SGI Sustainable Governance Indicators 2009

Iceland report

BertelsmannStiftung

Executive summary

Iceland is a unique country. In part, this is because its population is very small – just 313,000 – and very isolated. Nevertheless, Iceland belongs to the family of Nordic countries, and has an extensive welfare state. As an isolated island, the country has developed its own important institutions, such as comprehensive health care and education systems.

A special problem for Iceland is security policy, which has historically been founded on its alliance with NATO and the presence of U.S. forces. This agreement gave Iceland very efficient security, but the withdrawal of U.S. troops in 2005 has changed the political calculus.

The country is privileged to have a considerable supply of natural energy resources. There are many sources of water power in Iceland, along with access to efficient sources of geothermal energy. Thus, there are no energy shortages, and all major energy supplies – at least for stationary consumers – are renewable. However, this beneficial situation has also meant that Icelandic people and politicians have not developed an extensive environmental consciousness, as has happened in other Nordic countries.

That said, energy is not an uncontested issue. Heavy political debate and conflict recently followed plans to build a large hydropower project in the eastern highland region of Kárahnjúkar. As a result, future governments will probably be more cautious, both with respect to hydropower and geothermal projects. Political sentiment seems to be swinging toward caution in building dams and drowning highlands areas. Emphasis seems to be shifting clearly to geothermal power, especially in the southwest part of the country. Icelandic investors are increasingly interested in investing in power projects. Investments in cooperation with publicly owned power companies have caused conflict, however. Recently, the majority coalition on Reykjavík's city council collapsed due to the merger of a firm owned by the city's power company with a private power company. The controversy showed that public-private partnerships in the power industry remain a sensitive political matter.

On most status indicators, Iceland appears similar to the other Nordic countries, if a bit behind. The country puts an impressive amount of importance on education and research, with the emphasis on both increasing dramatically in

the last decade or so. This is due both to governmental policy and to increased emphasis from the private sector. Having a successful international biopharmaceutical company, Decode Genetics, in Reykjavík, has helped in this regard. In addition, the number of universities and the number of students have each increased in the last decade. Two private universities, one in the capital area and one 100 kilometers outside, now exist. Combined with the two state-run universities, in Reykjavík and in Akureyri, this is remarkable for a nation of such small size.

In respect to international integration, Iceland conforms to the proactive approach of the other Nordic countries, although its small size makes it lag somewhat behind. The small size of the country and its government also affects management items, as all politicians know each other. The country's island character has also instilled a culture of resolving societal conflicts by consensus. Indeed, Iceland is the country with the oldest parliament in the world.

Democracy in Iceland is fully developed despite some significant weaknesses, including less than full and unfettered access to information and an inadequate separation of powers (an executive branch that is far stronger than the legislative branch and possibly also – this remains a matter of controversy – than the judicial branch). In addition, electoral laws still favor rural voters and large political parties at the expense of urban voters and small parties, even if the bias against urban voters has been gradually reduced over time.

The question of EU membership has posed a long-standing problem for Iceland. As in Norway, strong domestic forces oppose membership, and the government has made no clear signs of its intention to prepare an application. The Social Democratic Alliance is clearly interested, but the other coalition party, the Independence Party, has been reluctant. Domestic businesses regularly lobby to switch to the euro as the national currency. But as the euro question is said to rely on EU membership, the government's hesitation on this front makes it unlikely that the Icelandic króna will be abandoned in the near future. Nevertheless, Iceland has already implemented more than 98 percent of the directives involved in the European Economic Area agreement.

Strategic Outlook

Iceland's greatest challenge is certainly its security policy. Although it is a very peaceful country, remote from world conflict and probably from international

terrorism, its defense policy relies solely on agreements with other countries, above all Norway and the United States. However, since it is debatable whether a nation the size of a middle-sized town can maintain an army able to defend the country, the strategy of contractual defense might be best for the future.

Another challenge is presented by the prospect of EU membership. Influential groups oppose this strongly, and it is not clear if Iceland will join in the near future. Iceland's capacity for further reform could be significantly enhanced by membership in the European Union. In the past, economic reforms have been slowed down by a lack of pressure from the outside. This is particularly clear in the case of food prices, which are on average 61 percent higher in Iceland than in the European Union (to add insult to injury, wine prices are 126 percent higher in Iceland than in the EU, according to Statistics Iceland). Iceland's participation in the EU's Common Agricultural Policy would thus clearly benefit Icelandic consumers and taxpayers.

Other challenges for Iceland are more in line with those faced by other welfare states. Social security systems, and above the health care system, need further reforms. Among the health system's shortcomings are long waiting lists for operations and some treatments, mainly due to staff shortage and limited facilities. The shortage of staff, especially among nurses, can be a threat to health security, due to work pressure and long hours.

Growing controversy in the energy sector has at least two aspects. One is environmental protest against further exploitation of hydropower. The most recent hydropower project, at Kárahnjúkar in eastern Iceland, sparked bitter protest both from political parties and various societal interest groups. This seems to have made political parties that do support an expansion of hydropower more cautious. Ownership of energy resources can also spark fierce controversy. Currently, lively debate is focused on the question of whether geothermal energy resources should be privatized and opened to foreign investment. Recent events in the city of Reykjavík, where the majority coalition split over different attitudes toward the privatization of the city's power company, show this will be a controversial issue on the local and national levels alike in coming years.

In order to overcome democratic deficiencies, more interest and emphasis has been given to local referendums on important political issues. A recent referendum in the city of Hafnarfjörður, close to Reykjavík, focused on future plans connected to a nearby aluminum smelter. The response showed a growing national interest in local referendums.

Status Index

I. Status of democracy

Electoral process

Fair electoral process

Score: 10

Any Icelandic citizen 18 years old or over can run for parliament, excepting judges in the Icelandic Supreme Court, the parliamentary ombudsman, and those who have been convicted of a serious felony after turning 18, and sentenced to at least four months in jail or custody. In local elections any Icelandic citizen at least 18 years old can run for office. Danish, Norwegian, Swedish and Finnish citizens who have established permanent residence in Iceland for at least three years, and other foreign citizens who have maintained permanent residence for five years, can run in local elections. The registration process for candidates and parties is transparent and fair.

