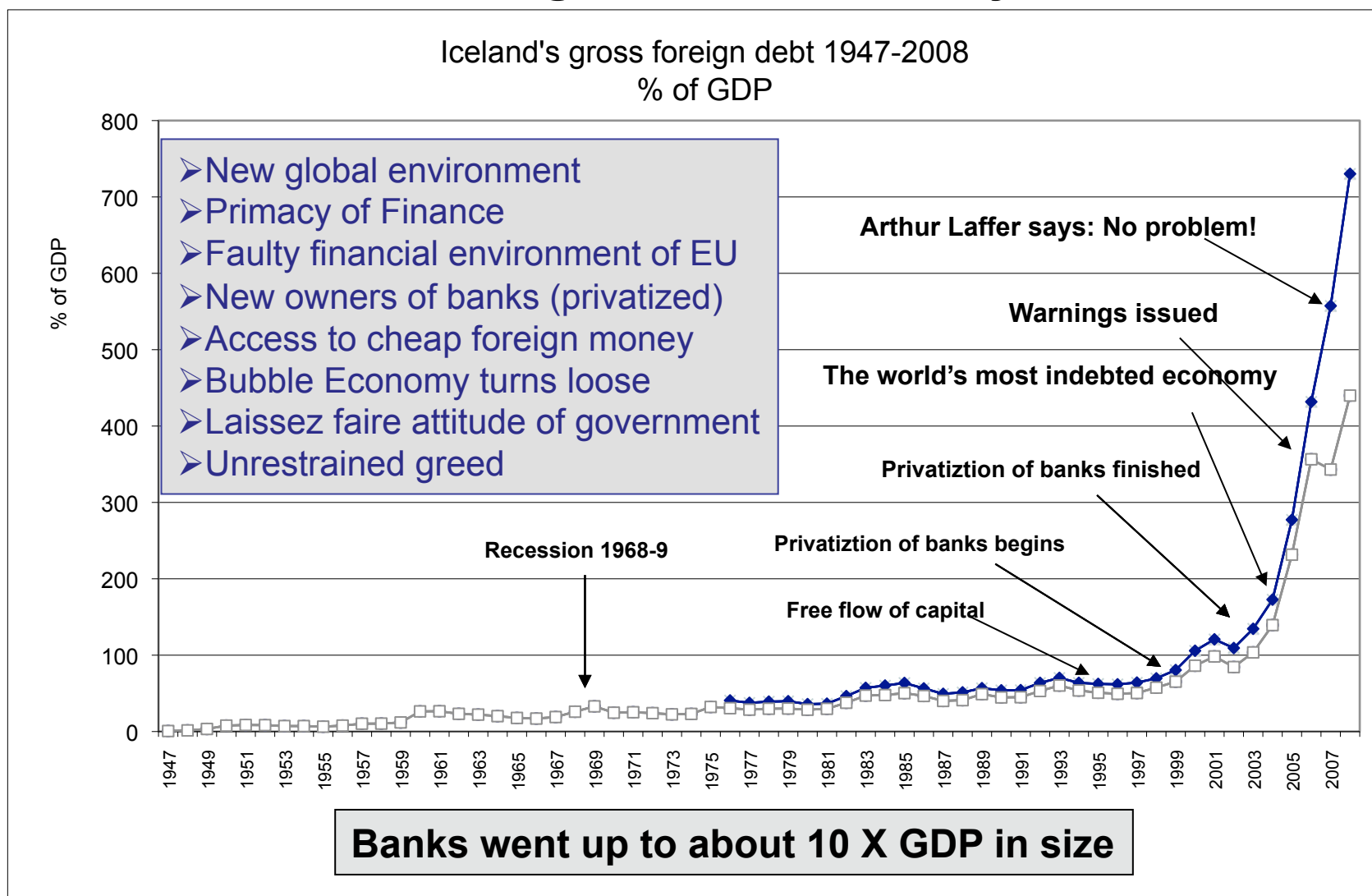


Globalization in Iceland

- Tradition of trade openness – like all Nordic countries
- Cameron/Katzenstein thesis: Adjustment to external market conditions with rather large state protectionism
- Landmarks of Globalization:
 - > Marketization of fishing (Transferable quotas 1980s)
 - > Growing neo-liberalism (Main gurus imported)
 - > Early privatization 1980s and early 1990s
 - > 1995: Enter EEA agreement: Free flow of Capital
 - > Business globalization highly embraced
 - > Growing neo-liberalism in policy
 - > Privatization of state banks
 - > Bubble economy let loose in laissez-faire environ.
- Effect on Income Distribution?



