



From Political Advocacy to 'Alternative Facts': A Comment on Hannes Gissurarson's Method

Stefán Ólafsson¹

[LINK TO ABSTRACT](#)

Hannes H. Gissurarson has now given us, in this journal, two papers on liberalism in Iceland (Gissurarson 2017a; b), the first telling of the nineteenth and twentieth centuries up to about 1991, the second of times since 1991. The journal invited me to comment on the second.

Gissurarson's efforts in political advocacy in Iceland, spreading laissez-faire libertarianism, started in the late 1970s and culminated during Davíð Oddsson's period as a prime minister, from 1991 to 2004, "when I was his informal adviser" (Gissurarson 2017a, 268). In recent years Gissurarson has increasingly focused on defending what happened during Oddsson's reign and also during the years leading up to the financial crash of 2008. His aim is always to glorify Oddsson's supposed achievements and to denigrate those who voice some doubts or criticisms.

Davíð Oddsson was a leader of Iceland's largest political party from 1991 to 2005, the previously right-of-centre Independence Party (IP). He was a strong political personality. He and his colleagues set themselves the goal of moving their party further to the right, by importing libertarian policies into the Icelandic context. Thus Oddsson's mission was also Gissurarson's mission. Gissurarson was the main ideological proponent of libertarianism while Oddsson was the practical politician who tried to implement the ideas.

Hence it is only logical that Gissurarson feels compelled to defend Oddsson's political record—it is also his own political record. He was however not

1. University of Iceland, 101 Reykjavik, Iceland.

just the ideologist behind the prime minister but also his personal friend—in fact more than “an informal advisor.” This is all quite clear from Gissurarson’s paper and other sources.

As regards Gissurarson’s account of his own political advocacy in the former paper (2017a), I do not disagree with much of it, but I must note a reservation about the title of both of these papers. They talk about “liberalism” as if the story was primarily about spreading the tenets of general western liberalism when Gissurarson’s aim has always been to promote the more restricted version of *laissez-faire* libertarianism or market fundamentalism.

Now I turn mainly to the second paper, which picks up the story in 1991, the paper I was invited to comment on and which is published in this issue of the journal.

Who are the “anti-liberals”?

The title of Gissurarson’s paper is “Anti-Liberal Narratives About Iceland, 1991–2017.” While the thrust of the paper is about the supposedly glorious “reform” program of Oddsson’s governments it is admitted that there were some criticisms directed at Oddsson and his colleagues during his tenure as prime minister from 1991 to 2004 and as a governor of the Central Bank from 2005 to 2009.

Criticisms should of course have been expected. Some policies failed badly, and others involved quite radical attempts to change Icelandic society in a direction which in many ways should have been alien to people in an established egalitarian Nordic welfare state.

Gissurarson’s paper honors me as one of two leading “anti-liberal” critics of Oddsson’s “reform” program, along with economics professor Thorvaldur Gylfason. We are practically the sole representatives of the “anti-liberal” critics in Gissurarson’s account, which comes as something of a surprise to me at least. Why is that surprising?

Firstly, there were many critics indeed and many of them more active than me. Secondly, I have never seen myself as anti-liberal. While I, unlike Gissurarson, have never been active in any political-party advocacy I have in debates and blogs repeatedly defined my political and societal position as a proponent of the mixed economy, with a thriving competitive market and a robust welfare state to temper the tendency of unrestrained markets towards excessive inequality of conditions and opportunities. I have also been interested in fostering societal conditions for improved social capital, trust, and cooperation in the best Scandinavian tradition.

This is a political-economy position in the tradition of John Stuart Mill, Jeremy Bentham, John Maynard Keynes, and William Beveridge—to name only

a few. Were they anti-liberals? Can John Stuart Mill, one of the leading liberal thinkers of 19th century England, be branded as an anti-liberal? That would be strange, to say the least (cf. Macleod and Miller 2016; Baradat 2012).

Most Icelanders are liberal in their general societal and political attitudes, in fact on the side of 'social liberalism' in Mill's and Bentham's tradition. Those that can be classified as 'libertarians,' on the other hand, are a minority, perhaps 10–15 percent of the electorate. Therefore Gissurarson has to hide his radical teachings under the more popular banner of general western liberalism—he is in that sense 'a wolf in sheep's clothing,' as the saying goes.

Gissurarson not only dresses up radical libertarianism as more attractive mainstream liberalism-for-all, but he also freely recruits long-dead individuals from history as his supposed allies, and in those endeavours he frequently oversteps boundaries of fairness and facts.

Thus we find in his earlier paper (Gissurarson 2017a) Jón Sigurðsson, the cherished leader of Iceland's fight for independence in the 19th century, championed as an ally of Gissurarson's ideological struggle, on the ground that he talked about the importance of free trade for Icelanders. Indeed he did, but Sigurðsson's concern was mainly to relieve Icelanders of the Danish trading monopoly and to propound that Icelanders should be given the freedom to take care of their own business. Recruiting the nationalist hero as an ally of contemporary libertarians is a bit like when socialists of the 20th century recruited Jesus Christ as an ally of their socialist cause! Were Jón Sigurðsson to return and speak for himself in our contemporary world, I doubt very much that his nationalism and moral standard would place him in the camp of neoliberal globalists and promoters of the use of foreign tax havens in the contemporary world.

As regards the other representative of "anti-liberalism" according to Gissurarson's second paper, economics professor Thorvaldur Gylfason, he is a staunch supporter and spokesman for competitive markets and healthy democracy and a critic of cronyism, nepotism, and corruption in Iceland. For example the main thrust of Gylfason's critique of the quota system in Iceland's profitable fisheries (the ITQ system)—a criticism which annoys Oddsson, Gissurarson, and the owners of the fishing fleet a lot—is that the system does not sufficiently comply with the principles of competitive markets. Gylfason has also co-authored a widely used textbook on the workings of the market economy (Isachsen, Hamilton, and Gylfason 1993). His general liberalism is clearly beyond doubt.

In view of all this I suggest that Gissurarson's second paper would be more correctly titled as "Anti-*Libertarian* Narratives About Iceland, 1991–2017." I would certainly not object to being classified as an 'anti-libertarian' critic of most of Gissurarson's writings and some of Oddsson's political undertakings.

The strategy of smear campaigns

A prominent characteristic of Gissurarson's political advocacy is the tendency to negatively label and smear his adversaries, usually aiming to denigrate and damage their personal reputation. Often he goes to extremes in his campaigns and cares not at all for facts or fairness. An example of this in the present paper is Gissurarson's claim that Professor Gylfason and I are some special envoys of one of the prominent businessmen of the bubble economy years, Jón Ásgeir Jóhannesson, who fell into disgrace with Prime Minister Oddsson. The supposed evidence for this is that Gylfason was a columnist for Jóhannesson's daily newspaper, *Fréttablaðið*, and that my wife is an anchor news presenter at Jóhannesson's TV station Stöð 2.²

I have never spoken to the businessman Jóhannesson, and I am in fact known in Iceland as a critic of libertarian tendencies and greed amongst Icelandic businessmen and financiers, not least for how they misused the laissez-faire environment that Oddsson and his allies created for them. Such misuse was best exemplified during the height of the economic bubble, when their excessive greed and speculation drowned the economy in foreign debt, which led to the financial collapse of 2008 (Ólafsson 2016a; Johnsen 2014; Bergmann 2014; Rannsóknarnefnd Alþingis 2010).

I have made no exemptions for Jóhannesson in my writings on these topics. As regards Gylfason's weekly columns in *Fréttablaðið*, he had complete freedom to choose his topics and presentations—as did Gissurarson himself, who indeed was also a paid columnist there for a long period when Jóhannesson was one of the owners of that newspaper!

Neither I nor Gylfason have ever been apologists or cheerleaders for prominent businessmen or financiers in Iceland. The same cannot be said about Gissurarson. He for example makes it quite clear towards the end of his paper that he works closely with prominent businessmen and financiers, and lots more evidence of that can be found on the websites of his neoliberal think tanks (www.rhn.is; www.rse.is).³ These think tanks are primarily financed by private

2. It is of course unconventional to draw someone's spouse into what should be an academic debate, but that is common in Gissurarson's propaganda works. Just for the record, I can state that my wife has no relationship to the present owners of the TV station where she works. She was an anchor news presenter and journalist on State TV (RÚV) and the private Stöð 2 channel long before Jóhannesson and his wife joined the group of owners at Stöð 2. My wife holds her position totally on her own merit.

3. See also Gissurarson's own account of the Locomotive Group, the Libertarian Alliance, and the Jon Thorkásson Institute in his earlier paper (Gissurarson 2017a).

businesses, since their advocacy generally promotes their interests.

That Gissurarson seeks to connect Professor Gylfason and me to his crowd is odd to say the least, but probably it serves his tendency for smearing his critics with almost anything that might possibly sound negative, irrespective of factual basis.

A compendium of 'alternative facts'

Anyone who reads Gissurarson's paper sees clearly that the main goal is to defend the legacy of Davíð Oddsson in Icelandic politics and to fend off criticisms that might cast some clouds over the leader's victories. As indicated above, that has been quite a task, even though I would say that Oddsson did some good things as well, though mainly in his early political career.

Gissurarson is an exceptionally hardworking man and is firmly devoted to Oddsson. No barriers are high enough to hold him back in his cheerleading and advocacy, neither moral nor factual ones. Thus he frequently misrepresents others' writings, takes comments out of context, ignores academic ethics in debates, and bends statistics and other facts in his favour. The output does by now amount to an extensive compendium of 'alternative facts,' which he repeats again and again with his loud voice over long periods of time. The goal is always to drown the opponents out and have the last word.

