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THE STATE AND THE ICELANDIC ECONOMY, 1870-1930

A thesis submitted for a final examination  
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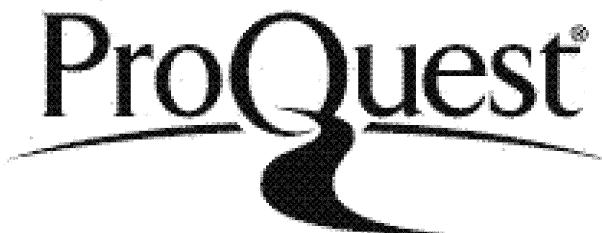


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## ABSTRACT

This thesis examines the role played by central government in the economic development of Iceland in the period 1870 to 1930 - an era during which the country was transformed from an extremely poor and backward dependency of Denmark into an independent, capitalist state.

The study focusses on three spheres of government involvement. The first is institutional change with special reference to agriculture, the largest sector of the economy. The study demonstrates how land tenures, peasant obligations and the regulation of the labour force came to be seen as obstacles to modern farming and examines policies aimed at reforming the institutions underpinning them.

Public expenditure policy and its relevance to economic development is the subject of the second part of the thesis. A detailed statistical analysis is undertaken of public expenditure on economic services, its composition and share in total expenditure. In comparison with other countries in Northern Europe economic expenditure in relative terms and per capita was remarkably high in Iceland.

The emergence of modern banking is examined in the third part of the thesis. The main topics covered here are the creation of an Icelandic currency and the institutional setting for the central bank function, public investment credit funds and government measures to mobilize credit for the private sector.

The thesis concludes that big public spending on a wide range of economic activities, the prominent role of government in shaping the institutional framework of the economy and its heavy involvement in banking indicate an unusually high degree of state intervention in the economy. This is best explained by the strong commitment of the fledgling Icelandic government to economic development and the lack of capital and entrepreneurship which the state was to substitute.

#### ACKNOWLEDGEMENTS

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#### PRONUNCIATION OF ICELANDIC LETTERS

Icelandic spelling is used in all Icelandic words occurring in the thesis. These frequently include letters peculiar to the Icelandic language and alphabet, such as the following:

þ, þ, pronounced as th in "thin"  
ð, ð, pronounced as th in "then"  
é, é, pronounced as i in "time"  
ó, ó, pronounced as u in "fur".

#### ABBREVIATIONS

Alþ.	Alþingistíðindi [Icelandic Parliamentary Papers]
BI	Búnaðarfélag Íslands [Agriculture Organization of Iceland]
db.	dagbók [journal in the Ministry of Iceland Archive]
DFDS	Det Forenede Danske Dampskib Selskab [The United Danish Steamship Company]
FI	Fiskifélag Íslands [Fisheries Association of Iceland]
kr.	króna, pl. krónur [the Icelandic currency]
LR	Landsreikningurinn [The Government Accounts]
SSI	Skjalasafn Stjórnarráðs Íslands [Ministry of Iceland Archive]
STC	State Trading Company [Landsverslun]
Stjt.	Stjórnartíðindi [Government Bulletin]
STTS	State Telephone and Telegraphic Service [Landsími Íslands]
ÞS	þjóðskjalasafn Íslands [National Archives of Iceland]

### ICELANDIC EXCHANGE RATES UP TO 1930

The Icelandic króna was on par with the other Nordic currencies before 1914 and officially with the Danish krone until 1922, but started to drift apart in 1920. Following table shows the average annual exchange rate of one unit of the Danish krone, pound sterling and the U.S dollar measured in Icelandic krónur in Reykjavík:

	DKR	£	\$
parity before 1914	1.00	18.16	3.73
1914	1.00	18.46	3.85
1915	1.00	18.83	3.91
1916	1.00	17.21	3.69
1917	1.00	16.70	3.24
1918	1.00	16.39	3.47
1919	1.00	19.63	4.59
1920	1.03	25.90	7.32
1921	1.15	24.54	6.45
1922	1.18	25.96	5.85
1923	1.18	29.27	6.61
1924	1.18	31.15	7.18
1925	1.1098	25.33	5.26
1926	1.196	22.15	4.57
1927	1.218	22.15	4.56
1928	1.218	22.15	4.56
1929	1.217	22.15	4.57
1930	1.22	22.15	4.56

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Sources: Jóhannes Nordal and Ólafur Tómasson, 'Frá floti til flots. Þættir úr sögu gengismála 1922-1973', in Klemensarbók (Reykjavík, 1985), p.227. - Arbók Haqstofu Íslands 1930 (Reykjavík, 1930-1931), p.69.

## INTRODUCTION

The theme

The economic forces unleashed by the early industrialized nations had profound effects on outer parts of Europe and posed a formidable challenge to them. The responses of the European periphery varied widely in accordance with each nation's historical development, and one of the important ways to meet the challenge was to use the state power in order to mobilize resources necessary to embark upon economic development.

The aim of this thesis is to examine and assess the influence of government on the economic development of Iceland between 1870 and 1930. The case of Iceland offers an example of the way in which government in a small society met the challenge of industrialization and tackled the problem of modernization during a period of rapid economic change. Between 1870 and 1930 Iceland was transformed from an utterly poor and backward dependency of Denmark into an independent, capitalist state. The process of the economic transformation certainly stretched over a longer span of time, but it was during this crucial period that the social structure of the old peasant society collapsed and was replaced by a new social formation. It was also during this particular period that Iceland severed most of its political ties with Denmark.

One of the disparities between the early industrializing nations and the "latecomers", it has been contended, is the greater role played by the state in the economic development of the latter group of nations. This is Alexander Gerschenkron's theory of "economic backwardness", one of the most interesting theoretical constructions about the role of government in the European industrialization. He maintained, in short, that the course and character of countries' industrialization tended to vary with the degree of economic backwardness. The more backward a country was the greater was the role played by "special

institutional factors designed to increase supply of capital to the nascent industries and, in addition, to provide them with less decentralized and better informed entrepreneurial guidance."<sup>1</sup>

Compared with the pioneers of industrialization the "latecomers" were faced with more complex technology requiring relatively large lumps of fixed capital, which individuals or small groups of individuals could not mobilize out of their own wealth. In "moderately backward" countries such as Germany banks took on the role of providing the capital and even the entrepreneurship whereas in "extremely backward" countries like Russia and other East-European countries not even the banking system was adequate to take on this role. These countries had to resort to the state power in order to overcome their backwardness and make up for the shortcomings of the market forces.

Gerschenkron is now widely regarded as having exaggerated the differences between eastern and western Europe with respect to the state's role in the economy.<sup>2</sup> This is especially true when the part played by government in shaping the political and institutional preconditions of the capitalist transformation is considered and not only periods surrounding "discontinuities" or economic activities per se. On a more basic level, Gerschenkron's rather loosely defined "backwardness" has proved difficult to quantify for the purpose of testing his thesis statistically. One such test, using government expenditure on current goods and services to gross national expenditure as a proxy for the degree of government intervention in

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<sup>1</sup> Gerschenkron, A, 'The Approach to European Industrialization: A Postscript', in Economic Backwardness in Historical Perspective (Cambridge, Mass., 1962), p.354.

<sup>2</sup> Berend, Ivan T. and G. Ranki, Economic Development in East-Central Europe in the 19th and 20th Centuries (New York, 1974), p. 81-92. See also by same authors The European Periphery and Industrialization 1780-1914 (Cambridge, 1982), pp.59-72.

Europe before 1914, does not show any systematic variations between countries at comparable levels of real capita incomes.<sup>3</sup> To Gerschenkron's defence, though, one can say that expenditure levels in nineteenth century Europe reflect rather military than economic commitments of states as defence expenditure was normally far the largest spending category. Public expenditure is moreover a limited yardstick of government economic role which is often hard, if not impossible, to quantify.

Although the general validity of Gerschenkron's theory has been disputed, the causal link between backwardness and the economic role of government has not been ruled out as one of many possible explanations of the variation in government intervention in the economy. It is contended here that the "backwardness" theory illuminates the relationship between state and economy in Iceland and is helpful in explaining the prominence of government in fields such as the economic infrastructure and banking.

In the scanty Icelandic literature on the economic role of the state before 1930 two notions in particular can be discerned, one that has to do with the scope of government intervention, the other with its character. Some writers have labelled the dominant economic policy from the late nineteenth century up to the 1930s as laissez-faire, seeing government as playing little active role in the economy. Sigfús Jónsson maintains that the objectives in economic policy were not to influence the overall direction of the economy and only after the turn of this century did government embark upon specific measures to effect particular aspects of the economy, first in agriculture during the first years of the century, than in the fishing

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<sup>3</sup> Crafts, N. F. R., 'Patterns of Development in Nineteenth Century Europe', Oxford Economic Papers XXXVI (1984), pp.438-458.

sector during the First World War.<sup>4</sup>

The second notion and a much older one equates the economic advance of Iceland - in which government played a crucial role - with greater political independence from Denmark. According to this view government's positive contribution to the economy increased as the country progressed towards independence. Þorkell Jóhannesson saw "a watershed in our economic history with the restoration of the Althing in 1845 and again in 1874 when the Althing got legislative power. Our greatest debt is, however, to the Home Rule from 1903 onwards. Since 1845 the nation's economic progress has gone hand in hand with increased influence and power of the Althing."<sup>5</sup>

To those writers government intervention in the economic life is normally seen as unproblematic and positive - provided the state power is in the hands of Icelanders themselves. Inspired by the nationalist struggle itself and under the influence of the nationalist interpretation of modern Icelandic history the Danish authorities are at best seen as indifferent to the nation's needs, at worst oppressive in their unholy alliance with the parasitic Danish merchants. With increased self-determination, however, government became to reflect the "national will" and embarked upon progressive economic policy as popular demands for economic progress and modernization found easier access to the institutions of the emerging national state.

The nationalistic history has been fading in recent decades and has even given way to a very different

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<sup>4</sup> Sigfús Jónsson, Sjávarútvegur Íslendinga á tuttugustu öld, (Reykjavík, 1984), p.118-20. A large part of the book is based on his Ph.D. thesis, University of Newcastle upon Tyne, 1980, The Development of the Icelandic Fishing Industry 1900-1940 and Its Regional Implications (Reykjavík, 1981); see in this context pp.103-5, 183-7.

<sup>5</sup> Þorkell Jóhannesson, Alþingi og atvinnumálin, Saga Alþingis IV (Reykjavík, 1948), p.10; see also his 'Landbúnaður á Íslandi 1874-1940', Lýðir og landshagir I (Reykjavík, 1965), pp.309-310.

understanding of the economic ideology of the nationalist movement. In a number of studies the nationalists' commitment to economic and social modernization has been questioned. Although disagreeing on various points, the critics share the view that the nationalist movement was opposed on most fronts to a liberal framework of the economy until very late in the nineteenth century; its aims were rather to preserve the existing social and economic order and thus, in effect, retard the change towards a more modern economy. The Danish government is on the other hand seen as an agent of liberal economic change carrying policies from a more liberal, bourgeois society.

Gisli Agust Gunnlaugsson has studied the Icelandic poor law and other social legislation and demonstrates how it was applied on local level in order to regulate settlement, family building and the labour supply for the preservation of the rural farming society.<sup>6</sup> In a study on servants in the nineteenth century I examined how the farming community tried to control the labour supply through the bondage on labour, thus retarding the division of labour and urbanization.<sup>7</sup> Land laws and tenure practices and their stifling effects on agricultural modernization have also been subject to some research.<sup>8</sup>

The most radical interpretation in this new strand of research is Guðmundur Hálfdanarson's study of social

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<sup>6</sup> See his Ómagar og utanþrósfólk. Fátækramál Reykjavíkur 1786-1907, Safn til Sögu Reykjavíkur (Reykjavík, 1982) and Family and Household in Iceland 1801-1930. Studies in the Relationship between Demographic and Socio-economic Development, Social Legislation and Family and Household Structures (Uppsala, 1988).

<sup>7</sup> Guðmundur Jónsson, Vinnuhjú á 19.öld, Ritsafn Sagnfræðistofnunar 5 (Reykjavík, 1981).

<sup>8</sup> Guðmundur Hálfdanarson, 'Afkoma leigulíða 1800-1857' (unpublished B.A. thesis in history, University of Iceland, 1980). - Erlingur Brynjólfsson, 'Bagi er oft bú sitt að fleytja' (unpublished Cand. Mag. thesis in history, University of Iceland, 1983). - Guðmundur Jónsson, 'Sambúð landsdrottna og leigulíða. Yfirvöld skrifa um leiguábúð 1829-1835', Saga XXVI (1988), pp. 63-106.

attitudes and policies, especially on marriage restrictions on the poor, around the middle of the nineteenth century.<sup>9</sup> He finds little evidence of liberal influence on the nationalists and goes as far as to argue that the nationalist movement itself emerged as a defensive response of the farming community to the liberal challenge from the Danish government. Guðmundur Hálfdanarson's interpretation has been criticized on several accounts.<sup>10</sup> It has been pointed out that, although the nationalists did not embrace the doctrines of economic liberalism, their political ideas and, indeed, their foreign trade policy, were markedly liberal. Furthermore, Guðmundur Hálfdanarson is criticized for exaggerating the commitment of the Danish government to do anything about the Icelandic economy; it lacked, the critics claim, the necessary motivation and ambition to become an influential agent of economic change in Iceland.

To use the term *laissez-faire* to describe economic policies before 1930 is misleading. It is true that in comparison with the interventionist 1930s and the post-1945 era, economic policy appears to be markedly liberal and government involvement in the economy was much less than it later was. In common with other European countries deliberate public measures to effect the general level of economic activity are associated with a later era. The public sector in Iceland was relatively small and the fiscal means of an active government limited for a good part of the period 1870-1930. Government participation in commercial or industrial enterprises was rather limited and trade policy

<sup>9</sup> Guðmundur Hálfdanarson, 'Takmörkun giftinga eða einstaklingsfrelsi. Thaldsemi og frjálslyndi á fyrstu árum hins endurreista alþingis', Timarit Máls og menningar XLVII (1986), pp.457-468. A more thorough and elaborate version is offered in his 'Old Provinces, Modern Nations: Political Responses to State Integration in Late Nineteenth and Early Twentieth-Century Iceland and Brittany' (unpublished Ph.D. thesis, Cornell University, 1991).