Globalization, Neo-Liberalism and the Growing Bubble Economy

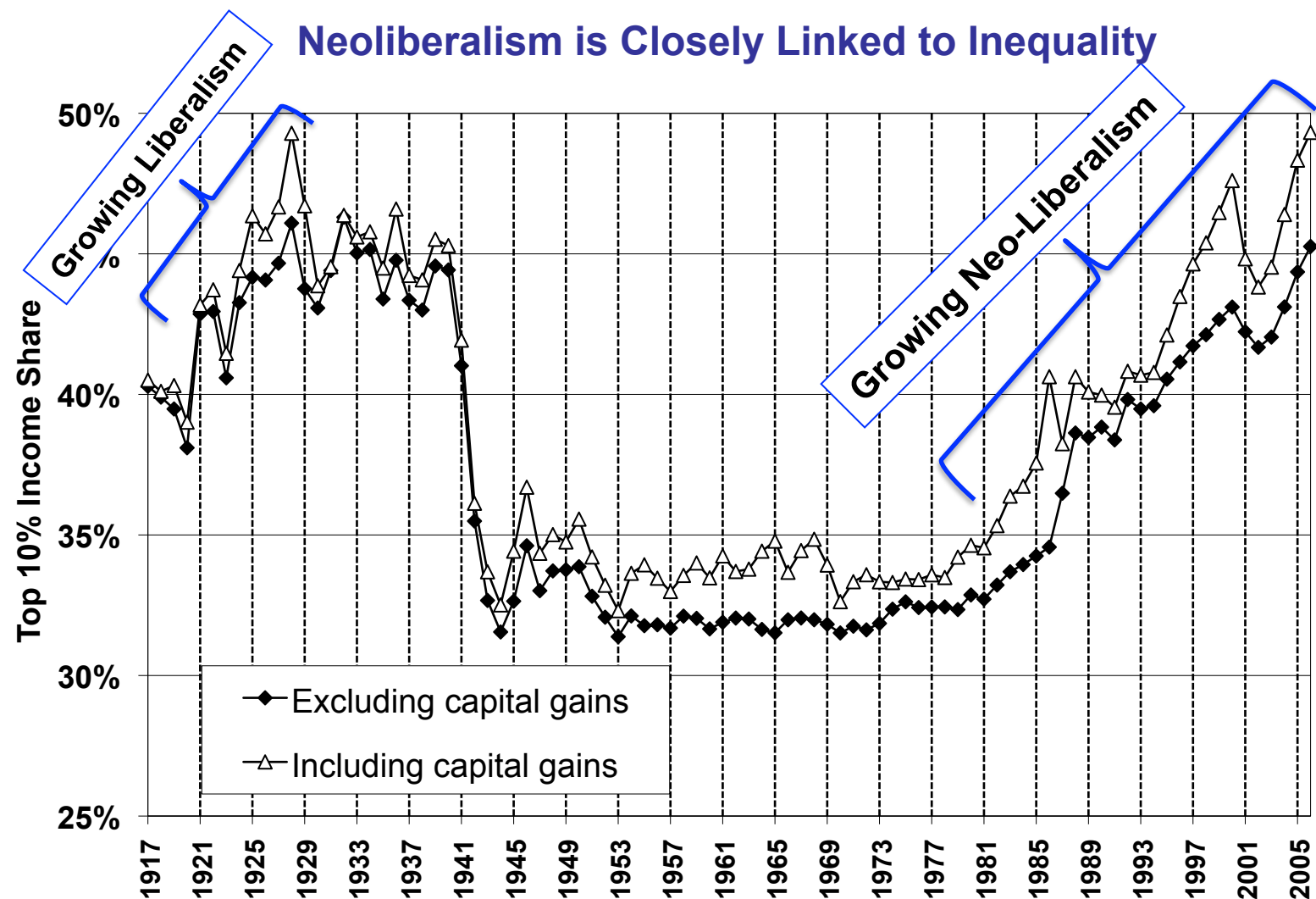


Sources: Historical statistics and Central Bank



Inequality and Liberalism in USA 1917-2006

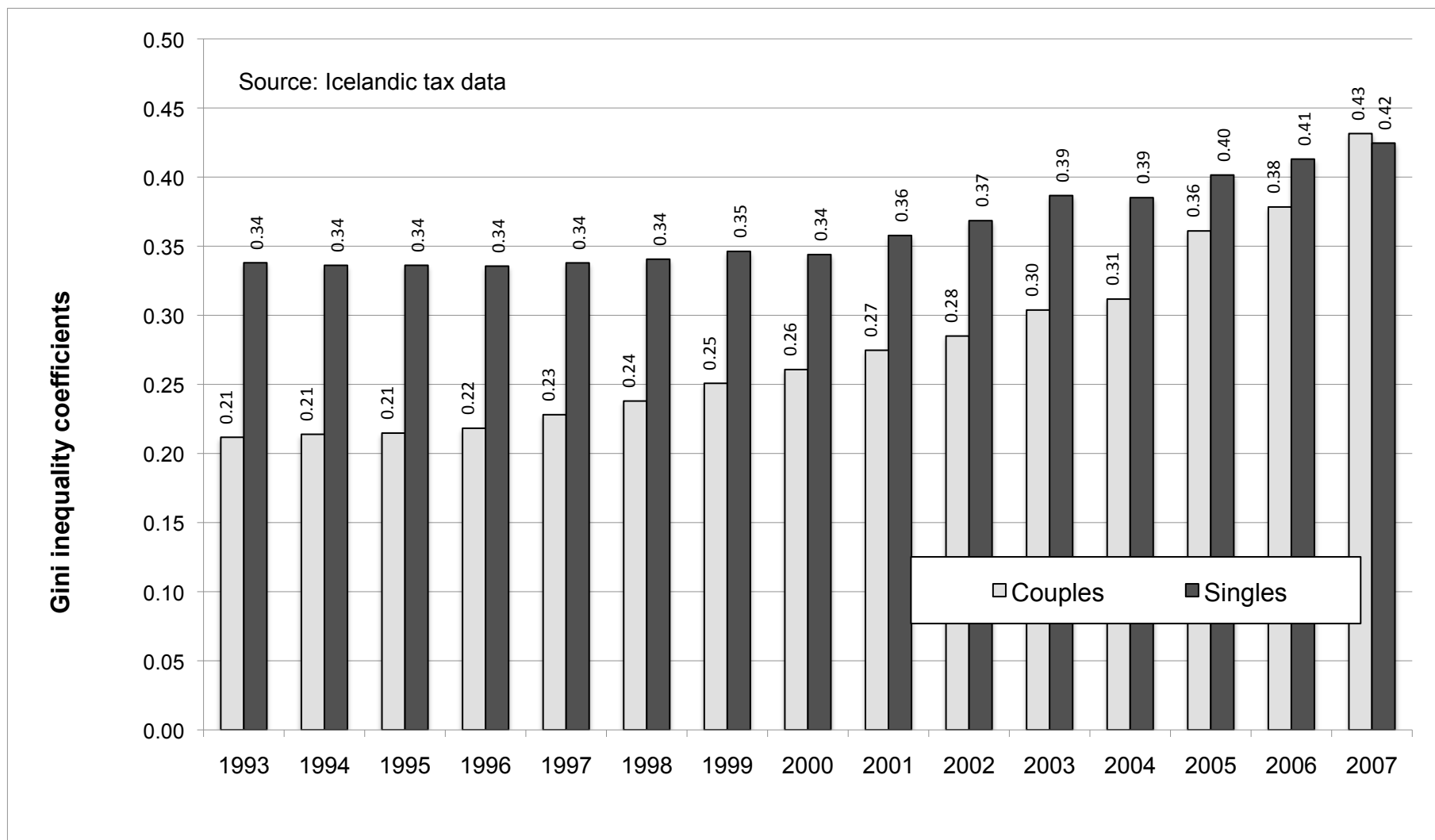
Income share of top 10% - Source: Saez, Piketty, Atkinson 2009





Income Inequality Increased Rapidly in Iceland

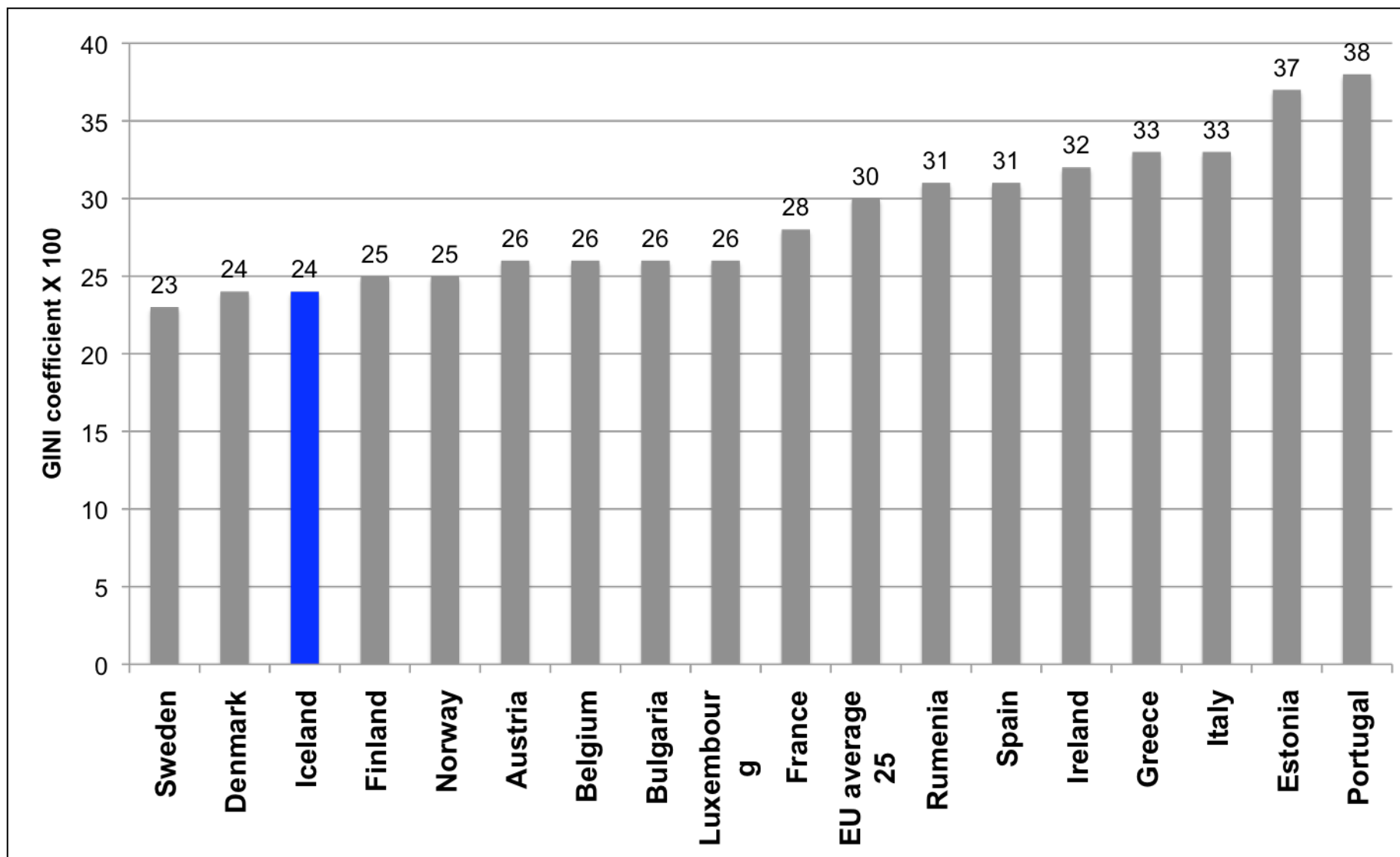
Gini Coefficients 1993-2007 – Disposable Earnings





