



European Employment Observatory

EEO Review: Youth Employment Measures, 2010

Iceland

Sveinn Agnarsson
Institute of Economic Studies

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1. Introduction¹

Youth unemployment has increased dramatically since the economic crisis of 2008. According to Statistics Iceland, unemployment among those aged 16-19 amounted to 9.4 % in Q4 of 2007, but had increased to 21.4 % two years later. Unemployment among 20-25 year olds increased from 3.6 % to 11.8 % over the same period, and from 0.4 % to 8.4 % among those aged 26-29. The changes in youth unemployment were far larger than for the labour market as a whole; overall unemployment increased by 8.7 percentage points, from 1.9 % in Q4 of 2007 to 6.7 % in the corresponding quarter of 2009. The unemployment rate for all three age groups had risen still further in Q2 of 2010.

Young males have been hit harder by the rise of unemployment than females. Thus, in Q2 of 2010, 27.6 % of males aged 16-19 were unemployed, but only 20.9 % of females in the same age group. The unemployment rates for the two other groups were 23.1 % and 14.9 % (20-24) and 11.4 % and 10.5 % (25-29), for males and females respectively.

In Q2 of 2010, the employment rate among the youngest group was 62.7 %, 70.0 % for those aged 20-24 years old, and 75.6 % for the oldest group. Employment rates were higher for females than males in the 16-19 and 20-24 year old age groups, but lower in the oldest group.

Most of those aged under 25 who are unemployed have only finished compulsory school, while 45 % of those in the oldest age group have some education beyond that. Long-term unemployment has risen very fast since the crisis, and in Q2 of 2010, 30 % of those aged 25-29 had been without a job for 12 months or more.

2. Measures taken to promote youth employment

2.1 School education and training policies

In Iceland, students complete compulsory school, which comprises both primary and lower secondary education, at age 16 and most students graduate from upper secondary school at the age of 20. The length of courses can vary, however, especially in vocational courses. Upper secondary school can be divided into grammar schools, industrial-vocational schools, specialised vocational schools and comprehensive schools, which offer a mixture of courses and possess the qualities of both a grammar school and industrial-vocational schools. In recent years around half of young people aged 16-19 have attended comprehensive schools, a third grammar schools and only around 7 % have attended the specialised industrial-vocational schools.²

Young people in Iceland have usually had little difficulty in finding a full-time job. The fisheries, and later construction, provided many opportunities for young men, and during spring and autumn there was also considerable demand for labour in agriculture. In more recent years, students have often worked part-time alongside their education, but some find the lure of steady money too hard to resist. This competition between school and the labour market is one of the major reasons for high dropout rates in Iceland. Among others, the reasons most often cited by students are financial distress and family commitments.³

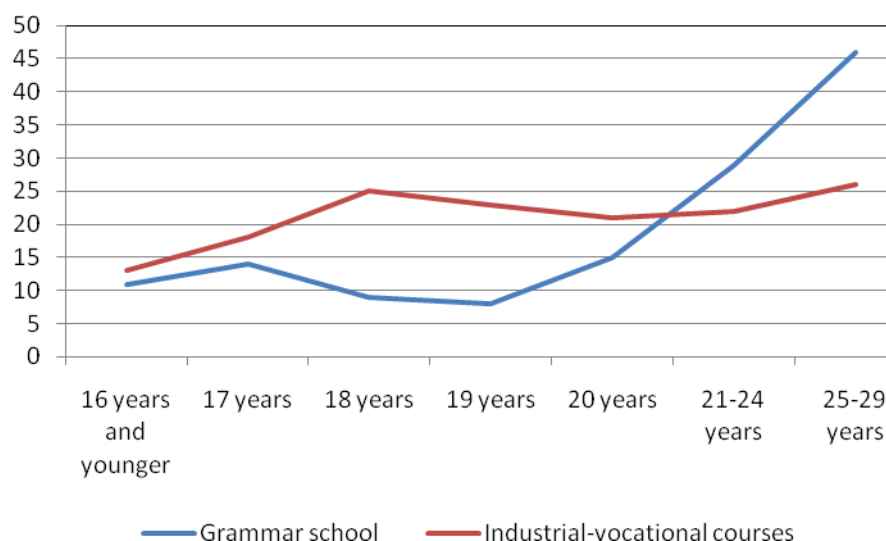
¹ See data table in Annex

² Blöndal and Jónasson (2010).

³ Ibid.

