

Iceland: We Need to Talk about Unemployment – and a Job Guarantee

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The views expressed in this paper are solely those of the author(s) and not necessarily those of the Global Institute for Sustainable Prosperity.

Iceland is a developed dwarf-economy (the country's population is 366,000) with its own free-floating currency (the Icelandic krona, ISK), the world's second smallest free-floating currency after the Seychellean rupee (SCR). Taking the foreign exchange reserves of the Central Bank of Iceland into account, the public sector has a net positive financial position to the rest of the world equal to approx. 20% of GDP. The economy provides an abundant production of energy and the country's net international investment position is positive, due in great part to prevalent current account surpluses over the last seven years. Despite the need to raise foreign currency assets to pay for imports, the economy's monetary sovereignty is relatively high, and the potential fiscal policy space is vast. The workforce is well educated, the country is a member of the European single market through the European Economic Area (EEA) agreement, and the government provides universal health insurance, subsidised education (including universities) and a Nordic-model style of welfare assistance that includes unemployment benefits, maternity and paternity leaves, and childcare.

As has been the case for other economies, the COVID-19 pandemic hit Iceland's economy hard. One of its most affected branches is the tourist sector, as Iceland typically welcomes ~2 million tourists to its shores annually (5-6 times the population). Far from being the only industry affected, jobs in other sectors (retail, restaurants, aviation to name a few) have disappeared, and the rate of unemployment has risen sharply.

Between the second quarter of 2019 and the second quarter of 2020, the number of jobs in Iceland fell by more than 27,000. Comparing the third quarter of 2019, which includes the peak of the tourist season, and the second quarter of 2020, the reduction is just over 38,000 jobs (fig. 1). For comparison, losing 38,000 jobs in Iceland is like losing ~34 million jobs in the US. The outlook is dire: as of September 30th, numerous Icelandic firms intend to decrease their number of staff over the next six months according to data from the Central Bank of Iceland (fig. 2). There is every reason to believe that unemployment in Iceland will increase significantly in the coming months.

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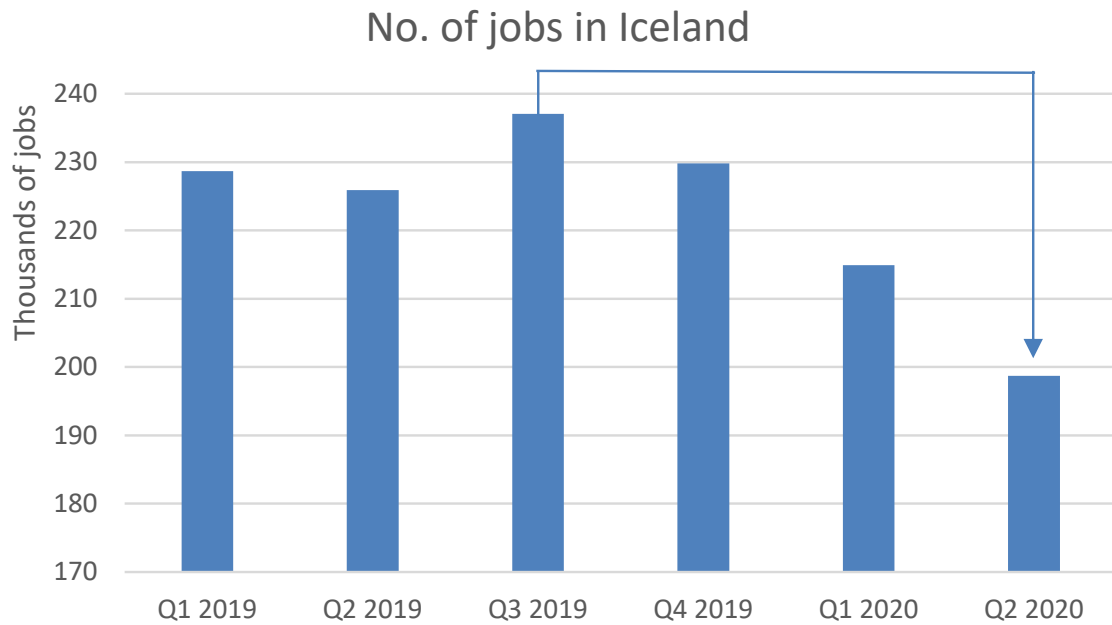
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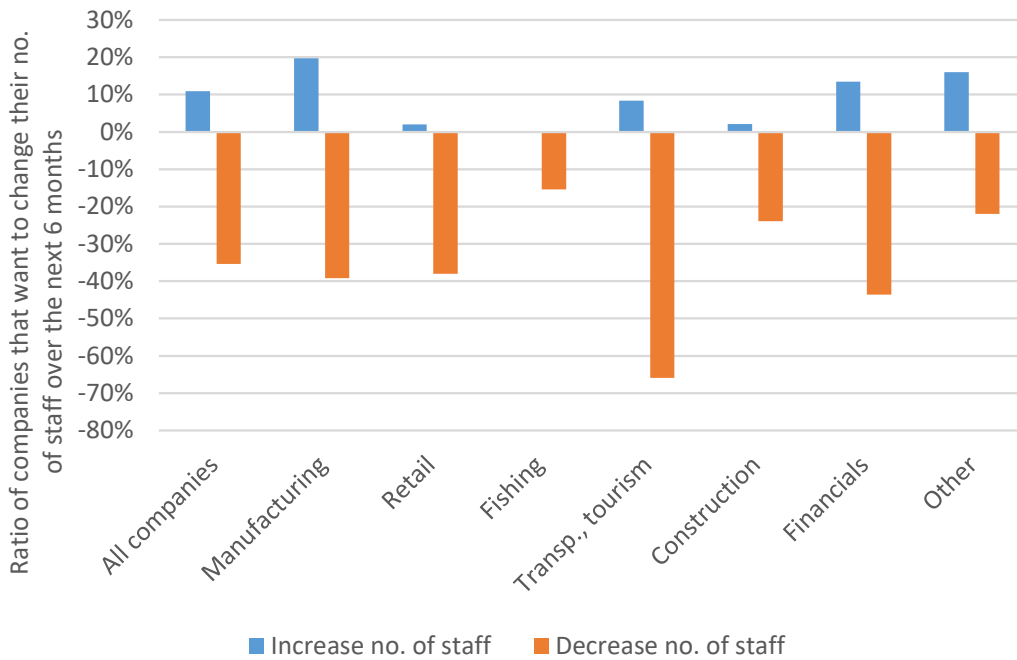
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Figure 1: Number of jobs in Iceland by quarters