Income Inequality in EU 2003

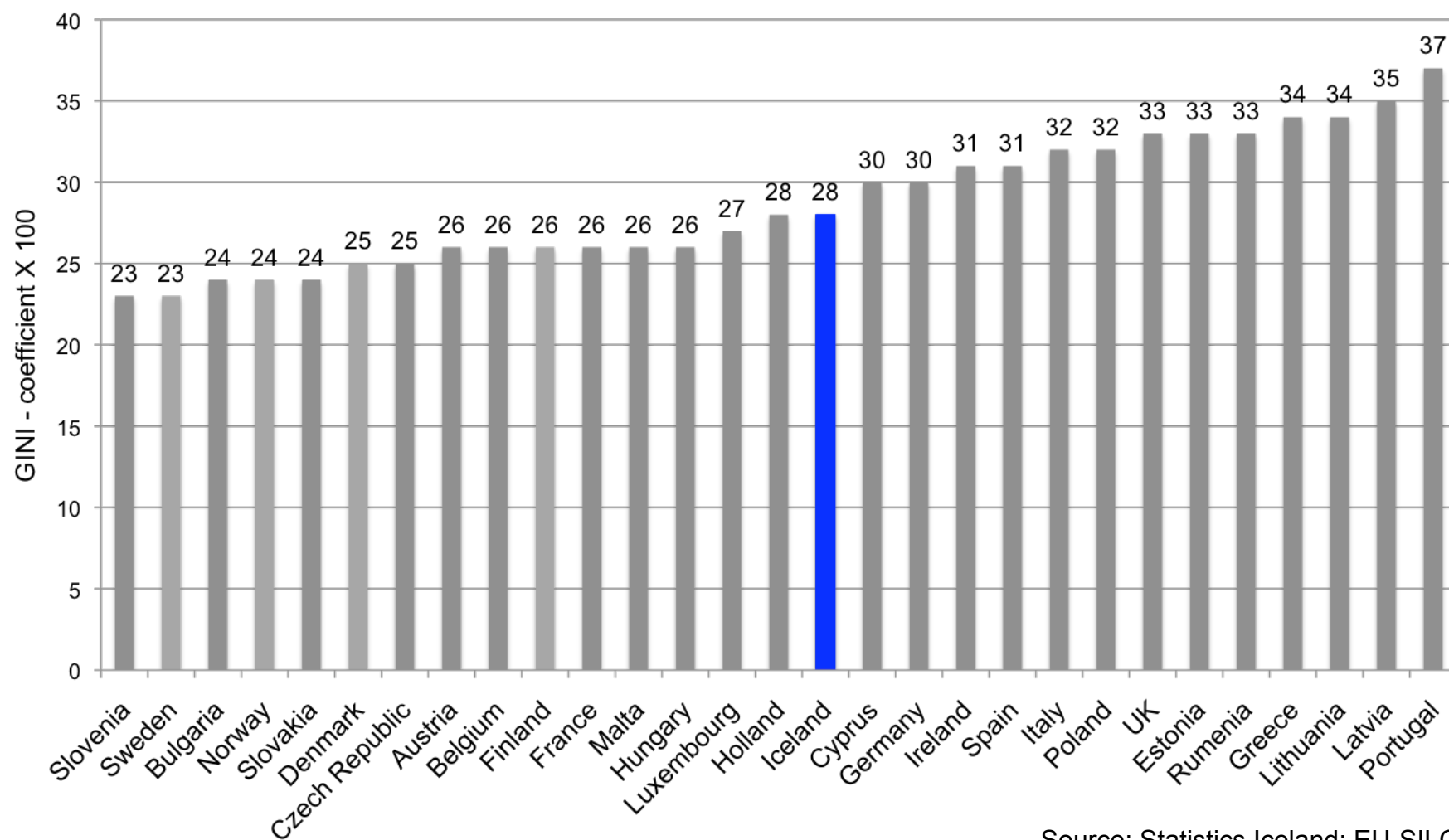
Different measure: EU-SILC data/Statistics Iceland





