



Iceland Report

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Sustainable Governance Indicators 2016

Executive Summary

Iceland's economic collapse in 2008 continues to shape economic policymaking. Strict capital controls introduced in 2008 to protect the Icelandic króna from further depreciation and a fiscal adjustment program equivalent to about 10% of GDP remain in effect. In June 2015, after several postponements, the government announced its intention to gradually relax capital controls. Despite the protracted economic crisis, progress has been made. Public and foreign debt has been reduced, while there has been a quick return to almost full employment. The average standard of living is slowly improving, though it remains well below its pre-crisis level. In late 2014, the results of the government subsidies to homeowners with inflation-indexed mortgages were presented, as promised by the Progressive Party during its 2013 election campaign. These inflation-indexed mortgages increased dramatically following the 2008 economic collapse. Over 50,000 households were supposed to benefit from these subsidies, though inflation-indexed mortgages continue to be sold.

In 2014 and 2015, several trade unions demanded wage increases for their members. Wages increased modestly following the 2008 economic collapse, well below inflation and, consequently, inflation-indexed mortgage repayments. The largest wage increases were secured for airline pilots, doctors and nurses. At the time of writing, a significant proportion of the labor market is not regulated by wage contracts. The so-called SALEK agreement offers a possibility to establish a method for future wage negotiations avoiding the current pattern of labor disputes. However, time will tell whether or not it will be effective across the whole labor market.

The political landscape changed dramatically following the 2013 parliamentary election. The 2013 parliamentary election led to the fall of the left-wing coalition government with the coalition partners losing more than 50% of their votes from 2009. Overall, the Progressive Party (PP) and the Independence Party (IP) won a combined 51% of the vote. This enabled them to form a coalition government with 38 out of 63 parliamentary seats. Since

winning 24% in the 2013 parliamentary election, public support for the PP has collapsed to about 10% to 12%, according to recent public opinion polls. Meanwhile, public support for the IP seems to have dropped slightly from 27% in 2013 to between 22% and 25%, according to recent public opinion polls.

The most striking change, since December 2014, has been the rise of the Pirate Party. In the 2013 parliamentary election, the Pirate Party won 5.1% of votes and 3 seats. In December 2014, the Pirate Party polled 10% in public opinion polls. However, since March 2015, the party has consistently polled more than 30%, peaking at 35% to 36%. At the same time, the main opposition parties have all lost public support. The ascendancy of the Pirate Party reflects increasing distrust and discontent with the four traditional parties. While this can certainly be traced to the 2008 economic collapse, the World Values Survey provides evidence that this trend preceded the 2008 economic collapse by several years. Voter turnout in local government elections has reached a record low with turnout falling from an historic low of 73.5% in 2010 to a new low of 66.5% in 2014. In late 2015, fewer than 14% of respondents to public opinion polling conducted by an Icelandic company, MMR, expressed a lot of trust in the parliament.

Citation:

Gylfason, Thorvaldur (2015), *Social Capital, Inequality, and Economic Crisis, Challenge*, Vol. 58, Issue 4, July, pp. 326-342.

Gylfason, Thorvaldur (forthcoming), *Constitution on Ice*, in *The Politics of the Icelandic Crisis*, ed. Irma Erlingsdóttir, Valur Ingimundarson, and Philippe Urfalino. — Longer version available as CESifo Working Paper 5056, November 2014.

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 government faces five key challenges, namely restructuring the banking sector, resolving labor market disputes, maintaining fiscal and monetary discipline, arresting political apathy, and clarifying its position on constitutional reform.

The banking sector needs restructuring, which will include opening up the sector to foreign competition. Iceland's banks continue to operate under the temporary state-foreign ownership mix, which took over the failing banks following the 2008 economic collapse. The government is yet to make any

announcement on its long-term strategy for restructuring the banking sector and this lack of clarity has led to fears that the government will repeat the botched banking sector privatization undertaken between 1998 and 2003. However, a 2015 agreement between the government task forces and the steering committees representing creditors of the failed banks marked an important step forward. The agreement proposes allowing creditors to withdraw their investments in the banks from Iceland in exchange for paying an exit tax and a commitment not to sue the government. This agreement was a government prerequisite for relaxing its strict capital controls, which have been in place since 2008.

The so-called SALEK agreement between employers' associations and trade unions aims to introduce a Nordic-style process for negotiating wages. The aim is that this agreement could settle recent labor market disputes, which led to widespread strikes and inflation. However, it remains unclear whether the agreement would be effective across the whole labor market. At the time of writing, trade unions and employers' association maintain that the government has not fulfilled its responsibilities as part of the deal, which is threatening the entire agreement. Labor market legislation has not been significantly changed since 1938.

It is imperative that the government and central bank maintain fiscal and monetary discipline to ensure the gradual reduction of public and foreign debt. However, the government will have to balance fiscal discipline with financing important public services, which are severely underfunded. The lack of financing for many public services, which is well below Nordic standards, is a key factor in the continued net emigration from Iceland to neighboring countries, especially Norway.

