



# Iceland Report

Gretar Þór Eyþórsson, Thorvaldur Gylfason,  
Detlef Jahn (Coordinator)

## Sustainable Governance Indicators 2018

©vege - stock.adobe.com

## Executive Summary

In January 2017, ten weeks after the October 2016 parliamentary elections, a three-party coalition government was formed. The most successful party in the elections, the Independence Party (21 seats), led a coalition with Regeneration (seven seats) and Bright Future (four seats). This meant that the government coalition held only 32 out of 63 parliamentary seats, a bare minimum for a parliamentary majority. Since Regeneration was more or less a liberal breakout from the Independence Party and Bright Future defined themselves as a centrist liberal party, this coalition government can be regarded as a right-wing government. This coalition was formed following a long government crisis with several false starts and failed attempts to build a new coalition government. After only eight months in power, this coalition collapsed when Bright Future announced that they were ending their coalition with the Independence Party. In a two-sentence statement, posted on the official Facebook page of Bright Future, the party explained: “The leadership of Bright Future has decided to end cooperation with the government of (Prime Minister) Bjarni Benediktsson. The reason for the split is a serious breach of trust within the government.” Here, they were referring to news, which had broken earlier that evening, that the prime minister’s father had provided a recommendation letter of “restored honor” for a man convicted of having raped his stepdaughter almost daily for 12 years. Benediktsson, despite having been informed about this by the minister of justice in July 2017, kept this matter to himself until a parliamentary committee compelled the ministry to release this information to the press. A new election was announced on 28 October 2017 since no new coalition cabinet was on the cards. Parliament was dissolved and the second parliamentary election in one year took place. The election campaign had hardly started when the former prime minister, Sigmundur D. Gunnlaugsson, who had resigned in spring 2016 in the wake of the Panama Papers scandal, broke away from the Progressive Party. In October 2017, he established a new political party, the Center Party (Miðflokkurinn). Various Progressive Party members left and joined the new party. This was the first time in Iceland’s history that both traditional parties, the Independence Party and the Progressive Party, were split at election time.

A significant infringement of media freedom took place in October 2017, two weeks before the elections, when the Reykjavík Sheriff's Department issued a gag order on the newspaper Stundin. The order prohibited Stundin from covering leaked documents that outlined dubious financial transactions involving the prime minister, Bjarni Benediktsson, the chairman of the Independence Party, during the 2008 financial crash. The gag order and the questions raised by the coverage of Stundin reignited a debate about the corrosive effects of money in Icelandic politics, unequal justice and the value of a free press. OSCE expressed concern about the gag order which bars Stundin and its partners at investigative journalism outfit Reykjavík Media from further reporting on the leaked documents, including emails, from the windup committee of Glitnir bank. Recent judicial verdicts in cases concerning freedoms of expression seem to make it unlikely that the gag order will be upheld by the Reykjavík District Court in early 2018 or by the Supreme Court. Yet, time will tell.

In the 28 October 2017 parliamentary election, the government coalition lost dramatically, losing 12 of its 32 seats and winding up with only 20 out of 63 parliamentary seats. The Independence Party lost five seats, Regeneration lost three seats and Bright Future was wiped out winning only 1.2% of votes. The Centre Party and Flokkur Fólksins (the People's Party) won seats in parliament for the first time. The Centre Party won 11% of the vote and seven seats, and the People's Party won 7% of the vote and four seats. The Social Democrats recovered somewhat from their heavy loss in 2016, going from 5.7% of the vote to 12.1% and from three seats to seven. The Progressive Party managed to keep their loss of support down to less than 1 percentage point and kept their eight seats from 2016, even if many party members, and one sitting member of parliament and former minister followed Gunnlaugsson to the new Centre Party. The Left-Green Movement went from 15.9% to 16.9% and remained the second largest party. Finally, the Pirate Party suffered a significant loss, falling from 14.5% in 2016 to 9.2% of the vote, losing four of their 10 seats. So, the political landscape changed significantly between 2016 and 2017. For the first time, eight parties won seats in parliament. The largest party in parliament, the Independence Party with 25% of the votes and 16 seats, has never been so small – the party's second worst election result ever, second only to the 2009 election held immediately after the financial crash. There was neither a clear left or right swing in the elections. The right, the Independence Party and Regeneration, went from a total of 28 seats to 20 and the two left-wing parties went from 13 to 18 seats. Centrist parties gained ground, so the coalition question is almost as unclear as in 2016. However, the outgoing opposition parties, the Left-Green Movement, Progressive Party, Social Democrats and Pirate Party, obtained the smallest possible majority of

32 seats. At the time of writing, in early November 2017, they have started formal negotiations on building a government coalition, led by the chairman of the Left-Green Movement, Katrín Jakobsdóttir.

Another significant development during 2017 was the successful and almost complete removal of the capital controls imposed under IMF supervision as an emergency measure following the financial crash of 2008. Having first been delayed and then implemented in stages, the relaxation of controls was not accompanied by a depreciation of the króna or by a sudden outflow of capital. Even so, Iceland remains vulnerable to future swings in capital flows and the exchange rate of the króna, the world's smallest free-floating sovereign currency.

Citation:

Gylfason, Thorvaldur (2016), Iceland's New Constitution Is Not Solely a Local Concern, *Challenge*, 480-490.

Gylfason, Thorvaldur (2016), Constitution on Ice, in *Iceland's Financial Crisis: The Politics of Blame, Protest, and Reconstruction* (2016), Routledge, London, England, ed. Valur Ingimundarson, Philippe Urfalino, and Irma Erlingsdóttir. — Longer version available as CESifo Working Paper 5056, November 2014.

Hardarson, Ólafur Th. (2017), Icelandic Althingi election 2017: One more government defeat – and a party system in a continuing flux. In: *Party Systems and Governments Observatory*. 2nd November 2017.

<https://whogoverns.eu/icelandic-althingi-election-2017-one-more-government-defeat-and-a-party-system-in-a-continuing-flux/>

Reinhart, Carmen M., and Kenneth S. Rogoff (2009), *This Time is Different: Eight Centuries of Financial Folly*, Princeton University Press, Princeton and Oxford.

## Key Challenges

Iceland's next government, which is yet to be formed following the elections in October 2017, will face several key challenges.

Labor market prospects are unclear. Many agreements from 2015 to 2016 will expire between 2017 and 2019, including 39 in the second half of 2017, 84 in 2018 and 142 in 2019. The majority will expire between December 2018 and March 2019. The outcome of these labor market agreements will be important for future agreements. The SALEK agreement between employers' associations and trade unions aimed to introduce a Nordic-style framework for negotiating wages and settle recent labor market disputes, the latter of which had led to widespread strikes and threats of inflation. But state employees and

teachers have never signed the agreement. Consequently, roughly 70% of the labor market has agreed to join the SALEK agreement. The likelihood that the remaining 30% will agree to join is low.

A further challenge will involve strengthening the health care system, which has been under severe financial strain since the 2008 financial crash. Before the 2016 election and again in 2017, every political party promised to pay more attention to restoring health care provision to its earlier standing.

Another major challenge concerns the dramatic rise in tourism in Iceland in the post-collapse period, especially following the volcanic eruption of Eyjafjallajökull in 2010. Between 2010 and 2016, the total number of tourists visiting Iceland rose by 370% from 0.5 million to 1.8 million. This has had a dramatic impact on the national economy as tourism has become the most important earner of foreign exchange, surpassing the fisheries and aluminum industries' combined foreign exchange earnings. Iceland needs more and better infrastructure, including roads and airports, and public services, such as police and health care, to accommodate the huge increase in tourism. Furthermore, an analysis is needed of the expected environmental effects of this increase. There are indications that the influx of tourists will continue in part because oil prices and air fares will likely remain low over the next few years.

Yet another challenge concerns the future of the banking system, which failed so spectacularly in 2008. Governments since the financial crash have not outlined a strategy for the future ownership and organization of Iceland's banking system, including the division between domestic and foreign, and between public and private ownership. Furthermore, there are no discernible plans for introducing foreign competition into Iceland's protected retail banking system, a unique phenomenon in Europe. The problem is not confined to the banks because oligopolistic market structures are a hallmark of Iceland's economy. With several major industries dominated by three or four local firms (e.g., oil, insurance and construction), Iceland needs more foreign competition.

Last but not least, the unresolved question of the new constitution hangs over Iceland like the sword of Democles. In a democratic state, parliament cannot under any circumstances permit itself to disregard the unequivocal results of a constitutional referendum. After the constitutional referendum called by parliament in 2012, in which voters gave their strong support to a constitutional bill drafted by the nationally elected Constitutional Council, parliament has failed to move toward ratification, undermining Iceland's democracy. The reason for this political failure is, first and foremost, the unwillingness of the Independence Party to accept the new constitution's

declaration that “Iceland’s natural resources which are not in private ownership are the common and perpetual property of the nation,” a provision supported by 83% of the voters in the 2012 referendum. The result of the parliamentary elections in October 2017 did not offer a clear path forward. What happens next depends on what kind of coalition emerges and how long it will last.

Citation:

Ferðamálastofa (Icelandic Tourist Board) <https://www.ferdamalastofa.is/is/tolur-og-utgafur/fjoldi-ferdamanna/heildarfjoldi-erlendra-ferdamanna>

Gylfason, Thorvaldur (2016), Chain of Legitimacy: Constitution Making in Iceland, CESifo Working Paper No. 6018, July.

Thorláksson, Indriði H. (2015), “Veiðigjöld 2015. Annar hluti” (“Fishing fees 2015. Part Two”).

Iceland Federalist Papers (2017). [https://escholarship.org/uc/igs\\_ifp](https://escholarship.org/uc/igs_ifp)

# Policy Performance

## I. Economic Policies

### Economy

Economic Policy  
Score: 7

Nine years after the 2008 economic collapse, Iceland's economic policy has still not escaped from the fallout. Even if the capital controls imposed to stabilize the Icelandic króna following the financial crash were for the most part rescinded in 2017, the economy still feels the pinch of the harsh fiscal adjustment strategy, which imposed a retrenchment equivalent to about 10% of GDP between 2010 and 2017. The fiscal adjustment strategy meant that important public services were seriously underfunded as a result, especially health care and education. The relaxation of foreign exchange controls is almost complete. A novel, perhaps lasting part of the relaxation scheme involves an arrangement in the spirit of the Tobin tax. This arrangement requires foreign speculators – who want to benefit from higher interest rates in Iceland than abroad through carry trade – to place a certain portion of their deposits in special accounts that are tied for a certain period. The aim is to reduce short-term fluctuations in capital flows. This seems to have worked well thus far. Moreover, restrictions still apply to derivatives trading for purposes other than hedging and cross-border foreign exchange transactions not intermediated by a financial undertaking as well as certain foreign currency lending by residents to nonresidents. The relaxation was orderly and was not followed by a sudden outflux of capital or depreciation of the króna.

The Icelandic króna strengthened by 8% vis-à-vis the U.S. dollar during 2017 (i.e., during the period under review from November 2016 to November 2017), while remaining essentially unchanged vis-à-vis the euro. This followed the significant strengthening of the króna against both currencies during 2016 due to strong foreign exchange earnings from tourism, and the return of funds to Iceland that had fled the country before and during the financial collapse of 2008. During 2012-2015, the central bank held several auctions at which holders of offshore currency were invited to bring their money back to Iceland at a

discounted exchange rate. It has been reported that several jailed bankers were among those who took advantage of these controversial central bank auctions. Tight fiscal and monetary policies remained in place during 2017, underpinning low inflation accompanied by full employment. Contrary to central bank and IMF projections, inflation remained below 2% during 2017. Even so, employers blame labor unrest, including strikes, for encouraging wage increases that threaten to cause an overall increase in prices. During 2018, a new round of general wage negotiations will take place against the background of substantial wage increases recently granted by the Wage Council to members of parliament, senior public officials and the president of Iceland. Though the president refused to accept the salary increase and donated it to charity.

Following the 2008 economic collapse, the government sought to strengthen the Financial Supervisory Authority (Fjármálaeftirlitið, FME). The FME had performed before the collapse in 2008 as though it had been “designed to fail.” The number of FME personnel increased significantly after the collapse. However, the FME’s annual budget was halved for 2013 and then again for 2014. By late 2017, the efforts of the FME and the special prosecutor had led to the successful prosecution of 35 individuals for legal violations connected to the 2008 crash. The Supreme Court sentenced these individuals to a total of 88 years in prison, equivalent to about 2.5 years per convict on average. The Office of the Special Prosecutor was abolished in 2016 and merged with the Office of the District Prosecutor under the directorship of the former special prosecutor.

The future of the banking sector remains uncertain. The government has not yet presented any concrete plans for restructuring the banks. At the time of writing, the government still owned a majority stake in one of Iceland’s three largest banks, Landsbanki, while creditors of the other two failed banks and foreign venture funds own substantial majority stakes in the other two banks, Arion Banki and Islandsbanki, that replaced the failed Kaupthing and Glitnir. Iceland is one of very few countries in the world without any foreign competition in its domestic banking sector.

Iceland applied for EU membership in 2009. The preceding government had signaled its intention to abide by EU standards and to strengthen Iceland’s institutional environment, including its regulatory policy. Due to disagreements between the government’s coalition partners at that time, the application process was put on hold in January 2013. In 2013, the government expressed its intention to unilaterally retract Iceland’s membership application. A formal withdrawal was announced in the spring 2015. However, the European Union and the Icelandic government seem to disagree on whether this means that Iceland has fully withdrawn from the process. Specifically, the European Union has questioned the authority of Iceland’s foreign minister to unilaterally

withdraw an application approved by parliament. This question is most likely going to remain unanswered for some time.

Citation:

The Annual Reports of the Financial Supervisory Authority 2009, 2011, 2012, 2014, and 2017. (Ársskýrslur Fjármálaeftirlitsins 2009, 2011, 2012, 2014 og 2017).

Annual report on Competition Policy Developments in Iceland 2011. The Icelandic Competition Authority ([http://en.samkeppni.is/media/reports/ICA\\_2011\\_en.pdf](http://en.samkeppni.is/media/reports/ICA_2011_en.pdf)).

Gylfason, Thorvaldur (2015), Iceland: How Could This Happen?, in Reform Capacity and Macroeconomic Performance in the Nordic Countries, eds. Torben M. Andersen, Michael Bergman, and Svend E. Hougaard Jensen, Oxford University Press. — Also available as CESifo Working Paper No. 4605, January 2014.

International Monetary Fund, 2017 Article IV Consultation, IMF Country Report No.

17/163, 22 June 2017, <https://www.imf.org/en/Publications/CR/Issues/2017/06/22/Iceland-2017-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-44998>. Accessed 21 December 2017.