Income Inequality in EU 2006

EU-SILC data/Statistics Iceland



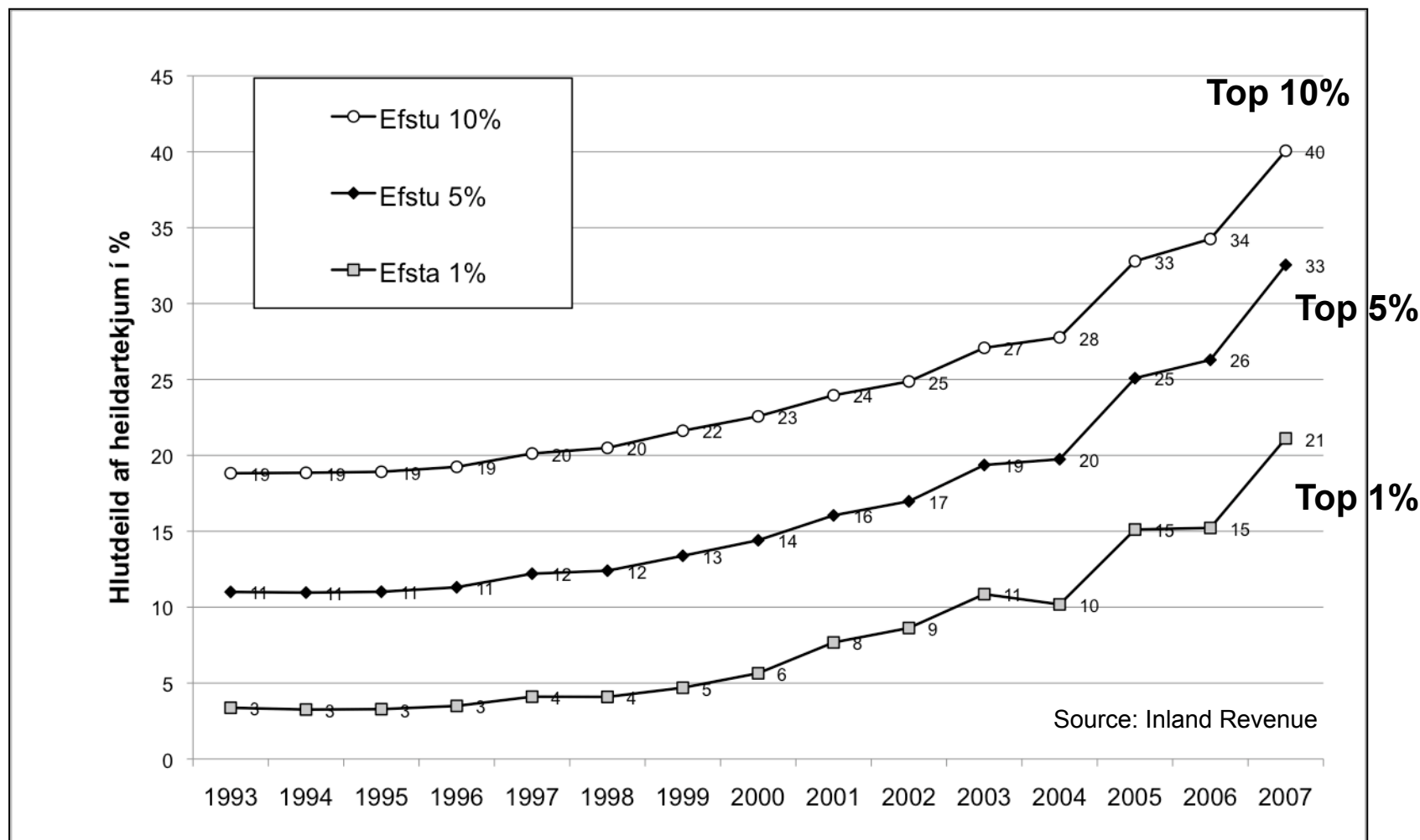
Source: Statistics Iceland: EU-SILC



Increasing income share of top groups

Share of top 1%, 5% and 10% of couples, 1993 til 2007

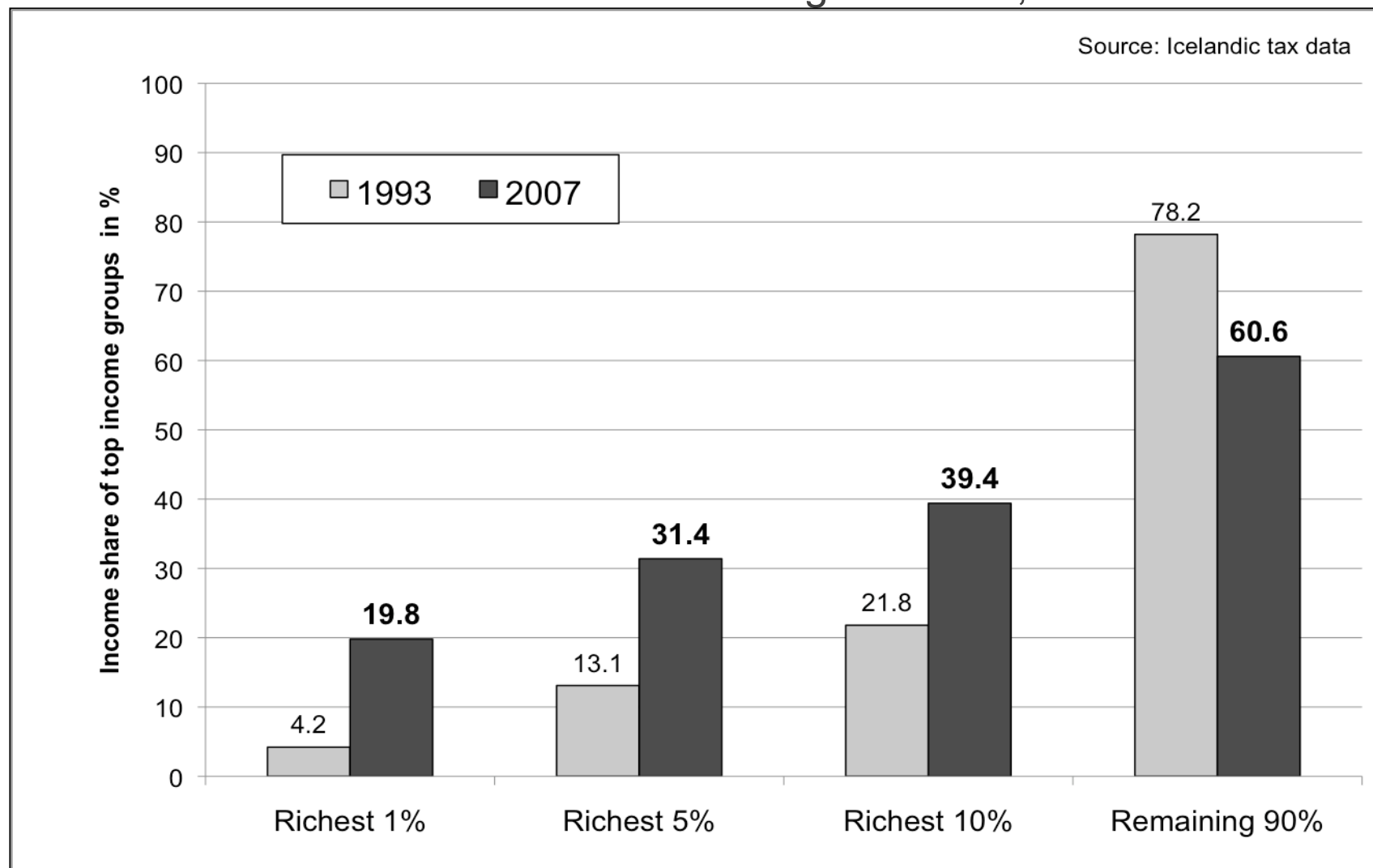
All earnings counted; after tax.





Income share of top Income groups

Iceland 1993 and 2007. All earnings counted; before tax.





Role of Financial Earnings

Tafla 2:

Development of couples' inequality of Incomes 1995-2005
GINI coefficients: With and Without Financial Earnings

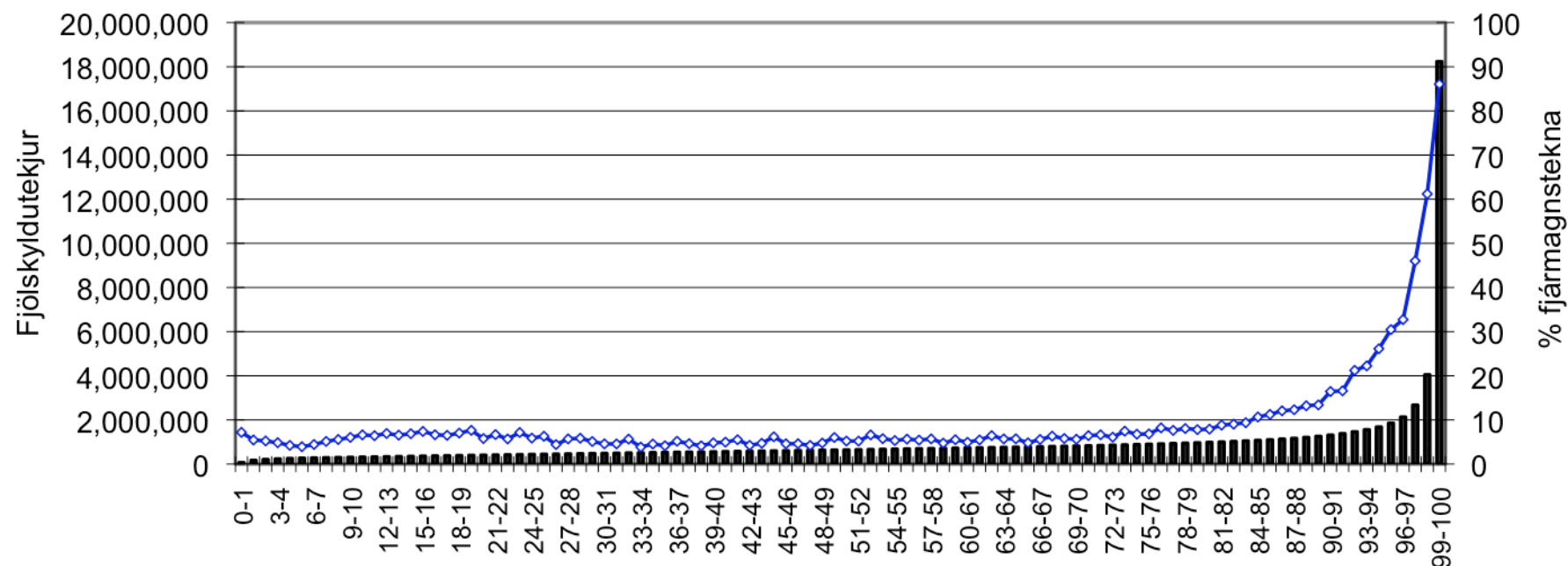
	Ójöfnuður ráðstöfunartekna, GINIs for Disposable Earnings	
	Without FE	With FE
1995		
1996	0,211	0,213
1997	0,213	0,229
1998	0,224	0,238
1999	0,228	0,251
2000	0,230	0,260
2001	0,231	0,273
2002	0,233	0,281
2003	0,232	0,300
2004	0,240	0,310
2005	0,277	0,360
Aukning ójafnaðar		
Change of GINI:	35,8%	74,8%

Heimild: Fjármálaráðuneytið og Hagstofa Íslands



Share of Financial Earnings 2007

Total family earnings (left) and % financial earnings (right), by 100 income groups



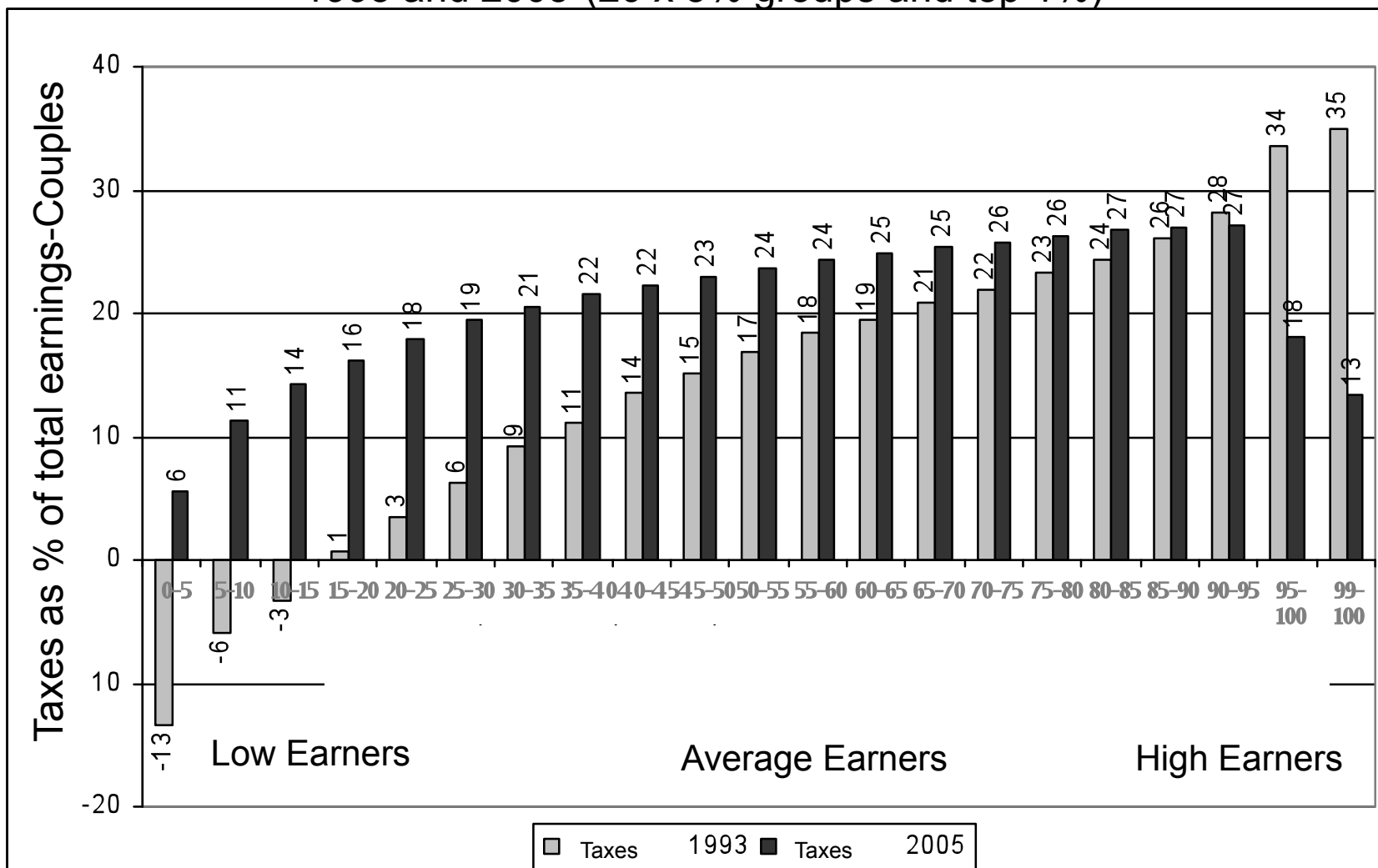
100 income groups (1% of families in each)