Fair electoral campaign

Score: 9

By and large the election process is fair and open. Every candidate has equal opportunity of access to the media and other means of communication. Some media organizations may demonstrate bias, but due to diverse ownership this bias is rather balanced across all media. There is a tendency in the media to favor those who are already members of parliament or local government, which makes it harder for new parties and candidates to get media coverage.

Inclusive electoral process

Score: 10

The national registry maintained by Statistics Iceland is used to identify all those who have reached the age of 18 on election day, are Icelandic citizens, and have maintained legal domicile in Iceland for four years prior to election day. This system functions well, with a possible exception in the case of Icelandic citizens such as students who are temporarily living abroad, but who are still registered as legal residents of Iceland.

For example, it has sometimes been more difficult for Icelandic students to vote while living in the Nordic countries than while in Southern Europe, because the

Nordic countries' national registries are better coordinated, and are sometimes more particular about keeping correct records than are their southern counterparts. However, this has not been a major concern in Iceland. There have been no known cases of willful discrimination against individual voters or groups of voters; only minor, probably trivial, irregularities have occurred. No new problems relating to political participation have been reported in recent years, even though the number of legal immigrants from other countries has increased significantly.

Access to information

Media freedom

Score: 7

In general, the government respects the independence of the media. However, the laws on electronic and printed media do not provide clear protection for media companies from government influence. In the last two decades there have been huge changes in the media market. The state and political parties controlled all the major media until about 20 years ago. Since then, privately owned media have gained momentum and are now major players in the media market. This change has resulted in a highly diversified media market for a small country like Iceland. The government still occasionally attempts to influence the media, but risks alienating public opinion as a result.

Media pluralism

Score: 5

Media ownership in Iceland can be divided into three groups, two owned by the private market and one by the government. The government runs one of the two largest television stations in Iceland, and two of the largest radio stations. The biggest media organizations can be criticized for indirectly favoring certain opinions through their selection of staff and coverage. There is a tendency to hire staff that favors certain opinions, and some issues are not covered for reasons that seem to be political, or because they are inconvenient for the elite or media owners. Until 1986, television broadcasting was exclusively in private hands. Before 1983, there was no TV broadcasting allowed in July, and until 1987 no TV was broadcast on Thursdays. However, that has changed dramatically. Today the private media market is only lightly regulated.

Access to government information

Score: 7

The Information Act was adopted in 1996 and went into effect in 1997. Under this regulation, citizens' right to access official information is guaranteed, with few restrictions. Memoranda, working documents and materials relating to ministerial meetings and meetings of the Council of State or the cabinet are exempted from the act's provisions. That has led to accusations that documents are mislabeled specifically in order to keep them inaccessible.

The act does not apply to correspondence prepared for court proceedings, job applications, registrations, enforcement proceedings, property attachments,

injunctions, sales in execution, moratoriums on debts, compositions, liquidations, divisions of estates at death and other official divisions, or investigation and prosecution documents used in criminal cases.

Information regarding security, state defense, and international commercial activities is similarly exempted. Sensitive financial and personal information as described in the Personal Data Act is not accessible unless by permission of the person involved. Access to restricted information is available once the law is passed or after a period of 30 years for general information, or 80 years for information relating to individuals. The denial of a request for information can be appealed to the Information Committee, whose members are appointed by the prime minister. No other government or judicial body can overrule the decisions of the Information Committee.

In comparison to other Nordic countries, which have a very long tradition of free access to government information, Iceland's Information Act came into force only in 1997. Even following the act's passage, journalists have sometimes been denied access to information.

Civil rights

Civil rights protection

Score: 9

Civil rights are fully protected. However, two qualifications need to be made. First, in the wake of the recent wave of economic liberalization and privatization of state-owned enterprises, the government, or specifically the largest political party, has been accused of undue interference in police and tax investigations of a business concern, the Baugur Group.

During the period under review, the incumbent foreign minister joined several independent observers in publicly demanding an official investigation of these accusations. Another recent problem concerns allegations of wiretapping of politicians and labor union leaders that took place two decades ago. A former foreign minister claims to have been wiretapped while in office, as recently as 1990. Witnesses, fearing to incriminate themselves, have not felt free to come forward, as the government has refused to absolve such witnesses of possible legal responsibility.

The government has not met demands for a full investigation and full disclosure. Instead, it has set up a committee to design rules governing researchers' access to classified documents pertaining to wiretappings.

Non-discrimination

Score: 9

Iceland's constitution states that every person should enjoy equal human rights irrespective of sex, religion, opinion, national origin, race, color, property, birth or other status. More specific provisions can be found in the penal code, the Administrative Procedure Act and the Equality Act. The Supreme Court can

and has ruled based on those acts and the constitution. It is explicitly spelled out in the Equality Act that all societal rights are gender-neutral, and that gender-based discrimination in pay, hiring or promotions is against the law. The Center for Gender Equality is tasked with overseeing the law, and is obliged to refer all major cases to court. However, the reality is that discrimination occurs in Iceland, especially on the basis of gender and disabilities, and against foreigners.

In the public sector, women benefit from policies of positive discrimination. In comparative perspective, Iceland's anti-discrimination policies concerning gender, age, and class origin are among the world's strongest.

Rule of law

Legal certainty

Score: 9

The Icelandic government and administration ground all their actions on law, so in that sense all their actions are very predictable. Nevertheless, government actions and court verdicts have in a few instances been appealed to and overruled by the European Court of Human Rights. The legal profession is heavily politicized, as the media used to be. Partly as a result of this, the court system, like the political establishment as represented by parliament, enjoys the confidence of only about 30 percent of the population according to opinion surveys..

Judicial review

Score: 9

Courts operate free of pressure from the government, powerful groups or individuals. The Supreme Court's power to rule on the legality of government and administration actions is respected. Judges are appointed by the minister of justice and ecclesiastical affairs. All vacancies are advertised and the hiring procedure is transparent.

