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The Icelandic Welfare State in the Twentieth Century

Gudmundur Jonsson

1. Introduction

Providing economic and social security has been one of the fundamental features of state activity in Iceland during the 20th century. The rise of modern social politics occurred at about the same time as in the other Nordic countries, towards the end of the 19th century, in response to upheavals associated with industrialization, urbanization and labour-force differentiation. The impulses behind the emerging welfare policies varied, of course, ranging from the conservatives' efforts to maintain stability in the face of the breakdown of traditional social and familial institutions, to the "maternal politics" of the women's movement, aiming at extending social policy to maternal and child welfare and redefining social citizenship. Various forms of welfare programmes and services emerged in the course of the century, but it was not until after 1945 that the central state became the primary locus of welfare provision. Prior to this, the local community, voluntary organizations and labour unions were all actively taking measures to cope with the insecurity and unpredictability of social and economic conditions.¹

The rise of the Icelandic welfare state is circumscribed by another historical process: the creation of the nation-state, which grew out of the modernization of society and the political campaign of Icelanders for independence from Denmark. As more powers were transferred to Iceland, leading to full independence in 1944, the Icelandic government gained control over central state functions, to enforce a national law, raise taxes and mint money. With each step they took towards self-

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¹ For a survey of the Icelandic welfare state from an international comparative perspective, see S. Ólafsson, *Íslenska leiðin. Almannatryggingar og velferð í fjölpjóðlegum samanburði*. Tryggingastofnun ríkisins (Reykjavík, 1999a). The findings are published in English in S. Ólafsson "The Icelandic Model. Social Security and Welfare in a Comparative Perspective", in B. Palier, ed. *Comparing Social Welfare Systems in Nordic Europe and France*, vol. 4 (Nantes, 1999b). See also by the same author, "Variations within the Scandinavian Model: Iceland in the Scandinavian Perspective", in E. J. Hansen, S. Ringen, H. Usitalo & R. Erikson, eds. *Welfare Trends in the Scandinavian Countries* (New York, 1993), pp. 61–88. The development of social legislation until the early 1940s is presented in J. Blöndal, ed. *Félagsmál á Íslandi*. Ministry of Social Affairs. Saga Alþingis IV (Reykjavík, 1942). A historical account of social security legislation is offered in G. Guðmundsson, *Almannatryggingar á Íslandi. Hálfar aldar saga Tryggingastofnunar ríkisins* (Reykjavík, 1992).

government, the more positive did the Icelanders' views of state power become, not least because it was viewed as an important agent of societal change. For the greater part of the century, however, active state involvement in the making of modern society was primarily focused on economic tasks such as the development of the economic infrastructure, active industrial policy in support of agriculture and the fisheries, and the provision of credit for the expanding economy, not least in order to ensure a high level of employment so that individuals could earn their own livelihood. Social policy has played only a subordinate role in public policy and debate, a feature that Iceland seems to share with Finland (cf. Pauli Kettunen's article in this issue). Great fluctuations in the economy and long periods with a high rate of inflation have not created an environment that encourages social safeguards to cope with setbacks in the unstable economy; on the contrary, welfare services have been perceived as a product of the economic well-being of the nation and consequently subject to changes in the fortunes of the economy.

2. The emergence of modern social politics, 1890–1936

The period from 1890 to the early 1930s saw the disintegration of traditional institutions of social security and social control and the introduction of a more liberal social legislation. The emergence of modern social politics can be dated to the decades around the turn of the century, when a fundamental shift in economic and social policy occurred. Until then, very extensive and authoritarian legislation regulated the labour force and family formations.² A stringent labour bondage, which required almost all unmarried people above the age of 16 in dependent positions to be hired out as servants, was abolished in 1894 and the legal occupational restrictions on cottars and crofters were abolished in 1907. Old ties of paternalistic welfare were replaced by more liberal social legislation, based on individualistic ideas of self-help, prudence and hard work. The poor had now more freedom to choose their means of living; they could elect to leave the countryside to settle in villages and towns by the seaside and establish a family more easily than before. But as urban wage labourers, however, their lives were even more unpredictable, as they had less family support and job security than farm servants, who were protected against seasonal swings by whole-year services and a paternalistic legislation of mutual obligation between householders and servants.

Looking at Icelandic welfare politics in broad terms, the most significant change prior to World War I was not in the field of social insurance or social assistance, but in education and health. The state was rapidly assuming responsibility in these areas, particularly in education, which by 1910 had become the biggest category of public social expenditure. One of the peculiarities of Iceland is that, despite high literacy rates, formal schooling at primary level was almost non-existent until the last decades of the 19th century. Parents were responsible for instructing their children under the supervision of the parish pastor. Around the turn of the century a rapid expansion of the school system took place, in which local authorities were

² G. Á. Gunnlaugsson, *Family and Household in Iceland 1801–1930* (Uppsala, 1988), chapter III. See also J. Blöndal, ed., op. cit., pp. 149–182.

made responsible for primary education, receiving a small financial state support, while central government provided vocational and higher education. The 1907 Education Act was the first comprehensive legislation introducing compulsory public education and minimum school attendance for most children between the ages of 10 and 14 years.

Public involvement in health had been largely confined to the co-ordination and execution of public health policy through the Directorate of Public Health, which was also responsible for the services and administration of district doctors and midwives. Gradually, the state assumed the responsibility for hospital services, opening a leprosarium in 1898 (a gift from the Danish Oddfellows), establishing a mental hospital in Reykjavík in 1909, and assuming the management of a tuberculosis hospital in 1916, while offering only limited financial support to general hospitals until the late 1920s.³

Before 1900, the fight against poverty, the principal task of social policy, was mostly confined to poor relief provided by local authorities, constituting their costliest task. This assistance, which had a long and established history, was entirely administered and financed by local authorities, and took one of two forms. Paupers (mainly orphans, physically or mentally disabled persons and the elderly) were “taken in” by householders in the commune and provided with food, clothing and shelter. On the other hand, “outdoor relief” was provided, in money or goods for families in temporary difficulties. Poor relief was thus entirely provided as a “domiciliary” aid without the institutionalization of the recipients. In fact, poorhouses or workhouses were never set up in Iceland and institutional care for the socially needy was only established after 1920 in the form of homes for the elderly and childcare institutions.