<sup>10</sup> Guðmundur Jónsson, 'Ósamræmi í frelsishugmyndum oftúlkað', and Gunnar Karlsson, 'Frjálslyndi kemur ekki í eitt skipti fyrir öll', Ný saga I (1987), pp.61-6.

remained remarkably liberal right up to the Great Depression.

Yet, Iceland was never a laissez-faire economy. The rather passive role of government in fiscal and industrial policy during most of the nineteenth century had more to do with an undeveloped state structure, general poverty of the population and age-old peasant housekeeping principles than a deliberate non-intervention policy of the liberal kind. Some areas like the labour market and the social field in general were heavily regulated by law. The best example of the free-market policy was foreign trade, but internal trade was regulated to considerable extent for most of the century. Besides, what was there to protect from outside competition since Icelanders produced neither grain nor industrial goods? When the dominant political groups were persuaded that there was something in the economic modernization for them at the end of the century substantial resources were channelled to economic services and the promotion of the main industries. The state became an agent of economic growth.

The interventionist character of the state becomes more visible when we focus on the role it played in shaping the institutional framework of the economy and in creating an economic environment favorable to the growing market economy. It was on a government level, for better or worse, that most of the important institutional change had to be formulated, enacted and enforced and the political outcome of this process greatly influenced economic activities.

Following recent reinterpretations of the economic and social policies of the nationalists during the independence struggle the conservative strand of the nationalist movement is stressed in the thesis - but with qualifications. Liberal foreign trade policy and a fair degree of receptiveness towards new technology indicate that economic modernization was far from being rejected in toto. It is moreover argued that national self-determination was a necessary but not sufficient precondition for an active growth-orientated policy. With the ascendancy of the nationalist movement the ground was laid for more ambitious

policies, more readiness shown for industrial promotion through public means than under the distant and uninterested Danish rule. Such policies, however, did not come about automatically with increased political autonomy. Although popular expectations rose with the legislative power of the Althing in 1874 they were not translated into active policy. Only when powerful groups in society became interested in economic modernization and the financial and structural capacity of the state was enhanced towards the end of the century did government start to embark upon active and innovative economic policy.

The thesis focusses on three areas in which government intervention had particular relevance for the country's economic development. Section one examines public measures to change the legal and institutional framework of agriculture which still at the end of the nineteenth century provided livelihood for two thirds of the population.

Section two deals with the development of public finance with particular reference to expenditure policy, where priorities in economic policy are so clearly visible. The main patterns of public expenditure are described and expenditure on economic services is analyzed in detail. An account is given of the main public programmes and services, their motives, scope and general impact.

The third section looks at the contribution of government to the creation of the banking system. This task of government is closely related to that examined in the first section, namely public measures to adapt and create an institution in accordance with needs of the emerging capitalist economy.

The emphasis is put on public policy in action and its economic effects rather than the political debate on economic policy, although the background for important policies is examined. A great deal of the research therefore focusses on measurements of public financial contributions to the economy to enable us to assess government actions more precisely and their relative weight.

This applies to the study of public spending on economic services and loan capital channelled through public bodies. Particular attention is paid to the Government Reserve Fund which has not been subject to historical study before.

The limited research available on Icelandic economic history has made it unavoidable to devote a substantial part of the thesis to the analysis of various structures and developments in the economy such as ownership of land, farm tenure and the volume and structure of institutional credit, although the main focus is on public policy.

The principal sources of the thesis are various published and unpublished public documents. They are, first, documents on the legislative and policy making process, reports of government committees, parliamentary papers, government laws and regulations and unpublished papers of the Ministry of Transport and Economic Affairs. Other noteworthy unpublished sources on policy matters are the Records of the Agriculture Association (Búnaðarfélag Íslands) which have been consulted on the issues of agricultural credit and land tenures, and documents concerning agricultural matters kept in the Department of Icelandic Affairs (Íslenska stjórnardeildin).

The Government Accounts (Landsreikningurinn) are the basis for analysis of the public finances, but also very important are the parliamentary papers on the preparation of the Finance Act. Numerical data on credit institutions has been extracted from a wide range of publications, in the case of public funds the most important being the Government Accounts, the Government Bulletin (Stjórnartíðindi) and, where published accounts are not available, the Records of the Government Treasurer (Skjalasafn landfógeta) and accounts in the papers of the Ministry of Finance. All the unpublished sources mentioned above are kept in the National Archives in Reykjavik.

Economy and society, 1870-1930

"The state of things in Iceland can hardly be compared with that of any other place, on account of the sparseness of its population as compared with its great extent ...", said in a British consular report from 1872.<sup>11</sup> Iceland was - and is - the most sparsely populated country in Europe with only 0.75 persons per squarekilometre at the beginning of this century. While the population of the neighbouring countries was slowly growing in the modern era, Iceland's population remained stagnant for centuries, never reaching much more than 50,000 as if a fixed limit had been superimposed on her.

The nineteenth century saw this limit superseded as the population began at last to grow substantially, from 48,000 in 1820 to 70,000 in 1870. In the following two decades, however, population pressure, adverse economic conditions and colder climate sparked off a wave of emigration to Canada and the United States leading to an actual drop in the population for a while. The emigration rate was highest in the late 1880s, exceeding 13% a year, but during the main emigration period, 1876-1905, nearly 15,000 people left the country for America.<sup>12</sup> With an economic recovery around and after 1890 the population slowly started growing again and by 1930 it had reached 109,000 (table 1).

The remarkable smallness of the population gave little scope for urban development and the virtual absence of proper towns and villages until the end of the nineteenth century stands out as an important characteristic of pre-industrial society. Towards the end of the century villages and small towns emerged in the coastal districts

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<sup>11</sup> Reports from Her Majesty's Consuls on the Manufactures, Commerce, &c., of the Consular Districts: Denmark, British Parliamentary Papers 1872, LVIII, pp.637.

<sup>12</sup> Helgi Skúli Kjartansson, 'Emigrant Fares and Emigration from Iceland to North America, 1874-1893' Scandinavian Economic History Review XXVIII (1980), p.55.

Table 1 GROWTH AND DISTRIBUTION OF THE POPULATION  
1870-1930

year	rural areas	%	urban areas	%	total population	annual growth rate in decades
1870	67,150	96	2,613	4	69,763	
1880	68,815	95	3,630	5	72,445	0.3
1890	63,296	89	7,631	11	70,927	-0.2
1901	64,115	82	14,355	18	78,470	1.0
1910	57,719	68	27,464	32	85,183	0.8
1920	54,245	57	40,445	43	94,690	1.0
1930	48,950	45	59,911	55	108,861	1.4

Sources: *Tölfræðihandbók 1984*, Hagskýrslur Íslands II, 82 (Reykjavík, 1984), p.24. - Arni Indriðason, 'Breytingar á skiptingu mannafla milli atvinnugreina á Íslandi 1850-1920', (unpublished B.A. thesis in history, University of Iceland, 1974), p.13.

Note: Urban areas are defined as localities of 300 inhabitants and over.

and by 1930 a good majority of the population lived in urban areas. Reykjavík, the capital, was gradually becoming the centre of trade and modern fishing and was the largest town with no more than 2000 inhabitants in 1870. By 1930 its population had reached 28,000.

Iceland is the second largest island in Europe whose location and physical geography is not particularly favourable to modern economic development. The climate and the vegetation are dictated by its northerly latitude, situated just south of the Arctic circle. Most of its 103,000 square kilometers are uninhabitable and at least three quarters are covered with glaciers, lava fields or other wasteland. In 1930 it was estimated that the remaining quarter or so was divided as follows: cultivated land 1%, meadows (partly harvested for hay) 4%, woodland 3% and no less than 92% pastures of different quality.<sup>13</sup>

The best agricultural areas are in the lowlands of

<sup>13</sup> *Iceland 1930* (Reykjavík, 1930), p.51-2.

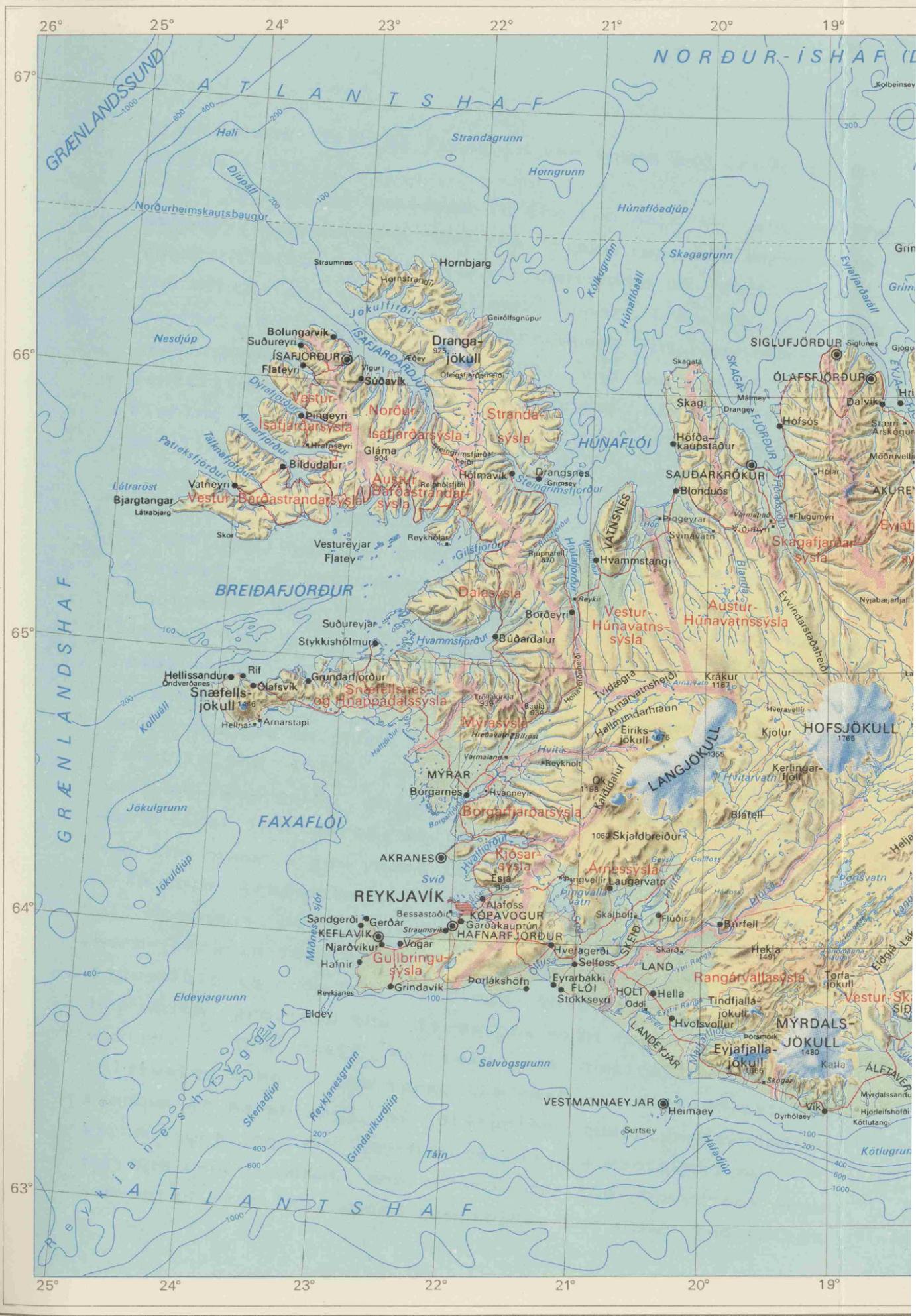
South- and West-Iceland as well as in the valleys in the North stretching from the heads of the wide fjords. The Vestfjords (Vestfirðir) and the Eastfjords (Austfirðir) are on the other hand mountainous with the coastline indented by long and narrow fjords which provide good natural harbours, but farming is limited on the small strips of often rugged lowland along them.

The country is poorly endowed with resources having no exploitable forests, mines, coal or minerals, the traditional domestic fuel being peat, brushwood, dried seaweed and sheep dung. The climate prevents any significant cereal crops from growing although the temperature is higher than might be expected (-0.4°C in January and 11.2°C in July in Reykjavík) thanks largely to the Gulf Stream. Iceland's most valuable resource lies not in the land but the sea surrounding it where one of the richest fishing grounds in the world are found with cod as the most valuable species, but haddock, saithe and herring are also found in large quantities.

The rudimentary specialization of work, the extreme poverty of the bulk of the population and a low level of development were striking features of the economy of late nineteenth century Iceland. Nordic peasants have been described as unspecialized "jacks of all trades" engaged in a range of activities, which is a fitting description also of Icelanders except that they had fewer resources to exploit than their counterparts.<sup>14</sup> The overwhelming majority of Icelanders were poor peasant farmers who supplemented their meager earnings from livestock farming with fishing, seal hunting, birding and, not least, producing woollen knitwear during the winter. Still in 1870 the household was the predominant economic unit where most of the production took place; the only notable businesses outside the household domain were the few

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<sup>14</sup> Löfgren, O., 'Family and Household among Scandinavian Peasants', in M. Anderson (ed.), Sociology of the Family (Harmondsworth, 1982), p.91.





trading and fishing firms in the towns and trading ports on the coast.

The technology employed in the two main sectors of the economy, agriculture and the fisheries, had not changed substantially from the first centuries of settlement in the ninth and tenth century. Apart from the "Scottish scythe", no significant improvement in hay harvesting techniques occurred before 1900 and the use of chemical fertilizers did not start to spread until after 1920. Fishing was normally operated on rowing boats with hooks and lines. The economy was mostly geared towards the production of raw material such as unworked wool and foodstuff (fish products, butter, mutton) with the bulk of the agricultural products poorly rated abroad. The economic infrastructure was primitive, waterways were unsuitable for transport, only a handful of wooden bridges had been built by 1870 and the lack of proper roads meant that all inland transport was by foot or on horseback. Most rowing boats and even decked vessels had to be dragged on shore for lack of harbour facilities and first in the 1870s were individual piers built which allowed sea-going ships to berth. Tele-communications were first introduced at the end of the century and machine power a few years later.