## Labor Markets

Labor Market  
Policy  
Score: 6

Historically, labor market policy has managed to keep unemployment low. Just before the collapse in 2008 the unemployment rate was below 1%, reflecting an overheated economy. However, this was to change dramatically with the collapse. In 2010, the unemployment rate peaked at 7.6% before falling in 2011 to 7.1%. Thereafter, the unemployment rate declined gradually to 3% in 2016, and is expected to rise toward 4% over the next few years, a low rate compared with other European countries.

Iceland's labor market legislation has essentially remained unchanged since 1938 with wage contracts negotiated by the leadership of labor unions and employers' associations, granting both partners significant market power. Many wage contracts are due for renegotiation in 2018. There was great turbulence in the labor market in 2015 and 2016, such as a doctors' strike and other labor disputes, particularly within the public sector (e.g., a joint strike by nurses, other specialized hospital staff, and several other public-sector unions). Most of these disputes were settled before the end of 2015 with collective agreements running to 2019 while others were settled in 2016. A few wage contracts expired in 2017. Many more will expire in 2018, including the wage contract with the Icelandic Confederation of Academics (BHM), and still more contracts will expire in March 2019. The renegotiation of these contracts will be complicated by several recent decisions by the Wage Council to grant double-digit, partly retroactive wage increases to members of parliament and senior public officials, including the president of Iceland. For this reason, a cloud of uncertainty hangs over wage developments, and thus also the prospects for inflation and unemployment over the next few years.

Wage rivalry between labor unions remains a prominent feature of Iceland's labor market, a phenomenon that helps to explain Iceland's high inflation in the past and current fears that inflation may rebound despite favorable external conditions for price stability.

Citation:

Statistics Iceland website, <https://hagstofa.is/talnaefni/samfelag/vinumarkadur/vinumarkadur/>

Gylfason, Thorvaldur, and Assar Lindbeck, "Union rivalry and wages: An oligopolistic approach," *Economica*, May 1984.

### Taxes

Tax Policy  
Score: 6

Tax revenue shot up from 42% of GDP to 58% of GDP in 2016 as a result of the stability contributions made by stakeholders in the old banks to the treasury. These contributions were a condition for being released from the capital control restrictions that had been in place since 2008. Tax revenue is projected to return to 42% of GDP in 2017 and remain stable thereafter. The government in office from January to November 2017 did not change significantly from the tax policy of the 2013-2016 government. Fishing fees remain far below potential as only 10% of the common property resource rent of fisheries accrues to the taxpayer while 90% accrues to vessel owners.

Citation:

International Monetary Fund, 2017 Article IV Consultation, IMF Country Report No.

17/163, 22 June 2017, <https://www.imf.org/en/Publications/CR/Issues/2017/06/22/Iceland-2017-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-44998>. Accessed 21 December 2017.

Indriði H. Thorláksson, "Veiðigjöld 2015. Annar hluti" (Fishing Fees 2015. Part Two), <http://herdubreid.is/veidigjold-2015-annar-hluti/>. Accessed 24 December 2017.

### Budgets

Budgetary Policy  
Score: 6

The 2008 economic collapse dramatically increased the country's foreign debt burden. General government gross debt rose from 29% of GDP at the end of 2006 to 95% in 2011. Thereafter, it decreased gradually to 54% at the end of 2016, and is projected to decline further to 41% in 2017 and to 24% in 2022 (IMF, 2017). Reflecting a reduction in debts which stems in part from a stronger króna, interest payments on the public debt have declined from 4.5% of GDP in recent years to 3.2% in 2017. There is, however, a significant possibility that excessive wage increases will boost inflation and weaken the currency. This, in turn, would cause an increase in the debt burden again, other things being equal. Even so, according to the IMF, Iceland's foreign debt burden would remain sustainable. Nonetheless, fiscal sustainability remains a serious concern for the

government given the dire financial situation of several key public institutions, including the State University Hospital among others.

Three comments are in order. First, Iceland's public debt burden is understated in official statistics because unfunded public pension obligations are not included, which is rare in OECD country data. Second, while the left-wing government of 2009-2013 increased fishing fees significantly and budgeted for further increases, the center-right government of 2013-2016 reversed course and reduced fishing fees against IMF advice, a policy continued by the center-right government of 2016-2017. This reversal reflects a change in public expenditure and tax policy from a progressive to a regressive stance. Third, many public institutions remain in a dire financial situation, including the State University Hospital, universities and schools at all levels, and the State Broadcasting Corporation (RÚV). Fiscal balance is not on a firm foundation when vital public institutions and infrastructure continue to suffer from long-standing financial neglect.

Citation:

International Monetary Fund, 2017 Article IV Consultation, IMF Country Report No. 17/163, 22 June 2017, <https://www.imf.org/en/Publications/CR/Issues/2017/06/22/Iceland-2017-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-44998>. Accessed 21 December 2017.

### Research and Innovation

R&I Policy  
Score: 6

Combined public and private research and development (R&D) expenditure in Iceland totaled 3% of GDP in 2006, one of the highest levels among OECD members. About 40% of this expenditure was provided by the government. This high level of R&D investment reflects the ongoing transformation from an economic focus on agriculture and fisheries toward manufacturing and services. In particular, this has included the creation of new private firms in biotechnology, pharmaceuticals, and high-tech manufacturing. The economic collapse in 2008 affected this for sure and R&D expenditure decreased to 1.8% of GDP in 2013. The ratio increased to 2.2% in 2015, but remains far below the pre-collapse level. More recent figures are not available.

Citation:

<https://hagstofa.is/talnaefni/atvinnuvegir/visindi-og-taekni/rannsóknir-og-throun/>  
<https://www.rannis.is/starfsemi/arsskyrslur/>

### Global Financial System

Stabilizing  
Global Financial  
Markets  
Score: 5

In part because of its small size, Iceland has never made a substantial contribution to the improvement of the international financial, or other comparable international institutional, framework. However, the government

has taken significant steps to address the extreme instability in the domestic financial system.

First, the government in office during 2009-2013 significantly strengthened the Financial Supervisory Authority (FME) and established a Special Prosecutor's Office. The Special Prosecutor's Office was charged with investigating legal violations related to the financial crash, including breach of trust, insider trading, market manipulation and false reporting. By late 2017, the Supreme Court had sentenced 35 individuals to a total of 88 years in prison for offenses relating to the economic collapse. The Special Prosecutor's Office was merged with the District Prosecutor's Office at the end of 2015 under the directorship of the former Special Prosecutor.

The government has sought to strengthen financial supervision by encouraging the FME to impose tougher standards. For example, prior to the crash, banks commonly provided loans without collateral, but this practice has since stopped. It was common practice to extend loans to well-connected customers to purchase equities, with the equities themselves as sole collateral. Presumably, this is no longer being done. However, other practices have not ceased. For example, banks continue to be accused of acting in a discriminatory and nontransparent manner with some customers allowed to write off large debts, while others are not, without appropriate justification for discriminating among customers. A number of Iceland's most prominent business figures avoided bankruptcy following the crash because banks annulled their losses. Under new management, since the proactive director of the FME was replaced in 2012, the FME lacks strong and clear leadership. The FME has once again adopted a passive, non-intrusive strategic approach. According to a February 2017 poll, conducted by opinion research firm Gallup, the banks are the least trusted institutions in Iceland. Only 14% of respondents expressed confidence in the banks, compared with 22% confidence in the parliament, and 19% confidence in the FME.

The present government has yet to propose a plan for the reorganization of the banking system. This means that the future ownership structure of the banks remains uncertain, particularly the division between private and public ownership as well as between foreign and domestic ownership. Foreign competition in the banking sector remains absent, offering huge monopoly rents to bank owners, a unique feature of Icelandic banking which helps explain why bank ownership is so coveted among Iceland's clan-based business elite.

Citation:

<http://www.gallup.is/nidurstodur/traust-til-stofnana/>

## II. Social Policies

### Education

Education Policy  
Score: 6

Public expenditure on education increased prior to 2008, but has since been cut. In 2012, public expenditure on high schools, colleges and universities was significantly less in proportion to GDP than in 2008 – 2009. Since then, the ratio has gone down and was almost 12% lower in 2016 than in 2008.

Municipalities are responsible for primary schools. After 2008, considerable cutbacks and rationalization measures were introduced, including a shortening of the school year. Upper secondary schools and public universities are the responsibility of the central government. The government cabinet during 2013-2016 managed to shorten the duration of upper secondary matriculation from four years to three.

Iceland's universities have been seriously underfunded for a long time. There are seven universities: two private universities supported by state grants and five public universities, including two agricultural colleges. In the first years after the collapse, some steps toward rationalizing the university sector were considered, while some steps were taken to improve cooperation between institutions. Two attempts to merge universities outside the capital area were discontinued during the mandate period 2013-2016. The cabinet in office during 2017 did not take any measures toward mergers during its brief tenure.

The same dire situation prevails at music schools, once the pride of Iceland's education system due to their unique model of private and public funding. In 2016, they fought for their survival, a struggle that continued during 2017.

The OECD, among other institutions, has long highlighted the relatively low proportion of the labor force of Iceland that left school with secondary or tertiary qualifications, a key factor in explaining Iceland's low productivity, long working hours, and high rates of labor force participation.

Citation:  
[www.hagstofa.is](http://www.hagstofa.is) (Statistics Iceland)

OECD: Education at a Glance 2017, Paris.  
<http://www.oecd.org/edu/education-at-a-glance-19991487.htm>

## Social Inclusion

Social Inclusion  
Policy  
Score: 7

Until 2008, the degree of inequality in Icelandic society increased dramatically. This was driven by a regressive tax policy, which in real terms reduced the income threshold at which households are exempt from paying income tax, and a rapid increase in capital income. High inflation further increased the burden on low-income wage earners, although the rate of inflation fell to around 2% at the beginning of 2014 and has since remained at a low level. The left-wing cabinet of 2009-2013 made the tax system more progressive by imposing the smallest tax increases on the lowest income groups. Consequently, according to Statistics Iceland (which failed to publish any information on income distribution until after the crash of 2008), the Gini coefficient for Iceland, excluding capital gains, rose from 24 in 2004 to 30 in 2009 and then fell back to 24 in 2015 (2016 numbers have still not been published). Including capital gains, however, the Gini index for total disposable income in Iceland rose by one point a year from the mid-1990s onward until the crash of 2008, an unprecedented development (Gylfason, 2015, based on data from Internal Revenue Directorate; Ólafsson and Kristjánsson, 2013). Little is still known about the distribution of wealth and whether it became more skewed after the 2008 crash.

However, this does not tell the whole story. The Organization of Disabled in Iceland (Öryrkjabandalagið) argues that their members are being left behind as wages increase. Significant cuts in public expenditure followed the 2008 economic collapse. For example, pensions and social reimbursements were cut, and have not yet been fully restored to their former level. In October 2016, just before the elections, the government announced an increase in pensions to the same level as minimum wages in 2018. In their September 2017 budget proposition, the government announced a further increase in pensions and social reimbursements. The result was a modest increase, far below recent wage increases.

After the crash, many families were dependent on food aid offered by volunteer organizations, a phenomenon not seen in Iceland for decades. Even so, Iceland performs quite well in international poverty comparisons, suggesting that social policies after the economic crisis were reasonably successful. For some households, however, the economic situation remains difficult but is gradually improving. In the past, young Icelanders could take housing for granted. However, house prices have become unaffordable for many because residential construction in the Reykjavík area has not kept up with demand and the tremendous influx of tourists has led to a substantial increase in rents.

## Citation:

Gylfason, Thorvaldur (2015), "Social Capital, Inequality, and Economic Crisis," Challenge, July.

Internal Revenue Directorate (2016), <http://www.rsk.is/>.

OECD website, <http://www.oecd.org/els/soc/income-distribution-database.htm>

Ólafsson, Stefán, and Arnaldur Sölvi Kristjánsson (2013), "Income Inequality in Boom and Bust: A Tale from Iceland's Bubble Economy," in Gornick, Janet C., and Markus Jäntti (eds.), *Income Inequality Economic Disparities and the Middle Class in Affluent Countries*, Stanford University Press, Palo Alto, 416-438.

Ólafsson, Stefán, and Arnaldur Sölvi Kristjánsson, *Inequality in Iceland*, University of Iceland Press, Reykjavík, 2017.

Statistics Iceland (2015), Gini index, quintile share ratio and At-risk-of-poverty threshold 2004-2015, [http://px.hagstofa.is/pxen/pxweb/en/Samfelag/Samfelag\\_launogtekjur\\_4\\_tekjur\\_2\\_tekjur\\_silc/LIF01110.px/table/tableViewLayout1/?rxid=74cea146-49af-49e4-849c-8acf366a0b3a](http://px.hagstofa.is/pxen/pxweb/en/Samfelag/Samfelag_launogtekjur_4_tekjur_2_tekjur_silc/LIF01110.px/table/tableViewLayout1/?rxid=74cea146-49af-49e4-849c-8acf366a0b3a).

## Health

Health Policy  
Score: 6

On average, the health care system in Iceland is efficient and of a high quality. Iceland has one of the highest average life expectancy rates in the world. However, there is considerable variation across regions. For example, health care services in Reykjavík and its surroundings as well as the northern city of Akureyri are much better than in more peripheral areas where patients have to travel long distances to access specialized services. After the 2008 economic collapse, substantial cutbacks for a number of regional hospitals were introduced, closed departments, and centralized specialized care facilities. In addition, smaller regional hospitals and health care centers have serious problems in recruiting doctors.

The University Hospital in Reykjavík (Landsspítalinn Háskólasjúkrahús), by far the largest hospital in Iceland, has for several years been in a difficult financial situation. The 2013-2016 government did not provide adequate additional public funds nor did it allow the hospital to independently raise funds through, for example, patient service fees. The resulting shortage of nursing and other medical staff increased the work pressures on existing staff, including their hours of work. One of the issues in the 2013 election campaign was the question of how to finance a redevelopment of the University Hospital in Reykjavík and the health care system in general. In the 2016 election campaign, this question appeared to be the most important issue for both political parties and voters. This has already led to a modest increase in public health care expenditure.

Opinions remain sharply divided among political parties as to whether partial privatization of hospital services would be desirable.

Life expectancy in 2016 was 82 years, the 13th highest in the world, up from 73 years in 1960 when life expectancy in Iceland was second only to that of Norway (World Bank, 2016).

Citation:

<https://www.stjornarradid.is/media/fjarmalaraduneyti-media/media/frettatengt2016/Fjarlagafrumvarp2017.pdf>  
World Bank (2016), World Development Indicators,  
<http://data.worldbank.org/indicator/SP.DYN.LE00.FE.IN>.

## Families

Family Policy  
Score: 9

Family policy has long supported female participation in the labor force. Iceland's rate of female participation in the labor force, between 75% and 80% since 1991, has long been among the highest in the world. Family policy has also encouraged a more equitable distribution of the burden of child rearing between genders. For example, in 2005, almost 90% of eligible fathers utilized their right to take parental leave of three months.

