

In a speech, on national television, in October 2008, our Prime Minister's closing words were: „God bless Iceland“ With these words, Iceland was plunged into crisis.

Fall of the banks and the Icelandic króna

Overnight, Iceland's whole banking system crumbled as all major banks went bankrupt. It was soon announced that public savings would be guaranteed. But the banks debts fell on those that had lent them, mostly foreign creditors and in some cases, Icelandic pension funds.

Our currency, the krona, crashed. Overnight it became 80% more expensive to buy one Euro and commodity prices sky rocketed accordingly, food, petrol and everything else.

But inspite of everything, there were upsides. Icelandic exporters got more for their merchandise. The fishing industry fetched more kronas than before, fish products being responsible for a large share of export gains and fishing companies started to do better. Consumers turned to locally made food and other goods, both to save foreign currency and to boost domestic manufacturers and industries.

The fall of the the banks and the crisis that followed had widespread effects. Not only on those that were living off benefits or low income before, but also the many that lost their jobs and their life savings in stocks and shares or in pension funds. The most hard hit were young people who had, in the period leading up to the crisis, borrowed large sums, in foreign currencies, to buy housing. With the fall of the banks property prices fell dramatically and loans increased up to 80%. This same group also lost their jobs, especially unlicensed or unskilled craftsmen.

Icesave: „We will not pay“ was the resounding conclusion of a referendum held in Iceland when 70% of the nation refused to pay debts of private banks. (They had been privatised a few years before.) Iceland was the second country in the world to refuse to do so – the other country was Argentina, years back.

Pot & Pan revolution

The seriousness of this crisis and it's widespread effects on people's lives and society, as a whole, caused the people to start massive protests. Every Saturday, from October until the New Year, in rain and snow, damp and cold,

Icelanders banged pots and pans, and brandished slogans on banners and signboards. The protests took place in front of the Parliament building in the center of town, protesters were from all walks of life, young and old. Grandmothers and grandfathers were there supporting their children and grand children who demanded that the welfare of ALL would be safeguarded. A major protest was directed at the government and the Director of the Central Bank. The public wanted both to resign. The protest bore fruit and a new left government came to power in the spring of 2009. It's main task was to get Iceland out of debt and protecting our welfare system as much as possible.

Unemployment

With the onset of the crisis unemployment rose sharply. Building contractors were first and hardest hit, along with bank employees.

Before the crisis there had been a shortage of man power and many foreigners had come to Iceland to work, mostly from Poland. Many of them lost their jobs. For us, it was new, and a great challenge to work with immigrants. Iceland now has the largest number of first generation immigrants of all the Nordic countries, compared to the number of inhabitants. In 2010, immigrants were 6.8% of the total number of people registered in Iceland – compared to only 2.6 % in the year 2000.

Unemployment measured 1% in 2007 and rose to 9%, when it was at it's highest, since the crisis started. Unemployment now measures 6.8% country wise, and up to 10,6% in some areas, and 14,5 % among foreigners.

Young, unskilled people form a group that has been very hard hit. Today there is 16% unemployment among young people in the age of 16-24 years. Much has been done to meet the needs of this group and get them to stay active (we turn to Finland for advice). Attending courses, seminars and other activities is compulsory for the youth to get unemployment benefits. The results are very good and now 90% of unemployed youth are participating in short term employment solutions, enrolled in schools or volunteering in various fields.

The experience we have gained from these initiatives has been so good that the same model was taken up for adults. Anyone who has been unemployed for more than a year is offered a personal solution in terms of staying active. They have to accept it in order to keep their benefits.

The number of people that have been unemployed for a longer period of time, is fast increasing. Consequently, the maximum time one could be unemployed AND get benefits was extended, first by one year, making it a total of three years, and then one more year, bringing the total up to four years. After that, everyone is entitled to social support. Those benefits are lower than for unemployment and are related to the families total income.

Those worst off and government response

Those that were poor before the crisis did not feel the effect of the crisis so much, to begin with. Those were single parents, the disabled and others living off benefits. But when the price of consumer goods and rent started to rise, and rise sharply, this group became considerably worse off. All research now show that single parents and families with many children are worst hit. This group has increasingly sought food assistance and help with medical bills, from NGOs and charities.

The government decided to abolish statutory indexation of social security pensions, old age and disability pensions, from January first, 2009. At the same time patient participation in healthcare costs, increased dramatically, hitting hardest those with disabilities and long term illnesses. So while healthcare fees and costs rose, old age and disability pensions did not and the poor's ability to get by, was greatly impaired.

