

# SGI Sustainable Governance Indicators 2011

## Iceland report

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## Executive Summary

In 2007, the Social Democrats came to power in Iceland after 12 years of a right-wing majority coalition formed by the Independence Party and the Progressive Party. In this cabinet shift, the Social Democrats replaced the Progressives as the coalition partner of the right-wing Independence Party. Some thought this change in government composition would bring substantial changes in emphasis in Icelandic politics, while others were doubtful. The new government had been in power for 16 months when, in October 2008, the country's three main banks collapsed within a week of one another.

With the collapse of banks comprising 85% of the banking system, Iceland plunged into the deepest and most rapidly advancing financial crisis recorded in peacetime history, the first of such magnitude in an advanced country. The government had deregulated and privatized the banking system in the late 1990s and early 2000s, allowing the banks to pass into the hands of politically well-connected individuals possessing little or no experience in modern banking. The banks proceeded to take advantage of ample supplies of low-cost capital in international markets to fuel a high degree of leverage and a rapid growth in their balance sheets, with the result that the banks quickly far outstripped the ability of the fiscal authorities and the Central Bank to stand behind them with financial guarantees. In addition, the banks' institutional structures lagged behind developments in the banking sector elsewhere. Neither the Central Bank nor the Financial Supervisory Authority (FSA) developed the infrastructure necessary to fulfill their duties adequately, and they did not receive the necessary support from the authorities (Danielsson and Zoega, 2009). The parliament's Special Investigation Commission (SIC) report subsequently blamed the government, the Central Bank and the FSA for negligence in the exercise of their duties before the crash, raising the prospect of legal consequences for the politicians and public officials named in the report. The report exposed deep public administration flaws that had weakened the country's infrastructure and contributed to the crash.

After a few turbulent months, the coalition government formed in 2007 began to fall apart. The Social Democrats were dissatisfied with their coalition partner's reluctance to replace some of the officials thought to bear partial responsibility for the crash, especially the Central Bank governor (a former prime minister) and the director of the FSA. The conflict resulted in the fall of the coalition in late January 2009, and the subsequent formation of a new minority government on February

1, 2009, this time made up of the Social Democrats and the Left Green Movement. This coalition was supported by the Progressive Party, which abstained from voting against government bills. However, an agreement was also made to hold new parliamentary elections in the spring. In the April election, the two parties on the left won a majority of the seats in parliament for the first time in history. The Social Democrats won 20 seats and the Left Green Movement 14 seats, for a total of 34 of the parliament's 63 seats. The two parties formed a majority coalition government, led by the Social Democrats. The new government's economic policy centers on implementing the rescue package supported by the International Monetary Fund (IMF), which was inherited from the previous government. The Nordic countries have provided financial support for the program, as Iceland's maximum access to IMF resources falls far short of the financing gap opened up by the crash. Progress has been made under the IMF program, with capital controls acting to prevent the króna from depreciating further, as intended. However, implementation has been slow mainly because of the government's inability, for domestic political reasons, to settle the Icesave dispute with Great Britain and Netherlands. The Nordic countries' willingness to continue their support for the program will ultimately be contingent upon just such a settlement. Further, in mid-2009, the new government applied for membership in the European Union. EU membership has for some time been on the Social Democrats' agenda, but the Left Greens have been and remain opposed to membership. The coalition made a deal to file an application and then submit any eventual agreement on accession terms to a national referendum. For many years before the crash, public opinion used to favor membership by a small margin. After the crisis, however, support for EU membership has weakened, casting doubt on the outcome of a referendum.

Despite some reluctance in the Left Green parliamentary group to support the terms of the Icesave agreement negotiated by the governments of Iceland, Great Britain and the Netherlands, the agreement was approved by parliament in December 2009, after several months of debate. The president of Iceland then refused to ratify the law, thereby sending the issue to a public referendum in accordance with the constitution. At the time of the March 6, 2010 referendum, a new agreement, more favorable to Iceland, was on the table. Knowing this, the electorate overwhelmingly rejected the agreement. By the close of the review period, this matter remained unresolved, partly due to elections and changes in government in Great Britain and the Netherlands in the spring of 2010.

Another important issue in Icelandic politics, in addition to the

economic problems and external public debt, concerns fisheries policy. The government has announced its intention to change the fisheries management system. Opinion polls have long shown that a large majority of Iceland's population is opposed to the catch quota system, under which boat owners have been granted fishing quotas free of charge even though the fish stocks in Icelandic waters are by law a common property resource. As the law currently stands, the quotas are transferable between boat owners and thereby between municipalities and regions. Quite apart from the implications of allowing boat owners to pocket the revenue from selling a common property, there are concerns that the quotas' transferability has had serious consequences for some regions, including rapid depopulation since the early 1990s. The government's intention is thus to sell a portion of the annual quotas every year rather than giving them away for free, thereby implementing a fair and market-friendly method of fisheries management advocated by many economists. However, some object that most of the quota has already been sold by boat owners who originally received their shares for free.

Iceland finds itself in a deep economic crisis and faces several years of serious strain. How quickly the country's standard of living can be restored to approximate parity with the rest of the Nordic region, as measured in per capita national income in euros, remains to be seen.

## Strategic Outlook

Iceland faces a heavy – but, it is hoped, manageable – burden of foreign debt following the crash of 2008, as well as other demanding challenges. Interest payments on the public debt amounted to 9% of GDP in 2010, and are now the single largest expenditure item in the government budget. The outlook for the years ahead depends to a large extent on the government's ability to continue implementing the rescue package in place since 2008, with the support of the International Monetary Fund (IMF) and the Nordic countries. Important too will be on the government's ability to reach an advantageous accession agreement with the European Union, and subsequently convince the electorate to accept the agreement in a national referendum. None of this can be taken for granted.

The government's inability thus far to settle the Icesave dispute with Great Britain and the Netherlands, a prerequisite for continued financial support from the Nordic countries and by extension the IMF, provides one source of uncertainty as to future prospects. So too do the accession negotiations with the EU, particularly in view of the junior coalition partner's opposition to EU membership and the unwillingness of the opposition parties to support membership. The

post-crash government has significant coordination problems due to the fact that some members of the Left Green parliamentary group have not been cooperative with the government on some key issues, including the Icesave dispute and the prospect of EU membership. That means that even if the government parties technically have a majority in parliament, the government is in practice a minority government, and needs to negotiate with a rather unaccommodating opposition on some important issues. This state of affairs saps the government's energy and delays progress. These delays have consequences. For example, the strict capital controls put in place as part of the IMF-supported rescue program in late 2008 were intended to be temporary, originally expected to last for two to three years. However, due to delays in the implementation of the program, no firm plans for their dismantling were on the table as of the time of writing, almost two years later. Lacking a timetable for the abolition of capital controls, it will be difficult or impossible to attract foreign capital. For this reason and others, it is doubtful whether the government will last until the end of its current mandate in 2013. Painful spending cuts need to be made and taxes need to be increased to make ends meet, both prospects that will strain the government. At the same time, the outcome of the municipal elections in 2010, in which a comedian whose campaign manifesto included a promise to expose his own corruption was elected mayor of Reykjavik with 35% of the vote, ought to make the government think twice before giving up and calling a parliamentary election. This is at best a volatile situation.

## Status Index

### I. Status of democracy

#### Electoral process

Candidacy  
procedures  
Score: 10

Every citizen 18 years or older can run for parliament, with the exception of Supreme Court judges (Hæstiréttur), those who have been convicted of a serious felony after having reached 18 years of age, and those who have been sentenced to four months or more in custody. With a change in the electoral law in 2009, the parliament's Ombudsman (Umboðsmaður Alþingis), who was previously barred from running for a parliamentary seat, was granted this right. The legal restrictions on Supreme Court judges and those with a criminal record do not apply in local elections, but the 18-year-old minimum age is the same. In local elections, citizens from other Nordic countries who have maintained a permanent residence in Iceland for three consecutive years can be candidates. The registration process for candidates and parties is completely transparent and fair.

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 sveitarstjórna nr. 5/1998 (Law on local elections nr. 5/1998).

Media access  
Score: 9

Formally, all parties or candidates have equal access to the media. No restrictions based on race, gender, color, language or any other such factors exist. However, the largest media organizations have some tendency to favor the bigger parties or more well-known candidates in their coverage. Therefore, parties already in parliament or serving in local councils are better positioned than new parties or new candidates running for parliamentary or local council seats.