Owing to population pressure, structural problems in the economy and a spell of colder climate in the 1880s, poverty increased significantly in the last quarter of the 19th century. The numbers of the poorest sector of the population, recipients of poor relief and their families, swelled to reach nearly one-fifth of the total population during the bleakest years in the 1880s.⁴ Thousands of people moved from the countryside and emigrated to America until economic recovery and the emergence of a modern fishing industry started to turn the flow more and more to villages and towns in the coastal areas.

It was during the decades around the turn of the century, when the state structure was still rudimentary and public responsibility restricted to traditional poor relief, that a space opened up for charity run by private individuals and organizations. Riding on the wave of the nascent women’s rights movement, which was at its most active between 1895 and 1920, voluntary organizations were largely run by women.⁵ They established charities in towns to help the poor and sick and

³ V. Jónsson, *Skipun heilbrigðismála á Íslandi* (Reykjavík, 1942).

⁴ Author’s estimates, cf. “Agents and Institutions in the Creation of the Icelandic Welfare State, 1880–1946”, paper for Nordisk Historikermøde (Arhus, 2000) [to be published in the conference rapport].

⁵ M. Guðmundsdóttir, “Verðir heilbrigðinnar. Hjúkrunarfélagið Líkn 1915–1935”, in H. M. Sigurðsson, ed. *Söguspegil. Afmælisrit Arþeijarsafns* (Reykjavík, 1992), pp. 258–279; Same author, *Aldarspor* (Reykjavík, 1995); S. Th. Erlendsdóttir, *Veröld sem ég vil. Saga Kvenrættindafélags Íslands 1907–1992* (Reykjavík, 1993); I. Huld Hákonardóttir, “Philanthropy, Politics, Religion and Women in Iceland before the Modern Welfare System, 1895–1935”, in P. Markkola, ed. *Gender and Vocation. Women, Religion and Social Change in the Nordic Countries, 1830–1940* (Helsinki, 2000), pp. 177–210.

promote temperance in the name of good Christian morality. The women's rights movement was also active in the political sphere, establishing organizations campaigning for women's political rights and interests.⁶ Between 1908 and 1920 women formed their own slates in local elections as well as elections to the parliament, the *Althing*, in 1922 and 1926 which, seen in an international perspective, were very successful. Women's activism during the first two decades of the century had a significant impact on the development of the Icelandic welfare state, not only by pioneering efforts in the fields of child welfare, care for the elderly and healthcare, but also by redefining social politics and advocating active state involvement in this area. Women's influence was particularly felt in the field of healthcare through various measures: providing home care for the sick, and establishing healthcare services such as a tuberculosis screening unit, infant care unit and even a hospital in Reykjavík.

Labour unions, emerging after 1890, designed various strategies to cope with the unpredictability of economic life, ranging from mutual sickness funds and co-operatives to common vegetable gardening, childcare, libraries and housing societies.⁷ In 1916 the Icelandic Federation of Labour was founded, with the Social Democratic Party (SDP) as its political wing. From that time on the labour movement became seriously engaged in national politics, pressing for social reform under the banner of socialism. Revision of the Poor Law, social insurance and workers' housing programmes were among the political priorities of the SDP in the decades that followed.

Against the background of accelerating economic growth and structural changes in the Icelandic economy, the more optimistic mood of the 1890s created conditions for radical revision of labour policy and new thinking on social issues. Even before 1890, the protracted public debate on poor relief was taking new directions. Instead of agonizing over the rising costs of poor relief inflicted on local authorities, thinking up ways to set stricter restrictions on public funds, and quarrelling over the financing of poor relief, politicians and officials began to talk about new forms of social assistance such as poorhouses, homes for the elderly and preventive strategies to keep the poorest of the working class from falling into utter poverty. The burgeoning of new social ideas, mostly imported via Scandinavia, were felt both in the emerging voluntary organizations, many of which were affiliates of international movements, and in the political debate. In 1890, the first social insurance legislation was enacted, providing for old-age pension funds. It was but a small step and much more modest than the Danish old-age pension law passed in 1891, as it was confined to "old and infirm" servants, financed by the servants themselves, and had means-tested benefits which were so low that they made little if any difference to the servant class.

A law on old-age pensions passed by the *Althing* in 1909 marks more appropriately the beginning of modern pensions. Old-age support funds were to be established in every commune in the country, financed by a fixed contribution

⁶ A. Styrkársdóttir, *From Feminism to Class Politics. The Rise and Decline of Women's Politics in Reykjavík, 1908–1922* (Umeå, 1998).

⁷ Þ. Friðriksson, "Við brún nýs dags. Félagssöguleg rannsókn á samtökum reykvískra verkamanna, lífsháttum þeirra, kjörum og umhverfi" (manuscript).

from people aged between the age of 20 and 60 years plus a state contribution, which accounted for about one-quarter of the costs. Subsistence grants were means-tested, paid out once a year, and directed primarily toward the poor and sick or invalid people above the age of 60. The benefits were very low, on average only around 30 *krónur* during the first years after the scheme's inception, or less than 4% of the wages of an unskilled worker. This compares rather unfavourably with similar benefits in other countries; for example 17% in Germany, 22% in Britain and 30% in the USA.⁸ The coverage was also limited, reaching only 18% of people older than 60 years of age in 1911. Old-age pensions remained unchanged until the mid-1930s.

Sickness and accident pension schemes were introduced in the first years of the 20th century, the former primarily on a voluntary basis. Medical care was rudimentary; only one hospital was in operation in Reykjavík at the beginning of the century and care of sick people took place almost entirely in the households. Sickness and accident pension schemes were introduced in the early years of the 20th century and followed a similar path as those in the other Nordic countries. The first sickness pension fund was founded by the Printers' Union in Reykjavík in 1897, the second not until 1907, when the Oddfellows in Reykjavík initiated a general fund for people aged 15–40 who owned property valued at less than ISK 5000 (about £275). Occupational accident insurance was the only part of social insurance that made a significant impact before 1930. Life insurance for fishermen on decked vessels was introduced in 1903, with two-thirds financed by the employees and one-third by the employers. This was extended to all fishermen in 1917, but with the general legislation on state-managed accident insurance in 1925, all seamen and workers (with the exception of agricultural workers) were covered and the costs were fully paid by the employers.