In what follows I will take issue with a few of his claims concerning my works on inequality, poverty, taxation, and the financial collapse. But first I will correct a few factual errors in his account of Oddsson's reform program.

According to Gissurarson's account, early in his paper, Oddsson's reform program involved the following: (1) maintaining and reforming the marketized quota system in Iceland's fisheries; (2) greatly strengthening the pension funds; (3) taming inflation; (4) extensive privatization; and (5) cutting taxes for all. To make a long story short, I would say that Oddsson had very little or nothing to do with (1), (2), and (3) on the list. Item (4), privatization, was however very much Oddsson's work—and not without strong criticisms from many quarters. The last item on the list, tax cuts for all, turned out to be primarily cuts for the highest income groups, financiers and owners of corporations, while lower- and middle-income groups were treated to sizable increases in their income tax burden (Ólafsson 2007a; Ólafsson and Kristjánsson 2012; Baldursson et al. 2008; ASÍ 2017). I broadly follow Gissurarson's paper in picking up points that I comment on.

The marketized quota system in the fisheries

Gissurarson (2017b, 369) indicates that Oddsson had a significant role in reforming the quota system in the fisheries. The system was however implemented in 1983–1984 and the quotas became transferable in 1990. Oddsson became prime minister in 1991, when the system was already fully implemented. Thus he did not have much if anything to contribute to its construction, though he surely defended it against massive public criticism, which has lasted up to the present.

The utilization rights to resources of the common fishing grounds around the country had been more or less redefined as private property rights, which could be traded, used as collateral, and inherited. These had been handed out to owners of the fishing fleet in a way that was highly disputed. This system had decisive negative effects on regional development, created an unprecedented wealth amongst the owners of the fishing fleet, and was felt to be unjust by the majority of the citizens.

Reforming the pension system

Gissurarson goes way off track when he claims that Davíð Oddsson had a large role in reforming the occupational pension funds during his premiership. There was one general reform of occupational pensions in 1997 (effective from January 1998) and another one in 2006. The latter reform—which came after Oddsson had left politics—was significantly more consequential for strengthening the pension system than the former one, even though neither of these reforms made the system financially sustainable as Gissurarson claims.

Regarding the 1997 reforms Gissurarson claims the following: “In 1998, the pension system was reformed, *replacing wherever possible* defined-benefit pension plans (pay-as-you-go schemes) with defined-contribution benefit plans, to make the system sustainable in the long run” (2017b, 363, my emphasis).

The occupational pension funds in the private sector were already in principle a defined-contribution system from their beginning in 1970, with a combined contribution rate of 10 percent of wages (6 percent from employers and 4 percent from employees). It remained so until 2006, when the contribution rate was increased to 12 percent (8 percent and 4 percent). Gissurarson (2017b, 363) indicates that the rate of 12 percent was in place earlier than it in fact was.

The main strengthening of pension funds that took place during Oddsson’s reign was a change in 1997 of the occupational pension fund for public employees. That was the only part of the pension funds that still had a defined-benefit system. With this reform the public-employee pension fund was split into two divisions, Fund A and Fund B. Fund B was the old one, which was closed to new entrants from then on, but Fund A was supposed to be more financially sustainable. Fund B

remained only partially funded onwards, with a full government guarantee, and in fact Fund A continued as a defined-benefit fund with a government guarantee, but a guarantee different from that for Fund B.

Fund A still had contribution rates too low for the benefits it promised. The rate was later raised to 15.5 percent, and the fund is being adjusted in 2017 and 2018 to gain full sustainability at last, supposedly. That is to be achieved with a massive government contribution to the fund, as a one-off payment, in exchange for ending the government guarantee and with a contribution rate of 19.5 percent and a raising of the pensionable age from 65 to 67. So, contrary to what Gissurarson claims (2017b, 363–364), these funds were not at all made fully financially sustainable during Oddsson's reign. The reform that Gissurarson credits Oddsson with is in fact being carried out right now—long after Oddsson's premiership.

Furthermore, Gissurarson's account of the pension reforms is generally superficial and marred with inaccuracies. He seems to lack a full understanding of the workings of the three-pillar pension system of Iceland and the pillars' interactions. For example, the following statement of his about the pre-reform system is wrong: "A pensioner who had made no provisions for old age and therefore with no other source of income than the basic pension *would receive roughly what amounted to the minimum wage*" (2017b, 363, my emphasis). In fact, when the general occupational pension funds were established (around 1970) the compensation rate from social security was much lower than minimum wages (Ólafsson 1999).

The 1997 reforms involved the introduction of individual pension accounts, a voluntary insurance with up to 4 percent contribution rate from employees and 2 percent additional from their employers. Oddsson, to some extent, can claim that reform as his own (after all it has some neoliberal characteristics), but most reforms of the pension system tend to originate with the labour market partners who actually manage the important occupational pension funds.

Hence the claim that Oddsson "greatly strengthened" (Gissurarson 2017b, 363) the pension funds and made them financially sustainable for the long run is vastly overstated if not completely wrong. The overall accumulation of funds in the occupational pension system would have progressed similarly without Oddsson's governments.

Taming inflation

Iceland had very high rates of inflation in the period between about 1960 and 1990. The high rates were due primarily to great fluctuations in the natural economy of fishing (fluctuating harvests and prices), in conjunction with the prevailing political-economy policies at the time, which typically met contractions

in the fishing export sector with devaluations of the currency, which greatly reduced the real wages and earnings of the working population (Ísleifsson 2013; Ólafsson 2011).

Iceland has long had strong labour unions, with a high rate of employee membership and organizational structure, which constitute a formidable power when fully applied. The unions typically came back one or two years after big devaluations with demands for large wage increases, to regain the previously lost real wages. Such demands were then met with renewed inflation of prices and eventually with a new devaluation further on, thus feeding a wage-price spiral that culminated in the early 1980s with about 80 percent inflation.

Gissurarson suggests that Oddsson had much to do with solving that problem. But he starts with a spin about the labour unions, indicating that they were dominated by “radical leftists” in the period between 1960 and 1990, “receiving advice and financial support from Moscow.” He also cites “a relatively weak state which was not able to finance all its obligations by taxes” as a characteristic of the same period (Gissurarson 2017b, 364–365).

This is all very implausible, to say the least.

The labour unions with between 80 percent and 90 percent membership amongst employees were not in need of financial support from Moscow. The membership dues were more than enough for their operations, and if in need of extra support for funds to compensate workers on strikes they had access to sister unions in the other Nordic countries, with whom they had strong cooperative relationships. There is no need to invoke Moscow or left radicals to explain a high strike frequency when real wages repeatedly experienced one-year declines of 10–20 percent, with fluctuations in exports and government policies, as was the case in Iceland between 1960 and 1990. There may possibly have been some interventions from Moscow during the interwar period (that is contested, though), but not at all from the 1960s onwards.

The Icelandic state was not weak during the period 1960–1990, as Gissurarson claims, and it could easily finance its obligations. The period was one of very high growth rates, rising purchasing power, and increased tax revenues (Ólafsson 2011). The Icelandic state was not accumulating foreign debt more than other Western countries at this time.

But what becomes rather funny in Gissurarson’s account of the taming of inflation from 1990 onwards is when Gissurarson tries to credit Oddsson with that achievement. The union leaders learned their lesson that high nominal wage rises were too easily burned up in inflation spikes. Instead they settled on bargaining for a longer term (three years at first) of modest real-wage increases in 1990, with attached guarantees for lower inflation from government and employers. Under this new form of agreement, called the ‘National Pact,’ if inflation went above the

'red marks,' or reference figures, the unions would have a right to re-negotiate or correct the wage rates, or get equal value of social rights and benefits from the government instead. This was a new bargaining model that proved to work quite well in containing inflation at much lower levels.

It would be too blatant for Gissurarson to claim directly that this new and beneficial form of wage agreement was the achievement of Oddsson, so he says: "Even before the collapse of the Soviet Union the unions had abandoned their former militancy. In 1990 they entered into a 'National Pact' with the employers and the government about moderate wage increases provided inflation was kept down" (Gissurarson 2017b, 365). The National Pact was indeed implemented one year before Oddsson came to power and he had nothing to do with it. Still Gissurarson allows himself to count the taming of the inflation as an integral part of Oddsson's reform program on the second page of his paper!

Ending political favours to business?

Gissurarson (2017b, 365) tells a much repeated story of his about Oddsson's abandonment of old policies of providing generous subsidies to businesses, especially in provincial areas. Some public investment funds were abolished and others reformed or merged. That is actually true to some extent.

But then comes one of the most repeated messages from Gissurarson's propaganda factory: "It was said that one of Oddsson's greatest achievements in his first few years as prime minister had been to empty the waiting room at Government House: There were no more favours to be handed out."

This sounds good indeed. But it is totally wrong.

Regional policy may have been weakened with Oddsson's merging of public investment funds into an investment bank in Reykjavík (Fjárfestingabanki atvinnulífsins, The Industry's Investment Bank), but with pending privatisation and changed tax policies, the handing out of really big government favours to businesses was only starting. These new favours were by all measures much bigger than ever before.

Gissurarson gives an account of the list of companies and banks sold during Oddsson's reign and claims that "many of the companies sold had rarely or never shown profit" (2017b, 368). That does not apply to the State Telephone Company (Landssíminn), which offered one of Europe's lowest user fees and delivered a handsome profit to the state coffers at least in the last decade before being sold. As for the two state banks, they had a long history of reasonable service and sometimes profits. At any rate their ratings and reputations with foreign banks were good. Many of the privatized companies were solid operations and most of them were sold at low prices, often with arguments that the price was not that important.