The collapse of Iceland's traditional four-party system raises questions about the future of Icelandic politics. Support for the four main political parties was around 70% to 75% through 2013, but has dropped to 55% to 60% since the spring of 2015. At the time of writing, there is little evidence that the four main parties will recover public support. This shift in public support for political parties is unprecedented in Iceland. Current public opinion polling suggests that Iceland may become the first country to elect a government led by a Pirate Party. Young people are a key factor in the shift in public support for political parties. Recent public opinion polling indicates that up to 50% of young people support the Pirate Party. However, whether the Pirate Party can translate this support into electoral success remains to be seen. Traditionally, turnout among young people has been considerably lower than among older cohorts.

Last, parliament is yet to announce whether it will ratify a draft constitution proposed by the Constitutional Council and approved by 67% of the voters in a non-binding national referendum in 2012. The parliament's reluctance to ratify the proposed constitution has been widely perceived as an affront to democracy, with serious legal and moral ramifications. For example, the proposed constitution would introduce equal voting rights and require a presidential candidate to secure a majority of votes to be elected. Unless parliament ratifies the proposed constitution shortly, the next parliamentary and next presidential elections will be conducted according to electoral laws rejected by the electorate. Furthermore, 83% of the voters approved a constitutional provision that would secure public ownership of Iceland's natural resources. Yet, despite this public statement, the government continues to grant fishing licenses for nominal fees, which cover approximately 10% of the natural resource rent involved.

Citation:

Thorláksson, I. H. (2015), "Veðigjöld 2015. Annar hluti" ("Fishing fees 2015. Part Two").

Policy Performance

I. Economic Policies

Economy

Economic Policy
Score: 6

Seven years after the 2008 economic collapse, Iceland's economic policy is still dominated by the fallout from the collapse. The capital controls imposed to stabilize the króna and a fiscal adjustment strategy equivalent to about 10% of GDP between 2010 and 2017 are still in place. After several postponements, the gradual relaxation of capital controls was announced in June 2015. This announcement followed an agreement between the steering committees representing creditors in the failed banks and government task forces. The agreement enables creditors to withdraw assets from Iceland, equivalent to 20% of GDP, in exchange for paying an exit tax and a commitment not to sue the government. Whether this agreement will maintain the stability of the króna, while avoiding litigation proceedings against the government, remains to be seen. The government had previously announced that creditors either had to reach an agreement with the government task forces or pay an exit tax equivalent to 39% of Iceland's GDP, approximately \$6.5 billion, in 2016. The relaxation of controls will be slow and seems likely to take several years.

Following the 2008 economic collapse, the government sought to strengthen the Financial Supervisory Authority (Fjármálaeftirlitið, FME). The FME had performed before the crash, 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 2015, the efforts of the FME and the Special Prosecutor had led to the successful prosecution of 22 individuals for legal violations connected to the 2008 collapse. The Supreme Court sentenced these individuals to a combined

total of 54 years in prison.

Inflation is increasing, according to the central bank. Employers are arguing that this is due to labor unrest, including strikes, which have won wage increases causing an overall increase in prices.

The future of the banking sector remains uncertain, as the government has not presented any plans for restructuring the banks. At the time of writing, the government owned a majority stake in one of Iceland's three largest banks. Meanwhile, foreign venture funds own significant stakes in the other two banks, a temporary situation. 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 previous 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 previous government's coalition partners, the application process was put on hold in January 2013. In 2013, the current Icelandic government expressed its intention to unilaterally retract Iceland's membership application. A formal withdrawal was announced in the spring 2015. However, the EU and the Icelandic government disagree on whether this means that Iceland has fully withdrawn from the process. Specifically, the EU has questioned the authority of Iceland's foreign minister to unilaterally withdraw an application approved by parliament.

Citation:

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

Annual report on Competition Policy Developments in Iceland 2011. THE ICELANDIC COMPETITION AUTHORITY

(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

Labor Markets

Labor Market
Policy
Score: 5

Historically, labor market policy has successfully kept unemployment low. At the end of 2007, the unemployment rate was just below 1%. However, this changed dramatically since the 2008 collapse. In 2010, the unemployment rate peaked at 7.6% before falling in 2011 to 7.1%. The average unemployment rate for 2012 (6.0%), 2013 (5.4%) and 2014 (5.0%) suggests that unemployment has reached a plateau. Although high by domestic standards,

Iceland's unemployment rate is quite low compared to other European countries, such as Ireland and Spain.

Iceland's labor market legislation has essentially remained unchanged since 1938 with wage contracts negotiated by the leadership of labor unions and employers' associations. Most wage contracts were due for renegotiation in early 2015. Recent developments in the labor market have been marked by turbulence. A doctors' strike, which resulted in a wage increase agreed by the state, was the first of many labor disputes, particularly within the public sector, such as nurses and other specialized hospital staff. In the spring of 2015, several public sector unions organized a joint strike. The dispute was sent to the Arbitration Court. In the autumn of 2015, several industrial disputes are ongoing, including a dispute between the workers at the country's aluminum plant in Straumsvík and its foreign owner, Rio Tinto. This dispute threatens to close down the aluminum plant.

Citation:

Statistics Iceland website, <http://www.hagstofa.is/Hagtalur/Laun,-tekjur-og-vinnumarkadur>

Taxes

Tax Policy
Score: 6

As a consequence of the 2008 collapse, the previous government introduced a new three-bracket tax system for individuals which came into effect in 2010. On average, income tax rates rose from 2008, despite reductions for the lowest income earners. Capital gains tax rates were also raised from 10% to 15% in 2009 and to 20% in 2011. In contrast, corporate tax rates remain at their 2008 levels.