Thus, the period from 1890 to 1930 saw the gradual build-up of social insurance and even some improvements made to the system of poor relief. Still, welfare provisions were considerably less advanced than in the other Nordic countries: the traditional system of poor relief was still in place and social care services were only starting to emerge. Many better-off people chose to buy life insurance policies from foreign-owned private insurance companies.⁹

Early initiatives to reform social legislation and promote social insurance took place at a time when the political party system was still primarily based on the independence issue. While there were no clear-cut party divisions on social insurance, the “reformers” came from roughly the same social stratum of civil servants, most of whom had been educated in Denmark, and the clergy. The campaign for maternal and child welfare was, on the other hand, almost entirely confined to the women's movement, which pressed for municipally organized childcare, free school meals and homes for the elderly.

The making of social policy changed fundamentally with the emergence of a modern class-based party system in Iceland between 1916 and 1930, built around

⁸ Ólafsson, op. cit. (1999a), p. 80, and my own calculations based on employment income data from my research on Iceland's GDP 1870–1945, cf. *Hagvæxtur og iðnvæðing. Þjóðarframléiðsla á Íslandi 1870–1945*. Þjóðhagsstofnun (Reykjavík, 1999), chapter 3.

⁹ G. Jónsson, op. cit. (2000).

three competing power blocks. The agrarian-based Progressive Party, founded in 1916, represented farming interests and promoted the co-operative movement and *petit-bourgeois* ideas of the independent small producer. The Social Democratic Party, also founded in 1916, drew its support from the working classes in the growing towns and had close organizational ties with the trade union movement. Influenced by Danish Social Democrats, the SDP was a reformist party campaigning for union rights and better living conditions for the urban working classes. In the 1920s the party became the prime political force in the campaign for social insurance and other welfare legislation. Communists split from the party in 1930 to form the Communist Party, which in 1938 merged with the left flank of the SDP to form the Socialist Party. Rightists were the last to organize in one party, with the founding of the Conservative Party in 1924, which five years later merged with a small grouping to form the Independence Party. In spite of its individualist, free-market philosophy, the Independence Party had a broad social base, including large sections of the farming community, most of the commercial and business classes and even urban wage earners.

The political party system was thus markedly different from those of the other Nordic countries. The left was split into two parties after 1930, making the Social Democrats much weaker than in the other Nordic countries, with only around 15% of the vote. The right, on the other hand, was largely united in one big party, which generally polled above 40% before World War II and just below 40% in the post-war period. This political configuration was of major consequence for the development of the welfare system in Iceland.

3. The age of social reform, 1936–1946

The 1930s and 40s brought sweeping changes to social policy and laid the foundations for the post-war welfare system in Iceland. The policy shift was largely a result of the growing strength of the left in both national politics and on the labour market. The SDP's position was greatly strengthened with the formation of the Progressive Party's government in 1927, which had to rely on its support. Although no formal policy agreement was promulgated, it was difficult to ignore altogether the issues the Social Democrats had prioritized. In 1929, they succeeded in pushing through parliament workers' housing programmes with substantial state contributions, while their campaign for social insurance reform, which was now becoming one of their major political priorities, met with more resistance. The party called for a radical overhaul of existing legislation and its replacement by a comprehensive, tax-financed social insurance. A parliamentary committee was appointed to examine the issue in 1930, but insufficient political support and mounting financial difficulties caused by the Depression brought the work to a standstill. A party in opposition after 1931, the SDP worked out an elaborate programme aimed at revising and extending the existing social insurance legislation and presented a bill for the reform in the *Althing* in 1932 and again in 1933.

After their biggest electoral victory ever in 1934, gaining 22% of the vote, the SDP formed a government with the Progressive Party. This first "green-red" government in Iceland, in power between 1934 and 1938, reached an agreement on wide-ranging changes to social and economic policy, including comprehensive

social insurance legislation and a thorough revision of the Poor Law. Social reforms proposed were comparable to recent pacts between the Social Democrats and the centre parties in the other Nordic countries, which can be viewed as a compromise between the working class, farmers and the liberal strand of the bourgeoisie at a time of great social upheaval. The Social Democrats achieved important parts of their programme – revision of the Poor Law, comprehensive social insurance legislation and extended public health care, all of which required extensive state involvement and financial support. In return, the Social Democrats accepted a strict public regulation of the market for agricultural products, which effectively abolished competition and led to higher prices. They also had to agree on increased public support for new settlements in rural areas and rural housing schemes. The fact that it was the centre party and not the Social Democrats who had the greatest say in the social reform, influenced the outcome of the compromise also in other ways. The SDP had to accept a reduction in benefits and state contributions to the social insurance system. The most controversial part of the reform, the unemployment insurance section, was watered down in the face of strong opposition from the Independence Party and even parts of the Progressive Party, to such an extent that it proved useless.

Although not as far-reaching as the social reform in the other Nordic countries, the social legislation enacted in 1935 and 1936 marked an even greater advance in Iceland because of the rudimentary social protection that existed before that time. First, the Social Assistance Act of 1935 introduced more humane treatment of paupers, in line with a change of the electoral law two years earlier, in which recipients of social assistance were granted full voting rights. Secondly, state-provided healthcare was extended by law in 1936. Thirdly, the first comprehensive legislation on social security, the Workers' General Insurance Act of 1936, stipulated a greatly improved accident insurance to cover both accidents and occupational diseases. Sickness insurance funds were made compulsory in all towns, resulting in greatly increased coverage – they covered about one-quarter of the nation and further amendments to the law in 1943 extended that coverage to nearly 50%.¹⁰ Of greatest importance was the introduction of old-age and invalidity insurance for people 67 years of age and older and disability pensions for people aged 16–67 years. The coverage of the pensions increased from about 23% to 70% (pensioners as a percentage of the 67+ group), while benefits remained means-tested and very low. The scheme was financed by the insured (43% on average 1937–1946), local authorities (42%) and the state (15%).¹¹

During World War II social policy underwent a major renewal, prompted by new ideas about the relationship between the state and society in social planning, in which social and economic security became major goals of public policy. The change was markedly influenced by ideas circulating in Europe at the time on universal tax-based social insurance and extensive social care services, but domestic conditions were also working in favour of new and bold welfare policies. The political balance was shifting in favour of the two left-wing parties, which acquired

¹⁰ S. Ólafsson, *op. cit.* (1999a), p. 106.