However, as a consequence of the economic collapse, maximum state payments during parental leave were reduced from ISK 535,000 in 2008 to ISK 300,000 in 2010 per month and, despite increasing to ISK 370,000 in 2014 and 2015, remain 30% below the 2008 level not taking inflation into consideration. Furthermore, average wages for men are higher than for women. This discourages men from taking parental leave, especially since the 2008 economic collapse. In the April 2016 five-year budget plan presented by the short-lived 2016-2017 cabinet, a raise was announced and since October 2016 payments have been ISK 500,000 per month.

Citation:

Gender Equality in Iceland 2017. The Center for Gender Equality (Jafnréttisstofa).  
[http://jafnretti.is/D10/\\_Files/Gender\\_Equality\\_in\\_Iceland\\_2017.pdf](http://jafnretti.is/D10/_Files/Gender_Equality_in_Iceland_2017.pdf)

## Pensions

Pension Policy  
Score: 7

Iceland's pension policy is based on a tax-financed, means-tested social security program supported by tax incentives to encourage participation in occupational pension funds and voluntary savings schemes. The pension funds, which are based on employee contributions of 4% of total wages and employer contributions of 8%, are designed to provide a pension equivalent to 56% of an individual's average working-life wage. In addition, employees can opt to pay a further 4%, with a further employer contribution of 2%, into a voluntary savings program.

In the past, Iceland's pension policy appeared both conducive to poverty prevention and fiscally sustainable. However, Iceland's pension funds experienced heavy losses as their investments in, among other equities, Iceland's banks depreciated substantially following the collapse of the banking system in 2008. These losses, which totaled about a third of GDP, caused most pension funds to reduce their payments to members and further reduced the living standards of pension recipients. The pension funds have recovered since 2008 and once more have an overall assets-to-GDP ratio that is among the highest in the OECD group.

Two main issues confront the pension system. First, the Pension Fund of State Employees, the largest pension fund, has a huge funding gap that will have to be financed through future tax revenue. Second, given that pension funds have previously been used to fund additional social programs, as if supporting the government is more important than safeguarding the interests of retirees, there is a persistent danger that the government will seek to claim access to the funds to support its aims in a time of need.

In 2017, two major changes were made to the system. In March 2017, as part of the relaxation of capital controls, the central bank swept away curbs on pension funds' investments in foreign markets, which had originally been imposed after the 2008 financial collapse. The 2016-2017 government reached an agreement with the trade unions of state employees on their pension rights. The rights of those employees in the A-section of the Pension Fund of State Employees were changed from equal to age-related. At the same time, the state pension age was increased from 65 to 67 years.

Citation:

Ísleifsson, Ólafur (2012), "Vulnerability of pension fund balances," *Stjórnámál og stjórnsýsla*, Vol. 8, No 2., pp. 543-564. <http://www.stjornmalogstjornsysla.is/wp-content/uploads/2012/12/a.2012.8.2.17.pdf>

Lifeyrismal.is Upplýsingavefur um lífeyrismál. <https://www.lifeyrismal.is/is/frettir/breytingar-a-lifeyrissjodakerfi-opinberra-starfsmanna-taka-gildi-i-dag>

OECD Data. Pension funds assets 2015. <https://data.oecd.org/pension/pension-funds-assets.htm>

## Integration

Integration Policy  
Score: 6

Civil rights legislation for immigrants is largely influenced by the Danish and Norwegian models, which also reflects Iceland's obligations under the European Economic Area (EEA) agreement. Separate legislation for immigrants from EEA/EU countries and non-EEA/EU countries makes it difficult for citizens outside the EEA to move into the country. Legislation for non-EEA/EU countries focuses on the need for foreign labor and restricts non-EEA/EU

migrants to temporary work permits. Authorities provide instruction in the Icelandic language for foreign nationals. Nationals from other Nordic countries with three years' consecutive residency in Iceland are eligible to vote in local elections, while for other foreign national's eligibility follows five years of consecutive residency. The right to vote in parliamentary elections presupposes Icelandic citizenship.

The center Alþjóðasetur in Reykjavík provides interpretation and translation services to immigrants. The Directorate of Immigration (Útlendingastofnun) – a division within the Ministry of Interior whose mandate includes processing residence permits, visas and citizenship applications – has repeatedly been criticized for expelling foreign nationals on weak grounds. The Directorate of Labor (Vinnuálastofnun) reaches out to foreigners by, for example, providing important information in English on its website. The Directorate of Labor is also responsible for running the European Employment Services office in Iceland.

In a report on the social and labor market participation of immigrants following the 2008 collapse, Wojtynska and colleagues found that the crisis and unemployment in Iceland in general have resulted in lower labor market participation rates, reduction in working hours, limited over-time and part-time employment, and lower wages. Immigrants are, for example, offered the same job as before but with lower salaries. Participants in the study also complained about increasing prejudice from Icelandic employers to foreign workers. Further, the authors concluded that labor market conditions following the 2008 collapse are much less favorable for immigrants compared with the previous period of economic expansion. One reason is that the industries that were the main employers of foreign citizens were particularly harshly hit by the recession.

In 2015, Iceland received and accepted 82 refugees. The government contributed further grants to the support of refugees for 2016 and the number of refugees in 2016 was 111.

In 2016 and even 2017, as earlier, the Directorate of Immigration repeatedly came under heavy media criticism for its insensitive handling of immigrants and refugees, especially for refusing to grant extensions to individuals who would face grave difficulties if sent back to their home countries.

Citation:

Lög um kosningar til sveitarstjórna nr. 5, 1998 (Law on local government elections no. 5 1998).

Tölfræði hælistmála 2015 [http://utl.is/files/Tlfri\\_yfirlit\\_2015.pdf](http://utl.is/files/Tlfri_yfirlit_2015.pdf)

Tölfræði hælistmála 2016 [http://utl.is/files/Tlfri\\_hlistmala\\_2016.pdf](http://utl.is/files/Tlfri_hlistmala_2016.pdf)

Wojtynska A, Skaptadóttir U D & Ólafsson H (2011): The participation of immigrants in civil society and labor market in the economic recession. Reykjavík. University of Iceland. Faculty of Social and Human Sciences.

## Safe Living

Safe Living  
Conditions  
Score: 8

Iceland has always been a secure place to live, with relatively few assaults, burglaries, or other crimes. However, some changes have occurred since the 2008 economic collapse. The 2007-2009 government was undermined by a series of protests, which – though largely peaceful – did lead to clashes between protesters and riot police in early 2009. While these events led only to minor injuries and some 20 arrests, they were the first serious riots since March 1949's protests against a parliamentary decision to bring Iceland into NATO. Similar riots have not occurred since then. The main policing priority has been Iceland's internal security. The police force has long suffered from a manpower shortage, exacerbated by low pay.

The incidence of drug-smuggling has been on the rise for several years. This trend reflects a related increase in the prevalence of violent attacks by individuals under the influence of alcohol or other drugs in Reykjavík, especially on weekends.

During 2017, four murders were committed in Iceland. Consequently, the country had a rate of 1.2 murders per 100,000 inhabitants in 2017 – the same rate as in Sweden, lower than in Finland (1.6), but higher than in Denmark (1.0) and Norway (0.6).

## Global Inequalities

Global Social  
Policy  
Score: 6

Iceland is a founding member of the United Nations.

The Icelandic International Development Agency (Þróunarsamvinnustofnun Íslands, IIDA) is a public institution associated with the Foreign Ministry, established in 1981. Its mandate is to cooperate with and assist developing countries. Recently, IIDA reduced the number of countries in which it ran projects (bilateral cooperation) from six to three: Malawi, Mozambique, and Uganda. Additionally, the IIDA is involved in a regional project on geothermal power in East-Africa. In late 2015, the Gunnlaugsson cabinet decided to merge the IIDA with the Ministry of Foreign Affairs.

In 2009, Iceland's contribution to development aid amounted to 0.3% of GDP. This was reduced to 0.2% in 2012, well below the U.N. target of 0.7%. In 2014 the contribution rate was still the same 0.2% of GDP but increased to 0.25% in 2016 and 2017. Parliament resolved in 2013 to meet the U.N. target but has failed to implement its resolution. In 2013, Iceland joined the OECD's Development Cooperation Directorate.

Apart from its rather limited development assistance, Iceland has not undertaken any specific initiatives to promote social inclusion in the context of global frameworks or international trade.

Citation:

<https://www.stjornarradid.is/verkefni/utanrikismal/throunarsamvinna/>

### III. Environmental Policies

#### Environment

Environmental  
Policy  
Score: 6

Environmental policy has historically not been a high priority on Iceland's political agenda. The Ministry for the Environment and Natural Resources (Umhverfis- og auðlindaráðuneytið) was established, comparatively late, in 1990. The ministry was a single-issue ministry until 2013 when the ministry was merged with fishery and agricultural affairs. However, a new minister for environment and natural resources was nominated at the end of 2014, separating the two ministerial positions. At the time of writing, this remains the situation.

The country is rich in onshore energy and fresh water resources, and has substantial offshore fisheries. However, apart from the fisheries management system in operation since the mid-1980s, there has been little discussion about how to preserve these resources, reflecting a popular assumption that these resources are, in effect, unlimited.

In early 2013, Iceland's parliament made two significant steps toward addressing the country's nature and natural resources. First, parliament passed a new act, Lög um Náttúruvernd No. 60, which strengthened the regulatory framework for protecting the natural environment. Second, the parliament passed a resolution that implemented aspects of the Master Plan for Hydro and Geothermal Energy Resources 1999–2010 (Rammaáætlun). The plan was based on scientific and impartial advice, rather than special interests, and it was intended to be open to public involvement and scrutiny. The 2013 resolution provided greater substance to the initial plan by stipulating which hydropower and geothermal resources could be used for power generation. However, the Gunnlaugsson cabinet (2013-2016) reversed the previous government's progressive environmental policy agenda. In November 2013, the minister for the environment and natural resources argued that the act had "met great resistance from different groups in the society" and proposed to repeal it by

spring 2013. After bargaining between government and opposition, a final compromise was ratified in late 2015.

Citation:

Althingi. Taken 17. May 2013 from the link [http://www.Althingi.is/pdf/Althing2011\\_enska.pdf](http://www.Althingi.is/pdf/Althing2011_enska.pdf)

Law on nature protection (Lög um náttúruvernd) 2013 nr. 60 10. apríl.

Vernd og orkunýting landsvæða (rammaáætlun) 89. mál þingsályktunartillaga Þál. 13/141 141. löggjafarþingi 2012—2013.

### Global Environmental Protection

Global  
Environmental  
Policy  
Score: 7

The Ministry for the Environment and Natural Resources is responsible for the country's involvement in international environmental affairs. Iceland participates in the UNEP, and is active under the Rio Declaration and Agenda 21 in areas of sustainable development. Iceland is also one of the eight member states of the Arctic Council, a cooperation forum directed primarily toward environmental affairs and sustainable development, which includes five working groups. Two of these working groups – the Conservation of Arctic Flora and Fauna and Protection of the Arctic Marine Environment – are located in Akureyri, in the north of Iceland. In early 2016 it was decided to move the secretariat of the International Arctic Science Committee (IASC) from Potsdam, Germany to Akureyri. The mission of IASC is to encourage and facilitate cooperation in all aspects of Arctic research, among all countries engaged in Arctic research and in all areas of the Arctic region.

Whaling remains a controversial economic activity in Iceland. On 15 September 2014, all 28 EU member states as well as the United States, Australia, Brazil, Israel, Mexico, and New Zealand formally protested the continued practice of whaling in Iceland. Still, the government of Iceland has not yet reacted to this protest.

Iceland is still engaged in a dispute with the European Union over quotas for mackerel fishing. In 2014, an agreement was reached between the European Union, Norway, and the Faroe Islands. However, the agreement did not include Iceland. Mackerel migrate in huge numbers from international to Icelandic waters and Iceland is accused of overfishing the mackerel stocks. At the time of writing, this dispute remains unresolved. Due to reduced quotas and a collapse in markets – following Russia's economic boycott – Iceland has suffered a reduction in income from mackerel fishing, and at least ten fishing communities were reported to suffer dramatically from this in a September 2015 report by the Institute of Regional Development in (Byggðastofnun 2015). The impact of these problems on national and local markets has not been monitored since 2015, so the situation in 2017 is a bit unclear.

Iceland was fully engaged at the Paris conference on climate change in late 2015 and on 22 April 2016 the minister of environment and natural resources signed the Paris agreement.

Citation:

Byggðastofnun (2015): Byggðaleg áhrif viðskiptabanns Rússa. Skýrsla unnin fyrir Sjávarútvegs- og landsbúnaðarráðherra í september 2015. <https://www.byggdastofnun.is/static/files/Skyrslur/byggdaleg-ahrif-innflutningsbanns-russa-endanlegt.pdf>

## Quality of Democracy

### Electoral Processes

Candidacy  
Procedures  
Score: 9

Most Icelandic citizens aged 18 years or over can run for parliament. Exceptions include Supreme Court justices and adult individuals convicted of a serious felony or sentenced to four months or more in custody. For local elections, with the exception of the minimum age limit, these restrictions do not apply. Citizens of other Nordic countries with three years' consecutive residence in Iceland can stand as candidates in local elections. The registration process for candidates and parties is transparent and fair.

The minimum 5% share of the national vote required to get leveling seats (jöfnunarpingsæti) in parliament was set in 2000. In addition to this 5% threshold, parties can win a seat by securing a majority of the vote within a constituency seat. This minimum threshold is the same as in Germany and higher than in the other Nordic countries (Sweden and Norway 4%, Denmark 2%).

A consequence of this system is that many votes fail to directly influence the results. As many as 12% of the votes in 2013 won no parliamentary representation, as they went to candidates or parties that failed to win a constituency seat or polled less than 5% of the national vote. This is the largest unrepresented vote share in Iceland's modern history. This result was due mainly to a record 15 parties running for parliament in 2013.

In the October 2016 parliamentary election, the Independence Party won 33% of the seats in parliament with 29% of the vote, enabling the party to form a majority government based on 47% of the vote. Parties that did not reach the 5% threshold received a total of 5.7% of the vote in 2016.

In the October 2017 parliamentary election, the Independence Party won 25% of the seats in parliament with 25% of the vote, but the Progressive Party won

13% of the seats with 11% of the votes. At the same time, Samfylkingin (Social Democrats) won 11% of the seats with 12% of the votes. Parties that did not reach the 5% threshold received a total of 1.6% of the vote in 2017. Consequently, the system did not significantly distort the outcome in 2017 as was the case in 2013 and the effect of the voting system was smaller.