Under the IMF-supported rescue program launched in late 2008, total tax revenue was projected to increase from 38% of GDP in 2009 to 44% in 2014, while government expenditure was expected to be reduced from 53% of GDP to 41% over the same period. However, events turned out rather differently. In 2009, while the government budget deficit was expected to equal 14% of GDP, the actual deficit was just 9%. Faced with a less unfavorable fiscal situation than expected, the IMF-supported program aimed to cut government expenditure from 50% of GDP in 2009 to 40% in 2017, while keeping tax revenue at 41% of GDP from 2009 to 2017. This would amount to a fiscal adjustment equivalent to 10% of GDP over an eight year period. This was an ambitious goal given that the adjustment is limited to reducing expenditure and not to increasing tax revenues.

Four reservations are in order. First, Iceland's public debt burden is understated in official statistics because the unfunded public pension

obligations not included, which is rare in OECD country data. Second, the ratio of public debt to GDP shot up from 29% in 2007 to 93% in 2010 and remains high at 88% in 2015. This increase has led to interest payments on public debt becoming the second-largest single public expenditure item. Third, while the previous government increased fishing fees significantly and budgeted further increases, the new government has reduced fishing fees significantly, against IMF recommendations. Last, many public institutions are in a dire financial situation for several years, including the State University Hospital and the State Broadcasting Corporation (RÚV).

Under the current center-right government, in office since 2013, public expenditure and tax policy has been reversed once again from a progressive stance to a regressive one.

Citation:

Statistics Iceland, "Lágtækjumörk og tekjudreifing 2003-2006" (Risk of poverty and income distribution 2003-2006), April 2009.

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 2007 to 99% in 2011 and, at the time of writing, is expected to fall to 69% in 2019. The government's net foreign debt – the government's foreign debt minus its foreign assets – rose from 11% of GDP at the end of 2007 to 67% in 2012, but is expected to fall to 46% in 2019 (source: IMF). Interest payments on the public debt continue to account for 4% to 5% of GDP. There is a significant possibility that excessive wage increases will boost inflation and weaken the currency. This would cause an increase in the foreign debt burden, though Iceland's foreign debt burden would remain sustainable. However, fiscal sustainability remains a serious concern for the government given the dire financial situation of several key public institutions, including the State University Hospital and the State Broadcasting Corporation among others.

Another factor that increases the complexity of Iceland's fiscal situation is the availability of foreign exchange. At the time of writing, foreign entities own a considerable proportion of funds locked up in Iceland. Many investors would like to transfer these funds out of Iceland, but are prevented from doing so by capital controls. If the government removed these capital controls and investors transferred their funds out of Iceland, this would lead to a shortage of foreign exchange and, consequently, a significant depreciation in the value of the Icelandic króna. As such, the government is keen to avoid this situation. Since 2013, several government announcements have promised to lift these

capital controls. However, it was not until mid-2015 that the first credible steps were taken toward relaxing these capital controls. Furthermore, the decision to relax the capital controls was based on agreements between the steering committees representing creditors and the respective government task forces. The fiscal implications of these agreements remain to be seen.

Citation:

IMF, October 2012 World Economic Outlook.

IMF (2014), Country Report No. 14/19, Iceland Staff report, <http://www.imf.org/external/pubs/ft/scr/2014/cr14194.pdf>.

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 in the OECD group. 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 government fosters research and innovation in the fields of geothermal energy, hydropower, and genetics and information technology. Public R&D expenditure, which peaked in 2008 and 2009, was cut by about 10% in 2011 and remained at 2011 levels through 2012. Between 2012 and 2013, public R&D expenditure increased by almost 7% from 2012 to 2013 and by 5% from 2013 to 2014. In 2012, total R&D expenditure had fallen to 2.6% of GDP, compared with 3% in 2006 when it was at its peak.

Citation:

Research, Development and Innovation in Iceland - 2014 edition. RANNIS - The Icelandic Center for Research

[https://www.rannis.is/media/utgafur-og-skyrslur/Research,-Development-and-Innovation—2014-edition-\(2\).pdf](https://www.rannis.is/media/utgafur-og-skyrslur/Research,-Development-and-Innovation—2014-edition-(2).pdf)

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 previous government significantly strengthened the Financial Supervisory Authority (FME) and established a Special Prosecutor's Office. The Special Prosecutor's Office is charged with investigating legal violations related to the financial crash, including breach of trust, insider trading, market manipulation and false reporting. By 2015, the Special Prosecutor had referred about 80 cases to court involving about 200 individuals. By late 2015, following significant delays, the Supreme Court had sentenced 22 individuals to a combined total of 54 years in prison for crimes relating to the economic collapse. The Supreme Court has yet to hear a number of related cases. The Special Prosecutor's Office will cease to exist at the end of 2015.

The government has sought to strengthen financial supervision by encouraging the FME to impose tougher standards. For example, prior to the economic crash, banks commonly provided loans without collateral, but this practice has since stopped. However, other practices have not stopped. 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 the appropriate justification for discriminating between 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 late-2015 poll, conducted by MMR, an opinion research firm, the banks are the least well-trusted institution in Iceland. Only 6.6% of respondents expressed a lot of confidence in the banks, while 71% said they have little confidence in the banks. The corresponding figures for the FME are 9% and 61%.

