



Efling's Plan out of the Crisis

Criticism of the proposals by The Confederation of Icelandic Employers (SA) and the Icelandic Chamber of Commerce (Viðskiptaráðs)

Introduction

The Confederation of Icelandic Employers (SA) sent out proposals on economic, tax, and labor market issues in response to the current crisis under the title "Lets Think Forward." The proposals can be read on a special website by SA and were announced to the media on 5 November 2020 and covered by both Fréttablaðið and Morgunblaðið.

Efling rejects the similar proposals put forward by both SA and Viðskiptaráðs. Efling asserts that the response to this crisis will be based on well-proven measures that include wage driven economic growth in addition to active and vigorous stimulus measures of the government instead of using the long outdated methods dictated by the spirit of neoliberalism as suggested by SA and Viðskiptaráðs.

Maintaining the agreed wage level and raising the current wage agreements will contribute to strong domestic demand, which in turn contributes to job protection for workers. Strong government stimulus measures will maintain both the level of demand and jobs, providing a deterrent to a deepening in the crisis.

With these public measures, the government debt will increase temporarily. This is not a serious issue as the current debt situation is unusually low. The future economic growth during the recovery will lighten the burden of these increased debts. Therefore, there is no need to cut public spending or raise taxes in the near future. In fact, this would deepen the crisis again or slow down the recovery.

Advocates for employers' interests, however, see this crisis as a special opportunity to rehash old campaigning points. Their general argument is that it is

necessary to reorganize the public sector and privatize basic infrastructure (energy companies, state and local government real estate, banks, roads, ect.) due to growing public debt and unemployment. They see this as a great opportunity for private enterprise and increase profits for speculators, the likes of who were allowed to play free and loose in the decade prior to the 2008 crisis - with well known dire consequences.

They also want to restrict the freedom of childhood by shortening schooling and accelerating young people's transition to the labor market. Then under the guidance of traditional neoliberal ideas they wish to deregulate and abolish regulation by the public sector on private companies in order to reduce the role of government in general.

They claim wages have risen abnormally high in Iceland in comparison to neighboring countries, but they overlook that wages in Iceland fell unusually sharply in the wake of the 2008 collapse and that they cost of living in Iceland is one of the highest in the world.

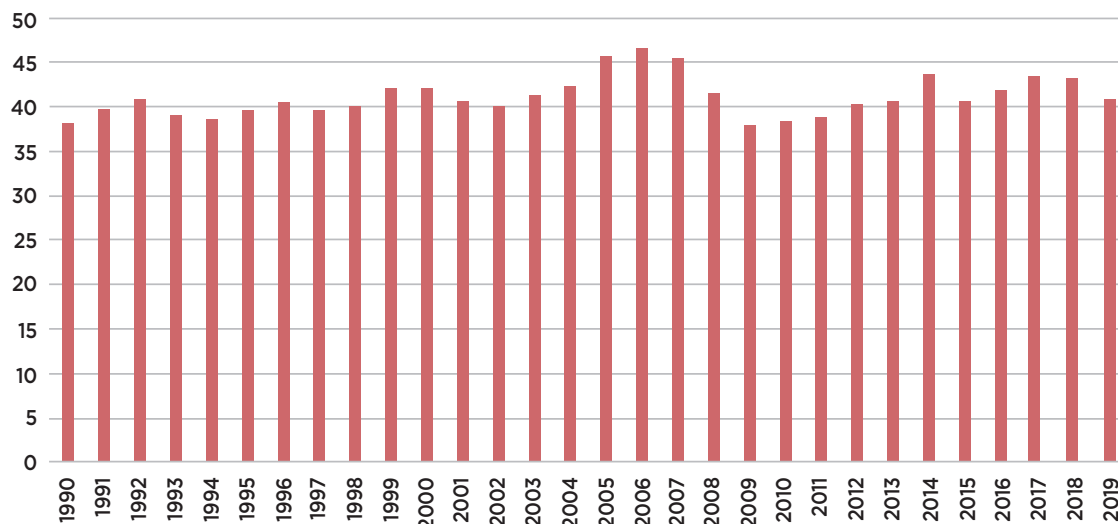
Following this, proposals are being discussed to place more restraint on collective bargaining agreements, to diminish the power of trade unions and restrict the labor movement. Instead SA wants a centralized authority that significantly reduces the bargaining power of employees, in the spirit of the SALEK agreement.