Several recent studies have shed light on early school leavers in Iceland. Data collected by Statistics Iceland in October 2002 show that 11 % of 16 year old students who had earlier enrolled in grammar schools had dropped out, and 13 % of those attending industrial-vocational schools (see Figure 1). The dropout rate range was considerably higher for 17 year olds attending grammar school, but significantly lower for those aged 18 and 19 years. This is not surprising given that most students graduate from grammar school at age 19 or 20. However, the dropout rate for students above the age of 20, who usually attend evening courses or distant learning courses, is much higher. By contrast, the percentage of school leavers in industrial-vocational schools is much more stable. It should be pointed out that some of those who drop-out may have continued their education later and graduated. Most students quit secondary school in the first year of their studies, or 28.3 % of those enrolled, whereas only 6.6 % abandon their studies in the fourth year.

Figure 1: Share of students previously enrolled in secondary school that had not graduated



Source: Statistics Iceland

In 2008, Statistics Iceland analysed the educational history and graduations of 4 352 individuals born in 1982. The result showed that of that cohort, 62 % had graduated from some programme of study in Iceland, and an additional 33 % had continued with their studies in Iceland but had not graduated in 2006. Of these, one quarter were still attending school. About 5 % of the students had not carried on after completing compulsory education.

In recent years, reforms have been made to the Icelandic school system. The Secondary School Act of 2008 thus establishes that all students who have completed compulsory school or reached secondary school age may seek admittance to secondary school, and that it is the duty of the government and school authorities to offer each and every one a suitable form of education.⁴ Secondary schools will also be given more room to develop more flexible courses and paths, and to increase the number of options for students, without violating the basic educational premises laid down by the government. This will hopefully increase the number of students that complete formal studies, and reduce the dropout rate. Counselling and support

⁴ See Internet: <http://www.althingi.is/dba-bin/lawformpr.pl?lnr=2008092>

for students will also be increased and every effort made to divert the students into programmes that best suit their needs and interests. Those not interested in the typical four-year programmes currently offered will be able to obtain an Upper Secondary School leaving certificate after studies of one and half to two years. It is, however, at this point unclear how much the certificate *per se* will improve the situation of young people in the labour market, as the certificate will not provide the students with any specific rights or qualifications. The reforms should also make it easier for students to finish secondary school in three years instead of four. It is further hoped that the reforms will increase the relative weight and status of industrial and vocational studies. These reforms should reduce the homogeneity of the current secondary school curriculum, which according to a recent government report, is one of the major reasons for the large number of early school leavers in Iceland.⁵ Other reasons mentioned include the huge demand for grammar school programmes, easy access to jobs that require limited qualifications and a tradition of weak cooperation between parents or guardians and school authorities.

The Directorate of Labour, in corporation with the Federation of Icelandic Industries, universities and IT firms, recently launched a drive aimed at increasing the number of individuals with tertiary education in technology and sciences.⁶ The Directorate will pay tuition and school fees for one academic year for the individuals selected for the programme.

Iceland has not implemented a Youth Guarantee as such, but young people up to the age of 18 are guaranteed a place in secondary school, and current policies aim to activate all young people and provide them with jobs or the tools to improve their standing in the labour market.

2.2 Labour market and employment-related policies and access to benefits

Active labour market policies

Following the crisis, the Directorate of Labour (Icelandic PES) has increased and extended the available labour market policies. Since January 2009, these measures may be classified as follows:⁷

- Training - the aim is to train employees in the specific skills needed to work in the industry in question.
- Trial periods with individual firms.
- Studies – (1) Job-seekers can obtain permission to enrol in study programmes that will strengthen their standing in the labour market, or enable them to pursue further studies. These include various vocational studies and preparatory courses for university. The duration of the studies is usually limited to one semester, but may in some circumstances be extended to two semesters; (2) Job-seekers who wish to remain active in the labour market can also attend evening or weekend-courses at secondary school or other shorter courses offered; (3) Financial support

⁵ Skýrsla starfshóps um fjölbreytileika og sveigjanleika í skipulagi náms og námsframboðs (Report of committee on heterogeneity and flexibility in organisation and supply of education) (2007).

⁶ Internet: <http://www.vinnumalastofnun.is/ataksverkefni/menntunarurraedi-innan-hugverkaidnadar/>

⁷ Regulation nr. 12/2009. Internet:

<http://www.reglugerd.is/interpro/dkm/WebGuard.nsf/b7fd33650490f8cf00256a07003476bb/77af5a83656b8df1002575440055a395?OpenDocument>

may be obtained for up to half of the study cost, although no more than EUR 450 per semester.