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, and between foreign and domestic ownership.

Citation:

MMR (2015). Little trust in banking system and the Financial Supervisory Authority (Lítið traust til bankakerfisins og Fjármálaeftirlitsins), <http://mmr.is/frettir/birtar-nieurstoecur/507-bankakerfidh-og-fjarmalaeftirlitidh-medh-minnsta-traustidh-af-helstu-stofnunum-landsins>.

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 as a proportion of GDP than in 2008 – 2009. Public sector pay for teachers has for many years been lower than private sector pay. As such, vacant primary and secondary school teacher positions remained unfilled and a large number of under-qualified teachers found employment. However, the 2008 economic collapse has changed this. Salaries have decreased in the private sector and a tighter labor market has increased the proportion of qualified teachers.

Municipalities are responsible for primary schools. Since 2008, considerable cutbacks and rationalization measures have been introduced, including a shortening of the school year. Upper secondary schools and public universities are the responsibility of central government. Despite cuts to public expenditure on education, the number of upper secondary schools has increased, particularly outside the capital region. The government intends 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. The previous government considered rationalizing the university sector either by reducing the number of universities or by encouraging more cooperation between universities. Discussions between the two private universities, concerning a possible merger, took place, but were later abandoned. The planned merger of one of the agricultural universities, Hvanneyri, with the University of Iceland was dropped following heavy protests from citizens and politicians in the west of Iceland. In 2015, a serious attempt was made to merge three universities, namely two public universities, Hvanneyri and Hólar University College and the private university, Bifröst University. At the time of writing, this merger looks uncertain.

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:
OECD: Education at a Glance 2014, Paris.

Social Inclusion

Social Inclusion
Policy
Score: 7

Before 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 rates further increased the burden on low-income wage earners, though the rate of inflation fell to around 2% at the beginning of 2014 and has since remained at that level. Even so, the central bank expects inflation to rise in 2016. The previous government introduced policies to adjust the tax system. The 2008 collapse induced the previous government to increase taxes progressively for all income groups, with the smallest increases imposed on the lowest income groups. Consequently, the Gini coefficient for Iceland, excluding capital gains, has decreased from 29.6 in 2009 to around 24 since 2011.

Nevertheless, this does not tell the whole story. The Organization of Disabled in Iceland 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 restored to their former level. Simultaneously, the risk of social exclusion increased, and the strain on charity organizations to provide food and clothing increased considerably following 2008. In 2014 – 2015, this trend has not been fully arrested even though the situation has improved. Iceland also performs well in international poverty comparisons, suggesting that social policies during the economic crisis were reasonably successful. For many households, the economic situation remains difficult.

In Iceland, the richest 1% of taxpayers own nearly a quarter of all assets, while the richest 10% own nearly three-quarters of all assets. In contrast, 30% of taxpayers owe more than they own.

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

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, rural areas where patients have to travel long distances to access specialized services. Since the 2008 economic collapse, the government has introduced substantial cutbacks for a number of regional hospitals, closed departments, and centralized specialized care facilities. In addition, smaller regional hospitals and health care centers have had serious problems in recruiting doctors. Waiting times for appointments with specialized doctors can be as much as several months.

The University Hospital in Reykjavik, the largest hospital in Iceland, has for several years been in a difficult financial situation. The government has not provided additional public funds nor allowed the hospital to independently raise funds through, for example, patient service fees. The resulting shortage of nursing and other medical staff has increased the work pressures on existing staff, including their working hours. One of the issues in the 2013 election campaign was the question of how to finance a redevelopment of the University Hospital in Reykjavik. Many of the buildings are old and dilapidated, yet investment is also required to fund the purchase of new equipment. Discontent with this situation led to a strike by doctors in late 2014, which resulted in a considerable wage increase for doctors in January 2015 as well as a government commitment to build a new hospital. In spring 2015, nurses and radiologists went on strike with many resigning. This was only partly reversed following a decision to increase their wages considerably. Many of those who resigned are seeking employment in other Nordic countries. This situation will take many years to resolve.

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 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.

Citation:

Women and men in Iceland 2014. The Center for Gender Equality (Jafnréttisstofa). http://jafnretti.is/D10/_Files/Kvk_og_kk_2014_IsI.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, it has appeared that Iceland's pension policy was both conducive to poverty prevention and fiscally sustainable. However, Iceland's pension funds experienced heavy losses as their investment in, among other stock, Iceland's banks depreciated substantially following the collapse of the banking sector 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. That said, the pension funds have recovered since 2008 and 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, there is a danger that the government will use the funds to relieve Iceland's foreign exchange and balance-of-payments deficits.

Citation:

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

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 nationals eligibility follows five years of consecutive residency. The right to vote in parliamentary elections presupposes Icelandic citizenship.

The Information Center for Foreigners (Alþjóðahús) previously offered advisory services to migrants on a range of issues, including legal and civil rights issues. The center was run by the municipality of Reykjavík, but, in June 2010, was closed due to cutbacks in municipal services. At present, the Center Alþjóðasetur provides only 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 (Vinnumálastofnun) has in recent years improved its outreach 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 their 2012 local government election campaign, the Progressive Party in Reykjavík articulated an anti-immigrant agenda to appeal to its core constituency. For example, the Progressive Party proposed overturning a decision of the municipal council to allow the construction of a Mosque in Reykjavík. This proposal was widely perceived to have enabled them to win two out of 15 council seats. In Reykjavík, the Progressive Party has retained this anti-immigrant policy since the spring 2014. The national Progressive Party has neither supported nor condemned the local parties policy position. This is a new development in Icelandic politics, which reflects trends in several neighboring countries. However, the government of the Progressive Party has agreed to considerably increase the number of refugees that Iceland will accept.