¹¹ G. Jónsson, *op. cit.* (2000).

pivotal positions in coalition governments. Economic development was also favourable, as Iceland was one of the few countries to prosper during the war with the fastest growing economy in Europe. By 1945, Iceland had one of the highest GDP per capita levels in Europe.¹² Soaring export prices and the flurry of economic activity after the Allied occupation in 1940 wiped out unemployment and generated unprecedented economic growth. Iceland was in a better economic position than most countries to embark upon an ambitious social and economic renewal.

The establishment of the Ministry of Social Affairs in 1940 was a clear indication of a higher profile given to social policy, with more resources put into research and policy-making. A commission was appointed by the government in 1943 to plan future social security legislation, undertake an in-depth investigation of legislation in other countries, general economic conditions and the fiscal capacity of the state to embark on major improvements in the social field.¹³ This work was part of a wider re-examination of public policy aimed at major economic and social renewal after the war.

Realization of the new social policy fell primarily to an unusual coalition government, in power from 1944 to 1947. After long-drawn-out efforts to replace a non-parliamentary government, the Independence Party, the SDP and the Socialist Party formed a parliamentary government. The Social Democrats were reluctant to participate, some because of hostility towards the Independence Party, others because of the participation of their old rivals, the Socialists. The SDP, therefore, inflated its demands in the negotiations and insisted on a new legislation on social security that would be “as good as any known system in the world at the time”.¹⁴ Surprisingly, the Independence Party accepted the demand, as the only possible option to form a majority government seemed to be a coalition of these three parties. Faced with the acceptance of its demand the SDP had no choice but to take part in the government, a decision that was taken with a majority of only one vote in the party’s central committee.

In the subsequent years the “reconstruction government”, as it was called, embarked upon radical changes in the field of social security as well as other social policy areas, education, healthcare and housing. The Social Security Act, passed in the *Althing* in 1946 and taking effect from 1 January 1947, was the first comprehensive legislation on social insurance in the Nordic countries, combining almost all social insurances under one system. It included an old-age pension for all people above the age of 67 years. In the original bill the benefits were flat-rate, but for money-saving purposes a provisional clause was inserted, stipulating earnings-related benefits. The same benefits were paid as invalidity pensions. Universal occupational accident insurance was introduced for all wage earners in the form of

¹² G. Jónsson, op. cit. (1999), p. 178.

¹³ The most important official reports published during that time are J. Blöndal, ed., op. cit.; *Félagslegt öryggi eftir stríð* (Reykjavík, 1943); J. Blöndal & J. Sæmundsson, *Almannatryggingar á Íslandi. Skýrslur og tillögur um almannatryggingar, heilsugæslu og atvinnuleysisból* (Ministry of Social Affairs Reykjavík, 1945); *Alþýðutryggingar á Íslandi og í nokkrum öðrum löndum. Erlendar framtíðartillögur*. Fylgirit skýrslu um almannatryggingar á Íslandi (Reykjavík, 1945).

¹⁴ E. Olgeirsson, *Ísland í skugga heimsvaldastefnummar*. J. Guðnason skráði (Reykjavík, 1980), p. 168.

per diem benefits, disability benefits and death benefits. The law ensured a greater coverage than in most European countries at that time (around 80% of the population), but benefits were low. General sickness pension was introduced for people between 16 and 67 years of age, providing hospital healthcare free of charge. By 1950, 58% of Icelanders were insured against sickness, which was well above the European average. New types of benefits were also introduced, including child benefits, family benefits (paid to families with more than four children), and benefits for widows. When it came to financing the pensions of the social security system, however, the share of premiums paid by the insured in the benefits (a flat-rate social-security tax) was higher and the contribution from state and local authorities less than that in the other Nordic countries.

The 1946 Social Security Act introduced a universal system, which in terms of coverage and expenditure was on a similar level to that of the other Nordic countries. It was modelled on Nordic welfare principles and the British Beveridge Plan, with universalism and unified benefits at its core, but it deviated from the Nordic model in several important aspects.¹⁵ The system was less generous, entitlements were more limited and benefits lower than in the other Nordic countries. Old-age pensions were earnings-related, an amendment to the original bill that was to be a temporary money-saving measure but lasted until the 1960s. In this respect the Icelandic system resembled the New Zealand legislation of 1938, which Icelandic policy-makers had studied. Thirdly, unemployment insurance was not adopted in the 1946 legislation owing to insufficient political support. Only after a long and bitter strike of general workers in the Reykjavik area in 1955, did the right-wing government of the IP (Independence Party) and the PP (Progressive Party) agree to legislate on unemployment insurance as a part of the collective bargaining to solve the wage dispute.

The comprehensive social security system and the National Health Service were the two most important strands of the post-war social reform. The Education Act of 1946, introducing a comprehensive school system and wider access to further education, was also of great significance and was in force for nearly 30 years. Social reforms were part of the wider renewal of society after the war, which defined social security as encompassing government involvement in economic as well as social arrangements.¹⁶ The most ambitious and expensive public action of the “reconstruction government”, and from which it draws its name, was an “economic reconstruction programme”, which entailed a substantial renewal of the fishing fleet, factories and new technology in agriculture.

Social assistance legislation was also revised in 1947, but as grinding poverty had all but disappeared as living standards greatly improved during and after the war, its importance had been significantly reduced. In principle, the organization and financing of social assistance remained intact, still remaining means-tested and fairly strict under the administration of special committees in each municipality.

¹⁵ S. Ólafsson, op. cit. (1999a), p. 87.

