

# Youth unemployment in Iceland

## Statements and Comments

**Vifill Karlsson**

The Regional Development Office of West-Iceland and Bifröst School of Business

The main reason for youth unemployment is lack of information. Young people have no skill record at all so, employers have problems evaluating their skills. Another reason is that young people lack job experience and awareness of their field of interests. Public intervention can, therefore, be successful to solve these deficiencies. Hence, measures like training programmes and counselling have been used and developed in many countries.

The policy context, economic circumstances and institutional and legal background in Iceland will be discussed in section 1 of the paper. The potential transferability of the policy/measure to the Iceland will be drafted in section 2. Finally, the current debate in Iceland concerning important issues relevant to the policy area will be discussed in section 3.

### **1. Policy context, economic circumstances and institutional and legal background**

#### **1.1. Economic circumstances**

The GNP per capita in Iceland has been relatively high, but very fluctuating, compared to other OECD nations, for many decades. This instability is related to a rather homogeneous industrial structure, mainly based on fisheries, agriculture and energy-intensive industry. The Icelandic economy has been threatened by relatively high inflation rather than unemployment in recent decades. Despite favourable economic conditions, youth unemployment has been a problem all along and an increasing problem.

For the last one or two decades the economy has been developing relatively fast. The importance of primary industry or fisheries and agriculture in GNP has been declining due to a growth in high tech industry (or rather education-intensive industries), like banking, gene technology, pharmaceutical industry and information technology. The share of large scale industry has also been rising. The importance of the service industry and the public sector has also been rising as in other European countries. As a result the GNP per capita has been rising rapidly in real terms for approximately the last 10 years.

The business cycles in Iceland are characterised by more fluctuations compared to other European or OECD nations. It is not only due to the small variety of industries and the large share of relatively few ones, but also to the smallness of the economy, which is relatively vulnerable in the face of external impacts. The Icelandic economy suffered from recession in the period of 1990-1996. The economy has been dominated by expansion ever since, with a minor drawback in the year 2000 and 2001.

The rapid growth of GNP per capita for the last 10-20 years is also related to reorganization of the domestic financial market and privatisation of public enterprises like some large factories and several banks, for instance. This reorganisation is related to Icelandic participation in EEA (European Economic Agreement) in 1994. The expansion from 2002 is mainly mobilised by a large investment in large scale industry, consumers' and investors' positive expectations and further reorganisation of the financial market. This time the growth of GNP is mainly based on increased consumption and partly increased productivity.

### 1.1.1. Unemployment

Unemployment in Iceland has been relatively low compared to other OECD-countries. The average unemployment rates were 3.9% in the year 1997 and 3.3% in the year 2002. Compared to the average unemployment rate in recent decades, this is relatively high for Iceland.

The labour force participation increased amongst young people from 67.7% in 1997 to 74.3% 2003. Men seem to have a slightly higher labour force participation rate than women (75.6% compared with 72.9). This gender gap seems not to be very stable for the last 10 years but it has been narrowing since at least the 1960s.

**Table 1. Rate of unemployment\* by sex, age-groups and education levels**

	Men		Women	
	1997	2003	1997	2003
<b>Average unemployment rate</b>	3.3	3.6	4.5	3.1
<b>Age-groups</b>				
16-24 years	8.3	9.5	7.1	7.0
25-54 years	2.3	2.4	3.8	2.5
55-74 years	3.7	2.5	7.0	1.2
<b>Educational levels</b>				
Basic education (ISCED 1,2)	5.0	6.4	6.7	4.4
Secondary education (ISCED 3,5)	2.9	2.2	2.8	2.3
University education (ISCED 6,7)	0.4	2.1	1.4	1.7

\* Labour force survey

Source: Statistics Iceland, 2003

According to the figures in table 1 the unemployment rate is higher amongst young men than women, especially in 2003. This situation is rather stable in Iceland for every year in the period of 1997-2003. It is also clear that unemployment is higher amongst lower educated than higher educated individuals. In the year 2003, the unemployment rate is higher amongst lower educated men than lower educated women. This relationship is not very stable because in the period 1997-2000 it is in favour of low educated men.