Voting and  
registrations rights  
Score: 10

The voting procedure is completely unrestricted, with no special registration required. Any citizen registered as a voter in his or her district simply has to show up on election day and show a valid identity card. Every person 18 years of age or older has the right to vote.

Party financing  
Score: 6

According to a 2006 law on political party finances, public grants to political parties are of three kinds. First, any political party or

movement with one or more member serving in parliament or which attained 2.5% of the total vote in the last election receives an annual grant sized according to its share of the vote. Second, parties in the parliament receive an annual disbursement according to the number of serving members. Parties in opposition also receive a special grant from the state. Third, every municipality with more than 500 inhabitants has to pay grants to every party with one member or more in the local council or which attained at least 5% of the vote in the previous local election. The same law also governs private contributions to political organizations and candidates. For example, parties are not allowed to accept more than ISK 300,000 (about €1,700) from any private actor, company or individual.

The National Audit Office (Ríkisendurskoðun) monitors the finances of parties and candidates, and is tasked with publishing an annual summary of their finances, including total outlays as well as income. This income must be classified by origin, companies and other legal entities contributing to the parties' electoral campaigns. Similar rules apply to contributions to candidates during pre-election (prófkjör) periods.

These laws went into force in January 2007. At the same time, the political parties made an agreement governing the maximum amount of money to be spent on TV, radio and newspaper advertisements in the 2007 election. This amount was at that time ISK 28 million (€161,000). However, it proved easy to circumvent this limit. There is currently no upper legal limit on advertising expenditure. These laws on party finances have been under revision since 2009.

In accordance with the 2006 law, the National Audit Office published a report on political party finances during the 2002 – 2006 period. The report showed that during this period, three of the four main parties (all except the Left Greens) accepted large private donations. From 2002 to 2006, the Progressive Party accepted the equivalent of ISK 13,000 (€74) per vote cast in the 2007 parliamentary election. The Independence Party accepted the equivalent of ISK 5,000 (€28) per vote cast, and the Social Democrats accepted the equivalent of ISK 4,000 (€23) per vote cast. These figures do not include donations to individual candidates and local party associations. The largest donors were the three main commercial banks and affiliated companies. The donations were made during the boom before the financial crash of 2008, which brought down the banks and several affiliated firms.



## Access to information

Media freedom  
Score: 8

Until the late 1980s, all radio and TV stations were owned by the state. The state monopoly in this market was abolished by law in 1986. Since that time, private stations have gained momentum and are now a significant part of the media market. Even so, there were only nine private TV stations in 2008 compared with 12 in 2005. There is one state-run TV station. Even though the government respects the independence of the media, the law does not provide full protection against government influence or intervention. The Act on Radio and TV (Útvarpslög) has regulated radio and TV since 2000.

In international comparison, the Icelandic mass media has been described as working in an “exceptionally open and free media environment” (Freedom House, 2004). The legal environment can be described as having the characteristic of negative freedom – that is, freedom from restrictions instead of being subject to obligations and responsibilities (positive freedom).

During the boom after 2000, a frenzied competition for control of the media took place, focusing especially on the TV sector but also encompassing the newspaper business. The three main business groups in Iceland each had a bank and a newspaper in their portfolio, a common feature in preludes to past financial crises around the world. After the crash of 2008, the ownership of the oldest and second-largest newspaper (Morgunblaðið) was transferred from a bankrupt banker to an owner of fishing quotas. The paper is currently edited by a former prime minister, and in keeping with the interests of the owner, is strongly supportive of the fishing lobby and strongly opposed to EU membership. In effect, the government under this prime minister enriched the quota owners by handing them hugely valuable common-property fishing quotas free of charge, and then, in an evident quid pro quo, one such owner bought a newspaper and installed the former prime minister as editor.

### Citation:

Karlsson, Ragnar (2010): Íslenskur fjölmiðlamarkaður. Framboð, fjölbreytni, samkeppni og samþjöppun. (The Icelandic media market. supply, diversity, competition and concentration). An overview prepared for the Ministry of Education and Culture.

Media pluralism  
Score: 6

The ownership of media in Iceland can be divided into three blocs, two of which are in the private sector and one owned by the government. The government runs one of the two largest television stations and two of the largest radio stations in Iceland. In 2010, Iceland had one state-owned TV station (RUV – Sjónvarp) and two

state-owned radio channels (RUV – Rás1 and Rás2). There are three private nationwide TV channels and two nationwide private radio channels, owned by separate companies. There are also two large newspapers published six days a week, owned by two different business groups (Morgunblaðið and Fréttablaðið). Morgunblaðið has for decades been considered to be the newspaper of the right-wing Independence Party (Sjálfstæðisflokkurinn), and remains so under its new ownership. In 2009, a former prime minister from the Independence Party became the chief editor, a controversial appointment in view of the editor's role in the financial collapse of the country, first as prime minister and then as Central Bank governor. Fréttablaðið is a free newspaper, without paid subscribers. It is owned by one of the companies belonging to Baugur Group, now bankrupt, and another key player in the economic collapse in 2008 and associated events. Due to an old conflict between the Baugur Group and various right-wing politicians, particularly the above-mentioned former prime minister, Fréttablaðið has been considered by some as the newspaper of the left wing, especially the Social Democrats. From that perspective, ownership of the media in Iceland can be viewed as being fairly balanced, politically speaking, in a country of 320,000 people. At the same time, both main papers, especially Morgunblaðið, are widely viewed as being partial in favor of their owners. Morgunblaðið is said to have lost a third of its subscribers when the former prime minister was appointed editor.

Access to gvmf.  
information  
Score: 7

The Information Act (Upplýsingalög) took effect in 1997. The act guaranteed, with some restrictions, the right of access to official information. Memoranda, working documents and material related to Council of State (Ríkisráð), cabinet and ministerial meetings are exempted from the act. These exemptions have led to accusations that documents are deliberately mislabeled to keep them inaccessible. The act does not apply to correspondence prepared for court proceedings, job applications, registrations, enforcement proceedings, property attachments, injunctions, sales in execution, moratoria on debts, compositions, liquidations, the division of estates at death or other official divisions, investigations, or prosecutions in criminal cases.

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

Refusal of requests to access 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.

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Citation:

1. Information Act (Upplýsingalög). Act no. 50/1996.
2. Act on Processing and Protection of Personal Data. (Lög um persónuvernd og meðferð persónuupplýsinga) Act no. 77/2000.
3. The National Archives Act no. 66/1985. (Lög um Þjóðskjalasafn Íslands no. 66/1985).

## Civil rights

Civil rights  
Score: 9

The Icelandic state respects and protects civil rights, and as a rule, the courts effectively protect citizens' rights. Confronted with evidence that the state has disregarded civil rights, the courts would in most cases rule against the government. Even so, the inequitable nature of the fisheries management system, under which boat owners are granted fishing quotas free of charge, recently prompted the United Nations Committee on Human Rights to declare the system a violation of human rights, and to instruct the Icelandic government to rectify the system by removing the discriminatory element. This assessment is binding. The government replied to the U.N. committee by repeating its earlier arguments, which the committee had already evaluated and rejected. As of the time of writing, the government was awaiting the committee's reaction. Beyond this issue, the government has not satisfactorily dealt with accusations by politicians, including a former foreign minister, that the telephones of politicians and others were wiretapped as recently as 20 years ago without court orders as required by law. A police investigation was conducted in 2008 without witnesses having been freed from their duty to remain silent, and

hence was inconclusive.

Citation:

International covenant on civil and political rights, CCPR/C/91/D/1306/2004, 14 December 2007.

Political liberties

Score: 10

Iceland's constitution guarantees every individual's right to speak, think, assemble, organize, worship or petition without government or private interference or restraints. These basic individual political rights and liberties cannot be threatened by any state institution without violating the constitution, and cannot be changed without amending the constitution.

Non-discrimination

Score: 9

The constitution guarantees every person equal human rights without regard to gender, religion, opinion, national origin, race, color, property, birth or other status. More specific provisions are to be found in the Penal Code (Almenn hegningarlög No. 19/1940), the Administrative Procedure Act (Stjórnsýslulög No. 40/1993) and the Equality Act (Lög um jafna stöðu og jafnan rétt kvenna og karla No. 10/2008). The Supreme Court can rule and has ruled in accordance with those acts and the constitution. The Equality Act states that equal gender rights must be guaranteed in all areas of society, and that discrimination in pay, hiring and employment is against the law. The Center for Gender Equality (Jafnréttisstofa) is intended to monitor the implementation of these laws and is obliged to refer all major cases to the courts. However, despite the fact that equal rights are guaranteed by law, the reality is that discrimination occasionally occurs in Iceland, especially against women, disabled persons and foreigners. Apparent discrimination may in many cases reflect market outcomes rather than willful 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).