- Employment-related rehabilitation for individuals with reduced work capacity.
- Development of business plans.
- Innovation - firms seeking employees to work on innovation projects can submit their business plan to the Directorate of Labour, which together with Innovation Centre Iceland, evaluates the proposal.
- Special projects - local and central government, public enterprises, legal entities and non-profit organisations may seek employees to take part in well defined special projects.
- Volunteer work - non-profit organisations may engage job-seekers in volunteer work.

As a general rule either the individual taking part in the measures or the firm/organisation hiring the individual can obtain basic unemployment benefits for up to six months, which in some cases may be extended to 12 months. In addition, both the central government and municipalities have collaborated to create summer jobs for students.

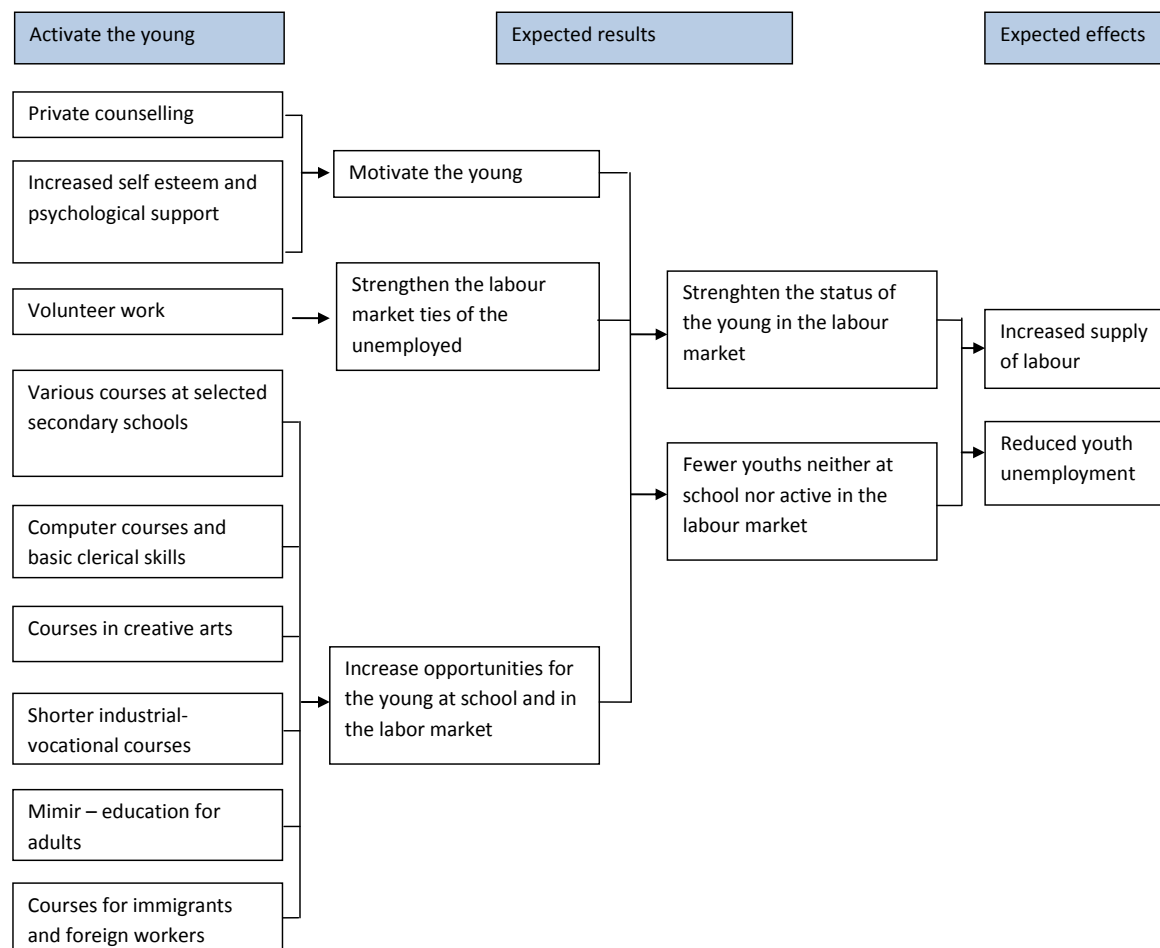
In late 2009, the government introduced new measures to reduce unemployment, targeting young people. The programme, entitled *Ungt fólk til athafna* (Activating the young), offers measures that may be categorised in the following manner:

- private counselling;
- courses intended to increase self esteem and provide psychological support;
- volunteer work;
- various courses and study paths at selected secondary schools, with heavy emphasis on industrial-vocational training and creative arts;
- computer courses and basic clerical skills;
- courses in creative arts;
- shorter industrial-vocational courses at various learning centres;
- courses at Mimir – education for adults; and
- courses for immigrants and foreign workers.