■ Gross earnings a month, before tax ◆ Share of financial earnings



Government Policy Effect: Effective Tax Burden by 21 Income Groups

1993 and 2005 (20 x 5% groups and top 1%)



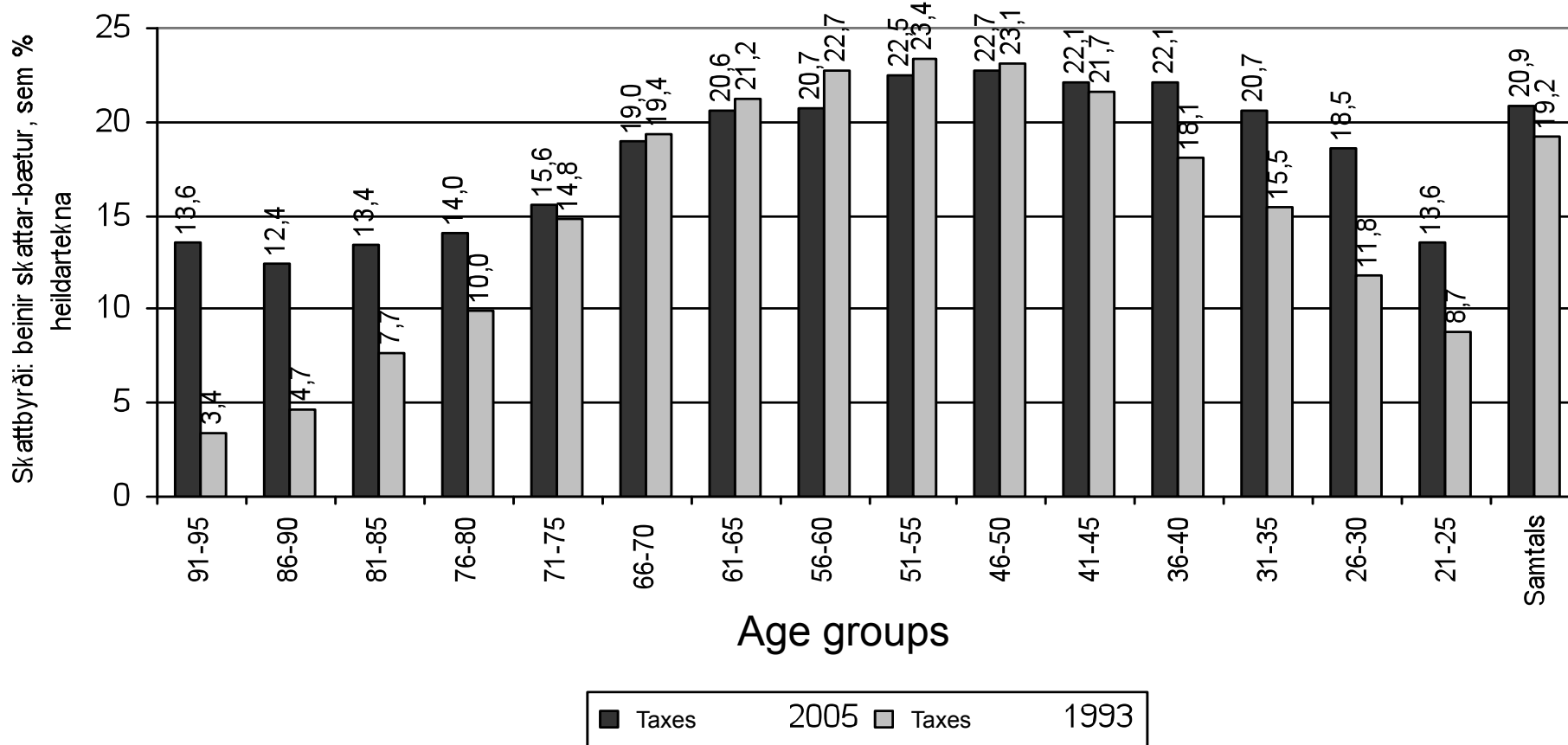
Heimild: Ríkisskattstjóri



Tax burden by age groups

Couples 1993 and 2005

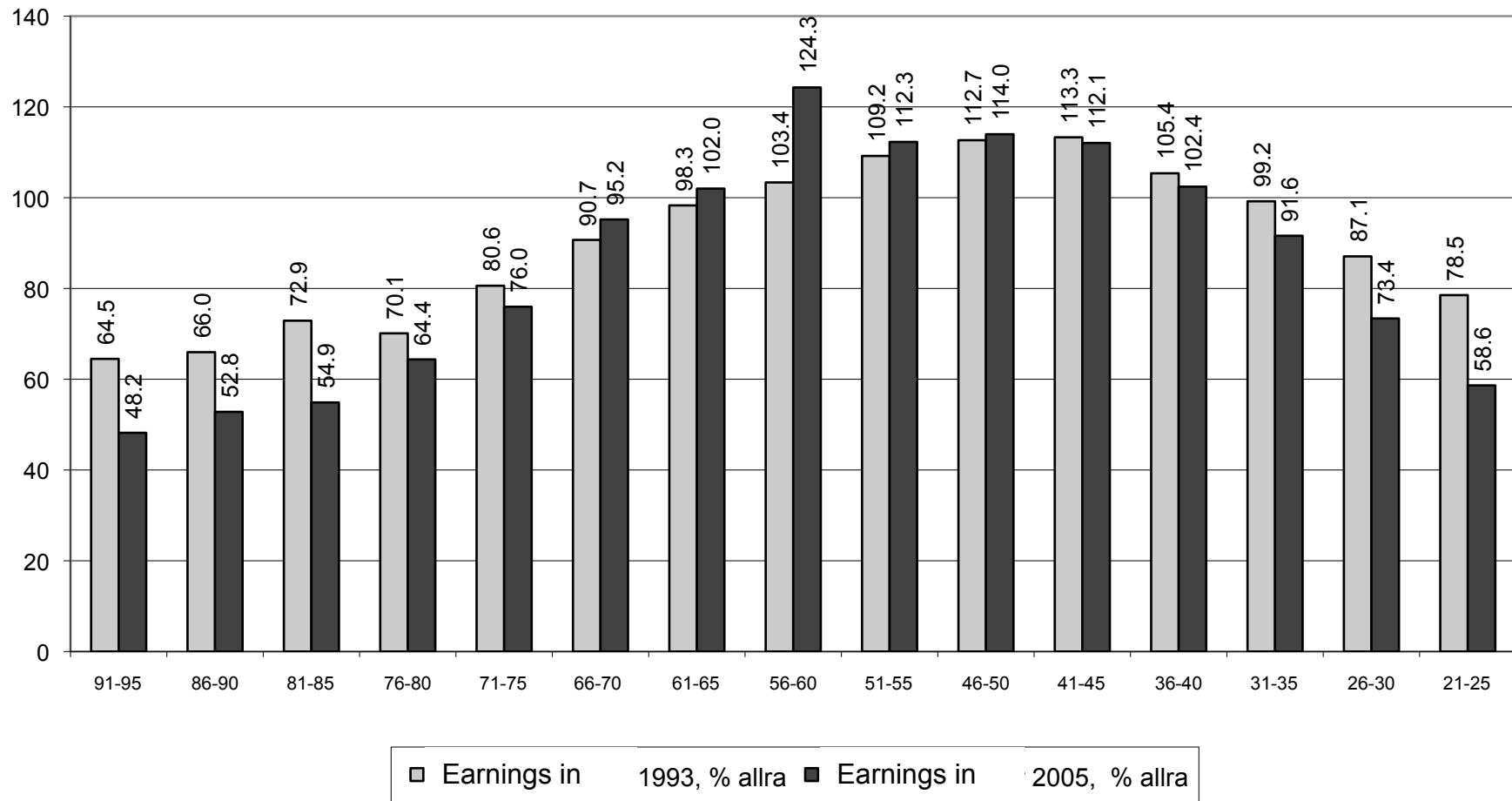
Net taxes paid (total minus benefits) as a % of total earnings