## Rule of law

Legal certainty

Score: 9

The Icelandic state authorities and the state administration respect the rule of law, and as a rule make decisions accordingly. Therefore, their actions are generally predictable. However, there have been cases where court verdicts and government actions have been appealed to and overruled 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.

A recent case of a different kind has a bearing on legal certainty. The Supreme Court ruled in June 2010 that bank loans indexed to foreign currencies rather than to domestic prices were in violation of a law passed by parliament in 2001. This means that the asset portfolios of the failed Icelandic banks after their collapse in 2008 contained loans that turned out to be illegal. The amounts at stake are large. How the matter will be resolved remains to be seen. The example shows that the entire banking system broke the law without attracting the attention of the government or any of its institutions, including the Central Bank and the Financial Supervisory Authority.

Citation:

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

Judicial review  
Score: 9

The courts – district courts as well as the Supreme Court – operate with some notable exceptions free of pressure from either the government or powerful groups and individuals. The jurisdiction of the Supreme Court to rule on whether the government and administration have acted in conformity with the law is beyond question. Even so, opinion polls in recent years have shown that only about 30% of the public expresses confidence in the judicial system. Judges are appointed by the minister of justice and human rights (previously, the minister of justice and ecclesiastical affairs). All vacancies are advertised, and the hiring procedure is transparent. However, there have been cases in which the minister's selections of Supreme Court or district court judges have caused controversy. In at least two recent cases, the minister of justice was accused – and in one case was subsequently reprimanded in court – for favoring candidates who were close relatives of former Prime Minister Davíð Oddsson (1991 – 2004), one in the Supreme Court (Oddsson's nephew) and one in the District Court of North East Iceland (Oddsson's son). Virtually all of the country's 52 judges were appointed by justice ministers from the two parties that governed Iceland in coalition from 1995 to 2007. From 1927 to the present, with the exception of six years, the minister of justice came from one of those two parties, which now find themselves together in opposition for the first time.

More broadly, the separation of powers in Iceland can be considered as somewhat weak. The executive branch, led by cabinet ministers, drafts most of the legislation passed by the government majority in the parliament. In that sense, the parliament is weak. The above-cited example of the recruitment procedure for judges is a further example of the strength of the executive power in Iceland, coming at the expense of the judicial and legislative branches. In 2009, Iceland applied for membership in the European Union. In late 2009, the EU

Appointment of  
justices  
Score: 2

offered a reaction to some of the information provided about the state administration and the political system. One of the remarks offered by the EU concerned the recruitment procedures for judges.

All judges, both in the Supreme Court and in district courts, are appointed by the minister of justice and human rights alone, without any required cooperation with other government bodies. However, all vacancies on the Supreme Court are advertised, and the appointment procedure is at least formally transparent. As part of the appointment process, an evaluation committee is appointed and usually recommends one applicant. However, the minister has no obligation to follow that recommendation. In a controversial case, a Supreme Court judge was appointed in 2003 against the recommendation of the evaluation committee. This person was a close relative of the serving prime minister. Most or all Supreme Court justices have been appointed by the minister of justice drawn from the right-wing Independence Party. This party has been in government for 64 of the 76 years since the foundation of the Republic of Iceland in 1944. In an article in *Morgunblaðið*, one of the two large newspapers, the leader of the Progressive Party (*Framsóknarflokkurinn*) recently wrote that the fact that the Independence Party has had this appointment power for decades spreads suspicion and unease about the appointment of judges, undermining public confidence in the courts. This is a widely held view in Iceland. A new bill on the courts, including the appointment of judges, lay before parliament as of the time of writing. The process of appointing Supreme Court judges can be said to be formally transparent, but since only one person, the minister of justice, has the final say, and since the same party – or rather two parties, the Independence Party and the Progressive Party – has had this power for decades, the neutrality of the Supreme Court can be questioned.

Citation:

Guðni Ágústsson: Deilur um skipan dómara veikja dómstólana. In *Morgunblaðið* 10. January 2008 (Conflicts about the appointment of judges weaken the courts).

Corruption  
prevention  
Score: 9

Corruption among officeholders has not been a serious problem in Iceland. It does occur in the form of politicians granting favors, and in some instances, paying for personal goods with public funds. Post-2006 regulations on political party support might also prevent any such problems in the future, as political parties were not previously required by law to disclose the sources of their funds. It is very rare that officeholders in Iceland are put on trial for corruption. In May 2007, however, shortly before the elections, it came to the media's attention that the girlfriend of the son of Minister of Environmental Affairs Jónína Bjartmarz had been granted Icelandic citizenship on a

fast track. The minister stated that she had had no knowledge of the matter, and remained in office. No legal process followed as a consequence of this issue.

The state has no policy specifically addressing corruption, under the premise that no such policy is necessary. By contrast, the Swedish government recently (2007) set up a new Corruption Unit to investigate private as well as official corruption. To be sure, Transparency International's corruption perception indices for Iceland suggest that corruption – in the narrow sense of abusing public office for private gain through bribery – is largely absent. Yet while other, more subtle forms of corruption are harder to quantify, they almost surely exist. The collapse of the Icelandic banks in 2008 and the subsequent investigation by, inter alia, the parliament's Special Investigation Commission (SIC), has brought to light the subservience of the government and state administration to the banks. This was expressed through weak restraints on their phenomenally rapid growth, as well as lax supervision during the pre-bust boom period. Moreover, it has come to light that three of the four main political parties, as well as individual politicians, accepted large donations from the banks and affiliated concerns. Public officials are not required to declare their assets or potential conflicts of interest. However, the SIC reported that of 63 members of parliament, 10 owed the failed banks €1 million or more each at the pre-crash exchange rate of the króna, with their personal debts ranging from €1 million to €40 million. The average debt of the 10 members of parliament, including the leader of the Independence Party, his deputy, and five other party comrades, was €9 million.

Many appointments to public office, in the courts as well as in the central bank, are politically motivated rather than based on merit – appointment corruption might thus be the right term for this persistent practice.

Citation:

Special Investigation Commission (SIC) (2010), "Report of the Special Investigation Commission (SIC)," report delivered to Althingi, the Icelandic Parliament, on 12 April.

## II. Policy-specific performance

### A Economy

#### Economy

Economic policy  
Score: 6

The government's general strategy is to support the future-oriented development of the country's economy through regulatory policy. After the collapse, this will most likely be done by strengthening the Financial Supervisory Authority (FME), whose role as the supervisory authority in the years before the collapse has been highly criticized. This will, without doubt, also lead to the further strengthening of the capacity and efficiency of the national Competition Authority. The clear-cut assignment of tasks to institutions was decreased in the late 1990's by the closure of the National Economic Institute (Þjóðhagsstofnun). The separation of the Financial Supervisory Authority and the Central Bank of Iceland may have had the same effect, but merging these two bodies again is already under discussion in the wake of the 2008 collapse.

Following the 2008 financial collapse, Iceland's economic policy has conformed to an economic reconstruction program supported by the International Monetary Fund (IMF) and the Nordic countries, whose financial contribution to the program is essential to its implementation. The stand-by program supported by the IMF is well designed, combining stringent temporary capital controls to prevent the króna from depreciating further with continued monetary restraint and fiscal adjustment equivalent to about 15% of GDP during 2010 – 2015, taking the form both of public expenditure cuts and tax increases. Implementation of the program has been delayed due to political squabbling in Iceland, thereby delaying the gradual relaxation of the capital controls. Originally, the IMF envisaged that economic growth in Iceland would resume two years or so after the crash. Now it seems clear that recovery will take longer. Because of the depreciation of the króna, a situation expected to last for some time, it will take several years for Iceland's national per capita income to regain parity with the rest of the Nordic region.

