‘All’s well in Iceland?’ Austerity measures, labour market initiatives, and health and well-being of children

Geir Gunnlaugsson
MD, PhD, MPH, Professor of Global Health, Faculty of Social and Human Sciences, School of Social Sciences, University of Iceland.
geirgunnlaugsson@hi.is

Jónína Einarsdóttir
PhD, Professor of Anthropology, Faculty of Social and Human Sciences, School of Social Sciences, University of Iceland.

ABSTRACT
Governmental policies during an economic recession may protect the welfare system or undermine it. In this paper we address the economic crisis in Iceland following the collapse of its three major banks in October 2008. We aim to outline governmental response to the ensuing economic recession with focus on vulnerable groups in times of austerity, in particular the unemployed and children, and use indicators on child health and well-being to gauge policy impact. For the analysis, we use published research, governmental documents, and other relevant material. The post-crisis government faced a huge budget deficit while aiming to keep the social security system in place intact. There is evidence that it was rather successful in doing so, for example through redistribution of tax revenues and labour market initiatives. Despite the crisis, there are indications that the health and well-being of children has not been negatively impacted and has even improved in some aspects, judging by commonly used child health indicators. Concerns about long-term consequences prevail.

Keywords
Economic recession, policy, unemployment, family characteristics, child welfare
INTRODUCTION

After a period of perceived economic boom, with Iceland on top of the Human Development Index 2007 (UNDP, 2007), the collapse of the three major banks in early October 2008 came as a shock to the population. It was followed by widespread popular protests, including beating of kitchen utensils (“pots and pans revolution”), that eventually led to the resignation of the government (Bernburg, 2014). The collapsed banks accounted for more than 90% of the national banking system, and the combined bank insolvency ranks as one of the largest in the history of world banking (Benediktsdottir, Danielsson, & Zoega, 2011). Evidently the Icelandic population of about 320,000 inhabitants were going through turbulent and socioeconomically difficult times, characterized by subjective feelings of deprivation and emotional stress (Ragnarsdóttir, Bernburg, & Ólafsdóttir, 2013).

THEORETICAL CONSIDERATIONS

Population health and well-being is influenced by a myriad of socio-economic determinants (Marmot, Friel, Bell, Houweling, & Taylor, 2008), conveniently divided into upstream, midstream, and downstream factors (Turell, Oldenburg, McGuffog, & Dent, 1999). Upstream factors include global forces and decisions taken by governments, for example on the economy, health and welfare issues, and these influence determinants of health such as education, employment, occupation and income. In turn, these have impact in settings where people live and work (midstream factors), for example on health behaviour, psychosocial well-being and the health services. Finally, policy outcome can be judged by evaluation of classical downstream factors, such as morbidity, mortality, longevity, and quality of life.

The paper is conceptualized on the above theoretical framework of social determinants of health (Turell et al., 1999). On the basis of selected indicators on health outcome and labour market policies, we aim to evaluate how well the Icelandic welfare system, gradually built up in the 20th century (Jonsson, 2001), responded to an economic crisis of historic proportion (Ólafsdóttir & Olafsson, 2014). We sum up the background to the bank collapse in Iceland, characterised by neoliberal politics. Then we describe and discuss governmental welfare policies and labour market measures that aimed to mitigate some of the negative consequences of the crisis on the most vulnerable groups of the population. Finally, we explore and discuss the health and well-being of children, as they are among those most vulnerable in times of economic austerity measures (Harper, Jones, McKay, & Espey, 2009; Rajmil et al., 2014; UNICEF Office of Research, 2014; Spencer, Rajmil, Taylor-Robinson, Panayotopoulos, & on behalf of ISSOP, 2015).

METHODOLOGY

The article builds on published research, governmental documents, and other available statistics and material relevant for the analysis. Specifically, to evaluate the impact of the bank collapse on child and adolescent health and well-being, based on commonly defined child health indicators (Rigby, Köhler, Blair, & Metchler, 2003; Simpson, Wicken, Adams, Reddington, & Duncanson, 2014; Institut de la santé et de la recherche médicale
data from national databases that monitor healthcare delivery and outcome (e.g., Directorate of Health and Statistics Iceland), and nationwide survey data on child and adolescent health and well-being (e.g., Icelandic Centre for Social Research and Analysis) were analysed (see Gunnlaugsson, 2016a).