The above is often accompanied by an argument that the public sector in Iceland has grown too much in recent decades and that workers are too well off, too expensive for the economy and therefore not competitive.

The fact is, however, that the public sector has only grown in line with the economy as a whole from about 1990. Only during times of crisis does it grow in excess of the economy, due to a temporary contraction in the GDP. During these times debt will

increase due to the lower income, but it will then even out during the recovery. The figure shows that public revenues have fluctuated around 40% of the national GDP from 1990 until 2019 and are not growing as SA claims.

Government Revenue (% of GDP)



Iceland still faces the problem that there are far too many workers and pensioners living on wages that are far below the cost of living. This issue will not be addressed if wage gaps are frozen in the current situation by removing power from the labor movement and placing these wage decisions in the hands of an “expert council” on behalf of the government – by whatever name it may be called.

Efling and the workers’ movement advocates the opposite of the policy, which puts the interests of the public first (see the ASÍ article *The Right Way*). Collective agreements are supposed to both divide the growth of the gross national production and form the division of wealth and quality of with the interest of the populace at heart. The public welfare system should be strong and equalize opportunities and living conditions across all classes.

Here are SA’s main proposals and Efling’s response to each of their points.

Tax Policy

SA discusses the importance of simplifying the tax system and making it competitive with the tax policies of countries at a lower stage of development with less comprehensive welfare systems.

This tax system is a neoliberal model, which eases the tax burden on companies and capital owners, high earners and high income individuals but increases the tax burden on low income earners (see Efling’s report *Fair Distribution of Tax Burden*).

Efling asserts that under the guise of simplifying the tax system and discussing competitiveness, the tax burden shifted from the privileged high income earners onto lower income groups in the time period from 1995 to 2008. This must not be repeated and it is necessary to correct this error.

Efling stresses that the tax burden on capital income and the highest incomes should be brought into line with what is done on other Nordic countries. In addition, resource taxes should be raised and tax evasion accounted for. These actions will create space that can be used to lower the tax burden on lower income groups.

SA wants to permanently reduce social security taxes.

Efling is not referring to the temporary reduction to the social security tax in order to offset wage increases or unemployment during a difficult year. However, during a normal year the social security tax is significant, given the fact that corporate income taxes are very low in Iceland. It would be possible to alter the form of its levy in order to increase its stability, but corporations need to return to contributing their share for the public consumption.

SA wants to lower the general rate of Value Added Tax (VAT).

This lower general rate is often associated with raising the lower tax rate on items such as food and other necessities. Efling strongly opposes an increase in VAT on food and necessities, which weigh heavily on the expenses of low income earners, even if offset by a reduction in the general tax rate. The general VAT rate is higher in other Nordic country than it is in Iceland.

SA says that it wants powerful resources to get unemployed people back to work.

Efling supports such governmental goals and believes in taking a firm stance on these issues now. Efling places special emphasis on increasing the number of jobs within the public sector, for example, in infrastructure, the welfare system and transportation system in positions such as care, nursing, maintenance ect to reduce unemployment.

SA proposes a reduction in real estate taxes on corporate real estate.

Efling believes it is more urgent to reduce these real estate taxes on individuals in lower income groups. The real estate taxes for companies in Iceland are only slightly above the OECD average at present. However, it is unfortunate that the tax base for these property taxes follow the price fluctuations within the real estate market, with the associated fluctuations in markup.