In this predominantly rural society agriculture had an all dominant position, still employing over 80% of the work force in 1870 as table 2 demonstrates. As grain was impossible to grow the land was only tilled to produce hay which provided the livestock with fodder during the winter. The small hayfield was basically the only cultivated area on the farm, the rest was divided between meadows or marshlands of different quality devoted to either grazing or hay-harvesting and wasteland not fit for any use. About one third of the hay-crops were harvested from the tended hayfields, the other two-thirds

Table 2 ECONOMICALLY ACTIVE POPULATION, BY OCCUPATION

	1870	1890		1910		1930	
		%		%		%	
agriculture	22592	82.0	19930	67.5	20819	50.1	17459
fishing	2832	10.3	5227	17.7	5758	13.9	6607
fish processing					1236	3.0	2707
other manufact./construction	484	1.8	1153	3.9	3466	8.3	6468
commerce/transport/communic.	776	2.8	1718	5.8	3013	7.3	6828
private service	262	1.0	386	1.3	5841	14.1	5772
public service	254	0.9	290	1.0	1185	2.9	1551
unspecified occupation	336	1.2	809	2.7	219	0.5	85
	=====	=====	=====	=====	=====	=====	=====
	27536	100.0	29513	100.0	41536	100.0	47477
							100.0

Sources: Fólkstala á Íslandi 1.dag októbermánaðar 1870, Skyrslur um landshagi á Íslandi V (Copenhagen, 1875), pp.284-291. - Fólkstala á Íslandi 1.dag nóvembermán. 1890, Stjt. 1893 C, pp.32-40. - Manntal á Íslandi 1.desember 1910 (Reykjavík, 1913), pp.82-93. - Manntal á Íslandi 2.desember 1930, Hagskyrslur Ísland 92 (Reykjavík, 1937), pp.74-9.

Notes: The figures refer to the main breadwinner of the household/family, leaving out dependents, i.e. married women, children and relatives. - Servants of officials are included in agriculture 1870 and 1890 except those in Reykjavík who are together with servants of pensioners, proprietors, workers and persons having unspecified occupation put in private service. - Fishing includes fish processing 1870 and 1890. - The class of labourers is divided between manufacture and commerce at the ratio of 1:4, cf. Magnús S. Magnússon, Iceland in Transition. Labour and Socio-Economic Change before 1940 (Lund, 1985), p.231. - Persons with unspecified occupation, students and recipients of poor relief are excluded.

from the meadows or marshlands.<sup>15</sup> Vegetable cultivation (mostly potatoes and swede) increased moderately during the nineteenth century, but was far from meeting the domestic demand as indicated by the rapidly increasing potato imports throughout the period 1870-1930.

The vast pastures made the land well suited for animal husbandry, especially sheep-raising which was the mainstay of farming. The number of sheep per capita was far the highest in Europe, but natural circumstances and reliance on pasture grazing during winter caused great fluctuations in the sheep flocks. There was nevertheless a steady trend upwards from just over 400,000 sheep in the early 1870 to well over 600,000 in 1930. The cattle stock was on the other hand fairly small but increasing to around 30,000 in 1930 against 20,000 in 1870.

Fishing and fish processing was the second largest occupation, employing a good tenth of the population in 1870. The fishing sector had largely been organized as a subsidiary occupation of the rural population migrating to the coastal areas during the fishing seasons, except for the comparatively few fishing farmers and crofters who tried to make a living primarily from fishing. For centuries the fish resources were greatly underexploited by Icelanders as their primitive techniques, in most cases open rowing boats with crews of typically 2-6 men using hand lines, confined fishing to day trips in the coastal waters while other nations, the English, the Dutch, the French and others came on bigger and better equipped ships in their thousands year after year to fish in the prolific fishing grounds. Their ships could withstand much worse weather and were able to move about and follow the fish stocks from the start of the season in February and March when demersal species (cod, haddock and saithe) concentrated near the south coast and then moved along the east and west shores to the north.

Other sectors of the economy were insignificant in

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<sup>15</sup> Tölfraðihandbók 1984, p.67.

Table 3 EXPORTS PER CAPITA IN NORTHERN EUROPE  
1860-1910

current dollars  
three years annual averages

	1860	1880	1900	1910
Belgium	19	43	55	85
Denmark	12	20	29	45
Finland	3	8	14	18
Iceland	11	25	29	46
Netherlands	10	21	43	59
Norway	9	15	19	29
Sweden	6	13	19	28
U.K.	22	30	33	48
Europe	7	12	13	18

Sources: Verzlan á Íslandi árin 1856-1863, Skýrslur um landshagi á Íslandi III - (Copenhagen, 1866), 524-45, 570-1, 592. - Tölfræðihandbók 1984, p.10-11, 122. - Bairoch, P., 'European Foreign Trade in the XIX Century: The Development of the Value and Volume of Exports (Preliminary Results)', Journal of European Economic History II (1973), p.17.

Notes on the Icelandic data: Due to lack of data for 1860 the year 1862 is chosen instead. - As price data on several items 1862 is unavailable 1858-prices are used for live horses and estimates are made for a number of smaller items such as beef, ptarmigans and swim bladders, of which total value is set at 20,000 kr. - The exchange rate for all dates is U.S. \$1 = 3.73 kr.

comparison with agriculture and the fisheries. Due to the lack of specialization and the virtual absence of urban areas people employed outside the fisheries and agriculture only accounted for some 8% of the economically active population in 1870, the main occupations being construction and handicrafts, domestic services, commerce and transport.

National income estimates are not available for the nineteenth century so the development of the economy and its principal sectors has to be guessed from the qualitative sources and industrial and external trade statistics. In spite of the backwardness, poverty and undeveloped infrastructure, the economy was highly geared

to exportation, especially the fishing sector. Trade monopoly had been in force during the seventeenth and eighteenth centuries as the Danish Crown sold licenses to merchants in Copenhagen and other towns in Denmark. In 1787 the monopoly system was abolished, although foreign trade continued to be confined to Danish citizens. First in 1855 was foreign trade wholly opened up and other nations allowed to trade freely with Icelanders, which soon led to stronger links with overseas markets.

Table 3 shows that Iceland's per capita exports were almost exactly on level with Denmark before the First World War, ranking among the top six European countries already in 1860 in terms of per capita exports and sharing the fourth place with Denmark in 1910.<sup>14</sup>

The well known fact that the size of countries' population tends to stand in inverse relation to export levels applies well to Iceland. Other contributory factors to the high exports level were a rudimentary home market and the need to import a variety of consumer and capital goods because of the narrow resource base and primitive work specialization: cereals and sugar, textiles, ironware, lumber, coal and salt, all had to be imported. Even most of the decked fishing vessels and later trawlers were imported due to the feebleness of the ship building industry.

Unprocessed wool, woolen knitwear, tallow and mutton were the principal agricultural commodities exported, whereas saltfish, stockfish, shark and fish oil were the main marine commodities. In the 1850s Icelanders started exporting live horses to England followed by exports of live sheep in the 1870s on a much bigger scale, linking agriculture more firmly with foreign markets and substantially raising farmers' cash incomes.

Of greater importance were changes in the fish exports during the second half of the century. For centuries dried fish or stockfish had been the principal export

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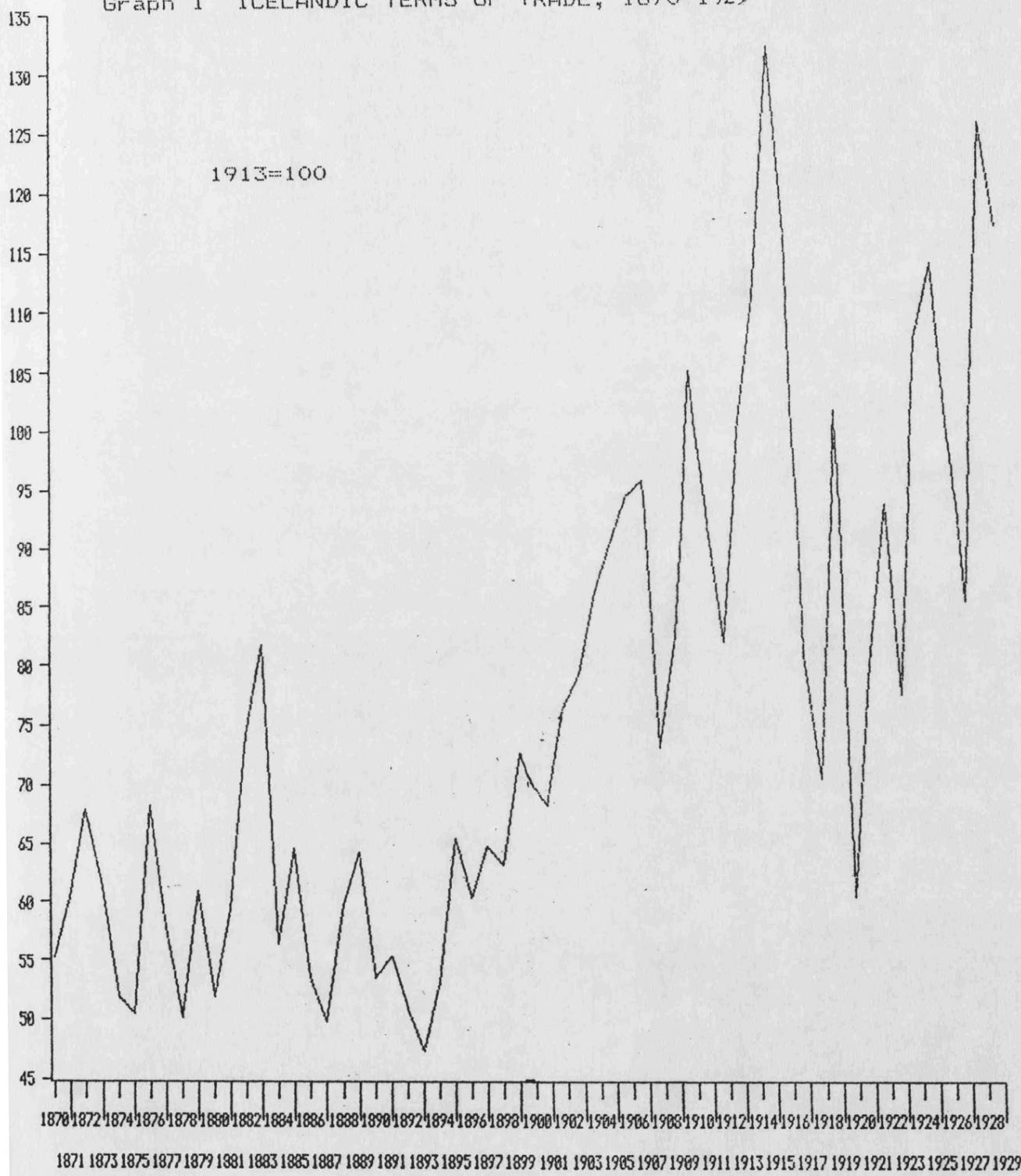
<sup>14</sup> Bairoch, P., 'European Foreign Trade', p.18.

commodity, cheap to procure as it was simply gutted, washed and stacked on rocks or paved grounds in the open air until dry. After 1770 saltfish production increased steadily and although requiring dearer and more labour intensive methods of procuring the fish it marked a significant advance as it promised great market opportunities abroad and higher prices than stockfish. By the second quarter of the nineteenth century saltfish had replaced stockfish as the main export commodity and became ever more dominant in the exports in the second half of the century. Interestingly, the principal saltfish markets were found in the poorer countries of southern Europe, Spain and later Portugal and Italy, so only a minor part of Iceland's exports went to Britain or other highly industrialized countries.

After thirty years of expanding economic activity the period 1855-1890 was marked by serious setbacks and strains on the traditional economy. A severe sheep epidemic raged from 1856 and during most of the 1860s, cruelly cutting down the sheep flocks by an estimated 40%. Simultaneously the rural economy was increasingly strained by a population growth which was difficult to accommodate within the traditional social and economic framework. Agriculture's lowest point was during the 1880s when a colder climate coupled with unfavourable market conditions forced it into depression which sparked off emigration to Canada and the United States. At first the urban areas were only partly able to accommodate the surplus rural population as the fisheries were hampered by frequent failures in the fish catches in the 1860s and again in the 1880s, then accompanied by falling prices in foreign markets.

There were nevertheless positive signs in the economy coming from the fishing sector where the decked vessels fishery was slowly advancing and a more diversified production emerging. Norwegian entrepreneurs had started herring fishing in the 1860s and whaling in

Graph 1 ICELANDIC TERMS OF TRADE, 1870-1929



Sources and notes: See Appendix A.

the 1870s, thus providing better paid employment and some revenue for the domestic economy, but otherwise operating as enclave activities.

Around 1890 the economy entered a period of high growth with the rapid expansion of the fisheries at the same time as agriculture was coming out of the depression. The growth was based on greatly increased output of fish and, to a lesser extent, agricultural products, most of which were exported; rapidly increasing export earnings fed in turn into investment. The growth was made possible by expanding markets for fish products abroad and greatly improved terms of trade from 1894 onwards after the downswing in the 1880s (graph 1). Lack of data on terms of trade prior to 1914 has prompted an attempt, described in Appendix A, to construct a rough indicator of terms of trade for the period 1870-1914 using several of the most important export and import commodities. The results are shown in graph 1 which depicts well the highly fluctuating tendency in trade terms as well as the dramatic improvement from the early 1890s lasting into the First World War.

The growth in the fisheries attracted both domestic and foreign capital and paved the way for the use of a modern technology, at first decked sail vessels, of which a large number was bought second-hand from Britain where they were being scrapped and replaced by trawlers. The sail vessel fishery in Iceland peaked in the early 1900s by which time a rapid shift towards the employment of motor boats and trawlers started, replacing the old rowing boats and gradually the smacks as well.