Citation:

Önnudóttir, Eva Heiða (2009): Viðhorf Íslendinga til innflytjenda á Íslandi (The Icelanders attitudes toward immigrants in Iceland). In *Bifröst Journal of Social Science* Vol. 3, 2009. (67-95).

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

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. 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 Reykjavik, especially on weekends.

Global Inequalities

Global Social
Policy
Score: 6

Iceland is a founding member of the United Nations, but failed to secure a seat on the Security Council in 2008.

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 from six to three: Malawi, Mozambique, and Uganda. In late 2015, the government decided to merge the IIDA with the Ministry of Foreign Affairs, a decision which critics claim will weaken the IIDA.

In 2009, Iceland's contribution to development aid amounted to 0.33% of GDP. This was reduced to 0.21% in 2012, well below the UN target of 0.7%. In 2014 the contribution was still 0.21% of GDP. 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.

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. When the present government came to power in May 2013, the Ministry of Environment and Resources was brought under the responsibility of the person who also was Minister of Fisheries and Agriculture. However, a new Minister for Environment and Natural Resources was nominated at the end of 2014, separating the two ministerial positions.

The country is rich in onshore energy and fresh water resources, and has substantial offshore fisheries. However, apart from fisheries management quota 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 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, 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 present center-right government 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

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.

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

Global
Environmental
Policy
Score: 7

Global Environmental Protection

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 in 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, Iceland.

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

Iceland is still engaged in a dispute with the EU over quotas for mackerel fishing. In 2014, an agreement was reached between the EU, 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 faces a dramatic reduction in income from mackerel fishing.

Iceland was fully engaged at the Paris conference on climate change in late 2015, but how Iceland plans to fulfill its obligations laid out by the Paris climate accord remains unclear.

Quality of Democracy

Electoral Processes

Candidacy
Procedures
Score: 10

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 secure seats 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%). As a consequence of this system, 12% of voters in 2013 won no parliamentary representation, as they voted for 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.

Citation:

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 sveitarstjórnna 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 covers all major parties.

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: 6

The 2006 law regulating the financing of political parties provides three types of public grants. First, an annual grant, proportionate 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, proportionate to the number of sitting members of 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 from any private actor, company or individual.

The National Audit Office (Ríkisendurskoðun) monitors the finances of parties and candidates, and publishes annual summaries that include total expenditure and income. Income must be classified by origin, identifying companies or other contributory entities to party finances before and during election periods.

Before the 2007 election campaign, political parties reached an agreement that a maximum 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.

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.rna.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 71-year history of the Republic of Iceland, this paragraph has twice led to a nationwide referendum.

In 2012, a non-binding national referendum was called by parliament. The referendum asked voters six questions, including whether they approved a draft constitution submitted to parliament for ratification by the Constitutional Council. All six questions were approved with 67% of voters approving the Constitutional Council's draft constitution. In addition, 73% voted in favor of introducing a stipulation enabling the electorate to demand a national referendum, if a proposal attracts the support of 10% of the electorate. This reform would mean that national referendums would no longer remain a discretionary power of the president alone. However, the parliament is yet to ratify the draft constitution.

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 referenda 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, 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.

Access to Information

Media Freedom
Score: 7

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. The country's current legal environment, including the 2000 Act on Radio and TV (Útvarpslög), does not provide full protection against government influence or intervention. In 2004, Freedom House stated that Iceland had an "exceptionally open and free media environment." At the time of writing, public funding for state-run Radio and TV (RÚV) is being cut, which is widely perceived as being politically motivated.

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 heavily controlled content. For example, a number of editors have been fired, while several journalists and other staff members have resigned. Meanwhile, Iceland's second largest daily newspaper owned by fishing magnates, and 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. In 2014, a third newspaper was taken over by owners with close connections to the Progressive Party. Subsequently, the newspaper became significantly less critical of the government. A fourth newspaper appears set to be acquired by new owners with business interests. Politicians have repeatedly been accused of trying to interfere with the news programming of state-owned radio and TV broadcasters. 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.

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

Media Pluralism
Score: 6

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

There is one state-owned TV station (RUV - Sjónvarp) and two state-owned radio channels (RUV - Rás1 and RUV - Rás2). There are also five private national TV channels (Stöð2, Skjár Einn, ÍNN, Hringbraut, and N4) and two national private radio channels, separately owned.

The private 365 Media Corporation (365 Miðlar) owns TV station Stöð 2, the Bylgjan radio station, and Fréttablaðið, one of the country's two daily newspapers. 365 Media Corporation is the largest media actor in Iceland and has clear connections to Jón Ásgeir Jóhannesson, a business magnate and bank owner until the 2008 economic collapse. Morgunblaðið, the second biggest newspaper, is considered the voice of the right-wing Independence Party (Sjálfstæðisflokkurinn). At the time of writing, its chief editor since 2009 is the former Independence Party prime minister, Davíð Oddsson. However, given the presence of several other smaller TV broadcasters and Iceland's small population of 320,000, radio stations and newspapers, media ownership in Iceland is fairly pluralistic.