Source: Statistics Iceland

Figure 2: Firms' recruitment plans as of September 2020



Source: Central Bank of Iceland

Unemployment and Its Consequences

Unemployment is the economy's pandemic, whether in Iceland or not. In addition to the obvious financial difficulties for individuals who lose their jobs, various societal problems arise. Unemployment has been shown to increase the rates of mental illnesses, crimes, divorces, drug abuse and suicides. Unemployment, especially if it is high, also contributes to the increased risk of abuse of employees by employers, often by means of wage theft, poor working conditions and even—in case the employer provides it—threats to evict them from their housing. Unemployment spreads through society like an epidemic: it reduces the income of non-unemployed people, leading to lower demand in the economy, especially in the surrounding communities, leading to a further rise in the unemployment rate. Rural communities—the smaller they are, the greater the risk—can collapse due to unemployment, something that the small fishing villages in Iceland, which have seen large local employers in the fishing industry move to other locations, know all too well. Unemployment also leads to a slower build-up of work experience and skills, which slows down the productivity growth of the labour force, which in turn slows down the growth of production and the general quality of life. The longer unemployment is allowed to grow, the more serious the effects can be.

The cost of unemployment is more than just the cost of the unemployment benefits. Unemployment, which exacerbates these socio-economic problems mentioned above, leads to higher costs in the health care system and the justice system, as well as to a loss of income to companies across the country. Unemployment also results in a slower recovery of the general quality of life in Iceland. It costs Icelandic society billions of krona every year in the form of untapped opportunities to increase our quality of life through increased and improved production, not to mention the incalculable personal costs that people incur psychologically while dealing with their own financial struggles.

It is much cheaper to prevent unemployment than to deal with it. This is true in many areas, such as the general health of the populace (maintaining a healthy mind and body is cheaper than expensive medical treatments) and when it comes to insurance (it is often cheaper to prevent damage than to pay the insurance for the damage). As the Icelandic idiom goes: “It is better to close the well before the child falls into it.”