However, the separation of powers in Iceland is weak. The executive branch of government calls the shots. The legislative branch, the unicameral parliament, is institutionally weaker, as virtually all legislation is drafted and passed by the parliamentary majority of the government in power. Some members of parliament have publicly described their institution as a rubber-stamp legislature. This imbalance between the executive and legislative branches can to some extent be traced to the fact that cabinet ministers are almost invariably selected from among the members of parliament and retain their parliamentary seats even as cabinet ministers. Opposition legislators' proposals only rarely become law. The judicial branch is also widely perceived to be weak and somewhat subservient to the government. But even if there is no clear separation of powers in Iceland, as is the case in many parliamentary democracies, the courts are independent from the government.

Corruption prevention

Score: 9

There is no serious corruption in Iceland. However, there are some irregularities, and the fact that there is a new law regulating political party support might foster corruption in the future. In the past, political parties were not required by law to disclose the sources of their funds. However, in 2006 they reached agreement on a set of more transparent rules for financial contributions to electoral campaigns, which are now in force, but were not retroactive. Serious corruption among officeholders in Iceland is not a problem. Some minor issues do arise in the form of favors and personal goods purchased using public funds. A 1993 law on public administration provides ample protection against abuse.

Officeholders are very rarely held responsible for corruption. In May 2007, shortly before an election, it came to the media's attention that the girlfriend of the foreign minister's son had been granted Icelandic citizenship on a fast track. Valgerður Sverrisdóttir, the foreign minister, stated that she had no knowledge of the situation, and remained in office.

II. Economic and policy-specific performance

Basic socioeconomic parameters	*score*	*value*	*year*
GDP p.c.	5.1	36183 $	2005
Potential growth	2.43	3.1 %	2008
Unemployment rate	10	3 %	2006
Labor force growth	8.73	6.4 %	2007-2008
Gini coefficient	8.82	0.26	2002
Foreign trade	2.02	-29.16	2005
Inflation rate	3.78	4.9 %	2007
Real interest rates	7	4.6 %	2007

A Economy and employment

Labor market policy

Score: 10

The decades-long low levels of unemployment in Iceland, with few and short-lived exceptions, bear testimony to an essentially flexible labor market in which workers move rather easily between jobs and locations. Other factors have contributed to this outcome, including fiscal and monetary policies that have kept inflation higher than it might otherwise have been in order to keep unemployment low, and an overheated economy that in recent years has been driven by an influx of foreign capital and foreign labor. Labor legislation governing nationwide, central bargaining over wages and salaries has remained essentially unchanged since 1938, with only relatively minor changes.

This means that the old mechanism by which labor unions were able to demand wage increases beyond productivity increases – one of the triggers of high inflation in the past – remains largely intact. Inflation has been relatively low in recent years, although the rate remains Europe's second highest, after Turkey. The relatively low rate has to some extent resulted from labor unions' determination to keep wage demands within bounds.

However, unions still have the power to demand wage increases that the employers' association could not accept without the government stepping in to facilitate a deal, as was common practice in the past. In that sense, the labor market lacks flexibility. Labor market outcomes can still be determined in closed-door negotiations, a salient feature of nationwide or industry-wide wage bargaining. Put differently, labor market policy in Iceland addresses unemployment more effectively than it addresses inflation. Greater flexibility would be assured by having wages and salaries negotiated firm by firm, as is increasingly done in parts of the service industry, such as in high-tech computer firms.

Enterprise policy

Score: 7

Enterprise policy in Iceland has largely achieved the objectives of fostering innovation and economic competition, and stimulating private investment. However, these policies have sometimes had a quite protectionist character, as in the important fishery sector. Enterprise policy has been rather reactive, lacking a long-term outlook.

As one example, the government has emphasized innovation and

entrepreneurship in the use of geothermal energy, but has not guaranteed economic competitiveness. Today there is an ongoing debate as to whether geothermal energy resources should be privatized and opened to foreign investment. Due to the small size of the Icelandic market, the danger of monopoly is high. Government policy has neither successfully prevented this, nor what seems to be collaboration between big companies in the retail gas industry and some other important businesses.

Tax policy

Score: 8

Tax policy remains a mixed success. For years, Iceland's taxes were considerably lower than the OECD average, but this is no longer the case. General tax receipts rose from 38 percent of GDP in 1990 to 49 percent in 2005, the largest such increase in the OECD over this period. However, central and local government expenditures have increased much less, from 42 percent of GDP in 1990 to 45 percent of GDP in 2007, compared with an average of 47 percent in the euro zone area in both years. The increased level of taxes since 1990 reflects the government's determination to repay rather than to keep accumulating public debt.

Four tax policy features stand out. First, corporate taxes have been lowered in order to encourage business activity. These fell from 49 percent to about 18 percent. This has worked well, helping to increase competitiveness.

Second, the level of household income at which income becomes taxable has slipped in real terms as price levels have increased, without a compensating adjustment in the tax-free limit. This has significantly increased low-income households' tax burden, and has made the distribution of disposable incomes less equal, as measured by the Gini index. Tax policy has thus been distinctly regressive.

Third, capital gains are taxed at significantly lower rates than labor income, adding a further regressive element to the government's tax policy. Tax policy bears a major responsibility for an unprecedented increase in the Gini index from 1993 onwards.

Finally, Iceland has a rather high value added tax (VAT) rate of 24.5 percent, affecting most goods and services except food. In March 2007, the VAT on books, heating, and a bundle of other goods was lowered from 14 percent to 7 percent.

Budgetary policy

Score: 7

Budgetary management has improved in recent years, but still cannot be described as fully sustainable. Until recently, the government budget passed by parliament was rarely adhered to, because additional government expenditures were routinely appended to the original budget in the course of the fiscal year, and approved by parliament in a special supplementary budget. The government budget deficit at the end of each fiscal year was thus almost invariably larger than the budget deficit envisaged in the original budget, significantly weakening the stabilization role of fiscal policy operations. This was one reason for Iceland's high inflation in the past.

In addition, fiscal operations were defined too narrowly, leaving out various public undertakings and parastatal operations that should, for fiscal policy reasons, have been included in the government's consolidated budget accounts. These problems have now been largely corrected, but fiscal planning remains short-sighted and weak.

For example, during the almost uninterrupted economic upswing in Iceland beginning in the mid-1990s, it would have been prudent for the government to run large budget surpluses, paying down public debt and accumulating assets in order to prepare for the inevitable downswing or return to normalcy. Instead, the government increased tax revenues significantly and increased public expenditures less. This created a welcome opportunity to reduce outstanding public debt, but only on a fairly modest scale.