Citation:

Bengtsson Å, Hansen K M, Harðarson Ó T, Narud H M & Oscarsson H (2014): The Nordic Voter. Myths of exceptionalism. Essex. ECPR Press.

Lög um kosningar til Alþingis nr. 24/2000 (Law on parliamentary elections nr. 24/2000).

Lög um breytingar á lögum um kosningum til Alþingis nr. 16/2009 (Law on changes in law on parliamentary elections nr. 24/2000).

Lög um kosningar til sveitarstjórna nr. 5/1998 (Law on local elections nr. 5/1998).

Media Access  
Score: 7

Formally, all parties or candidates have equal access to media. There are no restrictions based on race, gender, language, or other such demographic factors. However, parties already represented in the national parliament or in local councils have an electoral advantage over new parties or candidates. Furthermore, in the 2013 parliamentary election campaign, several media organizations systematically discriminated against small or new parties, which opinion polls had indicated were unlikely to surpass the 5% minimum vote threshold. However, the state-run media cover all major parties. During the election campaign in the autumn 2017 elections, two small parties complained about not being allowed to participate in the party leader debate on the state-run TV the night before the election day. However, both parties were seen to have very low support and neither ran in all constituencies.

Voting and  
Registrations  
Rights  
Score: 10

Iceland's voting procedure is unrestricted. If an individual is registered as a voter within a constituency, he or she only has to present personal identification to cast a vote. Every person 18 years or older has the right to vote.

Party Financing  
Score: 5

The 2006 law regulating the financing of political parties provides three types of public grants. First, an annual grant, proportional to the national vote share in the previous election, is awarded to any party or independent group with at least one member of parliament or attained at least 2.5% of the national vote in the last election. Second, an annual grant, proportional to the number of seats in parliament, is awarded to all parliamentary parties or independent groups. Third, a grant is awarded to any party or independent group, in a municipality of 500 inhabitants or more, with at least one member in the local council or attained at least 5% of the vote in the last municipal election. The law also regulates private contributions to politics. For example, parties are not allowed to accept more than ISK 400,000 (€3,100) from any private actor, company, or individual.

The National Audit Office (Ríkisendurskoðun) monitors party and candidate finances, and publishes annual summaries that include total expenditure and

income. Income must be classified by origin, identifying companies or other entities contributing to party finances before and during election periods.

Before the 2007 election campaign, political parties reached an agreement that a maximum of ISK 28 million could be spent on TV, radio, and newspaper advertisements. Despite this agreement, there is legal limit on electoral spending. Since 2009, regulation on party finances has been under review, but no final agreement has been reached.

The law on party financing was originally drafted by a committee comprising party representatives, including the chief financial officers of the main political parties. This followed the disclosure by the National Audit Office that, among other things, fishing firms gave 10 times as much money to the Independence Party and the Progressive Party between 2008 and 2011 as to all other parties combined. The Independence Party and the Progressive Party have been and remain particularly generous toward the fishing industry. Similarly, the Special Investigation Committee disclosed that huge loans and contributions were provided by the Icelandic banks to political parties and politicians between 2006 and 2008, on a per capita scale significantly greater than in the United States.

The extent to which the rules are circumvented is not known. The Progressive Party, for example, is known to have received an anonymous loan of ISK 50 million before the 2016 election, a loan that turned out to have been granted by an investment bank headed by the brother-in-law of the discredited former prime minister from the Progressive Party who, months earlier, had resigned in the wake of the Panama Papers scandal.

Citation:

1. Lög um fjármál stjórnmalasamtaka og frambjóðenda og um upplýsingaskyldu þeirra, nr. 162/2006 (Law on the finances of political organizations and candidates and about their information duties nr. 162/2006).
2. Lög um breytingu á lögum nr. 162/2006, um fjármál stjórnmalasamtaka og frambjóðenda og um upplýsingaskyldu þeirra nr. 119 21. september 2010.
3. Kristinsson, G. H. (2007): Íslenska stjórnkerfið. 2. útgáfa. Reykjavík, Háskóli Íslands. (The Icelandic political system. Second edition)
4. Special Investigation Committee (SIC) (2010), "Report of the Special Investigation Committee (SIC)," report delivered to Althing, the Icelandic Parliament, on 12 April. See <http://www.ma.is/eldri-nefndir/addragandi-og-orsakir-falls-islensku-bankanna-2008/skyrsla-nefndarinnar/english/>

Popular Decision-Making  
Score: 5

According to Article 26 of the 1944 Icelandic constitution, "If the Althing has passed a bill, it shall be submitted to the president of the republic for confirmation not later than two weeks after it has been passed. Such confirmation gives it the force of law. If the president rejects a bill, it shall nevertheless become valid but shall, as soon as circumstances permit, be submitted to a vote by secret ballot of all those eligible to vote, for approval or

rejection. The law shall become void if rejected, but otherwise retains its force.” In the 73-year history of the Republic of Iceland, this paragraph has twice led to a nationwide referendum.

In 2012, an advisory national referendum was called by parliament. The referendum asked voters six questions, including whether they wanted to use the draft constitution submitted by the Constitutional Council as the basis for a new constitution. Two-thirds of the voters answered yes to this question. In addition, 73% voted in favor of introducing a stipulation enabling 10% of the electorate to demand a national referendum. This reform would mean that referring legislation passed by parliament to a national referendum would no longer remain the prerogative of the president alone. However, the parliament is yet to ratify the draft constitution or use it as a basis for a new one. In February 2016, a Constitutional Committee appointed by the parliament presented three bills on changes to the constitution. One of these bills concerns national referendums and what share of the electorate is needed to realize such referendums. In the bill, the minimum of 10% earlier suggested was raised to 15%. The three bills were not discussed in parliament before it adjourned before the October 2016 election. No action was taken concerning the new constitution during the tenure of the Benediktsson cabinet (January to September 2017). Proposals for further referendums (e.g., on EU membership negotiations) ring hollow when parliament has yet to respect the outcome of the constitutional referendum of 2012.

A law on local government affairs was passed by parliament in September 2011. This law contained a new chapter called Consultancy with Citizens (*Samráð við íbúa*), which includes paragraphs on local referendums and citizen initiatives. Under its terms, if at least 20% of the population eligible to vote in a municipality demand a referendum, the local authorities are obliged to hold a referendum within a year. However, local councils can decide to increase this threshold to 33% of eligible voters. At the local level, therefore, significant steps have been taken to improve the opportunity for citizen impact between elections.

Citation:

Constitution of the Republic of Iceland No. 33, 17 June 1944.

<http://thjodaratkvaedi.is/2010>

<http://stjornlagarad.is/english/>

Sveitarstjórnarlög nr. 138 28. september 2011

Gylfason, Thorvaldur (2013), “From collapse to constitution: The case of Iceland,” in *Public Debt, Global Governance and Economic Dynamism*, ed. Luigi Paganetto, Springer.

Media Freedom  
Score: 7

### Access to Information

Until privatization in 1986, the state had a monopoly over radio and TV broadcasting. Private stations now have a significant role in the media market. There were nine private TV stations in 2008, 11 in 2011, and all but one offered national coverage. There is only one state-run TV station. In 2004, Freedom House stated that Iceland had an “exceptionally open and free media environment.” Public funding for state-run Radio and TV (RÚV) was cut by ISK 173 million for 2016. In the five-year financial plan for 2017-2022, presented in the summer 2017, increased funding for RÚV was announced.

Owners of private media sometimes try to exercise influence over news coverage. The largest daily newspaper has faced accusations that its owners, a former business magnate and his wife, have unduly influenced content. Meanwhile, Iceland’s second largest daily newspaper is partly owned by fishing magnates and partly by financial investors. Its chief editor is a former Icelandic prime minister and discredited governor of Iceland’s central bank. The newspaper regularly publishes content critical of fisheries policy reforms as well as Iceland’s application for EU membership. Some politicians in government have repeatedly accused state-run radio and TV of bias against the government in their news reporting. However, despite criticism that Iceland lacks a strong, independent media, the position of those seeking to dominate the media has been considerably weakened by the advent of online social media platforms.

A recent example of reduced media freedoms occurred in October 2017, two weeks before the parliamentary elections. The Reykjavík Sheriff’s Department decided to issue a gag order on the newspaper *Stundin*, banning the newspaper from covering leaked documents that outlined questionable and problematic financial transactions involving the prime minister, Bjarni Benediktsson, the chairman of the Independence Party. The gag order and the questions raised by the coverage of *Stundin* had reignited a debate about the corrosive effects of money in politics and the value of a free press. OSCE expressed concern about the gag order, which bars *Stundin* and its partners at investigative journalism outfit Reykjavík Media, from any further reporting on leaked documents from Glitnir bank. The case will be heard in a district court in early 2018.

Citation:

Karlsson, Ragnar (2010): Íslenskur fjölmiðlamarkaður. Framboð, fjölbreytni, samkeppni og samþjöppun. (The Icelandic Media Market. Supply, diversity, competition and concern). An overview prepared for the Ministry of Education and Culture.

Statistics Iceland (Hagstofa Íslands) [www.statice.is](http://www.statice.is)

Media Pluralism  
Score: 6

Media ownership in Iceland can be divided into three blocs, two private ones and one public.

There is one state-owned TV station (RÚV - Sjónvarp) and two state-owned radio channels (RÚV - Rás1 and RÚV - Rás2). There are also five private national TV channels (Stöð2, Sjónvarp Símans, ÍNN, Hringbraut, and N4) and two national private radio channels, separately owned. Until March 2017, the private 365 Media Corporation (365 Miðlar) owned a TV station (Stöð 2), Bylgjan radio station and Fréttablaðið, the larger of the country's two daily newspapers. 365 Media Corporation was the largest media actor in Iceland and has clear connections to Jón Ásgeir Jóhannesson, a business magnate and former bank owner until the 2008 economic collapse. But in March 2017, 365 Media Corporation sold all the TV, radio, and multimedia components of the company to Vodafone – everything except the newspaper Fréttablaðið, which is distributed free of charge to nearly all households in the country. Subsequently, Síminn and Vodafone will own the largest privately-run TV stations in Iceland. Síminn operates Sjónvarp Símans (Síminn's TV) while Vodafone is now the owner of all of 365's broadcast media, namely the TV stations (Stöð 2, Stöð 2 Sport, Stöð 3 and Bíórásin) and radio stations (Bylgjan, FM957 and X-ið).

Morgunblaðið, the second biggest newspaper after Fréttablaðið – still owned by 365 Miðlar, has long been considered the voice of the Independence Party. Its chief editor since 2009 is the former Independence Party prime minister, Davíð Oddsson. Other newspapers include DV, Stundin and Kjarninn, an online news site founded in 2013 by disgruntled journalists previously employed by Morgunblaðið. Fréttatíminn, established in 2010, went out of business in 2017.

Given the somewhat broader ownership of TV and radio media combined with several smaller TV broadcasters, radio stations and newspapers, media ownership in Iceland can be considered fairly pluralistic.

Access to  
Government.  
Information  
Score: 6

The 1997 Information Act (Upplýsingalög), revised in 2012, aims to guarantee the right of access to official information. Memoranda, working documents, and materials related to the Council of the State (Ríkisráð), cabinet, and ministerial meetings were originally exempted. In 2011, a revision to the Act on the Government of Iceland (Lög um Stjórnarráð Íslands) mandated that the agenda of cabinet meetings be presented to the media and published on the government's website after each meeting. Paragraph nine states that the prime minister can decide, with cabinet approval, to create ministerial committees on an issue-specific basis. Following a 2015 revision, two permanent ministerial committees were established to oversee state finances and economic affairs.

Sensitive financial and personal information, as laid out in the Act on Processing and Protection of Personal Data (No. 77/2000), is not accessible unless permission is obtained from the person involved. Access to restricted information is available once the measures associated with the information are complete, after a period of 30 years for general information or 80 years for personal information (as per the National Archives Act, No. 66/1985). Information regarding the security or defense of the state, or international commercial activities is also exempted from the act. Decisions denying access to 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.

Despite these provisions, public access to information can be restricted. For example, the central bank refused a parliamentary committee's request to see a transcript or hear an audio recording of a fateful telephone conversation between the prime minister and the central bank governor shortly before the 2008 economic collapse.

Governments have proved to be quite secretive about potentially compromising information. For example, an official report on Icelanders whose names appear in the Panama Papers was ready well before the October 2016 parliamentary election but was not disclosed to the public until after the election in which all three ministers whose names appeared in the Panama Papers were re-elected to their seats in parliament. There have been several other recent scandals involving information withheld from the public. One such scandal led to the collapse of the government in 2017.

Citation:

The National Archives Act no. 66/1985. (Lög um Þjóðskjalasafn Íslands no. 66/1985).

Information Act (Upplýsingalög). Act no. 50/1996.

Act on Processing and Protection of Personal Data. (Lög um persónuvernd og meðferð persónuupplýsinga) Act no. 77/2000.

Act on the Government of Iceland (Lög um Stjórnarráð Íslands) nr. 115 23. september 2011.

Change of Act on the Government of Iceland (Lög um Stjórnarráð Íslands) nr. 115 23. september 2011.

(Lög um breytingu á lögum nr. 115/2011, um Stjórnarráð Íslands (skrifleg framlagning mála á ríkisstjórnarfundum)).

Lög um breytingu á lögum um Stjórnarráð Íslands, nr. 115/2011, með síðari breytingum (skipulag ráðuneyta og stofnana o.fl.) nr. 82 13. júlí 2015.

### Civil Rights and Political Liberties

Civil Rights  
Score: 8

The Icelandic state fully respects and protects civil rights, and courts effectively protect citizens. Where there is evidence of disregard for civil rights, courts generally rule against the government.

However, there are specific exceptions to this rule. Most importantly, the United Nations Committee on Human Rights (UNCHR) issued a binding opinion in 2007 to the effect that, because of its discriminatory nature, the management system of Iceland's fisheries constituted a violation of human rights. It furthermore instructed the government to change the system and to pay damages to those whose rights had been violated. The government responded by promising to pass a new constitution with a provision declaring the country's natural resources to be the property of the nation. The UNCHR later dropped the case, saying that Iceland's promise of a new constitution was partly sufficient. However, the parliament has not ratified a new constitution nor tried seriously to revise the old one from 1944.

The European Court of Justice (ECJ) has heard several petitions by Icelandic citizens recently that their civil rights have been violated. In almost all of these cases, the ECJ has ruled in favor of the petitioner, casting doubt on the ability of Icelandic courts to protect civil rights effectively. Most recently, for example, journalists who had been found guilty of libel in Iceland were declared innocent by the ECJ. Following a number of similar ECJ rulings in recent years, Icelandic courts have demonstrated an increased tendency to acquit defendants in politically motivated libel cases. Nevertheless, defendants in several recent libel cases have had to bear the cost of their legal defense, despite being acquitted.

