

# Iceland: From feminist governance to gender-blind austerity

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Iceland took a u-turn in May 2009 and elected a left wing government after 18 years of continuous right-wing rule, during which the conservative Independence Party presided over a far-ranging neo-liberalization of the Icelandic economy and society (Ólafsson 2011b). The new government defined itself as a Nordic welfare government, aiming to protect the most vulnerable from the impacts of the crisis and thereby choosing, in collaboration with the IMF, a less austere way than for example Ireland by using a mixture of tax raises and public cuts. This government, which was the most feminist one Iceland has seen, did not survive the 2013 elections. Instead, the majority voted the two right wing parties; the Progressive party and the Independence party. What does this change in government herald for women and feminist concerns in Iceland? In this article I will try to answer this question based on what we know about the new government's emphasis in what are still early days.

## The Icelandic crisis

The privatization of the banks, a long-term aim of the Independence Party, occurred between 1999 and 2003. The banks expanded rapidly during the 2000s due to a combination of their managers' great appetite for risk, the strong Icelandic currency exchange rate, and the very favourable conditions in international financial markets providing an ample credit supply at low interest rates. Much of this growth was through loans to Icelandic investment companies, mostly owned by individuals and firms with close connections to the banks, which were used to finance leveraged takeovers and corporate raids (Helgason 2010; Althingi Special Investigation Commission 2010). At the same time the banks entered the mortgage loan market and aggressively expanded their consumer loans. This fuelled a debt-led growth bubble. National savings fell and private debt increased sharply so that by the end of 2005 Iceland already enjoyed the dubious status of being the world's most debt ridden economy (Ólafsson 2011a). This did not go unnoticed. Already in early 2006 foreign analysts were publishing critical reports on the Icelandic economy (Helgason 2010). These warnings were however not heeded by the authorities (Althingi Special Investigation Commission 2010). The bubble continued to grow until the fall of Lehman's brothers and tightening conditions abroad put a stop to it; it burst in October 2008.

The government then in power, a coalition between the Independence Party and the Social Democrats, started negotiations with the IMF immediately and on October 24<sup>th</sup> the IMF announced a \$2.1 billion Stand-By Agreement with Iceland (IMF 2008), the key objectives of which were to: 1) restore early confidence in the currency by stemming its depreciation (done by e.g. the use of capital controls); 2) balance public finances through a multi-fiscal consolidation programme; and 3) re-build

the banking system. The fund financing aimed at shoring up the low levels of international reserves, strengthening investor confidence and the country's financing capacity (IMF 2012a). Total financing reached about \$5 billion with about \$3 billion provided by bilateral loans from the Nordic countries and Poland (Guðmundsson 2010). Iceland completed the programme successfully with key objectives met (IMF 2012a). The country however still faces considerable challenges including when and how to lift the capital controls and a sizeable public debt.

The recession was very steep and lasted from the third quarter of 2008 until the end of 2010. The cumulative contraction of GDP in 2009 and 2010 amounted to 10.6 per cent, the fifth largest contraction in Europe during this period (Ólafsson 2011a). Inflation was very high due to the depreciation of the currency, peaking at 18.6 per cent in January 2009. The economy began to grow by the end of 2010 with real growth in GDP at 2.7 per cent in 2011 and 1.4 per cent in 2012. Inflation remains rather high though with the annual average fluctuating between 4 and 5.4 per cent in the last 4 years.

### Effects on economically active men and women

The Icelandic gender regime, like the other Nordic countries, belongs to the dual breadwinner model. Employment rates for both sexes are very high, standing in 2007 at 89.1 per cent for men and 80.8 per cent for women aged 15–64 (Eurostat LFS). The employment rate of mothers is also exceptionally high in Iceland (OECD 2010), facilitated by high coverage of day-care in recent years. As is common with countries with high female employment the labour market is highly segregated by gender (Bettio and Verashchagina 2009), with women more likely to work in the public sector and men more numerous in the private sector. Thus the employment effects on men and women have followed the same pattern as usually seen under such circumstances since the collapse.