Export earnings increased by 35% in the 1890s from the previous decade and again by 85% in the 1900s as table 5 indicates. The unreliable national income data available for the period 1901-1930 indicates an annual growth rate of 2.7% of the total GNP 1901-1913 which is very close

Table 4 GROWTH AND STRUCTURE OF EXPORTS, 1880-1930

	total exports	other			
		salted fish products	fish products	whale products	agricult. products
		kr.	%	%	%
1881-85	5533	38.4	21.1	0.1	36.6
1886-90	4101	50.6	12.1	0.9	32.2
1891-95	6022	45.1	10.2	9.4	32.2
1896-00	7014	43.0	6.1	21.2	27.4
1901-05	10424	45.6	13.4	18.2	20.9
1906-10	13707	39.9	24.3	12.2	21.7
1911-15	22366	47.5	26.0	2.1	23.1
1916-20	48453	46.6	27.9	0.4	21.4
1921-25	64212	60.2	24.7	0.0	13.3
1926-30	66104	59.5	28.3	0.0	11.1

Source: Tölfraðihandbók 1984, pp.122, 131-2.

Notes: All exports are fob values.

to the European average.<sup>17</sup> The high growth period ended in 1916 and 1917 when market restrictions by the Allied forces and rapidly deteriorating terms of trade plunged the economy into severe recession. Only in 1923 and 1924 did the economy fully recover from the turbulent war and post-war upheaval, followed by a high growth period during the years leading up to the Depression. The growth rate measured 2.2% a year for the period 1913-

<sup>17</sup> The rate of growth for Iceland is here calculated at constant krónur (1914=100), deflated by consumer price index 1901-1913 and a compound index of consumer price index (2/3) and building cost index (1/3) for 1914-1929. See Gísli Blöndal, 'Djóðartekjur á Íslandi 1901-1934', Fjármálatíðindi XXV (1978), p.105. - Torfi Asgeirsson, 'Verðlagsbreytingar 1900-1938', Klemensarbók (Reykjavík, 1985), p.299. - Tölfraðihandbók 1984, p.166. - Bairoch, P., 'Europe's Gross National Product: 1800-1975', Journal of European Economic History V (1976), p.299.

1929 which is well above the European average of 0.95%<sup>18</sup>

The division between "the primary" and "the secondary" sector is ill suited to describe the structural transformation of the economy. Iceland's "industrialization" entailed the employment of advanced technology in the high growth sector of the economy, fishing and fish processing, which in turn transformed social relations in the economy and, importantly, between the two main sectors. The emerging capitalist economy reversed the roles of agriculture and the fisheries within the overall economic structure. Instead of being largely a part-time employment of the rural population fishing and fish processing came to be primarily occupied by townspeople and became the main employment for a growing section of the work force, normally supplementing its earnings with casual farm work during slack seasons in the fisheries. Agriculture thus became the subsidiary industry of the fishing population.

The economic development of the first three decades of this century was marked by the expansion of the fishing sector, intensifying still further the monocultural tendency of the economy. The saltfish production developed into a highly competitive industry on international level and exporters were able to increase their market share with the result that Iceland became the leading exporter on the European market during the interwar period.<sup>19</sup> Economic growth was largely based on the saltfish production which accounted for 60% of export earnings in the late 1920s. Another 28% came from exports of other fish products such as herring and fish oil. The available national income data indicates that

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<sup>18</sup> Bairoch, P., 'Europe's Gross National Product', p.296.

<sup>19</sup> Sigrús Jónsson, 'International Saltfish Markets and the Icelandic Economy ca. 1900-1940', Scandinavian Economic History Review XXXIV (1986), pp.20-40.

about a third of GNP generated from the fishing sector at the beginning of the century, rising erratically to just under 50% towards the end of the period.<sup>20</sup>

Agriculture was seriously dislocated during this transitional period and faced fierce competition from the expanding fisheries and other urban industries for labour and capital. Its share in GNP steadily declined from a third in 1901 to less than a fifth by 1930. Its position was further aggravated by market difficulties at the end of the nineteenth century due to falling prices for animal fat and salted mutton, but more importantly the ban on imports of live sheep in Britain in 1896 with tougher laws designed to fight animal diseases. The exports of live sheep to Britain had been the fastest growing branch in agriculture since the early 1870s and had given farmers about the only cash earnings for their produce. This activity was now almost brought to a halt.

These adverse circumstances forced agriculture into an entrenched position and called for radical changes. Farmers gradually managed to divert their meat production towards the exports of light-salted mutton to Denmark and Norway and thus maintaining agriculture's share in exports for a short while. Competing with the fisheries and other urban occupations for labour and capital was a more serious and long-drawn process which brought about structural transformation in the economy in the long run. New types of production and new farming methods were gradually taken up to increase efficiency and save labour. Ewes were no longer milked and the lambs were instead kept with their mothers and slaughtered in the autumn. With little work to do during the winter the farmers kept fewer servants and hired instead seasonal laborers during the busy hay harvesting season in July and August. These tendencies became more pronounced during the inter-war period when reliance on wage labour decreased further, slowly giving way to mechanized family

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<sup>20</sup> Gisli Blöndal, 'Þjóðartekjur', p.105.

farming. In the long run these changes improved productivity in agriculture which in turn was able still further to release labour to the high-growth sectors of the economy.

The first three decades of this century were a period of high growth but saw only modest conscious efforts, private or public, to diversify the production. It was primarily through spread effects of the fisheries and the expanding home market that a more diversified production emerged, giving rise to trade, small-scale manufacturing and dairy production. As a consequence, employment more than doubled in the manufacturing and construction sector and nearly quadrupled in the service sector between 1890 and 1930. A much bolder and broader policy was pursued in the 1930s as a result of not only the spread of protectionism but also the virtual collapse of the vital markets for saltfish in Southern Europe.

#### The political system

Iceland was for centuries a dependency of Denmark with limited right to govern herself. Yet, Iceland had never been highly integrated into the Danish state, keeping in the main her own code of laws and was regarded as a separate law-district as Danish laws were not automatically enforced. The political upheaval and rise of the nationalist movement in Denmark during the second quarter of the nineteenth century bolstered nationalist sentiments in Iceland and demands for increased self-rule. In 1845 the ancient parliament, the Althing, was restored not as a court as it had been before it was abolished in 1799 but a consultative assembly. It could only express its will through petitions to the government in Denmark, but did not have any direct power to make laws. In practice, however, the Althing was influential in the legislative work, MP's could table bills in the form of petitions and move amendments to government bills which were closely scrutinized by the parliament. The government rarely enacted laws in opposition to the

Althing and frequently went a long way to compromise when views diverged. This, it goes without saying, did not apply to issues concerning the political status of Iceland within the Danish state.

The executive power in Iceland was only responsible to the government in Denmark. Up to 1904 it was in the hands of the Governor, stiftamtmaður, from 1871 landshöftingi, two district governors, amtmann, and ca. 17 district magistrates, syslumenn, who were judges as well as the representatives of the executive power on county level. Political power in the land was primarily in the hands of these officials until the restoration of the Althing in 1845 and even longer. Traditionally, they enjoyed a high degree of autonomy from the central government in Copenhagen and formed in conjunction with the high clergy and gentlemen farmers the top layer of society, basing its wealth and power on offices, fief-holding of Church and Crown land and private ownership of land.

An important step towards political autonomy was taken with two laws in the early 1870s which redefined Iceland's political status within the Danish realm. In the Status Act Iceland was declared an inalienable part of the Danish Kingdom with special rights, including separate finances and fiscal powers in their "domestic affairs". These were the judiciary and police, education and ecclesiastical affairs, local government, transport and economic affairs, taxation and public property. Still left with the Danish government were the collective state affairs, the issue of money, defence (most importantly for Icelanders the protection of the fishing grounds around Iceland) and foreign affairs, including trade agreements with other countries.

The latter act was the promulgation of a constitution for Iceland, the first of its kind in the country, granted by the king in 1874 on the thousandth anniversary of the settlement of Iceland. The Althing was given legislative power conjointly with the Crown in "domestic

affairs", while the executive power still rested with the Danish government, but dressed in a new authority, the office of Governor, landshöfðingi. The Governor was a government appointed administrator responsible only to the Minister for Icelandic Affairs in Copenhagen who was a member of the Danish cabinet and therefore only answerable to the King. The Governor was also the Government's Representative in the Althing, conveying its policies and acting on its behalf in the legislative work.

The great majority of the Althing's members was dissatisfied with both the way in which this legislation was enacted and its content. The Status Act was unilaterally passed by the Danish parliament, Rigsdag, and the constitution was issued by the King without consulting the Althing. The Danish Crown retained vast powers in all the major branches of government. Six out of twelve members of the Upper House of the Althing were not elected by voters but appointed directly by the King (the Danish government in practice) who also exercised an absolute power of veto in legislation, including the Finance Act. Althing's greatest disappointment with these political changes was its exclusion from exerting any influence on the executive power. It had nothing to say in the appointment of the Governor nor the exercise of his power. The office of the Governor moreover controlled a wider range of resources and patronage than the Althing as it presided over a permanent body of administration, managed public funds and prepared the bulk of the important legislation including the Finance Bill. The Althing, in contrast, only convened every second year in Reykjavík and each session lasted approximately six weeks. Under these circumstances it was difficult for it to give a substantial counterweight to the office of the Governor. As time passed, however, the Althing's session lasted longer, though not longer than three months during the period under examination. Extra sessions became also more frequent, but it was first with

a constitutional amendment in 1920 that regular sessions were to be held every year.

The Althing sat as a one chamber between 1845 and 1874, composed of 20 members (21 from 1857) elected from as many constituencies in addition to 6 members appointed by the king (i.e. the government). In 1874 the Althing was divided into two chambers, the lower seated by 24 elected members, the upper by 6 elected members and 6 government appointed members, giving the government a veto power. By 1930 the number of MP's sitting in the lower chamber had risen to 36 whereas the government had ceased to appoint the 6 members to the upper chamber who were instead chosen in special elections to serve for a longer period than other members.

The introduction of Home Rule in 1904 signalled a major transfer of power to Iceland as the Althing was given full-fledged legislative power and the executive power had to have the support of the majority of the Althing. The Minister of Iceland became the head of the government and resided in Iceland. Finally, with the Union Act of 1918 Iceland became an independent state in monarchial union with Denmark until 1944 when she became a republic.

An important factor in understanding the making of economic policy up to 1930 was the fact that the political system gave the rural population and the peasantry in particular an easy access to the state power. First, voting rights were limited and primarily confined to the peasantry and well-to-do townsmen during the nineteenth century. Labourers and servants as well as the bulk of crofters and cottars (húsmenn) were all excluded from voting. With the 1874 constitution voting rights were moderately extended but were still confined to about two fifths of the male population 25 years and older.<sup>21</sup> First in 1903 was the suffrage extended to the

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<sup>21</sup> The male population older than 25 years was 14129 in 1870 whereas the number of voters in the 1874 was 6183. Of those eligible only 1211 cast their vote or one

Table 5 MEMBERS OF PARLIAMENT BY OCCUPATION, 1855-1923

year	officials	clergymen	farmers	professions/ urban		total
				occupations	total	
1855	5	8	9	3	25	
1875	4	9	16	7	36	
1894	7	10	13	6	36	
1908	7	7	10	16	40	
1923	4	1	16	21	42	

Sources: Eggert Þór Bernharðsson, 'Urslit alþingiskosninga á Íslandi á 19.öld. Landshöfðingjatímabilið', unpublished paper. - Alþingiskosningar 1874-1911, p.62. - Alþingiskosningar 1919-1923, Hagskýrslur Íslands 38 Kosningaskýrslur I (Reykjavík, 1988) p.190, 223. - Alþingismannatal 1845-1975 (Reykjavík, 1978). -

Notes: Civil servants other than government officials and judges are classified with the urban occupation category. - Agronomists are classified as farmers. - No MP represented Vestmanna Islands in 1855.

urban population at large, but women and servants had to wait until 1915-1920 when universal suffrage for the population over 25 years was enacted. Secondly, the electoral system became increasingly skewed in favour of the rural population as urbanization got under way and with the rise of a new party system 1916-1930 this imbalance was markedly biased against the Social Democratic Party, but favouring the agrarian based Progressive Party.

The limited voting rights and a skewed electoral system confined politics to a small layer of politically active people, giving the Althing a narrow social basis. Table 5 shows well the prominence of the peasantry accounting normally for a third and up to a half of the parliamentary seats. The table also reveals the stronghold of officials (district governors, magistrates

fifth. Participation rose however steeply during the early years of the twentieth century and reached about three quarters of voters in the 1908 elections. See Fólkstala [1870], p.281. - Alþingiskosningar 1874-1911, Kosningaskýrslur I (Reykjavík, 1988), p.23 and 46.

and judges) and even more clergymen, the two most prestigious and influential groups in Iceland who continued to enjoy strong political power in the age of representative politics, not least through the prerogative power of the King who appointed six members of the upper chamber. The bulk of the clergy was in fact farmers who raised greater part of their income from agriculture and if we regard them as such the farmers category accounts for 70% of MP's in 1875 and 40% in 1923.<sup>22</sup> The teaching profession, doctors and the literati are strongly represented in the "urban occupations" category whereas, interestingly, the fishing sector and the business classes are underrepresented until 1923. The first working class MP's, whether skilled or unskilled, did not get a seat until 1916 and their number had only risen to three by 1930<sup>23</sup>

The nationalist movement was the driving force behind the struggle for independence, but it never became a political party with an organizational structure and an

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<sup>22</sup> Most farmers in the parliament up to 1930 were moreover freeholders, thus representing only a minority of the peasantry which was overwhelmingly made up of tenants.

It is of course simplistic to focus only on MP's occupation in order to assess the influence of farming interests in the parliament, the actual policy is what matters. It is a well known fact that the peasantry and later the working class tended to elect persons outside their class as representatives in economic as well as political organizations, in particular people with formal education and experience in public life such as officials, clergymen, agronomists, journalists, teachers etc. It is worth remembering that when the Progressive Party formed a government on its own in 1927 no farmer wanted to take a seat in the three member cabinet. Instead, the party elected an editor of the party organ, the headmaster of the Co-operative Commercial School and a merchant!