Citation:

Gylfason, Thorvaldur (2016), *Constitution on Ice*, forthcoming in *Iceland's Financial Crisis: The Politics of Blame, Protest, and Reconstruction*, eds. Valur Ingimundarson, Philippe Urfalino, and Irma Erlingsdóttir, Routledge, London. — Also available as CESifo Working Paper 5056, November 2014.

Political Liberties  
Score: 9

The 1944 constitution contains provisions protecting the freedom of the press as well as freedoms of organization and assembly. The 2011/2012 constitutional bill, which remains to be ratified by the parliament, aims to significantly broaden individual rights and liberties further in line with international developments in the area of human rights. The new constitution supported by 67% of the voters in the national referendum called by parliament in 2012, remains on the table. In the October 2017 parliamentary election campaign, five parties declared support for ratification of the new constitution, namely the Social Democrats, the Pirate Party, the Left-Green Movement, Regeneration and Bright Future. The only sworn opponent of constitutional change is the Independence Party, which continues to behave as if the constitutional referendum of 2012 did not take place.

Non-discrimination  
Score: 6

Iceland's constitution states that every person should enjoy equal human rights regardless of gender, religion, opinion, national origin, race, color, property, birth, or other status. More specific provisions are to be found in the Penal Code, the Administrative Procedure Act, and the Equality Act. The Supreme

Court has ruled based on those acts and the constitution. The Equality Act states that genders should be accorded equal rights in all areas of society and that discrimination in terms of pay, hiring, and employment is against the law. The Center for Gender Equality monitors adherence to this law and is obliged to refer all major cases to the courts.

Although equal rights are guaranteed by law, the reality is that discrimination occasionally occurs in Iceland, especially against women, disabled persons, and migrants. In the 2012 presidential elections, blind and physically disabled voters were denied the right to have an assistant of their own choice to help them vote at polling stations. Instead, they had to vote with help from public officials working at the polling stations. Following complaints from the Organization of Disabled in Iceland (Öryrkjabandalagið), the electoral laws were adjusted to allow blind or otherwise physically disabled individuals to independently nominate their own assistant who would be sworn to secrecy. This change applied to the 2013 parliamentary elections.

The government's non-compliance with the binding opinion of the United Nations Human Rights Committee, which ruled in 2007 that the management system of Iceland's fisheries was discriminatory, signals a less-than-full commitment to non-discrimination.

The U.N. Convention on the Rights of Persons with Disabilities was signed on behalf of the Icelandic government in March 2007. It was not until September 2016 that the Icelandic parliament, Althingi, passed a resolution to enable the government to ratify the convention. At the time of writing, this remains to be done.

Citation:

The Penal Code (Almenn hegningarlög no. 19/1940).

The Administrative Procedure Act (Stjórnsýslulög no. 40/1993).

The Gender Equality Act (Lög um jafna stöðu og jafnan rétt kvenna og karla no. 10/2008).

Act on changes on the Act on Parliamentary Elections (Lög um breytingu á lögum um kosningar til Alþingis nr. 24/2000 og lögum um kosningar til sveitarstjórna nr. 5/1998 (aðstoð við kosningu). Lög nr. 111 16. október 2012.

Pingsályktun um fullgildingu sammings Sameinuðu þjóðanna um réttindi fatlaðs fólks. <http://www.althingi.is/altext/145/s/1693.html>

### Rule of Law

Legal Certainty  
Score: 9

Icelandic state authorities and administration respect the rule of law, and their actions are generally predictable. However, there have been cases in which verdicts by Icelandic courts and government actions have been overruled on appeal by the European Court of Human Rights. There have also been

examples of Supreme Court verdicts that have been overruled by the European Court of Justice. Some of these cases have dealt with journalists' free speech rights – the latest example is the case of journalist Erla Hlynsdóttir.

A relatively recent case of a different kind has a bearing on legal certainty. The Supreme Court ruled, first in June 2010 and more recently in April 2013, that bank loans indexed to foreign currencies were in violation of a 2001 law. As such, the asset portfolios of Icelandic banks contained invalid loans. These examples demonstrate that the banks acted contrary to the law. Neither the government nor any government institution, including the central bank and the Financial Supervisory Authority, paid sufficient attention to this violation. A governor of the central bank was even among those who had drafted the 2001 legislation. Even after the Supreme Court ruled that these loans were null and void, the banks have been slow to recalculate the thousands of affected loans. Individual customers have had to sue the banks in an attempt to force them to follow the law.

Citation:

Lög um vexti og verðtryggingu (Law on interest and indexation) no. 38 2001.

<https://www.innanrikisraduneyti.is/raduneyti/starfssvid/mannrettindi/mannrettindadomstoll-evropu/nr/29388>

Judicial Review  
Score: 7

Iceland's courts are not generally subject to pressure by either the government or powerful groups and individuals. The jurisdiction of the Supreme Court to rule on whether the government and administration have conformed to the law is beyond question. According to opinion polls, confidence in the judicial system ranged between 50% and 60% before 2008. After falling to about 30% in 2011, it recovered to 39% in 2013 and remained at around 40% in 2014 and 2015 and is currently at 43% (2017). Recovering trust in the judicial system seems to be taking time.

Many observers consider the courts biased, as almost all judges attended the same law school and few have attended universities abroad. Of the six Supreme Court justices who ruled that the constitutional assembly election of 2010 was null and void, five were appointed by ministers of justice belonging to the same party (Independence Party).

In 2017, a sitting Supreme Court justice sued a former justice for libel. Another sitting justice speculated in a newspaper interview that the former justice may also have broken the law by seeking, while on the bench, to interfere in a case handled by another justice. Disputes between justices do not inspire confidence and trust, least of all when they trade accusations of illegal behavior.

Citation:

<http://www.gallup.is/nidurstodur/traust-til-stofnana/>

Gunnlaugsson, Jón Steinar, "Með lognið í fangið – um afglöp Hæstaréttar eftir hrun" (With the Stream – On the Blunders of the Supreme Court After the Crash), BP útgáfa, Reykjavík, 2017.

Appointment of  
Justices  
Score: 3

To date, all Supreme Court and district court judges have been appointed by the minister of the interior, without any involvement from or oversight by parliament or any other public agency. However, all vacancies on the Supreme Court were advertised and the appointment procedure was at least formally transparent. As part of the appointment process, a five-person evaluation committee was appointed and tasked with recommending a single applicant. A 2010 change to the Act on Courts restricted the minister's ability to appoint any person not found to be sufficiently qualified by the committee unless such an appointment is approved by the parliament. This aimed to restrain the minister's authority by introducing external oversight.

A new Act on Courts was passed by parliament in June 2016, authorizing the minister to ask parliament to authorize the appointment of judges other than those recommended by the evaluation committee. The act was criticized, among other things, for taking inadequate steps concerning the minister of the interior's ability to make judicial appointments subject to significantly weaker restraints than those stipulated in the constitutional bill approved in the 2012 referendum. One academic and former judge stated in testimony to a parliamentary committee that the bill does not address the public's declining confidence in the court system (Björgvinsdóttir, 2016).

In 2009, the European Union expressed concern over the recruitment procedures for judges. The Group of States against Corruption (GRECO) has also criticized the process for appointing judges in Iceland. The 2011/2012 constitutional bill proposes that judicial appointments should be approved by the president or a parliamentary majority of two-thirds.

Many appointments to the courts continue to be controversial. In many cases, the scrutiny of Supreme Court candidates seems superficial. For instance, little attention is given to how often rulings by lower court judges have been overturned by the Supreme Court. Furthermore, a retired Supreme Court justice, whose own appointment was controversial, published a book in 2014 criticizing his former court colleagues for their alleged opposition to his appointment as well as for some of their verdicts that he deemed misguided (Jón Steinar Gunnlaugsson, 2014). He has since directed further attacks at his former colleagues for violating rules regarding conflict of interest, among other things.

In 2017, the minister of justice appointed 15 new judges to a new intermediary court between the district court level and the Supreme Court, including four judges deemed less qualified than other available applicants according to the review committee's assessment of the applications. Two of the applicants who were bypassed sued and were awarded damages by the Supreme Court. A third applicant has announced that he will also sue for substantial damages. The Supreme Court has ruled that the minister of justice broke the law when she bypassed the recommendations of the review committee. The minister, from the Independence Party, appears likely to have to face a vote of no confidence in parliament.

For all but ten years between 1926 and 2016, control of the Ministry of Justice and the authority to appoint judges alternated between the Independence Party and the Progressive Party. (As part of the reorganization of ministries, the ministry was named the Ministry of the Interior for a short while but the name was subsequently changed back to Ministry of Justice).

Citation:

Act on Courts. (Lög um dómstóla nr. 15 25 March 1998, revised 7 June 2017).

Björgvinsdóttir, Áslaug (2016). Comment on proposed Act on Courts, presented to parliament 19 April 2016, <http://www.althingi.is/alttext/erindi/145/145-1514.pdf>.

Change of the Act on Courts. (Lög um breyting á lögum um dómstóla nr. 15 1998 með síðari breytingum (skipun dómara) nr. 45 26. maí 2010).

Gunnlaugsson, Jón Steinar (2014), Í krafti sannfæringar, Forlagið, Reykjavík.

GRECO (2013), Report on Iceland, [http://www.coe.int/t/dghl/monitoring/greco/evaluations/round4/ReportsRound4\\_en.asp](http://www.coe.int/t/dghl/monitoring/greco/evaluations/round4/ReportsRound4_en.asp)

GERCO (2015), Report on Iceland, [http://www.coe.int/t/dghl/monitoring/greco/evaluations/round4/RC4/GrecoRC4\(2015\)3\\_Iceland\\_EN.pdf](http://www.coe.int/t/dghl/monitoring/greco/evaluations/round4/RC4/GrecoRC4(2015)3_Iceland_EN.pdf)

Corruption  
Prevention  
Score: 5

Financial corruption in politics is not viewed as a serious problem in Iceland, but in-kind corruption – such as granting favors and paying for personal goods with public funds – does occur. Regulatory amendments in 2006, which introduced requirements to disclose sources of political party financing, should reduce such corruption in the future.

In very rare cases, politicians are put on trial for corruption. Iceland has no policy framework specifically addressing corruption because historically corruption has been considered a peripheral subject. However, the appointment of unqualified persons to public office, a form of in-kind corruption, has been and remains a serious concern. Other, subtle forms of in-kind corruption, which are hard to quantify, also exist. The political scientist Gissur Ó. Erlingsson claims that corruption in mature democracies, including Iceland, is perhaps more of the character of nepotism, cronyism, and “You scratch my back, I’ll scratch yours.” A recent article by Gissur and another Icelandic political scientist, Gunnar Helgi Kristinsson, concluded that “corruption is rare but still clearly discernible. Less serious types of

corruption, such as favoritism in public appointments and failure to disclose information, are more common than more serious forms, such as extortion, bribes and embezzlement. Nonetheless, it should be noted that a sizable minority of experts still believe corruption is common, especially in the case of favoritism and fraud.”

The collapse of the Icelandic banks in 2008 and the subsequent investigation by the Special Investigation Committee (SIC), among other bodies, highlighted the weak attitude of government and public agencies toward the banks, including weak restraints and lax supervision before 2008. Moreover, three of the four main political parties, as well as individual politicians, accepted large donations from the banks and affiliated interests. When the banks crashed, 10 out of the 63 members of parliament owed the banks the equivalent of more than €1 million each. Indeed, these personal debts ranged from €1 million to €40 million, with the average debt of the 10 members of parliament standing at €9 million. Two of the ten members of parliament in question are still in parliament and the cabinet without having divulged whether they have settled their debts or not. The SIC did not report on legislators that owed the banks lesser sums, e.g., €500,000. GRECO has repeatedly highlighted the need for Icelandic members of parliament to disclose all their debts beyond standard mortgage loans. In 2015, GRECO formally complained that Iceland had not responded to any of its recommendations in its 2013 report on Iceland.

In November 2011, parliament passed a law that obliges members of parliament to declare their financial interests, including salaries, means of financial support, assets, and jobs outside parliament. This information is publicly available on the parliament’s website.

According to Transparency International’s Corruption Perceptions Index 2016, which measures business corruption, Iceland scored 78 out of 100, where a score of 100 means absolutely no corruption. Although this score implies that Iceland is relatively free of corruption, it is still well behind the other Nordic countries, which score between 85 and 90. In an assessment of political corruption in 2012, Gallup reported that 67% of Icelandic respondents view corruption as being widespread in government compared with 14% to 15% in Sweden and Denmark.

New information, including emails leaked from one of the failed banks, about corruption surrounding the crash of 2008 and involving the outgoing prime minister, has come to light. This information led to a gag order being imposed on the newspaper Stundin shortly before the election. The case will be heard in court in early 2018.

## Citation:

Erlingsson, Gissur Ó. & Kristinsson, Gunnar H (2016): Measuring corruption: whose perceptions should we rely on? Evidence from Iceland. In "Icelandic Review of Politics and Administration" Vol. 12, Issue 2 (p. 215-236). <http://www.irpa.is/article/view/a.2016.12.2.2/pdf>

Erlingsson, Gissur Ó. (2014): CORRUPTION IN LOW CORRUPT COUNTRIES: THE CASE OF SWEDEN. Open lecture given at the University of Akureyri, Iceland 19th September 2014.

Special Investigation Committee (SIC) (2010), "Report of the Special Investigation Commission (SIC)," report delivered to parliament 12 April.

Rules on registration of parliamentarians financial interests. (Reglur um skráningu á fjárhagslegum hagsmunum alþingismanna og trúnaðarstörfum utan þings. Samþykkt í forsætisnefnd Alþingis 28 nóvember 2011.).

<http://www.transparency.org/cpi2014/results>

Gallup (2013), Government Corruption Viewed as Pervasive Worldwide, <http://www.gallup.com/poll/165476/government-corruption-viewed-pervasive-worldwide.aspx>

Gylfason, Thorvaldur (2015), "Social Capital, Inequality, and Economic Crisis," Challenge 58, No. 4, July, 326-342.

# Governance

## I. Executive Capacity

### Strategic Capacity

Strategic  
Planning  
Score: 3

Long-term strategic planning in Iceland is often vague, with comparatively weak execution, supervision, and revision of plans. When specific objectives are established in the policy planning phase, a lack of sufficient incentives or institutional mechanisms typically limits their realization. As a result, the government can delay or change strategic plans. For example, parliament approves a strategic regional policy every four years (Stefnumótandi byggðaaáætlun), but – as this plan has the status of a parliamentary resolution and not legal status – the government has no binding obligation to implement the plan. Consequently, only certain aspects of these four-year plans have ever been implemented.

Policymaking is monitored by cabinet ministers who rely on their respective ministerial staff for advice and assistance.

Citation:

Special Investigation Committee (SIC) (2010), “Report of the Special Investigation Commission (SIC),” report delivered to parliament 12 April.