Gissurason says on that issue: “The main purpose of privatisation was not, however, to improve the finances of the Icelandic state, but rather to reform the economy by transferring resources from politicians and bureaucrats to private owners” (ibid.). Such an attitude easily becomes a justification for too-low selling prices—or ‘handouts.’

I cannot tell the whole story of the privatization here. Some sales of government assets were probably in order, but it is telling for many of the procedures that it became common amongst the public in Iceland to change the word ‘privatization’ (*einkavæðing*) to ‘friendly privatization’ (*einkavinavæðing*), referring to transfer of public firms and banks to chosen ‘private friends’ of the rulers.

The privatization of the public banks in 1998 to 2003 was the culmination of favouritism and cronyism in the whole saga and in fact is more reminiscent of similar undertakings in Russia after 1990 or in some African states than in a decent democratic Nordic state (Rannsóknarnefnd Alþingis 2010; Bergmann 2014; Rannsóknarnefnd Alþingis 2017). The two party leaders of Oddsson’s coalition government (Oddsson and Ásgrímsson) decided between themselves to sell each of the two largest banks to favoured businessmen from each of the two governmental parties. One bank to your party—one for mine!

Formal procedures in the Public Privatisation Committee (FnE) in preparing the sale professionally were eventually abandoned and the two ministers then decided to sell Landsbankinn (The National Bank of Iceland) to politically favoured bidders from Oddsson’s party even though they did not give the best offer. A prominent member of the FnE resigned from the committee in protest (Rannsóknarnefnd Alþingis 2010 vol. 1, ch. 6). Then Ásgrímsson got the other bank (Búnaðarbankinn) for his favoured businessmen, and that bank merged in turn with Kaupþing brokerage firm to become Kaupthing Bank (Rannsóknarnefnd Alþingis 2010; 2017; Johnsen 2014).

The new investment bank that had been established with Oddsson’s merging of public investment funds in 1998 was partly privatized soon after that, and in 2000 it merged fully with the private bank Íslandsbanki, which eventually was renamed Glitnir. Landsbankinn, Glitnir, and Kaupthing were the three main players in the vulgar excesses of the bubble economy between 2003 and 2008, and all ended in bankruptcy after having accumulated foreign debts amounting to between 8 and 9 times the Icelandic GDP. It only took the new owners about five years to run their banks into a gigantic bankruptcy. Taken together they made up the third-largest bankruptcy in world history, which is quite a phenomenon coming from such a tiny country (Aliber and Zoega 2011).

From privatisation to financial collapse

It has been quite a task for Gissurarson and colleagues to face this mega failure of Oddsson's career, as both a prime minister (1991–2004) carrying out the privatization of banks and the financial liberalization and then as the leading Governor of the Central Bank (2005–2009), the most powerful administrator of the monetary system of the country. His duties at the Central Bank included preserving the financial stability of the country. On his watch the country was drowned in foreign debt, which increased at unprecedented speed from 2003 to 2008 (Reinhart and Rogoff 2010; Ólafsson 2016a). When the three largest banks could not refinance their short-term debts in the autumn of 2008 they all collapsed in succession and the currency of the country fell by about 50 percent. Real earnings of households fell by 20–30 percent, and unemployment and debt burden increased drastically during the deep recession that followed. Public debt overall went from some 50 percent of GDP before the crisis to more than 120 percent when it peaked in 2011 (see data from oecd.org).

The financial collapse was of historic proportions. It is difficult to overlook the fact that both the Central Bank and the Financial Surveillance Authority failed completely to rein in the speculators in finance and business. They chanted libertarian promises and the tenets of *laissez-faire* while the house burned down. Oddsson was ousted from the Central Bank in early 2009 after a new government had come to power. The independent investigative committee that thoroughly studied the collapse of the banks concluded that the three governors of the Central Bank and the governors of the Financial Surveillance Authority had seriously neglected their duties (Rannsóknarnefnd Alþingis 2010).

Gissurarson tried for a while to define the collapse away on his blog, arguing that the Icelandic banks were run just like any other banks and the only problem was that foreigners were treating Icelanders badly, and he repeats that point in the present paper. That did not go down well with the public, judging by reactions in the blog sphere. Now in this paper he says that Oddsson “was the most prominent critic of the excesses of the Icelandic banks” and that he “repeatedly warned the government...against the recklessness of the Icelandic bankers” (Gissurarson 2017b, 379). This is clearly exaggerated by Gissurarson, and, beyond that, Oddsson had duties as a governor of the Central Bank that went beyond voicing soft warnings.⁴ Oddsson and his colleagues should have raised defenses against the

4. These supposed warnings from Oddsson were generally not noticeable in public, except briefly in the autumn of 2007, and the warnings were, all the way up to September 2008, tempered with assurances of secure foundations of the private banks, citing their large profits and the supposed capability of the state to save them in case of serious problems. The latter statement, which Oddsson aired for the last time around mid-September 2008, on national television, was clearly wrong, as emerged when, less than three weeks

obvious threats to financial stability posed by excessive growth, massive speculation, and debt accumulation by the banks and prominent business corporations. Instead they did nothing.

Gissurarson's narrative, which blames only one of the business moguls for everything that went wrong during the height of the bubble years (2003–2008) and otherwise offers only incoherent apologetic 'explanations,' is marred with contradictions and lack of clear evidence. That narrative culminates with the claim that the Icelandic banks fell only because representatives of foreign taxpayers did not show an interest in rescuing these banks. It was way beyond the capacity of the Icelandic Central Bank and government to rescue the banks because of the banks' excessive size in relation to the national economy. Governors of Central Banks of other countries (including the USA) clearly saw the Icelandic banks as in too bad of a situation to be saved, and they recommended Iceland's government to seek assistance from the IMF (Jónsson and Sigurgeirsson 2016; Johnsen 2014). The foreign players did not see the imminent fall of the Icelandic banks as a serious threat to global financial stability.

This part of Gissurarson's saga culminates with the following claim: "Iceland recovered quickly because *she was never really sick*. She was only temporarily left out in the cold" (2017b, 389, my emphasis). And this: "The real reason for Iceland's recovery is that *she was never bankrupt*" (ibid., my emphasis). These remarkable statements have not been voiced before to my knowledge, and it is hard to imagine that any serious independent commentator would ratify them.

For the Icelandic population and for the owners of the banks, the financial collapse was very real indeed. The three largest banks as well as most savings banks were of course seriously sick and then went into bankruptcy. This is clear to everyone except perhaps Gissurarson. The two governments that came to power after the collapse did a good job, however, in the reconstruction and recovering process, first the government of the Social Democrats and the Left Greens, in power between 2009 and 2013, and then the government of the Independence Party and the Progressive Party from 2013 to 2016 (Jónsson and Sigurgeirsson 2016; Ólafsson 2016b).

Shifting the tax burden

Apart from the privatisation of the banks and the financial debacles that followed, the changes that were done to the tax system are perhaps the biggest and most consequential policy changes associated with Oddsson's governments. Most of those changes had strong hallmarks of neoliberal policy prescriptions.

later, the banks could not refinance their short-term obligations!

The main elements of the reforms in taxation were the following: the lowering of the income tax on corporations; the lowering of the marginal taxes on higher personal incomes; the abolition of a wealth tax; the lowering of the estate tax; tax reform on financial incomes (reducing greatly the taxation of capital gains, dividends and rental income, but increasing the taxation of interest earnings, which had been tax-free before that time); and lastly pension fund contributions became exempt from taxation in order to end double taxing of pension savings (these are taxed as any other income when paid out as pensions).

Meanwhile, it needs also to be noted that personal tax allowance lagged continually behind prices and more so behind wages, particularly between 1995 and 2004. Likewise, child benefits and, to a greater extent, the tax subsidy of interest cost of mortgages also lagged behind prices and wages.

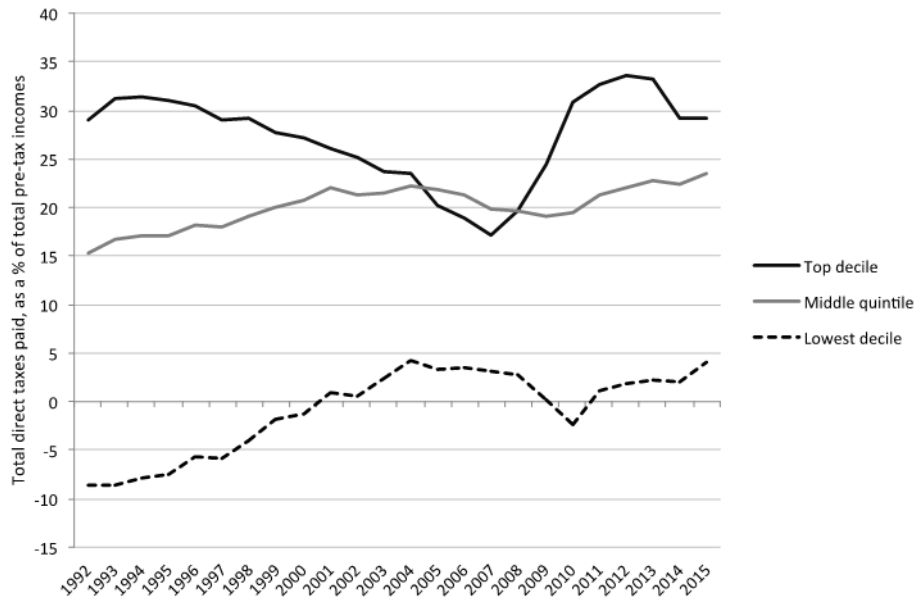
The changes were hailed by Oddsson and Gissurarson and their political allies as major reductions of the overall tax burden of the whole nation. In 2007 I published an article in the *Icelandic Review of Politics and Administration* on taxation policy in Iceland (Ólafsson 2007a). There I showed with figures from the OECD that the overall tax revenues had in fact increased more in Iceland from 1995 to 2005 than in any other OECD country, particularly the revenues from the personal income tax. I also showed with statistics from Icelandic taxation authorities (Ríkisskattstjóri) that a major shift had occurred in the proportional tax burden of income groups, from the higher income groups to the middle and lower ones. These and earlier articles in newspapers on the issue drew considerable attention from the media.