Disposable earnings by age groups

Couples 1993 and 2005

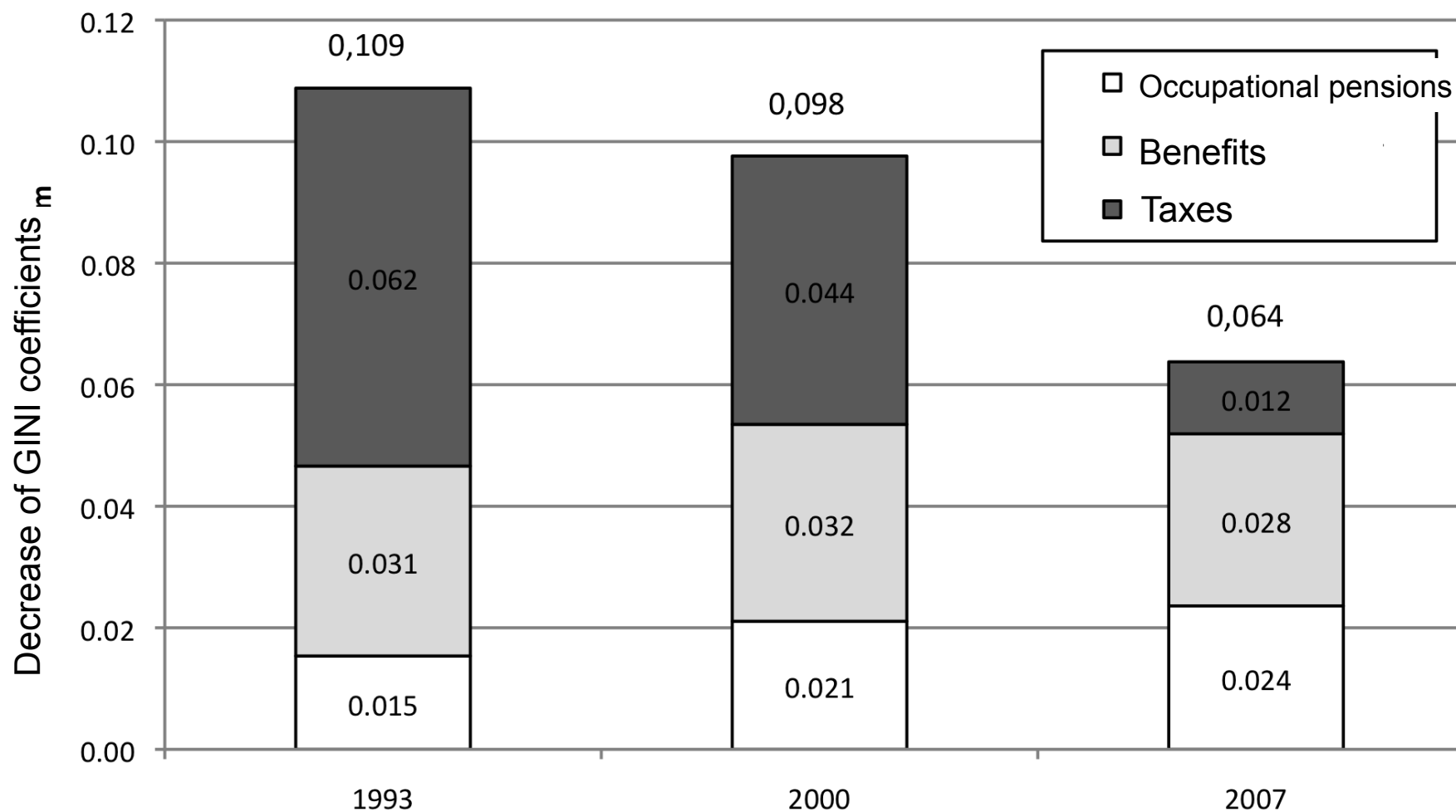
Earnings of age group as a % of average





Equalization effects of taxes and benefits

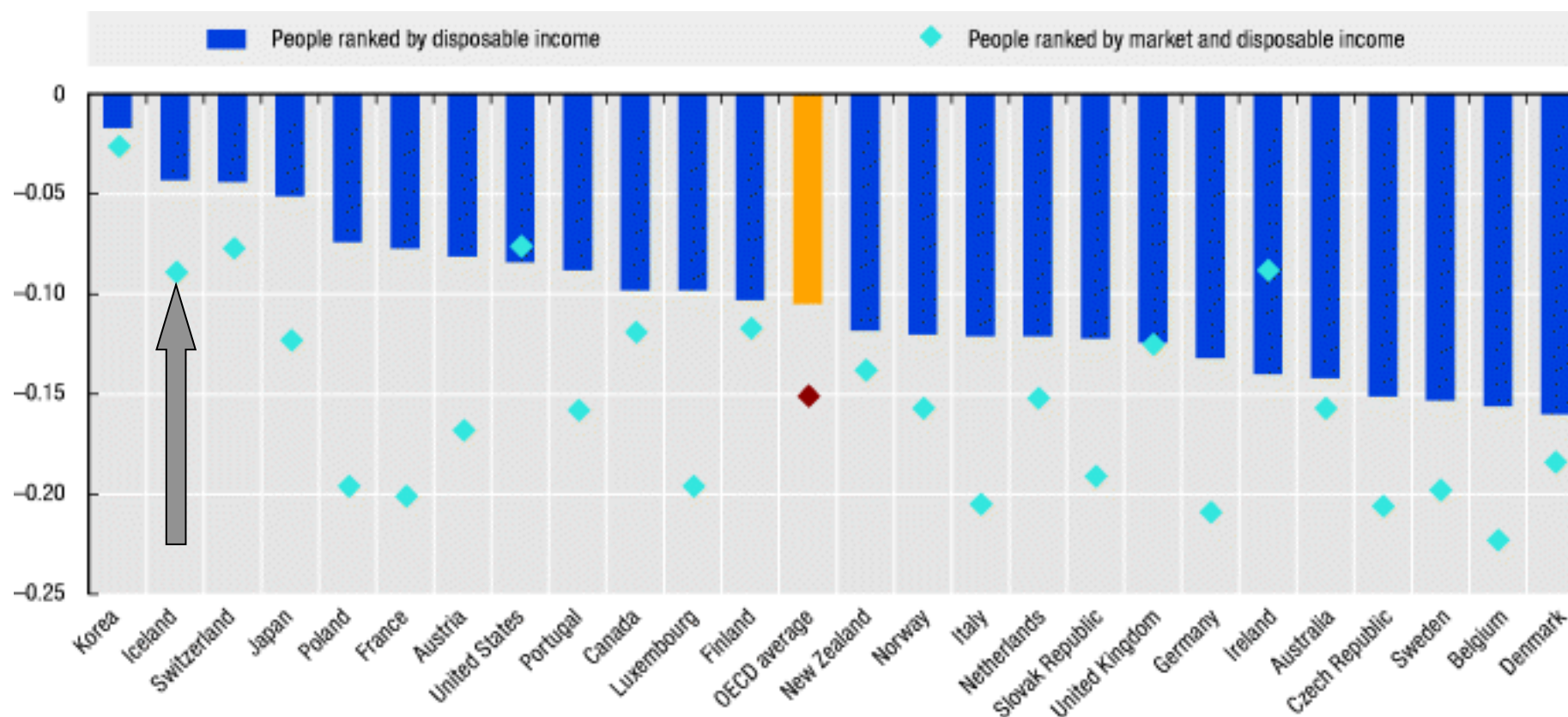
Decrease of GINI Coeff. 1993-2007





Equalization effects of taxes and benefits

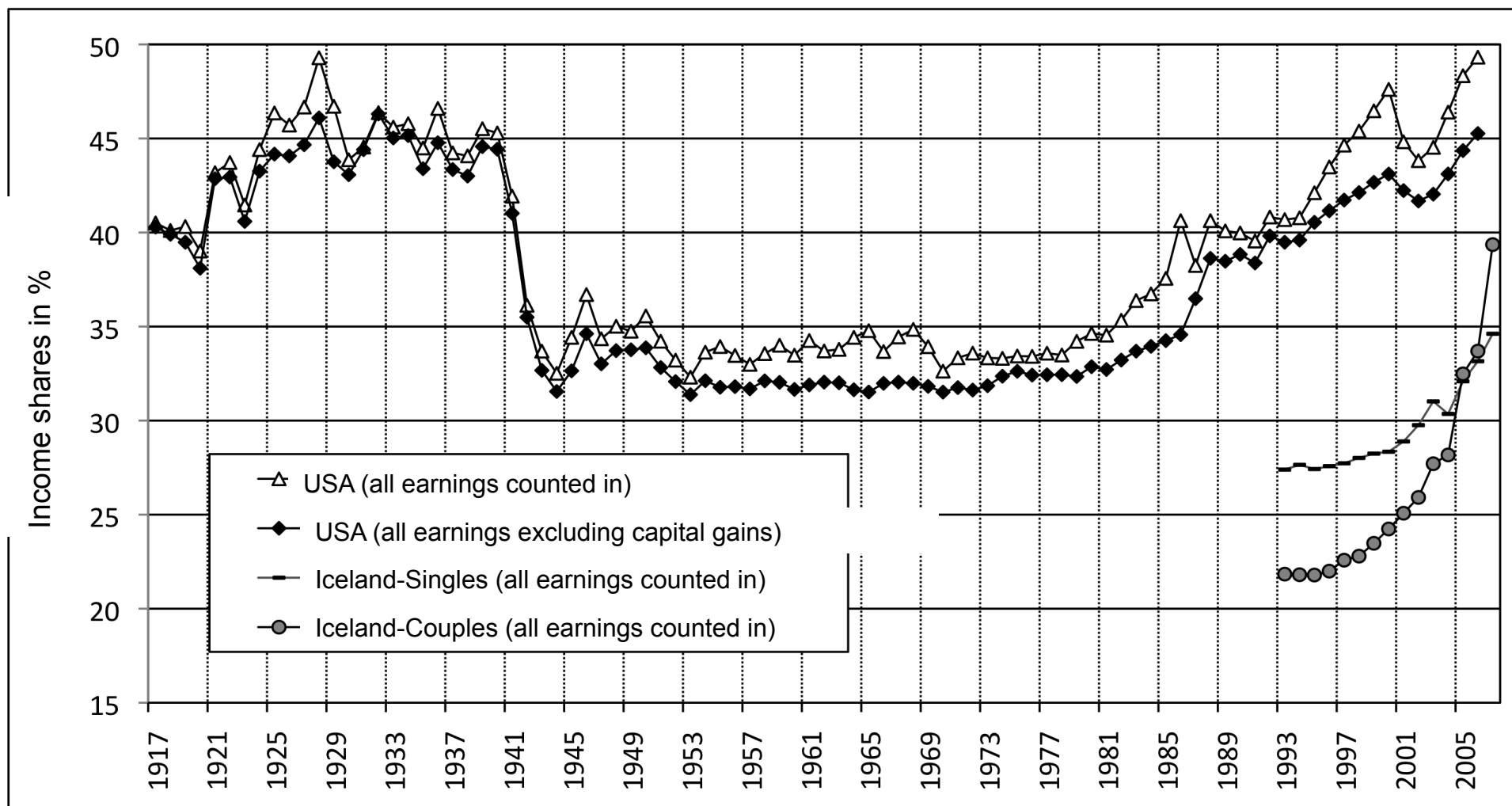
Differences in inequality before and after taxes and transfers
Percentage difference in concentration coefficients, mid-2000s





Top Decile Income Share: USA and Iceland

Earnings Before Tax. Source: Piketty and Saez and Rsk.