In 2014, ownership of the third largest daily newspaper (DV) was taken over by owners eager to replace its editor under whose stewardship the newspaper's journalists had won several awards for investigative journalism. This is the situation in 2015.

Access to
Government
Information
Score: 8

The 1997 Information Act (Upplýsingalög), revised in 2012, provides a right of access guarantee 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 be provided with a transcript or audio recording of a telephone conversation

between the prime minister and the central bank's governor shortly before the 2008 economic crash.

The constitutional bill from 2011 contains ambitious freedom of information provisions, similar to those in force in Sweden, designed to significantly enhance public access to information kept by the government.

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 statement in 2007 to the effect that, because of its inequity, 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 dropped the case, saying that Iceland's promise of a new constitution was sufficient. However, the parliament has failed to act on the new constitutional bill. In 1998, the Supreme Court ruled that the management system of Iceland's fisheries was discriminatory and hence unconstitutional. However, the Supreme Court reversed its decision in 2000 under overt political pressure from ministers.

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 increase 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 (forthcoming), *Constitution on Ice*, forthcoming in *The Politics of the Icelandic Crisis*, eds. Irma Erlingsdóttir, Valur Ingimundarson, and Philippe Urfalino. — 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 is yet to be ratified by parliament, aims to significantly broaden individual rights and liberties further in line with international developments in the area of human rights.

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 can rule and 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.

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.

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.

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.

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 has remained at around 43% since spring 2014.

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 (the Independence Party).

Citation:
<http://www.gallup.is/#/traust/>

Appointment of
Justices
Score: 4

All Supreme Court and district court judges are appointed by the Minister of the Interior, without any involvement from or oversight by any other public agency. However, all vacancies on the Supreme Court are advertised and the appointment procedure is at least formally transparent. As part of the appointment process, a five-person evaluation committee is 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 aims to restrain the minister's authority by introducing external oversight. Even so, in a remarkable reversal, the Minister of the Interior proposed in a 2015 parliamentary bill that the Minister of the Interior should be able to directly appoint judges as before.

In 2009, the EU 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 draft constitutional bill, approved by 67% of voters in a non-binding 2012 referendum, 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 regularly rulings by lower court judges are overturned by the Supreme Court. Furthermore, a retired Supreme Court justice, whose 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).

Under the terms of the proposed constitutional bill, judicial appointments would have to be approved by the president or by a majority of two-thirds in parliamentary vote.

Citation:

Act on Courts. (Lög um dómstóla nr. 15 25. mars 1998).

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

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: 6

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."

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 MPs standing at €9 million. The 10 highly indebted MPs include the current Minister of Finance and Minister of the Interior. The SIC did not report on legislators that owed the banks lesser sums, say €500,000. GRECO has repeatedly highlighted the need for Icelandic MPs 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 2014, 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 86 and 91. 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.

Citation:

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>

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, government can delay or change of 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 rather than a law – 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.

Under the current government, many traditional non-partisan channels within public administration have been replaced or superseded through political appointments.

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.).

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, and philosophy – 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.

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 MMR, a market research firm in Iceland, public confidence in the University of Iceland has dropped from 85% before 2008 to 64% in 2015.

Citation:

MMR (2015), Lítið traust til bankakerfisins og Fjármálaeftirlitsins (Low confidence in the banking system and the Financial Supervisory Authority), <http://mmr.is/frettir/birtar-nieurstoeur/507-bankakerfidh-og-fjarmalaeftirlitidh-medh-minnsta-traustidh-af-helstu-stofnunum-landsins>

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 previous government (Sigurðardóttir cabinet) merged a number of ministries together, reducing the total number of ministries from 12 to eight. 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 current government (Gunnlaugsson cabinet) 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 have increased the number of ministers from eight to 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

Line Ministries
Score: 8

practice, however, prime ministers can return items to cabinet despite this authority not being explicitly granted by law.

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, a committee was formed to evaluate and suggest necessary steps toward the improvement of the public administration. In order to improve working conditions within the executive branch, the committee proposed introducing legislation to clarify the role and responsibilities of the prime minister. However, this was not implemented during the terms of either the previous or current governments.

Citation:

Skýrsla starfshóps forsætisráðuneytisins (2010): Viðbrögð stjórnarsýslunnar við skýrslurannsóknarnefndar 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, which permit 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. Seven ministerial committees exist, at the time of writing, to coordinate overlapping policy issues. These include: the Ministerial Committee on Public Finances (Ráðherranefnd um ríkisfjármál), with four ministers; the Ministerial Committee on National Economy (Ráðherranefnd um efnahagsmál), with four ministers; the Ministerial Committee on Equality (Ráðherranefnd um jafnréttismál), with four ministers; the Ministerial Committee on Solutions for the Debts of the Families (Ráðherranefnd um úrlausnir í skuldamálum heimilanna), with four ministers; Ministerial Committee on Arctic Affairs (Ráðherranefnd um málefni norðurslóða), with four ministers; and the Ministerial Committee on Public Health Affairs (Ráðherranefnd um lýðheilsu) with four ministers. The most ministerial

committee to have been established focused on refugee and immigrant issues. The committee was constituted in September 2015 and has five permanent ministers, additional ministers join on an ad hoc basis.