By applying for EU membership in 2009, the government has signaled its intention to abide by European standards and to strengthen Iceland's institutional setup, including regulatory policy. After the collapse of 2008, the State Prosecutor's Office and the Financial Supervisory Authority (FME), which failed so abysmally to reign in the



banks before the crash, have been strengthened. This will probably also lead to the further strengthening of the capacity and efficiency of the national Competition Authority. This constitutes a significant reversal with respect to previous practice. When the National Economic Institute, a decades-old institution set up to offer impartial economic counsel to the government, was no longer found obliging enough a few years ago, it was disbanded on the grounds that the recently privatized banks' unfailingly optimistic economic departments, among others, could fill the gap. When the Competition Authority a few years ago raided the offices of oil companies, which were later found guilty of illegal price collusion, the Authority was summarily abolished and then reincarnated under new, more compliant management.

### **Labor market**

Labor market policy  
Score: 5

To the extent that a labor market policy has been followed in Iceland, it has generally been successful. Unemployment has been very low for many decades, with few exceptions. At the end of 2007, the unemployment rate was just below 1% of the labor force, which by international comparison is very low. Things changed dramatically in the autumn of 2008 as a result of the economic collapse, the bankruptcy of the three biggest banks and a dramatic deterioration in the government's fiscal situation. The unemployment rate rose to 8% in 2009 and 10% in 2010, a startling increase in Iceland even if these numbers are not high by European standards. The IMF expects the unemployment rate to decrease to 3% by 2014. If this turns out to be the case, this will be the longest spell of significant unemployment in the history of the republic. A new reality now faces the Icelanders. Earlier, the government was in the habit of keeping unemployment at bay through lax fiscal and monetary policies that caused high levels of inflation. Further, during the pre-bust boom period, the overheating of the economy exacerbated the underlying problems. Regionally driven policy motivated infrastructural investments such as the construction of the Kárahnjúkar power plant in the eastern part of Iceland, followed by a large aluminum smelter in nearby Reyðarfjörður, the funding of which contributed to the overheated economy.

### **Enterprises**

Enterprise policy  
Score: 7

The government has, and still does, put special emphasis on fostering innovation and entrepreneurship in the use of geothermal energy. Former debate on whether geothermal energy resources should be privatized and opened to foreign investment came to an end in late

2007, even before the economic collapse, with the so-called REI affair. In the autumn 2007, a merger was proposed between Reykjavík Energy Invest, a subsidiary of the publicly owned Reykjavík Power Company (Orkuveita Reyjavíkur, OR), and the privately owned energy investment company, Geysir Green Energy. However, citing the risk of putting public money into risky investments in the energy sector, the city council of Reykjavík subsequently decided that OR should withdraw from the merger process.

Generally, Icelandic government policy has been supportive of innovation and entrepreneurship, but has not managed to guarantee economic competitiveness. Innovation, entrepreneurship and competitiveness have been emphasized in government enterprise policies, both in terms of general policy and regional policy. These are still a focus in the new government's policy, as seen in its 2010 presentation of the so-called Offensive Plan (Sóknaráætlun), a 10-year plan for strengthening the economic system of the whole of Iceland.

At the close of the review period, Iceland remained embroiled in a deep economic and political crisis sparked by the collapse of its three main banks in 2008. There is a heated debate over the extent to which the country's economy should be rebuilt by further investments in energy, which might then be sold to foreign enterprises such as aluminum smelters. One of the two parties currently in government, the Left Green Movement (Vinstri hreyfingin grænt framboð), is reluctant to take further steps toward this kind of enterprise policy, mainly because of the party's environmental policy. With the Ministry of Environmental Affairs in its portfolio, the Left Greens are in a position to delay ongoing plans to build aluminum smelters in the Reykjanes peninsula and the Húsavík region in the northeast. Therefore, investment plans in heavy industry, at least as a tool for emerging from crisis, remain stalled.

## Taxes

Tax policy  
Score: 8

Before the collapse in 2008, tax policy was regressive, explicitly designed to favor high-income earners. In the years before the collapse, the tax burden on higher-income companies and individuals was lightened and made heavier for lower-income groups. Corporate income taxes were lowered from 18% to 15% in the spring of 2008. Statistics Iceland reports that the Gini index of inequality and the 20/20 ratio (the ratio of the incomes of the richest fifth of the population to that of the poorest fifth) increased more in Iceland than in other European countries from 2003 to 2006. Indeed, this

description applies to the broader period from 1993 to 2008, after which the crash produced a sudden reduction in inequality as capital gains collapsed. Economic history shows that increased inequality is often a precursor of financial crises.

Working in a totally different environment today, the post-crash government has plans to increase the corporate income tax rate. In 2009, the government introduced a new three-bracket tax system for individuals, which took effect in 2010. Taxes for low-income earners have been lowered, while taxes for others have been increased. The government has also increased the tax on capital gains from 10% to 15%. This tax policy seems unlikely to affect competitiveness adversely. Even though the capital gains tax is now higher than before, the corporate tax remains at the same level as in 2008. These changes are intended to reverse the trend toward increasing inequality, bringing Iceland closer to neighboring countries.

Due to the exceedingly tight fiscal position of the government, tax policy is under constant review. In mid-2010, the IMF presented a report suggesting, at the government's invitation, a variety of progressive and efficiency-enhancing ways by which public revenue could be increased by up to 2% of GDP. It remains to be seen whether the government will choose to raise taxes further along the lines suggested by the IMF, or whether it will stick to its earlier intention to cut public spending drastically. The government has committed itself to increasing total taxes from 38% of GDP in 2009 to 44% in 2014, and to reducing government expenditure from 53% to 41% of GDP over the same period, a tall order.

Citation:

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

## Budgets

The economic collapse in 2008 increased the country's foreign debt dramatically. Gross public debt rose from 29% of GDP at the end of 2007 to 105% of GDP at the end of 2009. Hence, the crisis has increased gross public debt by about 75% of GDP. Net public debt, that is, the government's foreign debt minus its foreign assets, stood at 73% of GDP at the end of 2009, and is projected to drop to 61% by 2014. In its advice to the Icelandic government, the IMF emphasizes the importance of sustainability. Hence the IMF's insistence on a major turnaround in the country's fiscal position through a mixture of revenue increases and expenditure cuts. The IMF has expressed the view that, provided the fund's fiscal program is adhered to, Iceland's

Budget policy  
Score: 5

public debt is sustainable, including the Icesave debt to Great Britain and the Netherlands associated with the collapse of Landsbanki Islands. Negotiations between the three governments produced an agreement by which Iceland must pay the United Kingdom a sum of GBP 2.35 billion and the Netherlands about €1.3 billion over the 2016 – 2023 period. The sum of the two figures is equivalent to about half of Iceland's GDP in 2009, and seems likely, with the assumption of a reasonable rate of asset recovery, to overstate by a significant margin the ultimate cost involved for Iceland. The Icelandic government expects to be able to recover between 75% and 95% of Landsbanki's deposit claims.

Clearly, it is going to be difficult for Iceland's government to restore and sustain rapid economic growth over the next few years while facing such serious budgetary policy constraints. A further complicating factor is the uncertainty associated with the Supreme Court's June 2010 ruling that bank loans indexed to foreign currencies were illegal. As of the time of writing, the financial ramifications of this ruling had yet to be worked out.

## **B Social affairs**

### **Health care**

Health policy  
Score: 8

Health care policies have in recent times provided high-quality health care to all Icelandic citizens, in an increasingly efficient manner. However, this has varied to some extent, as the capital area and Akureyri in the north have experienced significant advantages compared with other, more peripheral parts of the country. This has meant that patients in more remote regions have had to travel to get more specialized medical help. The University Hospital in Reykjavik (LSH), the largest hospital in Iceland, has for some years been in difficult financial straits, as the government has been unwilling to provide additional public funds or to permit the hospital to raise revenue on its own through means such as levying patient service fees. The resulting shortage of staff, especially nurses, can be a threat to patient safety due to work pressures and long hours. After the economic collapse in 2008, the situation deteriorated due to heavy cutbacks in the health sector across the country. Some departments within hospitals have been closed, and services have been cut back in others. Due to a massive reduction in the purchasing power of salaries, the threat of a mass exodus of medical doctors, an especially footloose profession, looms over the health care system.