**Table 1: The Icelandic labour market by gender in 2007, 2009, 2011, 2012**

	2007		2009		2011		2012	
	M	W	M	W	M	W	M	W
Employment rate (15–64 years old)	89.1	80.8	80.0	76.5	80.3	76.6	81.5	77.8
Unemployment rate (15–64 years old)	2.2	2.3	8.8	5.8	8.0	6.2	6.4	5.8
Working hours (all ages)	46.9	35.6	43.8	34.9	44.1	35.4	43.9	35.2
Working hours – full time (all ages)	49.4	42.1	46.8	41.6	47.4	41.3	47.4	41.2
Working hours – part time (all ages)	22.5	24.5	22.3	23.2	21.5	24.4	21.9	23.6
Part time workers (% of total employment – 15–64 years old)	8.7	36.0	11.6	35.5	9.9	31.7	10.9	31.4

Sources: Eurostat Labour Force Survey, data on working time: Statistics Iceland.

The recession first hit male-dominated sectors, particularly construction and finances, and during the first two years the employment contraction was almost exclusive to the private sector while the public services sector was hardly affected. Consequently men's unemployment rose faster and to higher levels than that of women, peaking as early as 2009. Although the decline continued in the private sector during the

recovery (2011 onwards), especially in construction and manufacturing, the contraction was greater in the public sector (more specifically in education and public administration) which largely explains the increase in women's unemployment. At the same time, employment expanded in hotels and restaurant due in part to an increase in tourism by 54 per cent<sup>1</sup>, linked to the devaluation of the currency and to the eruption of the Eyjafjallajökull volcano in 2010. But the sectors men work in are more vulnerable to both kinds of economic fluctuations, not only slumps. Thus men's unemployment rate has fallen more than women's since the onset of recovery so unemployment rates of men and women are getting increasingly equal.

The gender pay gap is rather large in Iceland. The gap in median pay for full time workers was 15.2 per cent in 2007, close to that of Sweden (16.4) but much higher than that of Denmark and Norway (9.2 per and 9.8 per cent respectively) (OECD Family Database). As wages were frozen in the crisis and many employers cut overtime and working hours, which for structural reasons affect men more than women, the gender pay gap narrowed in the recession. With regard to trends in the recovery, the wage gap has however behaved differently in the private sector than the public sector. In the private sector the total pay gap went from 22.4% in 2008 down to 17.8% (trough) in 2010 and then rose, to 18.5% in 2011 and 2012, reflecting that the temporary narrowing was mainly due to a decline in men's wages. In the public sector on the other hand the gap went from 21.2% in 2008 down to 16.5% in 2010 and then continued to decline slightly, down to 16.3% and 16.2%, perhaps mirroring the continued cuts in public offices. From a gender perspective the next year is especially worrying as the state needs to renew contracts with several groups of workers (e.g. teachers). Contracts are also being renewed within the private sector and currently wage negotiations are ongoing between the Icelandic Confederation of Trade Unions (ASÍ) and the Confederation of Icelandic Employers (SA). With the prospective cuts it seems likely that wages in the public sector will rise less than within the private sector, and therefore women's salaries less than men's.

### **Battle of discourses**

There are still competing discourses on the financial collapse in Iceland, fighting over how to define the crisis and deciding the way forward. The main discursive war is between the left and the right on neo-liberalism, i.e. whether it was the root cause of the crisis and a disproven theory of political economy, or if it was people that failed, not the system of capitalism itself, and if the state was too involved in the banks (which seems to have the upper hand). The third discourse, while not entirely unique to Iceland, was particularly prominent in Iceland in the recession. This is the discourse on the gendered nature of the crisis, a perspective that has even generated an academic analysis on the causes of the financial collapse (see Einarsdottir and Petursdottir 2010). Seen through this lens, the boom was made by men. Male ministers privatized the banks, sold them to other men who put yet other men in charge, praising the masculine values of aggressiveness, competition and risk-taking. The bank managers themselves were hailed for their successes in the media and tellingly called Vikings – which in Icelandic culture refers to the greatest (and the ultra masculine) heroes of the nation's history (while the term invokes quite a different, and perhaps a more appropriate, image in other cultures). Tales of expensive parties