This was inconvenient indeed for Oddsson's crowd. Gissurarson told me, in person, at the time (in February 2007) that, "in order to preserve Oddsson's reputation," it had been decided to start a campaign against my writings on taxation and inequality developments. Gissurarson was the main spokesman for that campaign. He accumulated considerable funds for the task and tried to cook up various spins to cast doubt on my conclusions, which were thoroughly supported by both OECD and Icelandic official statistics. According to his telling, I had done some miscalculations or omitted some factors that supposedly changed the outcomes to the government's favour. Gissurarson repeats a few of these spins in the present paper, and these 'alternative facts' are just as misleading now as they were at the time.⁵

5. My analysis of the changing tax burden was verified for example by the former director of the Inland Revenue Services (Þorláksson 2007), by an independent commission that surveyed the workings of the Icelandic taxation system for the Ministry of Finance (Baldursson et al. 2008), and at the time of writing by a new report on the development of tax burden of different income groups from 1998 to 2016 (ASÍ 2017). See also Kristjánsson 2011a. Out of Gissurarson's efforts came a book (Gissurarson 2009), which is based on Arthur Laffer's thinking and is densely packed with errors and inaccuracies. It would take another article

Here I publish two key figures showing the shifting direct tax burden between income groups (Figure 1) and a comparison of revenues from the personal income tax in Iceland and the average for the OECD countries (Figure 2).

Figure 1. Net effective tax burden (taking account of all legal exemptions) in three income groups: top incomes, middle incomes, and low incomes⁶



Source: Tax Authority Statistics ([link](#))

Figure 1 shows a major shift in the personal income tax burden: From 1995 to 2007 the burden rises for the middle group and especially the lowest income groups but declines for the top income group. The increased burden in the lower groups occurred mainly because the personal tax allowance (as well as the child benefit and the tax subsidy of interest cost of mortgages) lagged greatly behind wage developments and even behind price developments. When a government lets that happen it is making a decision to raise the real tax burden for such groups, through ‘fiscal drag’ or ‘bracket creep,’ which typically hits the lowest income groups the hardest (Kristjánsson 2011a).

Gissurarson now accepts partly that this happened but then claims: “Olafs-

to deal with that compendium of ‘alternative facts.’

6. Since child benefits and subsidies on mortgage interest cost are subtracted from tax, the effective income tax rate can become negative in the lowest income groups. The value of these subtractions was larger in the earlier years but was gradually reduced after 1995 as the tax burden increased up to the positive ranges. The personal tax allowance also played a large role in those developments.

son had overlooked or ignored the fact that...payments into occupational and private pension funds had been exempted from taxation” (2017b, 377); that is, that I supposedly failed to take account of a countervailing effect of contributions to occupational pension funds (4 percent of employees’ pay), which became exempt from direct taxation in 1995–1996.

That is categorically wrong. Contributions to occupational pension funds were never left out in the figures on tax burden. The data in Figure 1 is total direct taxes paid as a proportion of total pre-tax earnings, taking account of all legal exemptions including mandatory contributions to occupational pension funds, personal tax allowance, child benefit, subsidies on interest cost of mortgages, and more.

I and my colleague have published such data with full explanations, so Gissurarson should know by now that he is advancing a totally false claim (see Ólafsson and Kristjánsson 2012). I know that Gissurarson has read the article in which this appears, because he wrote about it (see Gissurarson 2012). He has repeated the claim many times in the last years and I have corrected him a number of times—still he repeats this falsity in his present paper.

Apart from that, the tax exemption of pension fund contributions was not intended to come in lieu of the personal tax allowance. Rather, the exemption was intended to abolish double taxation of pension savings. The personal allowance is a fixed sum with considerable redistributive effects, whereas the pension fund contribution is a proportion of pay with no distributive effects on incomes. And these effects were not of equal size. So Gissurarson’s claims about the matter are completely unfounded.

One reason for the reduced tax burden amongst the highest income groups is the lowering of the upper marginal tax rates. But even more consequential is that from 1997 to 2007 top income earners experienced large increases in capital income. With significantly lowered taxation of capital income (provided by the new tax on capital incomes of 1997, with a taxation rate of 10 percent, one of the very lowest amongst the OECD countries) the overall tax burden of the top groups was greatly reduced, from about 32 percent of income in 1993 to about 17 percent in 2007, as shown in Figure 1. The extent of these shifts is unusually large by Western standards.

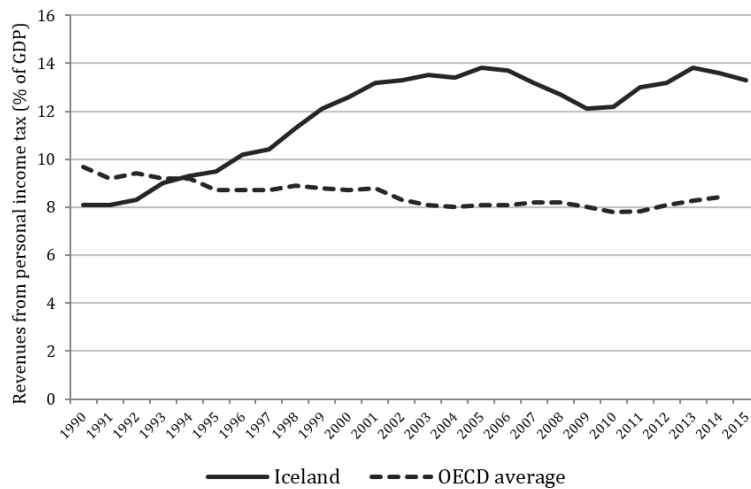
It is then quite comical that Gissurarson says in his paper (2017b, 378) that the higher tax burden for lower income groups “should be welcomed” since it reflects their higher incomes, as if bracket creep should be taken as a natural inevitability, which it of course is not. Hence the previous promise of tax cuts to all suddenly does not apply to the lower income groups! But the even more hilarious point in this context is that the incomes of the top income groups increased by far the most, and yet they got major reductions of their overall direct tax burden up to

2007! That was aided by their reduced marginal tax rates and the greatly lowered taxation of capital incomes, which were making up an increasing share of the top income group's total earnings in these years.

Now, looking back at Figure 1, one sees that then, after 2008, during the crisis, the development of the tax burden reversed, due to lower financial earnings and increased redistribution of tax and benefit policies (ASÍ 2017; Ólafsson 2014; 2016b; Kristjánsson 2011a).

Overall revenues from personal income taxation are shown in Figure 2, comparing Iceland and the average for all OECD countries, 1990 to 2015. It clearly shows a massive increase in Iceland, from about 8 percent to almost 14 percent of GDP, between 1993 and 2005. Then it came down in the advent of the financial crisis after the personal tax allowance had been increased. And after the crisis hit it came further down. Then from 2011 onward it increased again with increased pay and insufficient increases of the personal tax allowance.

Figure 2. Revenues from personal income tax: Iceland compared to the OECD average (percent of GDP), 1990 to 2015



Source: OECD Revenue Statistics ([link](#))

Figure 2 also shows how unusual was the development of Iceland's revenue from personal income taxes. Most OECD countries were lowering their take from income taxes over this period. So the increased tax burden for the lowest 60 percent of taxpayers involved much higher sums than the lowered tax burden for the top income groups, particularly the top ten percent (Kristjánsson 2011a).

Gissurarson also invokes Arthur Laffer's voodoo economics when showing a figure plotting corporate tax rates from 1990 to 2003 against revenues from

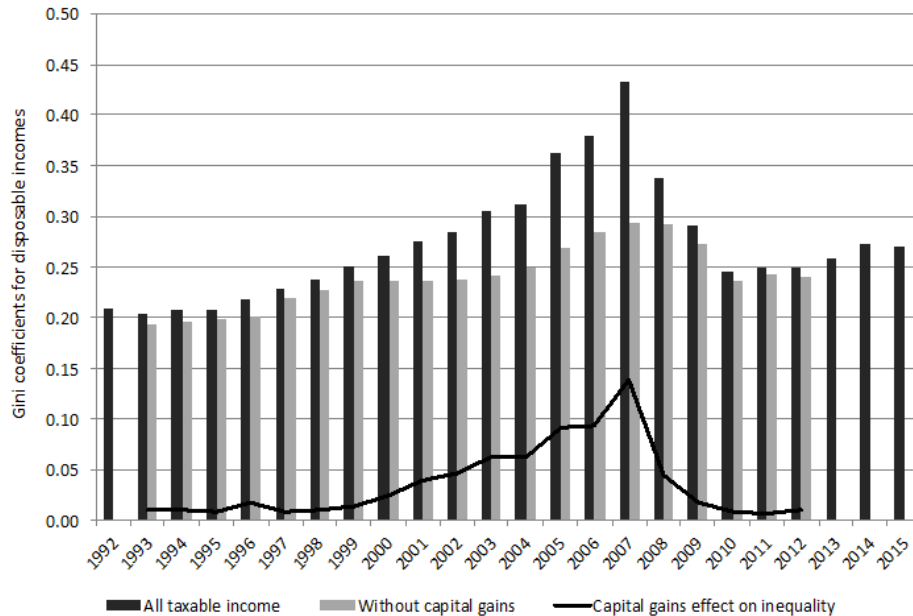
corporate taxation as percent of GDP (Gissurarson 2017b, 369 n.2). On the face of it one might conclude that there was a causal relationship there, with lower tax rates producing increased revenues. But a much more realistic explanation lies in the economic cycle.