SA proposes reviving a special tax rebate for share investors.

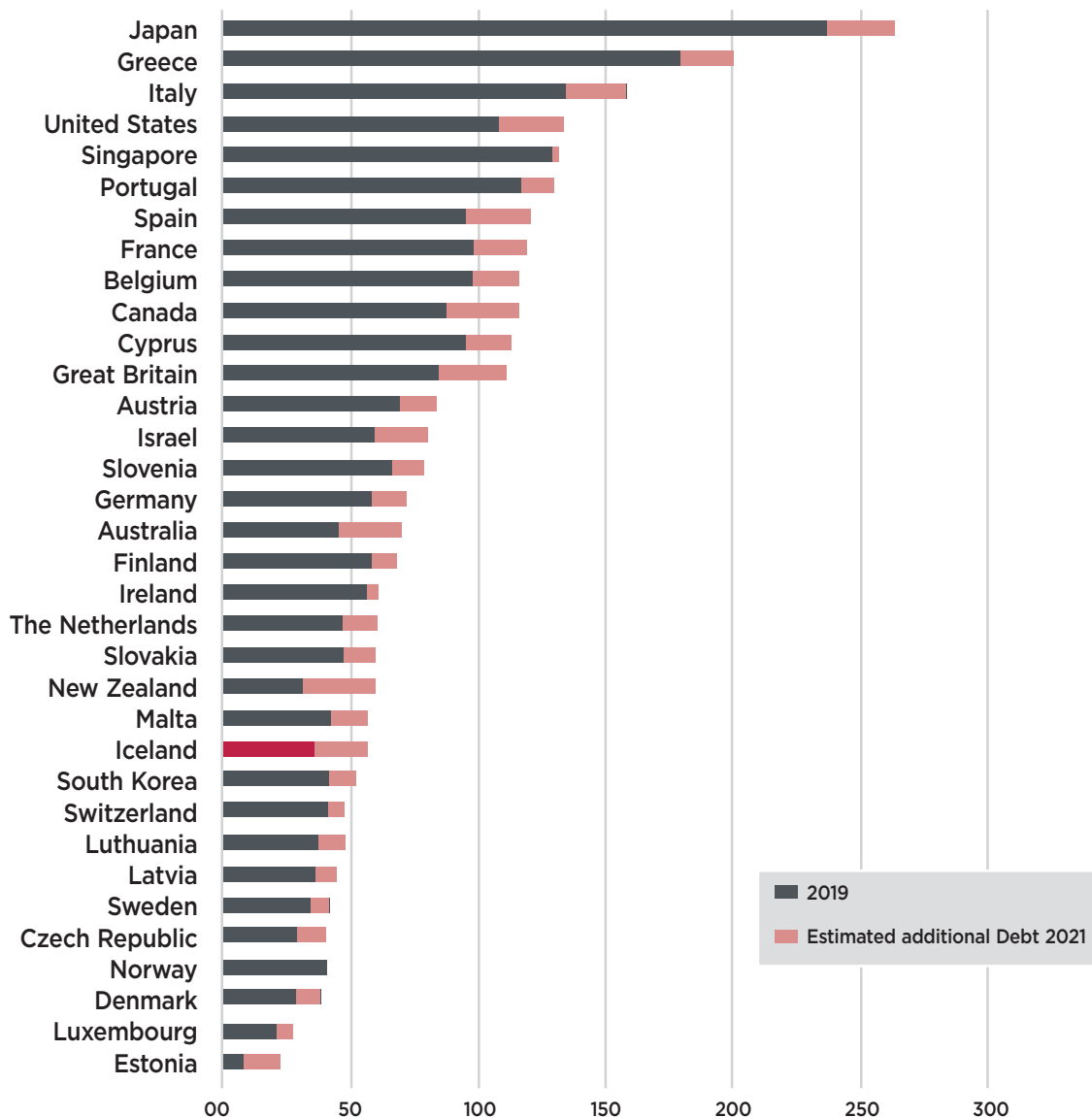
Efling believes that the prior experience with this type of tax deduction during the neoliberal years and during the 2008 collapse was very bad. It is clear that it is mainly the wealthy who invest in shares. There is no reason to give them increased benefits.

