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Abstract

This paper focuses upon the unique performance of the Icelandic labour market. It demonstrates, by using international statistics, that the activity rates of both sexes are very high in Iceland, the unemployment rate is low, a high proportion of the the labour force work part time, and labour legislation is unrestricted.

Contrary to the competitive labour market–, and flexible models of neo–classic economic theory, the author argues for a historical and institutional explanation of the Icelandic case. Hence, the high labour market flexibility and the good performance of the labour market can to a large extent be explained by a fishing economy characterized by frequent economic fluctuations, a small domestic market protected from international trade until 1994, and a decentralized labour movement. In recent years, some changes have taken place in the Icelandic economy. These include mergers and acquisitions of firms, internationalisation, stricter labour legislation due to EU regulations and directives and economic stability. All these changes could move the Icelandic labour market performance closer to the European pattern in the near future.

JEL classification: J20, J30, J40

Keywords: Labour Market, Iceland, Labour Legislation, Flexibility

Introduction

Rising unemployment, labour market inflexibility, segmentation, and the shortage of a skilled workforce has been of major concern to most national governments and international organisations in recent years. The unemployment rate in EU countries is especially worrying, where 7.6% of the labour force was unemployed in May 2001. This is of particular importance as mass unemployment tends to create new divisions within society, social exclusion, and may cause social instability as well.

In this paper I attempt to provide some explanations for the good labour market performance in Iceland. Is it due to domestic policy, characterized by limited labour market regulation and high labour flexibility? Or can it be explained by the fact that Iceland is an island with a small population, which limits domestic rationalization and standardization processes? Also it will be interesting to know if Iceland is an exceptional case or follows a common European pattern.

The article starts by presenting theoretical approaches to the labour market: the competitive labour market model, the refined competitive model, the flexible model, and finally the institutional model. Next, labour legislation is considered, followed by analysing the performance of the Icelandic labour market in an international perspective. Then, welfare and social security are considered, and finally, conclusions are presented.

Theoretical frameworks

The competitive labour market model

The competitive theory of the labour market derives from neo-classical economics. It is based on the assumption that our resources are scarce in relation to our wants, so that we have to make choices as to how to allocate them. In making these choices it is asserted that we act individually as rational economic maximizers (Claydon, 2001).

A perfectly competitive labour market is, by definition, completely efficient. The competitive labour market is assumed to be the best way to avoid unemployment and wage differentials. In order to achieve this, any obstacles to competition have to be eliminated (Claydon, 2001).

Within the neo-classical approach there has been a preference for policies that support and encourage competition in the economy and on the labour market. In effect this means a preference for government non-intervention in markets unless its purpose

is to remove obstacles to their efficient operation. These arguments have been used to justify changes in government policy toward the public sector: for example, elimination of subsidies, privatisation and the introduction of elements of market competition.

The refined competitive model

In order to explain the operation of real labour markets, it is necessary to add a number of refinements to the competitive labour market model. Thus, unemployment exists, and not all of those seeking work can find a job at the prevailing wage rate. As a result of the segmentation of the labour market, there may be unemployment among unskilled workers, while there are shortages among skilled workers. Also, wage differences seem to be more or less constant between firms and sectors, and employers have constructed internal labour markets in order to retain workers within the companies. Within internal labour markets, rates of pay and the allocation of workers to jobs are determined by administrative rules rather than market forces. Hence, in many organizations length of service (seniority) in one job remains the most important criterion for promotion to a higher position (Claydon, 2001; Torrington, Hall and Taylor, 2002).

This could indicate that the labour market is not perfectly competitive. Once the existence of market imperfections is recognised, it becomes possible to explain unemployment and wage differentials within the competitive model. The "imperfections", or limits to competition, constitute the base of a refined competitive model. The imperfections arise from the following factors (Claydon, 2001, p. 78).

- Jobs and workers are heterogeneous rather than homogeneous. In other words, jobs have different characteristics and require different skills. Workers have different abilities and preferences. This is one factor that explains wage differentials between occupations and between different individuals in the same occupation.
- Neither employers nor workers have perfect information about the labour market. Labour market information is incomplete. The process of obtaining labour market information is known as labour market search: workers seek information about jobs and pay in order to make decisions about which job to

take. Employers seek information about employees in order to be able to decide whom to hire. However, search is costly. Therefore labour market information is not equally available to all labour market participants.

- Costs associated with recruiting, selecting and training workers mean that labour turnover is costly to employers. Therefore they will try to encourage workers to stay within the firm. This takes these workers "out of competition" by giving them a measure of job security.

Hence, the limited competitive model asserts that competition exists on the labour market, but that it is limited by internal labour markets, labour market segmentations, and costly labour market search.

Labour Market Flexibility

It is argued that the economic environment has changed considerably at the end of the 20th century. Internationalization has increased, and economic fluctuations have become more common than previously in the post-war period. Furthermore, firms face a need to achieve greater economic efficiency, and to adapt more quickly to changing market conditions. As a consequence of these developments, many governments have attempted to increase labour market flexibility, and firms have reorganized their operation in order to be able to adapt quickly to product and market changes (OECD, 1999a and 1999b). Restructuring along these lines has been termed "flexible specialization" (Piore and Sabel, 1984), "Post-Fordism", "flexible firm model" (Atkison, 1984) and "lean production" (Womack et al., 1990).