NEOLIBERAL ECONOMICS

After a period of rapidly evolving ‘credit boom’ that included loans to households for houses and cars (Ólafsson & Vignisdóttir, 2012), the festive mood was over on October 6, 2008. In the ‘God Bless Iceland’ TV address to the nation, the Prime Minister indicated for the first time that Iceland was on the brink of a national bankruptcy (Loftsdóttir, 2014). The stunned population was about to experience a severe hang-over after the “economic miracle” of neoliberal ideology that aimed to make Iceland a world-class financial centre (Ólafsson, 2013), in the spirit of the now (in)famous paraphrase of the era “profit day-time, barbeque evening-time.” This national experiment resulted in the hitherto most costly rescue operation of the Internationally Monetary Fund (IMF) in relation to national Gross Domestic Product (GDP) (Ólafsson, 2013).

During the neoliberal experiment, initiated in 1995 by a centre-right coalition government, inequality as measured by Gini coefficient increased from 21 in 1993 to 43 in the year 2008, taking all disposable income into account (Figure 1) (S. Ólafsson, 2012c), undermining the popular myth of the classlessness of Iceland (Oddsson, 2016). Excluding capital income, the coefficient increased from 19 to 27 for the same period. Increased inequality is also evidenced by the fact that in 1993 the wealthiest 1% had about 5% of the total income, in 2007 about 20% (Ólafsson & Kristjánsson, 2012). In the same period, the tax burden of the wealthiest 1% decreased from 35% to 13% of their total income.

Figure 1: Development of the Gini coefficient in the years 1993-2014.*

*Based on data from Ólafsson S (University of Iceland), and Statistics Iceland.
In the aftermath of the bank collapse, the task facing the state, its institutions, and the population at large was huge and daunting. The GDP fell by more than 10% from its level in 2008 (Central Bank of Iceland, 2014). Currently, the national GDP has gradually recovered to be on par with pre-crisis level; in 2013 the GDP increased by 3.8% and 1.8% in 2014 (Statistics Iceland, 2015b). This recovery has been facilitated by rapidly expanding tourism; in 2015 there were about four tourists per inhabitant.1

GOVERNMENTAL RESPONSE
After the economic meltdown, followed by popular protests (see Bernburg, 2016), a new left-wing coalition government came into power in February 2009 under the self-proclaimed banner ‘Nordic Welfare Government.’ It pledged to pursue egalitarian welfare policies that included tax and benefit policies, debt relief for indebted households, and policies to keep people employed and active as far as possible (Ólafsson, 2012b). Its over-all aim was to protect the welfare and social security system (Karanikolos et al., 2013; United Nations Human Rights. Office of the High Commissioner for Human Rights, 2015). It includes, for example, health and education services that are mainly publicly funded and free of charge, and family benefits including paid parental leave on top of other general measures, benefits and services, and targeted support to vulnerable groups (Eydal & Gíslason, 2014a). In the aftermath of the collapse there was a need to shelter lower- and middle-income households against the negative impact of the crisis with redistribution, through taxes and the social protection system, labour market initiatives, and debt relief measures (Ólafsson, 2012a). Yet, the prospects for the government were dim facing large deficit in the state budget as well as high debts across all sectors of society, and severely eroded trust amongst the public as well as long-time international political and trading partners (Ólafsson, 2012b; Ólafsdóttir & Ólafsson, 2014). Assisted by IMF, the government cut public spending, including that of social and welfare services; in relation to national GDP, the budget deficit was 12.5% in 2008 compared to 1.8% in 2013 (Statistics Iceland, n.d.). While the government was internationally recognized to have managed the crisis better than many other countries, it was ousted in a general election in April 2013 (United Nations Human Rights. Office of the High Commissioner for Human Rights, 2015). A centre-right coalition government took power, but were forced to call an early election to be held in October 2016 after popular protests following the publication of the Panama Documents in April 2016 and lost support in opinion polls.