Parliamentary resolution on regional policy (Þingsályktun um stefnumótandi byggðaaáætlun fyrir árin 2014–2017. 143. löggjafarþing 2013–2014.Nr. 21/143. Þingskjal 1083 — 256. mál.).

Stefnumótandi byggðaaáætlun 2017-2013. <https://www.byggdastofnun.is/is/byggdaaaetlun/byggdaaaetlun-2017-2023>

Scholarly Advice  
Score: 6

Governments occasionally consult academic experts. Typically, these experts are trained lawyers who provide advice on the preparation of specific laws or public administration practices, but economic and engineering experts have also been consulted. Moreover, these experts are often affiliated with the political party of respective minister seeking their advice. Meanwhile independent experts involved in the policy process have previously complained that their views were ignored. Thus, impartial, non-governmental

experts should not be considered to have had a strong influence on decision-making.

However, the 2008 economic collapse changed this pattern. The need for scholarly advice on judicial, financial, and economic issues, as well as on questions of public administration, increased markedly. This was particularly the case with the April 2010 parliamentary Special Investigation Committee (Rannsóknarnefnd Alþingis) report, which investigated the causes of the economic collapse. A number of experts in various fields – including law, economics, banking, finance, media, psychology, philosophy, political science and sociology – contributed to the report. While no data exists on the broader use of expert advice in governmental decision-making, the Special Investigation Committee experience may have expanded the role of experts overall.

Foreign experts are occasionally called upon. In 2017, four teams of foreign economists were asked to evaluate Iceland's monetary policies and prospects.

Academic experts called upon to advise the government are commonly viewed as being politically partisan. This has reduced public confidence in academic expertise in Iceland. According to GALLUP, a market research firm in Iceland, public confidence in the University of Iceland dropped considerably from 85% before 2008 but is recovering now and was 76% in 2017.

Citation:

<http://www.gallup.is/nidurstodur/traust-til-stofnana/>

### Interministerial Coordination

GO Expertise  
Score: 6

The Prime Minister's Office has the fewest staff members of any of the country's ministries and a limited capacity for independently assessing draft bills. The left-wing cabinet (2009-2013) merged a number of ministries together, reducing the total number of ministries from 12 to 8. A primary justification was that some ministries lacked broad-based expertise and the merger would make this expertise more widely accessible, which has in some cases been achieved. The Gunnlaugsson center-right cabinet (2013-2016) partially reversed this reform in 2013 by appointing separate ministers to head the Ministry of Welfare's subdivisions of Social Affairs and Housing, and Health Affairs. Furthermore, a separate minister of environment and resources was appointed at the end of 2014. These changes increased the number of ministers from 8 to 10. After the 2016 elections a cabinet comprising three parties was established – the Benediktsson cabinet coalition. This led to an increase in ministerial posts from 10 to 11. The Ministry of Interior was split

in two so that separate ministers took care of justice, and communications and local government affairs. The increase from 8 to 11 from 2009 to 2017 indicates that political parties tend to behave as interest organizations of politicians. The draft constitution from 2011/2012 stipulates that the number of cabinet ministers must not exceed 10.

GO Gatekeeping  
Score: 10

The Prime Minister's Office has no formal authority. Formally issues can only be approved in cabinet if a unanimous decision is reached by ministers. In practice, however, prime ministers can return items to cabinet despite this authority not being explicitly granted by law.

Line Ministries  
Score: 8

Due to a strong tradition of ministerial independence, ministries have considerable flexibility in drafting their own policy proposals without consulting the Prime Minister's Office. Yet, where a minister and prime minister belong to the same party, there is usually some Prime Minister's Office involvement. However, where the minister and prime minister belong to separate coalition parties the Prime Minister's Office has little or no involvement in policy development. After the publication of the Special Investigation Committee report in 2010, a committee was formed to evaluate and suggest necessary steps toward the improvement of public administration. In order to improve working conditions within the executive branch, the committee proposed introducing legislation to clarify the prime minister's role and responsibilities. In March 2016, new regulations on governmental procedures were approved (Reglur um starfshætti ríkisstjórnar), requiring ministers to present all bills they intend to present in parliament first to the cabinet as a whole.

Citation:

Reglur um starfshætti ríkisstjórnar. Nr. 292/2016 18. mars 2016.

Skýrsla starfshóps forsætisráðuneytisins (2010): Viðbrögð stjórnýslunnar við skýrslu rannsóknarnefndar Alþingis. Reykjavík, Forsætisráðuneytið.

Cabinet  
Committees  
Score: 6

Cabinet committees rarely prepare cabinet meetings, although the Budget Committee and some ad hoc committees are exceptions. However, the majority of items on cabinet meeting agendas are prepared by ministers often with two or more ministers coordinating the cabinet meeting. In the immediate aftermath of the 2008 economic collapse, cooperation between ministers increased, particularly between the prime minister, the minister of finance, and the minister of commerce. However, this change was temporary and intended only to facilitate the cabinet's immediate reactions to the 2008 economic collapse. In February 2013, new regulations were introduced permitting the prime minister to create single-issue ministerial committees to facilitate coordination between ministers where an issue overlaps their authority areas.

Records must be kept of all ministerial committee meetings, but these are not made public.

The number of ministerial committees to coordinate overlapping policy issues has been reduced since the preceding review period from 7 to 3. These committees include the Ministerial Committee on Public Finances (Ráðherranefnd um ríkisfjármál), with four ministers, and the Ministerial Committee on National Economy (Ráðherranefnd um efnahagsmál), with four ministers. The newly established Ministerial Committee on Coordination of Issues that concern more than one ministry (Ráðherranefnd um samræmingu mála er varða fleiri en eitt ráðuneyti) encompasses the former ministerial committees on Equality, On Solutions for the Debts of Families, on Arctic Affairs, and on Public Health Affairs. Even though this includes all possible issues, four are specifically mentioned: Equality, issues of refugees and immigrants, arctic affairs, and public health.

Citation:

Rules on procedures in ministerial committee meetings. (REGLUR um starfshætti ráðherranefnda. Nr. 166/2013 22. febrúar 2013).

<https://www.stjornarradid.is/rikisstjorn/radherranefndir/>

Ministerial  
Bureaucracy  
Score: 7

Ministry officials and civil servants play an important role in preparing cabinet meetings. Even so, no cooperation between ministries is presumed in cases when the ministers themselves are not involved. As a consequence of the strong tradition of ministerial power and independence, the involvement of too many ministries and ministers has been found to be a barrier to policymaking. Currently, coordination between ministries is irregular. The prime minister has the power to create coordination committees, but the number of active committees is currently low.

Informal  
Coordination  
Score: 7

There is evidence that informal cooperation between ministers outside of formal cabinet meetings is increasing. These cooperative ministerial clusters were referred to in the Special Investigation Committee's 2010 report as "super-ministerial groups." The SIC report pointed out that examples of such cooperation immediately after the 2008 economic collapse demonstrated a need for clear rules on reporting what is discussed and decided in such informal meetings.

The SIC report also identified a tendency to move big decisions and important cooperative discussions into informal meetings between the chairmen of the ruling coalition parties. In March 2016, revised regulations on the procedures for cabinets were introduced but this only addresses formal cabinet meetings and not informal ministerial meetings. Therefore, we can conclude that the

SIC report's call for clearer regulation has partly been addressed. However, informal meetings continue without proper reporting.

Citation:

The SIC report from 2010. Chapter 7. (Aðdragandi og orsakir falls Íslensku bankanna 2008 og tengdir atburðir (7). Reykjavík. Rannsóknarnefnd Alþingis).

Reglur um starfshætti ríkisstjórnar. Nr. 292/2016. 18. mars 2016. (Rules on procedures in cabinets).

### Evidence-based Instruments

RIA Application  
Score: 7

Iceland had no history of conducting regulatory impact assessments until March 2016 when new regulations on cabinet procedures were enacted (Reglur um starfshætti ríkisstjórnar). Paragraph 13 concerns impact assessment of cabinet bills. Every minister shall evaluate the impact, including financial impact, of every bill he intends to submit to the parliament. This impact assessment shall be a part of the explanatory statement with the bill. However, the methodology for these impact assessments is not defined further in the regulations.

Citation:

Reglur um starfshætti ríkisstjórnar. Nr. 292/2016 18. mars 2016.

Quality of RIA  
Process  
Score: 5

The new regulations on cabinet procedures (Reglur um starfshætti ríkisstjórnar), including paragraph 13 about impact assessments of cabinet bills, partly ensure participation, but they are too limited to ensure quality because the methodology is not presented. Stakeholders, other ministries, and the public shall be informed during the process, which is an important step toward transparency.

Citation:

Reglur um starfshætti ríkisstjórnar. Nr. 292/2016 18. mars 2016.

Sustainability  
Check  
Score: 5

The new regulations on cabinet procedures, enacted in March 2016, do not include anything about sustainability checks as parts of the impact assessment. However, financial impact is mentioned.

Citation:

Reglur um starfshætti ríkisstjórnar. Nr. 292/2016 18. mars 2016.

### Societal Consultation

Negotiating  
Public Support  
Score: 6

Iceland has a long tradition of formal and informal consultation between government and labor market associations. The 2008 economic collapse led to

greater and closer consultation. In February 2009, the government, the municipalities, and the major labor market associations signed the so-called Stability Pact (Stöðugleikasáttmáli). Repeated disputes finally led to a withdrawal from the pact by the main employers' association.

Another example of public consultation was the process of revising the 1944 constitution. This process involved the creation of a national assembly, comprising 950 individuals selected at random from the national register. In addition, a further 25 constituent assembly representatives were nationally elected from a list of 522 candidates. The constituent assembly, later called the Constitutional Council, unanimously passed a constitutional bill in close accord with the conclusions of the national assembly in 2011. However, parliament has not yet ratified the bill, even though the bill received the support of 67% of voters in a national referendum in October 2012. Parliament's disregard for the result of the constitutional referendum is seen by many as a serious blow to Iceland's democracy. Before the parliamentary elections in October 2016 all four opposition parties declared that, if elected, they would seek to form a government that would ratify the new constitution. In the 2017 election campaign, five parties declared, to varying degrees, support for the new constitution, namely the Social Democrats, the Pirate Party, the Left-Green Movement, Regeneration and Bright Future. The support for these parties totaled 46% of the votes and 28 out of 63 seats. The only firm opponent of the new constitution, the Independence Party, won 25% of the vote and 16 seats.

Wage disputes affected labor market stability in 2014 and 2015 beginning with strikes by doctors and nurses. In late 2015, the government, several trade unions and employers' associations signed a deal on wage contract negotiation methods, which would move Iceland toward the so-called Nordic corporatist model. This SALEK deal covered about 70% of all trade union members. At the time of writing, the other 30% still have not made any SALEK deal and a realization of the deal seems to be distant.

Citation:

Constitutional Bill (2012), <http://www.thjodaratkvaedi.is/2012/en/proposals.html>

Euractiv.com, <http://www.euractiv.com/enlargement/icelanders-opens-way-crowdsourcing-ews-515543>

Gylfason, Thorvaldur: Constitution on ice, in Erlingsdóttir, Irma, Valur Ingimundarson, and Philippe Urlfalino (eds.), *The Politics of the Icelandic Crisis* (forthcoming). Also available as CESifo Working Paper No. 5056, November 2014. See [https://notendur.hi.is/gylfason/cesifo1\\_wp5056.pdf](https://notendur.hi.is/gylfason/cesifo1_wp5056.pdf)

Coherent  
Communication  
Score: 5

### Policy Communication

The government of Iceland generally speaks with one voice. However, in the so-called West Nordic administrative tradition, where ministers are responsible for institutions subordinate to their ministries, every minister has the power to make decisions without consulting other ministers. Nevertheless, ministers rarely contradict one another and generally try to make decisions through consensus.

However, the 2009-2013 cabinet proved to be an exception to this tradition since three Left-Green Movement parliamentary members withdrew from the governing party coalition. That brought the government close to the threshold of becoming a minority government and forced it to negotiate with the opposition on contentious issues. Despite this internal dissent, the cabinet coalition held together to the end of its mandated term.

Under the 2013-2016 center-right cabinet comprising the Progressive Party and the Independence Party the situation has reverted to the traditional Nordic practice. The leaders of the two coalition parties sometimes issued conflicting statements, but this did not result in any open conflict.

In early April, however, events took a dramatic turn following the publication of the Panama Papers, 11.5 million leaked documents that detail financial and attorney-client information for more than 200,000 offshore entities, exposing how wealthy individuals and public officials may use offshore bank accounts and shell companies to conceal their wealth or avoid taxes. On 3 April, the Icelandic state-run television (RÚV) showed an interview with Prime Minister Gunnlaugsson (Progressive Party) on a Swedish TV-program “Uppdrag granskning” (Mission Investigation). He was asked about his and his wife’s ownership of an offshore bank account in the Virgin Islands. Gunnlaugsson denied ownership, but after having been confronted with the evidence, he walked out of the interview. On the second day after this incident he went to the president, without the knowledge of the leader of the Independence Party, to try to convince him to dissolve parliament and declare new elections. The president refused. Later the same day, Gunnlaugsson resigned as prime minister but continued as chairman of the Progressive Party. The vice-chairman of the party, Sigurður I. Jóhannesson, took over as prime minister and new elections were announced for the autumn 2016. At the party congress in early October, Gunnlaugsson lost the chairmanship to Jóhannesson. In addition to Prime Minister Gunnlaugsson, the names of the Independence Party leader (finance minister) and deputy leader (interior minister) were both found in the Panama Papers, as was the name of the president’s wife, the first lady. Thousands of protesters took to the streets in Reykjavík as in 2008,

forcing the government to advance the upcoming parliamentary election by six months, from April 2017 to October 2016. These events starting with the world-famous TV interview with the Icelandic prime minister at the beginning of April are the newest, and by far the most famous, example of open conflict in an Icelandic cabinet, earning the 2013-2016 cabinet the nickname “Panama government.”

An alleged breach of confidentiality and concealment led to the breakup of the Benediktsson cabinet (2017-2017) in September 2017. After only eight months in power, the center-right three-party coalition collapsed when Bright Future announced that they were ending their coalition with the Independence Party. A two-sentence post on the official Facebook page of Bright Future stated: “The leadership of Bright Future has decided to end cooperation with the government of Bjarni Benediktsson. The reason for the split is a serious breach of trust within the government.” Here, they were referring to news, which had broken earlier that evening, that the prime minister’s father had provided a recommendation letter of “restored honor” for a man convicted of having raped his stepdaughter almost daily for 12 years. Benediktsson, despite having been informed about this by the minister of justice in July 2017, kept this matter to himself until a parliamentary committee compelled the ministry to release this information to the press. This affair reflects the pervasive culture of secrecy that permeates Icelandic politics.