<sup>23</sup> They were Sigurjón A. Ólafsson, Erlingur Friðjónsson and Jón Baldvinsson. The other two socialdemocrat MP's were Haraldur Guðmundsson (a teacher) and Héðinn Valdimarsson (an economist and an entrepreneur!).

official political programme. It was a social and political movement whose principal forum was the Althing, a movement held together with demands for increased self-rule and the general advance of the nation. The political cleavage was primarily between the staunch nationalists and the government and its followers who believed that the political status of Iceland was no barrier to the nation's advance. Views on economic and social matters were more divergent, although the limited voting rights brought a fairly a small social group into the parliament.

First around the turn of this century did political parties emerge, then primarily on the basis of the independence issue, although a more progressive, liberal views can be discerned among the Valtyingar than Heimastjórnarmenn. The 1910s and 1920s saw the rise of modern class-based parties built around three competing powerblocks. The agrarian based Progressive Party (Framsóknarflokkur), founded in 1916, represented farming interest and promoted the co-operative movement and petit-bourgeois ideas of the independent small producer. The Social Democratic Party (Alþyðuflokkur), also founded in 1916, drew its support from the working classes in the rising towns and had organizational ties with the trade union movement. The policies of the SDP were marked by their campaign for union rights and better living conditions of the urban working classes, demands for nationalization of important branches of external trade and industry, but in everyday politics the party adopted a very pragmatic approach. The right was last to organize in one party with the founding of the Conservative Party (Ihaldsflokkur) in 1924, which five years later merged with a small grouping to form the Independence Party (Sjálfstæðisflokkur). In spite of its individualist, free-market philosophy the Conservative Party had to play a balancing act between farmers interest and the commercial and business base in towns as a good deal of its supporters were country people.

The Progressive Party was from the start in a pivotal position and participated in unstable coalition governments between 1917 and 1924 when the Conservative Party came to power. After the general elections in 1927 the Progressive Party formed a government with neutrality support of the SDP which was to last until 1932.

PART ONE

INSTITUTIONAL CHANGE IN AGRICULTURE

### 1. INSTITUTIONAL OBSTACLES IN AGRICULTURE

It could be argued that institutional obstacles to economic advance were smaller in Iceland than in many other European societies during the nineteenth century; that the task of economic modernization was less to adapt or even break down institutions than to create them.

As individual farming was the rule in agriculture farmers were free from various obligations and customs which arose from communal practices and ownership of land. The separate farms in an extremely sparsely populated countryside underlined the independence of each household and fostered individualism and self-reliance among the farmers. Land had strong characteristics of a capitalist commodity as inheritance laws and tenure arrangements put little restrictions on the landowner in regards to selling, buying or otherwise dispose of his land. A hereditary aristocracy in the European sense did not exist and the small size of the nation and its economic backwardness did not allow the formation of big estates to the same degree as in many European countries with all the social hierarchy embedded in it. Although most private land was concentrated in the hands of a small minority of landlords and the bulk of farmers were tenants, serfdom was never introduced and farmers enjoyed, at least formally, freedom in personal matters and movement. Other social and cultural factors such as widespread literacy and a considerable social mobility between the three principal classes of Icelandic peasant society, servants, tenants and landowners, contributed to a less rigid class system than in many other European societies.<sup>1</sup>

From these observations we could deduce that obstacles

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<sup>1</sup> On the last point see for example Gunnar Karlsson og Hans Jacob Debes, 'Island - Færøerne - Grønland', in Nationale og etniske minoriteter i Norden i 1800- og 1900-tallet, Rapporter til den XX nordiske historikerkongress III, Ritsafn Sagnfræðistofnunar 19 (Reykjavík, 1987), pp.21-3.

to economic modernization in Iceland were less of a social than a demographic and economic nature: the extreme smallness and sparsity of the population, poor endowment of the economy, distance from the principal markets, lack of capital and knowledge of modern production techniques; all of these difficulties were especially true of the fishing sector where poverty and inertia towards new technology were one of the most serious bottlenecks to development.

Yet, there were formidable institutional obstacles of another kind to economic modernization in nineteenth century Iceland, most visible in agriculture where social rules and relations dictated the outcome of production to a high degree. The semi-feudal tenancy under which the overwhelming majority of farmers lived, the vast number of smallholdings yielding narrow economic margins for the poor farmers and crofters and a stringent social legislation regulating the labour market were one of the principal institutional factors hampering the economic advance of the country. These institutional arrangements and their implications for economic development, all of which were extensively debated among contemporaries, will be examined in this section of the thesis.

The emphasis on agriculture is understandable in the light of the fact that it was the most important sector of the economy, still providing the livelihood for over two thirds of the population in the last decades of the century; other sectors were also in close organizational ties with agriculture, the fisheries in particular, so that changes in the agricultural framework effected the whole economy. In political context moreover the focus in public policy was on agriculture's development problems right up to 1930 and increasingly so with its rapid retreat at the end of the nineteenth century. The strategies adopted, however, were not just addressed to the question of how the agriculture sector should cope with the strong outside pressures; farming continued to be seen as society's centre of gravity with great growth potential if it was given the appropriate means to develop.

The farming population as individuals or in groups had limited capacity to change social rules enshrined in custom or the statute book. The immense task of shaping and adapting the institutional framework of agriculture in response to the changing economic environment was to be primarily undertaken by government which had the central role of setting and enforcing the fundamental rules that governed agriculture and the economy as a whole. The focus of the study is therefore set on this most influential agent of institutional change, the state and its policies.

Until the late eighteenth century up to half of all the land was either owned by the Crown or the Church. Table 6 shows land distribution by ownership for selected dates between 1695 and 1930. The data for 1695 is also representative for most of the eighteenth century as very little changes occurred during that time.

Selfownership was very rare despite the fact that more than half of all the land was privately owned. The explanation is partly that private land was concentrated in the hands of a small group of landowners. One study shows that around 1700 about 142 persons or 12% of landowning farmers owned land in excess of 60 hundreds which represents 61% of all land in private ownership. The biggest landowners, those in possession of land worth more than 120 hundreds, were 85 or 7% of all private landowners and owned together 46% of all private landed property.<sup>2</sup> The social status of the biggest landowners was as follows: 24% were

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<sup>2</sup> Björn Lárusson, The Old Icelandic Land Registers (Lund, 1967), pp.73-5. - A similar conclusion is reached by Bragi Guðmundsson, Efnamenn og eignir þeirra um 1700, Ritsafn Sagnfræðistofnunar 14 (Reykjavík, 1985), p.34 and 49: 81 persons owned land in excess of 120 hundreds around 1700, totalling 22.5 thousand hundreds or a quarter of all landed property. They represented only 6.2% of landowners but owned almost half of all privately owned land.

A hundred was one of the basic values in the old Icelandic price system, representing the equivalent of one cow or six ewes, see further p.141.

Table 6 DISTRIBUTION OF LAND BY OWNERSHIP, 1695-1930

in %	1695	1849-50	1916-18	1930
Private land	52	69	83	85
Ecclesiastical land	31	19	10	8
- diocese land	16			
- church farms	8	10		
- beneficium	4	7		
- private church farms	3	2		
state (crown) land	16	10	7	3
other public land	1	2		3
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	100	100	100	100

Sources: Björn Lárusson, Islands jordebok under főrindustriell tid (Lund, 1982), p.37. - Björn Lárusson, The Old Icelandic Land Registers, p.81. - 'Jarðamat á Islandi 1849-1850', Skyrslur um landshagi á Islandi I, 620-801.-Arbók Hagstofu, p.37. - Arnór Sigurjónsson, 'Bættir úr islenzkri búnaðarsögu' Arbók landbúnaðarins 1970, p.28-9.

Note: The break-down is based on the distribution of land value except for 1930 where it is based on the number of farms. - Other public land is included in the state land category 1916-18.

clergymen, 26% magistrates and other government officials, 23% were members of the Althing (which was then a court of justice) and 27% were plain farmers.<sup>3</sup>

Comparable studies for the nineteenth century have not been done, but the scattered evidence indicates a very slow rise in owner-occupancy as table 7 shows: only one sixth of farmers were freeholders in 1842 and just over a quarter by the turn of this century. The bulk of the peasantry remained tenants and only after 1890 can a significant shift towards self-ownership of land be discerned so that by 1930 three fifths of all farmers were freeholders.<sup>4</sup> These facts

<sup>3</sup> Björn Lárusson, The Old Icelandic Land Registers, p.373.

<sup>4</sup> No reliable data is available between 1842 and 1901. In 1879 the chief treasurer estimated that 19-23% of the land was occupied by freeholders, cf. Arni Thorsteinsson, 'Um lánsfjelög jarðeigenda', Isafold VI (18 July 1879), p.77.

Data on land tenures in the district of Suður-

Table 7 TENANTS AND FREEHOLDERS, 1702-1930

	tenants		freeholders		all
	no.	%	no.	%	farmers
1702	7787	95	404	5	8191
1842	5967	83	1237	17	7204
1901	3696	72	1425	28	5121
1910	3773	63	2261	37	6034
1916-18	3562	53	3212	47	6772
1930	2399	42	3376	58	5775
1940	2234	38	3628	62	5862

Sources: Björn Lárusson, The Old Icelandic Land Registers, p.75 and 82. - Bragi Guðmundsson, Efnamenn, p.36. - Jón Johnsen, Jarðatal á Íslandi, með brauðalýsingum, fólkstölu í hreppum og prestaköllum, ágripi af búnaðartöflum 1835-1845, og skýrslum um sölu þjóðjarða á landinu (Copenhagen, 1847), p.395. - 'Fólkstala á Íslandi 1901, 1890, 1880, 1840 og 1801', Landshagsskýrslur fyrir Island 1903 (Reykjavík, 1904), pp. 154-7. - Manntal [1910], p.83. - Arbók Hagstofu, p.37. - Arnór Sigurjónsson, 'Dættir', pp.28-9.

Notes: The figures are not wholly comparable; all figures refer to the number of farmers except those for 1930 and 1940 which show the number of farms (thus ignoring the fact that some farms were occupied by more than one farmer). The freeholders/tenants categories vary in scope from one source to another: the year 1702 refers to all heads of households in the country, 1842 refers presumably to all holdings excluding húsmenn households, 1901 to heads of households whose main employment is farming excluding húsmenn, 1910 and 1916-18 to heads of rural households, 1930 and 1940 to the number of farms.

demonstrate clearly that there was no radical change in regards to owner-occupancy during the nineteenth century.

The widespread tenancy had serious implications for agriculture's economic performance and the living conditions of the great majority of farmers. Part of their surplus was extracted by landowners through a fixed land rent and dues,

þingeyjarsýsla also indicate that owner-occupancy did not start to rise until after 1890. With the owner-occupancy ratio well above the national average it moved upwards from about 30% in 1810 to 40% in 1890, then rising to 52% in 1900, 66% in 1910, 80% in 1920 and 84% in 1930, cf. Björn Teitsson, Eignarhald og Ábúð á jörðum í Suður-þingeyjarsýslu 1703-1930, Sagnfræðirannsóknir 2 (Reykjavík, 1973), p.151.

Table 8 DURATION OF TENURES ON PRIVATELY OWNED FARMS  
IN 8 COMMUNES IN 1903

no. of occupants

commune	tenancy at will	1-2 years	3-10 years	11-20 years	life tenure	total
Vestur-Landeyja	1				29	30
Vatnsleysu	30	1	1		8	40
Kjósar	22	2			8	32
Stafholtstungna	12	2	1			15
Rauðasands	26					26
Suðureyrar	9		5	1	1	16
Lýtingsstaða	9	1	12			22
Svalbarðs	3	1	2	2	6	14
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	112	7	21	3	52	195
%	57.4	3.6	10.8	1.5	26.7	100

Source: ÞS. Búnaðarfélag Íslands, no.162. Skýrslur yfir ábúð á bændaignum 1903.

Note: Where "no lease contract" is reported the tenancy is regarded as tenancy at will.

paid in kind as a rule. The most important obligation was the lease of life animals, leigukúgildi (lit. leased cow-values), which the vast majority of tenants was required to render when renting a farm. The custom in many areas during the nineteenth century was that the tenant had to lease one cow or six sheep for every five hundreds of land he rented at as high as 15-20% interest a year. The insecure and short leases that most tenants had to put up with had even greater implications for tenants' conditions as they failed to provide them with the incentive and security necessary to embark upon improvements and innovations on the farms. Most farms were leased out on a short-term basis either as tenancies for one or two years or tenancies at will. The exception was Crown land where life-tenures were spreading slowly and becoming general by the middle of the nineteenth

century.<sup>5</sup>

By the late nineteenth century the tide was flowing in favour of longer leases; even life tenures, which had been very rare in earlier times, became quite common in some areas. Table 8, showing lease terms on 195 occupancies in eight communes located in different parts of the country, reveals that a good half of holdings were tenancies at will as late as 1903. The table shows also remarkable regional variations in lease practices, from Rauðasands commune where all holdings were tenancies at will to the extraordinary situation in Landeyja commune where all but one occupants had life tenures. Because of the great variations in this fairly small sample of private farms table 8 is liable to a degree of inaccuracy on the overall situation and gives only a rough estimate of tenure practices; the national life tenure ratio is in all likelihood lower as the report of the agricultural commission in 1905 suggests, concluding from the same evidence as table 8 is based on that the ratio was "as far as one can tell" below 20%.<sup>6</sup>

In general, then, tenants leased farms on very insecure terms during most of the nineteenth century and were frequently moving from one farm to another. To what extent farms were changing hands we have only scattered information. A study of one district in the northern part of the country, Skagafjarðarsýsla, in the nineteenth century shows that 38% of farmers occupied one farm only, 25% moved once, 17% moved twice, and 20% moved three times or more.<sup>7</sup> These figures have to be interpreted with caution. First of

<sup>5</sup> Guðmundur Jónsson, 'Sambúð landsdrottna', pp.74, 79, 84-5.

<sup>6</sup> Frumvörp og athugasemdir við þau frá millibinganefndinni í landbúnaðarmálínu, er skipuð var samkvæmt konungsúrskurði 2. mars 1904 (Reykjavík, 1905), p.57. The source on which this information is based are reports from all communes in the country in 1903 on tenure arrangements on private land.

