

Iceland's Social Inclusion Environment

by

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Summary

This paper surveys characteristics of the social inclusion environment in Icelandic society. While Iceland is geographically and socially a member of the group of Nordic welfare states it still has some unique characteristics and deviates from the Nordic model to some extent. The main basis for Iceland's deviations are firstly the smaller size of the population and secondly the different political environment in Iceland, which is not social democratic to the same extent as the Scandinavian nations. Political parties of the right have been more influential in Iceland in the post-war period. The present government is however a coalition of social democrats and the Left-Green party, the first such solely left government in the history of Iceland's democracy. Iceland however has a very strong labour union movement that has pressed for some of the welfare state measures that are typical of the Scandinavian model.

On the whole the government (central and local) has the largest role in the social inclusion environment by operating the Scandinavian-type aspects of the welfare state that Iceland has in place. The main deviant is the dual pension system, with the public social security system being the larger and more encompassing part and the private sector Occupational Pension Funds (OPFs) that are operated by the labour market partners. The OPFs are now already paying out larger sums in pensions than the social security system and their part seems set to grow as rights in that system mature further. The labour market partners operate other welfare services, such as a life-long learning system and recently (in 2008) set up a rehabilitation fund for assisting working people who have lost workability due to sicknesses or accidents. Then the unions also run sickness and support funds that give members some small grants for selected tasks. The labour market partners now have aired their stated goal of taking over the operations of the unemployment benefits fund and the public activation services from government, thereby expanding what they call the "welfare system of the labour market".

The third sector also has a large role in Iceland. Memberships in such organizations are common compared to other Western nations and such groups feature largely and noticeably in the welfare and social inclusion fields. Self-help organizations in the areas of sickness and disability are common and prominent. They are active in providing support to the respective group members, often by providing services that are paid by government on a fee per case/day basis. They raise awareness, educate and provide pressure. This sector is thus quite strong and as in the other Nordic societies a large and encompassing welfare state does not work against such citizen-based voluntary organizations, but rather seems to increase the social capital that they thrive on.

We would argue that there are particularly good conditions for exerting individuals' voices in Icelandic society for the improvement of social inclusion conditions and poverty reductions, through the interest group and NGOs channels, and through unions and political parties. The small scale of Icelandic society, the openness and informality of social relations and generally good conditions (in media and personal relationships) for individuals' and interest groups' voices to be heard provide for that. This is particularly effective when matters are of common concern and touch issues of equity and fairness, as well as compassions. This means that governments of differing partisanship (both to the right or left) give in to such pressures, even though the left have had a greater propensity to give in to demands from the lower income groups and unions. This makes for a pragmatic and equitable social inclusion environment, which increases the likelihood of problems of hardship being tackled by various coalition governments. We believe that this is one of a few factors that explain the generally good outcome of Iceland in the area of social inclusion and poverty reduction. Thus the Icelandic society is quite amenable to a high degree of social capital that provides a fertile ground for pragmatic and positive solutions to immediate issues of concern to the public.

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Part 1. General Characteristics of Icelandic Social Inclusion Environment

1. Icelandic societal environment – main characteristics related to social inclusion policies

It is useful to start by broadly reviewing some general societal characteristics of the Icelandic society, in order to explain the context for a more detailed account of the social inclusion environment, its main characteristics, key actors and the functioning of the system.

Iceland, being a Nordic society by geography and by means of its deep historical connections to the other Nordic societies, shares some characteristics that can be called commonalities of the Nordic societal landscapes. These can broadly be identified as a strong cultural and political emphasis on values of equality, freedom and solidarity, along with a pragmatic orientation to life, involving a healthy emphasis on work participation, self-help, innovation and enterprising attitudes. These are also rather small populations (4-6 millions), with Iceland of course being the extreme case in that respect, its population being only about 315.000. Still it has all the institutional architecture of a modern society and the capital area, Reykjavik, has most of the institutional features that characterize modern capital cities, despite the modest size.

Each of the main societal values mentioned above has a correlate in the institutional features of the society. The equality emphasis is reflected in a strong welfare state system, with a particularly large role for the state and local authorities and more modest roles for the private sector, particularly the business side of the private sector. The characteristics of the welfare state are universal citizenship rights for all, depending on conditions of residence in the countries (Esping-Andersen 1990; Ólafsson 1999). The universalist characteristics also means that the employment related welfare rights play a more modest role in the North than they generally do in Continental European countries as well as in the USA model and in other Anglo-Saxon countries.

The freedom value has the democratic political system as a main public institutional forum, as well as the welfare state, which also aims at increasing individual freedom by reducing constraining aspects of shortage and poverty on individuals' life chances. The emphasis on participation -in politics, society and in employment- is another corollary of the freedom and equality values, which can be seen as complimentary in some respects.

The solidarity value finds an outlet in various institutions of cooperation and concertation, often through broadly based social organizations, such as labour unions and political parties and other NGOs and voluntary associations. Hence corporatism is a frequently encountered phenomenon, whereby governments let social organizations in on the decision-making process, in the interest of increasing participation and mediation towards more consensual conclusions.

All the Nordic societies are in addition to the above-mentioned values also characterized by a strong work ethic, with an emphasis on general employment participation at modest working hours, and an element of self-help in conjunction with a comprehensive social protection system. The latter is reflected in the activation system (Active Labour Market Policies - ALMPs), which have a longer history in some of these countries than is common in other Western countries. This is also coupled with a pragmatic openness to changes and innovations, which has provided a fertile ground for the knowledge economy in these countries (Castles and Himanen 2002; WE-Forum: World Competitiveness Reports).

While there may be differences between the individual countries in such characteristics as are outlined above, most of the five Nordic countries share such aspects, i.e. Denmark, Finland, Iceland, Norway and Sweden.

Iceland has perhaps been the main deviant from the core Scandinavian models of societal organization, while in many respects also remaining within the family resemblances (Castles 2004). The main deviations of Iceland have to do with a stronger emphasis on individualism and materialism than some of the other Nordic societies and it did lag behind the others in welfare state development during the 1960-1970s, when the Nordic model established its world fame as being the most advanced and egalitarian of such systems. While that societal exceptionalism may have receded in more recent years Iceland has also converged to some extent towards the others in the last two decades, for example in terms of welfare expenditures, mainly due to aging and the maturing of the occupational pension system.

While the Icelandic welfare system was for long a laggard in generosity of benefits and more use of income-testing of benefits it has for a long time been fully on par in extent of health care and public social welfare services with the most advanced of the Scandinavian counterparts (Ólafsson 1996, 1999, 2003). Thus the Icelandic system has been described as having some Anglo-Saxon characteristics in the field of benefits but Scandinavian in the services field. That deviation has been reduced somewhat in the last two decades.

Instead of opting for a unitary public pension fund (providing both universal citizenship rights and occupationally based supplementary pensions) as the Swedes and Norwegians did, Iceland opted in 1969 for a dual pension system. This involved the public social security system (a tax funded pay-as-you go system, generally with flat income-tested benefits) and a labour market based occupational pension system (with funded earnings-related old-age and disability pensions), run by the labour market partners (federations of unions and employers). That system is quite similar to the system the Danes took up later and it has also some commonalities to the Finnish system.

In the labour market Iceland has the general institutional features of the Scandinavian countries, with large encompassing unions (and federations of unions, such as the LO equivalent of ASÍ) and nearly universal federations of employers, as well as a similar legal and institutional framework for collective bargaining and cooperation with governments. Icelanders have for a long time had a decisive deviation in the area of work, with higher employment participation than most other countries and at the same time relatively long weekly working hours, especially for males. That is related to an unusually strong work ethic, strong materialism and favourable macro-economic conditions for job seekers.

Iceland has also had its own peculiarities in the field of political economy, having held on to a strong form of statism longer than many other Western nations and also by diving perhaps too deeply and recklessly into neo-liberalism from the early 1990s, as happened to some of the pre-socialist countries, even though Iceland's background is of course different from theirs (Ólafsson 2011 forthcoming). The neoliberal financial adventure produced an extreme bubble economy in the 2000s, which famously burst with the collapse of the main banks and the Icelandic Krona in 2008.

To some extent Iceland's deviations from the Scandinavian societies can be linked to prevailing politics. Iceland is for example not a social democratic country to the same extent as the Scandinavian countries. In the longer-term the largest and most influential political party in

Iceland has been the Independence Party, which for most of the post-war period was a modest right of centre party that during the 1990s and onwards became a proponent of decisive neo-liberal policies. Still Iceland has had a very strong and influential labour union movement, which has sought some of the same goals as the social democratic movement in the other societies of the North. The labour movement is responsible for Iceland taking up some of the welfare aspects of the Scandinavian model.

Another important feature of the Icelandic societal environment stems from the smallness of the society, and that is a great degree of transparency in the society. In a small-scale society the individual is relatively larger entity than in a large-scale society. That means that the voices of individuals are perhaps more easily heard than in the mass societies. That has the consequence that social problems and issues of concern for the general public may be better heard than elsewhere. This may have produced more responsive governments and better services of common interest rather than special interests of the leading powers. Still many in Iceland are frequently concerned about special interests having too much power and getting their way too easily. The bubble economy period and its collapse produced many reasons for adhering to that view. Still I would argue that the voices of the common public are more easily heard in Iceland than in many other societies and that may have had the effects of governments finding solutions to some of the problems that plague modern societies and that have not been as well solved as in Iceland and the other Nordic societies.

This last point relates importantly to the field of social inclusion and poverty relief. Demands, whether from political sources, labour unions or other social organizations or citizens' groups are sometimes well heard and their proponents often can muster up a great pressure for their consideration. That has sometimes produced successes for members of marginal groups and their issues.

2. Key Players

Now we analyse further the Icelandic social inclusion landscape, by giving an account of the key players.

2.1 Government – Central and Local: Main institutions and public social services providers

Despite some of the above-mentioned deviations of Iceland from the Scandinavian model the state has a major role in the social inclusion environment of Iceland, as in the welfare area in general. Yet that role is on the whole smaller than in the other Nordic societies, as can be seen from figure 1.