Mímir-símenntun is a private limited company owned by the Icelandic Confederation of Labour (ASÍ) that provides education for adults, including work related courses. Amongst others, the company works in close cooperation with the Education and Training Service Centre which was established in 2002 by ASI and the Confederation of Icelandic Employers.

Upon registration at the Directory of Labour, each individual receives counselling and thereafter chooses a set of three measures or programmes that interest him or her most. When a sufficient number have registered for the programme in question, the individual is invited and the chosen programme starts. The aim is to find a suitable measure for all young people within two months of their registration.

Figure 2: Overview of the programme, Activate the young, in Iceland and expected results and effects



Source: Based on Ramböll (2010)

At first the programme addressed the needs of the 16-25 year olds without a job, who at that time numbered 3 200. All of these had been personally contacted by June 1st 2010 and offered some kind of measures, and as of mid-October 46 % of these were no longer registered unemployed. About half of those were then in employment and a considerable number at school, while many of the foreigners had moved abroad. In the last few months of 2010, attention focused on the older group of 25-29 year olds. It should be noted that individuals who have been registered unemployed for more than four weeks and decline to take part in these measures cannot claim benefits for the following two months. A second refusal entails a loss of benefit for three months, and a third refusal revokes the benefit entitlement completely. Benefits cannot then be claimed until the individual has worked for at least eight weeks.

Since the activation programme only started earlier this year it is difficult to assess its success. While the first signs are quite promising, it remains to be seen whether those that are now not registered unemployed will be able to hold on to their positions or find jobs when they have finished their studies and re-entered the labour market.

Access to benefits

Employees and self-employed persons aged 16-70 are entitled to unemployment benefits, with the entitlement based on the work and employment ratio during the past 12 months.⁸ The benefits are of two kinds: earnings-related benefits and basic benefits. Currently, maximum earnings-related benefits amount to EUR 1 500 per month (ISK 242 636), while basic benefits amount to EUR 950 per month (ISK 149 514).

Recent changes to the Unemployment Benefit Act have reduced the right of students to claim unemployment benefits.⁹ Students who have attended school or university in the previous semester and intend to carry on in the next semester are thus no longer entitled to benefits. Improved means testing may also have reduced the number of young people receiving benefits.

Individuals that are not entitled to unemployment benefits may qualify for municipal financial aid. In Reykjavik, these benefits currently amount to EUR 800 (ISK 125 540) for individuals and EUR 1 300 (ISK 200 864) for couples.

Transfers for dependent children were increased by 5.7 % in 2009, but remained the same in 2010. Maximum interest payment relief, which is granted to purchasers of personal dwellings, increased by 37.4 % in 2009 but has since remained unchanged. No changes have recently been made to these benefits that are specifically intended to improve the situation for young people. However, by their very nature, increases in transfers for children and interest payment relief will benefit young people more than older individuals.

As explained above, there are certain activation measures and conditions tied to unemployment benefits. However, for young people with limited work experience the replacement rate – the ratio of benefits to wages – may be of prime importance. This is illustrated in Table 1, which compares basic unemployment benefits with minimum monthly wages for manual, unskilled workers, shop assistants, office clerks and receptionists. Since the ratio is quite high, and even exceeds one in the case of 16 year old shop assistants, the incentives to enter the labour market may be weak, especially bearing in mind some of the costs that working may bring about, such as transport and meal costs.

Table 1: Minimum wages and replacement rates for low wage earners

	Wages in ISK	Replacement rate
Unemployment benefits	149514	
Manual worker	165000	0.91
Shop assistant, 16 years old	144581	1.03
Shop assistant, 17 years old	152703	0.98
Shop assistant, 18 years old	162450	0.92
Office clerk	189230	0.79
Receptionist	176389	0.85

Sources: VR Trade Union and SGS, Federation of General and Special Workers in Iceland.

⁸ Act nr. 54/2006 with later amendments.