<sup>7</sup> Erlingur Brynjólfsson, 'Bagi er oft bú sitt að flytja', p.27

all, we do not know how representative this district is for the country as a whole. Secondly, only half of the farmers who never moved stayed as farmers for longer than 10 years, the other half retired, died or left farming for another occupation. Thirdly, these figures represent all farmers, not just tenants, who moved more frequently than freeholders because of their insecure lease contracts. Nevertheless, these figures strongly indicate, as does the qualitative data, that the bulk of tenants were frequently on the move.<sup>6</sup>

As to the reasons for these frequent movements a number of factors were at work. One is that landlords sometimes terminated leases in order to raise the rent or dues or to offer the holding to a relative or an acquaintance. But the evidence also indicates that tenants often moved on their own account because of changes in their personal circumstances. Grimur Jónsson, district governor in North- and East-Iceland, explained this eloquently in 1831, when comparing Icelandic and Danish farming:

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<sup>6</sup> A study of leases in Reykholt parish in the district of Borgarfjarðarsysla shows that of 103 persons between 1754 and 1781 30 (29%) occupied a farm for less than two years and 60 (58%) less than 10 years, cf. Loftur Þutormsson, 'Staðfesti í flókkusamfélagi? Abúðarháttir í Reykholtsprestakalli á 18.öld', Skirnir CLXIII (1989), p.20.

Another study, however, points in a different direction. In two areas in the district of Eyjafjarðarsysla during the nineteenth century, comprising well over one hundred farms, a fairly stable tenure leases seem to have been the rule. The average length of occupancy was 16.2 years in Svarfaðardalur and 11.1 year in Skriðuhreppi forna, cf. Arni Daniel Júliusson, 'Lénsveldi eða bændasamfélag', Sagnir IX (1988), p.39. Comparison with the twentieth century shows only a modest lengthening of the occupancy time, to 19.6 years and 12.6 years respectively.

Unfortunately, this study investigated only farms occupied by the 'core of the peasantry' as the author calls it, i.e. main farms occupied by only one family, but these are precisely the farms where more stable leases would be expected. Cottages and shared farms are not included and there is no distinction made between leaseholds and owner-occupied holdings.

When a farmer in Denmark enters marriage and leases a farm, he takes on a livelihood that lasts for life; and it is very rare that he wants, or has any reason, to change this situation. Agriculture in Iceland is on the other hand closer to the nomadic way of life. Landholdings vary greatly in size, location, natural yields and productivity. The farmer, who usually starts poor, occupies a small farm that suits his modest means and labour power and does not profit until the livestock is increased and yields more. When good years bestow upon him and he is fortunate enough to extend his livestock, he soon finds that his farm is becoming too small and has to move to a larger farm, especially if he now has a family (because the size of his livestock must be adjusted to the size of the consuming family). In few years time he may have to move again to even a bigger farm etc. Reversely, bad years, accidents, loss of livestock, lack of servants, older age, sharing with or transferring the farm to his children, motivate the farmer to move from a larger to a smaller holding.<sup>7</sup>

Grimur Jónsson's account shows clearly how various factors in the tenant's own situation could affect movements between farms. The type of farming predominant in Iceland, land-extensive animal husbandry with great fluctuation in the sheep flocks, was undoubtedly a contributory factor to this situation because as long as sheep rearing with its heavy reliance on pasture grazing and little fixed capital on the farm continued to govern farming there was not a great incentive for the tenant to own his holding, which was, of course, the only way for most farmers to obtain a secure occupancy.

The great variation in farm size on the one hand and the changeable size of the sheep flocks on the other hand required a high degree of mobility and compelled the farmer to adjust the farm size to his means of living. The insecure tenure discouraged the tenant to make this adjustment through improvements on the farm for he had little guarantee of reaping the fruits of them. The best way for the tenant to expand and increase his earnings was

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<sup>7</sup> Guðmundur Jónsson, 'Sambúð landsdrottna', pp.84-5.

therefore to get hold of a bigger or a better farm.<sup>10</sup> In addition to insecure leases the law did not guarantee the tenant any compensation for improvements he made on the holding. Old laws obliged the landlord to provide lumber for building repairs due to natural depreciation of buildings, but the tenant was in practice made solely responsible for the maintenance of the farm and its buildings. That applied as well to the renewal of the leased livestock imposed on him, payments of all taxes levied on the farm in addition to various obligations levied by the landlord.

If farm tenancy was ever a system of mutual obligations it had long disappeared before the nineteenth century. As the landlord left the business of farming to the tenant and the financial responsibilities that it entailed his role was essentially that of a rentier; taking little or no personal interest or responsibility in the cultivation of his leaseholds so long as he was paid the rent in due time. A few landlords, though, required their tenants to make a certain amount of farm improvements annually, the most common one was the extension or improvements of the hayfields. Not even did landowners, including the Crown and the Church, act as a shock absorber in times of agricultural distress as was so acutely demonstrated in the devastating sheep epidemics which twice swept the country in modern times, first during the 1760s and again around 1860. Landowners were able to shrug off responsibility for the cost of renewing the leased livestock, thus shifting all the risk to the tenants.<sup>11</sup>

This situation had serious implications for both the

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<sup>10</sup> Guðmundur Jónsson, 'Sambúð landsdrottna', pp.63-106, and the sources referred to there.

<sup>11</sup> The only signs of significant risk-sharing was in times of catastrophic failures when landowners had to reduce rents as was the case at the beginning of the eighteenth century (bad years in fishing and farming, small-pox epidemic), in ca. 1750-1770 (bad years in farming, sheep epidemic) and in the Famine of the Haze 1783-5.

production itself and even more for housing conditions, whether residential houses or outhouses. There is ample evidence of continuing deterioration of farm buildings throughout the nineteenth century.<sup>12</sup> When tenancies fell in the outgoing tenants frequently tore down the humble buildings they had made in order to take the precious wood to use in the buildings on his prospective holding. Instead of renovating the buildings, drain the meadows, improve, extend and fence the hayfields the tenant preferred to use his meager surplus to invest in mobile assets, mainly livestock and move to a larger farm or, better still, buy a farm if and when the opportunity arose.

Another disadvantage of the widespread land tenure was that it barred farmers from obtaining mortgage capital on leaseholds. This, however, did not constitute a great disadvantage in comparison with freeholders since investments in farm improvements in general were sluggish during most of the century, but was nonetheless a handicap for tenants who had no access to loan capital in the credit institutions emerging in the last decades of the century. When credit became more available for farm improvements and cultivation after 1900 tenant farmers were eligible almost from the start.

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<sup>12</sup> See for example Guðmundur Jónsson, 'Sambúð landsdrottna', pp.85-6, 102-3. - Páll Briem, 'Erfðaárbúð, sjálfsábúð og leiguábúð', Lögfræðingur III (1899) pp.112-16.

## 2. AGRICULTURAL REFORM UNDER DANISH RULE

### 2.1. Abortive attempts to reform agriculture

The great agricultural reforms in Denmark initiated in the late eighteenth century were to change agriculture profoundly and set in train social change which eventually led to the dismantling of the "old regime". What sort of agricultural policy did the Danish government adopt in Iceland at that time and how did it effect conditions there?

Unfortunately for Icelanders, the Danish government did not take as great interest in the modernization of Icelandic agriculture as it did in Denmark from the late eighteenth century onwards; its reforms were much less ambitious both in terms of commitment and resources. There were, however, clear indications that the government was intent on encouraging reform in Icelandic agriculture during the second half of the eighteenth century along similar lines to those pursued in Denmark. Armed with public decrees, minor financial support and educational publications the government tried to encourage farmers to take up what it considered to be more efficient and rational farming methods. One measure was to send 14 Norwegian and Danish farmers to Iceland to train farmers there to grow grain and vegetables, another was a decree of 1776 ordering all farmers to render labour services to fence their hayfields and make other improvements on their farms, the third was an experiment with a new breed of sheep. None of these attempts had a lasting impact on agriculture, except that vegetable cultivation (potatoes and swedes in particular) slowly spread, whether that was due to government encouragement or not. There was little hope of altering age-old farming methods and practices simply with decrees from Copenhagen, often out of touch with existing social and economic relations and without considerations to the natural conditions of the country. The breeding experiment carried out during the 1760s had disastrous effects as the imported breed used for it proved to be infected with a deadly disease, spreading quickly and killing more than half of the

sheep flock in the worst sheep disease recorded.<sup>1</sup>

A royal land commission was set up in 1770 whose task was to investigate Iceland's economic conditions in their widest context and put forward proposals for the country's advance. In the royal instruction to the commission a detailed list of issues was drawn up to be considered which amounted to no less than an all embracing plan for the country's restoration.

Although the government's decision to set up the commission was not prompted by an acute crisis there was a great concern over a number of issues. In contrast to many other countries at that time population decline and not growth was the main worry of the authorities as can be read from the instruction itself. The economic background was one of land deterioration in some areas and technological stagnation and even decline with the consequent fall in population.<sup>2</sup> Evidently, the sheep disease had also caused terrible damage to agriculture. By setting up the commission the government's intention was

to collect information that could serve as the basis for decisions on projected economic reforms, reforms which in true cameralist spirit were to stimulate the prosperity of the country and thus raise the basis of taxation.<sup>3</sup>

One of the questions the commission was to consider was whether the division of estates into smaller holdings, thus increasing the number of cottars, húsmenn, who would work

<sup>1</sup> Þorkell Jóhannesson, Búnaðarsamtök á Íslandi 1837-1937, Búnaðarfélag Íslands, Aldarminning I (Reykjavík, 1937), pp.22-82. — Páll Eggert Ólason and Þorkell Jóhannesson, Tímabilið 1701-1770, Saga Íslendinga VI (Reykjavík, 1948), pp.489-501. — Þorkell Jóhannesson, Tímabilið 1770-1830. Upplýsingaröld, Saga Íslendinga VII (Reykjavík, 1950), pp.235-61.

<sup>2</sup> Gisli Gunnarsson, Upp er boðið Ísland. Einokunarverslun og íslenskt samfélag 1602-1787 (Reykjavík, 1987), pp.254-6.

<sup>3</sup> Gustafsson, Harald: Mellan kung och allmogearbetsmän, beslutsprocess och inflytande på 1700-talets Island (Stockholm, 1985), p.312.

for farmers instead of servants, would be conducive to population growth. Furthermore, as more progress would be expected where freeholders rather than tenants toiled the land, the commission was asked to consider whether Crown land should be sold to private persons.

The government seems to be fondling with the idea of creating a social framework similar to that of Norwegian agriculture where freeholders constituted the core of the farming population employing a servile workforce of húsmenn. The social framework of agriculture was widely debated in Danish ruling circles at the time and the ideas aired in the instruction correspond well with the reformist agricultural policy in Denmark after 1766 advocating more rational and progressive farming, based on a class of freeholders.<sup>4</sup>

The commission received a vast correspondence, letters and reports from individuals and groups of people from all walks of life. Not surprisingly, the response to these social questions was very mixed. Influenced by the correspondence, in which officials were strongly represented, the commission came to the conclusion in its report that the best way to increase the population would be to encourage new settlements, while no mention was made of dividing estates or increasing the number of cottars. The commission did not consider it right under the present circumstances to sell Crown land, echoing the view of the majority of correspondents who, although principally in favour of the sale, thought tenants to be too poor to buy their leaseholds, especially now as the sheep disease had taken a great toll of the sheep flocks.

On the other hand, the commission proposed a reform of the land laws which would increase tenants rights by making written contracts obligatory, introducing minimum farm tenure of 20 years and a setting a ceiling on the number of leased livestock which tenants were obliged to rent with the farm. For some reason, the commission's proposals were

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<sup>4</sup> Ibid, pp.107-8, 131.

referred back to the administration in Iceland for further comments, where the section on tenancy reforms was met with staunch opposition from the officials thus effectively ruling out any change.<sup>6</sup> A number of the commission's proposals on economic matters, though, found their way into legislation. They lacked little in ambition but proved insufficient means to alter farming practices in any fundamental way. The most substantial of these was the decree from 1776, already mentioned, ordering all farmers to fence their hayfields and make other improvements on their farms.

Apart from the commission's failed attempts to modify the land laws, a number of laws had been stipulated in order to increase tenants legal rights long before the great Danish reforms were enacted in the last quarter of the century. In this legislation a more tenant friendly policy can be discerned, especially in the decree on "the abolition of various misconduct" from 1705. Landlords were ordered to give tenants written contracts stating all the lease terms, they were made wholly responsible for the renewal of livestock leased out to tenants and banned from increasing the customary land rent or dues.<sup>7</sup> Article six of the decree ruled that "No master in charge of our landed property, whether ecclesiastical or Crown property, has the right to evict a farmer from a farm which has once been leased out to him" so long as he lawfully occupies the farm and pays rent and dues in right time.<sup>7</sup> This was taken to mean by some senior government officials in Iceland in the early nineteenth century that the decree stipulated life tenure on all farms in the land, but most officials maintained that

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<sup>6</sup> Ibid, pp.150-61.

<sup>7</sup> Lovsamling I, p.623-4.

<sup>7</sup> "Ingen Hosbond, være sig de, som over Vores Jordegods have at sige, Geistlige eller Verdslige, maa udvise nogen Bonde af Jorderne, som de dennem engang have leiet".

the article applied only to state farms.<sup>9</sup> In another law dating from 1791 the rights of tenants were increased by ruling that the right of the landlord to terminate a lease if he wanted to occupy the farm himself only applied to the landlord who originally made the contract and not successive owners.<sup>10</sup>

These and other decrees extending tenants' rights were only vaguely, if at all, adhered to well into the nineteenth century for it seems that landlords in Iceland were able to evade government decrees and rules, or at least bend them, to suit their own interests.<sup>11</sup> Land laws were in many cases ambiguous and contradictory, but more importantly, were not enforced by government officials in Iceland, who themselves were largely recruited from the small class of gentlemen farmers, the top layer of society basing its wealth and influence on the landownership of most private land and fiefholding of Crown land and beneficia. Not even on Crown land were the laws fully implemented in regards to important matters such as life tenures and written lease contracts.<sup>12</sup>

The Crown officials formed a group of not more than 25-30 persons (the governor, district governors, magistrates, the Chief Treasurer, the high clergy), but they were very powerful in relation to the central government in Denmark because of their control of the channels of communication between Iceland and Denmark. Their advice and opinion was

<sup>9</sup> The former view is most forcefully argued by magistrate Páll Melsteð, cf. Guðmundur Jónsson, 'Sambúð landsdrottna', pp.73-6, and judge Jón Johnsen in Hugvekja um binglysingar, jarðakaup, veðsetningar og peningabrukun á Íslandi (Copenhagen, 1840).