In 1990 there was a recession with significantly lower profits of corporations in Iceland (hence tax revenues from the corporate income tax were low then). By 1995 the economy had improved, returning increased revenues, and onwards to about 2000. In addition to the economic cycle effects there was some broadening of the tax base associated with the lowered tax rates, countering possible revenue loss. Gissurarson's diagram stops at 2003, perhaps because the semblance of a relationship is much weaker or nonexistent after that. Reservations are clearly in order regarding this supposed victory of Laffer's voodoo economics in Iceland.

The debate on inequality

In 2005 I had discovered that disability pensioners in Iceland had lagged behind working people in their income developments and that their direct tax burden had increased significantly from 1995 to 2004 (Ólafsson 2005). I then started to survey income and tax developments for other income groups and soon discovered that the lower income groups were generally lagging behind in income developments, while the highest groups were galloping way ahead of everyone else.

I wrote some newspaper pieces about the matter and an academic paper in the autumn of 2006 (Ólafsson 2006). There I showed that income inequality had increased quite significantly from 1995 to 2005. The increase in income inequality was more intense when capital gains were included with all taxable incomes than when they were left out. From 1995 to 2005 the Gini coefficients for all taxable incomes increased by 74.8 percent, and when capital gains were excluded the increase was 35.8 percent, still an unusually great increase in income inequality (cf. OECD 2008).

Figure 3. Income inequality development in Iceland from 1992 to 2015: Gini coefficients

Source: Tax Authority Statistics ([link](#))

Figure 3 shows a recent update of these figures to 2015. The increase in inequality starts from 1995, slowly at first but then gathering speed. The level of inequality peaked in 2007, at the top of the bubble economy, with a Gini for all taxable incomes at 0.44 (up from about 0.20 in 1993) and approaching 0.30 (up from 0.19) when capital gains are excluded. My colleague and I have surveyed income inequality developments in other Western nations from the postwar period to the present, and we have not found any case where income inequality increased equally fast in such a short period as happened in Iceland between 1995 and 2007. We have data from the tax authorities for all taxpayers, couples and singles separately, and they all tell the same overall story.

Gissurarson has tried to cast doubts on these conclusions with various spins.⁷ The one he refers to in the present paper (2017b, 375) is that a cross-

7. One of Gissurarson's much-repeated spins stems from a newspaper article that I wrote about the increase of inequality in Iceland in August 2006. There I included a comparison of Gini coefficients for European countries which indicated that Iceland had entered the top rank of inequality amongst OECD nations by 2003–2004. That comparison was taken from the website of Eurostat, and the figure for Iceland was produced by Statistics Iceland. Unfortunately it included capital gains, which was not the case for the other countries, hence the inequality level of Iceland was exaggerated in those figures (the extent of which can be verified in Figure 3 above). Gissurarson keeps repeating that I did the wrong calculation. The fact is that when this became clear I explained and corrected this issue in an article in the same paper in February

sectional comparison of Gini coefficients for the Nordic countries in one year (2004) indicated that inequality was at a similar level in Iceland as in the other Nordic countries in that year. Previously Gissurarson interpreted that as indicating that inequality had not at all increased during Oddsson's premiership (Gissurarson 2012). But you should not draw a conclusion about a trend over time from a one-year comparison across countries. The Gini coefficients of 2004 that he used also excluded capital gains, which were particularly large in Iceland (Ólafsson and Kristjánsson 2013). It is also rather embarrassing for Gissurarson that an economist, Axel Hall (2014a; b), details the increasing inequality and shifting taxation burden from 1995 to 2005, very much in the way that I had done earlier, in a chapter in a book on incomes and taxes published by RNH—Gissurarson's own think tank. The Ministry of Finance and Economy has also presented data on the distribution of wealth and income to parliament, showing the same development of inequality since 1992 as I and my colleague did (Fjármálaráðuneytið 2015).

No wonder that Gissurarson feels compelled to abandon his previous claim of no increase in inequality. Now the claim is that income inequality did not increase faster than in the other Nordic countries. While it is to be appreciated that Gissurarson backs down with his previous claim, still the later one does not hold water either (see Fritzell, Bäckman, and Ritakallio 2012).

The fact is that the other Nordic nations had increased income inequality more than most other OECD countries from about 1995, albeit from positions of greatest equality within the OECD (OECD 2011). Iceland did, too, but went ahead of its Nordic neighbours already by 2001 (or a little later if capital gains are excluded). Capital gains were particularly important for inequality developments in Iceland since its excessive bubble economy produced massive capital gains and other capital incomes for the top income groups (see Figure 3). The lowered tax burden of top incomes of these years from 1996 to 2007 contributed also to the increase of inequality in Iceland.

After the start of the financial crisis of 2008 Iceland returned again to a much lower level of income inequality, due to both reduced financial incomes and more redistributive tax and benefit policies of government. The period ends however at a higher inequality level than prevailed in year 2000 and before.

2007 (Ólafsson 2007b). I have corrected it again later in response to repeated false claims about this by Gissurarson. Now in his paper he backs down partly and says I only corrected it "quietly" (2017b, 375). But there was nothing quiet about it, as can be verified in the reference above (2007b) and in later corrections on my own blog.

The important thing is that neither this incident nor anything else that has been written about inequality developments in Iceland supports the claims that Gissurarson has upheld, that inequality did not increase during Oddsson's time as prime minister (cf. Gissurarson 2012).

Welfare and poverty

I have written extensively about welfare developments in Iceland (Ólafsson 1990; 1999; 2005; 2006; 2012; 2013; Eydal and Ólafsson 2012; Ólafsdóttir and Ólafsson 2014). The research shows that in some significant ways Iceland's welfare state lagged behind the other Nordic welfare states. Iceland used income testing to a greater extent than Denmark, Sweden, and Norway (Scandinavia), and benefits were less generous. Hence welfare expenditures have been significantly lower in Iceland. The difference was larger in the 1980s and 1990s; since 1990 there have been trends towards increased convergence, with Icelandic standards improving and Scandinavian ones becoming less generous (Eydal and Ólafsson 2012). One factor explaining the later convergence has been the increasing maturity of Iceland's occupational pension funds (Ólafsson 1999; 2012). Still my assessment from 1990 onwards was that, on the whole, the average Icelander enjoys as high a living standard as prevails in the more affluent western societies, including the Scandinavian ones. This was despite a less generous welfare state.

Icelanders however made up for that with a lower income-tax burden and by working more: higher work participation rates, later retirement, and longer weekly working hours. They had to put more work into their efforts to obtain comparable economic levels of living to those of the other Nordic nations. The situation was particularly difficult for those that could not put in the extra work effort, such as disability pensioners, single parents, and the elderly, particularly single elderly widows. Such special groups were more prone to experiencing financial hardship or poverty in Iceland in these early decades.

The convergence developments have gradually reduced that difference between Iceland and the other Nordic nations. Icelanders do though still have more difficulties in making ends meet in their daily living, difficulties associated with the need for greater work efforts and higher costs of living, including very high interest rates on mortgages, which have been prevalent for a long time (Ólafsson 2012). Taxes nowadays are not as low as before the Oddsson period, especially for lower- and middle-income groups.

From about 1995 to 2004 the pensioners' benefits from the public social security system lagged significantly behind minimum wages in the labour market. Pensioners and other low-income groups also suffered an increase in their tax burden (see Figure 1, and Ólafsson 2005). Such trends led to repeated and at times quite extensive conflicts between pensioner organizations and Oddsson's government, particularly after the year 2000.

In 1999 I published a book on the Icelandic welfare state in international comparison. Amongst other things I showed figures on relative poverty levels from 1985 to 1997, which were based on survey data where respondents were

asked about their incomes. These were relatively weak data but consistent from year to year. The trend indication was that relative poverty (based on a 50 percent poverty line and the OECD equivalence scale for disposable earnings) was coming down, most extensively for the elderly. This could be expected to continue, given the gradually increasing maturity of the occupational pension funds and growing pension payments from them. The indication from a comparison with other Western nations for that time was that Iceland's relative poverty level was somewhat higher than in the other Nordic nations—but Iceland was clearly on a converging trend towards the lower levels (Ólafsson 1999).

The main aims of Gissurarson's forays into the welfare topic, again with various spins using 'alternative facts,' were to discredit some of my works, which were seen as critical of Oddsson's record. The issues of poverty and pensioner living standards were most prominent in Gissurarson's undertakings in this area, in addition to the already mentioned issues of inequality and taxation.

Approaching election in 2003 Oddsson and Gissurarson were not happy with any talk about poverty in the society and, even though my figures were old by then, they started to criticize them, as if they referred to 2003 instead of to the period between 1985 and 1997.⁸ Then many years later when Eurostat published its comparison of relative poverty rates for 2003 and 2004 on the basis of new and better data, Gissurarson started claiming that I had concluded that relative poverty was considerably larger in Iceland but now that was shown to be wrong (Gissurarson 2014). That was cheap indeed, since my figures referred to an earlier period; indeed, in my 1999 text I did not make much of this difference, and the presentation had the important qualification of a converging trend.