with gold sprinkled food and entertained by stars such as Elton John filled the gossip columns. Later interviews with »the Vikings« revealed that they were quite aware that much of their affairs were based on a personal pissing contest with their peers (see Althingi Special Investigation Commission 2010). But this gender discourse also entailed ideas on how to move forward. As an important part of the cry for »a new Iceland«, a fairer society based on better values, some argued for a more feminine emphasis. Women bankers, formerly judged unsuited for bank management due to presumed risk-aversion, were now praised for *risk-awareness*. In short, it was time for women to clean the mess.

### **Women »taking over«**

Soon after the collapse a series of protests began all over the country. People grouped with pots and pans protesting against the government and demanding a new, and uncorrupted, governance. Within three months the government was toppled and an interim government, composed of the Social Democratic Alliance and the Left Greens (supported by the Progressives) was formed in January and elected in May. This was the first entirely left wing government in Icelandic history, the first to be led by a woman, and the first – and only – to have an equal share of men and women in cabinet. This was much in line with the spirit of new Iceland and the emphasis on women's role in the recovery, which was notable in many areas. The newly nationalized banks needed bank managers and two out of three appointed were women. Both men and women were appointed to the winding-up boards, in stark contrast to the almost all-male banking boards of the boom. The share of women in parliament rose in the 2009 election and reached a record high of 43%. The same goes for the municipal elections the year after and this increase in the political representation of women landed the country the top seat in the World Forum Gender Gap Index, a position it has retained since (World Economic Forum, 2013). Not even the state church was exempt from this feminization of leading positions, as it elected its first female bishop in 2012.

### **Policy response to the crisis and its consequences for women**

Compared to Scandinavia, the Icelandic welfare state is relatively liberal (Ólafsson 1999). It is largely individualized and universal as the Nordic welfare states but benefits are low and income-tested (with the exception of the parental leave which was rather generous before the crisis, see Thorsdottir 2013). Thus Icelanders did not enjoy a particularly strong welfare state when the financial sector collapsed. It is also worth noting that the 2009 – 2013 government was under considerable external pressures to introduce austerity measures from the start. A stand-by agreement had already been signed with the IMF, an organization hitherto not known for its support for welfare state largesse (Chang 2012). There was also international pressure for the need to restore market confidence (Irving 2012). Moreover loans from the other lenders were conditional on the IMF programme and alternative lenders were not in sight. The government was thus not in an ideal position to fulfil its goals of preserving the welfare state but the IMF was »surprisingly indulgent« (Irving 2012: 309) approving the government's relatively moderate and cost-sharing approach of raising taxes and

cutting expenditure. In this respect Iceland was a landmark case for the IMF, which learned that the social impact of a crisis can be lessened by not compromising social benefits (IMF 2012a). For public policy throughout the crisis period it is further important that the parties in government had feminism on their agenda. The government was also headed by Johanna Sigurdardottir, who as Minister of Social Affairs had previously spearheaded the gender equality laws of 2008. As an indication of the relatively strong focus on gender equality the term gender occurs sixteen times in the coalition agreement and equality or inequality nineteen times. And although the main project was obviously to resolve the economic crisis, the parties promised that »women's influence in the country's recovery« would »be ensured« and »gender equality promoted at all levels of society, instituting specific measures to this end if necessary« (Government of Iceland 2009).