<sup>10</sup> Lovsamling V, pp.733-5.

<sup>11</sup> Guðmundur Jónsson, 'Sambúð landsdrottna', esp. pp.73-7. - Guðmundur Hálfdanarson, 'Afkoma leiguliða', 10-18.

<sup>12</sup> Lovsamling VIII, p.165-6. - BS Islenska stjórnardeildin, L. I,2. Landbúnaðarmál, bréf og tillögur 1829-1876, Bjarni Thorsteinsson to Rentekammer 8 November 1822. - Guðmundur Jónsson, 'Sambúð landsdrottna', pp.63-106.

essential in the formulation of policy on Icelandic affairs and they were the main instrument of implementing that policy. The officials' role in shaping and enforcing social and economic policies of the government during the eighteenth century has been the subject of several recent historical studies. In them a picture emerges of a small ruling elite of big landowners and officials who show resistance to economic and social change during the late eighteenth century, especially reforms that upset the social hierarchy of society.<sup>12</sup> This theme is further explored in the following chapters as far as the nineteenth and early twentieth centuries are concerned.

## 2.2. The sale of Church and Crown land

A more successful attempt to change the institutional framework of agriculture was the massive sale of public land initiated by the government in the 1780s. The Crown had taken possessions of huge tracts of land during the sixteenth and seventeenth centuries, mainly by confiscating monastic landed property. In the late eighteenth century the Crown still owned about 16% of all land or between seven and eight hundred farms. Another 1400 farms, nearly one third of the total land value, were in the ownership of the Church and used for the upkeep of the clergy, some farms used as parsonages, but the great majority was rented out. Table 9 shows the distribution of main farms by ownership in 1760, shortly before the land sale started.

<sup>12</sup> See in particular Harald Gustafsson's, Mellan kung och allmoge, which is an investigation into the powers of the Icelandic government officials vis-à-vis the central government and social classes in Iceland. It examines in details the work of the land commission of 1770-71, the controversy over who should bear the cost of renewing leased livestock on leaseholds killed by the sheep epidemic, tax exemption of officials and the construction of a new cathedral at Hólar in North-Iceland.

Gisli Gunnarsson, Upp er boðið Ísaland, is a study in foreign trade and trade policy during the eighteenth century and the domestic response to the government's development policies.

Table 9 THE DISTRIBUTION OF MAIN FARMS BY OWNERSHIP  
ACCORDING TO THE LAND REGISTER OF 1760

	number of farms	%
crown farms	735	17.5
Skálholt diocese farms	310	7.4
Hólar diocese farms	330	7.9
Church farms	675	16.1
other public farms	31	0.7
farms in private ownership	2116	50.4
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	4197	100.0

Source: Jón Jónsson Áðils, 'Fæstebondens kár på Island i det 18. árhundrede' Historisk Tidsskrift Sjette Rakke, Fjerde Bind (Copenhagen, 1893), p.567.

Notes: Other public farms include hospital land and poor relief farms.

The two dioceses in Iceland, Hólar and Skálholt, ran into severe financial difficulties during the last quarter of the eighteenth century. The collapse came quite literally during the so-called Famine of the Haze in 1784-5 in the wake of an enormous volcanic eruption in the Laki craters in the south-east of Iceland in 1783. Ash, tephra and poisoned gas destroyed vast tracts of grassland and reduced the cattle flock by an estimated 40% and the sheep flocks by no less than 75%.<sup>13</sup> This in return led to widespread famine which, coupled with diseases, killed thousands of people in the following years causing a population drop from 49,000 in 1783 to 39,000 in 1786.<sup>14</sup> A strong earthquake added to the catastrophe and seriously damaged buildings in Skálholt.

The government's response to the acute distress was to set up a new great commission in 1785 consisting of

<sup>13</sup> Sveinbjörn Rafnsson, 'Búfé og byggð við lok Skaftárelda og Móðuharðinda', in Skaftáreldar 1783-1784. Ritgerðir og heimildir (Reykjavík, 1984), p.168.

<sup>14</sup> Guðmundur Hálfdanason, 'Mannfall i Móðuharðindunum', in Skaftáreldar 1783-1784. Ritgerðir og heimildir (Reykjavík, 1984), p.158.

prominent Danish politicians and administrators, among them . . . . Count Christian Reventlow and Schimmelmann, finance minister. It made a number of radical proposals, two of which were of long-lasting significance: the abolition of the Monopoly Trade and the sale of all land owned by the Skálholt diocese. The sale was a part of a thorough reorganization of the Church, which entailed that the bishopric and its school be moved from Skálholt to Reykjavík. Instead of basing its income on land rent and dues from Church land the bishop and other top Church officials were put on fixed salaries financed by an annual disbursement from the Danish Treasury, which was regarded as interest payments on the proceeds from the land sale paid into the Danish Treasury.

The commission's proposals were swiftly acted upon by the government. The land sale was started already in 1785 and by 1798 all but 17 of its 295 farms had been sold.<sup>15</sup> Now the time had come to turn to the Hólar diocese land. Following a committee report on schooling in the country a law was enacted in 1801 stipulating the abolition of the Hólar diocese and its school and the sale of all its landed property, 334 farms in all.

The government publicly proclaimed that the main purpose of the sale of Church land was to encourage self-ownership of land which it saw as "the most important means" of promoting the country's progress.<sup>16</sup> This was in line with the agricultural policy pursued in Denmark and can no doubt be regarded as a genuine motive, although the immediate circumstances of the sale may have weighed more in the government's decision. We have already mentioned the financial crisis of the Church and the catastrophe of 1783-85. Short term financial considerations may also have been at work as had been the case in the Crown land sale in

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<sup>15</sup> Guðmundur Hálfdanarson, 'Sala Skálholtsjárða, kenning og reynd.' Unpublished paper, p.7. - Björn Lárusson, Islands jordebok, p.38-9.

<sup>16</sup> Lovsamling VI, p.453.

Denmark earlier.<sup>17</sup> The Danish Treasury was running huge deficits, in particular as Denmark became ever more entangled in the Napoleonic Wars. The land sale provided it with much needed money, although it meant the government had to shoulder the Church's financial burden in the future. The proceeds were absorbed by the Danish Treasury for current expenditure but not kept in a separate fund for the purpose of financing the Church in Iceland. This handling of affairs together with the financial crisis in Denmark put the Church for a long time on an insecure financial footing.

After 1780 the government also made moves to sell Crown land, driven as in the Church land sale by the need to raise money for the Treasury and encourage owner-occupancy of land.<sup>18</sup> It was not least the financial side that concerned the government as indicated in a resolution of 18 June 1800 regarding a new land registration, where it is pointed out that with the abolition of the Monopoly Trade the Treasury had been deprived of the trade rental, the Crown's most valuable revenue in Iceland, thus being unable to cover Iceland's expenditure at the same time as the re-organization of the Church was pushing expenditure up.<sup>19</sup> As a consequence, the government had to disburse 3000 rigsdaler annually to balance the Icelandic budget.

Looking at the finances of Crown land specifically, the government had also a cause for concern. Revenue was falling because the persistent inflation during the decades around the turn of the century led to a steady decline in the real value of money payments of rents and dues.<sup>20</sup> A more lenient administration of Crown land and the

<sup>17</sup> Tønnesen, Kåre, 'Tenancy, Freehold and Enclosure in Scandinavia from the Seventeenth to the Nineteenth Century', *Scandinavian Journal of History* VI (1981), pp.191-2.

<sup>18</sup> Lovsamling VI, p.454.

<sup>19</sup> Lovsamling VI, p.458.

<sup>20</sup> See for example Bjarni Thorsteinsson, Om kongelige og andre offentlige Afgifter, samt Jorddebogs Indtægter i Island (Copenhagen, 1819), pp.24-6.

Table 10 PROCEEDS FROM THE SALE OF PUBLIC LAND, 1784-1857

	no. of farms	proceeds in rigsdaler
Skálholt land 1785-1798	295	59,049
Hólar land 1802-1805	338	72,139
Crown land 1784-1857	233	146,774
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Total	866	277,962

Sources: Björn Lárusson, Islands jordebok, pp.37-9. - Jón Sigurðsson, 'Um fjárhag Islands', Ný félagsrit X (1850), p.23. - Jón Sigurðsson, 'Um fjárhagsmálið', Ný félagsrit XXII (1862), p.72. - Björn Teitsson, Eignarhald, p.98.

Notes: The number of farms includes main farms and not the 100-200 cottages sold with them, cf. Jón Johnsen, Jarðatal, p.442 and Arnór Sigurjónsson, 'Þættir', p.27. - The dates refer to the main sales periods, but a small number of diocese land was sold later than indicated. - Actual money values of the proceeds are difficult to asses due to wild fluctuations in the Danish currency during this long period, especially during the Napoleonic Wars. Furthermore, several currencies were simultaneously in circulation, but the proceeds are here counted, as in Jón Johnsen, Jarðatal, pp.435-42, in the currency registered in the purchase contracts, kurant-, specie- and silverdaler up to 1815 and rigsbankdal after that.

commutation of labour services for money payments adopted in the 1780s worked in the same direction. (see chapter 2.3) This adverse financial development seems to have weighed heavily in the government's decision to sell Crown land.

Only three farms were sold 1784-1789 but from 1790 the sale started to pick up.<sup>21</sup> At the turn of the century more definitive moves were made to prepare a large scale sale of Crown land. In the aforementioned resolution of 18 June 1800 the rentekammer announced that as owner-occupancy was the most useful means to advance every country, nothing would be as helpful for the advance of Iceland as to assist tenants to buy their holdings, in particular to sell the Crown land and part of the beneficia land. A national registration and evaluation of all land was ordered with the aim of producing a consistent and up to date evaluation of

<sup>21</sup> Jón Johnsen, Jarðatal, pp.435-42.

land expressed in monetary terms which would serve as a basis for the sale of Crown land and a more rational and eventually more yielding tax system.<sup>22</sup>

The registration took place between 1800 and 1805, but for a number of reasons the new register was inadequate and was not legalized, so that the anticipated tax reform had to be abandoned. The evaluation was nevertheless useful in preparing the sale of Crown land which from 1805 was given a renewed boost with favourable sales conditions offered to the buyers as had been the case in the Skálholt and Hólar land sale.<sup>23</sup>. However, the time was not well chosen from the Treasury's point of view as the value of the currency was falling fast and recurrent economic hardship in Iceland kept the land market subdued. Yet, the sale went ahead and those who could afford to buy and had liquid funds were helped by the high inflation up to 1820 which edged substantially into the real purchasing price.<sup>24</sup>

The sale first gathered pace after 1830, coinciding with the resumption of Crown land sale in Denmark and no doubt spurred by a more vigorous land market.<sup>25</sup> Between 1833 and 1847 no less than 113 Crown farms were sold, but in the following years it slowed down with only 6 farms being sold between 1847 and 1857. That year the sale stopped altogether and was not resumed until nearly three decades

<sup>22</sup> Lovsamling VI, pp.452-60

<sup>23</sup> See for example Lovsamling VI, pp.771-3.

<sup>24</sup> Þorkell Jóhannesson, Timabilið 1770-1830, p.165.- Björn Lárusson, Íslands jordebok, p.39. This applied, of course, also to buyers of Church land, but following customary practice in Iceland most purchasers chose to pay up soon after the purchase. Of the 260 Skálholt farms sold 1785-1795 no less than 227 had been fully paid up three by 1799, see Guðmundur Hálfdanarson, 'Sala Skálholtsjárða', p.15.

<sup>25</sup> Jón Sigurðsson, 'Um fjárhag Íslands', p.47.

later. Since the Crown land sale started in the 1780s and up to 1857 233 main farms had been sold or nearly a third of all Crown farms.

As in the sale of Church land the proceeds from the sale of Crown land were absorbed by the Danish Treasury and not used for any special purpose in Iceland. In all, 866 public farms were sold between 1784 and 1857 as table 10 shows; valued on the basis of the land register of 1695/1697 they accounted for 38% of all land.<sup>26</sup> The biggest sale spurt took place in the first twenty years between 1785 and 1805 when 660 farms were sold or three quarters of the total number of farms sold up to 1857.

The land sale led to a substantial increase in private ownership of land, rising to 69% of all landed property around the middle of the nineteenth century. (table 6) The sale was on the other hand only a limited success as a measure to increase owner-occupancy. A government resolution in 1804 regarding the sale of Hólar land stated that only half of the farms sold since the sale had begun in 1802, 147 out of 296 farms, had been bought by tenants.<sup>27</sup> The overall result of the public land sale seems to have been even more unfavourable to tenants. A study on the sale of Skálholt diocese land shows that of the 278 farms sold 1785-1798 only 88 farms or 32% were bought by the tenants. During the first years of the nineteenth century the ratio of self-ownership on former Skálholt land had dropped to 29% while the bigger buyers had got hold of even more farms: the ten biggest buyers, led by Hannes Finnsson, the bishop of Skálholt, his two brothers, Steindór Finnsson magistrate of Arnessýsla and Halldór Finnsson provost, and the governor of Iceland, Ólafur Stefánsson, owned 1827 hundreds or just

<sup>26</sup> Björn Lárusson, Islands jordebok, p.38.