¹⁶ This view is clearly expressed in *Félagslegt öryggi eftir stríð*, op. cit.

4. Consolidation of the welfare system, 1946–1970

In comparison with the other Nordic countries, Iceland had been a laggard in the field of social welfare before the war. Whether we look at the scope and generosity of social insurance, the range of different social services programmes, or the levels of public social expenditure, Iceland was much less “advanced”. It was only with the post-war reforms that the Icelandic welfare state reached a similar stage in terms of entitlements (although not generosity) and coverage, providing social services and social insurance that were by and large on a par with the other Nordic countries.

Iceland did not maintain its position in the Nordic league for long, as it did not keep pace with the rapidly expanding social sector of the other countries during the “golden era of the Nordic welfare system” in the 1950s and, especially, the 1960s. The growing gap between Iceland and the other Nordic countries is clearly illustrated in Fig. 1, which shows social expenditure as a percentage of GDP. In 1950, this ratio was similar across the five countries, ranging between 6% and 8%, while by 1970 the gap had dramatically widened. The social expenditure ratio had risen to 19% in Denmark, over 16% in Sweden, 13% in Finland and Norway, but less than 10% in Iceland.

This lagging behind of Iceland is all the more striking when one considers that the SDP was in government without interruption from 1956 to 1971 and throughout all of these 15 years it was in charge of social affairs, including social security. Economic rather than social issues were top priorities in public policy in the 1950s, during which the government struggled with serious structural problems in the economy, public sector financial difficulties and mounting public debt. In 1960 the government implemented radical economic reform, which, together with improvement in public finances, created conditions for a bolder social policy and increased social expenditure, both in real terms and as a proportion of GDP. The biggest changes to social security in the 1950s and 1960s, however, came about through collective bargaining on the labour market or changes in economic policy. Family benefits were extended to the second and the third child as a measure to solve a labour dispute in 1953, but benefits for the third child in family were cut back in 1956. Unemployment benefits were finally introduced in 1955 to resolve a workers’ strike in Reykjavík. The biggest rise in benefits came in 1960 as a part of the economic stabilization programme, in order to compensate wage earners for price rises brought about by a massive devaluation of the Icelandic *króna*.

Thus, despite lacking political support from a strong Left in government for most of the post-war period, the labour movement had the organizational strength to shape the welfare state by obtaining social rights through collective bargaining. The strength of the labour movement is evident in the high level of trade union membership and centralization of union power that have characterized the Icelandic system. As early as 1940 the unionization rate among blue-collar workers was 70–80% and in the following decades more than 90% of wage earners became unionized, one of the highest in the Western world. Other factors were also at work, such as priority of union members in hiring, and the Employment Act of 1938, which recognized trade unions as legal negotiating parties and put them on an equal footing with employers and government.



Fig. 1. Social expenditure in the Nordic countries as a percentage of Gross Domestic Product (GDP), 1950–1995.
 Sources: *Social trygging i de nordiske lande 1998* [Social Security in the Nordic Countries 1998]. -*Nordisk Socialstatistisk Komité* (NOSOSKO) 13:2000 (and earlier publications in the same series).
 Note: Social expenditure as defined by NOSOSKO, i.e. primarily public transfers and services, but also employers' contributions to social security, pay during illness and compulsory private pension funds.

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The labour movement was further strengthened in the post-war period by a remarkably high level of economic activity, resulting in one of the highest labour-force participation rates, the longest working week and the lowest unemployment rate in the OECD countries. While commitment to full employment was a central factor in public policy, high employment did not come without cost, since the government kept wage levels low and responsive to market fluctuations. This type of enforced income policy encouraged industrial conflicts, with the result that until the 1990s strike activity in Iceland was among the highest in the OECD countries, setting it apart from the more corporatist labour markets in the other Nordic countries.¹⁷

Independent pension funds are good examples of how the labour movement influenced an important part of the welfare system. Early on, they operated alongside the National Pension Scheme and were mostly confined to state and municipal employees and retail trade and office workers. An important change in the old-age pensions was legislated in 1963, when all independent pension funds were defined as supplementary to Social Security pensions. Since then, pensions from these occupationally based funds no longer led to a reduction in basic pensions, while everyone was obliged to pay premiums to the National Pension Scheme. The occupational pension funds were further strengthened when employers and the Federation of Labour negotiated the establishment of such funds for workers in 1969. Membership of such funds was made compulsory for all employees in 1974 and in 1980 for the self-employed. The funds, now between 60 and 70 in number, are managed jointly by employers and labour unions, the former contributing 6% of employees' wages into the funds and the latter 4%. Full rights give normally about 60% of former pay at the time of retirement, but entitlements vary between funds. In the last quarter of the century, occupational pensions have become the prime source of pensions while the public system comes in only for those lacking occupational pension rights or receiving less than a certain threshold.¹⁸

Before World War II, social insurance and other welfare programmes centred round the nuclear family based upon the male breadwinner. Public measures were directed toward the wage earner and the labour market in which the participation of women, especially married women, was much more limited than men. Women were therefore not considered to have the same need as men for sickness, accident or unemployment pensions. On the other hand, the old-age pension was of great significance to women because they earned less in the labour market and thus saved less money for their retirement, their occupationally earned benefits were lower, and they lived longer. The 1946 Social Security Act greatly strengthened the position of women and children, with the introduction of child benefits, paid to orphans and widows, pensioners and invalids with children under the age of 16, family benefits, paid to families with four children or more, maternity benefits and benefits for widows. These benefits were aimed at promoting equality of

¹⁷ Þ. Friðriksson & G. Guðmundsson, "Klassesamarbejde i Island: Underudvikling eller egne veje?," in D. Flemming, ed. *Industriell demokrati i Norden* (Lund, 1990), pp. 327–435; S. Ólafsson, op. cit. (1993).

¹⁸ S. Ólafsson, op. cit. (1999a), pp. 91–92; *OECD Economic Surveys 1992–1993. Iceland* (Paris, 1993), pp. 77–78.

opportunity and ensuring minimum living standards, but the policy-makers also stressed their function as a social investment enhancing the productive capacity of the nation.¹⁹ The same would also apply to public provision of education and healthcare, subsidized school meals, the old campaign issues of the women's movement earlier in the century.