### Implementation

Government  
Efficiency  
Score: 6

As a rule, the strength of the executive branch vis-à-vis the legislative branch ensures that bills proposed by the government are rarely rejected by parliament. Thus, governments are usually able to achieve all of their policy objectives.

However, legislative proposals by the 2009-2013 left-wing cabinet were twice overturned by the public in national referendums, in 2009 and 2011. On both occasions, the referendums concerned the introduction of government guarantees for losses experienced by Icelandic bank account holders based in the United Kingdom and the Netherlands. In both cases, the president refused to sign into effect the government’s legislative proposal, which triggered a constitutional clause referring the proposed legislation to a national referendum.

Other examples of executive weakness include the failure of the 2009-2013 cabinet to deliver on three important elements of its platform: a new constitution, a reform of the system managing Iceland’s fisheries, and a deal on Iceland’s accession to the European Union that could be put to a national

referendum. These failures were due to internal disagreements between the coalition parties (Social Democrats and Left-Green Movement) and the obstructive tactics of the opposition, including extensive, unprecedented filibustering.

The cabinets of Gunnlaugsson (2013-2016) and Jóhannesson (2016), both with a parliamentary majority of 38-25, had no problems in implementing their policy objectives, even though some ministerial initiatives have been thwarted. The Benediktsson three-party coalition cabinet (2017-2017) had much smaller majority, the coalition controlled 32 seats and opposition parties controlled 31 seats. However, this small margin never led to bills being overturned during the coalition's brief tenure.

Ministerial  
Compliance  
Score: 9

Ministers usually follow party lines, but individual ministers have considerable authority to make independent decisions. However, non-collective decisions are rare.

Under the 2009-2013 cabinet, dissent between ministers had little to do with specific ministerial actions. For example, when the parliament voted in 2009 on Iceland's application for EU membership, one government minister, Jón Bjarnason from the Left-Green Movement, voted against the resolution. Bjarnason repeatedly expressed his opposition to Iceland's accession to the European Union throughout his tenure. Subsequent cabinets have experienced no such ministerial discord – except the aforementioned episode of former prime minister Sigmundur Davíð Gunnlaugsson in early April 2016 as the Panama Papers scandal broke.

Monitoring  
Ministries  
Score: 10

In March 2016, revised regulations regarding the monitoring and oversight of ministries were introduced, replacing those from 2013. Under these regulations, the Prime Minister's Office must review bills from all ministries, with the exception of the national budget bill. Accordingly, all bills need to be sent to the Prime Minister's Office no later than one week before the respective cabinet meeting. Before the bill can be discussed by the cabinet, a statement from the Prime Minister's Office needs to be processed (Reglur um starfshætti ríkisstjórnar, No. 292/2016). This regulatory change is a step toward stronger, formal monitoring of ministerial bills.

Citation:  
Regulations on government procedures. (Reglur um starfshætti ríkisstjórnar. Nr. 292/2016 18. mars 2016).

Monitoring  
Agencies,  
Bureaucracies  
Score: 3

The monitoring of public agencies by ministries is weak. Public agencies and government ministries have often spent more money than allotted to them in the government budget. This problem has been exacerbated due to the limited capacity of the National Audit Office (Ríkisendurskoðun) to monitor the activities of those agencies within its jurisdiction. From 2000 to 2007, the

National Audit Office audited only 44 out of 993, or 4.4%, of the agencies within its jurisdiction. In 2009, almost half of the National Audit Office's efforts (43%) were diverted to financial auditing related in some way to the financial crash and its consequences. Moreover, National Audit Office's resources have been cut. Between 2011 and 2012, the number of personnel was reduced from 47 to 42. At the end of 2016, the number was up to 45 so the situation seems to be recovering and the National Audit Office is again being strengthened.

Citation:

Nation Audit Office Annual Report 2012. (ÁRSSKÝRSLA RÍKISENDURSKOÐUNAR 2012. APRÍL 2013).

Nation Audit Office Annual Report 2013. (ÁRSSKÝRSLA RÍKISENDURSKOÐUNAR 2013. APRÍL 2014).

Nation Audit Office Annual Report 2014. (ÁRSSKÝRSLA RÍKISENDURSKOÐUNAR 2014. APRÍL 2015).

Nation Audit Office Annual Report 2015. (ÁRSSKÝRSLA RÍKISENDURSKOÐUNAR 2015. MARS 2016).

Nation Audit Office Annual Report 2016. (ÁRSSKÝRSLA RÍKISENDURSKOÐUNAR 2016. JÚNÍ 2017).

Task Funding  
Score: 8

The issue of grant-based funding has been a constant source of conflict between local and central governments. Meanwhile, the division of responsibilities between the central government and local governments has changed, but not radically. In 1996, full responsibility for primary education was transferred from the central government to local governments. In general, this transfer of responsibilities has been achieved without imposing a heavy financial burden on local governments. However, some of the smallest municipalities have experienced fiscal difficulties as a result of these transfers, and have either been forced to amalgamate or cooperate on service provision with neighboring municipalities. Full responsibility for services for disabled individuals was transferred to local governments in 2010 and took effect in January 2011, without conflicts concerning funding arrangements arising between the central government and local governments. Further transfers of responsibility have been planned – though without any dates set, including responsibility for elderly care. Negotiations on the transfer of elderly care have been repeatedly postponed due to disagreements over funding arrangements between central and local governments. The negotiating and preparation committee with representatives from state and local levels has in fact had no formal meeting since August 2013 ([www.velferdarraduneyti.is/yfirfaerslan/](http://www.velferdarraduneyti.is/yfirfaerslan/)).

Citation:

Eythórssson, Grétar Thór (2017): Bigger and stronger together. How Icelandic municipalities solve their lack of capacity and scale economy. In: Teles, Filipe & Swianiewicz, Pawel (Eds.): Inter-Municipal Cooperation in Europe

Institutions and Governance. Palgrave MacMillan. DOI: 10.1007/978-3-319-62819-6

Eythórssson, Grétar Thór (2012): Efling íslenska sveitarstjórnarstígsins: Áherslur, hugmyndir og aðgerðir. In: Icelandic Review of Politics and Administration. Vol 8, No 2. 2012.

[http://www.irpa.is/article/view/a.2012.8.2.12/pdf\\_278](http://www.irpa.is/article/view/a.2012.8.2.12/pdf_278)

[www.velferdarraduneyti.is/yfirfaerslan/](http://www.velferdarraduneyti.is/yfirfaerslan/)

Constitutional  
Discretion  
Score: 10

Local government in Iceland has no constitutional status, beyond a paragraph in the 1944 constitution that states that municipal affairs shall be decided by law. The Local Government Act (Sveitarstjórnarlög) states that local governments shall manage and take responsibility for their own affairs. The parliament or the responsible ministry – the Ministry of the Interior – have the power to make decisions that affect local government. However, beyond these decisions, local governments are free to engage in any governing activities that are not forbidden by law.

Citation:

Eythórsson, Grétar (1999): The Iceland National Report. In Jacob, Linder, Nabholz and Heierli (eds.): Democracy and Local Governance. Nine Empirical Studies. Institute of Political science, University of Bern, Switzerland (p. 62-88).

Local Government Act. (Sveitarstjórnarlög nr. 128/2011).

National  
Standards  
Score: 8

A diverse set of special laws set national minimum standards for the provision of local government services. These laws relate particularly to primary education, child protection, and standards of social services. Nevertheless, central government monitors compliance with some standards, and has even raised certain standards to an unattainable level in view of the financial support available to local governments.

### Adaptability

Domestic  
Adaptability  
Score: 7

While not a member of the European Union, Iceland has since 1994 been a member of the European Economic Area (EEA), and has integrated and adapted EU structures into domestic law to a considerable extent. Under the EEA agreement, Iceland is obliged to adopt around 80% of EU law. Iceland is also responsive to comments made by the Council of Europe, countries belonging to the Schengen Agreement, and U.N. institutions. As one of the five full members, Iceland is bound by every unanimous decision of the Nordic Council of Ministers. However, the council deals only with issues connected to Nordic cooperation. The structure and organization of Iceland's government accords well with international practice, and seems to be under constant review. The 2009-2013 government attempted to streamline and rationalize the ministry structure in order to weaken the long-standing links between special-interest organizations and the ministries. Through a process of mergers, the number of ministries was reduced from 12 to 8. The Gunnlaugsson cabinet (2013-2016) partially reversed some of these mergers and increased the number of ministers to 10. Further, the Benediktsson cabinet

International  
Coordination  
Score: 5

(2017-2017) increased the number of ministers by one by splitting the Ministry of Interior in two in January 2017.

Iceland is an active participant in international forums, but seldom initiates measures. Iceland was a founding member of the United Nations, the IMF, the World Bank, and NATO. In 2008, Iceland sought a U.N. Security Council seat, but eventually lost out to Austria and Turkey. Largely, Iceland has worked cooperatively within international frameworks, but has not led any significant process of international coordination. Iceland did participate in peacekeeping efforts in Iraq and modestly participates in the work of the Organization for Security and Cooperation in Europe. In 2009, Iceland applied for EU membership. Those negotiations were postponed at the beginning of 2013 due to dissent between the coalition partners. The 2013-2016 cabinet did not renew negotiations and finally withdrew Iceland's application for membership in 2015. As a result, the European Union no longer includes Iceland on its official list of applicant countries. Even so, the European Union may continue to view Iceland as an applicant country on the grounds that that the minister of foreign affairs was not authorized to withdraw an application approved by parliament without parliament's approval.

This question remains unsettled. It remains to be seen if a national referendum will be held on whether Iceland should resume its membership negotiations with the European Union. The cabinet of 2013-2016 rejected that option, producing a split within the Independence Party and leading to the establishment of a splinter party, Regeneration. Yet, when the Independence Party formed a cabinet coalition with the breakout party, Regeneration, and Bright Future in January 2017, the coalition agreement included only a vaguely worded intention to have a national referendum on the issue. Following the breakup of that coalition in September 2017, which led to a new election in late October 2017, the question remains unresolved. A national referendum on this issue or any issue would raise criticisms in view of the parliament's failure to respect the outcome of the 2012 constitutional referendum.

### Organizational Reform

Self-monitoring  
Score: 5

Iceland has no formal political or administrative system of self-monitoring organizational reform. Monitoring of institutional arrangements is irregular. Institutional arrangements are occasionally reviewed. For example, the 2009-2013 cabinet reshuffled several ministerial portfolios to strengthen policy coordination and administrative capacity. The 2013-2016 cabinet immediately reversed some of these mergers, increasing the number of cabinet ministers from 8 to 10 and the 2017 cabinet further increased the number to 11. The

Institutional  
Reform  
Score: 8

draft constitution from 2011-2012 stipulates that cabinet ministers should not exceed 10.

Iceland's recent governments have sought to improve the central government's strategic capacity by reviewing ministerial structures. The 2007-2009 cabinet of Haarde initiated this process, while the 2009-2013 cabinet of Sigurðardóttir continued this process by reducing the number of ministries from 12 to 8 and reshuffling ministerial responsibilities. Some of the ministries were administratively weak because of their small size. The capacity of these small ministries to cope with complex policy issues, such as international negotiations, was inefficient and ineffective. Further, the informality of small ministries was a disadvantage. The 2013-2016 and 2017-2017 cabinets, however, have more or less reversed these reforms by again increasing the number of ministers by three.

## II. Executive Accountability

### Citizens' Participatory Competence

Policy  
Knowledge  
Score: 8

Iceland's citizens are generally well informed about government policy. In local surveys, most citizens demonstrate familiarity with public policies, especially with respect to policies that either interest them or directly affect them. This is more true of domestic policies than international politics, because the complexity of Iceland's political landscape is comparatively low. By international standards, it is relatively easy to develop a comprehensive overview of the politics, parties, and policy issues in Iceland. Extensive interpersonal networks between citizens and Iceland's distance from other countries contribute to the domestic focus of Icelandic politics.

The immediate response of some voters to the 2008 economic collapse demonstrates an ability on the part of some to quickly adapt to changed circumstances. In surveys connected to the 2007 and 2009 parliamentary elections, the percentage of voters agreeing with the statement that Iceland was mainly governed in accordance with the popular will declined from 64% in 2007 to 31% in 2009. Furthermore, the defeat of the four traditional national parties in the 2010 local government elections followed a dramatic decline in public trust in politicians and political institutions. In two of the biggest municipalities, Reykjavík and Akureyri, non-traditional parties were elected to power. This trend was accentuated by the publication of the highly critical Special Investigation Committee report six weeks before the elections. Even so, in the 2013 parliamentary elections, the Progressive Party

(Framsóknarflokkurinn) made the largest proportionate gains, increasing its vote share from 14.8% to 24.4%. This increase was due to the party's election pledge to write off up to 20% of homeowners' mortgage debts at foreign expense. In the same election, the previous governing coalition lost more than half of their combined seats. The cabinet that came to power in 2013 was led by the Progressive Party.

Public debate surrounding two national referendums, in 2009 and 2011, concerning the so-called Icesave dispute, suggests strong public interest in the issue. Similarly, the 2012 national referendum on the constitutional bill secured a turnout of 49% of the electorate, despite the disparaging attitude of the traditional political parties. Declining levels of public trust in politicians and the associated increase in political apathy coincide with a noticeable deterioration in how well-informed citizens are about national and international affairs. In the 2014 local government elections, voter turnout declined further from 2010. In 2006, voter turnout had been 78.7%. In 2010, it declined to 73.5% and in 2014 it dropped to 66.5%. At 79%, voter turnout in the parliamentary election of 2016 was the lowest recorded since the early years of the 20th century. Turnout among people aged 18 to 25 years old is especially low. Most current electoral research indicates that a significant proportion of young people do not vote due to apathy and lack of interest in politics.

Citation:

Önnudóttir, E.H. and Hardarson, Ó. Th. (2009): Óánægðir lýðræðissinnar: Afstaða Íslendinga til lýðræðis. (Dissatisfied democrats: The Icelanders' attitudes toward democracy). In Gudmundsson, H.S. and Ómarsdóttir, S. B. (2009) Rannsóknir félagsvísindum X. Reykjavík, Háskólaútgáfan.

Eythórsson, G & Kowalczyk, M (2013): Explaining the low voter turnout in Iceland's 2010 local government elections. In: Samtíð. An Icelandic journal of society and culture. Vol 1. 2013. (<http://samtid.is/index.php/samtid/article/view/2>)

Eythórsson G T, Önnudóttir E H, Hardarson Ó T, Valgardsson V O, Jónsdóttir G A, Björnsdóttir A E and Birgisson H E (2014): Sveitarstjórnarkosningar 2014: Hverjar eru ástæður dræmrar kjörsóknar? (What are the main reasons for the low voter turnout in the Local Government elections in 2014?).