The convergence trend has continued and there is no disagreement nowadays on the issue that Iceland has one of the very lowest relative poverty rates amongst OECD countries (OECD 2011; see also data from oecd.org). It has to be stressed that these are relative poverty rates, measuring the size of the group that has less than 60 percent of median earnings in the society. As such it has more relevance as an indicator of the shape of the lower end of the income distribution than as a measure of absolute poverty experiences (Atkinson, Guio, and Marlier 2017; Ólafsson and Eydal 2012; Atkinson and Marlier 2010).

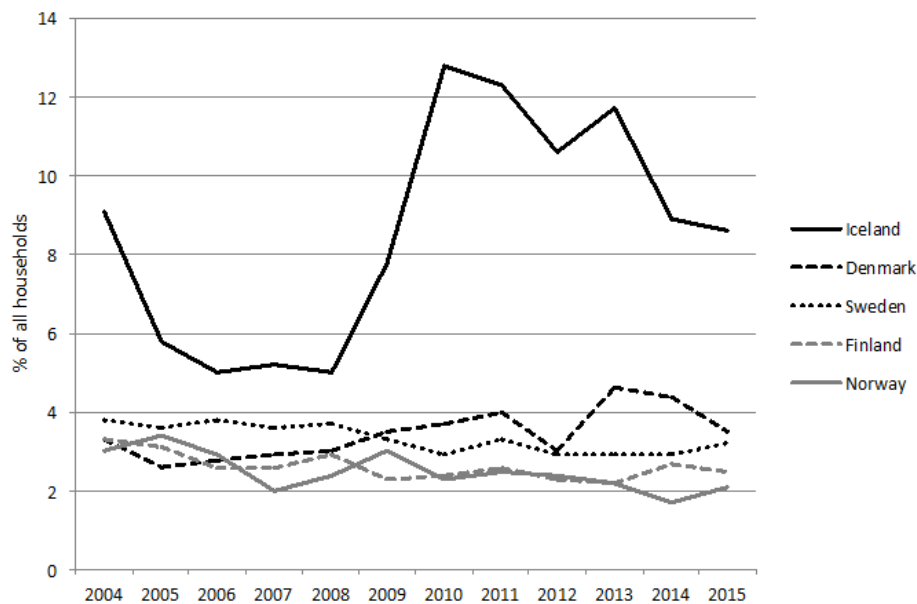
This limitation of the relative poverty rate is for example well shown in the rate's development during the crisis in Iceland after 2008. Then it came down—at a time when financial hardships increased greatly for all income groups. This lowering of relative poverty rates clearly runs counter to the real poverty development of these years and how most individuals experienced the deep crisis (Ólafsson 2014; 2016b).

8. See a review of these arguments in Gissurarson 2014.

But there are alternative measures of poverty or financial hardships other than relative poverty rates, alternative measures that better reflect the poverty experiences of people (Eydal and Ólafsson 2012). Consider data from Eurostat from 2004 to the present about financial hardship in European countries, as reflected for example in statistics on self-reported difficulty in making ends meet. This is a much more comprehensive and direct measure of financial hardships or economic level of living difficulties than is a relative poverty rate, since self-reported difficulty reflects a wider level of living contexts and not just the income position in relation to the median as a relative poverty rate does.

These data on financial difficulties have consistently shown a significantly higher level in Iceland than in the other Nordic countries, as can be seen in Figure 4.

Figure 4. Proportion of households making ends meet with great difficulty, 2004 to 2015: Iceland and other Nordic countries compared



Source: Eurostat ([link](#))

This is one of the measures used nowadays to assess poverty experiences, particularly in Europe and often as a part of multi-dimensional measures of poverty (Nolan and Whelan 2011). The fact that Icelandic households have consistently higher rates than other Nordic households of great difficulties in making ends meet does not rhyme with claims that poverty or financial difficulties have been at a lower level in Iceland than in the other Nordic countries, neither in 2004 nor in any

other year up to 2015.

The proportion of those with great difficulties was about three times larger in Iceland than on average for the other Nordic countries in 2004 (the last year of Oddsson's premiership). Then it came down during the height of the bubble years and with the onset of the crisis the difficulties rose drastically to a maximum in 2010, when the crisis bottomed out. Iceland was of course much harder hit by the financial crisis than the other Nordic countries, and the figure reflects that quite realistically.

We can combine these two measures of poverty (relative poverty rates and great difficulties in making ends meet) by looking specifically at *great difficulties in making ends meet only amongst households below the 60 percent poverty line*, covering the 10–15 percent of households with the lowest disposable incomes. Then a similar pattern of financial difficulties emerges (as in Figure 4), with Iceland significantly higher than the others. The rate of great difficulties in making ends meet in Iceland amongst those in the lowest income group was twice as high as the average for the same group in other Nordic countries in 2004 (Ólafsson and Eydal 2012).

A level of living amongst the poor which, as in Iceland, relies on extensive volumes of work, tends to be more vulnerable to periodic changes and more prone to financial difficulties than that provided by a more stable and family-friendly environment. Hence claiming on the basis of relative poverty rates alone that there is less poverty in Iceland than in Scandinavia is hollow, and equally for 2004 as for later years.

Another spin from Gissurarson is about what he claims is a vindication of my conclusion that some Icelandic pensioners have in the past faced worse living conditions than comparable groups in the other Nordic welfare states. He publishes a figure in his paper which he says reflects "Average pension income/month, in euros (PPP)" (Gissurarson 2017b, 377). These figures come from a report from the Nordic Social-Statistical Committee (NOSOSKO 2006). Gissurarson's description of these figures is incorrect, however.

The table head in the NOSOSKO source says: "Average payment of statutory retirement pensions per month, 2004" (NOSOSKO 2006, 142, Table 7.8). The explanatory note for the Icelandic figure says: "Expenditure on both basic and employment pensions, divided by the number of recipients." These are assessed figures with weak assumptions about compositional proportions of basic and occupational pension expenditures and not direct measures of pensioner incomes at all, as Gissurarson however claims. The implication from his figure is that Iceland had by far the highest level of pension expenditures per pensioner amongst the Nordic countries in 2004.

In the same report there are however other figures about expenditures on retirement pensions per pensioner, in Euros with PPPs (NOSOSKO 2006, 178,

Table 7.23), which are better founded and more in line with other expenditure figures (e.g., from oecd.org) than the figures Gissurarson refers to. These latter figures indicate that Iceland was second lowest in the Nordic community.

I and two co-authors cited those latter figures at one stage, and on went Gissurarson with a spin (see Gissurarson 2014) about my calculating these figures wrongly, whereas we did not calculate anything but referred to these published figures of NOSOSKO. Gissurarson repeats this spin in his present paper and calls it now a “statistical illusion,” even though it has been corrected many times.

The bottom line is that all these figures for 2004 in the NOSOSKO report lack validity and comparability, if the goal is to reflect pensioner incomes or their living standards in general. This data that Gissurarson uses has been replaced in later reports from NOSOSKO with direct income data from Eurostat.

Iceland in fact has high average pensioner earnings in international comparisons for recent years, despite the lower retirement pension expenditures per pensioner. Recent figures from Eurostat on total disposable earnings amongst the elderly (ages 65+) indicate that Iceland is generally second to Norway but higher than Denmark, Finland, and Sweden in the period between 2004 and 2014. The good outcome for Iceland is explained by the fact that Icelanders retire 4 to 7 years later than the elderly of the other Nordic countries, and thus the total incomes of the elderly in Iceland include significant employment earnings on top of pensions, unlike in the other countries.

Here it applies as before, that those amongst the elderly that cannot undertake work in higher ages while also receiving pensions must do with relatively lower incomes. That is reflected in the fact that amongst the elderly it is about 3 to 6 times more common in Iceland that they experience great difficulties in making ends meet as it is for the same group in the other Nordic countries.

My argument has been that the elderly in Iceland having to put in more work effort to gain comparable incomes to the highest prevailing in the other Nordic countries can be taken as an indicator of a somewhat lower level of living (see Eydal and Ólafsson 2012). Even though income levels are quite high in Iceland,⁹ we need to look also at the effort that the population has to undertake to achieve its economic living standard. A comprehensive account of well-being needs to take account of broad indicators of social, economic, and political qualities of life (Social Progress Imperative 2016; OECD 2015; Ólafsson 2013).

The last point from Gissurarson that I take issue with is his claim that child

9. Keep in mind though that direct income level comparisons between countries are affected by fluctuating currency rates, which are at times quite extreme in the case of Iceland. Thus the income level in Iceland was exaggerated by an overvalued currency during the 2003–2008 period and increasingly again in the very last years as well.

benefits for low-income single parents are much higher in Iceland than in Sweden. From this he draws the conclusion that child benefits for all parents in Iceland are more generous for the low-income groups, while less or nothing is given to higher income groups (Gissurarson 2017b, 376, Table 2).¹⁰

To start with, you need to correct such a comparison with purchasing power parities. Secondly, even if Gissurarson is aware of the fact that child benefits are income-tested in Iceland and not in Sweden, he completely fails to take any account of that in the conclusions that he draws from his comparison.

This omission is particularly important since the income-testing rules in Iceland are such that reduction of the benefit due to the receiver's income *starts at a very low income level*. In 2004 the cuts began at close to a third of an unskilled worker's pay, and the cut-point is still low at present but not quite as low as in 2004. This means that very few if any parents (single or couples) working full time get the full official amount of the child benefit indicated in Gissurarson's table.