The figure shows separately public and voluntary private welfare expenditures as a percentage of GDP. The data is from OECD. Iceland has a similar profile as Switzerland with lower public expenditures than many European countries. In case of Iceland that however excludes mandatory private expenditures related to the occupational pension funds that are paying out a little over 4% of GDP yearly, and gradually rising as rights in that system mature. The total welfare expenditures in Iceland are in the region of 21% of GDP (public, mandatory private and voluntary private together; cf. NOSOSKO 2010). The Icelandic occupational pension funds (OPFs) are though private in a limited sense, in that they are operated by the social organizations of the labour market partners and they are non-profit entities (except that if returns are favourable the fund members should enjoy the extra benefits). In case of Sweden and Norway the

comparable parts of the pension system to the Icelandic OPFs are within the public system. In Denmark the structure is closer to the Icelandic model but the occupational pension funds there are more recent and hence their payouts are still relatively smaller than in the Icelandic case, and the public expenditures there are therefore larger.

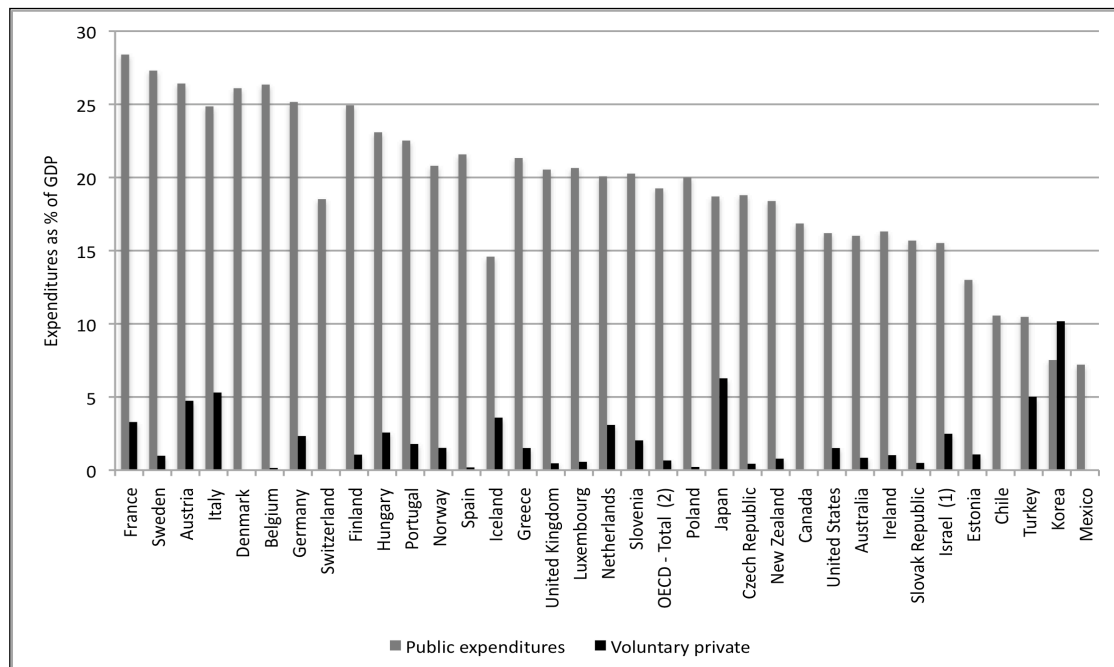


Figure 1: Profile of welfare expenditures in 2007, in OECD-countries: Public and voluntary private expenditures as a % of GDP.

The figure also shows that Icelanders have larger voluntary private expenditures than the other Nordic nations and in fact rather large share compared to the OECD countries as a whole. Only 5 of these countries have a larger share of voluntary private welfare expenditures. Many however have a large share of mandatory private expenditures, such as the USA.

So the existence of the Occupational Pension Funds (OPFs) in Iceland means that the overall role of the government is not as large in the welfare field as in the other Nordic societies. Apart from that the health care system is primarily public in Iceland, as are many other welfare services. The central government runs the hospital services and the sickness insurance system. Dental services are to a large extent privately provided (but subsidized for children and some special patient groups) and some services such as physiotherapy, psychological treatment and rehabilitation services are also privately provided.

Medications are greatly subsidized by the public sickness insurance, even though the share of the patient is generally slightly higher than in the other Nordic countries (Olafsson 2007; NOMOSKO 2005)

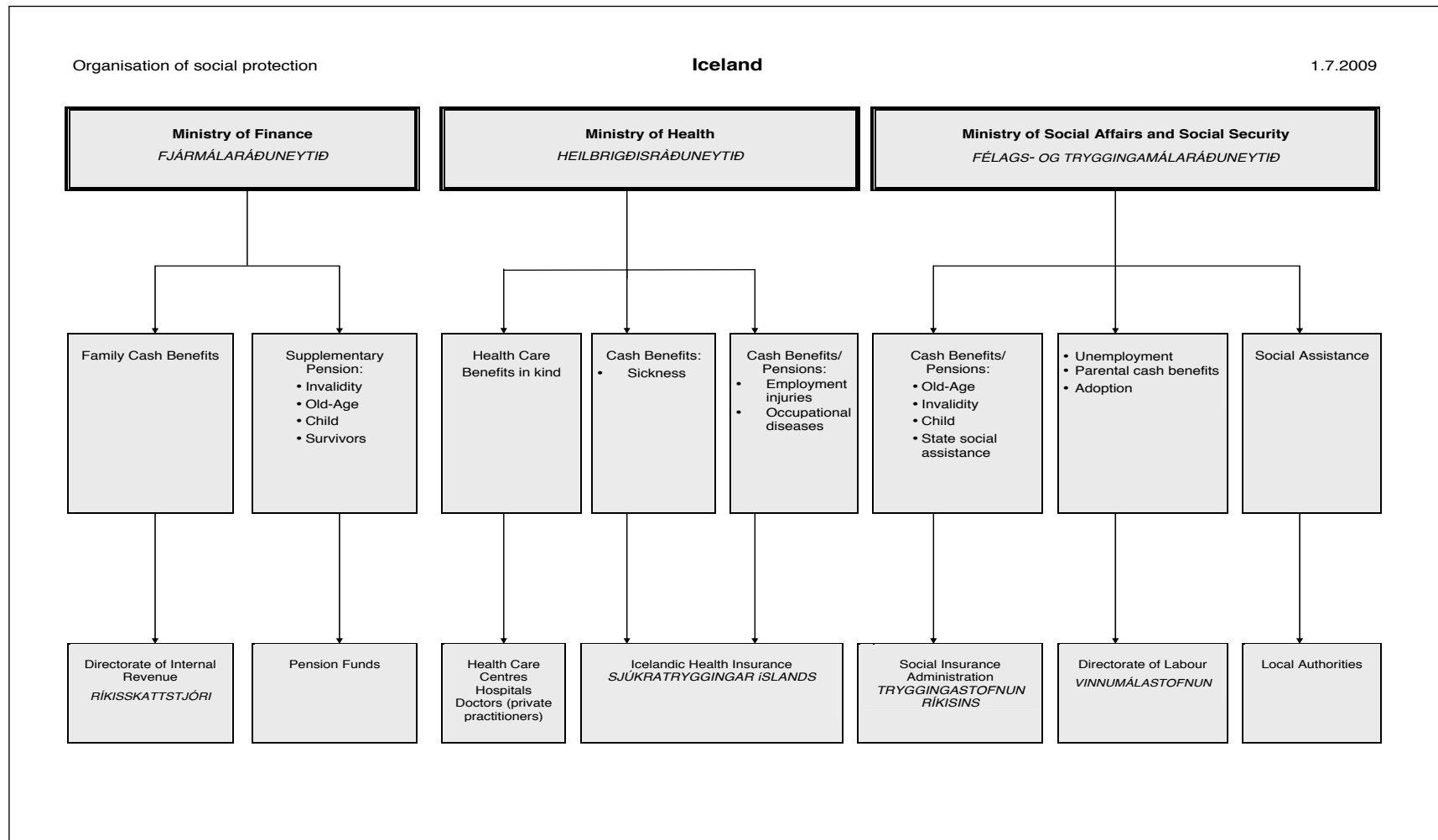


Figure 2: Organization of Social Protection System in Iceland: Main Contours

Figure 2 gives an overview of the organization of the social protection system in Iceland as it was before this year (2011). At that time the administrative responsibility for the welfare system lay in three ministries: Ministry of Social Affairs and Social Security, Ministry of Health and Ministry of Finance. The Ministry of Social Affairs and Social Security operated the public social security system and supervised the local social assistance and social services provided by the local authorities. The main public institutions responsible for operating the social security system were (and still are) the Social Insurance Administration (TR-Tryggingastofnun ríkisins) and the Directorate of Labour (VMST-Vinnumálastofnun).

The Ministry of Health supervised the health care system, including the state hospitals system. The main institution responsible for operations there is the Icelandic Health Insurance (SÍ-Sjúkratryggingar Íslands).

The Ministry of Health also supervised the private provision of specialist doctors, which frequently are paid or subsidized by the public sickness insurance. Some of the specialists working in state hospitals also run their own private practice (Ásgeirsdóttir 2008).

At the beginning of this year the Ministry of Social Affairs and Social Security and the Ministry of Health were joined into a new Ministry of Welfare (www.velferdarraduneyti.is), in order to increase synchronizations and cut costs in the administration of the welfare system (cf. Act no. 121/2010).

Lastly the Ministry of Finance supervises and operates the payment of some benefits that are refunded in relation to the taxation system, the main ones being child benefits and tax rebates on mortgage interest costs for households.