Within the literature, different notions of flexibility have been discussed: *Numerical flexibility* allows the organization to respond quickly to the environment in terms of numbers of people employed, by the use of short-term contract staff, subcontractors, and so on. *Temporal flexibility* refers to varying the patterns of hours worked in order to respond to business demands and employees' needs. An example would be annual hours contracts, increased use of part-time work and job sharing. *Functional flexibility* refers to the process in which employees gain the capacity to undertake a variety of tasks rather than specialising in just one area (Torrington, Hall and Taylor, 2002). Due to lack of statistical information, the following discussion will be limited to some aspects of numerical and temporal flexibility.

According to free market theorists, labour market flexibility means a particular set of labour market policies (Claydon, 2001: 101):

- Reduce legal restrictions on the hiring and dismissal of workers.
- Remove state intervention in pay settings, for example, abolish minimum wage legislation.
- Make out-of-work benefits less generous and/or limit the duration of benefits and/or make them conditional on recipients actively searching for work.
- Increase the employability of the unemployed by providing them with training.
- Use the law and government policy to curb trade union influence over pay and employment.
- Decentralise collective bargaining to enterprise level.

The labour market outcomes of such policy changes are a rise in part-time and temporary work and, in some countries, growth in earnings inequality and the increasing labour market difficulties of lower-skilled workers (OECD, 1999b).

Institutional theories

The institutional perspective has been popular among social scientists who argue that labour markets, as well as industrial organisations, are socially constituted and they reflect national (even regional) distinctiveness in institutional arrangements. They are more inclined to stress the historical evolvement of societal institutions and are, thus, able to consider the crucial differences in the way in which different nations come to industrialization. Among the institutions singled out for study are systems of both general education and of vocational education and training, industrial relations, the state, the employment system, the system of social stratification, to name only a few (Edvardsson, 1992; Lane, 1989). However, the more detailed conceptual and methodological assumptions vary among scholars in this approach.

Michael Burawoy (1985), for instance, focuses upon the impact of state intervention (social welfare schemes, labour legislation) on the capital-labour relation at the point of production. He presents an idea of factory regimes which refers to the overall political form of production. Furthermore, differences in factory regimes – and

notably in the role of the state – are utilized by Burawoy, among others, to make a distinction between advanced capitalist societies. Accordingly, the contemporary differences in factory regimes in the United States and England are due to the fact that American workers are more dependent on the firm for social benefit than they are in England,¹ where state social insurance is more extensive. An additional reason for dissimilarities between the countries relates to the fact that the English state abstains from the regulation of the production apparatus, whereas in the United States the state sets limits on the form of apparatus, at least in the corporate sector. Burawoy completes the picture of state intervention by adding two nations – Sweden and Japan – to the scheme. The following table sums up the different patterns (Burawoy, 1985, p. 138):

		Direct Support for the Reproduction of Labour Power	
		HIGH	LOW
Direct State Regulation of Factory Regime	HIGH	Sweden	United States
	LOW	England	Japan

Burawoy's classification points out some interesting issues for labour market performance. First, regulation of production, that is, labour legislation on hiring and firing workers, maximum working hours regulations, work environment regulations etc. have a clear impact on labour market participation. Similarly, social security systems (unemployment benefits, maternal leave, sickness benefits and so on) affect labour force participation as well, since extensive social welfare provides the labour force with opportunity to stay outside the labour market for some time.

Some hypotheses can be drawn from the foregoing discussions:

- *H1: Unregulated labour markets encourage the labour force participation of all groups*
- *H2: Flexibility in working hours increases the labour force participation of all groups.*

¹ Iceland is similar to England in this classification as can be seen later on in the paper.

- *H3: Extensive welfare schemes tend to limit the labour force participation of all groups*

Labour legislation

Labour legislation is one example of national institutions that tend to vary between countries. In recent years, the relationship of national labour legislation and particularly employment protection legislation (EPL), to labour market flexibility has stimulated much debate and a growing body of research. The central question has been whether excessively strict EPL has been an important factor in explaining high unemployment in many OECD countries since the early 1980s. But empirical research to date has not provided a clear-cut answer to this question (OECD, 1999a).

Recent research involving 27 OECD countries shows that such legislation and practices differ substantially across countries, with EPL being most strict in southern Europe, France, and Germany, and least restrictive in English-speaking countries - the United States, the United Kingdom, New Zealand and Canada (see Table 1). Interestingly, the labour legislation in Iceland is very similar to the English-speaking countries. When the data for the late 1990s are compared with analogous data for the late 1980s, it is found that generally there have not been large shifts in overall EPL strictness (OECD, 1999a). However, a number of countries significantly liberalised the regulation of employers' use of fixed-term contracts and the operation of temporary work agencies. The main findings of the OECD-study are the following:

Consistent with prior studies, there appears to be little or no association between EPL strictness and overall unemployment. However, EPL may be more strongly associated with the level of employment and the demographic composition of employment and unemployment. Simple bivariate associations suggest that stricter EPL raises employment for prime-age men but lowers employment for youths and women, with the overall effect being a reduction. The evidence is more robust for EPL tending to increase self-employment and lower turnover rates in the labour market. The latter result implies that fewer individuals become unemployed in those countries where employment protection is stricter but once unemployed, they have a higher risk of remaining unemployed for a long period of time (OECD, 1999a, p. 47).