Public Ownership

SA expresses deep concern over the state's growing debt situation due to the crisis and rising unemployment. In addition, they propose stricter financial management in the coming years, increased efficiency within the public sector, extensive mergers of institution and increased outsourcing of public activities to private companies, both in construction and public services.

Efling stresses that the government debt position is low compared to other western countries and additional debt due to the current crisis will not change the fact that Iceland's debt position will remain small in an international context, as illustrated in the chart below.

Government Debt 2019-2021 (% of GDP)



Therefore, there is no reason to make significant cuts within the public sector. Future economic growth will erase the debt burden remaining after the crisis. The public sector in Iceland is smaller than in other Nordic countries.

With the current COVID-19 pandemic crisis, the public sector activity is expanding relative to the private sector as the private sector shrinks particularly in tourism and related industries. This debt is expected to level off in the recovery that is expected to begin as early as next year.

SA states that it is important to seek increasing efficiency within the public sector and to manage public funds well. Efling agrees with this, but differs in methodology from SA in accomplishing this goals.

SA wants to increase efficiency through increased privatization and via the methods of private companies which often involve more pressure on employees, even to the detriment of their health. Efling rejects this.

Efling points out that the larger role of private companies with the associated dividend demands, very high salaries, benefits and bonuses for senior executives, does not automatically contribute to the better usage of private funds – far from it. Efling has great reservations regarding this supposed usefulness of increased private businesses within the public which SA repeatedly goes on about.

A well run public administration is usually the most cost effective option, for example the operations of the education system and health services. Increased privatization for health services in the Nordic countries have been highly controversial and often lead to both increased cost and/or inferior services due to the dividend requirements for private entities.

SA states that Iceland is lagging behind in the introduction of digital services and welcomes the increased effort by the state in this area. Efling supports this, but opposes the use of digital technology for increased surveillance of staff and the use of such equipment in place of human care.

SA restates the neoliberal policies to **reduce public regulations and oversight** in the quest for increased efficiency. SA also proposes a high level of integration in often unrelated fields of public institutions.

Efling states that loosening regulation, restraint and oversight within the financial sector was one of the factors that allowed for the 2008 financial collapse. This must not be repeated. Additionally, there is still lax and inadequate consumer protections in Icelandic society. Efling therefore is against any deregulation and rejects the merging of unrelated institutions, which can weaken the public sector's regulatory role.

SA states that stimulus within the public sector, including increased investment and construction, are important during times of crisis. They want to accelerate projects that have been introduced. Efling agrees.

SA reiterates, however, that there should be more private sector involvement in both the financing and implementation of individual profits.

Efling cautions against this and completely rejects fees for driving on the country's roads, as well as increased fees for the use of public services and education. Such fees will fall heaviest on the lowest earners and often accompany private involvement in operations of infrastructure such as the roads and health services.

Efling warns of the terrible consequences when municipalities sold their properties and buildings to private real estate companies in the decade before the 2008 collapse only to become lessees of these properties which included sports facilities and schools, for example. The sale of energy infrastructure to foreign investors was also terrible and harmful cautionary tale. It must be made sure that the fees and profits from the operations of energy companies and usage of natural resources in common ownership goes toward the common needs of the nation.

A New Labor Market Model – A Resurrected Ghost

SA has put forward various proposals for changes in the relations among social partners under the heading “A New Labor Market Model”.

The cornerstone of these proposals is **the revival of the SALEK idea of a centralized system of wage increases** by the government by a kind of expert council. **The position of export industries will set the limit for possible wage increases for each time period**, which everyone else in the labor market will follow. It will ensure that no profession will deviate from the criteria outlined by the centralized expert council. SA also wants **the number of collective wage agreements in order to discourage deviations from the centralized wage policy** dictated by the expert council.