For example, the government was forced to take a foreign loan equivalent to 10 percent of GDP in 2006 to bolster the central bank's foreign exchange reserves. In one stroke, this increased the country's foreign debt by an amount equivalent to half of recent years' foreign-debt repayments. In consequence, the expected slowdown in economic activity in the near future will, by reducing tax revenues, once again produce significant government budget deficits and debt accumulation, according to the government's own forecast. This could have been avoided through far-sighted fiscal planning. Instead, this prospect will limit the government's ability to improve health services and strengthen the welfare system, among other policy goals.

B Social affairs

Health policy

Score: 9

Health care policies provide high-quality, state-of-the-art health care for all Icelandic citizens, in an increasingly efficient manner. Nevertheless, the distribution of responsibilities between the public sector, which owns and operates all hospitals, and the private sector, which in recent years has increasingly offered various medical services at private clinics, remains skewed in the favor of the public sector.

University Hospital, the largest hospital in Iceland, remains in difficult financial straits, as the government has proven unwilling to provide more public funds or to permit the hospital to raise revenue on its own by means such as levying patient service fees. The shortage of staff, especially among nurses, can be a threat to patient safety due to work pressure and long hours.

More broadly, the system faces long wait lists for many operations and services such as retirement homes, as well as other problems. The government and opposition alike have shown themselves unwilling to allow market forces a bigger role in the provision of health care, a dilemma that also affects universities and the education sector.

Social cohesion

Score: 7

Income distribution has become markedly more unequal in recent years. According to the Internal Revenue Directorate, the Gini index measuring inequality of total income before taxes and transfers increased from 27 in 1993 to 38 in 2005. Among OECD states, this represents an unprecedented increase in inequality in the span of just 12 years.

The Gini index measuring inequality of total disposable incomes – i.e., incomes after taxes and transfers – increased even more markedly, from 21 in 1993 to 35 in 2005, highlighting the regressive nature of the government's fiscal policy during this period. The source of increased inequality is mainly twofold.

First, the level of incomes at which low-income households are exempted from paying income tax has been allowed to decrease in real terms, falling behind increases in wages an prices. This has significantly increased low-income wage earners' tax burden, since inflation has been rather high.

Second, the government has favored a growing class of wealthy businessmen

and entrepreneurs, taxing capital income at a significantly lower rate than labor income. This has further skewed income distribution in the direction of increased inequality. However, low-income groups were able to increase their purchasing power by up to 30 percent in the last 10 years, despite these trends.

Family policy

Score: 10

Family policy promotes the participation of women in the labor market. In comparative perspective, Iceland has one of the world's highest rates of labor market participation by women. However, women are generally paid markedly lower wages than men for similar work. Some women also complain about the unavailability of part-time work opportunities that would make it easier to combine work at home with work outside the home. But these facts reflect decisions taken by employers in their dealings with wage earners, rather than government policy.

The country's family policy encourages men and women to share the burden of child rearing. In 2005, almost 90 percent of eligible fathers used their right to take a three-month parental leave. During this period, they receive 80 percent of their income, paid by the state. Child care is also very advanced in Iceland, and is normally available for all children six months or older, although availability can vary since this is a municipal responsibility. About 70 percent of children between three and five years old spend at least eight hours a day in child care of some kind.

Pension policy

Score: 7

Iceland's pension policy is based on a tax-financed, means-tested public social security program, as well as occupational pension funds and voluntary savings encouraged with tax incentives. The pension funds, with worker contributions of 4 percent of total wages and a complementary employer contribution of 8 percent, aim at giving retirees a pension equivalent to 56 percent of their average working-life wages. Employees can opt to pay a further 4 percent of their wages, with a 2 percent employer contribution, into a voluntary savings program.

In this light, it appears that Iceland's pension policy is conducive to poverty prevention as well as to fiscal sustainability. Given that the occupational pension funds are largely fully funded (and currently amount to roughly 130 percent of Iceland's GDP), each generation provides for its own pensions (based on contributions and the accumulated return on these funds) rather than

relying on pay-as-you-go transfers. Even so, many old people in Iceland have to get by on meager pensions. It also remains to be seen what the funds' long-term rate of return on investments (currently about 40 percent stocks and 60 percent bonds) will be.

C Security and integration policy

Security policy

External security

Score: 8

A founding member of NATO, Iceland hosted a NATO military base manned by U.S. personnel from 1951 to 2005, contributing about 2 percent of the country's GDP for defense. However, the United States government unilaterally withdrew its forces in 2005, in spite of protests by Iceland's government, leaving the country with no military to defend the island.

Nevertheless, NATO membership was, and remains, the backbone of Iceland's external security policy, as an attack on one NATO member is viewed by NATO as an attack upon them all. Furthermore, in April 2007, Norway and Denmark signed memorandums of understanding with Iceland regarding surveillance, rescue and military operations in the North Atlantic. Debate continues as to whether Iceland should establish its own standing army.

Internal security

Score: 8

Iceland is a rather safe place by comparison with other countries. Nonetheless, police forces are clearly understaffed, and in some cases not well prepared. As a matter of policy, police do not carry weapons. However, there is an armed special force which deals with matters which require the use of weapons. Iceland is also a member of the Schengen border-control agreement.

There are no appreciable levels of organized crime in Iceland. Thus, circumstances rather than police efficiency make Iceland safe. However, drug-smuggling has increased recently. Downtown Reykjavik can also be quite unsafe on weekends, with violent drunkards and worse roaming the streets beating up innocent bystanders, with police nowhere in sight. Although this does not rise to the level of serious crime, it can make going out inconvenient.

New security policy

Score: 5

Iceland's security policy is still in limbo following the unilateral withdrawal of American forces and the effective closure of the NATO military base at Keflavik in 2005. This outcome could not have been wholly unexpected, as the United States government had previously indicated plans to revise its defense agreement with Iceland; but even so, Iceland's government did not offer a clear alternative plan.

Until a new, durable defense arrangement has been put in place, Iceland's

security policy cannot be said to protect the citizens of Iceland effectively against new security risks. Rather, due to the lack of preparation for the foreseeable withdrawal of NATO forces, the country's security policy and military defenses seem to need a thorough overhaul.