Regular procedural inconveniences (see Table 1) refer to the delay involved before notice can start, according to whether a written statement of the reasons for dismissal must be supplied to the worker in question, whether a third party, such as a work council or the competent labour authority, must be notified or consulted and whether dismissal cannot proceed without the approval of the third party. The difficulty of dismissals shows the constraints that arise when workers are dismissed. The length of the trial period is important because within this period, unfair dismissal claims cannot be made. Also, many countries consider a dismissal as unfair if the employer cannot demonstrate appropriate previous efforts to avoid it (e.g. through in-house transfer or re-training) or when social considerations, age or job tenure (such as the last-in, first-out rule) have not been followed (OECD, 1999a).

Table 1. Indicators of the strictness of employment protection for regular employment in the late 1990s. Summary score for main area. The summary scores can range from 0 to 6, with higher values representing stricter regulations.²

	Regular procedural inconveniences	Notice and severance pay for no-fault individual dismissals	Difficulty of dismissals	Overall strictness of protection against dismissals
Central and Western Europe				
Austria	2.5 (18)	2.0 (19)	3.3 (16)	2.6 (17)
Belgium	0.5 (3)	2.3 (22)	1.8 (5)	1.5 (6)
France	2.8 (20)	1.5 (13)	2.8 (14)	2.3 (14)
Germany	3.5 (24)	1.3 (8)	3.5 (20)	2.8 (21)
Ireland	2.0 (12)	0.8 (2)	2.0 (6)	1.6 (8)
Netherlands	5.0 (27)	1.0 (4)	3.3 (16)	3.1 (25)
Switzerland	0.5 (3)	1.5 (12)	1.5 (3)	1.2 (5)
United Kingdom	1.0 (7)	1.1 (6)	0.3 (1)	0.8 (2)
Southern Europe				
Greece	2.0 (12)	2.2 (21)	3.0 (15)	2.4 (16)
Italy	1.5 (10)	2.9 (25)	4.0 (23)	2.8 (23)
Portugal	3.5 (24)	5.0 (27)	4.5 (26)	4.3 (27)
Spain	2.0 (12)	2.6 (23)	3.3 (16)	2.6 (18)
Turkey	2.0 (12)	3.4 (26)	2.5 (12)	2.6 (19)
Nordic countries				
Denmark	0.5 (3)	1.9 (18)	2.3 (8)	1.6 (7)
Finland	2.8 (20)	1.4 (11)	2.3 (8)	2.1 (11)
Iceland	1.0	1.0	0.3	0.7
Norway	1.5 (10)	1.1 (7)	4.5 (26)	2.4 (15)
Sweden	3.0 (22)	1.6 (14)	3.8 (22)	2.8 (22)
North America				
Canada	0.0 (1)	0.8 (2)	2.0 (6)	0.9 (3)
Mexico	1.0 (7)	2.1 (20)	3.7 (21)	2.3 (13)
United States	0.0 (1)	0.0 (1)	0.5 (2)	0.2 (1)
Asia and Oceania				
Australia	0.5 (3)	1.0 (4)	1.5 (3)	1.0 (4)
Japan	2.0 (12)	1.8 (16)	4.3 (25)	2.7 (20)
Korea	3.8 (26)	1.8 (16)	4.0 (23)	3.2 (26)
New Zealand	1.3 (9)	1.4 (9)	2.3 (11)	1.7 (9)

Source: OECD Employment Outlook, 1999a, p. 57. Author's estimate for Iceland.

Note: Figures in brackets show country ranking. All rankings increase with the strictness of employment protection.

² To explain the scale, for instance, individual dismissals of workers with regular contracts yields the score 0 if the dismissal period is 0-2 days, 1 if the days are fewer than 10, 2 if the days are 11-18, 3 if days are 17-26, 4 for 27-35 days, 5 for 36-45 days, and finally 6 if the dismissal days are more than 45. Similarly, collective dismissals get the score 0 for 0 day of dismissal, 1 for less than 25 days, 2 for less than 30 days, 3 for less than 50 days, 4 for less than 70 days, 5 for less than 90 days og 6 for more than 90 days.

The labour legislation in Iceland is rather unrestricted as already noted. The usual procedural requirements in private firms in Iceland are more or less determined by the notice specified in collective agreements, and employment contracts, ranging from a month to six months depending on seniority.³ To fulfil the requirements of law, the employee has to be presented with formal written notice before the end of the month prior to the notice taking effect (Juliusdottir, 1993). No third party has to be consulted or notified and the dismissal proceeds without the approval of a third party. The main restrictions in the Icelandic labour legislation are related to the unlawful dismissal of shop stewards and pregnant women, and parents on parental leave. Employers in Iceland don't have to demonstrate the reason for dismissal, and age and job tenure (e.g. the last-in, first-out rule) rarely makes a difference, whether in general agreements or in practice (Juliusdottir, 1993). Therefore, unfair dismissals are rare, except in the formal failure to inform the employee of pending dismissal, and with regard to the notice of shop stewards and pregnant women, or parents on parental leave. Severance pay agreements are also rare in the Icelandic labour market, except for high ranking personnel in recent years. Such agreements, however, appear to be on the increase.