The Welfare Watch
One of governmental initiatives was the Welfare Watch (Velferðarvaktin), established in February 2009 (Welfare Watch, 2010; Velferðarráðuneytið, 2013). It is a large multi-disciplinary platform with stakeholders from diverse sectors of society including representatives from non-governmental organisations, the labour market, municipalities, institutions and government ministries. The Welfare Watch was to monitor social and economic impact of the col-

lapse on the population, evaluate actions that were taken, and present ideas to policy makers for further actions. It was supported by several task forces on key themes of concern, for example, children and young people, employment, disability pensioners, and the situation of immigrants. The government was continuously informed about the work of Welfare Watch, and the body gave advice to the parliament (Welfare Watch, 2010).

In response to one of the first proposals of the Welfare Watch, the government established in March 2009 a multidisciplinary task force of specialists to identify and define key social indicators to regularly monitor the socio-economic situation in the country to guide policy. The first version of national social indicators was published in 2012, and its 4th version in 2015 (Statistics Iceland, 2015a).

The Welfare Watch presented its final activity report in December 2013, after the new centre-right coalition government was voted to power earlier in the year. It included ten proposals for continued work with special focus on the welfare and well-being of poor households with children, those on social security, and the elderly (Velferðarráðuneytið, 2013). The Welfare Watch was reorganized in 2014 with 34 appointed members who mirror the multidisciplinary background of the predecessors, and it has published the first report on poverty in Iceland (Velferðarráðuneytið, 2015).

**Labour market measures**

The booming pre-crisis construction industry (Aliber & Zoega, 2011) experienced sudden meltdown following the bank collapse, widely evident in the landscape of Reykjavík capital area (Sverrisdóttir & Pálsson, 2012). The unemployment rate in Iceland reached historically high levels, or about 8% on average at its peak, while at the same time mostly being below the EU average rates (Ólafsson, 2012b; Central Bank of Iceland, 2014); in some regions of the country the unemployment rate was up to 12-14% and in some minority population groups the rate was even higher. High unemployment rates were somewhat alleviated by emigration of skilled workers, in particular to Norway, while some migrant workers returned to their countries of origin.

The bank collapse led to widespread cuts in costs across the Icelandic labour market and lost employment opportunities, including the bank and public sectors. A recent study indicates that those who kept their jobs within the bank sector reported lower well-being and worse health as compared to those who lost their jobs (Snorradóttir, Tómasson, Vilhjálmsdóttir, & Rafnsdóttir, 2015). Further, female bank employees experienced no less psychological distress than males in the lay-off process in an organization mostly occupied by women but traditionally managed by men (Snorradóttir, Rafnsdóttir, Tómasson, & Vilhjálmsdóttir, 2013). Similarly, no gender differences were found among employees of downsized municipality workplaces within the educational system and the care services (Sigursteinsdóttir & Rafnsdóttir, 2015). Yet, increased sickness and sickness absence was more likely among younger employees than older ones, and this held for both downsized and non-downsized workplaces.

To counteract known negative consequences of unemployment on health and well-being, and to avoid long-term unemployment on social benefit, in 2009/2010 the government in collaboration with the Directorate of Labour targeted specific groups of the workforce. Initially, the needs of unemployed young people were addressed in the program *Ungt fólk til athafna* [Eng. Young People to Action] and later adults in the programme *POR* –
The overall aim of ÞOR was to keep people active while unemployed, and the program involved, for example, collaboration with schools, sport clubs and NGOs in a spirit that inactivity of those unemployed was not taken as an option. Later, in 2011, unemployed workers were encouraged to attend schools to improve their qualifications in the labour market, in particular with vocational training within the program Nám er vinnandi vegur [Eng. Education is a Working Road]. While in school they kept their unemployment benefits for one semester, followed with support to receive study loans to enable them to continue their studies. This initiative attracted the younger groups of those unemployed, as about 3/5 of those who enjoyed this option were less than 30 years of age. Later followed collaborative efforts by the government, municipalities, and the private sector to create almost 1500 new job opportunities for unemployed in the program Vinnandi vegur [Eng. Working Road]. The final initiative was Liðsstyrkur [Eng. Support] in 2013, which was aimed at the long-term unemployed and those who had fully used their legal rights to receive benefits, initially after four years of unemployment but changed to three years in effect from January 2013.