This work apparently has just begun, with a provisional agreement with the government of Norway, and cannot be said to rank high on the political agenda. It was, for example, hardly mentioned in the election campaign in the spring of 2007. However, Iceland faces relatively low risk from new security problems such as terrorism.

Integration policy

Score: 6

The problems of immigration and integration are of increasing importance in Iceland. The proportion of foreign-born residents has risen from around 2 percent in 1996 to 6 percent in 2006. About 9 percent of the labor force comes from other countries. The prolonged upswing in economic activity since 1996 has been sustained by foreign labor as well as by foreign capital, thereby largely disconnecting the domestic inflation rate from the demand for labor in this low-unemployment economy.

Many low-wage jobs in industries such as fish processing, construction, and hospital services are now held by immigrants, because fewer and fewer locals want such jobs at the prevailing wages. Immigration policy has not been a source of significant controversy in political debate, and was hardly mentioned in the political campaign preceding the May 2007 parliamentary election. Social relations between immigrants and the local population have thus far been peaceful. Nevertheless, one problem for integration is the rather difficult Icelandic language. Although state-financed classes do exist, few foreigners master the language.

The government has lacked a consistent approach to immigration and integration, but published a new policy on migration and immigration issues in early 2007. The policy is rather vague and does not contain any plan for execution or audit, and does not specify who is responsible for carrying out the policy's provisions. Few local governments that have a large ratio of migrants and immigrants have addressed the issue of helping them integrate into local society.

D Sustainability

Environmental policy

Score: 4

Governmental environmental policy does not guarantee the protection, preservation and sustainability of natural resources or the quality of the environment.

Iceland is rich in energy and water resources on land, and the surrounding seas harbor rich fisheries. However, there has been almost no discussion about how to preserve the energy and water sources. The general attitude seems to be that these sources are unlimited, but in fact there is a danger of overuse.

Perhaps the most serious environmental problem facing Iceland is the continual erosion of its topsoil. Despite repeated calls for government action to stop the erosion, livestock such as sheep and horses remain free to roam around the countryside, causing great damage to the natural environment. This is why large swaths of Iceland's countryside are grey rather than green. The government's unwillingness to require livestock to be fenced reflects in part the disproportionate political power of farmers, even though their share in the country's total labor force has declined below 3 percent. Not coincidentally, the Soil Conservation Service of Iceland is supervised by the Ministry of Agriculture rather than by the Ministry for the Environment.

Iceland's new industrial policy, aimed at increasing sources of hydroelectric energy, is viewed by many as a serious environmental threat that may cause irreversible damage to the Icelandic highlands. A huge dam being proposed for Kárahnjúkar, north of Vatnajökull, Europe's largest glacier, would produce electricity for a new aluminum smelter in the eastern part of Iceland. Others worry less about this issue, arguing that few Icelanders were interested in the highlands region until the plan was underway.

A third problem concerns overfishing in Icelandic waters. In 2007, it was decided to cut cod catches by one-third, in order to conserve stocks. The quota system used to regulate the fisheries creates incentives to discard small fish, because boat owners prefer to fill their quotas with the most valuable fish possible. Because discarding is illegal, not much is known with certainty about the extent of the problem. The government maintains that the problem is minor, but does little to investigate charges of rampant discarding. A fourth problem worth mentioning is that Iceland is more energy intensive than any other OECD country. Total primary energy consumption per dollar of GDP in 2004

was three times as high as in Denmark and 43 percent higher than in Norway according to the U.S. government's International Energy Annual 2004 report.

Research and innovation policy

Score: 8

For political reasons, Icelandic policy-makers have a long history of granting farming and fishing special treatment. Thus, the government has implicitly penalized manufacturing and services in ways that have hampered the rapid development of high-tech exports, innovation and the creation of new indigenous products.

Nevertheless, research and development have surged in recent years. Public and private spending on R&D in Iceland increased from 2 percent of GDP in 1998 to 3 percent in 2004, to one of the highest levels in the OECD. About 40 percent of this expenditure, or 1 percent of GDP, was provided by the government. Likewise, the number of researchers engaged in R&D per million people is, at 6800 in 2004, higher than anywhere else in the OECD except in Finland (which had a comparable rate of 7800). The rapid increase in R&D activity reflects the ongoing transformation of the Icelandic economy away from agriculture and fisheries to manufacturing and services, with the emergence of new private firms in biotechnology, pharmaceuticals, and some high-tech manufacturing, among other new sectors. A major government goal was to support research into the use of geothermal energy which could be (and now has been) exported. The government also supported the foundation of a biopharmaceutical company in Iceland, Decode, which is one of the world's leaders in its field.

However, high-tech exports still constitute only a small proportion of total merchandise exports – between 3 percent and 6 percent between 2001 and 2004, according to the World Bank. A jump in this ratio to 27 percent in 2005 seemed to reflect mostly the sale -- i.e., re-export -- of previously imported aircraft. Education is also a potential concern.

Tertiary school enrollment nearly doubled from 38 percent of each cohort in 1998 to 68 percent in 2004, with the opening of many new colleges attracting new and sometimes tuition-paying students who otherwise would not have gone to university. However, the country's tertiary school enrollment rate remains lower than that of several other OECD countries, which may be attributable to a comparatively low public expenditure on tertiary education (1.2 percent of GDP in 2003).

It is true that relatively more Icelanders attend foreign universities than is common in most other countries, and that these costs are not fully reflected in

the figures cited above. Yet Iceland has a comparably young population, and thus could be expected to spend more, not less, on education at all levels, including tertiary education.

Education policy

Score: 8

Although Iceland's public expenditure on education has increased significantly in recent years, several problems remain. First, teacher pay remains inadequate, as is true of public-sector pay more generally. This means that every year school principals have difficulty filling open jobs at their schools, with many teaching positions eventually filled by temporary, underqualified personnel.

Second, 40 percent of individuals between the ages of 25 and 64 have no education beyond primary education. Put differently, the average Icelander aged 25 to 64 has 10.5 years of schooling, or two years less than the OECD average. This means that Iceland's labor force is, on average, less well educated than it should be.