Efling completely rejects these ideas.

The bargaining rights of trade unions is the very heart of the Icelandic labor market and an important cornerstone of democracy within the country. The idea of a centralized rationing system for wages not only weighs on the contractual rights of workers, it also makes them nearly ineffective.

Such a centralized wage rationing system for imports and consumption was previously in place in Iceland during the crisis years of the 1940s until the 1960s, parts of which remained in place even longer. The abolition of this system was considered a major step forward, so it is odd to see such an idea now revived in order to oppose free bargaining within the labor market.

Additionally, there were major shortfalls in the implementation of this centralized wage policy. Which of Iceland's three main export sectors should set the criteria for everybody else's wage scope: the fisheries, energy industry or tourism? The first two industries are high wage sectors in Iceland, while tourism is one of the largest low wage sectors in the country.

It can easily be assumed that SA intends to use tourism, the low wage sector, as its starting point. This would encourage a significant increase in profits and assets for fisheries and foreign owners of metal smelters in Iceland. The competitive position of Icelandic fisheries has been disproportionate in terms of assets and dividends over the past decade - with using the low wage benchmark of the tourism industry the wealth accumulation within the fisheries would take a big leap up.

Had such a benchmark for wages been based on the profitability of the tourism industry been established when the COVID-19 crisis hit, which closed the tourism industry due to infection control measures, then all wages within the country would have been reduced for a large majority of the economy (80-85%). This would have greatly worsened the crisis and gone against all reasonable crisis mitigation measures. It would have been nothing less than economic suicide.

Secondly, modern society is diverse and dynamic. Therefore the challenges within the labor market will also be diverse and dynamic to some extent. It is unrealistic and irrational to chain everybody to the same standard for wages. In order to resolve issues, for example filling important low wage positions, it must be possible to respond with specific wage adjustments that deviate from general wage agreements.

Efling also advises that wage agreements should not simply be about dividing future economic growth but they should also account for changes in income distribution and development of welfare systems and living/working conditions.

Efling does not believe the current wages of low income earners are such that it is even possible to freeze wages with a centralized wage policy as described by SA. Iceland is the most expensive country in the world and many people live on wages that are below what is needed for normal subsistence.

It should be remembered that low wage earners are also consumers and an important part of business as a large part of the demand for goods and services within the economy. Increasing the purchasing power of workers creates better conditions for economic growth and contributes to a more vibrant economy.

SA feels that too many wage agreements were made and finalization of these agreements will take too much time. This work can be better organized on some levels, however Efling points out that the implementation of democracy of the country will require effort. It is also evident that delays in renewing wage agreements past their expiry date are often the fault of SA's negotiators.

Efling does not believe the current organization of the labor market is a problem, though it can be refined. The Quality of Life Agreement made in 2019 is a long term agreement that implies a part of the agreed wage increases is dependent on acceptable economic growth within the country. It also includes a substantial part of wage benefits in the form of tax cuts and other measures which replace wage increases. Employers have enjoyed this the past two years. This agreement involves a high degree of consideration for the performance of the business community and lays the foundation for stability within the labor market in a much more realistic way than a centralized wage rationing system per SALEK.

Finally, SA has safeguarded serious violations to agreements by individual employers in regard to both wage theft and proposals to simply circumvent the labor market institutions as seen in the recent dispute between flight attendants and Icelandair last summer.

In this matter, SA has not complied with the rules agreed upon by all parties. First and foremost a condition for reform in communication and working methods must be that SA incorporates their own ideas and working methods to respect the current rules of engagement before they start proposing drastic new radical restrictions on communication within the labor market.

Efling completely rejects these ideas regarding centralization and the abolishment of contract law within the Icelandic labor market.