Despite the deep recession, data collected in 2007 and 2009 indicate that the happiness of the adult population was only minimally affected by the economic crisis, and most negatively for those financially worst off (Gudmundsdottir, 2011). Yet, being unemployed decreased the happiness score in both years while they score at a level similar to the European average. Further, there are no signs of a significant change in suicide rates after the bank collapse (Directorate of Health, 2016). As one sign of economic recovery, in April 2016, the seasonally corrected unemployment rate was 3.7% (Statistics Iceland, 2016), with 2.5% of the workforce registered as unemployed (Vinnumálastofnun, 2016).

THE HEALTH AND WELL-BEING OF CHILDREN

In times of crisis children are among those most at risk to suffer the negative consequences (Harper, Jones, McKay, & Espey, 2009; Rajmil et al., 2014; Spencer, Rajmil, Taylor-Robinson, Panayotopoulos, on behalf of ISSOP, 2015; Gunnlaugsson, 2016b). To evaluate the impact of the economic crisis, we analysed indicators commonly used to monitor child health and well-being as well as indicators that give evidence of impact in settings were family members live and work (Institut de la santé et de la recherche médicale [INSERM], 2013; Rigby et al., 2003; Simpson et al., 2014). In Iceland, despite less governmental spending on healthcare services in relation to GDP, and increased out-of-pocket payments for patients, preventive services for pregnant women, and preventive and curative services for children 0-17 years of age within primary healthcare continued to be free of charge (see Gunnlaugsson, 2016a, p. 492). Reduced benefit level of maternity/paternity leave was however not supportive to young families, and as a result fathers have increasingly tended not to take their legal share (Eydal & Gíslason, 2014b; Gunnlaugsson, 2016a).

In 2012, the Central Bank of Iceland presented an analysis of the financial situation of Icelandic households (Ólafsson & Vignisdóttir, 2012). It indicates that household debts
were higher among families with children compared to those without children; in 2010, about 20% of all children had parents who were in financial distress, compared to 30% the year before. Especially hard hit were young parents who had taken house loans late in the economic ‘boom,’ as well as loans for cars. About 13% of households with children (about 4000 families) were found to be particularly vulnerable, facing both high debt service burden and debt levels, in addition to higher living costs. Yet, overall, most of indebted households were high-income while those with difficulties to pay were low-income families.

In the period 2004-2007 compared to 2010-2013, the proportion of children living in homes at risk of poverty (<60% of the median income) and who experienced material deprivation was similar, but the levels were age-dependent, and disproportionate on different household compositions (Statistics Iceland, 2014). Consequently, material deprivation of children was on similar level pre- and post-crisis. Yet, in a recent report a particular concern is raised regarding children of parents younger than 30 years of age, parents who are unemployed or employed less than 50%, and parents who live in rented homes (Unicef á Íslandi, 2016). Further, in an analysis of child poverty rates in 41 high-income countries in the period 2008-2012, the poverty rate had increased most in Iceland, followed by Greece (UNICEF Office of Research, 2014). This high percentage builds on a historically high value of the national currency and GDP, both collapsing in October 2008. If the data is anchored to the year 2005, rather than to 2008 as in the report, the increase in child poverty rate in Iceland is about 5-percentage points while a similar reduction is not seen for Greece, a Eurozone country (Figure 2) (Eurostat, n.d.).

Figure 2. Poverty rates of children in Iceland compared to Greek children by anchoring the data either to the year 2005 or 2008.

![Figure 2](data:image/png;base64,iVBORw0KGgoAAAANSUhEUgAAAnAAAAA7CAYAAAAoJpKAAAALVBMVEXy75N4AAAAAElFTkSuQmCC)

Data: Eurostat. (n.d.).