## Social inclusion

Social inclusion  
policy  
Score: 7

In the years prior to the 2008 economic collapse, inequality increased in Icelandic society more rapidly than elsewhere in Europe. The main source of this development was a regressive tax policy, including a creeping reduction in real terms in the level of income at which low-income households were exempted from paying income tax. This development increased the tax burden of low-income wage earners due to rather high levels of inflation. The government in power since 2009 has begun to readjust the tax system in favor of low-income households, in an attempt to improve their situation. However, as a consequence of the significant cutbacks in the public sector, pensions and social reimbursements have been cut as well. Therefore, it is difficult to say whether the situation of disadvantaged groups has improved or not. Since 2009, the strain on charity organizations that provide food and clothes free of charge to the needy has increased markedly. This suggests that the economic crisis has increased the risk of social exclusion and that the government has not been fully able to stem this development through its social policy. Even so, medical statistics on emergency room admissions, the use of antidepressants and the incidence of suicides do not suggest significant changes in trends since before the crash. On balance, the evidence on social exclusion is therefore mixed.

## Families

Family policy  
Score: 9

Icelandic family policy has long supported the participation of women in the labor force. In a comparative perspective, Iceland indeed has one of the world's highest rates of labor market participation by women. The government's family policy has encouraged men and women to share the burden of child rearing. For example, in 2005, almost 90% of eligible fathers used their right to take a three-month parental leave. As a consequence of the collapse in 2008, and as a part of the ensuing economic crisis, state payments during parental leave have been reduced from 80% of an individual's salary to 75%. The ceiling for this payment was also lowered. Since men have on average higher wages than women, this reduction in payment levels could discourage men from taking parental leave.

## Pensions

Pension policy  
Score: 7

Pension policy is partly based on a tax-financed, means-tested public social security program, and partly on occupational pension funds and voluntary savings encouraged through the provision of tax incentives. The pension funds, with employee contributions of 4% of total wages and a complementary employer contribution of 8%, are aimed at giving retirees a pension equivalent to 56% of their average working-life wages. Employees can opt to pay a further 4% of their wages, with a 2% employer contribution, 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, the economic collapse caused heavy losses for most if not all of these pension funds, which had invested in stocks in the Icelandic banks that collapsed in 2008 as well as in additional companies that went bankrupt. These losses have caused most of these pension funds to reduce payments to their members, imposing a further reduction in the living standards of the elderly. Recent reports suggest that the pension funds are on their way to a robust recovery, however. More broadly, the pension funds have been pressured by the government and the banks to invest locally in projects considered to be helpful to strengthening the country's economic recovery. It remains to be seen whether the pension funds can withstand those political pressures.

## Integration

Integration policy  
Score: 6

The laws on the civil rights of immigrants in Iceland are mainly based on Danish and Norwegian models, as well as implementing Iceland's obligations under the European Economic Area (EEA) agreement. The Danish law on immigrants is considered to be one of Europe's most restrictive, largely by making it difficult for citizens outside the EEA to move to Denmark. Iceland too has a law on immigrants from EEA/EU countries and a separate law governing immigrants from non-EEA/EU countries (Önnudóttir, 2009). The latter law focuses on the need for foreign labor in the country and grants citizens from outside the EEA/EU only temporary work permits. The authorities provide instruction in the Icelandic language for foreign citizens. Citizens from other Nordic countries are eligible to vote in local government elections after having maintained their legal domicile in the country for three consecutive years. Other foreign citizens have to wait five years for this right (Lög um kosningar til sveitarstjórna No. 5, 1998). The right to vote in parliamentary elections presupposes Icelandic citizenship.

The Information Center for foreigners (Alþjóðahús) offers services for individuals in need of information and assistance on all kinds of issues. This is an intercultural center welcoming all kinds of practical questions concerning the basic rights of foreigners. Thus, despite rather strict laws on immigration, considerable effort is made to integrate immigrants. At the same time, a special institution for handling foreigners (Útlendingastofnun, UTL), operating under the auspices of the recently renamed Ministry of Justice and Human Rights, has been criticized in the press for routinely expelling foreign citizens on weak grounds. The UTL's apparently foreigner-unfriendly stance manifests itself on the body's website, which is solely in Icelandic with no English translation provided.

Citation:

Önnudóttir, Eva Heiða (2009): Viðhorf Íslendinga til innflytjenda á Íslandi (The Icelanders attitudes towards 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).

## C Security

### External security

External security  
policy  
Score: 7

Iceland maintains no military force, a unique state of affairs in the world today with the sole additional exception of Costa Rica. The North Atlantic Treaty Organization (NATO) maintained a U.S. military base in the country from the end of World War II until 2006. The U.S. government withdrew its military from the base against the wishes of the Icelandic government, but an agreement between Iceland and the United States was signed stating the U.S. government's commitment to defend Iceland if necessary. It was also noted that consultation and communication about security issues would be strengthened. Iceland is a founding member of NATO, with participation dating back to 1949, as well as of the Organization for Security and Cooperation in Europe (OSCE). In April 2007, Norway and Denmark signed memoranda of understanding with Iceland regarding surveillance, rescue and military operations in the North Atlantic. In May 2008, the Icelandic and British governments signed an agreement governing the British Air Force's surveillance activities in the Icelandic navigation zone.

## Internal security

Internal security  
policy  
Score: 8

Iceland's police force has long suffered from a staffing shortage. This could, of course, affect the level of internal security. However, Iceland has always been a secure place to live, with relatively few assaults, burglaries or other crimes against citizens. Thus, this type of crime does not present an everyday threat to citizens, even if recent years have seen a significant increase in random assaults in downtown Reykjavik on weekend night.

The economic collapse in 2008 changed many aspects of society. One is that the grand coalition government of 2007 – 2009 was forced from power as a result of riots in early 2009. To be sure, these were relatively peaceful riots, but ultimately helped lead to the formation of a minority government of Social Democrats and the Left Green Movement, which went on to win a parliamentary majority in the election of 2009. These riots and protests at the end of 2008 and in early 2009 led to some minor injuries and some arrests. Nevertheless, circumstances rather than police efficiency continue to ensure that Iceland is a safe place to be. That said, drug-smuggling has increased recent years.

## D Resources

### Environment

Environmental  
policy  
Score: 4

Environmental policy has not been a high priority on Iceland's political agenda. The Ministry of the Environment was established only in 1990. The present government has decided to rename the ministry the Ministry of Environment and Resources. Icelandic law does not say much about or guarantee the protection, preservation and sustainability of natural resources. The country is rich in energy and water resources on land, and has substantial sea fisheries. There has been little discussion over the years about ways to preserve these energy and water resources, reflecting an apparently rather widespread belief that these resources are more or less unlimited. However, since the mid-1980s, the government has taken action to limit overfishing by setting quotas. Environmentalists' opposition to using geothermal or hydropower to drive large aluminum smelters has grown rapidly since the controversial Kárahnjúkar power plant project of 2003 – 2008. Since entering the government in early 2009, the Left Green Movement (Vinstri hreyfingin grænt framboð) has been in charge at the Ministry of the Environment, exercising or at least



expressing a more careful approach to nature as well as a reluctance to grant permission to new energy projects.

### Research and innovation

Research and  
innovation policy  
Score: 8

Public and private spending on research and development (R&D) in Iceland increased from 2% of GDP in 1998 to 3% in 2007, one of the highest levels in the OECD region. About 40% of this expenditure, or 1% of GDP, was provided by the government. The increase in R&D activity to some extent reflects the ongoing transformation of the Icelandic economy from agriculture and fisheries to manufacturing and services, with the emergence of new private firms in biotechnology, pharmaceuticals, and some high-tech manufacturing, among other new sectors. The government fosters research and innovation in the fields of geothermal energy, hydrogen power, genetics and information technology, and has lately made an effort to spur innovation. Innovation Center Iceland (Nýsköpunarmiðstöð Íslands), a government institute, was established in 2007 with the merger of the Technical Institute of Iceland (IceTec) and the Icelandic Building Research Institute (IBRI). It operates under the Ministry of Industry and receives funding from both the public and private sectors.

### Education

Education policy  
Score: 8

Public expenditure on education has increased in recent years. However, there are some concerns that need to be addressed. First, teacher pay has been inadequate in comparison with private sector salaries. Previously, this meant that every year it proved difficult to fill vacant jobs at primary and secondary schools. Low pay resulted in a large number of underqualified teachers. The economic crisis has changed this, however. Salaries have decreased in the private sector as well, and the tight job market has attracted qualified teachers back to the schools.