Modelled on Norwegian laws, the first child protection legislation in Iceland was enacted in 1932. Child protection boards were to be set up in every town, while school boards were entrusted with this task in rural areas. The law confirmed a change in the 1927 Poor Law forbidding the removal of children from their parents on the grounds of poverty. Since then, Iceland has followed the other Nordic countries in adopting laws concerning the rights of children, with the exception of child labour, on which the law is still less restrictive, reflecting the traditional importance attached to child labour, especially during the long school holidays in summer.²⁰

The first childcare facilities were set up by charitable organizations and women's labour unions during the inter-war period. *Sumargjöfin*, an independent organization in Reykjavík, was a leading body in the development of childcare, running dozens of different facilities with financial support from the Reykjavík City Council; it was not until 1978 that the Council took over the administration.²¹ Early on, it was the Socialist Party (the People's Alliance after 1956) that advocated general legislation on publicly provided childcare. The left-wing government of 1971–1974 enacted general legislation in 1973 on child daycare institutions based on the policy that all preschool children should have the right to a place in a daycare institution. These services were to be financed and operated jointly by the state and the local authorities. Against a background of sharp increase in women's work participation and pressure from the growing women's movement, public daycare – provided primarily by municipalities with state financial support – expanded rapidly in the 1980s and 1990s, reaching a level similar to that of the other Nordic countries towards the end of the century. Part-time care and home-based childcare are, however, particularly pronounced in the Icelandic services. Public daycare is payable but subsidized, with single parents and students having priority of access to these services.²²

With old people as a fairly low proportion of the population (the 65+ group accounting for 7.5% of the population in 1950, 11.2% in 1995), Iceland did not have to direct resources to care of the elderly to the same extent as in many other countries. Institutions for the elderly were initiated by charitable organizations, such as the Salvation Army in the town of Ísafjörður in 1920 and the Samaritans in Reykjavík two years later. The Poor Relief board was allocated places there for its

¹⁹ *Almannatryggingar á Íslandi*, op. cit., pp. 19–20.

²⁰ Ó. Garðarsdóttir, "Working Children in Urban Iceland 1930–1990", in N. de Coninck-Smith, B. Sandin & E. Schrupf, eds. *Industrious Children, Work and Childhood in the Nordic Countries 1850–1990* (Odense, 1997), pp. 160–185. See also G. Kristinsdóttir, *Child Welfare and Professionalization*. Umeå Social Work Studies 15 (Umeå, 1991).

²¹ I. Broddadóttir, G. Eydal, S. Hranfssdóttir & H. Sigurveig Sigurðardóttir, "The Development of Local Authority Social Services in Iceland", in J. Sipilä, ed. *Social Care Services: The Key to the Scandinavian Welfare Model* (Aldershot, 1997), p. 56.

²² *Ibid.*, pp. 59–62.

clients, but demand soon far exceeded the supply. Homes for the elderly were established throughout the country in the subsequent decades, some run by charities but most by municipalities. By 1970 there were more places per capita in old people's homes than in any other Nordic country and a higher proportion of the aged lived in institutions (12.3% of the population above 65). The expansion of homes for the elderly was greatest in Reykjavík, which provided 70% of all places in 1971, prompting many elderly persons in the rural areas to move there.²³ Against growing criticism of institutionalization of the services, a shift in policy around 1980 produced a greater emphasis on home-help services and home nursing.

In few areas of social policy is the peculiarity of the Icelandic society greater than in housing, where self-provision, the work ethic and homeownership have been more pronounced than in the other Nordic countries.²⁴ It was not until after 1945 that housing became a significant area of public policy, although public support was given to certain classes, notably farmers and workers, before the war. The Cultivation Fund (1925) and the Housing and Settlement Fund (1928) granted loans toward renovating and building residential houses in rural areas, and in 1929 legislation on workers' housing programmes was passed. Under the last-named programme 300–350 dwellings were built for workers, which was in itself a sizeable improvement, but these homes accounted for less than 5% of new housing construction until 1946. In that year the first general housing legislation was enacted, providing the legal framework for local authorities' rented accommodation, with a significant state contribution. Its effects were small, however, since financing was not provided until the foundation of the State Housing Agency in 1955. In the following decades the Agency formed the major source of credit, together with pension funds and to a much lesser extent commercial and savings banks. Importantly though, self-financing and even self-construction have been very important features of housing, a tradition that persisted well into the 1980s. High inflation and negative real interest rates no doubt impeded the building-up of strong mortgage finance institutions and more active state involvement in housing. The authorization of partial indexing of housing loans in 1976, extended to all loans in 1979, paved the way for a stronger system of state-run housing finance in the 1980s, so that by the end of that decade the State Housing Agency was furnishing about 85% of all residential housing credit.²⁵

Self-ownership has been the basic tenet of public housing policy since 1945, advocated most vehemently by the Independence Party, the main government party and the party which controlled the Reykjavík City council almost uninterrupted until 1991, but also enjoying considerable support from the labour movement. Thus, the ratio of self-ownership increased from 56% in 1940 to 89% in 1990.²⁶ By the same token, social housing has been rather insignificant and, for that

²³ *Ibid.*, pp. 62–65.

²⁴ For a historical survey of housing conditions and housing policy, see J. R. Sveinsson, *Society, Urbanity and Housing in Iceland* (Tierp, 2000). See also I. Valur Jóhannsson & J. R. Sveinsson, *Íslenska húsnæðiskerfið* (Reykjavík, 1986).

²⁵ H. Ólafsson, "Íbúðabyggingar og opinbera húsnæðiskerfið 1981–1993", *Fjármálatíðindi* XL (1993), pp. 129–30.

²⁶ *Hagskinna. Sögulegar hagtölur um Ísland. Icelandic Historical Statistics*. Statistics Iceland. Edited by G. Jónsson & M. S. Magnússon (Reykjavík, 1997), p. 374.

matter, tenant protection has not been a priority in public policy. Rent laws regulating the level of rents have only been in effect for two periods, 1917–1926 and 1939–1953. Tenants' rights were strengthened by law in 1979 and further still in 1994, but tenants still have not gained the same position as that in the other Nordic countries. Contrary to most countries, Iceland did not have rent allowances for tenants for most of the century. This long-standing policy was broken by a law in 1997 introducing limited rent allowances for low-income earners.