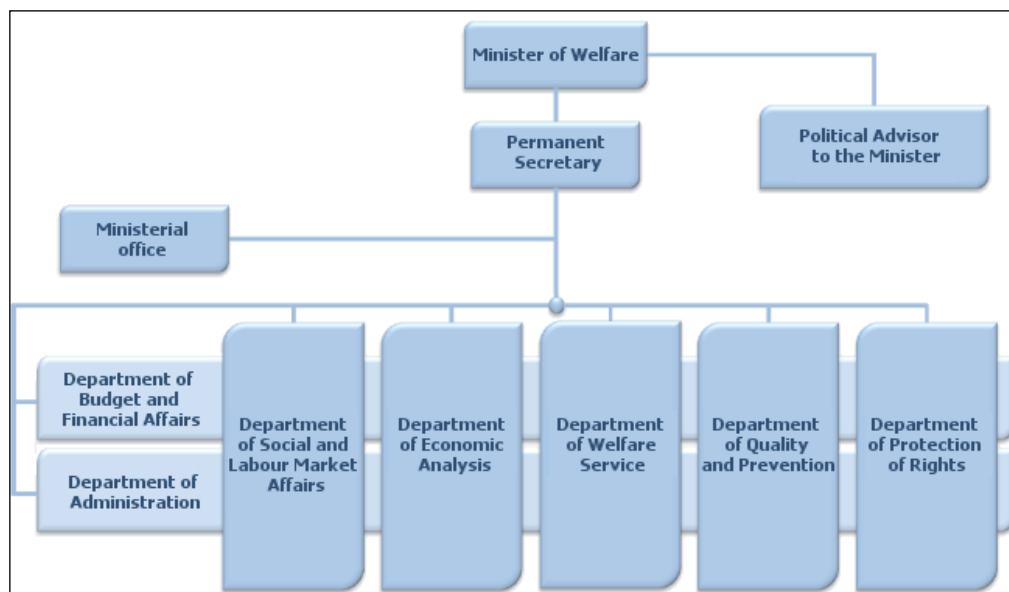


Figure 3: Organizational Chart of the new Ministry of Welfare (from 2011).

The new Ministry of Welfare is organized into five core departments, by substantive topics. Given that the ministry covers the main issues both of the welfare state and the labour market the expenditures of the ministry are very large indeed, amounting to more than a half of the overall public budget.

Amongst the institutions that the Ministry of Welfare is responsible for are the following providers of various welfare services and rights:

- [National Institute for the Blind, Visually Impaired, and Deafblind](#)
- [Debtors' Ombudsman](#)
- [The National Hearing and Speech Institute of Iceland](#)
- [Icelandic Radiation Safety Authority](#)
- [Icelandic Health Insurance](#)
- [The Icelandic Medicines Agency](#)
- [The Directorate of Health](#)
- [Hospitals and Health Care Centres](#)
- [Social Insurance Administration](#)
- [Centre for Gender Equality](#)
- [The State Diagnostic and Counselling Center](#)
- [Government Agency for Child Protection](#)
- [Directorate of Labour](#)
- [Administration of Occupational Safety and Health](#)
- [The State Conciliation and Mediation Officer](#)
- [The Multicultural Centre](#)
- [Housing Financing Fund](#)

Local authorities are responsible for the provision of social services and primary schools, and they have recently been allocated the responsibility of servicing the disabled. Home nursing has been transferred from the central government to the local authorities. Hence there is a gradual transfer of service provisions from the central government to the local governments going on. Still Iceland is different from the other Nordic societies in this respect, since operation and provision of welfare services (such as hospitals etc) is there primarily local (Ministry of Health 20010). The small population of Iceland has traditionally meant that these aspects have been within the confines of the central government, but as indicated above there is a trend of transferring more aspects of the service provisions to local authorities.

Merging of local authorities has been a correlated process, since there were too many municipalities, and many of them too small, hence they did not have the capacity to undertake such tasks.

Local authorities have traditionally been the providers of the ultimate safety net in the Icelandic welfare system, the social assistance scheme. They still do. This scheme is fully means-tested and most frequently provides supplements to other earnings that people have, such as disability pensions and unemployment benefits. Very few old age pensioners receive social assistance in Iceland. Since full insurance rights in the Icelandic welfare system (social security) are dependent on residence in the country immigrants may be subject to only part rights for benefits in cases of disability, retirement or unemployment. In those cases the social assistance scheme is important as a supplementary provider of means of subsistence, of the last resort. Members of very marginal groups, such as alcoholics and drug users and homeless individuals (who are though relatively few in Iceland) are also important users of the social assistance scheme.

2.2 Corporatism and the labour market partners

On the whole we can say that Iceland has very strong and influential labour market partners (Eðvaldsson 2003; Ólafsdóttir 2010). The unions are strong and so are the employers'

organizations and together they make up a formidable power block that can influence governmental decisions and policies, both by external pressures and by cooperative undertakings, within a corporatist framework.

If we look first at the labour movement the strongly notable feature is that Iceland has probably the Western world's highest union density rates, with about 86% of employees being due paying members of some union, as can be seen in figure 4.

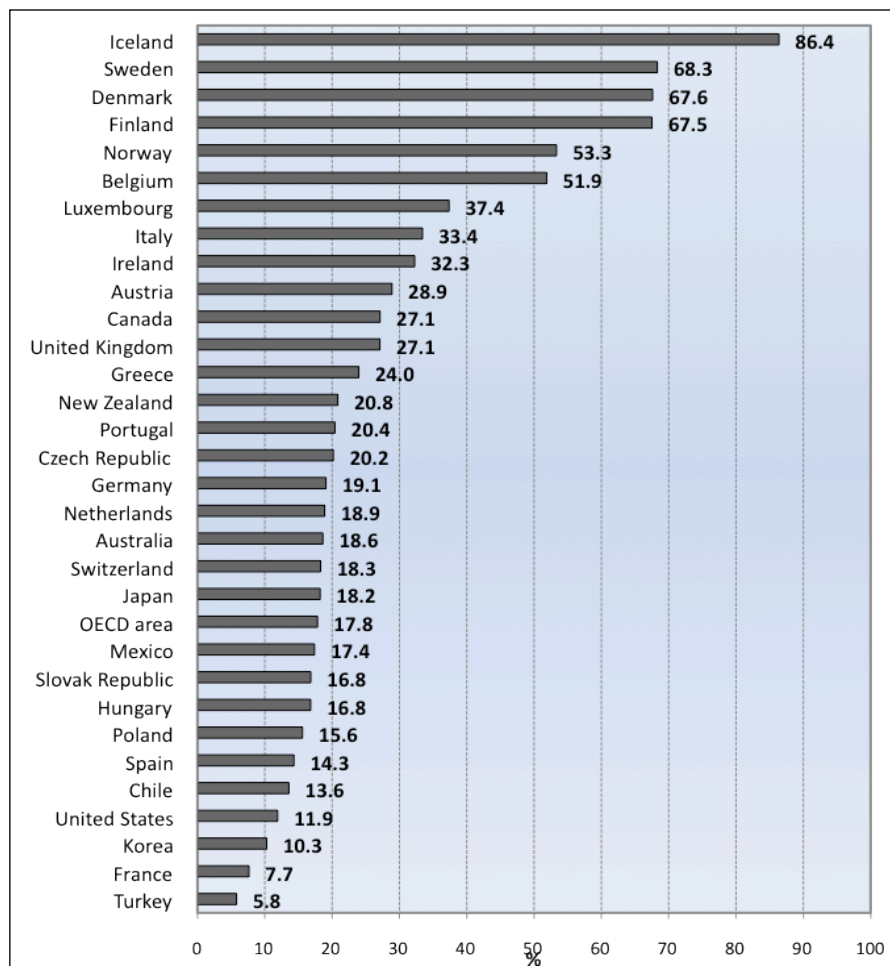


Figure 4: Union density in selected countries around 2008 (Source: OECD).

Iceland tops the list along with the other Nordic nations and Belgium, all with over 50% density rates. Yet Iceland towers above the rest with Sweden, Denmark and Finland being significantly lower. A part of the resurgence of neo-liberal policy ideas from the late 1970s and early 1980s and onwards has been increasing challenges to labour unions and one of the consequences has been a gradual decline in union memberships in many countries. France and the USA are particularly notable as having very low membership rates by now. It should be noted that membership figures are not the only measures of union influences on government or the policy environment. Typically many more than members alone do take wages and other working conditions emanating from union contracts. Thus the contracts are more important than only for the members and the influence on governments can be decisive even though the unions are only representing a third of working people or significantly less (Boeri et.al. 2001).

In figure 5 we show developmental indicators for union membership for the Nordic countries and a few other countries as well as the OECD average, from 1960 to 2008.

The OECD average remained at just over 30% from 1960 to about 1980 and then declined gradually up to the present, ending below the 20% level. So the most common pattern has been a decline in membership rates during the last three decades. This does however not apply to all countries and the Nordic countries are prominent deviants to the trend of the times. There the rates were generally increasing up to about 1980 and slowly declining, particularly from the mid 1990s. Norway is a deviant with a relatively stable situation, coming slowly down from 60% to just below 55% by the end of the period. Iceland is though the main outlier, having moved from the lowest Nordic rates in about 1980 to gaining by far the highest rate after 1995.