It is mainly receivers of the ultimate poverty relief (Social Assistance) that get the full child benefit, and they are a small group of people with extensive social problems. Most single parents have full-time jobs, frequently in the public sector where pay is higher than for unskilled manual workers (hence the income testing bites more of their child benefit than it does for unskilled workers). Couples who both work, even at fairly low pay, get quite large reductions in their child benefit, and you do not have to go far up the income ladder to lose most of your child benefit or to get only a nominal amount that makes very little difference to the living standard of families with children. Hence many parents with relatively low incomes, but that are above the poverty line, get very little or no child benefit, unlike in the other Nordic countries.

Hence the comparison in Gissurarson's Table 2 does not support his claim (2017b, 375) that the child benefit is relatively generous to all parents in need in Iceland, compared to the other Nordic countries. Serious comparative studies of family benefits in Iceland and other Nordic countries conclude that, while there is not a great difference in benefit generosity towards single parents in Iceland and the other Nordic countries, couples with children, even at fairly low income levels, have significantly less support in Iceland (Kristjánsson 2011b; 2012).

To take the point further we can point to Eurostat figures which show that single parents with great difficulties in making ends meet were twice as large a group in Iceland as in the other Nordic countries in 2004. That reflects on their overall

10. These figures in Gissurarson's Table 1 actually indicate significantly higher benefits to single parents in Iceland with one child even in the highest income group and quite high up the income scale for couples with two children. That does not concur with the well-established fact that expenditures for these benefits (per child aged 0–17) are close to twice as high in Sweden as in Iceland.

economic living standard, taking account of income, welfare benefits, taxes, and cost of living. This runs counter to Gissurarson's poorly founded claims.

When assessing poverty or living standards in general it is important to examine as many indicators as possible and draw conclusions from the overall picture (Eydal and Ólafsson 2012; Ólafsson 2013; OECD 2015). I stand by my conclusion that Icelanders in general, including the elderly and single parents, have on the whole an economic living standard relatively comparable to that found in the other Nordic countries, but the Icelanders have to work significantly more for it. That produces some problem groups in Iceland—those that cannot put in the extra work volume to the same extent—which are often more prone to financial difficulties and poverty than are comparable groups in the other Nordic countries (see also ASÍ 2006; 2013).

That is not a vast difference, and when we draw up the total picture we can say that poverty or material deprivation in Iceland and in the other Nordic countries is not that far apart. Together the Nordic nations as a whole have less poverty problems nowadays than most nations on Earth. But Icelanders still have to strive more than their Nordic friends to achieve that level.

Conclusions

As is evident from Gissurarson's two papers on 'liberalism in Iceland' he has been very active indeed in political advocacy, spreading laissez-faire libertarianism, market fundamentalism, and Ayn Rand's ideas. The titles of his articles should in fact refer to 'libertarianism' rather than to the broader concept of 'liberalism.'

Gissurarson's aim in the second paper is to glorify the reform program that his friend and ideological companion Davíð Oddsson embarked on during his premiership in Iceland from 1991 to 2004. Gissurarson also directs his guns at only two (of many) critics of the neoliberal experiment undertaken in Iceland during this period in power.¹¹ I am one of these two. Gissurarson repeats here a number of spins and criticisms that he has directed at my empirical works in the last decade

11. See a particularly revealing piece that Gissurarson wrote about Oddsson's (and his own) neoliberal experiment in Iceland in the *Wall Street Journal*, called "Miracle on Iceland" (Gissurarson 2004). There he equates Oddsson's experiment with Thatcher's and Pinochet's neoliberal or libertarian experiments in their respective countries, as well as the New Zealand experiment of the 1980s. Gissurarson claims that Oddsson's reform was the most successful of these, and he outlined further plans that Oddsson and his allies had, such as privatising the natural reserves of the highlands of Iceland, its energy resources, the pension funds (which are actually owned by working people and managed by the labour market partners!), and privatising health care services and education. Their plan was also to turn Iceland into a tax haven for foreign corporations and financiers (Gissurarson 2001), which would presumably require the abolition of Iceland's Nordic welfare state.

and a half, works that seem to have been particularly inconvenient for Oddsson and his allies.

Gissurarson is known to be very aggressive and reckless in his political advocacy. Thus he frequently misrepresents others' writings, takes comments out of context, ignores academic ethics in debates (even though he has a title and tenure as a professor at the University of Iceland), and he bends statistics and other facts in his favour, creating 'alternative facts' that have no base in reality—all to serve his propaganda purposes.

He starts his paper by outlining what he calls Oddsson's "reform" program, identifying five major policy areas that he presents as shining successes. Unfortunately for Gissurarson, Oddsson had very little if anything to do with the first three of these: the marketization of the quota system in fisheries, strengthening of the pension funds, and the taming of Iceland's excessive inflation. All three were fully implemented before the start of Oddsson's premiership or did not change much at all during his time in government. The other two he can fully claim as Oddsson's major issues: privatization of public firms and banks and changing tax policy. The privatization of the banks was however seriously flawed and ultimately led to one of the largest financial collapses in world history. Oddsson's taxation policy transferred the direct tax burden in a big way from the wealthy to middle- and lower-income groups, despite promises of tax cuts for all.

Radical political advocacy is predominant in most of Gissurarson's writings, and it is indeed sad to see how it frequently leads him to spin 'alternative facts' without a base in reality to serve his political purposes. Those who point to faults or lack of data and logic in his writings are subjected to continuous smear campaigns aiming to denigrate their reputation. This paper of his has many examples, on which I have here commented with the aim of clarifying and correcting them.

Of course one cannot complain about Gissurarson's taste for ideologies. But one may ask what it says about the viability of libertarian ideas if they need to be promoted with Gissurarson's method. Perhaps the dismal track record of the libertarian experiment in Iceland explains the need for 'alternative facts' to mask the reality.

References

- Aliber, Robert Z., and Gylfi Zoëga**, eds. 2011. *Preludes to the Icelandic Financial Crisis*. Basingstoke, UK: Palgrave Macmillan.
- Alþýðusamband Íslands (ASÍ)**. 2006. *Lífskjör á Norðurlöndum* [Level of Living in the Nordic Countries—A Comparison]. February. Alþýðusamband Íslands (Reykjavík).
- Alþýðusamband Íslands (ASÍ)**. 2013. *Lífskjör á Norðurlöndum* [Level of Living in the

- Nordic Countries—A Comparison]. February. Alþýðusamband Íslands (Reykjavík). [Link](#)
- Alþýðusamband Íslands (ASÍ)**. 2017. Skattbyrði launafólks 1998–2016 [The Tax Burden of Employees 1998–2016]. Alþýðusamband Íslands (Reykjavík). [Link](#)
- Árnason, Ragnar, and Birgir Þór Runólfsson**, eds. 2014. *Tekjudreifing og skattar* [Income Distribution and Taxes]. Reykjavík: Rannsóknarsetur um Nýsköpun og Hagvöxt.
- Atkinson, Anthony B., Anne-Catherine Guio, and Eric Marlier**, eds. 2017. *Monitoring Social Inclusion in Europe*. Luxembourg: Eurostat.
- Atkinson, Anthony B., and Eric Marlier**, eds. 2010. *Income and Living Conditions in Europe*. Luxembourg: Publications Office of the European Union.
- Baldursson, Friðrik Már, Indriði H. Þorláksson, Marianna Jónasdóttir, Vilhjálmur Egilsson, Ólafur Darri Andrason, Ragnar Ingimundarson, Tanya Zharov, Tryggvi Þór Herbertsson, Þorlákur Björnsson, and Sveinn Agnarsson**. 2008. *Íslenska skattkerfið: Samkeppnishafni og skilvirkni* [The Icelandic Taxation System: Competitiveness and Efficiency]. Reykjavík: Fjármálaráðuneytið.
- Baradat, Leon P.** 2012. *Political Ideologies*, 11th ed. New York: Routledge.
- Bergmann, Eiríkur**. 2014. *Iceland and the International Financial Crisis: Boom, Bust and Recovery*. London: Palgrave Macmillan.
- Eydal, Guðný Björk, and Stefán Ólafsson**, eds. 2012. *Dróun velferðarinnar 1988–2008* [Welfare Developments 1988–2008]. Reykjavík: Félagsvísindastofnun Háskóla Íslands.
- Fjármálaráðuneytið**. 2015. *Úrvinnsla úr skattagögnum um dreifingu eigna* [Data on Distribution of Wealth and Incomes from the Ministry of Finance, Presented to Parliament]. Reykjavík: Fjármálaráðuneytið.
- Fritzell, Johan, Olof Bäckman, and Veli-Matti Ritakallio**. 2012. Income Inequality and Poverty: Do the Nordic Countries Still Constitute a Family of Their Own? In *Changing Social Equality: The Nordic Welfare Model in the 21st Century*, eds. Jon Kvist, Johan Fritzell, Björn Hvinden, and Olli Kangas, 165–186. Bristol, UK: Policy Press.
- Gissurarson, Hannes H.** 2001. *Hvernig getur Ísland orðið ríkasta land í heimi?* Reykjavík: Bókafélagið.
- Gissurarson, Hannes H.** 2004. Miracle on Iceland. *Wall Street Journal*, January 29.
- Gissurarson, Hannes H.** 2009. *Ábrif skattabækkana á hagvöxt og lífskjör* [The Impact of Tax Increases on Economic Growth and Living Standards]. Reykjavík: Bókafélagið.
- Gissurarson, Hannes H.** 2012. Jöfnuður á Íslandi 1991–2007 [Equality in Iceland 1991–2007]. *Icelandic Review of Politics and Administration* 8(2): 571–578.
- Gissurarson, Hannes H.** 2014. Fátækt á Íslandi 1991–2004 [Poverty in Iceland 1991–2004]. In *Tekjudreifing og skattar*, eds. Ragnar Árnason and Birgir Þór Runólfsson. Reykjavík: Rannsóknarsetur um Nýsköpun og Hagvöxt.
- Gissurarson, Hannes H.** 2017a. Liberalism in Iceland in the Nineteenth and Twentieth Centuries. *Econ Journal Watch* 14(2): 241–273. [Link](#)
- Gissurarson, Hannes H.** 2017b. Anti-Liberal Narratives About Iceland, 1991–2017. *Econ Journal Watch* 14(3): 362–398. [Link](#)
- Hall, Axel**. 2014a. Dansað á línunni. In *Tekjudreifing og skattar*, eds. Ragnar Árnason and Birgir Þór Runólfsson. Reykjavík: Rannsóknarsetur um Nýsköpun og Hagvöxt.
- Hall, Axel**. 2014b. Norrænt í báða enda. In *Tekjudreifing og skattar*, eds. Ragnar Árnason and