Second, and more seriously, the average Icelander aged 25 to 64 has up to two fewer years of schooling than the OECD average. This means that Iceland's labor force is on average less well educated than it should be. Finally, Iceland's universities have long been seriously underfunded, even during the boom years. There are seven universities, two private but supported by state grants and five state institutions, including two agricultural colleges. Due to the economic crisis, the government is considering plans to rationalize the university sector either by reducing the number of universities or by inducing more cooperation between them. It is not clear whether this is

possible to do without reducing the quality of the education provided. Equity is mainly preserved by the student loan system, which makes it possible for students to pay their fees and living costs while studying either in Iceland or abroad. The University of Iceland, the largest of the seven by far (with 15,000 students), is not permitted by law to levy tuition.

## Management Index

### I. Executive Capacity

#### A Steering capability

##### Strategic capacity

Strategic planning  
Score: 3

There is little substantial research on the influence of strategic planning on government decision-making in Iceland. However, researchers more or less agree that long-term strategic planning in Iceland is often vague and lacks plans for execution, supervision and revision. When specific objectives are laid down through planning, there will typically be no guarantees ensuring that they will be met. As a result, the government often has a certain degree of flexibility to stall or change strategic planning. A clear example of this is that every fourth year the parliament approves a strategic plan on regional policy for the following four years (the *Stefnumótandi byggðaaáætlun*). This strategic plan lacks the status of a law and is only a resolution. This means that the government has no binding obligation to implement this plan. Over the years, only some elements of these four-year plans have been implemented, while others have gone unaddressed.

The nine-volume, 2,400-page report from the parliament's Special Investigation Commission (SIC) delivered a devastatingly critical account of incompetence and lack of coordination among ministries, the Central Bank and the Financial Supervisory Authority (FME) before the financial crash of 2008. The SIC singled out three ministers and four public officials who showed neglect in the exercise of their duties, opening the possibility that some or all of the seven might be prosecuted.

Citation:

Special Investigation Commission (SIC) (2010), "Report of the Special Investigation Commission (SIC) ," report delivered to Althingi, the Icelandic Parliament, on 12 April.

Scholarly advice  
Score: 6

The government only occasionally consults academic experts. These are primarily lawyers involved in preparing laws or participating in various fields of public administration, although they are also

occasionally economic or engineering experts. Thus, nongovernmental academic experts cannot be considered as having a strong influence on decision-making. Experts consulted have often been affiliated with the political parties of the ministers seeking their advice. Independent experts sometimes feel their views are not taken seriously into account in policy-making. However, the 2008 economic collapse may have changed this pattern. The need for scholarly advice on judicial, financial and economic issues as well as questions of public administration has increased markedly. This was particularly the case in connection with the preparation of the parliament's Special Investigation Commission report (SIC, Rannsóknarnefnd Alþingis) in April 2010, which investigated the causes of the economic collapse. A number of experts in various fields – law, economics, banking, finance, mass media, psychology and philosophy – contributed to the report, which may turn out to have significant influence on Icelandic society and the reconstruction of the economy and the political system.

### **Inter-ministerial coordination**

GO expertise  
Score: 8

The expert staff of the Prime Minister's Office consists of two lawyers, one consultant on foreign policy and two other persons labeled as experts. This office has the smallest number of staff members of all the ministries in the Icelandic government, but has been considered to have the expertise it needs to evaluate ministerial draft bills thoroughly. At the time of writing, the current coalition government of the Social Democratic Alliance and the Left Green Movement had plans to merge ministries, reducing their number from 12 to nine. One of the main arguments for this plan was that some ministries lacked broad-based expertise, and merging them would render this expertise better accessible to them all.

GO gatekeeping  
Score: 10

The Prime Minister's Office (PMO) has no formal authority to return items envisaged for cabinet meetings, but it can do so in principle. The working rule is that items can be approved in cabinet meetings only through the consensus of all the ministers. The prime minister can return items, even if this authority is not granted by law.

Line ministries  
Score: 8

Due to a long and strong tradition of ministerial power and independence, line ministries do have considerable flexibility in drafting their own policy proposals without consulting the Prime Minister's Office. If a line minister belongs to the same party as the prime minister, there is usually some PMO involvement, but little or no such involvement takes place if the line minister is a member of a different party. After the publication of the parliament's Special Investigation Commission (SIC) report, a committee was set up to

evaluate and suggest necessary steps to improve the state administration. One of the committee's critical suggestions was to improve the overall work routines and conditions of the executive branch's political head. The leading role of the prime minister should be given clearer status in law, even in the constitution, the committee proposed (Skýrsla starfshóps forsætisráðuneytisins, 2010).

Citation:

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

Cabinet committees  
Score: 5

There are very few cabinet committees that prepare cabinet meetings. For some issues, the prime minister or the government as a whole can establish ministerial committees. A Budget Committee and some ad hoc committees do prepare items for cabinet meetings, but the majority of items on cabinet meeting agendas are prepared by ministers. Often, two or more ministers coordinate and consult with one another in the course of their preparations for cabinet meetings. The aftermath of the 2008 economic collapse led to more and broader cooperation between ministers, particularly between the prime minister, the minister of finance and the minister of commerce. However, this was a temporary arrangement intended to coordinate the cabinet's immediate reactions to the economic crisis. In early 2010, four different ministerial committees were established aimed at coordinating issues that overlapped between two or more ministries' policy areas. It has been suggested that clearer rules and laws be enacted in this area, especially concerning the formal status of the meetings and their proceedings. The report of the Special Investigation Commission (SIC) exposed a remarkable lack of coordination within the government before the crisis, including the discovery of meetings at which no minutes were taken, leaving the participants and ultimately the public in doubt as to what was said and decided at those meetings.

Citation:

Special Investigation Commission (SIC) (2010), "Report of the Special Investigation Commission (SIC) ," report delivered to Althingi, the Icelandic Parliament, on 12 April.

Senior ministry  
officials  
Score: 9

Almost all preparation of cabinet meetings is done by the ministers, in cooperation with senior officials of each ministry. However, there is a tradition for senior officials within the ministries to assume that role alone. Ministers also consult with one another before cabinet meetings.

Line ministry civil  
servants  
Score: 7

Senior ministry officials play an important role in preparing cabinet meetings. According to the 1969 law on the Icelandic state administration, no cooperation between ministries is presumed in cases when the ministers themselves are not involved. With new plans to merge and streamline ministries, a closer cooperation has been suggested (Skýrsla starfshóps forsætisráðuneytisins, 2010). The involvement of too many ministries and ministers has in some cases been found to be a barrier to progress in policy-making, a consequence of strong ministerial powers and independence. Today, coordination between line ministries does not take place on a regular basis, occurring essentially randomly in those instances when it does take place. The report of the parliament's Special Investigation Commission (SIC) stressed the need for change in these areas, as have other reports, but as of the time of writing, such recommendations had not yet been implemented.

Citation:

Skýrsla starfshóps forsætisráðuneytisins (2010): Viðbrögð stjórnsýslunnar við skýrslu Rannsóknarnefndar Alþingis. Reykjavík (The reaction of the civil service to the report of the SIC), Forsætisráðuneytið (Prime Minister's Office).  
Lög um Stjórnarráð Íslands nr. 73/1969.

Informal coordination  
procedures  
Score: 7

Looking at evidence of the recent past, there seems to have been growing levels of informal cooperation between groups of ministers outside cabinet meetings. There are examples of "super-ministerial groups," as they are called in the parliament's Special Investigation Commission (SIC) report. The SIC points out that examples of such cooperation dating from the time immediately after the collapse show there is a need for clear rules on reporting what is discussed and decided in such informal meetings. The SIC report also points out that there has been a tendency to move big decisions and important cooperative discussions into informal meetings between the chairmen of each coalition government party. A prime example is the case of the two ministers who decided essentially on their own to commit Iceland to participation in the war in Iraq in 2003.

Citation:

Aðdragandi og orsakir falls Íslensku bankanna 2008 og tengdir atburðir (7). Reykjavík. Rannsóknarnefnd Alþingis).

## RIA

RIA application  
Score: 1

Regulatory impact assessment (RIA) is not and has never been applied in Iceland.

Needs analysis  
Score: 1

Since there is no tradition of RIA in Iceland, needs analysis is not a habitual practice.

Alternative options  
Score: 1

Since there is no tradition of RIA in Iceland, the analysis of alternative options is not a habitual practice.