The Icelandic labour legislation and collective agreements have been altered in recent years in accordance with EU-regulations and directives, since Iceland became a member of the European Economic Area in 1994. The most notable changes relate to restrictions in maximum working hours (on average 48 hours per week), the protection of children and adolescents in employment, written employment contracts, equal treatment of men and women (employment, remuneration, working conditions etc.), regulations with respect to part time and temporary employees, the rights of pregnant women, and increased parental leave (Grönvold, 2001; Althingi, 2000).

A tendency toward increased strictness in labour legislation can thus be noted in the past few years.

³ The labour legislation for civil servants is much more restricted than for employees in private firms.

Labour market performance

Activity rates

One characteristic of the Icelandic labour market is the high activity rates. Table 2 shows that the activity rates were highest, in the year 2000, in the Nordic countries, Japan, the United States and the United Kingdom. The Icelanders had the highest activity rates, 90.2 per cent, while Norway came second with 82 per cent. The main reason for the difference in labour force participation among OECD countries is the labour force participation of women. Also, retirement age differs between countries and affects the participation of older workers. The retirement age is 60-65 years in many countries, while the highest retirement age, 67 years of age, is to be found in Denmark, Norway, and Iceland. Furthermore, high unemployment in some countries, has led governments to encourage people older than 55 years of age to take early retirement instead of unemployment benefit (OECD Employment Outlook, 1992; Althingi, 1998).

Interestingly, Tables 1 and 2 indicate that Hypothesis I will have to be rejected, as labour force participation in the Nordic countries is even higher than in the United States and the United Kingdom, although labour legislation is much stricter in the former group of countries. The labour legislation is for example fourteen times stricter in Sweden than in USA. The correlation between labour force participation and strictness of labour regulations in the OECD countries turns out to be negative ($r = -.46$).

The high activity rate is not a new phenomenon in Iceland. Thus the activity rate for men was 87.6 per cent in 1985, and 72.3 per cent for women (The Institute for Regional Development, 1986). Icelandic women's activity rates have, however, grown rapidly from 1960, when the corresponding figure was 27.0 per cent (Statistics Iceland 1969).

Table 2. Activity rates in selected OECD countries 2000. Percentages.*

Country	Total	Men	Women
Australia	74.9	83.6	66.1
Canada	77.3	83.5	71.2
Denmark	80.6	84.8	76.3
Finland	74.7	77.1	72.3
France	68.3	74.8	61.9
Germany	72.9	81.9	63.7
Greece	55.9	71.3	41.3
<i>Iceland</i>	<i>90.2</i>	<i>94.6</i>	<i>85.7</i>
Ireland	68.8	81.2	56.2
Italy	61.2	75.6	46.8
Japan	78.2	92.4	63.8
New Zealand	76.5	85.0	68.3
Norway	82.0	86.3	77.5
Portugal	68.1	76.2	60.3
Spain	57.4	72.2	42.0
Sweden	80.2	83.1	77.3
United Kingdom	77.9	85.8	69.8
United States	79.6	86.7	72.8
OECD average	70.4	80.1	60.9

Source: Statistical Bureau of Iceland, 2001.

Notes: * People are classified as working (employed) if they work one hour or more in the reference week.

A further characteristic of the Icelandic labour market is the high participation rate of people older than 55 years of age. Table 3 shows that the activity rates of elderly people in Iceland are the highest among OECD countries. This is particularly the case for men in Iceland, where 92.7 per cent of the 55-64 age group, were active on the labour market in 1996. Japan came in second place, with an activity rate of 84.4 per cent, and Switzerland in third place with 82.3 per cent. The activity rate was lowest in France, 41.5 per cent. A similar pattern is seen in the age group older than 64 years, where Iceland is again in the first place, with an activity rate of 43.6 per cent, compared to 2.5 per cent in France, which had the lowest rate in 1996.

Table 3. Activity rates among people aged 55 years and older in selected OECD countries in 1996. Percentages.

Country	Men		Women	
	55-64 years	65 years and older	55-64 years	65 years and older
Australia	60.9	9.2	28.6	2.5
Canada	58.9	10.1	36.3	3.3
Denmark	67.9	4.7	40.1	0.9
Finland	46.0	5.1	42.9	2.0
France	41.5	2.5	30.9	1.2
Germany	53.3	4.2	28.4	1.5
<i>Iceland</i>	<i>92.7</i>	<i>43.6</i>	<i>56.4</i>	<i>31.8</i>
Ireland	63.9	15.1	21.3	3.0
Italy	55.8	5.8	21.1	1.6
Japan	84.4	37.3	48.5	15.6
Norway	72.3	14.9	57.4	9.0
Spain	54.9	2.9	19.9	1.4
Switzerland	82.3	15.8	59.0	9.0
Sweden	70.4	13.9	59.0	9.0
United Kingdom	62.4	8.2	40.8	3.2
United States	66.0	16.8	49.2	8.8

Source: Althingi, 1998.