The classic response of the Icelandic government to an increase in unemployment is to encourage various forms of public investment initiatives. Another is to subsidize jobs within the private sector with focused value-add tax repayment programmes or specialised tax deals, as such was the case in the construction and operation of the foreign-owned aluminium smelters (subsidised foreign direct investment). Yet another is to cut taxes in general with the hope that the private sector will create jobs in parallel with, hopefully, increased demand in the economy for production, which thus increases demand for labour.

There is, however, a cheaper and much more direct way of preventing unemployment: a job guarantee programme, in line with the kind suggested by Pavlina Tcherneva (2020) and adapted to the economy of Iceland.

What is the Job Guarantee?

The job guarantee is what the term describes: the public sector guarantees a supply of employment opportunities.

A job guarantee would work in the same way as publicly provided health insurance, which guarantees a minimum supply of health services, or publicly provided law enforcement, which guarantees a minimum supply of protection against crime. A publicly provided education system also ensures a minimum supply of education, which in the case of Iceland largely includes tertiary education. Of course, this publicly provided supply of health insurance, security, and education possibilities in Iceland does not rule out any voluntary supply provided by the non-public sector.

Those systems are economically and socially accepted in Iceland because the public realizes that they promote improved health, safety, and know-how, all of which benefit the society of Iceland as a whole. In the language of economists: the positive externalities of these systems are great, and it is widely and politically accepted that the Icelandic government provides them.

The concept behind a job guarantee is similar: a minimum supply of employment opportunities that pay minimum wage would be guaranteed by the Icelandic government in order to prevent high levels of unemployment and its negative effects on individuals and Icelandic society. The well is closed before the child falls into it.

A Job Guarantee Programme in Iceland

Basic unemployment benefits in Iceland are ISK 290,000 (USD 2,100) per month (Vinnumálastofnun, 2020). Minimum wages, according to union contracts, are approx. ISK 335,000 (USD 2,430 or USD 14.13/hour), somewhat depending on which union is involved (Efling, 2020). More than 90% of the labour force in Iceland is in a union (“Íslenskur Vinnumarkaður”, 2018).

If there were a job guarantee in Iceland, the Icelandic government, using the economy’s monetary sovereignty, would guarantee the financing of a job which would pay the minimum wage, ISK 335,000 per month. The current country-wide organizational infrastructure set up by the Directorate of Labour, which also pays out the unemployment benefits, could be used to match job seekers with jobs in each municipality. The Directorate of Labour would thus maintain a list of job vacancies within the job guarantee programme throughout the country.

Access to these jobs would be unfettered and open to all individuals with the legal right to work, 16 years of age and older, regardless of gender or nationality. People could hold those jobs until they find another one which they would consider better, e.g. in the private sector once the economy has recovered. They would then resign from their job in the job guarantee programme and move to the new job.

The jobs in question could be varied and depend on needs present in each municipality:

- Language courses, including Icelandic, where students would be paid the minimum wage for learning the language could be offered. This would be of great benefit to the Icelandic workforce, no matter its origin (14% of the population are foreign nationals),

and to different economic sectors, including tourism, as the supply of well-educated and linguistically skilled workers would increase.

- Basic courses in hand-skilled industries such as carpentry, joinery, plumbing, and welding can be offered. The students would be paid minimum wage for attending classes and would learn a new skill they could use in the private sector afterwards as workers for construction companies and similar employers.
- Other courses, such as computer programming, project management, and other skills important to a post-4th industrialisation economy can be offered. Again, the students would be paid for attending those courses.
- Many leisure activities, for teenagers and adults alike, could be supported or run through a job guarantee programme. Sports, music, dance, craft, painting, and acting courses could be offered. Iceland is a pioneer in using sports, music, dance and other arts to fight drug abuse amongst teens (Young, 2017) and offering support staff, hired via a job guarantee, to those programmes can protect and advance this success to include more teens and even adults. This would mitigate the risk of isolation, drug abuse and mental problems.
- Assistants in the kitchens of hospitals, schools and large workplaces could be hired through a job guarantee programme as well as general assistants in kindergartens and schools.
- Small maintenance and clean-up jobs on public land (playgrounds, public parks, roads, etc.) and public buildings (schools and public housing) can be carried out within a job guarantee programme. Those jobs could in many cases be preventative, where employees could stop a degrading asset from degrading further, thereby mitigating the need for more expensive maintenance jobs further down the road.
- Various projects in the field of environmental protection could offer employment through a job guarantee. Employees could assist in the maintenance and expansion of forests, wetland reclamation, maintenance of road fences and flood defences, registration of wildlife, removal of invasive plant species, expansion of recycling stations, improvement of restroom facilities at popular tourist hotspots, and the construction of and mapping of hiking and bike paths, to name a few possible projects. This would move the Icelandic economy closer to a sustainable path and allow Iceland to fulfil its part of the Paris Agreement more easily.
- A programme to support entrepreneurship can be offered within a job guarantee. Entrepreneurs would be paid the minimum wage while establishing their own business. Once (and if) the business is successful, support would be withdrawn. A time cap on the support and regular follow-ups with the entrepreneurs can be introduced to minimise the risk of misuse. This would fuel the growth of small and medium sized enterprises, accelerate the rate of innovation, and increase the productivity growth of the economy.