According to Lilja Mósesdóttir the gender gap in youth unemployment rates can be explained. "An important reason for the large gender gap in unemployment for the age-group 16-24 is that young women enter education soon after becoming unemployed while young men continue to search for a job. In addition, the employment of young men is more insecure as they are often employed in construction work, which is sensitive to business cycles and seasonal variations."<sup>1</sup>

## 1.2. Policy context

Several policies and measures have been implemented in Iceland in order to reduce unemployment. These policies and measures can be classified between training, counselling and other unspecified measures. Many of them have been aimed specially towards youth unemployment (table 2).

**Table 2. Active measures in order to reduce unemployment in Iceland year 2003**

Types of measures	Target group		Result	
	General	Youth	Participants	Job a. 3 mths
<b>Training</b>				
Second chance school	X	X	105	70
Self esteem programme	X	X	435	182
Job training agreements	X	X	79	55
Computer seminar	X		903	318
Heavy machinery seminar	X		167	127
Scholarship	X	X	192	80
<b>Counselling</b>				
Analysis of personal interest	X	X	65	20
Programme job seek 2	X		1.910	638
Programme job seek 3	X		496	110
Another measures	X		606	256
			4,958	1,862

Source: Directorate of labour, Iceland 2005.

← | - - **Formatiert:** Einzug: Links: 1,59 cm

<sup>1</sup> Mósesdóttir, Lilja (2001) *Evaluating gender equality in the Icelandic labour market*.

According to the figures in table 2 there were 4,958 participants in the programmes during 2003. Three months later, 38% of them had been hired to a new job. The training programmes seem to be more promising or successful than the counselling ones. There are relatively more individuals in jobs 3 months after the completion of the training programmes than after completing the counselling programmes. It should be mentioned that these programmes often go hand in hand, starting with counselling. The interpretation of the figures above can be extended. Those individuals who participate in both counselling and training programmes are more likely to get a job afterwards.

According to the Directorate of labour, the experience shows that it is more likely for younger participants to get a job after joining a training or counselling programme than the older ones. But young unemployed people are not as likely to participate in organised programmes as the older ones, and those who do are more likely to drop out of them. But those young who complete such programmes are more likely to get a job afterwards than the older people.

Youth unemployment has been rather different between regions in Iceland. It has been a larger problem in the capital area and several areas nearby than others. In addition to more traditional measures (see table 2) a special campaign and effort to prevent youth- and long term unemployment were launched in Reykjavík this winter. The campaign's objective was to reduce the number of registered young unemployed. The campaign measures began with group counselling measures, which were followed by individual interviews and counselling. The objective of the counselling was to create an awareness of field of interest and stronger self-esteem amongst the participants. This campaign's final stage was participation in job training programmes or education-agreement/scholarships. This campaign has been effective. The number of young unemployed dropped from 1,200 to 524 in the period May 2004 to March 2005. In this period, the unemployment among those 16-25 years old fell from 30% to 20% and among those 16-20 years old from 11% to 4%. This campaign was based on a cooperation between several institutions and public enterprises.

Fjölsmiðjan is another example of special programme in the capital area, in the municipal Kópavogur. It is a training centre based on real production and service and is divided into departments of carpentry, electricity, housekeeping, computer-work and car-washing. Plans for increased numbers of departments have already been made. Fjölsmiðjan was established on 15 March 2001<sup>2</sup>.

Special measures focusing on youth unemployment outside the capital area have mainly involved "second chance" schools, for instance in the area of West-Iceland, and job training centers like in Kópavogur,."

---

<sup>2</sup> Björnsdóttir, A. and Valdimarsdóttir, M. (2004) Vinnumiðlun ungs fólks-Nýjar leiðir í atvinnumálum ungs fólks í Reykjavík.

### 1.3. Institutional and legal background

Unemployment is the responsibility of the Ministry of Social Affairs. The Directorate of Labour appertains to the Ministry of Social Affairs and is responsible for public policy in labour market affairs. Further description of the institutional background can be found in the web site of the Directorate of labour:

*“Directorate of Labour is the Icelandic Labour Market Authority. Directorate of Labour was established in 1997 and is responsible to the Minister of Social Affairs. The main field of work is to transfer the labour market policy into reality, to monitor the regional employment offices, supply the regional employment offices with professional assistance, collect information from the regional employment offices on the employment situation, unemployment and employment trend. To process information from the regional employment offices, supply recommendations on labour market measures to the board of the directorate.*