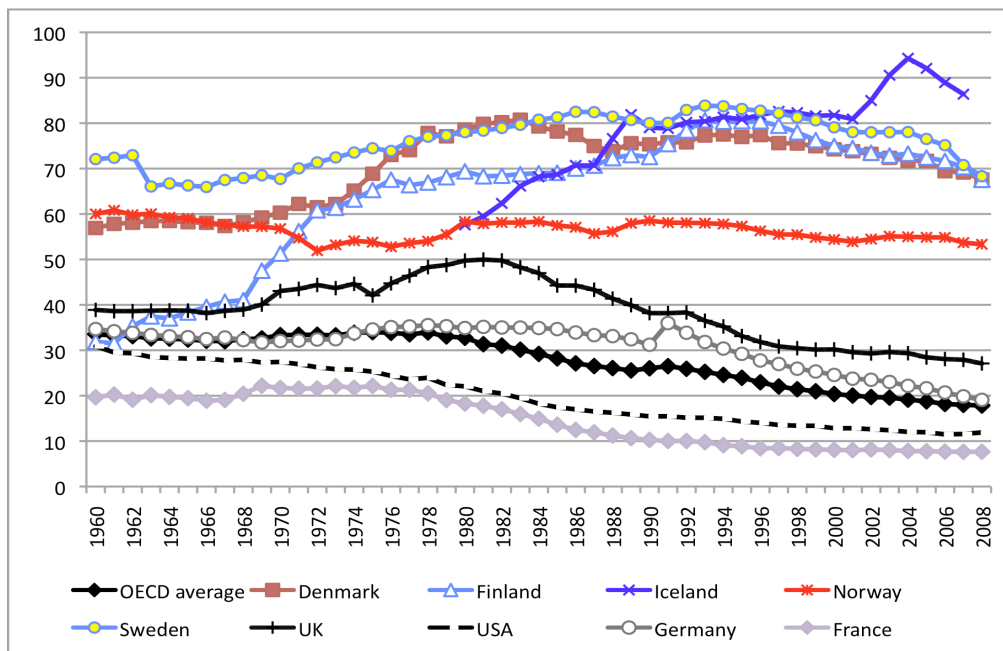


Figure 5: Development of unionization density rates from 1960 to 2008 (Source: OECD).

The main reason for Iceland's high and increasing membership rates is the fact that there is operated a closed-shop arrangement in the Icelandic labour market, based on long-standing agreements between employers and unions, so that when new labour is hired the employers register them in the local union, which in effect has a mandatory right to jobs in its area for its members. Union fees are automatically subtracted from the pay of the respective members, as well as their statutory tax and occupational pension fund dues. With such automatic registrations of membership it is understandable that union density should measure so highly in Iceland. At the same time some members are not in agreement with this procedure and in opinion surveys we typically get significantly lower rates on union membership when people are asked if they are members (Jónsson and Ólafsson 1991; see also section 2.5 below). Some do not even know that they are members.

However this arrangement has helped in maintaining a considerable strength of the labour movement. In addition to high membership figures the labour movement has a highly centralized organization. Despite the fact that bargaining rights remain with individual unions (contracts have to be ratified by members' votes in individual unions) the unions are joined in occupational class or industrial federations, which then form an overarching Federation of Labour (ASÍ), in effect a federation of federations. This body is equivalent to the Scandinavian LOs. These federations generally have a large role in collective bargaining, thus synchronizing rights and conditions as well as pay policies.

The employers are of course much fewer in numbers but they have a very high membership degree and their organizations are also highly centralized in the Federation of Employers (Samtök atvinnulífsins – SA; see www.sa.is). These have industrial sub-federations (the strongest ones being the Federation of Icelandic Industry (SI) and the Federation of Fishing Boat Owners (LÍÚ) and on the side is the Chamber of Commerce, which has been an influential ideological shaper of policies in the last two decades, being a strong promoter of neo-liberal policies and particularly influential during the bubble economy period (2000-2008). They boasted about having gotten 95% of their policy priorities implemented by the governments of that period (cf. Ísland 2015 at www.chamber.is).

With such encompassing and influential federations on both sides of the labour market it is clear that there lies a major source of power in Icelandic society. During the period from 1960 to 1989 there were at times very fierce conflicts in the Icelandic labour market, with great fluctuations in bargained wages, high inflation rates and frequent large scale strikes, which at times were in effect general strikes in the labour market, practically putting the society to a standstill for days and week. Since 1990 the relationship changed, with a new major social pact, aiming to contain inflation, by bargaining to longer terms (3 years at a time, with revision clauses) and raising wages more modestly so as to maximize real earnings power rather than letting inflation get out of hand in wage-price spirals, as during the conflict years. This turned out to be successful, i.e. inflation became much better contained than before and purchasing power of wages increased modestly and more sustainably (Ólafsson 2011 forthcoming).

Bargaining in the labour market generally take the form of tripartite negotiations, at least in the later stages of the bargaining round, with the labour market partners making demands on government to finally close the contracts. These demands often have a strong pressure behind them, given the context of importance for closing the deals and avoiding strikes. Hence the corporatist setting with such strong labour market organizations produces great power, which can shape government policies to a high degree. That has been the pattern in Iceland.

From the 1980s onwards the demands for government input have at times become quite wide ranging, stretching from welfare rights and provisions to taxation policies and organizational changes. Recently the parties joined for example in demanding that the state give up its running of the unemployment insurance fund and hand it over to the labour market partners for operations. In effect this amounts to demand for privatization of that particular part of the public welfare state. Unions want this in order to be able to say with their members that they are providing them with unemployment benefits (in cases of unemployment) as well as activation and support measures, including vocational rehabilitation (Hannessdóttir et.al. 2010). The employers want this for a different reason, namely to contain the level of unemployment benefits, to keep it securely below the minimum wages in the market, and thereby lowering expenditures (i.e. including their own insurance contributions). Both parties claim that they can provide better and more cost effective services than the government. Thus the labour market partners have different reasons for acquiring this part of the welfare state.

When the unions and employers can agree on a goal they thus have a great chance of obtaining their will with the government at the time. Their power is simply such, especially in conjunction with the collective bargaining and periodic revisions events. We would thus maintain that these are the most influential and powerful NGOs in the country. In figure 6 we give an overview of the institutional structure of the labour market, separating what comes from the state and what comes from the “welfare state of the labour market”.

We have already reviewed the institutional structure of the public welfare system, the central and local government features. In figure 6 we further see the labour market features of the welfare system in the overall context. The occupational pension funds (OPFs) are the biggest and most consequential aspect of the welfare system that the labour market partners operate. By now the OPFs have slightly higher expenditures on pensions than the social security system and the share of that system is set to increase slightly each year, as rights mature with time and new pensioners thus have higher pensions than those already within the system. There is a system of income testing in the social security system that reduces the public pension as the private pension (and other earnings) increases.

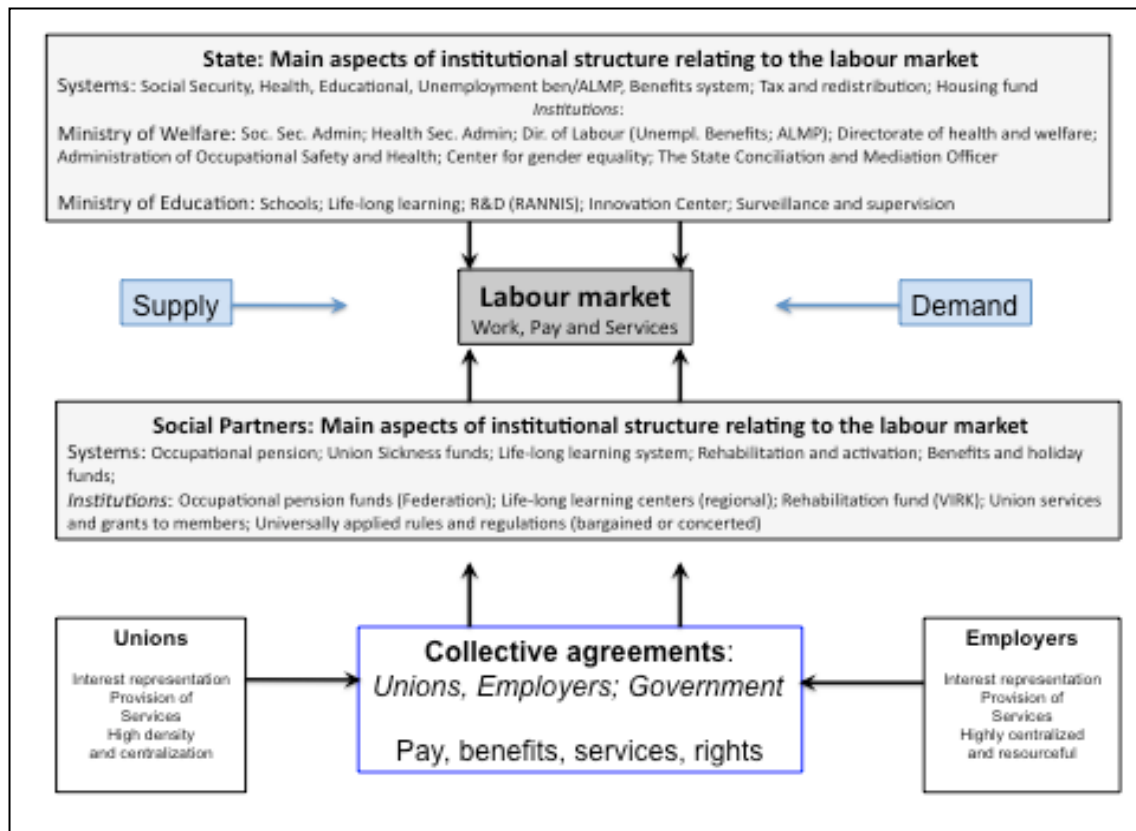


Figure 6: Institutional structure of the labour market in Iceland: Unions, Employers and Government (Source: Adapted from Andersen et.al. 2011).

Unions also have sickness funds (paid out of bargaining agreements) that provide supplementary grants to pay for cost of minor operations, physiotherapy, glasses etc. The labour market partners also run a life-long learning system, providing short-term courses for working people throughout the country. These have been operated from the early 1980 and only in 2005 were the rights standardised for members of different unions. The latest addition to the labour market welfare system is the establishment of a rehabilitation fund in 2008 (VIRK-www.virk.is) for those working individuals that get sick or have accidents that lead to loss of workability. The fund is financed with contributions from employers, government and pension funds and aims to reduce the time period that individuals are inactive and also to reduce the number of people that become permanently inactive and enter the disability registers. A concern for increasing number of disability pensioners during the 1990s and 2000s was one of the main reasons for the effort to set up this fund. It is hoped that expenditures on disability pensions will come down and that individuals are helped to adjust to working life after sickness or accidents through use of the services of the rehabilitation fund.