Poverty in Northern and Liberal Countries

2005

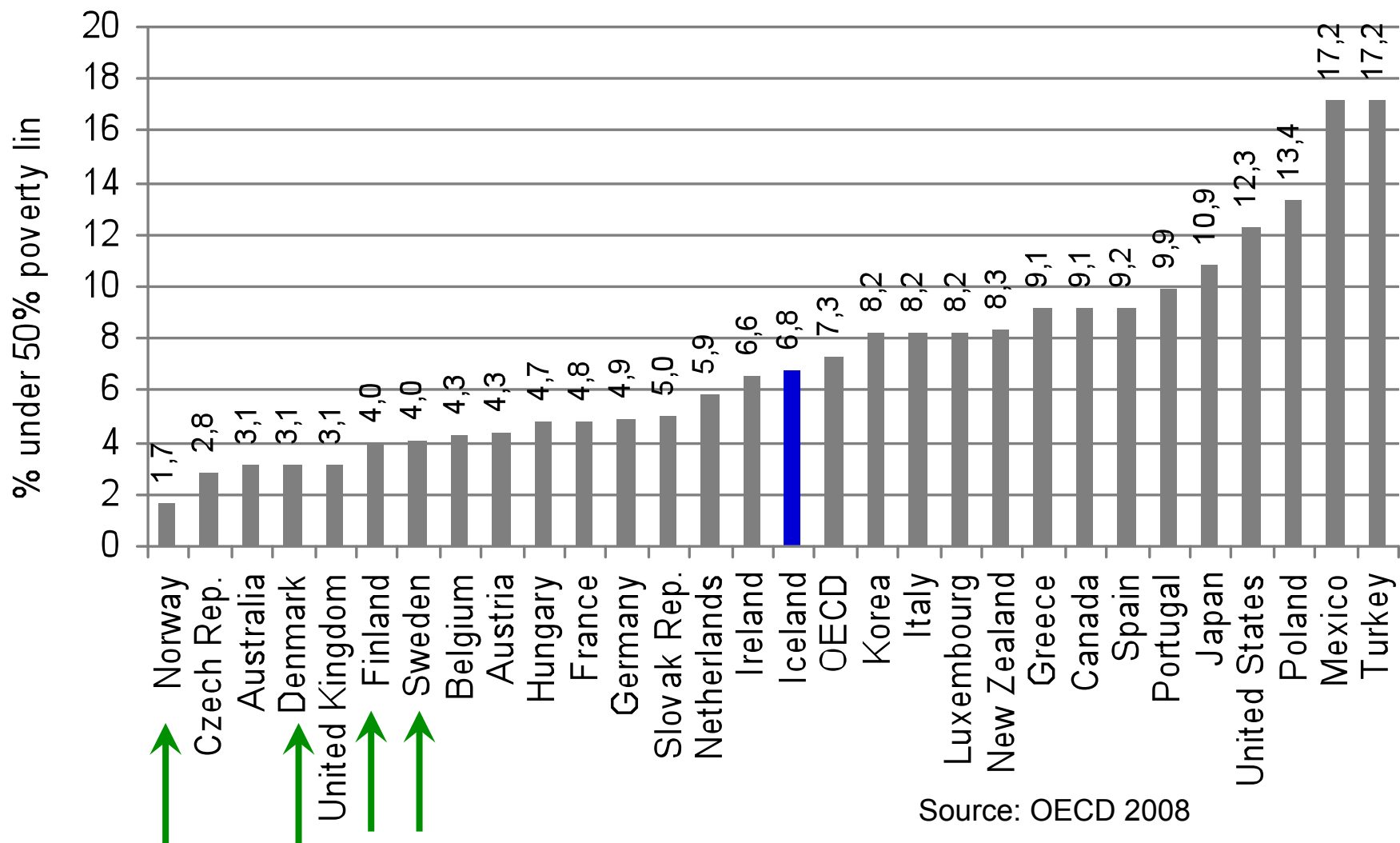
	Percentage under poverty line (50%)	% children under poverty line 2005	O-A pensioners poor (not working)	Poverty of single parents on benefits, 2005
USA	17,1	21	34	92
UK	8,3	10	12	39
Ireland	14,8	16	36	75
Canada	12,1	15	10	89
Australia	12,4	12	32	68
New Zealand	10,8	15	2	48
Anglo-Saxons average	12,6	15	21	69
Denmark	5,3	3	12	20
Finland	7,3	4	14	46
Norway	6,8	5	10	31
Sweden	5,3	4	7	18
Scandinavia average	6,2	4	11	29
Iceland	7,1	8	7	23
Nordic countries	6,4	5	10	28