Taxes were raised but the tax system was also modified in a progressive direction, so that between 2008 and 2010 the tax-burden of the top 40 per cent of the income distribution rose while it fell for those on lower incomes (Ólafsson and Kristjánsson 2012). Nominal increases in the basic unemployment benefit, social assistance allowance, minimum pension as well as the minimum wage amounted to 31 to 41 per cent between 2007 and 2010 (Ólafsson 2011a), which is close to or above the rise in the CPI of 32.7 per cent. From a gender perspective, the rise in minimum pension is especially important, as women are the majority of disability pension claimants and of those receiving only the minimum old age pension. The changes in taxes along with the increase in benefits and specific measures to tackle household debt<sup>2</sup> worked to shelter the low-income groups to a certain extent. Due to the inferior economic position of women, this policy has thus very likely sheltered women from the effects of the crisis to a greater extent than men. However, the fall in real disposable earnings was still 9 per cent for the couples in the two lowest income deciles (Ólafsson and Kristjánsson 2012), a group with the least flexibility to respond to such falls. The deterioration in quality of life and the increase in financial strain may thus be on average greater for women rather than men.

Although the approach was a mixed one, public spending cuts were substantial, with a total accumulated reduction estimated at 8 per cent of GDP between 2009 and 2012 (Ministry of Finance and Economic Affairs 2011). Parents were particularly affected. While spending on benefits for the unemployed, the disabled and the elderly increased, spending on benefits for families decreased. The most important factor was child benefits, which were frozen and thus decreased in real value during the period, but in 2012 this was rectified by a nominal increase of 30 per cent. Meanwhile fees for all child related services, mostly run by the municipalities, have been raised and some several times since the crisis. Parental leave has also been cut three times since the collapse, twice under the left-wing government. This has resulted in that the uptake of parental leave among fathers was affected. While the proportion of fathers applying for leave was similar in 2011 as before the crisis (91% compared to 89% in 2007) the time spent on leave by fathers has declined from 100 days in 2007 to 84 in 2011 (Arnalds, Eydal and Gíslason 2013). In 2012 the government raised the cap back to its 2008 level in nominal terms and decided to prolong the leave from 9 months to 12 between 2014 and 2016<sup>3</sup>.

The government implemented special policies to tackle gender inequality. Information gathering on gender equality issues was increased, especially with the Well-

being Watch, which is charged with analyzing and reporting to the government on the effects of the recession on Icelandic households. A project manager on gender budgeting was appointed to work on its integration and implementation in 2009. In 2012 the government resolved to implement a four-year action plan to close the gender pay gap (Ministry of Welfare 2012), an important part of which was the development and implementation of a special Equal Pay Standard, a voluntary tool to help employers pay men and women equal wages for equal work. The government also focused on gender-based violence. In line with the perspective of leading feminist organizations in Iceland the purchasing of prostitution was made illegal in 2009 so that perpetrators may now face prison for up to a year (or two years if the victim is a minor). A full ban on strip clubs was enacted in 2010. Finally, in domestic violence cases the Austrian model was legalized in 2011<sup>4</sup>. The laws authorize the removal of the party accused of domestic violence from the household and put in place a specific restraining order in cases where there is a suspicion of domestic violence.

Increasing women's access to power is another example. Gender quotas in public corporate boards and ministerial committees had already been implemented by law in 2008 but in 2010 laws on gender quotas in corporate boards were passed which state that in companies with 50 workers or more the board should comprise of at least three people and both sexes should have a seat. If there are more than three members on the board, each sex should have at least 40 per cent of the seats<sup>5</sup>.

There was still an apparent male bias in some policy areas, most notable in job creation. The government had an investment plan that was supposed to create 4,000 jobs (about 40% of the net job loss at the time) over the next few years (Prime Minister's Office 2012). These jobs were however mainly to be created in sectors such as construction and maintenance, i.e. sectors where men are overrepresented, while further cuts were planned in public services, i.e. in female jobs (Ministry of Finance and Economic Affairs 2012; see also Thorsdottir 2013).