Despite adverse circumstances, poor housing conditions at the end of World War II and rapid population growth and urbanization in the post-war period, and despite the late development of strong mortgage finance institutions and placing instead an extraordinary emphasis on self-ownership, Icelanders have managed to all but eradicate overcrowding and poor-quality housing and achieve housing standards as good as any in Europe.

5. Years of expansion, 1971–1987

The “golden age of post-war economic growth” lasted longer in Iceland than in most European countries, or until 1983. This fact explains, at least partly, why Iceland did not experience “the crises of the welfare state” to the same extent as that of many other European countries. Another obvious reason is that, since the public sector was relatively small, not least because of modest social expenditure, there were fewer grounds for neo-liberal complaints about the excesses of the government and calls for rolling back the state. Such criticism was heard but directed more towards government involvement in the economy than in the social field.

During the 1970s successive governments were under pressure to increase and extend social security benefits to assist those persons considered as being “left behind” as society became increasingly prosperous. A new Social Security Act was passed in 1971, taking effect in 1972, which extended entitlements and raised most benefits by more than 20%. A new, two-tier, old-age pension system was introduced with a flat-rate basic pension and earnings-related income supplement, leading to an increase in pensions for couples by no less than 42%.

Social expenditure rose faster in Iceland than in the other Nordic countries during the 1970s and the early 1980s, as welfare benefits followed increases in real income and social policy was given a higher profile, particularly housing and health. Although this development can no doubt be explained to some extent by the growing strength of left-wing parties which succeeded in achieving many of their ambitious social policy objectives in coalition governments, it was also due to a favourable economic environment. Despite its more rapid growth of social expenditures during the 1970s and 1980s, Iceland had not caught up with the other Nordic countries by 1990. Social expenditure as a percentage of GDP had only risen to just over 17% in Iceland while it ranged between 26% and 35% in the other Nordic countries.

The only area where expenditure had reached similar levels was public healthcare, where the greatest expansion occurred in the 1970s and the 1980s because of increasing demands for more and specialized manpower, high-tech healthcare services and primary healthcare, especially in the rural areas. Ever since

the 1946 social reform, public health insurance had represented the largest component of social security expenditure, and its share grew even more after 1970. With the Health Service Act of 1973 a policy of developing primary healthcare for the whole country was initiated, leading to an increase in health centres and health personnel across the country. Soon the Health Service had more hospital beds at its disposal than most countries. Health expenditures rose sharply, both in real terms and as a proportion of GDP, peaking in 1987 at more than 8%, well above levels seen in Europe.²⁷ Although the general trend toward centralization influenced the health service, local authorities retained considerable responsibility for financing and administering health services until 1990, when primary healthcare was further centralized and the state took over complete financial responsibility in that area.

6. Social protection on the defensive in the post-1987 period

A downswing in the Icelandic economy between 1988 and 1995 marked a turning point in the development of social welfare, ushering in a time of restraint and cuts in welfare programmes. Unemployment shot up from 0.5% to more than 5%, an unprecedented level in the post-war period, making further demands on the public purse. The welfare state came under increasing pressure as governments tackled rising public debt and budget deficits by cost-saving measures in the welfare services. The proportion of user-financing of services was increased and social benefits increasingly linked to earnings. Even basic pensions were income-adjusted with a new law on old-age and invalidity pensions in 1992, which resulted in reduced pensions for about half of all pensioners. Linking the basic pension to the average pay of manual workers was abolished. Social expenditure was checked and even shrank in real terms until the mid-1990s, its proportion of GDP remaining fairly stable at between 17 and 19%.

The National Health Service had been for most part a free system, but in the new climate the authorities imposed restrictions and charges on more and more services. Fees were charged for most ambulatory care, which greatly increased at the expense of inpatient care in the 1980s and 1990s, and the share paid by patients for pharmaceuticals increased from an estimated 18% to about 32% between 1991 and 1996.²⁸ Not all government actions, though, were marked by cut-backs. In response to the growing concern for the unemployed, the maximum period of unemployment benefit was extended in 1989 and benefits extended to self-employed people in 1993.

The late 1990s were characterized by a slow improvement in the social welfare system in conjunction with more favourable economic development, high economic growth rates, a reduction in unemployment and budget surpluses leading to a more lenient fiscal policy. Social benefits became less earnings-related and benefits were increased in real terms, although not as much as wage-earners' incomes.²⁹ Dissatisfaction with limited improvements in the level of benefits and the still high

²⁷ *OECD Economic Surveys 1992–1993*, op. cit., pp. 58–68.

²⁸ *Social Protection in the Nordic Countries (1997)*, p. 15.

²⁹ *Staðtölur almennatrygginga 1999* (Figures from Social Security 1999). Tryggingastofnun ríkisins.

degree of income relatedness prompted the Organization of the Handicapped in Iceland to take the government (The State Social Security Institute) to court for unlawfully relating invalidity benefits to the incomes of the individual's (married) partner. Surprisingly, in a landmark ruling delivered at the end of 2000, the Supreme Court accepted the Organization's claim that not only was the regulation on which the Social Security Institute operated between 1994 and 1998 not supported by law but a new law of 1998 was in breach of the human rights section of the Icelandic constitution (the section which concerns equality before the law and support obligations).³⁰ Although open for interpretation, the Supreme Court's ruling is likely to have wider implications for both social benefits, strengthening individually based rights, and earnings-related entitlements in general.

7. Not so Nordic: The peculiarities of the Icelandic welfare system

Iceland's historical development is characterized by strong bonds with the other Nordic countries, and its cultural make-up and social structure bear a close resemblance to theirs. Icelandic policy-makers looked to Denmark, Norway and the other Nordic countries for models in economic and social matters, as witnessed by the influence of the latter systems on Icelandic politics and laws.