The stated goal of the labour market partners at present is to take over the unemployment benefits fund and the related activation services that are presently operated by the public Directorate for Labour. Thus the labour market partners are aiming to expand their part of the welfare system at the cost of the public system. This may in the long-term change the character of the Icelandic welfare system away from public provisions to more private sector provisions, thereby moving the system away from the citizen-based universal rights (of the Scandinavian Model) towards employment-based rights (more in line with the Continental Model).

One interesting consequence of the close cooperation between unions and employers in the institutional system of the labour market, especially the OPFs, is to put the partners on both sides of the table, so to speak. The unions are supposed to be demanding rights and benefits for their members in collective bargaining with employers, but as providers of welfare services and benefits at the same time and also as caretakers of the funds used to finance these, they are on many sides of the issue and can easily run into conflicting roles. The same applies to employers. Another consequence is that union leaders as caretakers of the Occupational Pension Funds have to operate as financiers to a significant extent, thus placing them into the same boat as employers in some sense. This places them more into the role of stakeholders in industry and the market in general, particularly the financial market, which can both have positive and negative effects on their role as representatives of the interests of employees. When one also keeps in mind that the funding of the labour market welfare system largely comes out of the pay packet in collective bargaining, it becomes of importance that members have to sacrifice some of the wage gains for such welfare rights, services and benefits. The benefits and services come at the cost of lower wage rises. Thus there are some dilemmas associated to this policy of further building up of the “welfare system of the labour market partners” that may become issues of concerns and conflicts in the future.

The questions of power may also be important in this development in the labour market. On the whole the labour market partners are very powerful in Icelandic society as against governments and thus against the society. They can shape policy-making to a significant extent. But amongst the partners the employers tend to be the more powerful partner, with significantly more resources and closer links to the political right which generally has had significantly more political power than the parties on the left, unlike in Scandinavia. During the period of the bubble economy and high financialization (between about 1998 and 2008) the power of employers and financiers became quite decisive in Iceland and that is by some associated to the ill fated developments that led to the financial collapse and the following economic crisis. Hence the developments in the labour market can have significant societal effects in a more general context.

2.3 The Third Sector – Voluntary organizations and citizens' initiatives

In line in what we argued in the introduction, with reference to general characteristics of the Icelandic societal environment, we should expect a considerable importance of the third sector in Iceland. And that is indeed so. The so-called “self-help” organizations are common, for example in health-related sectors. Thus various groups of disability or sickness-inflicted individuals exist, often directly disease related. These groups provide interest representation as against government or service providers. They also provide educational roles and promote understanding and integration. They are often financed by members' own activities (contributions or collections, such as by means of lotteries etc.). Many such groups get fees from government for services provided. In addition to providing valuable services for the beneficiaries they sometimes provide job opportunities for people with the respective disabilities or sicknesses (cf. www.obi.is).

The most effective and enterprising rehabilitation services for people with alcoholic or drug abuse related problems are run by such a voluntary citizen-based organisation (www.saa.is), that finance their services by fees per patient-day from government in addition to fund raising and collections. Many related charity and social interest groups collect to give specialist equipment or provide facilities, even to public hospitals.

Another important aspect of the NGOs sector is the rescue and emergency services all around Iceland. These are groups of voluntary individuals who generally have built up equipment to use in emergency situations, such as nature-related risk situations (volcanic eruptions; extreme weather conditions) and they feature prominently in searching for lost individuals in the Icelandic highlands or on glaciers. One common way of financing these networks of voluntary rescue teams and their equipment is by selling fireworks for New Years Eve celebrations. The fact that Icelanders are willing to spend a lot of money on fireworks thus helps to finance this very important and effective way of providing security services, that otherwise would be costly for government to maintain on a statutory basis. Public lotteries are also conditioned and subject to licence, which in effect benefits similar "good" social causes.

In a small-scale solidaristic society that is transparent, and where the social fabric is strong, the role of such NGOs tends to be important. This applies to the Nordic nations and contrary to a common belief, the extensive public welfare state does not have the effect of limiting the role of such organization. Research has in fact shown that such third sector organizations are significantly more common in the Nordic countries than in the English-Speaking societies, and in some cases more common than among Continental nations (Kääriäinen and Lehtonen 2006; Rothstein 2003 and 2001). This applies also to Iceland, as we can see in figure 7.

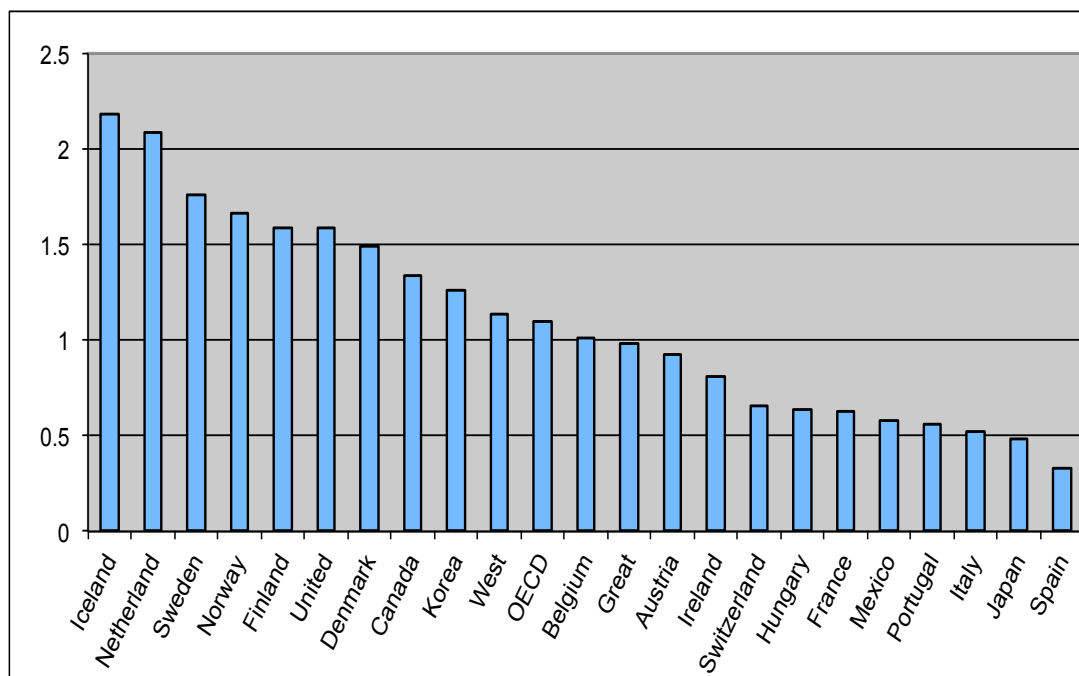


Figure 7: Average number of membership in voluntary social organizations in 2000 (Source: World Values Survey)

The figure shows data on participation in various voluntary social organizations in a number of countries around the year 2000. Respondents were asked about membership in various kinds of organizations. The data in the figure shows the average number of memberships for the total populations. Iceland and Netherlands are at the top with the average inhabitant being a member

on average in just over two such organizations (ranging from religious organizations and unions to sports clubs and health related groups or charities). The other Nordic countries come next after Netherlands and the USA (with high rates of membership in religious groups) is also amongst the higher ones. Southern European societies, along with Japan and Mexico have the lowest rates.

So Iceland seems to have a strong and thriving third sector in the welfare and social inclusion area. In table 1 we probe further into the characteristics of third sector activity in Iceland, relying again on data from the World Values Surveys from around the year 2000.

As in other countries there is a great difference between being a member and contributing some work for the respective organizations. The big majority say they are members of the state church or other religious organizations (71%) and 60% say they are members of unions. Another 19% say they are members of professional organizations. A similar number of respondents register as members of political parties and environmental or animal rights groups. Charities or support organizations have 18% membership amongst individuals 18 years of age and older. Other groups have smaller memberships, except sports clubs that have about a third of the adult population as members.

The proportion of population that does some work for the respective organizations is generally much smaller than the membership ratios. Members of charities do though have the highest work ratio, with about half of the membership taking part in some work for their cause (figures are missing for work on behalf of sport clubs).

Table 1: Participation in voluntary organizations around year 2000

	Membership	Done Work
Charities, support organizations	18	9
Church, religious orgs.	71	5
Culture, arts, educational groups	16	6
Unions	60	3
Political parties	19	3
Human rights organizations	8	1
Environmental, animal rights	19	1
Professional associations	19	3
Sports clubs	34	..

Source: World Values Survey 2000.

On the whole we can thus conclude that the role of the third sector seems to be quite big in Iceland by international standards and it strongly complements a Scandinavian-type of a welfare state, which does however have some deviations from the core Scandinavian models, as we indicated above.

2.4 Academia and Media Roles

One of the characteristics of the Icelandic public administration is relative small size of government ministries and institutes and hence in some cases limited resources to undertake specialized tasks (Kristinsson 1994). This has the consequences that government bodies frequently need to search external expertise and resources to do some specific tasks and while

much goes to consultancy firms and in some cases to foreign organizations some tasks are delegated to academia. In that sense the small-scale environment in Iceland has significant opportunities for academics to contribute to practical tasks that in turn facilitates an empirical and pragmatic orientation in the Icelandic academia.

Looking at the Icelandic academia in a broader perspective one can say that it has strong characteristics of the Anglo-Saxon empirical orientation, which also is strong in the other Nordic nations. German and French traditions of more abstract and theoretical approaches in social sciences are thus not as influential in Iceland. At the same time there is a risk involved in close cooperation between government, interest groups and academia, in the sense that contract research and external funding of research by either government or private interest groups can put academic objectivity at some risk. Thus the Parliamentary Investigation Committee, which investigated the reasons for the collapse of the Icelandic banks, concluded on this issue that the academic community had to some extent failed in providing a sufficiently objective and critical perspective on developments during Iceland's extreme bubble economy period, leading up to the collapse of the financial system in October of 2008 (PIC 2010-Volume 8). Dependence on financing research as well as more direct contract research can thus compromise good academic standards and practices.

