Coping with the crisis: Iceland in a Comparative Perspective
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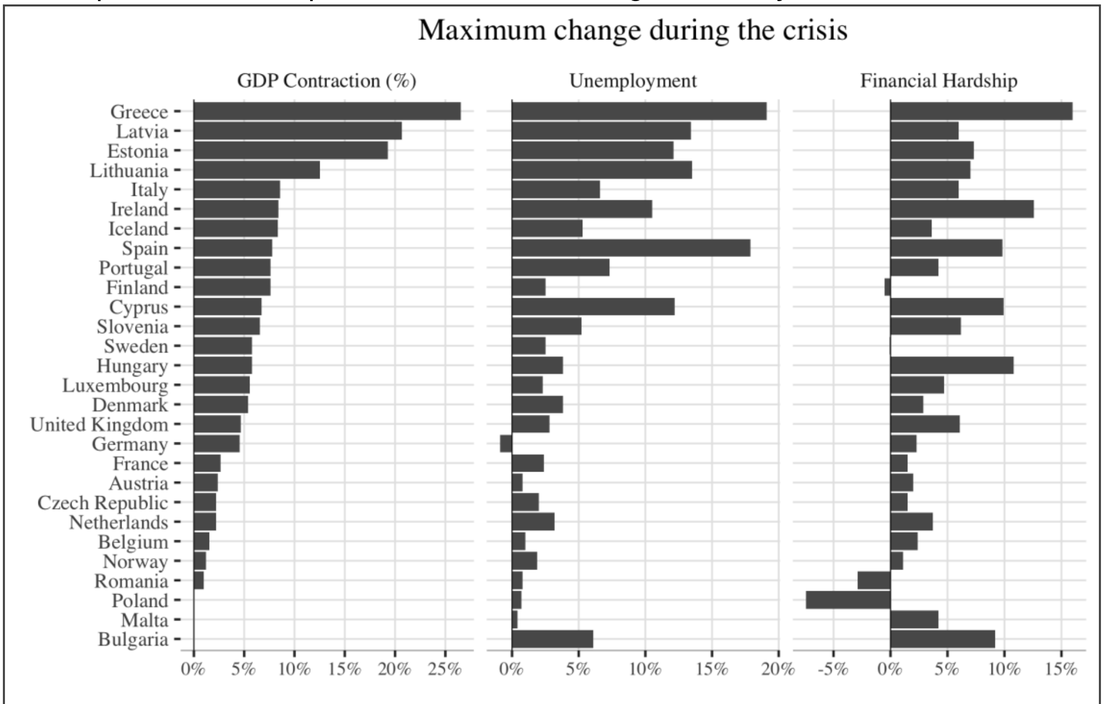
This talk is based on a comparative study of welfare consequences of the financial crisis in Europe, forthcoming in a book from Oxford University Press in January 2019 (***Welfare and the Great Recession: A Comparative Study***), edited by Stefán Ólafsson, Mary Daly, Olli Kangas and Joakim Palme.

The book investigates how the burdens of the crisis were shared—between countries, between different socio-economic groups across Europe, and within individual countries. The studies are based on broad comparisons of 30 countries and deeper analyses of 9 country cases. The approach is grounded in classical theories about crisis responses and relates financial hardship of populations to institutional characteristics—such as welfare regimes, currency regimes, socio-political patterns, affluence levels, public debt, and policy reactions during the crisis period—for example, stimulus versus austerity, the degree of social protection emphasis, the commitment to redistribution, and the significance of activation.

The book offers new evidence on and demonstrates the importance of the welfare state and government policies with regard to sheltering populations from level of living consequences of serious economic contraction and distributing burdens in a crisis situation. The book offers various lessons from the crisis experience in Europe and ends with a discussion about welfare futures in a globalized, crisis-prone environment.