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

<http://www.forsaetisraduneyti.is/raduneyti/nefndir/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 there has been no significant increase in the number of active committees.

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 Special Investigation Committee 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 Special Investigation Committee report also identified a tendency to move big decisions and important cooperative discussions into informal meetings between the chairmen of the ruling coalition parties. However, the report's call for clearer regulation has not been acted upon and informal meetings continue without proper reporting. The Special Investigation Committee report also pointed out that the minutes kept at ministerial and parliamentary committee meetings were inadequate. In January 2013, legislation regulating the procedures for cabinets were introduced, but this legislation only addresses formal cabinet meetings and not informal ministerial meetings.

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. 11/2013. 9. janúar 2013. (Rules on procedures in cabinets).

Evidence-based Instruments

RIA Application
Score: 1
Quality of RIA
Process
Score: 1

Iceland has no history of conducting regulatory impact assessments.

There is no tradition of regulatory impact assessments in Iceland. Therefore, the issues of participation, transparency, and quality of evaluation are not relevant in this context.

Sustainability
Check
Score: 1

There is no tradition of regulatory impact assessments in Iceland. Therefore, sustainability checks are not relevant in this context.

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). The main goals were to reduce inflation, lower the government budget deficit and enable the Icelandic króna to strengthen against foreign currencies. However, an open conflict between the government and labor market associations quickly emerged, with labor market associations arguing that not enough had been done to create jobs. In the spring of 2010, the main employers' association withdrew from the pact.

Wage disputes have affected labor market stability for the previous two years and have included doctors and nurses strikes. However, in late 2015, the government, and several trade unions and employers' associations signed a deal on wage contract negotiation methods, which would move Iceland toward the so-called Nordic corporatism model. This SALEK deal covers about 70% of all trade union members. Whether this deal will last remains to be seen.

A further example of societal consultation has been 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 is yet to ratify the bill, even though the bill received the support of 67% of the voters in a non-binding referendum in October 2012.

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 Urfalino (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

Policy Communication

Coherent
Communication
Score: 7

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

However, the previous government proved to be an exception to this tradition. In late 2009, members of the Left-Green Movement parliamentary group, including government ministers, opposed measures brought before the parliament by the government. Later, three Left-Green Movement legislators withdrew from the governing party coalition. This brought the government close to the threshold of becoming a minority government and forced it to negotiate with the opposition on contentious issues. Jón Bjarnason, the Minister of Fisheries and Agriculture between 2009 and 2011, left the government in 2011 in opposition to Iceland's application to become a member of the EU. However, despite internal dissent, the previous government's coalition arrangement held together to the end of its mandated term.

Since the formation of the current coalition government, formed between the Progressive Party and the Independence Party, the situation has reverted to the traditional Nordic practice. While the leaders of the two coalition parties have sometimes issued conflicting statements, this has not resulted in any open conflict.

Implementation

Government
Efficiency
Score: 6

As a rule, the strength of the executive branch vis-a-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 previous government were twice overturned, in 2009 and 2011, by the public in national referenda. On both occasions, the referenda concerned the introduction of government guarantees for losses experienced by Icelandic bank account holders based in the UK 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 previous government 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 EU 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 filibustering.

The current government has so far had few problems in implementing its policy objectives, even though some ministerial initiatives have been thwarted.

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 previous government, 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 EU throughout his tenure. The current government has experienced no such ministerial divisions.

Monitoring
Ministries
Score: 10

In early 2013, regulations regarding the monitoring and oversight of ministries were introduced for the first time. 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. 11/2013). This regulatory change is a step toward stronger, formal monitoring of ministerial bills.

Citation:

Regulations on government procedures. (Reglur um starfshætti ríkisstjórnar. Nr. 11/2013 9. janúar 2013).

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

economic collapse 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 2014, the National Audit Office employed 43 people. Consequently, the effectiveness of the National Audit Office has decreased in recent years.

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).

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 been forced to amalgamate services 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 are planned, including responsibility for elderly care. However, negotiations have been repeatedly postponed due to disagreements over funding arrangements between central and local governments. This issue once again came to the fore in 2015 when several music schools were threatened by bankruptcy due to a funding dispute between central and local governments. At present there are no signs of any breakthrough.

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 – currently 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.

The 2011/2012 constitutional bill 2012 introduces a couple of local government provisions.

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, given what financial support is available to local governments.

Adaptability

Domestic
Adaptability
Score: 7

While not a member of the EU, 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 UN 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 previous 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 eight. Among these, the Ministry of Interior was established through the merger of the Ministry of Communication and Municipal Affairs and the Ministry of Justice. Similarly, the Ministry of Industries and Innovation was established by merging the Ministry of Agriculture, the Ministry of Fisheries and the Ministry of Industry together. Meanwhile, the Ministry of Welfare was established by merging the Ministry of Social Affairs with the Ministry of Health Affairs. The current government has partially reversed some of these mergers and has increased the number of ministers from eight to 10. The Ministry of Welfare has been split between the Minister of Health, and the Minister of Social Affairs and Housing. Similarly, the Ministry of Industries and Innovation has been split between the Minister of Fisheries and Agriculture, and the Minister of Industry and Commerce.