### **The focus of the new government (2013+)**

The reasons for the political u-turn in 2013 are many. The left-wing government's popularity had been decreasing, partly due to many feeling they had failed to »shelter the households from the crisis«. The leader of the Progressive Party grabbed this opportunity and promised to lower household debt. Then the Icesave dispute<sup>6</sup> was finally resolved by the EFTA court in January 2013. The ruling was largely in accordance with the claims of the Progressive Party, that Icelanders were not obliged to repay the Icesave losses, which increased the party's popularity and credibility. Thus while the Independence party got the most votes in the 2013 elections (26,7%) the Progressive party was considered the winner with 24,4% of the votes (compared to 14,8% in 2009) while the combined votes of the left-wing parties only amounted to 23,8%. It was thus clear already on election night that the new government would be led by the Progressive Party which would likely choose partnering with the Independence Party, also because this was the only two-party government possible.

Within weeks of taking office it was apparent that this government was to make its mark as negotiations with the European Union (the most important electoral promise of the Social Democrats in 2009) were abruptly cancelled. The shift in emphasis and ideology was further clearly from left to right and from a mixed approach

to more austerity, as indicated by the Budget proposal for 2014 which has yet to pass through parliament. It is especially interesting that Iceland votes for austerity in 2013 as this approach has been widely debated in recent years and evidence suggests that at least in current conditions, austerity deepens crises (Krugman 2012; 2013). This has even led the IMF to change their stance (IMF 2012c; 2013a; 2013c). Contrary to the record of austerity, the mixed approach taken by the left-wing government has been hailed not only by the IMF but also leading recession economists, such as Krugman (e.g. 2011) and Stiglitz (IMF 2011).

As the right wing parties have historically had lower share of female candidates than the left, their success in the election meant that women's share of seats in parliament fell between elections (table 2) although still the second highest in history. Women's share in the cabinet also fell as only 3 out of 9 ministerial positions were allocated to women. Perhaps the first prime minister to be asked about this gender bias Mr. Gunnlaugsson said that the ministerial posts had not been allocated based on sex but on qualifications (RÚV 2013). This indicates the lesser emphasis on gender equality by this government compared to the previous one, also seen in the coalition agreement where the term gender is only mentioned twice and equality (in general) seven times.

**Table 2: Elected PMs by party in 2009 and 2013**

	2009			2013		
	Women	Men	Women's share	Women	Men	Women's share
Social Democrats	10	10	50%	4	5	44%
Left-Green Movement	7	7	50%	4	3	57%
Progressive Party	3	6	33%	8	11	42%
Independence Party	5	11	32%	6	13	32%
Citizens movement*	2	2	50%	–	–	–
Bright Future**	–	–	–	2	4	33%
Pirate Party**	–	–	–	1	2	33%

\* Ran in 2009 but not in 2013.

\*\* Ran in 2013 but not in 2009.

The ideological shift from left to right is apparent in all policy areas. Although the 2014 budget plan is still being discussed in parliament and thus rather a declaration of intent than a certainty, it is a clear indication of the position of this government. The aim is to balance the budget without increasing taxes. Thus all tax increases previously planned are cancelled (e.g. the raise in the Special Fisheries Fee and the doubling of the VAT on businesses providing accommodation for tourists). The two parties also plan to fulfill the campaign promise of simplifying the tax system (i.e. flat rate instead of tax steps) and decrease tax-rates, on the assumption that lowering taxes will generate higher revenue and create employment. This is against empirical evidence because as pointed out by the IMF, the Laffer curve effects occur at higher tax rates than are existent in Iceland (IMF 2013b). Some tax decreases are already proposed for 2014 such as in the general financial activities tax (which originally was to be cut by one-third). The budget deficit is mainly to be tackled by cuts but also with

increased (and new) service fees. One such example is the setting of a special fee for staying overnight in a healthcare institution.

The first discussion of the proposal has just finished at the time of writing. Among the most debated changes suggested by the budget proposal committee during the discussion was a cut in the amount of full child benefits (paid to the ones with the least income) and a 600 million ISK cut in foreign development aid. Although these changes had already been agreed upon by the government when presented the prime minister withdrew the cuts to child benefits following a public outcry. It is foreseeable that further changes will be proposed for the second discussion and it is possible that even further changes will be made before the third discussion. This shows how uncertain the final budget bill is, at this moment.