The activity rate of Icelandic women older than 55 years was similarly high in 1996, although it was higher in Sweden, Switzerland and Japan. However, the activity rate is highest, 31.8 per cent, among women in Iceland older than 65 years. In comparison, only 0.9 per cent of women of that age were active on the labour market in Denmark in 1996.

To summarize: The activity rate is very high in Iceland on an international scale and that applies to both men and women, as well as most age groups.

Unemployment

It is quite logical that the unemployment rate is rather low in Iceland on an international scale, given the high activity rate. The unemployment rate in Iceland was 2.3 per cent in 2000, which was the second lowest compared to other OECD countries, while Mexico had the lowest rate, 2.2 per cent (not in table 4). At present, the rate of unemployment in Iceland is around 4 per cent. The future will determine whether the present unemployment rate is a temporary phenomenon or a long-term pattern.

Table 4. Unemployment rates in selected OECD countries 2000. Percentages.

Country	Total	Men	Women
Australia	6.2	6.5	5.9
Canada	6.8	6.9	6.7
Denmark	4.5	4.0	5.0
Finland	9.8	9.1	10.6
France	10.0	8.5	11.9
Germany	8.1	7.6	8.6
<i>Iceland</i>	2.3	1.8	2.9
Ireland	4.3	4.3	4.2
Italy	10.5	8.1	14.5
Japan	4.8	5.0	4.5
New Zealand	6.0	6.1	5.8
Norway	3.4	3.7	3.2
Sweden	5.8	6.2	5.4
United Kingdom	5.5	6.1	4.8
United States	4.0	3.9	4.1
Total OECD	6.8	6.2	7.6

Source: Statistical Bureau of Iceland, 2001.

In the post-war period, unemployment has been exceptionally low in Iceland, or below 1 per cent, except in economic recessions, such as when the herring stock disappeared from Icelandic fishing grounds, causing crisis in the years 1967-70. The unemployment rate grew rapidly in the 1990s following an economic crisis, reaching a peak of 5 per cent in 1995 (Statistics Iceland, 2001).

Working hours

Long working hours have been common on the Icelandic labour market. In the year 2000, men worked on average 50.9 hours a week (main and second job), while women worked 35.5 hours (Statistics Iceland, 2001). Table 5 shows that average annual hours worked per person were rather high in Iceland in 1998 on an international scale, although Australia, Japan, New Zealand and USA scored higher. Moreover, the annual hours were more or less constant in Iceland between 1994 and 1998, while they declined in many other countries.

Table 5. Average annual hours actually worked per person in selected OECD countries 1994 and 1998.

Country	1994	1998
Australia	1879	1861
Canada	1783	1785*
Denmark
Finland	1764	1761
France	1668	1562*
Germany	1604	1580
<i>Iceland</i>	<i>1813</i>	<i>1817</i>
Ireland
Italy
Japan	1898	...
New Zealand	1851	1 825
Norway	1431	1 401
Sweden	1537	1 551
United Kingdom	1737	1 737
United States	1945	1 957

Source: OECD Employment Outlook, 1999d, p. 241.

Note: *1997.

Part time jobs

Across the EU, the 1990s saw a net decline in the number of full time, permanent jobs. Employment growth has been the result of more part time and temporary or

fixed term jobs. Part time employment rose from 12.7% of total employment in the EU in 1985 to 16.9% in 1997. Employment on fixed-term contracts rose from 8.4% to 12.2% of the total (Claydon, 2001).

The labour legislation in Iceland does not restrict the use of part time jobs or temporary employment (*Mælikvarðar á samkeppnishæfni Íslands...*, 1998). As seen in Table 6, part time jobs are quite common in Iceland, accounting for 20 per cent of all jobs, and their current share is similar as in 1996, although the peak (23.3 per cent) was reached in 1998. In 2000 Iceland was in the fifth place in the use of part time jobs, whereas Australia came in first place, followed by Japan, the United Kingdom and New Zealand. A clear gender division is manifested in part time jobs. In the year 2000, 8.8 per cent of Icelandic men worked part time, compared to 33.7 per cent of women. In general 6.8% of men in the OECD-countries worked part time in 2000, while 25.3 per cent of the female labour force did so (Statistics Iceland, 2003). Interestingly, a recent study shows that the demand for part time jobs is not driven by employers, but emanates rather from the employees, especially women, who tend to combine part time jobs with household obligations (Gudmundsdottir, 2001). Such a trend is very much to be expected, given that 85.7 per cent of Icelandic women are active on the labour market as already noted.

Table 6. Part time jobs as a percentage of total employment in selected OECD countries in 1996 and 2000

Country	1996	2000
Australia	25.2	26.2
Canada	18.9	18.1
Denmark	16.5	15.7
Finland	8.4	10.4
France	14.3	14.2
Germany	14.9	17.6
<i>Iceland</i>	<i>20.9</i>	<i>20.4</i>
Ireland	14.1	18.5
Italy	10.5	12.2
Japan	21.8	23.1
New Zealand	22.1	22.6
Norway	21.6	20.3
Sweden	14.8	14.0
United Kingdom	22.9	23.0
United States	14.0	12.8
Total OECD	9.0	14.8

Source: Statistical Bureau of Iceland, 2003.