## Societal consultation

Negotiating public  
support  
Score: 7

Iceland has a long tradition of formal and informal consultation between the government and labor market associations. Despite some open conflicts with groups such as the Organization of Disabled and the Union of Professors at State Universities, in which disputes have been referred to a court, the collapse in 2008 led in general to closer cooperation than before. In February 2009, the government, the municipalities and the major labor-market actors signed the so-called Stability Pact (Stöðugleikasáttmáli). The pact was presented as a declaration from the state, the municipalities and the labor-market organizations on how the country's economy could be revived. The main goal of this pact was to restructure the economy in such a way that by the end of 2010: (1) the inflation rate would not be more than 2.5%, the Central Bank's official inflation target, (2) the government's budget deficit would not be more than 10% of GDP and (3) the Icelandic króna was to have appreciated. However, open conflicts concerning aspects of this pact quickly emerged, especially between the government and labor-market organizations arguing that not enough had been done to create jobs. In general, cooperation with civil society continues to strike many observers as selective and biased. For example, the Association of Households (Hagsmunasamtök heimilanna), established after the crash to look after the interests of households whose mortgage payments climbed steeply at the same time the value of their homes collapsed, claims that the government is more willing to consult with the banks than with representatives of the association on issues concerning the large number of families on the verge of losing their homes.

## Policy communication

Coherent  
communication  
Score: 9

The government generally speaks with one voice. However, in the so-called West Nordic administrative tradition, in which every minister is responsible for the state institutions subordinate to his or her ministry, every minister has the power to make decisions without consulting other ministers. Nonetheless, ministers do not often contradict each other, and try to reach decisions by consensus. The grand coalition government in power during the 2007 – 2009 period appeared to be particularly harmonious, even after the collapse in the autumn of 2008, until the Social Democrats finally withdrew in early 2009. The new coalition government, in office since 2009, has also seemed to maintain an environment in which every minister's independence and authority to make decisions in his or her area is respected. Nevertheless, some members of the Left Green Movement parliamentary group have frequently opposed measures brought by the government to parliament, essentially depriving the government of its parliamentary majority and turning it into a minority government forced to negotiate with members of the opposition.

## B Policy implementation

### Effective implementation

Government  
efficiency  
Score: 9

Because of the strong position of the executive branch with respect to the legislative branch, bills envisaged or proposed by the government in parliament rarely fail to be approved. Thus, the government has substantial influence, and achieves almost all of its policy objectives. However, one recent, prominent example of government failure is represented by the bill on Icelandic state guarantees for the so-called Icesave debt to Great Britain and Netherlands, which was debated in the summer and autumn of 2009 and 2010. After serious difficulties winning Left Green Movement support for the bill, the government finally managed to get the bill approved in parliament by a slender margin. However, the constitution grants the president of Iceland the right to refuse to sign laws, thereby referring them to a national referendum. For only the second time in the history of the republic, the president did so in this case, claiming that the people had the right to settle the matter. In a referendum in March 2010, the Icesave debt law was overwhelmingly rejected, partly because a new deal more favorable to Iceland was already on the table, thus rendering obsolete the agreement that the



Ministerial  
compliance  
Score: 9

electorate was being asked to accept or reject. About 60% of the electorate participated in the referendum. The prime minister and the minister of finance did not bother to vote.

Ministers usually follow party lines in the exercise of their duties and decisions, but individual ministers have considerable authority to make independent non-collective decisions. However, non-collective decisions are rare. In the present government, in office since 2009, some signs of disagreement have emerged having little to do specifically with ministerial actions. For example, when the Icelandic parliament voted in 2009 for the government resolution on Icelandic application for EU membership, one of the Left Green Movement officeholders, Minister of Agriculture and Fisheries Jón Bjarnason, voted against the resolution.

Monitoring line  
ministries  
Score: 10

There is no official monitoring or oversight of line ministers' activities. The small size of the cabinet makes it easy to observe the actions of individual ministers. This type of monitoring, rather more informal than formal, is effective. Although line ministries tend to guard the interests of their constituencies, particularly in the case of the fisheries, agriculture and communications industries, the Prime Minister's Office often accedes to or even orchestrates a special interest-oriented agenda, so conflicts rarely arise. This informal control has become even stronger than before due to the fiscal austerity necessitated by the economic crisis.

Monitoring agencies  
Score: 3

Monitoring of agencies by ministries is quite weak. In the past, agencies have often spent more money than allotted to them in the government budget. The ministries themselves have in some cases engaged in the same practice of spending taxpayers' money in excess of budget allocations. The problem is exacerbated by the fact that, due to capacity constraints and other reasons, the National Audit Office (Ríkisendurskoðun) has been able to monitor only a small fraction of the agencies under its jurisdiction. In the years between 2000 and 2007, the office audited only 44 out of 993 government agencies, or just 4.4% of the total, a very low percentage. In 2009, the first full year after the economic collapse and the fall of the big banks, almost half the effort of the office's staff (43%) was devoted to financial auditing more or less connected to the collapse and its consequences.

Task funding  
Score: 8

Over the years there has been more or less constant strife between the local and state governments over the character of grant funding. The division of responsibilities between the central government and local governments has changed over time, but not broadly. In 1996, full responsibility for primary education was transferred from the central government to the municipalities. This transfer was in general

accomplished without imposing a heavy financial burden on local governments, but a lack of funding did cause serious economic problems for many of the smallest municipalities. In quite a few cases, the shift in responsibilities forced these small municipalities to merge with neighboring municipalities. As of the time of writing, delegation of two important tasks – handicapped affairs and elderly affairs – from the state to the local level was planned. The extent to which the central government will be able to provide sufficient funding remains uncertain in view of the state's dire post-crash fiscal straits.

Constitutional  
discretion  
Score: 10

Subnational or local government in Iceland has no formal constitutional status. The only paragraph in the constitution that concerns subnational government states that municipal affairs shall be decided by law. The general rules on local government are found in the Local Government Act (Sveitarstjórnarlög), which states that local authorities shall manage and take responsibility for their own affairs. The parliament or the ministry responsible for local government affairs can in general make decisions or laws that affect local authorities (Eythórsson, 1999). Icelandic local authorities are free to do anything that is not forbidden by laws concerning local government activities.

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).

National standards  
Score: 8

A diverse set of special laws on local government services and activities is intended to set national standards. In most cases, these laws set minimal service standards. This is most apparent in areas such as primary education, child protection and social services. However, the central government does not seem to be able to monitor the extent to which these standards are met by local governments in all cases.

## C Institutional learning

### Adaptability

Domestic  
adaptability  
Score: 9

Though not an EU member state, Iceland has, as a member of the European Economic Area (EEA) since 1994, integrated and adapted EU structures to a considerable extent. Under the EEA agreement, Iceland is obliged to adopt around 80% of EU law. Iceland is also responsive to comments coming from the Council of Europe (CoEU),

the Schengen Agreement states and U.N. institutions. As one of the five full members of the Nordic Council of Ministers, Iceland is bound by every unanimous decision taken in the council. However, the council deals only with issues connected to Nordic cooperation (Petersson, 2005). The government's structure and organization accords well with international practice, and was reviewed and revised most recently in 2007. However, it has been argued for some years that additional streamlining of the ministries is desirable in order to weaken the long-standing links between special interest organizations and the line ministries. At the time of writing, the current government has already announced plans to reduce the number of ministries from 12 to nine, for example by merging the Ministry of Agriculture, the Ministry of Fisheries and the Ministry of Industry.

Citation:

Petersson, Olof (2005): *Nordisk Politik. Sjätte upplagan.* Norstedts Juridik, Stockholm.

International  
coordination  
Score: 7

Iceland's government is an active participant in international forums, but seldom initiates measures intended to shape or better international policies. After World War II, Iceland was a founding member of the United Nations, the International Monetary Fund and the World Bank, and in 1949 was a founding member of the North Atlantic Treaty Organization (NATO). In 2008, Iceland ran for a U.N. Security Council seat but lost to Austria and Turkey. In 2009, Iceland applied for membership in the European Union. Negotiations on the terms of accession are expected to commence soon. For the most part, Iceland has worked cooperatively in international affairs, but does not take any significant initiative in the international coordination of reform. A few years ago, the country participated in peacekeeping efforts in Iraq, and it participates in the work of the Organization for Security and Cooperation in Europe (OSCE) on a minimal level.