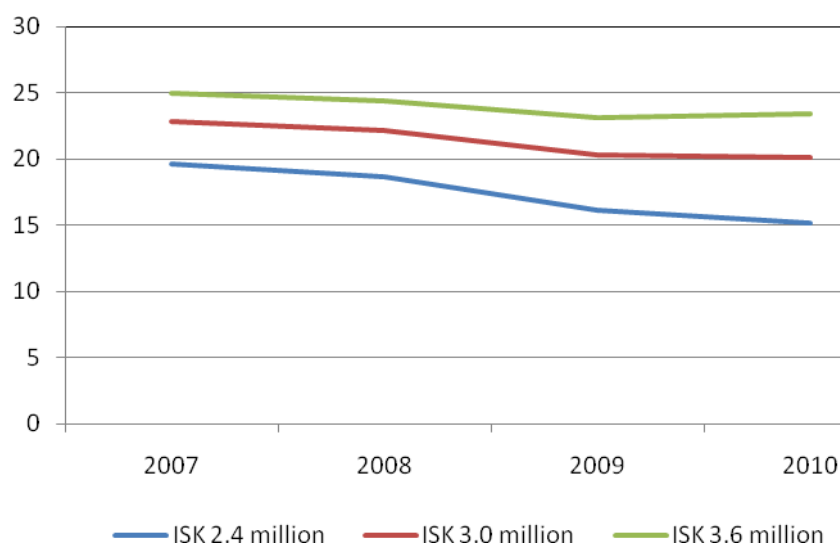
⁹ Act nr. 134/2009.

Tax system

In the aftermath of the economic crisis, extensive changes have been made to the Icelandic tax system. In place of a single central government income tax rate of 22.75 %, there is now in place a three-tier tax system, with a monthly income of up to EUR 1 300 (ISK 200 000) taxed at 24.1 %, income in the EUR 1 300 to EUR 4 150 (ISK 200 000 to 650 000) range taxed at 27 % and income above that at 33 %. Taking into account the 13.12 % average municipal tax rate, the effective tax rates amount to 37.22 %, 20.12 % and 46.12 %. In the Icelandic tax system, a fixed tax credit amounting to EUR 3 400 (ISK 530 460) a year is granted to all individuals 16 years and older, regardless of their marital status. The tax credit is deducted from levied central and local government taxes.

In Figure 3, we analyse the average tax burden of individuals with monthly wages of ISK 200 000 - 300 000 (EUR 1 300 to 1 900). Taxes as a share of wages have fallen by between 1.6 and 4.5 percentage points for these wage earners, with low wage-earners enjoying the greatest decline. As young people often earn rather low wages, this development has probably favoured younger workers relatively more than those older. However, the tax burden of individuals with ISK monthly wages of 300 000 rose slightly between 2009 and 2010.

Figure 3: Average tax burden of individuals with annual wages of ISK 2.4-3.6 million (%)



Source: author's calculations

Firms have not been offered hiring subsidies to recruit young people. On the contrary, demand for labour has been reduced through higher company taxes. Thus, income taxes on limited companies have increased from 15 to 18 %, income taxes on cooperatives from 23.5 to 32.7 %, capital gains tax from 10 to 18 %, and social security contributions (payroll taxes) from 5.3 to 8.7 %.

Mobility

Educational degrees and training from Iceland are generally accepted in European countries. The Directorate of Labour offers compensation for those that need for job reasons to move within the country, but no aid is available for transport costs to and from a place of work. Individual firms may, however, offer compensation. Financial support has not been made

available to individuals seeking opportunities abroad, but individual companies may be willing to share transport and adaptation costs.

2.3 Addressing problematic features of youth unemployment

Costs associated with hiring and firing are low in Iceland. This gives firms an incentive to hire youths on a short-term contract, and part-time work is also frequent among young people. There are also ample opportunities to engage in undeclared work. In June, the Confederation of Icelandic Employers (CIE) and the Icelandic Confederation of Labour (ICL) signed an agreement on work place identification cards.¹⁰ Firms covered by the agreement – construction, hotels and restaurants – pledge to respect rules and regulations in the labour market, including labour agreements. It is hoped that the agreement will reduce the incident of unreported work and increase the number of new legal job openings.

Although union membership is not compulsory, most employees belong to unions and take wages that have been determined through negotiations. Needless to say, this arrangement may not hold for young people engaged in undeclared work.