Note: *1997.

When the relationship between part-time jobs and total labour force participation in the OECD countries is considered, a high correlation (.62) is manifested. This gives a strong support for hypothesis II.

To summarise, then, the Icelandic labour market seems to strengthen the arguments of the competitive labour market model and the flexible model: The labour legislation is not very restrictive, unemployment is low, the participative rate is high, the working week is long, and part-time jobs common, especially among women. Now, we turn to hypothesis III.

Welfare and social security

Welfare schemes can have an impact on labour force participation as unemployment benefits, pensions, parental leave etc. might put a part of the labour force outside the labour market. As Burawoy (1985) has stressed, the social benefits vary considerably between countries. The social security system is generally most advanced in the Nordic countries. Here Iceland seems to be an exception, according to Olafsson (2003a, p. 1):

The contemporary Icelandic welfare state is a significant deviation within the Nordic welfare community. Having originally been shaped by similar Beveridgean principles as the Scandinavian social security systems at the beginning of the post-war period it did not follow the decisive turn towards the Scandinavian model from the 1950s to the 1970s. From the outset the Icelandic system was also more reliant on income-testing of benefits and depended heavily on private and third sector provisions of welfare and caring services, i.e. by non-governmental welfare organizations (NGOs).

On the whole one can say that the element of self-help is larger in the Icelandic welfare system than in the other Nordic countries. The redistributive effects of the Icelandic system are also less effective than those of the other Nordic systems, resulting in slightly higher levels of poverty amongst pensioners and the general population in Iceland.

This statement is supported by Table 7, which demonstrates that expenditure on social security and health, as a percentage of GDP has been lowest in Iceland in the period 1950-2000. If we look at labour market aspects of the welfare system, i.e. unemployment and sickness benefits, we see similar patterns. In all the Nordic countries except Iceland, the amount of the unemployment benefit is a percentage of previous income, ranging from 58 – 90 per cent. In Iceland the amount is fixed, and the unemployment benefit is the lowest, 157 PPP-Euro a week in 2000. That is far below minimal wages. In comparison, the benefit is 315 PPP-Euro a week in Denmark, 345 PPP-Euro in Norway, and 262 PPP-Euro in Sweden (NOSOSCO, 2003). A similar pattern is prevalent regarding sickness benefits in the Nordic countries (see Table 8).

Table 7. Expenditures on social security and health in the Nordic Countries, 1950-2000. Expenditures as % of GDP.

	<i>ICELAND</i>	<i>DENMARK</i>	<i>FINLAND</i>	<i>NORWAY</i>	<i>SWEDEN</i>
1950	6.2	8.0	7.3	6.3	8.5
1960	7.7	9.8	8.3	9.8	10.9
1970	10.1	17.9	13.6	14.7	17.9
1980	16.4	27.8	21.1	21.1	32.6
1990	16.9	28.7	25.1	26.4	33.3
1995	19.1	29.8	31.8	27.3	34.4
<u>2000</u>	<u>19.6</u>	<u>28.7</u>	<u>25.2</u>	<u>25.3</u>	<u>32.3</u>

Source: Olafsson, 2003a, p. 7.

Table 8 shows clearly how the Icelandic sickness benefits system deviates from the Scandinavian systems in using market-based solutions to a much larger degree in this area. This reflects the generally strong emphasis on private and self-help solutions in the Icelandic context and is an example of the weaker form of citizenship-based welfare rights in Iceland than in the Scandinavian countries.

Table 8. Characteristics of sickness benefits in Nordic countries

The respective share of employers and the state in sickness benefit expenditures (daily allowance in 1995)

	<i>Denmark</i>	<i>Finland</i>	<i>Iceland</i>	<i>Norway</i>	<i>Sweden</i>
Division of cost of sick pay:					
1 Public benefits	54	35	7	58	67
2 Retained pay during sickness (employer share, contract based)	46	55	89	42	21
3 Accident insurance	0	8	3	0	2
<u>Sick pay total</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Source: Olafsson, 2003a, p. 11.

It is prevalent in the collectively bargained contracts in the Icelandic labour market that employees have rights to sick pay (retaining their regular pay) from their employer, depending on length of employment and other bargained conditions. The

public social security system only begins to pay sickness benefits when the employer period is fully used (often after 1-3 months). The size of the sickness benefit from the public system is, however, very low. By the end of the 1990s the daily sickness benefit from social security was still below 30% of average wages while it ranged from about 70-100% in Scandinavia (Olafsson, 2003a).

Individuals with long-term sickness, parents of long-term sick children, and those caring for invalid elderly parents have access only to unusually low benefits from social security. Most of the larger unions in the country run their own sickness funds to support their members when dealing with such situations.

It is thus clear that the Icelandic workforce is much more dependent on the employer and the labour market in order to make a living than the workforce in other Nordic countries.