The main reason for the Progressive party's success in the elections, the debt relief program, has been introduced although not coming into effect until in mid-year 2014. Against advice, e.g. from the IMF (2013b) and OECD (2013), but in accordance with the election pledges, this program is universal rather than being focused on distressed households, although exclusive to housing debt. The plan is twofold: 1) indexed housing mortgages are to be written down by an amount equivalent to the indexation increase exceeding 4.8%, which occurred from December 2007 to August 2010 up to a cap (but if the borrower has benefitted from other debt relief that will be deducted from the correction). 2) Workers will be able to use payments to their private pension plans (4 per cent of wages) to pay down their housing mortgages, or, alternatively, to save up for a housing, without paying income tax on this amount (Prime Minister's Office 2013). The program has been heavily criticized both in Iceland and abroad, e.g. for having vast inflationary effects (Central Bank of Iceland 2013) and for possibly harming investors perceptions of Iceland's business environment (Fitch Ratings 2013).

Although the budget bill is still uncertain public institutions are already responding to prospective cuts, most recently at the Icelandic National Broadcasting Service (RÚV) where massive layoffs occurred in November. The ideological shift in government is also present at the other side of the coin, mainly job creation, because many of the projects formerly scheduled in the investment plan have already been cancelled. Instead of direct job creation, this government seems to see its role as not being in the way of the private sector and aims to »make every effort to create a working environment to promote investment and create more jobs, not least in small and medium-size companies« (Government of Iceland 2013).<sup>7</sup>

With regard to gender equality policies made by the former government but to be implemented later, the lengthening of the parental leave, gender budgeting and the Welfare Watch are among the most important ones. According to the original budget bill the lengthening of the parental leave will be cancelled but the cap on full benefits will be raised by 5.7%. Nothing has publicly been decided about the reappointment of the Welfare Watch although the current Minister of Welfare has expressed a will to do so (Welfare Watch 2013). With regard to gender budgeting, which was mainly composed of projects that were supposed to finish in 2014, the work will continue as a new management group was appointed this year. Furthermore, a proposal for the legalization of gender budgeting in the preparation of the budget plan was introduced last summer (Ministry of Finance and Economic Affairs 2013).



## Conclusion

Based on what we know about the emphasis of the new government the ideological shift in 2013 was not only a shift from left to right but also from a feminist approach to a comparative gender-blindness. Evidence suggests that the austerity approach leads economies to further difficulties, so Icelanders are probably facing harder times – especially the worst off. While we know that austerity in itself is especially detrimental to women, as it means relatively higher female unemployment and more unpaid work at home, a gender-blind austerity approach seems likely to be even worse. But it is still early days.

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## Notes

- 1 The number of nights spent in Iceland by foreigners (all kinds of accommodation) increased from about 1,868,000 in 2007 to 2,889,000 in 2012.
- 2 The authorities implemented several measures to tackle private debt which can be broadly divided into initiatives aimed at postponing or rescheduling debt service and initiatives reducing the stock of debt. See IMF 2012b (Box 3.2, p. 120).
- 3 Act No. 143/2012. Laws on amendment of laws no. 95/2000 on Maternity/Paternity Leave and Parental Leave with later amendments.
- 4 Act No. 85/2011. Laws on restraining order and removal from home.
- 5 Act No. 13/2010. Laws on amendment of laws on public limited companies and private limited companies.
- 6 The core issue in the Icesave dispute was whether Iceland was responsible for guaranteeing the deposits in the Icesave accounts, which Landsbanki ran in its branches in the UK and the Netherlands between 2006 and 2008. The EFTA Surveillance Authority (ESA) ruled that Iceland was responsible and took it to the EFTA Court over a breach of the Deposit Guarantee Directive (Directive 90/19/EC) (ESA 2011). Iceland won the case.
- 7 Original translation.