Eythórsson, G T and Önnudóttir, E H (2017): Abstainers reasoning for not voting in the Icelandic Local Government Election 2014. In: "Íslenska þjóðfélagið" Vol 8, No 1 2017. <http://thjodfelagid.is/index.php/Th/article/view/86>

### Legislative Actors' Resources

Parliamentary  
Resources  
Score: 3

Parliamentarians have access to experts employed by parliament. While the 30-person Committee Department (Nefndasvið) is tasked with assisting the parliament's standing committees, individual members can also turn to this department for assistance. However, the limited capacity of the Committee Department, combined with its primary mandate to assist the parliament's

standing committees, restricts its ability to effectively assist more than 50 of the total 63 members of parliament. Ministers also have access to resources in their ministries. The 2007-2009 government enabled members of parliament whose constituencies are located outside of the capital area to hire half-time personal assistants. The aim of this was to improve members of parliament's access to information and expertise. However, this policy was withdrawn after the 2008 economic collapse due to parliamentary budget cuts and is still to be reintroduced.

Citation:

<http://www.althingi.is/um-althingi/skrifstofa-althingis/skipurit-og-hlutverk/nefndasvid/>

Obtaining  
Documents  
Score: 6

The Information Act from 2012 (Upplýsingalög, No. 140/2012) grants standing parliamentary committees the right to request government documents relating to their work, with the exception of classified documents. Exempted documents include: minutes, memos, and other documents from cabinet meetings; letters between the government and experts for use in court cases; and working documents marked for government use only, excluding those containing a final decision about a case or information that cannot be gathered elsewhere. The government can restrict access to documents if it can make a case that there is an exceptional public security risk, such as national security, international relations, or business agreements. The Committee on Foreign Affairs has a special legal status, which allows it to request government documents that would enable it to fulfill its legal obligations. The chair of the committee and the foreign minister can decide to keep the discussions and decisions of the committee confidential. The Budget Committee can also request the government documents it needs to fulfill its legal obligations.

In a case relating to the most infamous telephone call in Icelandic history, the central bank refused to comply with a parliamentary committee request to release the recording or transcript of a telephone conversation, which took place shortly before the 2008 economic collapse, between the prime minister and the central bank governor. This dispute remains unresolved demonstrating that the right of parliamentary committees to request access to information is not the equivalent of a right to obtain information. Further, a leaked transcript of the telephone conversation, reported on national television (RÚV), suggests that the bank may have committed legal violations. Even so, the governing board of the central bank, appointed by parliament and tasked with ensuring the bank operates in accordance with the law, is not known to have discussed the issues arising from this leak as the minutes of its meetings are not open to the public.

An internet newspaper, Kjarninn, sued the central bank in 2017 in an attempt to gain access to the coveted recording of the telephone conversation. Then, all

of a sudden, a transcript of the recording was published in Morgunblaðið. The editor of Morgunblaðið is the former central bank governor who, according to the transcript of the telephone conversation, declares to the prime minister that the €500 million loan to Kaupthing Bank just before the financial crash will not be recovered. The legal ramifications of this exposure remain to be seen.

Citation:

The Information Act (Upplýsingalög nr. 142/2012)

Summoning  
Ministers  
Score: 9

Parliamentary committees can legally summon ministers for hearings, but seldom do so. The foreign minister is summoned and usually attends meetings of the Foreign Affairs Committee. The relative representation of each party across and within parliamentary committees reflects the relative representation of each party in parliament.

The Special Investigation Committee, appointed by the parliament in December 2008 to investigate the processes that led to the collapse of Iceland's three main banks, summoned several ministers and ex-ministers during 2009 and 2010.

The most notable example of a prominent politician being held accountable was the 2010 indictment of Prime Minister Geir Haarde by parliament, which led to a trial in 2012 before the High Court of Impeachment. Haarde was found guilty on one count of negligence relating to his tenure as prime minister before the 2008 economic collapse. He was found guilty of neglecting to hold cabinet meetings, during the first months of 2008, on important issues relating to the economic collapse. This obligation is stated in paragraph 17 of the constitution. As a first-time offender, Haarde was not given a custodial sentence. He is now Iceland's ambassador to the United States.

Summoning  
Experts  
Score: 10

Independent experts are frequently asked to appear before standing parliamentary committees. Following the 2008 economic collapse, committees have more frequently summoned experts, particularly lawyers, economists, and finance and banking experts. Furthermore, political scientists and other experts were asked to give advice relating to the drafting of a new constitution. However, no substantive minutes are recorded of expert testimonies before parliamentary meetings. There have been examples documented of experts making outlandish statements in their testimonies (Gylfason, 2014).

Citation:

Gylfason, Thorvaldur (2014), Tvöfalt líf — Allir segjast vera saklausir ..., samtal við Þránín Bertelsson (Double Life – Everyone proclaims innocence ..., a conversation with Þránín Bertelsson), Tímarit Máls og menningar, 4. hefti.

Task Area  
Congruence  
Score: 5

When the Gunnlaugsson and later Jóhannsson cabinet (2013-2016) came to office in 2013, only four of the eight standing parliamentary committees fully coincided with ministry responsibilities: the Economic Affairs and Trade Committee (Efnahags- og viðskiptanefnd) coincides with the Ministry of Finance and Economic Affairs (Fjármála- og efnahagsráðuneytið); the Industrial Affairs Committee (Atvinnuveganefnd) coincides with the Ministry of Industries and Innovation (Atvinnuvega- og nýsköpunarráðuneytið); the Foreign Affairs Committee (Utanríkismálanefnd) coincides with the Ministry of Foreign Affairs (Utanríkisráðuneytið); and the Welfare Committee (Velferðarnefnd) coincides with the Ministry of Welfare (Velferðarráðuneytið). Others do not coincide. The Ministry of Welfare was then split between two ministers in 2013 and later the Ministry of Interior was split between two ministers in 2017.

Two of the standing parliamentary committees have a special role vis-à-vis the government. The committee responsible for financial issues and budget preparation has the authority to request information from institutions and companies that ask for budgetary funding. The Committee on Foreign Affairs has advisory status vis-à-vis the government regarding all major international policies and the government is obliged to discuss all major decisions concerning international affairs with the committee.

Parliamentary committees rarely oppose the ministries, as party affiliation of committee members reflects the parliamentary dominance of the governing parties. Thus, even if the task areas of parliamentary committees and ministries nearly coincide, that does not guarantee effective monitoring. Minority members from the opposition benches can, however, use the committees as a venue to voice their opinions.

Audit Office  
Score: 10

Iceland's National Audit Office is fully accountable to parliament. Considering its substantial human and financial resource constraints, the National Audit Office performs its functions quite effectively. These constraints, however, mean that a vast majority of the agencies under its jurisdiction have never been audited. No significant strengthening of the office's financial resources occurred for several years, as its staff numbers were reduced from 49 in 2009 to 41 in 2015, a total of 16%. Though, in 2016, the staff number was increased to 45.

Citation:  
Ársskýrsla Ríkisendurskoðunar 2016. (Júní 2017). <https://rikisendurskodun.is/wp-content/uploads/2017/06/Arsskyrsla-RE-2016.pdf>

Ombuds Office  
Score: 10

The Parliamentary Ombudsman (Umboðsmaður Alþingis), established in 1997, investigates cases both on its own initiative and at the request of citizens and firms. It is independent, efficient, and generally well regarded. The office has 11 staff members, including six lawyers. In February 2017, Gallup reported that 51% of respondents expressed confidence in the Parliamentary Ombudsman compared with 22% in parliament.

Citation:

<http://www.umbodsmaduralthingis.is/category.aspx?catID=30>

<http://www.gallup.is/nidurstodur/traust-til-stofnana/>

## Media

Media Reporting  
Score: 6

Iceland's main TV and radio stations provide fairly substantive in-depth information on government decisions. Radio analysis typically tends to be deeper than that found on television since the small size of the market limits the financial resources of TV stations. However, in-depth analysis on TV increased significantly when the private TV station Hringbraut increased such analyses in their program in 2016. Critical analysis of government policies by independent observers, experts, and journalists is a fairly recent phenomenon in Iceland.

The Special Investigation Committee report had a separate chapter on the media before and during the 2008 economic collapse. The report criticizes the media for not having been critical enough in their coverage of the Icelandic banks and other financial institutions before the 2008 economic collapse. The report argues, on the basis of content analyses of media coverage of the banks, that the media was too biased toward the banks. This bias, well known in the United States during the 1920s for example, was associated with overlapping ownership of the banks and media companies.

## Parties and Interest Associations

Intra-party  
Democracy  
Score: 8

In the 2013 parliamentary elections, four out of 15 parties gained more than 10% of the votes. These four parties constitute Iceland's traditional four-party system, sometimes called the Gang of Four. These four parties all hold their national conventions, which are the supreme decision-making forums for the parties, every second year. The conventions issue resolutions on major public policy issues, which oblige the members of parliament of the respective party to abide by these directives. Representatives from the regional and local party units of all parties have the right to participate in party conventions. The number of representatives attending is proportional to the number of party

members in each unit. The nomination processes vary slightly among parties. Most parties have a tradition of primary elections in which only party members have the right to vote. For example, in the case of the Social Democrats, a signed declaration of support is required, rather than the stricter and more common requirement of party membership. The Progressive Party has different rules, under which most constituencies have a constituency board (Kjördæmisráð) that selects candidates to a constituency congress (Kjördæmisþing). The number of representatives of each local party unit is equal to the proportion of each unit's membership to the total membership of all units. At these congresses, candidates are elected one by one. The recently established party Bright Future (Björt Framtíð), which won six seats in 2013, four in 2016 and zero in 2017, did not nominate candidates by primary elections before the 2016 election, but thereafter developed its procedures for internal decision-making. Regeneration (Viðreisn), a liberal party founded in 2016, also does not hold primary elections. The Pirate Party (Píratapartýið), which won three seats in 2013, 10 in 2016 and seven in 2017, was the largest party according to opinion polls from 2015 onward. The party held electronic primary elections in every constituency in autumn 2016. Further, the Pirate Party uses internet platforms to conduct open debates on many policy issues. Due to the limited time for election campaigning in 2016, the traditional parties skipped primary elections in some constituencies and used alternative nomination methods within the party organization. The time factor was even more important in the very sudden parliamentary elections held on 28 October 2017. After the cabinet coalition breakup of 15 September 2017, there was little time for selection procedures. Therefore, all parties except the Pirate Party used the most effective nomination method – to just propose lists and put the decisions in the hands of the constituency congresses. Meanwhile, the Pirate Party held electronic pre-elections countrywide.

Association  
Competence  
(Business)  
Score: 8

The main interest organizations in Iceland continue to have considerable influence on public policymaking and engagement with political parties.

The Confederation of Icelandic Employers (Samtök atvinnulífsins, referred to as the employers' association) has close, informal ties to the right-wing Independence Party. Likewise, the Icelandic Confederation of Labor (Alþýðusamband Íslands) has close links to the parties on the left, although its formal ties to the Social Democratic Party were severed in 1942. Until its breakup in the 1990s, the cooperative movement, with its strong ties to the agricultural sector, was closely linked to the Progressive Party (Framsókn), which has its origins in the farmers' movement.

Closely associated with the Confederation of Icelandic Employers is the

Iceland Chamber of Commerce, which continues to dispense advice to the government.

All major interest organizations have a staff of skilled employees who create research-based policy proposals that are usually well grounded, coherent, and in line with the organizations' goals.

After the 2008 economic collapse, the employers' association, the employees' union, the government, and the Federation of Municipalities signed an agreement intended to promote economic stability (Stöðugleikasáttmáli). The agreement proposed a restructuring of the economy through wage and price freezes, among other issues. Then, in autumn 2015, the representatives of the government, employers and labor unions signed the so-called SALEK agreement, a framework for collective agreements in the labor market. This agreement applies now to approximately 70% of employees. Some public-sector unions have so far refused to agree on SALEK. This situation continues to be the case at the time of writing.

Under the Sigurðardóttir cabinet of 2009-2013, the Federation of Icelandic Fishing Vessel Owners resisted government plans to change the regulation of fishing quotas. However, the federation was unable to prevent a considerable increase in the fees paid by owners of fishing vessel owners to the government. Nevertheless, the group was able to help prevent a broader overhaul of the system, as promised by the government.

The 2009-2013 cabinet failed to realize its goal of restructuring the management system for Iceland's fisheries, despite raising fishing fees significantly. However, the 2013-2016 cabinet lowered the fees already in 2013, against IMF advice.

Citation:

Gunnarsson, Styrmir (2009), Umsátrid (The Siege), Veröld, Reykjavík.

Association  
Competence  
(Others)  
Score: 9

Iceland has many active, non-economic interest organizations in various fields. Although many have a reasonable level of prominence, only a few have the capacity and competence to exert significant influence on public policy. The largest are the Organization of Disabled in Iceland (Öryrkjabandalagið), with 41 associated organizations and a staff of 13, and the Consumers' Association of Iceland (Neytendasamtökin), with a staff of 7 and 7,300 members. The Nature and Wildlife Conservation Organization (Náttúruverndarsamtök Íslands), with one staff member, is also influential. This group has managed to feature prominently in public debates about hydro and geothermal power plants, and expressed reservations about further construction of aluminum smelters around the country. Landvernd, the Icelandic Environmental

Association, also has some influence. Its CEO, Guðmundur Ingi Guðbrandsson (2011-2017), was appointed extra-parliamentary minister of the environment and natural resources in 2017.

Citation:

<http://www.obi.is/is/um-obi/starfsmenn>

Neytendasamtökin. Skýrsla um starfið 2014 - 2016.  
[https://www.ns.is/sites/default/files/gogn/4.\\_skyrsla\\_um\\_starfsemi\\_neytendasamtakanna\\_sept\\_2014-\\_sept\\_2016.pdf](https://www.ns.is/sites/default/files/gogn/4._skyrsla_um_starfsemi_neytendasamtakanna_sept_2014-_sept_2016.pdf)

### **Address | Contact**

#### **Bertelsmann Stiftung**

Carl-Bertelsmann-Straße 256  
33311 Gütersloh  
Germany  
Phone +49 5241 81-0

#### **Dr. Daniel Schraad-Tischler**

Phone +49 5241 81-81240  
daniel.schraad-tischler@bertelsmann-stiftung.de

#### **Dr. Christof Schiller**

Phone +49 5241 81-81470  
christof.schiller@bertelsmann-stiftung.de

#### **Dr. Thorsten Hellmann**

Phone +49 5241 81-81236  
thorsten.hellmann@bertelsmann-stiftung.de

#### **Pia Paulini**

Phone +49 5241 81-81468  
pia.paulini@bertelsmann-stiftung.de

[www.bertelsmann-stiftung.de](http://www.bertelsmann-stiftung.de)  
[www.sgi-network.org](http://www.sgi-network.org)