Figure 1 shows social welfare expenditure (social benefits, unemployment benefits, child benefits, health, housing and other) per capita in euros in European countries. In a European perspective, expenditure on social welfare is the fifth lowest in Iceland.

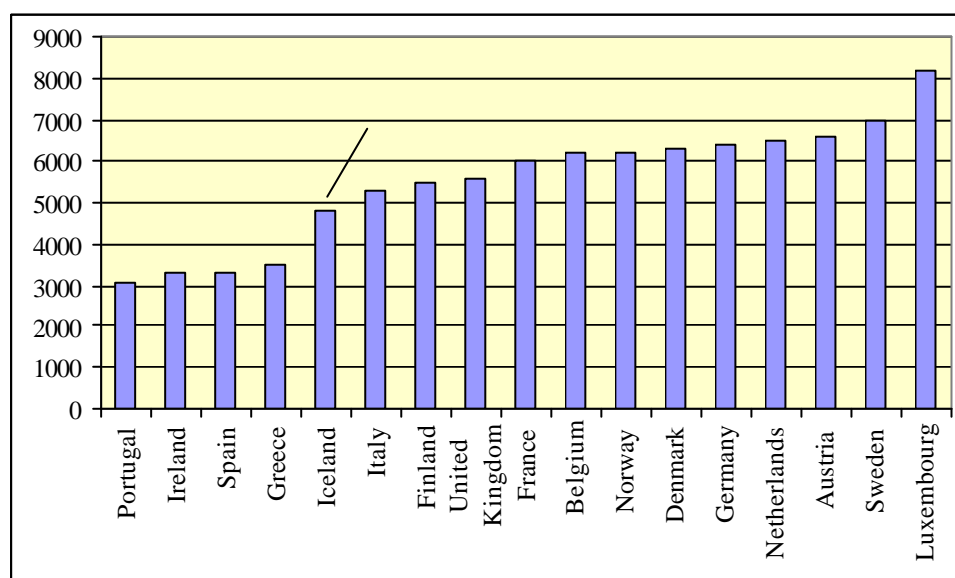


Figure 1. Social welfare expenditure (social benefits, unemployment benefits, child benefits, health, housing and other) per capita in euros in European countries in 1999.

Source: Olafsson, 2003 b.

From a Nordic point of view, hypothesis 3 is supported, as labour force participation is highest in Iceland where expenditure on social security is the lowest. However, when European countries are considered in general, the correlation between social welfare and labour force participation is rather weak ($r = .34$).

Discussions

Other factors, than already noted, have to be considered in order to explain the functioning of the Icelandic labour market. Here, institutional factors will be considered.

The population of Iceland was ca. 282.000 in December 2000 (Statistics Iceland, 2001). This means that the domestic market is very small and, therefore, firms and sectors are less specialized than in larger societies. Moreover, rationalization and standardization is more difficult to achieve, hence, more workers are more often than not needed than in larger markets. This could be termed the small island syndrome.

The economic structure in Iceland has been marked by a fishing economy, where the fishing sector dominates export. Thus, the share of the fishing industry in the national export was 91.0% in 1960, 77.2% in 1970, and 63.7% in 2000. Manufactured products, especially aluminium, increased their share by 30% in the same period (National Economic Institute of Iceland, 2001). Moreover, in the period 1945-1990 frequent economic fluctuations (inflation, seasonal and business cycles) ravaged the economy (see Table 9), and the inflation rate, for example, was 50% in the 1981-1985 period (Snævarr, 1993). Economic stability was reached in 1990 with the Þjóðarsáttarsamningar (National consensus agreement), a tripartite agreement between the trade union movement, the state and employers' associations. The aim of the agreement was to lower inflation, increase purchasing power, especially of low earners, lower the interest rate, stabilize the economy and create new jobs. One central objective of the agreement was that wage rises should be much more restricted than before, and inflation decreased rapidly, from 23.9 per cent in February 1990 to 3.1 per cent three years later (Edvardsson, 1997).

Table 9. Gross National Product in Iceland 1945-1992, %.

	GNP	Mean population	GNP per head	GNI
1945-50	2.5	2.0	0,4	1.0
1950-55	5.9	2.1	3.7	6.3
1955-60	3.2	2.2	1.0	2.8
1960-65	7.1	1.8	5.2	9.2
1965-70	2.4	1.2	1.2	2.5
1970-75	6.3	1.3	4.9	5.5
1975-80	6.7	0.9	5.8	7.1
1980-85	2.3	1.1	1.2	1.4
1985-90	3.1	1.1	2.0	3.3
1945-92	4.1	1.5	2.6	4.1

Source: Snævarr, 1993, p. 48.

Another characteristic of the Icelandic economy is that industrial concentration is limited on an international scale. In 1996, for instance, no less than 96.9% of Icelandic enterprises employed 10 employees or less, and only 0.6% out of a total of 34.130 enterprises hired 61 employees or more (The National Economic Institute, 2001).