Regarding the area of social inclusion and poverty relief the social sciences at the University of Iceland have provided the greatest inputs, from social administration, sociology and political science. Economics has also contributed but the focus there is often on more macro economic aspects of policy-making and research.

Turning to the role of the media one can at the outset say that the Icelandic media also takes some effects of the small size of the population. That means that financing of media by means of sold copies of newspapers or journals, and subscriptions to radio and television media, is generally not sufficient as an economic base for their operations. Hence the media has to rely to a great extent on advertising earnings and this is a prominent feature. Even the state radio and television services (RÚV, www.ruv.is) are part financed by government contributions and partly by advertising earnings and even costing. Still the media are generally economically weak which is reflected in limited labour and specialist resources that restrict their capacity to provide good news services and investigative professional reporting.

Hence the media has to be branded as professionally weak. In addition to that the ownership patterns of some of the main private media fell into the hands of some of the main business/financial groups that became prominent during the bubble economy period. Thus around two of the three main banks there emerged networks of major business interests that also had majority stakes in major media firms. This provided for even more skewed media operations and further inhibited objectivity and professionalism (PIC 2010). This aspect of some of the main media has been heavily criticised both before and after the financial collapse. The main conclusion of that discussion is that the media has failed in its civic role as a mediator of important knowledge and a forum for healthy professional criticism.

On the other hand the media world in Iceland has for a long time had another characteristic that is healthier and provides for more positive effects on the community. That is the great propensity amongst the Icelandic population to use the media for expressing its opinion and interests by writing op-ed articles in the papers. The papers have a tradition of openness for such contributions. This means that ordinary citizens and concerned individuals can have a voice in Iceland. It is generally relatively easy to be heard and if the cause resonates well with the public psyche this road to influence can at times be effective. This is a feature of the relatively great scope for individuals to exert influence in Icelandic society that was referred to in the first section of this report. The Internet has also become an important channel for such contributions and

influences. Icelanders have the world's highest computer ownership and Internet connections rates (www.hagstofa.is) so this is already a very important forum for influences from the grassroots.

Part 2. Functioning of the Social Inclusion Environment

3. Workings of the System

3.1 Overall functioning

To start with we can say that the Icelandic approach to social inclusion has been quite successful over time (see our last report on Iceland's challenges and the EU 2020 goals). That may however have more to do with the general characteristics of the society and culture and the general social inclusion environment than with well worked out and focused public policies.

The success is reflected in generally low poverty levels, high rates of employment participation, high level of equality between the sexes, relatively good housing standard, high rates of political participation (voter turnout) and flexible social arrangements and governance.

To illustrate the argument, one can point specifically to the long-term high rate of employment. That is not specifically due to great government emphasis on activation policies. It has perhaps had more to do with macro economic conditions of high demand for labour from the beginning of the post-war period. Also a positive attitude to work has had a role. So has a culture of consumer materialism that has propelled people to put in great efforts to work volumes in order to be able to afford more consumer goods and more extravagant life styles. For a long time low old age pensions benefits also had the effect of delaying effective retirement ages, which was later reinforced with incentives that rewarded those who retire late (beyond the formal pension age) with higher pensions.

So employment inclusion has many causes and may appear as an effect of constellations of many other policies rather than as a sole consequence of strategically worked out social inclusion policies. We turn to this point again in a latter section when we outline better the roles of public voices in creating pragmatic responses to problems of concern to the general public. This is not to downgrade the importance of social inclusion policies in the present but to draw out the importance of general contexts and indirect effects in creating favourable social inclusion outcomes.

In figure 8 we draw together the key actors and their main roles in creating social inclusion outcomes.

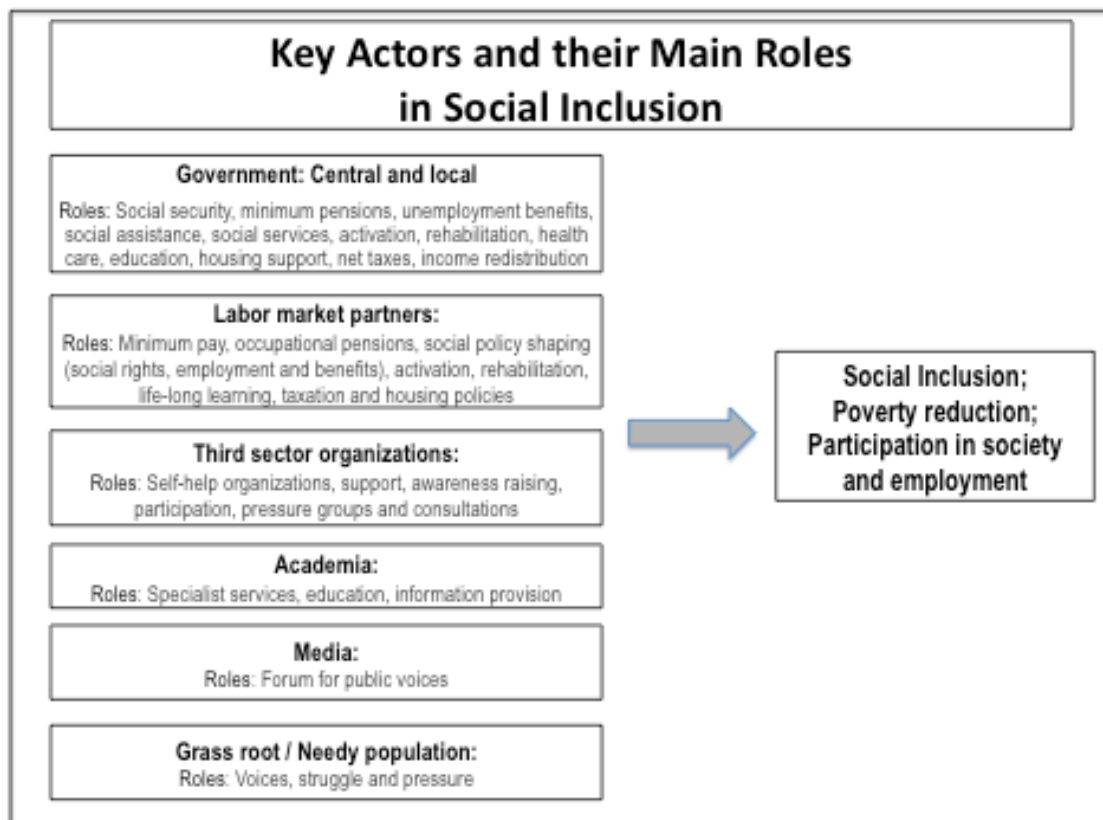


Figure 8: Key actors in social inclusion and their main roles – An Overview

The governmental role is still the largest in this societal area. Even though the Icelandic state does have somewhat more limited role as welfare or social protection provider it is still quite extensive. The main reason is the government provision of the social security system, a large governmental role in health care and long-term care for the old and frail, as well as with the provision of unemployment benefits and services, social assistance and social services, housing support system (loans and subsidies of mortgage costs to families), activation and rehabilitation services. The educational system is to the greatest extent run by public governments (central and local), as in Scandinavia, even though there are significant private provisions, which however are greatly supported by government funding. So the government has a pivotal role in these areas that have great relevance for social inclusion, poverty reductions and societal participation of all citizens.

The labour market partners have the second largest role, mainly due to their running of the Occupational Pension Funds system (OPFs) and by their active use of collective bargaining situations for making demands on governments, thus often shaping policy orientations. The unions in particular like to think of themselves as running a private sector welfare system, with the sickness funds for members, their life-long educational system and the recent addition of a rehabilitation fund for working people that get sick or have accidents leading to loss of workability. While the OPFs are of major significance within the overall welfare system of Iceland these other provisions are in some cases less extensive than they may appear to be. Thus the role of the sickness funds, which are reminiscent of friendly society operations of English labour unions of the 19th century, as providers of supplementary small grants is of a debatable significance. The life-long learning system primarily provides short-term voluntary courses (often 1-2 weeks of duration) that could be strengthened by more active cooperation with the public secondary and tertiary educational systems. The labour market partners seem however set to increase the role

of the labour market welfare system, most recently reflected in their recent strong demands for a take-over of the running of the public unemployment benefits fund and the activation services of the public Directorate of Labour.

Collective bargaining for pay and working conditions is of course of major importance for combatting poverty and facilitating inclusion in work and society. Minimum pay is there in a pivotal role. That is however rather low in Iceland by Scandinavian standards, but less so by Continental and USA standards. That means that in-work poverty is somewhat higher in Iceland than in the other Nordic societies and closer to the EU average than applies to other poverty rates, such as for the elderly and single parents (Ólafsson 2010). The unions could thus do better in that area.

3.2 Inputs from beneficiaries and mainstream society

The third sector of voluntary non-governmental organizations (NGOs) is also of great importance in Iceland. Participation in such organizations is quite common and their flora is great and varied. Often the government has strengthened their base by providing fees for services rendered by them, but also by supporting their financing with special provisions such as through lotteries and other fundraising activities. The “self-help” aspect of third sector groups is also very important, especially in fields of health and disabilities. Generally the self-help organizations and other voluntary groups play their effects through information mediation, by providing support in their chosen area of concern, raising awareness about needs and conditions of the needy. They are generally accepted in the society and thus both function as pressure groups and active consultants working with governments and other formal actors.

Academia has the important role of providing specialist services and information, in addition to the educational function. Research and applications are frequently done for societal actors or interest groups, and governments, and that can limit the academic freedom aspect of the academic world. In the small-scale society the voices of academics are often easily heard.