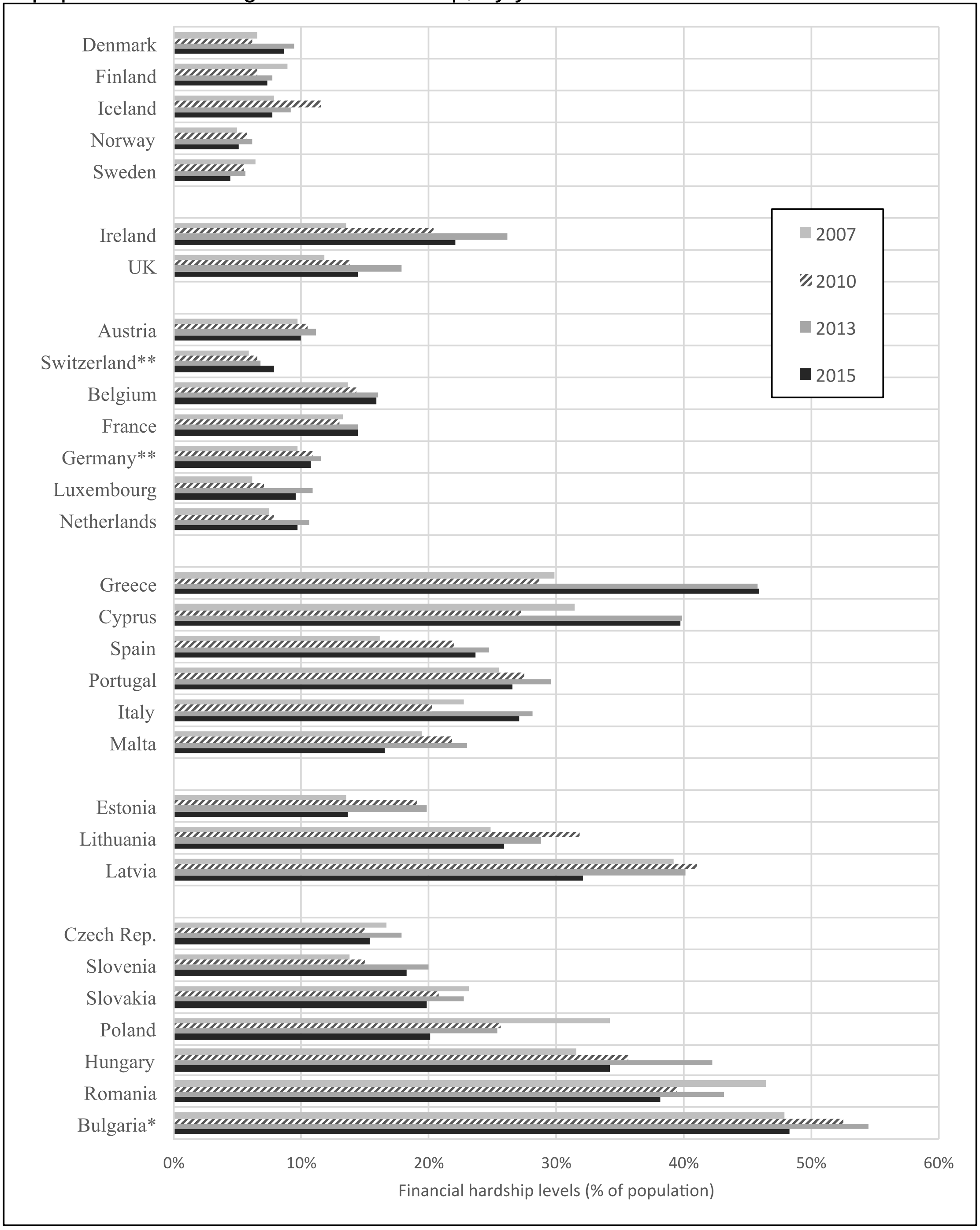
For the purpose of the analyses a new composite indicator of **financial hardship** of populations was developed, based on micro data on income poverty, material deprivation and difficulties in making ends meet. The data comes from the Eurostat EU-SILC dataset, covering more than 30 European nations.

Figure 1 relates GDP contraction to unemployment developments and financial hardships from 2007 to peak level reached during the crisis years.



Note: GDP contraction measured in %, change in unemployment and financial hardship in percentage points.

Figure 2 shows financial hardship developments during the crisis years in European countries, grouped by different welfare state regimes: Nordic; Anglo-Saxon; Continental; Southern European; Baltic; Other Eastern European. Columns show % of population suffering financial hardship, by years.



In general, nations with more advanced welfare states were better protected against the vagaries of the crisis. Policy reactions during the crisis were also important. Thus countries where austerity policies were more heavily implemented had greater consequences in the form of increased financial hardship of population groups, particularly the lower income groups. Increased social protection efforts and redistribution helped cushion the crisis effects. Pre-crisis government debt and currency regimes also made a difference.

Iceland did well compared to other deep-crisis countries. Financial hardship of the population increased less than in countries that experienced similar or even less economic contraction. This is related to a strong welfare state, redistributive social protection policies, low government pre-crisis debt level, as well as favourable post-crisis economic development, mainly related to growth of tourism.