Immigrants with limited knowledge of Icelandic and the workings of the Icelandic labour market may find themselves marginalised in the labour market. In the programme, Activating the Young, special attention is paid to the needs of young immigrants, who can attend courses that aim to improve their command of the Icelandic language, as well as their overall social skills.

3. Conclusions

Icelandic youths tend to enter the labour market at an early age. Most students in secondary school work during their summer breaks, and many work part-time while at school. This competition between schools and the labour market is one of the prime reasons why early school leavers are relatively numerous in Iceland.

Unemployment has increased more among young people than others active in the labour market. Many of these have little education beyond compulsory school and this limits their possibilities in the labour market. The recent reform of the Icelandic school system offers hope that many of those that would have dropped out may continue and at least obtain the Upper Secondary School leaving certificate. However, it remains to be seen whether that certificate alone will strengthen the situation of young people in the labour market. The reform also aims at increasing the options for students at secondary school, not least by increasing the status and value of industrial-vocational studies.

The Activating the Young programme appears to have had some success, but we will have to see how those that have participated in the programme fare in the labour market before any shortfalls become apparent. It is clear that recent changes to the income tax system favour those with relatively low wages. However, higher taxes on firms and increases in social security contributions have a negative effect on labour demand. A relative high replacement rate for low wage-earners may also deter young people from actively seeking employment.

¹⁰ Act nr. 42/2010. See: Internet: <http://www.althingi.is/altext/stjt/2010.042.html>

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Annex:**Youth labour market in Q2 2008**

	16-19	20-24	25-29	All
Employment rate (Q2 2008)	72.4	78.5	84.9	81.4
Unemployment rate (Q2 2008)	13.9	8.3	2.9	3.1
Unemployment for the low skilled (Q2 2008)	97.8	82.7	59.3	50.4
Unemployment for the high skilled (Q2 2008)	2.2	17.3	40.7	49.6
Difference in youth unemployment Q4-2007 to Q4-2009				
Long term unemployment as % of unemployment (Q2 2008)	0.0	2.4	4.9	12.8
Temporary work as a % of employment	NA	NA	NA	
NEET rate (% of the age group)	NA	NA	NA	
Early school leaves (% of the age group)	NA	NA	NA	
Youth/adult unemployment ratio (Q2 2008)	4.5	2.7	0.9	

Source: Statistics Iceland and Directorate of Labour.

Youth labour market in Q2 2009

	16-19	20-24	25-29	All
Employment rate (Q2 2009)	58.8	68.5	73.5	74.5
Unemployment rate (Q2 2009)	24.1	20.2	13.5	9.1
Unemployment for the low skilled (Q2 2009)	94.8	68.8	50.6	62.9
Unemployment for the high skilled (Q2 2009)	5.2	31.2	49.4	37.1
Difference in youth unemployment Q4-2007 to Q4-2009				
Long term unemployment as % of unemployment (Q2 2009)	5.0	1.4	1.7	2.7
Temporary work as a % of employment	NA	NA	NA	
NEET rate (% of the age group)	NA	NA	NA	
Early school leaves (% of the age group)	NA	NA	NA	
Youth/adult unemployment ratio (Q2 2009)	2.6	2.2	1.5	

Source: Statistics Iceland and Directorate of Labour.

Youth labour market in Q2 2010

	16-19	20-24	25-29	All
Employment rate (Q2 2010)	62.7	70.0	75.6	76.0
Unemployment rate (Q2 2010)	24.1	19.1	11.0	8.7
Unemployment for the low skilled (Q2 2010)	94.5	73.3	53.7	52.2
Unemployment for the high skilled (Q2 2010)	5.5	26.7	46.3	47.8
Difference in youth unemployment Q4-2007 to Q4-2009	11.9	8.2	8.0	4.8
Long term unemployment as % of unemployment (Q2 2010)	22.0	20.7	27.4	29.4
Temporary work as a % of employment	NA	NA	NA	
NEET rate (% of the age group)	NA	NA	NA	
Early school leavers (% of the the age group)	NA	NA	NA	
Youth/adult unemployment ratio (Q2 2010)	2.8	2.2	1.3	

Source: Statistics Iceland and Directorate of Labour.

Early school leavers* (annual data)

All ages (18-24)	
2008	2009
Early school leavers (% of the age group) (annual averages)	23.9

Source: Eurostat, Labour Force Survey

* Percentage of the population aged 18-24 having attained at most lower secondary education and not being involved in further education or training.