Lastly the role of the media is less that of an independent provider of information gathering and investigative journalism, but more so as a provider of forums for the general public, third sector organizations, pressure groups and politicians to air views and demands. The media is rather widely used by the common public, in addition to the groups of the usual opinion-makers. Perhaps a more common participation of the general enlightened public is a stronger aspect of Icelandic society than of many other societies, especially the mass societies. The media is an important outlet for that activity, even though it is generally weak as regards professionalism.

3.3 Exit or Voice?

It is useful in this context to refer to the classic formulation of Albert O. Hirschman about the public's reactions to societal conditions (originally stemming from reactions of consumers), in his classic book *Exit, Voice and Loyalty*, from 1970. Whether we look at the shopping world of consumers, the working worlds of firms and institutions or the life-world of societies, this framework of Hirschman's is useful to analyse responses and workings. Thus for example when levels of living go down or lag behind comparative societies citizens generally have the two main options of making an exit, leaving for greener grounds elsewhere, or exerting their voice (creating pressure or making demands for improvements). They can communicate their grievance and complaints and make suggestions for change and improvements. Loyalty may also enter the situation, such as when for example patriotism or deep-rooted social relations affect the propensity to exit the boat.

One of the characteristics of long-term developments in Iceland is a relatively high degree of fluctuations in economic growth and living standards. Setbacks have generally been short lived but still consequential. Even though the Icelanders have for decades had the options of exiting to the other Nordic nations, or even other Western nations, in the face of such setbacks in their living standards the big majority has generally stayed through the crisis and reacted to it, often by raising their voices, either individually or through institutionalized interest groups (NGOs or unions). Let us look at the extent and characteristics of external migration from Iceland from 1960 to the present (2010), by examining the data in figure 9, which shows the correlation between economic growth rates and net migration to/from Iceland.

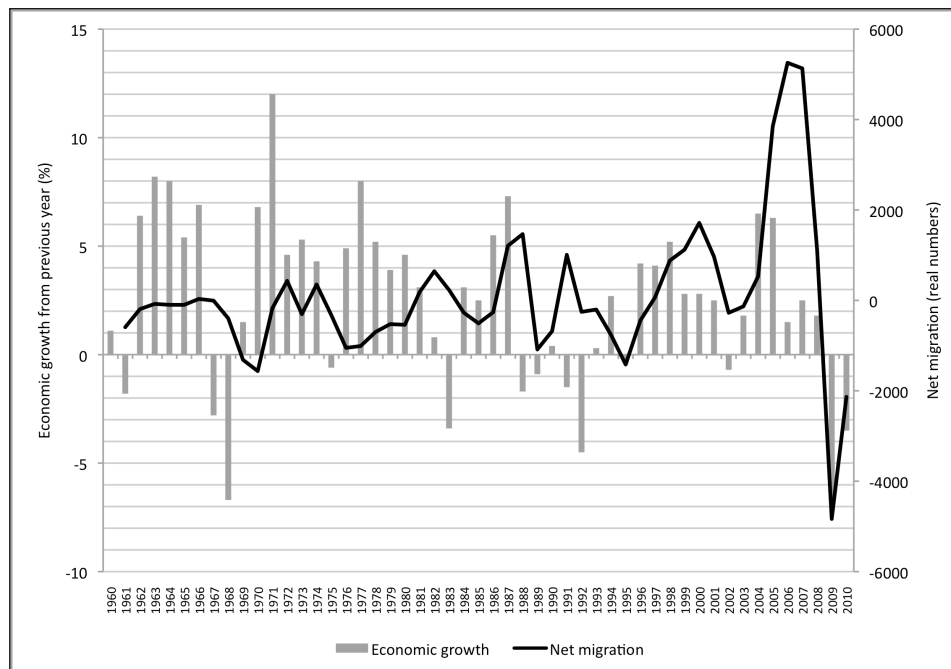


Figure 9: Relationship between economic growth and net migration ($r=0.20$).

In general the figure shows a correlation ($r=0.20$) between growth rates and net migration, such that when Iceland has experienced significant setbacks in growth and living standards, even if for a short time period, there has typically followed a net loss of population to the neighbouring countries, but not in any extensive proportions. We see also in particular how the present crisis with extensive declines in GDP and real purchasing power in 2009 and 2010 is associated to the biggest net loss of population, mainly to Norway and Poland. Thus there is this element of exit in the societal environment. However even in the present crisis, which is an extreme one, the net loss is still below 2% of population and a sizable part of that is foreign single labourers who came in during the height of the bubble economy. Thus only about a fifth of the net immigration from 2004 to 2008 has left again. So the net loss is only a small proportion of those suffering from the crisis. Other studies have shown that in the region of 15% of households are facing very severe debt problems and many more are in difficulties or feeling strain. The unemployment rate has hovered in the region of 6.5-9% through the crisis. So the big majority of those affected stays and fights through, and that is typical of previous recessions. The next figure shows the role of foreign nationals and Icelandic nationals in the net migration experience.

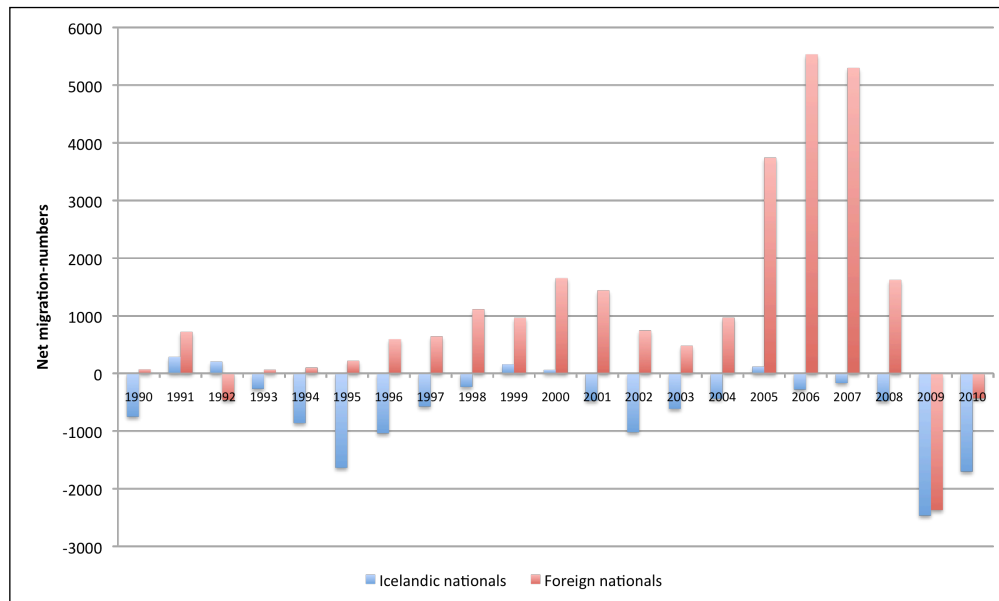


Figure 10: Net migration in Iceland: Icelandic and foreign nationals, 1960-2010.

We see from this figure that the loss during the present crisis is about 4000 Icelandic nationals and less than 3000 foreigners. The overall loss is relatively little in relation to the large net influx in 2005-2008. So we can safely conclude, that only a very small minority takes the exit option, even of those seriously affected.

Those who on the other hand exert the voice option are the great majority. And that has been an important feature of the societal environment in Iceland. In fact we would argue that there are particularly good conditions for exerting individuals' voices, through the interest group and NGOs channels, and through unions and political parties. The small scale of Icelandic society, the openness and informality of social relations and generally good conditions (in media and personal relationships) for individuals' and interest groups' voices to be heard, particularly when matters are of common concern and touch issues of equity and fairness, as well as compassions. This means that governments, of differing partisanship (both to the right or left, even though the left have had a greater propensity to give in to demands from the lower income groups and unions). Thus this situation increases the possibility that serious level of living conditions of the general public, and particularly of needy groups, are heard and acted upon to some extent. This makes for a pragmatic and equitable social inclusion environment, which increases the likelihood of problems of hardship being tackled by governments. We believe that this is one of a few factors that explain the generally good outcome of Iceland in the area of social inclusion and poverty reduction. Thus the Icelandic society is quite amenable to a high degree of social capital that provides a fertile ground for pragmatic and positive solutions.

During the present crisis, when government finances were devastated at the outset, the government pledged to honour the goals of the Nordic welfare state and shelter households from the most serious consequences of the crisis, especially by sheltering lower and middle income households from tax increases and by increasing the minimum pensions and minimum pay, even by raising the unemployment benefit along with large increases in child benefits and interest rebates on mortgage interest payments. This was achieved by raising taxes on higher income groups, the groups with the largest net wealth and by reducing pensions of middle and higher earning pensioners. Interest groups for home-owners have throughout the crisis continued to press for more debt relief measure from the financially restrained government. This has been successful in the sense that many measures have been introduced, gradually until the beginning of this year. While the home owners organizations are still greatly dissatisfied the increased

support is decisive and is reflected in the fact that those in serious financial hardship in Iceland are fewer now than the average for the European Union (cf. Eurostat statistics on level of living, especially on difficulties to make ends meet and on arrears of mortgages and other loans).

Another way of showing the relatively good conditions for exerting voice in the Icelandic environment is election participation rates. These are shown in figure 11.