Third, universities face severe issues of underfunding. There are four universities in Iceland to choose from, two of them state universities with minimal fees, and two additional specialized universities. The student loan system makes it possible for students to pay their fees and living costs while studying either in Iceland or abroad. However, funds are scarce, although academic remuneration has improved significantly in recent years. The lack of funds suggested, for example, by levels of revenue per student that are low by OECD standards, is especially burdensome for state universities. Unlike the new semi-private universities, the state institutions are not legally allowed to supplement their revenues by charging tuition fees.

Nevertheless, the school system does provide equitable access to education. One of the main controversies facing the country's current education policy focuses on whether greater variety in schooling, including a larger number of tuition-funded private schools competing with public ones, would increase the quality of education at the expense of equity and ultimately social cohesion.

Management Index

I. Executive Capacity

Cabinet composition

Prime minister	*Parties in government*	*Type*	*Mode of termination **	*Duration*
Halldór Ásgrímsson	Independence Party (IP), Progressive Party (PP)	Minimal winning coalition	2	08/04-06/06
Geir H. Haarde	Independence Party (IP), Progressive Party (PP)	Minimal winning coalition	1	06/06-06/07
Geir H. Haarde	Independence Party (IP), Social Democratic Alliance (SDA)	Minimal winning coalition	-	06/07-

** The following modes of termination should be distinguished: elections = 1; voluntary resignation of the prime minister = 2; resignation of prime minister due to health reasons = 3; dissension within cabinet (coalition breaks up) = 4; lack of parliamentary support = 5; intervention by head of state = 6; broadening of the coalition = 7.*

A Steering capability: preparing and formulating policies

Strategic capacity

Strategic planning

Score: 3

Long-term strategic planning in Iceland is often vague, lacking a plan of execution, supervision and revision. Planning often features deadlines that have no guarantees of being met. Policy-making is essentially in the hands of cabinet ministers who rely for policy advice and implementation, including strategic planning, on the staff of their respective ministries as well as on political advisers.

Scientific advice

The government consults selectively with external academic experts, on issues such fisheries policy, energy policy, engineering and the economy.

Score: 5

Lawyers and legal experts are consulted in the drafting of bills to be presented in parliament, and in some aspects of the public administration. Experts consulted are often affiliated with the political parties of the ministers seeking their advice. Some independent experts, especially in the fields of energy and the environment, feel that their views are not taken into account in policy-making. Even so, government policies are generally well informed.

Inter-ministerial coordination

GO expertise

Score: 8

Although the Prime Minister's Office has fewer staff members than any other ministry in the Icelandic government, it has the expertise needed for a substantive evaluation of ministerial draft bills. The expert staff consists of two lawyers, one consultant on foreign policy and two others considered to be experts.

GO gatekeeping

Score: 10

The Prime Minister's Office has no formal authority to return items envisaged for the cabinet meeting, but can do so de facto. The working rule is that all items agreed on in cabinet meetings should be done so on a consensual basis. Therefore, the prime minister can return items, even if he has no explicit legal authority to do so.

Line ministries

Score: 8

Line ministers do have considerable flexibility to draft their own policy proposals without consulting the Prime Minister's Office. If line ministers belong to the same party as the prime minister there is usually considerable involvement, but less so if the line minister is a member of a different government coalition party.

Cabinet committees

Score: 5

Due to the small size of government, only a few cabinet committees exist, with very limited resources to prepare cabinet meetings. The budget and privatization committees, along with a few other ad hoc committees, do some preparation work. However, the majority of the cabinet meeting agenda is prepared by the ministers. Two or more ministers often coordinate and consult with each other in this preparation process, but in an informal manner, rather than in formal committee meetings.

Senior ministry officials

Score: 9

Most preparation of cabinet meetings is done by the ministers in close cooperation with senior officials of each ministry. Ministers also consult one another before meetings.

Line ministry civil servants

Score: 9

There is intensive coordination between line ministers. This takes place between ministers, rather than between civil servants, in part because the cabinet is relatively small in comparison to other countries.

Regulatory impact assessments

RIA application

Score: 1

Needs analysis

Score: 1

Alternative options

Score: 1

There is no tradition of regulatory impact assessment in Iceland.

Societal consultation

Mobilizing public support

Score: 9

Iceland has a long tradition of formal as well as informal consultation between the government and labor-market associations. Parliament has a working agreement to consult interest organizations in this context, but not necessarily a rule about who or which representatives will be summoned.

In the past, this often meant that the government facilitated wage agreements ex post by devaluing the currency or printing money to keep employers afloat. More recently, this has meant that the government offers ex ante to adjust its policies in ways that make it easier for the negotiating parties to reach agreement. Hence, the government's stance has become less accommodative, and more disciplined.

Recently, the government has been at loggerheads with various interest groups, such as the Organization of the Handicapped in Iceland and the Union of Professors at State Universities, in disputes over pay and rights that were ultimately taken to court. These court cases seem to reflect a hardening atmosphere with less effective consultation than in the past and less appetite for reconciliation. Even so, organizations, firms and individuals have always had good access to individual ministers.

Policy communication

Coherent communication

Score: 9

According to the West Nordic administrative tradition, every minister is responsible for the state institutions subordinate to his or her ministry. Therefore, every minister has the power to make decisions without consulting others. Nonetheless, ministers contradict each other very rarely,

and try to reach decisions by consensus.

The coalition government in power during the period under review appeared to be especially harmonious; as far as could be seen from the outside, no significant disagreements erupted within the coalition during this period. This has largely been true throughout its long tenure, from 1995 to 2007, even though the two coalition partners were old adversaries in the political arena. Other coalitions in the past have seen more disagreements emerge in public.

B Resource efficiency: implementing policies

Legislative efficiency

Veto players

	Total	*Share*
Bills envisaged in the government's work program	318	
Government-sponsored bills adopted	265	83.33 %
Second chamber vetos	-	- %
Head of state vetos	-	- %
Court vetos	-	- %

Effective implementation

Government efficiency

Score: 9

Because the executive branch dominates the legislative branch, bills envisaged or proposed by the government in parliament rarely fail to be approved. Thus, the government has substantial influence, and achieves almost all policy objectives.

Ministerial compliance

Score: 9

Cabinet ministers typically act as team players, following party lines in their decisions and implementation strategies. Although ministers have considerable influence, and can depart from general government policy, this happens only rarely.