Though this list is long, it is far from exhaustive. It would be easy for municipalities to gather ideas for their own projects. Reykjavik, the capital and the largest city, has already compiled ideas for improving the public services of the municipality from the population on the website

www.betriereykjavik.is (“BetterReykjavik.is”). This, and similar websites for other municipalities, could be leveraged to source ideas and feedback from the population on needed jobs within a job guarantee programme. The Directorate of Labour would then fund such projects, while the people in the municipality would be responsible for carrying them out.

The Consequences of a Job Guarantee Programme in Iceland

Some would say that job supply insurance would be a bureaucratic nightmare. Surely there would be cases where there would be fraud, or at least attempted fraud. However, the cost of such fraud would never be so high that it would outweigh the costs that Icelandic society is already facing due to unemployment. The systematic implementation of a job guarantee would be just as easy as the systematic implementation of existing law enforcement insurance, education insurance or health insurance. The infrastructure used to run those programmes can be used to support a job guarantee programme.

The positive effects of a job guarantee in Iceland would be manifold.

- The external and internal costs of unemployment to society would fall sharply as there would always be in place the chance to accept a job which guaranteed the minimum wage (ISK 335,000 per month). If the individual so chooses, (s)he may choose to accept unemployment benefits instead (ISK 290,000 per month) in line with current practice.
- The need for financial assistance from municipalities would immediately decrease, which frees up resources for municipalities to decrease their debt, reduce local taxes or carry out an important infrastructure project.
- Negative social consequences of unemployment such as mental illnesses, crimes, and drug abuse, and their associated costs for the health, law, and justice systems, would be reduced.
- The risk of the employer cheating or abusing employees would decrease because people could always find an employment within the job guarantee programme. In 2019, the Icelandic Confederation of Labour surveyed that up to 22% of employees had a suspicion that, at least on one occasion, they had not been paid in accordance with their wage contract over the previous 12 months, signalling that employers may intrude on workers’ rights. The problem was especially highlighted amongst foreigners, young people, and women (“Íslenskur Vinnumarkaður 2019”, 2019).
- A job guarantee would pay a minimum wage which, according to union contracts, the private sector would have to pay anyway to hire potential employees belonging to a union. There would therefore be very limited competition for labour between the private sector and the job guarantee programme. In time, the private sector would also find it easier to find and hire qualified staff, because instead of losing work experience and skills in times of unemployment, courses and job experiences provided by a job guarantee programme would maintain or improve workers’ skills. Work experience and skills of the workforce would not only be maintained but could even increase, making for a better, more productive workforce, something that would greatly benefit all companies.

- Our environment would be improved, and the economy moved closer to a sustainable path. General job satisfaction would improve, and the resilience of communities would increase through human communication within various courses and project collaboration under the auspices of a job guarantee.
- The risk of inflation would be negligible, as, even if employment insurance would pay the minimum wage (ISK 335,000 per month) instead of unemployment benefits (ISK 290,000 per month), production would increase. Long-term growth in production capacity would similarly increase due to improved work skills and experience.
- A job guarantee would also act as an excellent non-discretionary (automatic) stabiliser. The public sector's cost would automatically decrease as people within it found another job within the private sector.

Iceland, being a small but monetarily sovereign economy, has the capacity to design and implement a successful job guarantee programme. Such a programme would benefit not only the labour force itself, but also benefit companies, and it would strengthen the long-term fundamentals of the economy, readying it for the return of tourists and the 4th industrialisation. The negative economic and societal impacts of the coming increase in unemployment would be minimised.

What are we waiting for?

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