International
Coordination
Score: 5

Iceland is an active participant in international forums, but seldom initiates measures. Iceland was a founding member of the UN, the IMF, the World Bank, and NATO. In 2008, Iceland sought a UN 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 disagreements between the coalition partners. The current government did not renew negotiations and finally withdrew Iceland's application for membership in 2015. Even so, the EU continues to view Iceland as an applicant country arguing that the Minister of Foreign Affairs is not authorized to withdraw an application approved by parliament without the parliament's approval. There is widespread public support for a national referendum on the issue. However, the government rejected this option.

Citation:

The Icelandic webpage on the negotiations: <http://eu.mfa.is/negotiations/status-of-talks/nr/7109>.

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 previous government reshuffled several ministerial portfolios to strengthen policy coordination and administrative capacity. The current government immediately reversed some of these mergers, increasing the number of cabinet ministers from eight to 10.

Institutional
Reform
Score: 8

Iceland's recent governments have sought to improve the central government's strategic capacity by reviewing ministerial structures. The 2007-2009 government initiated this process, while the 2009-2013 government continued this process by reducing the number of ministries from 12 to eight 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 current government, however, has partially reversed these reforms by again increasing the number of ministers by two.

II. Executive Accountability

Citizens' Participatory Competence

Policy
Knowledge
Score: 8

Iceland's citizens are well informed about government policy. In local surveys, most citizens demonstrate familiarity with public policies, especially with respect to policies that either interest 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 the biggest municipalities, Reykjavik 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 current government is led by the Progressive Party.

Public debate surrounding two national referenda, 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 decrease in how well informed citizens are about national and international

affairs. In the 2014 local government elections, voter turnout declined further. In 2006, voter turnout had been 78.7%. In 2010, it declined to 73.5% and in 2014 it dropped to 66.5%. 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 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>)

Félagsvísindastofnun Háskóla Íslands (2014): Sveitarstjórnarkosningarnar 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. (2015): The reasons for not voting in the Icelandic Local Government Election 2014. In "Icelandic Review of Politics & Administration" Vol 11, No 2 (2015). Forthcoming.

Legislative Actors' Resources

Parliamentary
Resources
Score: 3

Parliamentarians have access to experts employed by parliament. While the 28-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 MPs. Ministers also have access to other resources. The 2007-2009 government enabled MPs whose constituencies are located outside of the capital area to hire half-time personal assistants. The aim of this was to improve MPs' access to information and expertise. However, this policy was ended after the 2008 economic collapse due to parliamentary budget cuts.

Obtaining
Documents
Score: 7

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's governor. This dispute remains unresolved demonstrating that the right of parliamentary committee's to request access to information is not the equivalent of a right to obtain information.

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 Commission, 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. Despite being found guilty, Haarde was not given a custodial sentence and was appointed ambassador to the US in 2014.

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 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

Since the current government came to power in 2013, only four of the eight standing parliamentary committees fully coincided with ministry responsibilities: the Economic Affairs and Trade Committee (Efnahags- og viðskiptanefnd) coincided with the Ministry of Finance and Economic Affairs (Fjármála- og efnahagsráðuneytið); the Industrial Affairs Committee (Atvinnuveganefnd) coincided with the Ministry of Industries and Innovation (Atvinnuvega- og nýsköpunarráðuneytið); the Foreign Affairs Committee (Utanríkismálanefnd) coincided with the Ministry of Foreign Affairs (Utanríkisráðuneytið); and the Welfare Committee (Velferðarnefnd) coincided with the Ministry of Welfare (Velferðarráðuneytið). Others did not coincide and the Ministry of Welfare was split up between two ministers by the new government.

Two of the standing parliamentary committees have a special role with respect to 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, the fact that the task areas of parliamentary committees and ministries nearly coincide 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 majority of the agencies under its jurisdiction have never been audited. No significant strengthening of the office's financial resources has occurred in recent years, while its staff numbers have been reduced from 49 in 2009 to 43 in 2014.

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 seven lawyers.

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. The small size of the market limits the financial resources of TV stations. Critical analysis of government policies by independent observers, experts, and journalists is a fairly recent phenomenon in Iceland. The Special Investigation Commission 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, 4 out of 15 parties gained more than 10% of the votes. These four parties constitute Iceland's traditional four-party system. 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 MPs 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. All parties, except the Progressive Party, have primary elections in which only party members have the right to vote. 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. Two other parties had candidates elected to the parliament in 2013. These were Bright Future (Björt Framtíð, 6 seats) and the Pirate Party (Píratar, 3 seats). Bright Future has since developed its procedures for internal decision-making to a greater extent than the Pirate Party.

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.

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, which aimed to achieve economic stability (Stöðugleikasáttmáli). The agreement proposed a restructuring of the economy through wage and price freezes, among other issues. Then, in autumn 2015, government, and employers' and employees' representatives signed the so-called SALEK agreement. This additional agreement applies to approximately 70% of employees.

Under the previous government, 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 previous government failed to realize its goals for restructuring the management system for Iceland's fisheries, despite raising fishing fees significantly. However, the current government lowered the fees in 2013 in opposition to the IMF.

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

37 associated organizations and a staff of 10, and the Consumers' Association of Iceland (Neytendasamtökin), with a staff of 6 and 8,500 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.

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