The other Nordic countries also share many of the characteristics of the Icelandic welfare state. Close ties between the countries have resulted in similar timing of many of the landmarks in the development of the welfare system. The principle of universalism of social security benefits, tax-based benefits and services, public healthcare and education, even the entitlements of different welfare programmes, are all features that Iceland shares with the Nordic countries.

But there are and have been striking differences. In comparison with the other Nordic countries, Iceland's system of welfare lagged behind and was less extensive, except for a brief period after World War II. For one reason or another, the Icelandic welfare system was less committed to social equality than that in the other Nordic countries, resting instead on a social policy which emphasized market solutions and self-reliance (with a great deal of family support), not on a socially defined minimum level of living based on a social right. The concepts of minimum living costs and poverty line have rarely entered public debate on social policy. Self-provision has been a characteristic of housing and social benefits are closely tied to earnings on the market (i.e. sickness pay). This corresponds well with a long-standing assumption in incomes policy that earnings should be responsive to market fluctuations. These structural properties of the labour market, which are reflected in the welfare system itself, have no doubt been shaped by the fluctuations in the economy, which are greater than in most other European countries, because of the narrow resource base and dependence on few export commodities, fish and marine products comprising between 70 and 90% of the country's exports in the 20th century.

It could be argued from a functionalist perspective of differential societal needs that the low level of social expenditure in Iceland is explained by less need for

³⁰ *Morgunblaðið*, 20 December 2000, pp. 13–15.

various social services. The elderly, for instance, are a smaller proportion of the population and people retire later than in the other Nordic countries. The same applies to the unemployed. Unemployment has been negligible for most of the post-war period and therefore makes fewer demands on the public purse than in most European countries. But even if we control for differential needs by examining transfer ratios (i.e. size of expenditure in relation to the size of recipient groups), Iceland is clearly lagging behind the other Nordic countries.³¹ In the majority of welfare programmes, entitlements are more limited and benefits lower, whether in old age and invalidity pensions, unemployment benefits or family benefits. Despite having the highest percentage of children in the Nordic countries, Iceland spends less (as a percentage of GDP) on families and children.³² Yet, Icelandic women have had one of the highest work participation rates (second only to Sweden in the Nordic countries) for at least two decades.

The Icelandic welfare system deviates also in respect of its widespread application of user charges (i.e. in dentistry, ambulatory health services and pharmaceuticals) and income-testing of benefits – which may undermine the broad consensus on the welfare state in the near future. The taxation system is much less redistributive in character, taxes are lower, especially income and property taxes, and consequently transfers are a smaller part of people's earnings.

In short, when we consider the place of the Icelandic welfare system in international comparison, it stands apart in many instances. As for the social security system in particular, we can agree with Icelandic sociologist Stefán Ólafsson, who has convincingly argued that Iceland comes close to the Nordic model in terms of citizen-based rights, but when we look at the low generosity level, Iceland has more in common with countries like Australia, Ireland, Britain and New Zealand, a group of nations which can be viewed as having a cheaper version of the Beveridge system.

Why has the historical development of the Icelandic welfare system differed so much from that of the other Nordic countries? Three kinds of explanation have mainly been offered for the Icelandic exceptionalism.³³

First, the lagging behind of Iceland in the formative period of the welfare state between 1890 and 1946 is obviously associated with its late modernization and industrialization, resulting not only in different societal needs for provisions, but also limiting the organizational and fiscal capacity of the state to undertake welfare measures. For most of the formative period, Iceland was the poorest and the least developed of the Nordic countries. In terms of GDP per capita only Finland was on a similar level, while the Scandinavian average (Denmark, Sweden and Norway) was as much as 50% higher than Iceland in 1930. Economic modernization started late in Iceland; industrialization only got underway during the last years of the 19th century with the expansion of the market economy and the mechanization of the fishing sector. Although rapid urbanization had started around the turn of the century, agriculture and fishing were still the biggest industries in 1930, employing

³¹ S. Ólafsson, op. cit. (1999a), pp. 153–167.

³² *Social trygghed i de nordiske lande*, op. cit. (1995), p. 56.

³³ See, for example, S. Ólafsson, op. cit. (1993), pp. 61–88 and op. cit. (1999b).

about 55% of the workforce, agriculture alone providing work for one-third. Blue-collar workers, skilled and unskilled workers, made up less than 50% of the total workforce, and if we include all urban wage earners, the percentage only rises to 56%. So when the social democratic movement and the political campaign for social insurance really got moving in the 1920s, the working class accounted for less than 50% of the workforce.

The late industrialization thesis has less explanatory value, however, for the post-war period when the Icelandic economy converged more with the Nordic countries in terms of development levels and per capita income. More relevant is the second explanation, the special configuration of Icelandic politics, which is characterized by a weak Left in comparison with the Nordic countries, while the strong right-of-centre Independence Party has been the dominant party in government in the post-war period. Not only has the size of the leftist vote been considerably smaller in Iceland (about 35% in the post-war period), it has also been fairly equally split between two antagonist parties, leaving the traditional standard-bearer of the Nordic welfare ideal, the Social Democrats, fairly weak, with less than 15% of the vote.

How and why this balance of political power was created is outside the scope of this paper, but here it suffices to maintain that the politics of nationalism, a dominating feature of Icelandic society during the formative period of the political party system in the first half of the 20th century, worked against the left-wing parties and in favour of the Independence Party, which succeeded in intertwining the politics of the consensus-seeking independence struggle with middle-class liberal ideology. This political configuration had immense consequences for the development of the welfare state, since it gave the individualistic, pro-market Independent Party a key position in shaping post-war social policy, although it frequently had to compromise its policies under pressure from a fairly strong trade union movement, which was able to gain various social rights in collective bargaining on the labour market.

Thirdly, we can find a possible, albeit less tangible, explanation for the differences in the prevailing value system in Icelandic culture which extols a strong work ethic, a strong ethos of self-help or self-reliance and other values more reminiscent of American-style individualism than the pro-welfare attitudes prevailing in the Nordic countries. These values have been reinforced by a social and economic environment characterized by unusually high but fluctuating economic activity during the whole post-war period, exceptionally low unemployment, high rates of work participation and a high proportion of self employment.