Source: OECD 2008



In – Work Poverty Rates, OECD Countries 2005

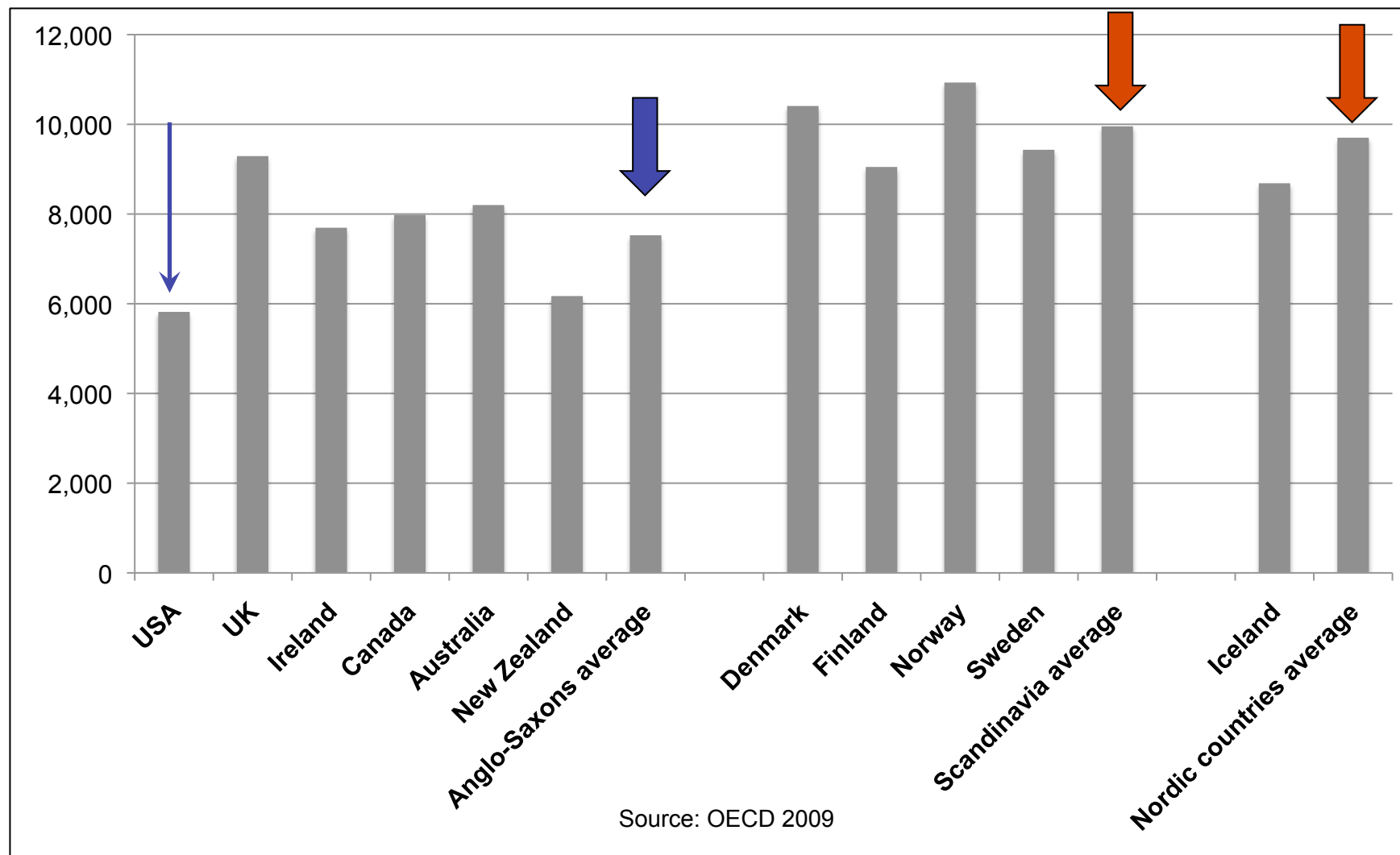
% with less than 50% of median for households at working age, with at least one worker





Real Earnings of Low Income Earners

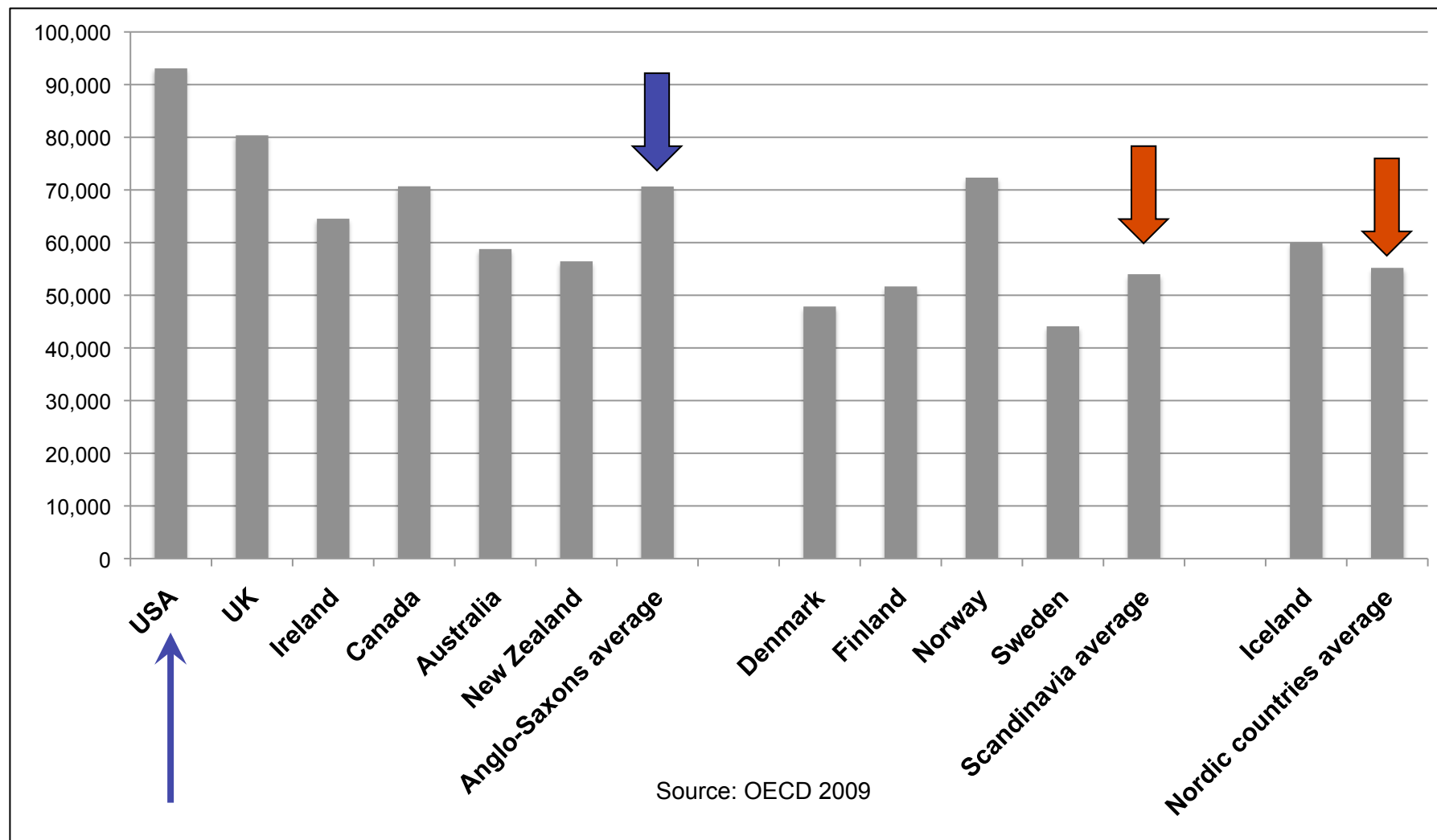
2005 (Lowest 10%. Income in US\$ with PPP)





Real Earnings of Top Income Earners

2005 (Highest 10%. Income in US\$ with PPP)





Conclusions

- **Neo-liberalism and the bubble economy greatly affected the distribution of incomes in Iceland**
- **Financial earnings increased rapidly**
- **Top employment earnings also increased**
- **Pensioner earnings lagged behind; also lower wages**
- **Government tax policy increased inequality greatly on top of the market trend**
- **Child benefits lagged; also mortgage interest rebates**
- **Equalization effects of taxes and benefits were reduced**
- **Relative poverty rates did not increase**
- **The Welfare State remained mostly intact – “Raising of the top” prevailed rather than a “race to the bottom”!**



Thank you!