- Birgir Þór Runólfsson. Reykjavík: Rannsóknarsetur um Nýsköpun og Hagvöxt.
- Isachsen, Arne Jon, Carl B. Hamilton, and Thorvaldur Gylfason.** 1993. *Understanding the Market Economy*. Oxford: Oxford University Press.
- Ísleifsson, Sumarliði R.** 2013. *Saga Alþýðusambands Íslands [History of the Federation of Labour]*, 2 vols. Reykjavík: Forlagið.
- Johnsen, Guðrún.** 2014. *Bringing Down the Banking System: Lessons from Iceland*. Basingstoke, UK: Palgrave Macmillan.
- Jónsson, Ásgeir, and Hersir Sigurgeirsson.** 2016. *The Icelandic Financial Crisis: A Study Into the World's Smallest Currency Area and Its Recovery from Total Banking Collapse*. London: Palgrave Macmillan.
- Kristjánsson, Arnaldur Sölvi.** 2011a. *Ábrif breytinga skattkerfisins á skatttekjur, skattbyrði og tekjuskiptingu 1992–2009*. M.S. thesis, University of Iceland. [Link](#)
- Kristjánsson, Arnaldur Sölvi.** 2011b. *Fjölskyldubætur á Íslandi*. Reykjavík: Þjóðmálastofnun Háskóla Íslands.
- Kristjánsson, Arnaldur Sölvi.** 2012. Þróun bótakerfisins: Réttindi og fjárhæðir einstakra bótaflokka. In *Þróun velferðarinnar 1988–2008 [Welfare Developments from 1988–2008]*, eds. Guðný Björk Eydal and Stefán Ólafsson, 251–270. Reykjavík: Félagsvísindastofnun HÍ.
- Macleod, Christopher, and Dale E. Miller,** eds. 2016. *A Companion to Mill*. Oxford: Wiley-Blackwell.
- Nolan, Brian, and Christopher T. Whelan.** 2011. *Poverty and Deprivation in Europe*. Oxford: Oxford University Press.
- Nordic Social-Statistical Committee (NOSOSKO).** 2006. *Social Protection in the Nordic Countries 2004: Scope, Expenditure and Financing*. Copenhagen: Nordic Social-Statistical Committee. [Link](#)
- Nordic Social-Statistical Committee (NOSOSKO).** 2016. *Social Protection in the Nordic Countries 2014/15: Scope, Expenditure and Financing*. Copenhagen: Nordic Social-Statistical Committee. [Link](#)
- Ólafsdóttir, Katrín, and Stefán Ólafsson.** 2014. Economy, Politics and Welfare in Iceland: Booms, Busts and Challenges. *Fafo-report* 2014:13. Fafo (Oslo). [Link](#)
- Ólafsson, Stefán.** 1990. *Lífskjör og lífsbættir á Norðurlöndum [Level of Living in the Nordic Countries]*. Reykjavík: Iðunn.
- Ólafsson, Stefán.** 1999. *Íslenska leiðin: Almannatryggingar og velferð í fjölþjóðlegum samanburð [Iceland's Welfare Model: Welfare and Social Security in a Comparative Perspective]*. Reykjavík: Tryggingastofnun ríkisins og Háskólaútgáfan.
- Ólafsson, Stefán.** 2005. *Disability and Welfare in Iceland from an International Comparative Perspective*. Reykjavík: Social Research Centre, University of Iceland.
- Ólafsson, Stefán.** 2006. Aukinn ójöfnuður á Íslandi: áhrif stjórnmála og markaðar í fjölþjóðlegum samanburði [Increased Inequality in Iceland: The Role of Politics and Markets in a Comparative Perspective]. *Icelandic Review of Politics and Administration* 2(2): 129–156.
- Ólafsson, Stefán.** 2007a. Skattastefna Íslendinga [Iceland's Taxation Policy]. *Icelandic Review of Politics and Administration* 3(1): 231–264.
- Ólafsson, Stefán.** 2007b. Ójöfn kaupmáttaraukning. *Morgunblaðið*, February 27. [Link](#)

- Ólafsson, Stefán.** 2011. Icelandic Capitalism—From Statism to Neoliberalism and Financial Collapse. In *The Nordic Varieties of Capitalism*, ed. Lars Mjøset. Bingley, UK: Emerald Group Publishing.
- Ólafsson, Stefán.** 2012. Lífskjörin 1988 og 2008. In *Dróun velferðarinnar 1988–2008*, eds. Guðný Björk Eydal and Stefán Ólafsson, 9–28. Reykjavík: Félagsvísindastofnun HÍ.
- Ólafsson, Stefán.** 2013. Well-Being in the Nordic Countries: An International Comparison. *Icelandic Review of Politics and Administration* 9(2): 345–372.
- Ólafsson, Stefán.** 2014. Hrunið og árangur endurreisnarinnar. *Íslenska þjóðfélagið* 5(2): 95–116.
- Ólafsson, Stefán.** 2016a. The Political Economy of Iceland’s Boom and Bust. In *Iceland’s Financial Crisis: The Politics of Blame, Protest, and Reconstruction*, eds. Valur Ingimundarson, Philippe Urfalino, and Irma Erlingsdóttir, 57–78. Milton Park, UK: Routledge.
- Ólafsson, Stefán.** 2016b. The Strategy of Redistribution: Iceland’s Way Out of the Crisis. In *Iceland’s Financial Crisis: The Politics of Blame, Protest, and Reconstruction*, eds. Valur Ingimundarson, Philippe Urfalino, and Irma Erlingsdóttir, 156–184. Milton Park, UK: Routledge.
- Ólafsson, Stefán, and Guðný Björk Eydal.** 2012. Fátækt og fjárhagsþrengingar. In *Dróun velferðarinnar 1988–2008*, eds. Guðný Björk Eydal and Stefán Ólafsson, 339–366. Reykjavík: Félagsvísindastofnun HÍ.
- Ólafsson, Stefán, and Arnaldur Sölvi Kristjánsson.** 2012. Dróun tekjuskiptingarinnar á Íslandi 1992–2010 [Income Distribution Development from 1992 to 2010]. *Icelandic Review of Politics and Administration* 8(1): 39–71.
- Ólafsson, Stefán, and Arnaldur Sölvi Kristjánsson.** 2013. Income Inequality in Boom and Bust: A Tale from Iceland’s Bubble Economy. In *Income Inequality: Economic Disparities and the Middle Class in Affluent Countries*, eds. Janet C. Gornick and Markus Jäntti, 416–438. Palo Alto, Calif.: Stanford University Press.
- Organisation for Economic Co-operation and Development (OECD).** 2011. *Divided We Stand: Why Inequality Keeps Rising*. Paris: OECD. [Link](#)
- Organisation for Economic Co-operation and Development (OECD).** 2015. Better Life Initiative: Measuring Well-Being and Progress. OECD (Paris). [Link](#)
- Rannsóknarnefnd Alþingis.** 2010. *Aðdragandi og orsakir falls bankanna 2008 og tengdir atburðir* [Report of the Special Investigation Committee Into the Fall of the Icelandic Banks]. Reykjavík: Alþingi.
- Rannsóknarnefnd Alþingis.** 2017. *Dáttaka Hauch & Aufhäuser Privatbankiers KgaA í einkavæðingu Búnaðarbanka Íslands hf. árið 2013* [Report of the Special Investigation Committee Into the Role of Hauch & Aufhäuser Privatbankiers KgaA in the Privatization of Búnaðarbanki Íslands in 2003]. Reykjavík: Alþingi.
- Reinhart, Carmen M., and Kenneth S. Rogoff.** 2010. *A Decade of Debt*. New York: Peterson Institute for International Economics.
- Social Progress Imperative.** 2016. 2016 Social Progress Index. Social Progress Imperative (Washington, D.C.). [Link](#)
- Þorláksson, Indriði H.** 2007. Skattapólitik: Er skattkerfið sanngjarnt og hvernig nýttast ívilnanir þess? *Icelandic Review of Politics and Administration* 3(1): 11–33.

About the Author



Stefán Ólafsson is a Professor of Sociology at the University of Iceland. He was educated at the Universities of Edinburgh and of Oxford. His research has mainly been in the areas of welfare, incomes, taxes, labour markets, and social change. He has served on the Council of the University of Iceland, the Council of Science and Technology of Iceland (Vísinda- og tækniráð Íslands), and he was Chairman of the Board of the Social Security Administration (2007–2017), which operates the social security system of Iceland. He is also a member of the European Social Policy Network (ESPN), a network of 30 independent specialists who do consultative work for the European Commission in Brussels. He is currently steering a European project assessing the welfare consequences of the Great Recession in Europe. His email address is olafsson@hi.is.

[Go to archive of Character Issues section](#)

[Go to September 2017 issue](#)



Discuss this article at Journaltalk:
<http://journaltalk.net/articles/5950>