*Directorate of Labour consists of 8 regional employment offices throughout the country. Among tasks of the regional employment offices are to ensure to find suitable job for jobseekers and to assist employers to find the relevant employee. Unemployment registration is also the task of the regional employment offices. Each regional employment office has a regional employment council which is composed of representatives from the labour market organisations, the local authorities and the secondary schools.*

*The activities of the Unemployment Insurance Fund as well as the activities of the Wage Guarantee Fund are located in the head office of the Directorate of Labour.”<sup>3</sup>*

## 2. The potential transferability of the policy/measure to the peer country.

Youth unemployment is a problem in Iceland. There are several measures which have been employed in Iceland to reduce youth unemployment. Many of them are similar to the measures which have been used in the Netherlands, especially some of the training programmes. More frequent measures with special focus on youth unemployment are probably one of the important lessons Iceland can learn from projects in the Netherlands.

Several measures which have been employed in the Netherlands are of interest and can be transferable to Iceland. These are:

- **Drop-out.** Special measures towards reducing early school-leaving without a diploma could be applied in Iceland. Drop-outs are a much larger problem in Iceland than is realised, and special measures towards this problem seem to be preventive against youth unemployment. Drop-outs are more common amongst young men than women in

---

<sup>3</sup> Directorate of labour (2005) Information from the homesite of the Directorate of labour.

Iceland. Drop-out has been debated and researched in Iceland, but active measures against the problem have not been as visible.

- **Job fairs.** Organised job fairs have not been held in Iceland. They could be informative and productive because many Icelandic firms claim that there is not enough available labour on the market at the same time as youth unemployment is high, especially amongst the unskilled. Icelandic firms have increasingly solved the labour shortage by employing temporary foreign labour.
- **Job creation.** Many firms in several industries have not been developing their methods and outputs. Special programmes can be employed to stimulate job creation in new and unutilised areas.
- **Further co-operation between organisations.** The authorities and both public and private organisations could be more co-operative regarding measures towards youth unemployment. It was obvious from the presentation in Den Haag that the co-operation between different organisations and participants are more developed than in Iceland.

### 3. Important issues relevant to the policy area that are currently being raised and debated in the peer country.

There are not many issues relevant to this policy area that are currently being raised and debated in Iceland. The unemployment of young men is highly debated but more from the view point that something needs to be done than how to solve it. It has also been pointed out that one important reason for the high drop out rate of men is that unskilled men earn as much as women who have completed secondary education<sup>4</sup>.

Other debates:

- **Young entrepreneurs.** A special programme, called Young Entrepreneurs, has been tested lately in Iceland. The objective is to motivate young unemployed people to find their personal interest and potential business opportunity as well as to help them to take the first steps in realising it.
- **Special youth employment agency.** According to the result of new research, a special youth employment agency needs to be established.<sup>5</sup>
- **Further continuity.** Further continuity with learning, training programmes, especially job-training and self-esteem, along with counselling is of great importance according to both experts and young unemployed people.<sup>6</sup>

<sup>4</sup> Kristjana Stella Blöndal (2005) TV interview.

<sup>5</sup> Björnsdóttir, A. and Valdimarsdóttir, M. (2004) Vinnumiðlun ungs fólks-Nýjar leiðir í atvinnumálum ungs fólks í Reykjavík.

<sup>6</sup> Björnsdóttir, A. and Valdimarsdóttir, M. (2004) Vinnumiðlun ungs fólks-Nýjar leiðir í atvinnumálum ungs fólks í Reykjavík.

#### 4. References.

Björnsdóttir, A. and Valdimarsdóttir, M. (2004) Vinnumiðlun ungs fólks-Nýjar leiðir í atvinnumálum ungs fólks í Reykjavík. Reykjavík: Nýsköpunarsjóður námsmanna.

Directorate of labour (2005) Information from the homesite of the Directorate of labour, <http://www.vinnumalastofnun.is/default.asp?webid=33>

Kristjana Stella Blöndal (2005) TV interview.

Mósesdóttir, Lilja (2001) Evaluating gender equality in the Icelandic labour market, Reykjavík: Rannsóknarmiðstöð Háskólans í Reykjavík. <http://www.samvinna.com/Lilja/Report01.pdf>: pgs. 9-10.