It is well known that an economic environment like the Icelandic one, i.e. a small firms sector, economic fluctuations and foreign market instability encourages flexibility in production, as well as in the labour market. Burns and Stalker (1961), for instance, identified a relationship between product markets and organisation. They found that firms operating in a stable environment and predictable markets tended to have *mechanistic* systems, characterised by functional specialisation, and centralisation of authority. By contrast, *organic systems*, predominate in environments where there is more rapid change, uncertain markets, and constant innovation. The salient features of the organic system are that jobs are loosely defined and are constantly redefined, lateral communication is widespread and meritocratic and expert positions are a case in point.

Materialism and consumerism has been a prevalent feature of Icelandic society in past decades. Although difficult to measure, one indication of materialism can be found in the 1990 European Value System Study. The results show that 21 per cent of

the Icelandic sample thought it would be negative to emphasise the reduced importance of money and material things in the future, compared to 12 per cent in Denmark, 19 per cent in Finland and Sweden, 16 per cent in Norway, and 14 per cent in South and West Europe in general (Jonsson and Olafsson, 1991; Olafsson, 1987). High consumerism behaviour can explain, to some extent, long working hours and high participation rates in Iceland.

Still another feature, representing and sustaining the cyclical and flexible economy, is the industrial relations system in Iceland. In Iceland, collective bargaining has been the main pattern of negotiations in the post-war period. The bargaining procedure is decentralised, as the formal power to decide on contracts and strikes continues to rest with the local union branches (Korpi, 1981). Therefore, collective bargaining takes place on two levels: (1) At the top level between the Icelandic Confederation of Trade Unions (ASI), and the Icelandic Employers' Confederation (SA), and (2) at the local union branches, whose members decide, by secret ballots, on the approval or rejection of contracts (see Backman, 1990). Furthermore, individual bargaining between employees and managers is quite common in Iceland, so wage drift is widespread.

State involvement in wage bargaining has been common practice in Iceland, although this significantly decreased in the 1990s. Historically, two-party negotiations between employers and trade union associations have been the dominant feature in Iceland, while corporatist relations between the unions, employers and the state have been very limited. However, corporatism was prevalent in the 1990s as already mentioned.

Another aspect of collective bargaining involves the aims, which direct the bargaining procedure. In Iceland, for example, it has been very difficult to carry out a solidaristic wage policy, simply because of the heterogeneity of the ASI's organisational structure, which includes a large general and transport workers' union as well as important industrial unions (Korpi, 1981). As a result, wage differentials have become very significant. In the first quarter of 2001, for instance, the average wage differential between skilled and unskilled workers was approximately 73 per cent (Fréttabréf Kjararannsóknarnefndar, 2001, Regluleg laun starfsstétta).

A salient feature of the Icelandic system of industrial relations has been the high frequency of industrial conflicts, especially in the post-war period, which ranks among the highest in the Western World (Korpi, 1981).

Finally, a few words about the changes which have taken place in Iceland recently that might alter the functioning of the labour market. First, there has been an increase in mergers and acquisitions among Icelandic firms, leading among other things to bigger companies. Second, the Icelandic economy has become more globalized after 1994 when Iceland joined the European Economic Area. This can be seen in increased foreign investment in Iceland, as well as in growing Icelandic investment overseas. As an indication of this trend, it was estimated that Icelandic firms had established 60 subsidiaries in 1983, in 1995 this number had grown to around 300 (Foreign Ministry, 1999). This has meant, that the emphasis has shifted from the domestic market to international markets, and, as a result, the growth potential is much higher than before, although job growth is often confined to abroad. Third, a Europeanization of the labour legislation is prevalent in recent years. Fourth, economic stability since 1990, due to lower inflation, the decline of the fishing sector in GNP, open financial markets etc. can undermine the performance of the labour market in the long run.

There are, therefore, some indications that the performance of the Icelandic labour market could become more similar to European labour market performance in general in the years to come.

Conclusions

The unique performance of the Icelandic labour market has been the focus of this paper. It has been demonstrated, by using international statistics, that the activity rates of both sexes are very high in Iceland, 90.2 per cent in general in 2000, as well as long working hours. Another characteristic of the Icelandic labour market is low unemployment rates, 2.3 per cent in 2000, a high proportion of part time jobs (23 per cent of total jobs in 1998), and unrestricted labour legislation.

Three hypotheses were presented in the theoretical section: H1: Unregulated labour markets encourage the labour force participation of all groups; H2: Flexibility in working hours increases the labour force participation of all groups; H3: Extensive welfare schemes tend to limit the labour force participation of all groups. Hypothesis 1 was rejected, Hypothesis 2 was supported by a high correlation (.62), while some support was given to Hypothesis 3. However, further explanation of the functioning of the Icelandic labour market is needed. I have argued for a historical and institutional

explanation of the Icelandic case. Thus, a fishing economy characterized by frequent economic fluctuations, a small domestic market protected from international trade until 1994, a decentralized labour movement, a small firms sector, and limited standardization in the economy can account, partly, for the high labour market flexibility and the solid performance of the labour market.

In recent years, some changes have taken place in the Icelandic economy. These include mergers and acquisitions of firms, internationalisation, stricter labour legislation due to EU regulations and directives and economic stability. All these changes could move the Icelandic labour market performance closer to the European pattern in the near future.

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