Serious disagreements among cabinet members seldom erupt in public, and certainly did not do so during the period currently under review. In the past, cabinet ministers have occasionally resigned as a result of discord within the cabinet on policy issues.

Monitoring line ministries

Score: 10

Although there is no official monitoring of line ministers, the small size of the cabinet makes it easy to observe the behavior of individual ministers. This informal "monitoring" of line ministers is effective. Although line ministries typically look after the particular interests of their constituencies,

such as the fisheries, agriculture or communications industries, the Prime Minister's Office plays along or even orchestrates the overall special interest-oriented agenda, so conflicts rarely arise.

Monitoring agencies

Score: 3

Monitoring of agencies by ministries is quite weak. Agencies often spend more taxpayers' money than has been allotted to them in the government budget, thus technically breaking the law. Officials responsible for such breaches are never held accountable to their ministries, a criticism that has recently been advanced by the director of the Icelandic National Audit Office. The ministries themselves have in some cases engaged in the same practice of spending taxpayers' money in excess of budget allocations.

Ex post approval has always been forthcoming, thereby weakening the incentives of agencies and ministries to stay in line. The problem is exacerbated by the fact that, due to capacity constraints and other reasons, the National Audit Office has been able to monitor only a small fraction of the agencies under its jurisdiction. For example, since the year 2000, the office has audited the governance of just 44 out of 993 government agencies, or 4.4 percent.

Task funding

Score: 8

The division of responsibilities between the central government and local governments has changed over time. For example, some years ago, responsibility for primary education was transferred from the central government to local governments. This transfer was accomplished without imposing a heavy financial burden on local governments, as they were provided with the means to finance this new and important responsibility.

Constitutional discretion

Score: 10

Although subnational governments have no formal constitutional discretion, there have been no instances of constitutional conflict between the central government and local governments. The only paragraph in the constitution that concerns subnational government states that municipal affairs shall be decided by law.

National standards

Score: 8

A diverse set of special laws on local government services and activities are intended to protect national standards. In many cases, these laws set minimal service standards in areas such as education, child protection and social services. However, local governments are not always closely monitored by the central government. For example, school attendance rates sometimes fall in fishing villages when the boats bring fish ashore, something that would not occur in the capital.

C International cooperation: incorporating reform impulses

Domestic adaptablility

Domestic adaptability

Score: 9

Because of its traditions and small size, Iceland tends to be a team player with regard to international cooperation. The structure and organization of government accords well with international practice, and has been reviewed and revised at regular intervals over the years, most recently in 2007. Even so, some observers have argued that a more ambitious streamlining of the ministries is desirable in order to weaken the long-standing links between special interest organizations and the line ministries. The unification of the ministries of Agriculture and Fisheries announced in 2007 is a step in this direction.

Although Iceland is not an EU member state, and is related instead only through the European Employment Strategy (EES) treaty, EU structures have to some extent been integrated and adapted domestically. According to the EES treaty Iceland is obliged to adopt around 80 percent of EU law. Iceland is also responsive to comments from the Council of Europe (CoEU), the Schengen border-control treaty group and U.N. institutions.

External adaptability

International coordination activities

Score: 7

The government is an active participant in international forums, but rarely initiates measures intended to shape or better international policies. After World War II, Iceland was a founding member of the United Nations, the International Monetary Fund and the World Bank. In 1949, it was also a founding member of the North Atlantic Treaty Organization (NATO). For the most part working cooperatively in international affairs, Iceland does not take the initiative in the international coordination of reform, but does take part in some activities on a national level, along with some minimal international participation. For example, until recently the country participated in peacekeeping in Iraq, and it participates in the work of the OSCE on a minimal level.

Annotation:

The score is outside the range of the country experts because the lower score is justified in relation to the scores of the other countries.

Exporting reforms

Score: 5

Iceland has rarely tried to export policy initiatives or reforms through its membership in international organizations. This is perhaps understandable in view of Iceland's small size. Iceland's post-1984 fisheries policy, by which fish catches have been regulated by quotas (ultimately made freely transferable), could have been a candidate for such export. However, this has not been tried. Iceland left the International Whaling Commission in 1992 because of disagreements about Icelandic whaling, but was reaccepted into the body in 2002. An attempt to field an Icelandic candidate for the U.N. Security Council, in preparation now for some time, is a first of its kind, and is intended to give Iceland a new role in influencing foreign policy debates. Additionally, Foreign Minister Ingibjörg Sólrún Gísladóttir, who came into power in June 2007, has discussed taking more initiative for the country as a mediator in international peace negotiations.

D Institutional learning: structures of self-monitoring and -reform

Organizational reform capacity

Self-monitoring

Score: 7

There is no established, formal system of self-monitoring. However, in recent years ad hoc monitoring has become more common. Monitoring of institutional arrangements does not occur on a regular basis. Institutional arrangements are reconsidered from time to time, and in 2007 the ministry structure was revised. The new cabinet coalition between the Social Democratic Alliance and the Independence Party announced several changes, which were to take effect on January 1, 2008. Among these changes, responsibility for municipal affairs was to be moved from the Ministry of Social Affairs to the Ministry of Communications, tourism was to be moved from the Ministry of Communications to the Ministry of Industry, and the responsibility for social security transfers was to go from the Ministry of Health to the Ministry of Social Affairs.

Institutional reform

Score: 7

The government improves its strategic capacity by changing and merging ministries. This took place in the period under review, when the Ministry of Commerce was separated from the Ministry of Industry. There is also a pending merger between the ministries of Agriculture and Fisheries.

II. Executive accountability

E Citizens: evaluative and participatory competencies

Knowledge of government policy and political attitudes

Policy knowledge

Score: 10

Icelandic citizens are well informed, but much more so with respect to domestic policies than to international politics. The media is very differentiated for a small country like Iceland. There are several national newspapers, and the number of books printed per capita is among the highest in the world. In addition, Iceland's political landscape is not too complex, so it is relatively easy to get a comprehensive overview. Iceland is a small country where many people know each other. The country's relatively isolated island status also contributes to its citizens' inward-looking domestic focus.