Over-all there is so far little evidence for a negative impact of the crisis on the general health and well-being of children and adolescents, to judge by commonly used child health indicators (see Gunnlaugsson, 2016a; Gudmundsdóttir et al., 2015). For example, infant
mortality rates continued to improve and are among the lowest in the world (1.9 per 1000 live births in 2015); preventive child health services were expanded and improved with new national guidelines (e.g., revised electronic child health record and screening for development); no observed impact within primary healthcare or hospitals on the incidence of nine diseases known to be associated with poverty; and improvement seen in parental support and relates positively with adolescents’ happiness, health behaviour and participation in sports. However, in the period 2009-2013, the average proportion of children with an International Classification of Diseases (ICD)-10 diagnosis of small-for gestational age (SGA) was 3.4% compared to 2.0% in the period 2003–2008, and needs further analysis.

DISCUSSION

Here we have addressed the collapse of the banking sector in Iceland in October 2008, the ensuing economic crisis and its consequences, governmental post-crisis policies and the health and well-being of children. The crisis was profound, both in scope and content, and resulted in social turmoil that Iceland is still recovering from. Yet, many policy initiatives were taken that aimed to protect those most vulnerable in society on the basis of a robust pre-crisis welfare system. At large, it can be concluded that many of them appear to have been successful, for example, redistribution of tax revenues aimed to protect low-income groups, and labour market initiatives to address unemployment. The establishment of the Welfare Watch is also noteworthy, reflecting a concern for those most at risk to suffer during times of financial distress. Finally, the health and well-being of children has still not suffered to judge by commonly used indicators to monitor child health.

The economic collapse in Iceland was an event of historic proportion, both domestically as well as globally (Benediktsdottir et al., 2011). The perceived economic ‘boom’ that boosted the Icelandic spirit of being the best in the world (Loftsdóttir, 2015) was driven by a credit boom (see Johnsen, 2014) in the wake of implementation of neoliberal policies since 1995 (Ólafsson & Kristjánsson, 2012; Oddsson, 2016) that ultimately resulted in an economic as well as psychological shock the population is still recovering from (Central Bank of Iceland, 2014; Ragnarsdóttir, Bernburg, & Ólafsdóttir, 2013; Loftsdóttir, 2014). In the pre-crisis era, inequality increased as measured by Gini coefficient, and taxation of total income of high-income groups decreased (Ólafsson & Kristjánsson, 2012) (Figure 1). At the same time, households accumulated debts for housing and cars (Ólafsson & Vignisdóttir, 2012). Actually, before the crisis, about 20% of households with children were already living under financial distress, and their situation deteriorated rapidly following the collapse of the banking sector.

After the ‘pots and pans revolution’ (see Bernburg, 2016), the first Icelandic left-wing coalition government took power in February 2009 with intentions to pursue Nordic welfare policies. Among evidence of such intentions is the establishment of the Welfare Watch, a multi-disciplinary group to deliberate on diverse social aspects of the potential impact of the economic collapse. Facing lack of reliable social indicators to use for monitoring work was initiated to systematically collect such data. This work is on-going, and the 4th version of Social Indicators was published in 2015 (Statistics Iceland, 2015a). Further, the Welfare Watch continuously informed the government and the Parliament of its work to guide pol-
icy (Welfare Watch, 2010; Velferðarráðuneytið, 2013), and a reorganized body continues this work (Velferðarráðuneytið, 2015).