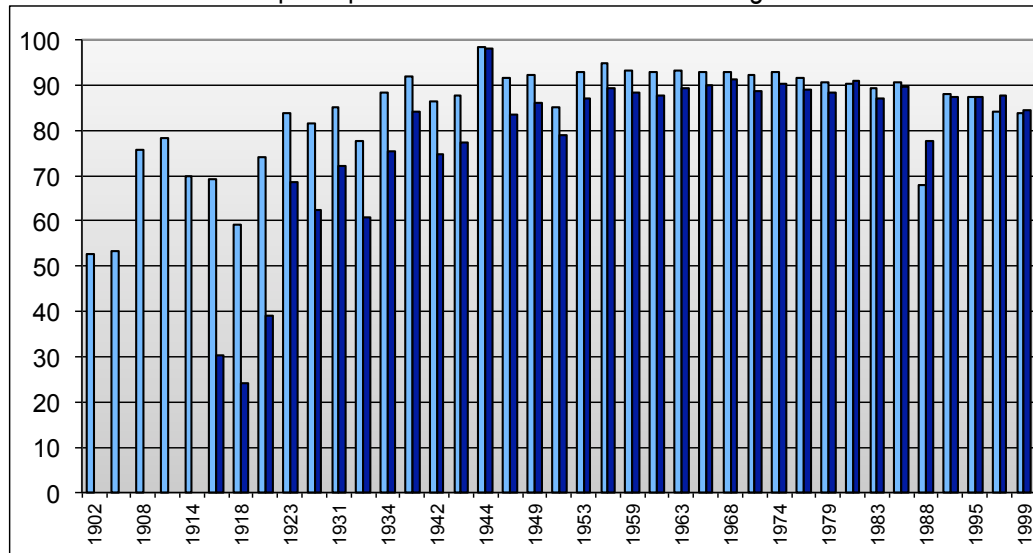


Figure 11: Electoral participation in parliamentary elections in Iceland, 1902-2000. Males (light columns) and females (darker columns). Source: Statistics Iceland.

As the figure shows electoral participation has generally been in the region of 85-90% in the post-war period for both sexes. While they have come down a little in recent decades the rates are still very high by international standards. We would take that as another indication of the extent to which Icelandic society and Icelandic governments are perhaps more responsive to demands from the general public than some other modern nations. This can explain that the extent of the Icelandic welfare system, and the provisions countering social exclusion and poverty, are more advanced than can be explained by political emphasis from strong social democracy, as applies largely in the Scandinavian countries. In the Icelandic case strong labour unions also have an important explanatory role in this area.

3.4 Further indicators of social exclusion and isolation

While Icelandic authorities can be accused of not putting in sufficient effort in assessing or evaluating outcomes of various policy measures (cf. Andersen et.al. 2011), the social inclusion indicators of the European Union and statistics from OECD, as well as results from various international surveys and studies, indicate generally a relatively good outcome for Iceland in that area, as noted above. In figures 12-14 we present further indicators of a relatively favourable environment of social inclusion, different from the usual Laeken indicators of monetary related well-being (all these data come from Eurostat and were collected in a survey in 2006 - cf. http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Social_participation_statistics).

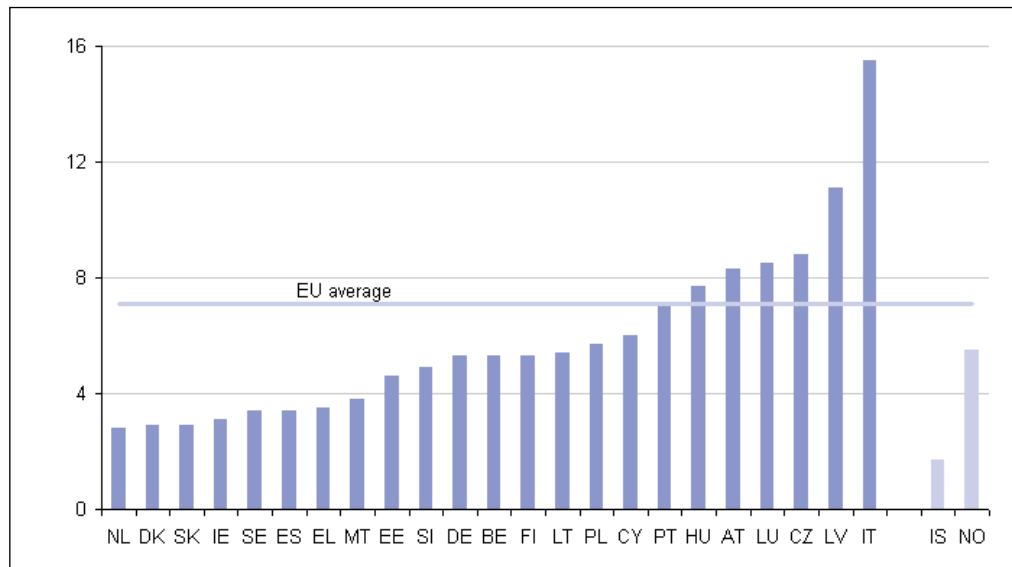


Figure 12: Experienced isolation: % not able to ask any relative, friend or neighbour for help, in 2006.

Here we see from a survey amongst the general public that feelings of isolation are quite uncommon in the Icelandic society, compared to other European societies. Iceland indeed has the lowest rate, even lower than the other Nordic nations and Holland.

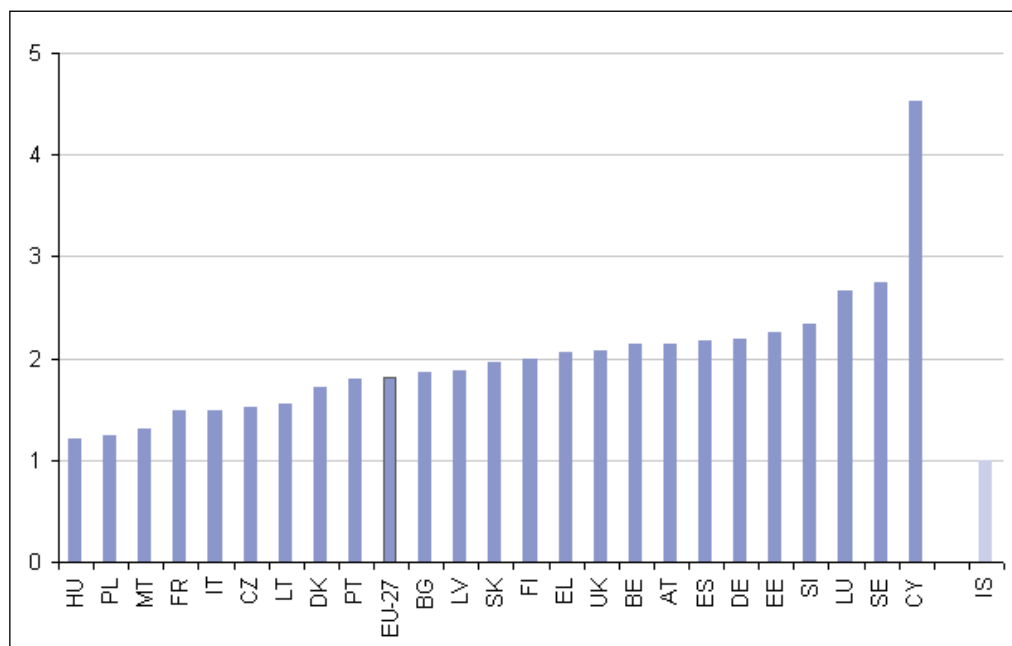


Figure 13: Isolation of those under the 60% poverty line, 2006. Proportion with "no friends".

Figure 13 shows indicators of feelings of isolation amongst people under the 60% poverty line and again Iceland has the lowest rate, significantly lower than the other Nordic nations. It appears also from this figure that it seems to be difficult to be poor in some of the most affluent nations, raising issues of relative deprivation, which may increase the negative consequences of poverty in those conditions.

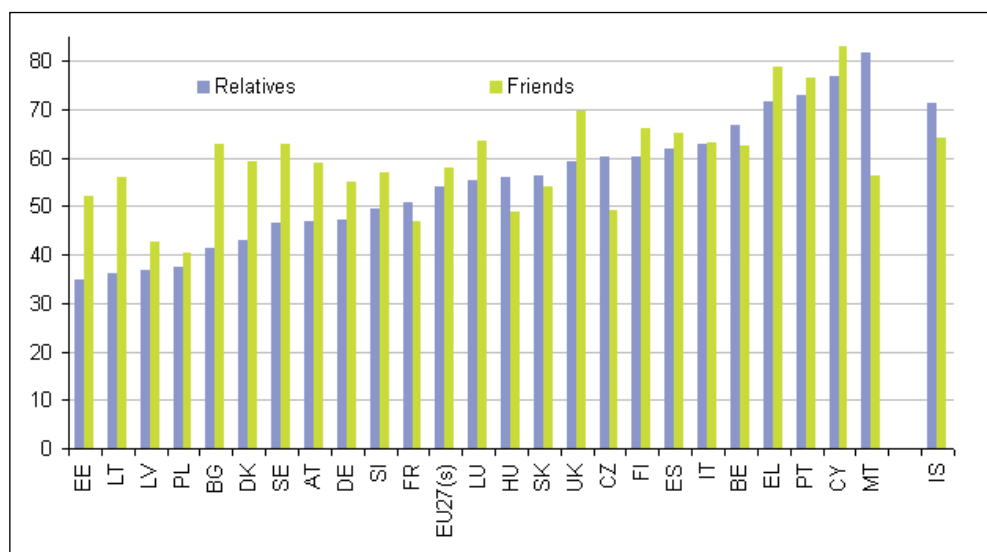


Figure 14: Frequency of getting together with friends or relatives. % seeing friends/relatives at least once a week, 2006.

The last figure is also interesting since it shows that Icelanders are somewhat deviant in the community of the more economically advanced societies in relying on social relationships to a greater extent with relatives. They are also high in having extensive relationships with friends but the ratio for relatives is even higher. While this is of course not unique it is more common that the relationships with friends are higher. So the social fabric of family society is still strong in Iceland, even though it has no doubt declined somewhat in recent decades while the role of friends has increased.

On the whole the Icelandic society thus shows favourable outcomes from its social inclusion environment, both as regards relatively little monetary poverty and rich environment of social relations. Other studies of various well-being indicators also generally put Iceland in the group of the societies that seem to have a higher degree of well-being, such as the other Nordic societies and some of the more successful societies on the European Continent, such as Netherlands, Swiss, Luxembourg and Austria (see further the comparison on our web site "International Data Bank on Well-being of 29 Modern Nations", at <http://www.ts.hi.is/gagnagrunnur/>).

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