F Parliament: information and control resources

Structures and resources of parliament, committees, parliamentary parties and deputies

Number of deputies	63
Number of parliamentary committees	12
Average number of committee members	9.1
Average number of subcommittee members	-
Pro-government committee chairs appointed	12
Deputy expert staff size	1
Total parliamentary group expert support staff	
Total parliamentary expert support staff	53

Obtaining documents

Score: 8

Parliamentary committees have the right to request access to almost any government document under the terms of the Information Act. But they have no means to force the government to give up documents if these requests are denied. Documents exempt from these requests include minutes, memos and other documents from cabinet meetings, and letters between the government and experts in the context of court cases. Some government working documents are also exempted, unless they contain a final case decision or information that can not be gathered elsewhere. Parliamentary committees can not ask for job applications submitted to public institutions, although they can get information about applicants' names, job titles and addresses after an application period has closed. The government can restrict access to government documents if an important public interest is at stake, such as the security and defense of the country, international relations, or government-related business when a state-controlled institution is engaging in market competition.

The parliamentary Committee on Foreign Affairs and Budget Committee each have a special legal status, and can demand government documents needed to fulfill their legal obligations. The chair of these committees or the foreign minister can require committee work and discussion to be confidential.

There have been no recent instances in which opposition members or other committee committees have been denied access to documents. However, opposition committee members have occasionally complained about less than full and prompt disclosure, especially in matters relating to foreign policy and national defense.

Summoning ministers

Score: 10

Parliamentary committees are able to summon ministers for hearings, but rarely do. Most commonly, the foreign minister attends or is summoned to meetings of the parliament's Committee for Foreign Affairs. Cabinet parties have a parliamentary majority and therefore in all parliament committees. At least in theory, this could allow a committee majority to prevent a minister from being summoned.

Summoning experts

Score: 10

Independent experts are frequently asked to appear before parliamentary committees. Traditionally, many experts also choose to make their views known in public, by writing newspaper articles or appearing on radio and television, thereby reducing the need for their expertise in parliament.

Task area coincidence

Score: 7

The task areas of the 13 ministries and 12 parliamentary committees largely coincide. During the period under review, the Committee of Agriculture and Fishery addressed two ministries, the Ministry for Agriculture and the Ministry of Fisheries. However, these two ministries were merged as of

January 1, 2008.

Two out of 12 parliamentary committees have a special role connecting them to the government. The Committee of Finance and Budget Preparation has authority to ask for information from institutions and companies that are seeking state funds. The Committee of International Affairs has advisory status on all major international policies, and the government is obliged to discuss all major decisions on international affairs with the committee. The foreign minister and the committee chairperson can require committee members to refrain from discussing certain decisions.

Parliamentary committees can monitor ministries effectively. But even if the task area of the parliamentary committees and ministries do coincide, the legislature and its committees in effect play second fiddle to the government and its ministries. Furthermore, the fact that the governing parties both chair and hold a majority on every committee weakens monitoring of the ministries even further.

Audit office

Score: 10

Iceland's National Audit Office is fully accountable to parliament. It reports to parliament and performs its important function quite effectively, despite significant manpower constraints and inadequate funding. For this reason, a vast majority of the agencies under its jurisdiction have never been subjected to an audit. More manpower and funds would no doubt lead to an overall improvement in the management of taxpayer money.

Ombuds office

Score: 9

The Parliamentary Ombudsman was established in 1997. The office takes up cases both at its own initiative and by the request of citizens and companies. It is independent in its work and efficient. Between April 2 and July 2007 the office gave 10 evaluations. The only reservation is that the office does not have a similar tradition to that of the other Nordic countries.

G Intermediary organizations: professional and advisory capacities

Media, parties and interest associations

Media reporting

Score: 8

Iceland's main TV and radio stations provide fairly substantive in-depth information on government decisions, although radio analysis tends to be deeper than that on television. This is probably due to the small size of the market, which limits TV stations' resources. State TV journalists rarely ask penetrating questions of politicians. State radio journalists are more critical, and are in fact sometimes criticized in public by cabinet ministers for being too critical. Journalists at the privately run TV station and the associated

radio station have gradually increased their independence.

Critical analysis of government policies by independent observers, experts and journalists is a fairly recent phenomenon in Iceland. Political news coverage by the state-run television station is not very critical. Yet, the politicians themselves are frequently interviewed and provide much information themselves on Icelandic television and radio.

Fragmentation

Parliamentary election results as of 10/10/2003

Name of party	*Acronym*	*% of votes*	*% of mandates*
Independence Party	IP	33.68	34.92
Alliance	A	30.95	31.74
Progressive Party	PP	17.73	19.05
Left Green	LG	8.81	7.94
Liberal Party	LP	7.38	6.35
Others		1.45	0

Party competence

Score: 6

Most electoral programs consist of promises and vague polices, with no timeframe or description of how policies will be implemented. This is in part due to the tradition of coalition governments, in which most of the parties try to avoid being tied to electoral promises that may hamper their ability to work with potential coalition partners.

Association competence

Score: 9

Interest associations have wielded considerable influence on public policy, and continue to do so. These associations have a long history of close involvement with political parties. For example, the Confederation of Icelandic Employers has long been closely, albeit not formally, related to the largest political party, the Independence Party. This helps explain why the employers' confederation, alone among its sister organizations in Europe, has not yet shown any interest in advancing its members' interests by advocating EU membership for Iceland. Likewise, the Icelandic Confederation of Labor has a long history of activity by political operatives that have prevented it from effectively pursuing the interests of its members. For many years, labor confederation leadership was closely affiliated with, or came from the ranks of, a now defunct political party, but other parties had and retain their own

influence within the group.

Major interest organizations in Iceland have highly qualified staff and use research to form their policy proposals. Their policy proposals are usually well grounded, coherent and in line with organizational goals.

Association relevance

Score: 9

Interest groups have long maintained a cooperative relationship with the government. Traditionally, fisheries and agricultural interest groups have had the most influence on government policy. Nowadays the range of interest groups has widened, with many groups lobbying for their policy goals. Of course, the impact of specific interest groups depends on the programmatic standpoint of the government, but all in all they are an actor to which the government is prepared.

This country report is part of the Sustainable Governance Indicators 2009 project, which assesses and compares the reform capacities of the OECD member states.

More on the SGI 2009 at www.sgi-network.org

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