In the aftermath of the economic collapse, unemployment rates increased to historically high levels for Iceland (Central Bank of Iceland, 2014), known to be associated with significant risk for short-term increases in premature adult deaths (Stuckler, Basu, Suhrcke, Coutts, & McKee, 2009). Many initiatives were taken by the government to alleviate the burden of those without work, characterized by an overall policy of ‘inactivity is not an option’ to avoid long-term unemployment. One innovative initiative was, for example, to encourage those unemployed to improve their professional qualifications through formal studies while on unemployment benefits (Nám er vinnandi vegur), and attracted particularly those younger than 30 years of age. It is imperative to evaluate these different efforts, both in short and long term perspectives to guide future policy. Further, in times of crisis and unemployment it is important to keep a keen eye on eventual gender and age specific effects on those who are laid-off as well as those who stay. The general downsizing of the Icelandic labour market with lay-offs, for example in the banking sector and municipalities, resulted in felt distress irrespective of gender, contrary to commonly held assumptions (Snorradóttir, Rafnsdóttir, Tómasson, & Vilhjálmsdóttir, 2013). Similarly, those who kept their work experienced more distress as compared to those who were forced to leave and sickness absence increased among younger employees (Snorradóttir et al., 2015). Yet, interestingly the general happiness score of the adult population was not significantly affected in the immediate aftermath of the collapse except for those financially hardest hit (Gudmundsdottir, 2011), and no change observed in the rate of suicides (Directorate of Health, 2016).

Despite the nationally high unemployment rates in the direct aftermath of the economic crisis, somewhat alleviated through workforce emigration, the labour market has now gradually recovered following economic recovery with only 2.5% of the workforce registered as unemployed in April 2016 (Vinnumálastofnun, 2016). Interestingly, in the summer of 2016, foreign labour was being recruited to satisfy the workforce needs of a seemingly ever-expanding tourist service industry.

In times of crisis and austerity measures, the health and well-being of children is at risk of suffering (Harper et al., 2009; Rajmil et al., 2014; Spencer et al., 2015; Gunnlaugsson, 2016b). Hitherto, there are no indications that either services to children, nor their overall health and well-being, have been negatively impacted by the crisis (Gunnlaugsson, 2016a; Gudmundsdottir, 2011). Thus, a robust welfare system already in place, and governmental policy that aimed to minimize the negative impact of the crisis (United Nations Human Rights. Office of the High Commissioner for Human Rights, 2015), seem to have protected the population from many of the known consequences of the crisis, at least in the short term. For example, primary healthcare services continued to be accessible and without user-charges for children and pregnant women, including both preventive and curative services, as well as hospital services for all, and policy of modest user charges for adults seeking healthcare within the public sector remained. Despite the deep crisis, the performance continues to be excellent, to judge by commonly used indicators to monitor the health of children. This is in sharp contrast to Greece that entered the economic crisis with a limited welfare system and healthcare services that could not properly respond because of
a number of inefficiencies already evident before the crisis (Economou, Kaitelidou, Kentikelenis, Sissouras, & Maresso, 2014). Nevertheless, waiting lists continue to be long – and increase – and heavy work-load and worn-down physical structures of the University Hospital and lack of new technology impacts negatively on staff morale (Solberg, Tómasson, Aasland, & Tyssen, 2014).

In Iceland, there is strong public support for a role of government in both funding and running the healthcare services (Vilhjálmsson, 2016). Nevertheless, a policy of increased privatization of the services is being pursued by the current centre-right coalition government, despite its well-known associated consequences (Gilbert, Clarke, & Leaver, 2014; Petrie, 2015). Thus, there is ongoing expansion of privatization of the primary healthcare services. Also, services formerly only offered at the University Hospital are now available in a new private clinic under a leadership apparently inspired by claimed successful private enterprise within healthcare in Albania (Bragadóttir, 2014). Finally, in July 2016, private investors presented their intention to build a fully-equipped privately run hospital (RÚV, 2016), ideas that were not well received by the general public, and a final decision is pending.

CONCLUSION
On the basis of this analysis we maintain that governmental policies after the crisis were rather successful in protecting the fundamental and comprehensive structure of the welfare and social security system already in place. Yet, the welfare system suffered setbacks it has not yet recovered from, for example, cuts in benefits for maternal/paternal leave and overall governmental funds to the healthcare system. If success is to be guided by the general health and well-being of children, there is no indication that it has suffered in the short-term. Yet, there are reasons to be alert to potential long-term impact on their health, particular in what concerns mental health. Further, despite well-known negative consequences of privatization of healthcare services, the now ongoing process of expanding private healthcare in Iceland is a cause for concern.

REFERENCES