The government as well as municipalities have reacted in various ways. As I said earlier cuts on spending were not as dramatic within the social and health department. Municipalities have increased their social support, they have lowered taxes on the lowest wages, special benefits related to children have been increased, increasing most for those with the lowest wages – and benefits touched by those that rent their housing (versus being owners which is the most common form in Iceland) have also increased.

But more must be done, to prevent this group being trapped in long term poverty. A special effort is now being made, to increase the level of educate of both parents and youngsters. Right at the start of the crisis, it was decided to prioritize children. Everything should be done to prevent them, as much as possible, from being affected. To give examples; more support was given in schools such as a hot meal for lunch and porridge in the morning.

Families with mortgages on their housing, that exceeded, maybe many times, the value of the house, and those that were heavily indebted due to other reasons, have been offered solutions. Those that had borrowed to buy real estate or cars in foreign currencies have now had their matters sorted. These loans were court ruled to be illegal, that is – the loan was taken in a foreign currency but paid in Icelandic Kronas. That did not change the fact though, that the value of real estate has gone down very much. This called for a solution and now all housing debt, above 110% of the present value of a house, has been cancelled. Those deepest in debt have been able to seek assistance from a special agent for debtors and through that office enter a process where applicants must be under a kind of „payment surveillance“ for 1-3 years. That includes several constraints such as maintaining low expenditures, selling assets etc for the office to be able to settle and deal with creditors. If a person manage that, their debts will be cancelled at the end of the period.

Today, around 25.000 persons or 7.5% of the population are in a serious default situation, that is, they are more than 90 days overdue with loans or payments. Many young people have defaulted, for example 9% of all people of the age of 18-29 years and 15% of those 30-39 years of age.

Concerted effort

At the beginning of the crisis there was a great sense of unity among employees, employers, municipalities and the government. Wage agreements (launasamningar) were due for renewal when the crisis started and in the spring of 2009 a general conclusion for all was reached. A salary raise, measured in number of kronas, was agreed upon, and for those with the lowest wages and on benefits for unemployment or because of disability, their income was raise proportionally more.

There were groups who's income dropped. Not their basic salaries, but overtime was cut and various benefits. (The difference in salaries between men and women became very obvious through these changes.) The agreement or compact made by the job market, municipalities and government, aimed at achieving economic growth, keep employment levels as high as possible and reduce inflation. All agreed on that.

Together, everyone cut down on their expenses. When tings started to get better, negotiations on new wage agreements started. They were signed this spring (2011), they span three years, and the average increase during that

period will be approximately 12%. The unemployed and those touching disability benefits will have the same raise.

Strange as it may seem, it was first now, when we are dealing with this economic crisis, that a benchmark was drawn for consumption, a consumer standard published. It is threefold.

Average Standard: Level of consumption applicable when conditions are at their best.

Short Term Standard: Minimal expenditure for a short period of time (during recession *samdráttur*/ crisis).

Basic Standard: Minimal expenditure, just above poverty line as defined by the EU.

Right with the onset of the crisis, the prime minister organised a Welfare Watch. It's role was to monitor the situation among those worst off, and to function as a warning system with reliable information for the government to act upon, as well as to suggest solutions. Members of the Watch were appointed by the relevant Ministries, municipalities, representatives from the job market and Civil Society organisations. The group has worked closely together ever since, published reports and fulfilled its role in other ways.

Role of NGOs

The role of NGOs during this time has increased and expanded, both with participation in committees and fora, as well as directly, in service to beneficiaries. Many have come forth and offered their expertise or time as volunteers. Some want to do good and help rebuild the society, others come through work or activity initiatives related to the crisis.

To name some of the different services offered by NGOs, some are giving out food, others, various types of counselling and centers have opened for those in search of employment.

It is clear that the government and municipalities are much more positive and appreciative of the services rendered by NGOs, than they were before, and there is more respect for their work.

Until now, most NGOs have managed fairly well financially, inspite of necessary cuts. The public has been generous in it´s donations, especially towards those that work directly with the poor or socially isolated.

The situation today

We have graduated from the IMF. Their intervention was not to everyones liking, but we are on our way out of the crisis. It is said that this year, 2011, will be the worst. The biggest cuts on spending will soon be over. The planned cuts for the coming years are considerably less than we have seen now. And the state´s economy, as well as the municipalities´, is better than predicted.