### **Organizational reform capacity**

Self-monitoring  
Score: 7

There is no formal system of self-monitoring in the area of organizational reform. Monitoring of institutional arrangements does not occur on a regular basis. Institutional arrangements are reconsidered from time to time, and the 2007 – 2009 coalition government did in fact do some reshuffling by moving the responsibility for municipal affairs from the Ministry of Social Affairs to the Ministry of Communications, the responsibility for tourism from the Ministry of Communications to the Ministry of Industry, and the

responsibility for social security transfers from the Ministry of Health to the Ministry of Social Affairs. The government in office since 2009 has announced a further revision of the ministry structure by merging the ministries of Agriculture, Fisheries and Industry into a single ministry, and by merging the Ministry of Communications and Municipal Affairs and the Ministry of Justice and Human Rights into a single Ministry of the Interior. These changes are intended to strengthen policy coordination and administrative capacity, which some of the small ministries currently lack.

Institutional reform  
Score: 7

The government is trying to strengthen its strategic capacity by changing and merging ministries. The government in office during the 2007 – 2009 period took some steps in this direction, and further mergers have been announced by the current government. At present, some ministries are too small, constituting a weak link within the state administration. The capacity of these small units to cope with complex and complicated issues such as international negotiations and contracts is questionable. Further, the informality of such small units is seen as a disadvantage. On these grounds, the government is pursuing its plan to merge ministries to form larger units. It is understood, however, that mergers by themselves are not enough to ensure better functioning. Coordination must take place in connection with such measures.

## II. Executive accountability

### D Citizens

#### Knowledge of government policy

Policy knowledge  
Score: 9

Icelandic citizens seem to be well informed about government policy. In local surveys, most citizens were familiar with policies in general, and more so with respect to those policies that either interested them or affected their everyday lives. This is more the case with domestic policies than with international politics, because Iceland's political landscape is not highly complex. It is relatively easy to get a comprehensive overview of the politics, parties and the issues. Iceland is a small country with extensive interpersonal networks. The country's relatively isolated island status also contributes to its citizens' inward-looking domestic focus. Some of the voters' immediate responses to the economic collapse in 2008 show an ability to adapt quickly to changed circumstances, as shown in a

survey performed in connection with the parliamentary elections in 2007 and 2009. In this survey, the percentage of voters agreeing with the claim that the country is mainly governed in accordance with the popular will declined from 64% in 2007 to 31% in 2009 (Önnudóttir and Hardarson, 2009).

Citation:

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

## E Legislature

### Legislative accountability

Obtaining  
documents  
Score: 8

The Information Act (50/1996) (Upplýsingalög) grants standing parliamentary committees the right to request almost all government documents needed in the course of their work, but they cannot force the government to give up 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 only for government use (except those containing a final decision about a case or information that cannot be gathered elsewhere). The government can restrict access to documents if exceptional public interests are at stake, such as the security and defense of the country, international relations or business agreements (as when government institutions are in competition for a contract). The parliament's Committee on Foreign Affairs has a special legal status that allows it to request government documents it needs in order to fulfill its legal obligations. The chair of the committee and the foreign minister can require that the committee's work and discussions be kept confidential. The budget committee can also request the government documents it needs to fulfill its legal obligations.

Summoning  
ministers  
Score: 9

Parliamentary committees can legally summon ministers for hearings, but seldom do so. The foreign minister usually attends or is summoned to meetings of the parliamentary Committee on Foreign Affairs. The cabinet parties at any given time have a majority in the parliament, and therefore in all parliamentary committees. Even in the turbulent times after the 2008 economic collapse, no minister was summoned to speak in front of a hearing. However, Central Bank manager (Seðlabankastjóri) and former Prime Minister Davíð

Summoning experts  
Score: 10

Oddsson was summoned to a meeting in the Commerce Committee.

Independent experts are frequently asked to appear before standing parliamentary committees. After the dramatic events of 2008, the committees have more frequently summoned experts, mainly lawyers, economists, and finance and banking experts.

Task area  
coincidence  
Score: 7

During the period under review, there were 12 ministries in the state administration and 12 parliamentary committees whose areas of responsibility coincided almost fully with the ministries. There are two economic committees, one on economy and taxes and one on commerce. These coincide with the Ministry of Economy and Commerce and the Ministry of Finance. Two of the 12 parliamentary committees have a special role connecting them to the government. The committee responsible for finance and budget preparation has the authority to request information from institutions and companies that ask for funding from the budget. 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 or contradict the ministries because the government parties have a majority in the committees. Thus, the fact that the task areas of parliamentary committees and ministries nearly coincide is not a guarantee of effective monitoring, as the majority and chairperson of every committee belong to the governing parties. Minority members from the opposition benches can, however, use the committees as a venue to voice their opinions. Whether the planned reduction in the number of ministries from 12 to nine will lead to a corresponding change in the committee structure remains to be seen. Experience suggests that this will be the case.

Citation:

Kristinsson, Gunnar Helgi. (2007). Íslenska stjórnkerfið. Háskólaútgáfan; Reykjavík

Audit office  
Score: 10

Iceland's National Audit Office is fully accountable to the parliament. It reports to parliament and performs its important function quite effectively, given its significant manpower constraints and inadequate funding. These latter issues mean that a vast majority of the agencies under its jurisdiction have never been subjected to an audit. No significant strengthening of the office's staffing or financial resources has occurred in recent years, though the number of staff increased from 47 in 2007 to 49 in 2009.

Ombuds office  
Score: 10

The office of the Parliamentary Ombudsman (Umboðsmaður Alþingis) was established in 1997. The office takes up cases both on its own initiative and at the request of citizens and companies. It is independent in its work, efficient and well regarded.

## F Intermediary organizations

### Media

Media reporting  
Score: 7

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 (SIC) report has a separate chapter on the mass media before and during the economic collapse in 2008. The report criticizes the mass media in general for not having been critical enough in their coverage of the Icelandic banks and other financial institutions during the pre-bust boom. The report argues on the basis of several content analyses that media coverage of the banks was to a large extent biased toward the banks' own worldviews. This was likely associated with the fact that the owners of the banks also owned the main newspapers and the main private TV station.

### Parties and interest associations

Party competence  
Score: 6

Most electoral programs consist of ambiguous promises and vague policy declarations, and do not include a description of how policies will be implemented or how long they will remain in effect. Manifestos of this kind are hard to evaluate. This general ambiguity can be traced to the tradition of coalition governments. Most of the parties try to keep their options open during electoral campaigns with respect to making coalition partnerships after the elections. In the 2009 national elections, the high level of societal uncertainty in the wake of the economic collapse caused the main parties to be even less specific than usual with respect to planned policies and the details of potential implementation.

Association  
competence  
(business)  
Score: 8

The main interest organizations in Iceland have had and still have considerable influence on public policy, and a long history of involvement with the political parties. The Confederation of Icelandic Employers (Samtök atvinnulífsins) has in modern times been closely,

albeit not formally, associated with the right-wing Independence Party. Likewise, the Icelandic Confederation of Labor (Alþýðusamband Íslands, ASI) has a long history of 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 (Framsóknarflokkurinn), which has its origins in the farmers' movement. All major interest organizations in Iceland have long maintained a staff of highly qualified employees, and use research to form policy proposals that are usually well grounded, coherent and in line with organizational goals. After the 2008 economic collapse, both the employers' organization and the employees' organizations signed an agreement with the government and the Federation of Municipalities aimed at securing economic stability (Stöðugleikasáttmáli). The agreement deals with the restructuring of the economy by keeping wages and prices down, among other issues. The Chamber of Commerce has been vocal in recent years, dispensing advice to the government on a regular basis. One of their recommendations, a few months before the crash of 2008, was the following: "The Chamber of Commerce recommends that Iceland stop comparing itself with other Nordic countries because we are superior to them in most respects."

Association  
competence  
(others)  
Score: 9

Many non-economic interest organizations are active in Iceland, working in various fields. Although many have a reasonable level of prominence, only a few have the capacity and competence to exert significant effect on government policy. The biggest two to mention in this context are the Organization of Disabled in Iceland (Öryrkjabandalagið), with 34 member associations and a staff of 15, and the Consumers' Association of Iceland (Neytendasamtökin), with a staff of seven. To mention one organization more prominent than big, the Nature and Wildlife Conservation Organization (Náttúruverndarsamtök Íslands) gets by with a staff of only one. Even so, this group has managed to feature prominently in public debate about power plants, both on issues of hydropower and geothermal power, and has expressed reservations about further construction of aluminum smelters around the country.



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