<sup>27</sup> Lovsamling VI, pp.671-2.

under a quarter of all former Skálholt land.<sup>28</sup>

Tenants seem to have fared better in the sale of Crown land, although they found it increasingly difficult after 1820 to buy their leaseholds because of the rapidly rising prices offered by better-off farmers, who in turn tried to compensate the high price by raising the rent and the leased livestock on their newly acquired holdings.<sup>29</sup> My counting of the 223 main farms sold from 1784 to 1846 shows that 113 farms were occupied by their owners at the end of the period whereas 110 were occupied by tenants, or almost the same proportion.<sup>30</sup> From the known cases, then, (799 out of 866 main farms sold between 1784 and 1756) 338 farms or 42% were owner-occupied at the end of the sale while 461 farms or 58% were still farmed by tenants.

Why weren't the authorities more successful in achieving their objective of selling public land to the tenants themselves? The laws stipulating the sale were reasonable enough for the tenants, designed in many ways to give them preference over other buyers: each farm or plot was to be sold separately, no one could buy land for more than 180 hundreds, tenants had a pre-emptive right to buy their leaseholds given that they accepted the highest bidding price; they were offered tax exemption for six years and better purchase terms than others: only one third of the price had to be paid within six years and the remaining 2/3 could be kept as an outstanding loan as long as 4% interest

<sup>28</sup> Guðmundur Hálfdanarson, 'Sala Skálholtsjarða', pp.11-12. - Jón Johnsen, Jarðatal, p.423. However, their share measured in number of farms was considerably lower for they bought the most valuable farms. The slide back into tenancy is also mentioned in Björn Teitsson, Eignarhald, p.99.

<sup>29</sup> Jón Johnsen, Hugvekja, pp.47-9. - Tómas Sæmundsson, 'Um hugvekju hra. Johnsens', Brjár ritgjörðir (Copenhagen, 1841), pp.129-131.

<sup>30</sup> Based on Jón Johnsen, Jarðatal. These figures refer only to main farms as do those for diocese land, thus ignoring the fact that on many main farms occupied by their owners (and therefore classified as farms in self-ownership) was a fair number of cottages occupied by tenants.

was paid on it annually and the farm was not sold.<sup>31</sup>

In spite of these apparently generous terms buying a farm seems to have been too heavy a burden for the majority of tenants. The one third of the purchasing price which they were required to pay within six years meant that for cheaper farms they could be paying 50% more a year in mortgage repayments over this six years period than in rental.<sup>32</sup> On the more expensive farms the disparity between repayments and the rental was much greater. Poor tenants with little or no money were unlikely to become freeholders on these terms.

The sale of public land had a significant effect on owner-occupancy, despite the low rate of farms sold to tenants. Statistical evidence of self-ownership is scarce, but as table 7 indicates only 404 or 5% of farmers were freeholders against 7787 tenants in 1702 and there is no reason to believe that a significant change in ownership occurred during the eighteenth century. The next date for which we have data on freeholders is 1842, when they counted 1273 or 17% of all farmers. Most of the increase can no doubt be accounted for by the sale of public land, although the ratio would evidently have been higher had all public farms become owner-occupied. To what degree we can only make a rough guess due to lack of data and research.

In order to measure the effects of the land sale on the rise of self-ownership it is not enough to count only main farms sold but the cottages and parts of farms sold with them. We can only make a rough reckoning here and the movement towards owner-occupancy on private land, which was presumably insignificant, must be ignored. The ratio between main farms and all holdings (i.e. main farms plus cottages) on diocese land and Crown land was approximately 1:1.5 in the unauthorized land register of 1760 so the total number

<sup>31</sup> Lovsamling V, pp.144-55. - Lovsamling VI, pp.547-50, 771-3.

<sup>32</sup> Calculated from Guðmundur Hálfdanarson, 'Sala Skálholtsjarða', pp.14-15.

of public holdings sold 1786-1842 according to that would have been 1271.<sup>33</sup> Assuming the same ratio between main farms and cottages in the public land sale and that 42% of them were bought by tenants the sale would have led to a rise in the number of freeholders from 404 in 1702 to 938 in 1842 which is 13% of all farmers instead the actual 17%. The difference, then, can be seen as the rise in owner-occupancy as a result of changed landownership on private land. By the same token, had all public holdings been sold to tenants the number of freeholders would have risen to 1675 in 1842 or 23% of all farmers.

The land sale effected regions to a varying degree, but not always because of the uneven spread of public land. In the district of Suður-Bingeyjarsýsla the sale of Hólar land nearly trebled self-ownership with the number of freeholders rising from 7% in 1785 to 20% in 1839, thus closely following the general trend.<sup>34</sup> In the four southern-most parishes in the district of Borgarfjarðarsýsla on the other hand all the 23 farms formerly owned by Skálholt diocese were still occupied by tenants in 1804 and only one of them was owner-occupied 40 years later.<sup>35</sup>

Simultaneously with the spread of owner-occupancy there seems to have been a development towards a more equitable distribution of private land as compared to the early 18th century. A study of land-ownership in the district of S-Bingeyjarsýsla shows that 76% of landowners were resident outside the district in 1712 whereas the ratio had dropped to 21% in 1839. The share of the seven biggest private landowners in the total value of landed property in the

<sup>33</sup> Based on Jón Jónsson Ásils, 'Fæstebondens kár', pp.567-8; Þorvaldur Thoroddsen, Lýsing Íslands III (Copenhagen, 1919), pp.27-8; Björn Lárusson, Íslands jordebok, p.39.

<sup>34</sup> Björn Teitsson, Eignarhald, p.151.

<sup>35</sup> Guðmundur Hálfdanarson, 'Afkoma leigulíða', p.9.

district dropped from 24% to 14% during the same period.<sup>34</sup> The sale of public land was an important factor in this development by giving tenants the opportunity of buying their holdings at the same time as it eroded one of the most established pillars of the traditional elite's wealth, fiefholding of Crown land and beneficia.

### 2.3. Tenure on Crown land

Another manifestation of agricultural reform brought to Iceland, although modest in comparison with policies pursued in "the motherland", was a more tenant-friendly policy introduced on Crown land during the last two decades of the eighteenth century. It was easier said than done to change age-old tenure practices and the more lenient lease terms stipulated in royal resolutions took a long time to be put into effect, interrupted among other things by the turbulent Napoleonic Wars. The government showed a greater determination after 1820 to implement laws intended to secure more favourable lease terms for tenants. Fief-holders of Crown land were for example reminded to give tenants written contracts prescribed in the law and life tenancy, introduced on Crown land by law back in the early seventeenth century but not enforced until, it seems, after 1830.<sup>35</sup> The government decided in 1850 that the right to life tenancy should also be conveyed to the tenant's widow unless she re-married, later in the century it was extended to his children.<sup>36</sup>

As in Denmark the government was intent on replacing labour services and other dues with money payments which in effect became an annual rent. Local obligations such as to haul goods for the governor in the district of

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<sup>34</sup> Björn Teitsson, Eignarhald, pp.121, 123-4 and 129.

<sup>35</sup> Lovsamling VIII, 165-6. - Guðmundur Jónsson, 'Sambúð landsdrottna', p.84.

<sup>36</sup> Björn Teitsson, Eignarhald, p.141. - Páll Briem, 'Erfðaábúð', p.55.

Gullbringusýsla were abolished completely around the turn of the century.<sup>39</sup> As for heavier and more widespread obligations the government decided to substitute them for rents. Hrishestar, the obligation to provide the landlord with a horse-load of brushwood levied on many Crown tenants, and dagslátta, cutting hay for the landlord, levied on most Crown tenants and many Church tenants were to be commuted for an annual payment by law in 1785.<sup>40</sup>

The same applies to the infamous labour service called mannslán or skiparáðrarkvöð which obliged tenants to serve as deckhands on the landowners boats, some over the main fishing season, others more or less all year long, thus effectively barring many of them from making a living as independent fishermen. Since the Crown became a major landowner after the Reformation by confiscating primarily monastery land, many farms in the best fishing areas in the west and south-west came into its possession. Government officials compelled many Crown tenants to this labour service as the Skálholt diocese and many individual landowners had done before them.<sup>41</sup> This was especially true in good fishing districts like Gullbringu- og Kjósarsýsla where the so-called Crown boats (or innistæðuskip) were operated, manned with crown tenants by mannslán. Labour services were also exacted on almost every crown tenant on the Stapi estate in Snæfellsnes peninsula during the eighteenth century.<sup>42</sup> One historian has estimated that 590 persons rendered this service during the late seventeenth century on Crown land over the whole country, excluding the

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<sup>39</sup> Bjarni Thorsteinsson, Om kongelige, pp.161-2.

<sup>40</sup> Bjarni Thorsteinsson, Om kongelige, pp.159-61.

<sup>41</sup> Alþingistíðindi (hereafter Alþt.) 1847, pp.370-1.—Bjarni Thorsteinsson, Om kongelige, pp.156-9.

<sup>42</sup> Eiríkur Guðmundsson, Jón Arni Friðjónsson and Ólafur Asgeirsson, Sjávarbyggð undir Jökli. Saga Fróðárhrepps I (Akranes, 1988), pp.203-5.

East where the obligation is believed to have been rare.<sup>43</sup> This compares with 350 persons on the Skálholt diocese land at the same time. At the beginning of the eighteenth century the Crown boats were 58 in the south and south-west in addition to 80-100 smaller boats operated by Crown fief-holders for their own account.<sup>44</sup> In 1770 it is noted that the fief-holder of Stapaumboð in the West (covering about 100 farms in the districts of Snæfellsnes- and Hnappadalssýsla) operated no less than 70 boats on his own account, manning them to large extent by labour services.<sup>45</sup>

The Crown fishery declined in the course of the century and in 1769 the 15 boats left were sold and the labour services, then levied on only 107 persons, commuted for an annual rent.<sup>46</sup> The decision was not taken out of consideration for tenants, rather because of operating losses made over a period of time.<sup>47</sup> By decree of 1779, reiterated in 1787, all mannslán on Crown land were to be commuted for an annual money payment of 1 rigsdal.<sup>48</sup>

From 1779, then, the law authorized all labour services

<sup>43</sup> Lúðvík Kristjánsson, 'Úr heimildahandraða seytjándu og átjándu aldar', Saga IX (1971), p.128.

<sup>44</sup> Jón Jónsson Áðils, 'Fæstebondens kár', pp.638-9. - Þorvaldur Thoroddsen, Lýsing Íslands III, p.62.

<sup>45</sup> Lúðvík Kristjánsson, Íslenskir sjávarhættir III (Reykjavík, 1983), p.124.

<sup>46</sup> Lovsamling III, pp.636-7. - Jón Jónsson Áðils, 'Fæstabondens kár', p.638-9. - Þorkell Jóhannesson, Alþingi og atvinnumálin, p.20. - Eiríkur Guðmundsson et. al. Sjávarbyggð undir Jökli, pp.199-201.

The mannslán obligation seems to have been reduced during the eighteenth century. One important reason for that was prolonged failure in fish catches between 1685 and 1704 which forced private and public landowners to reduce the mannslán on the near destitute tenants, in many cases for good; see Lúðvík Kristjánsson, 'Úr heimildahandraða', pp.130, 135.

<sup>47</sup> Lovsamling III, pp.636-7.

<sup>48</sup> Lovsamling V, 473. See also Bjarni Thorsteinsson, Om kongelige, p.157.

on Crown land to be commuted for money and the evidence suggests that the law was broadly adhered to as far as Crown tenants themselves are concerned.<sup>47</sup> The obligations were in most cases commuted for a payment in money or kind on favourable terms for the tenants and became in effect part of the land rent. The sale of Crown and Church land after 1784 no doubt contributed to the trend towards the reduction of obligations in general, especially with the sale of farms in the districts of Gullbringu- and Kjósarsýsla in the south-west where the management of Crown land had been most oppressive. The sales conditions stated clearly that labour services were to be abolished for good on the farms sold to private individuals. These measures and the government's determination to do away with labour services, hovari, in Denmark itself, gave fief-holders of Crown land a clear signal that a greater leniency towards tenants was to be expected of them and there were to be no arbitrary obligations imposed, whether labour services or other dues.

The law of 1779 seems, however, to have been interpreted in such a way as only applying to Crown tenants on main farms (lögbýlisbændur) and not to the underclass of crofters who rented a house and sometimes a plot of land from Crown tenants. Crofters in Snæfellsnessýsla, whether on private or public land, therefore continued to render mannslán to their masters until at least the middle of the nineteenth century.<sup>50</sup> It was not until 1880 that the government stipulated that crown tenants were only allowed to charge rents for crofts in money or goods and not in actual labour services.<sup>51</sup>

The heaviest obligation on Crown land, as on other

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<sup>47</sup> Bjarni Thorsteinsson, Om kongelige, pp.157, 160.-Aft. 1847, pp. 375, 379. - Jón Jónsson, Fæstebondens kár', pp.644-5.

<sup>50</sup> Eiríkur Guðmundsson et. al., Sjávarbyggð undir Jökli, pp.206-7.

<sup>51</sup> Sjórnartíðindi (hereafter Stjt.) 1880 B, p.106.

land, the practice of leased livestock (leigukúgildi), was left intact and Crown tenants continued to pay rent from it as before. But the trend, although a slow one, was towards the reduction of leased livestock on Crown land and the overall burden of land rent and dues was getting lighter in the course of the nineteenth century.<sup>52</sup> Gross incomes from rent and dues on Crown land accounted on average for only 4.8% of the value of the farms between 1850 and 1855 as compared with the customary rate of 4-5% for only the land rent on private land.<sup>53</sup> In comparison, land rent and dues on 90 leaseholds owned mostly by private persons in four parishes in the district of Borgarfjarðarsýsla in 1850 were on average 8.5% of the land value, divided almost equally between land rent and dues, 4.2% and 4.3% respectively.<sup>54</sup> Information given by magistrates on customary rents in the populous districts of Arnessýsla and Rangárvallasýsla around 1842 shows a similar although a slightly lower ratio, about 4.8% land rent and 1.9% dues in the former, 5% land rent and

<sup>52</sup> See f.ex. Lovsamling XIV, pp.464-5. The burden of tenant obligations was made lighter not only by the outright reduction of the number of leased livestock or lower rent, but often as a result of the change from payments in kind to money payments. No fixed general rules were stipulated for the money conversion of tenant obligations on Crown land from the 1780s onwards, but there are strong indications that the conversion tended to favour tenants who paid less in money than they had previously paid in kind; see f.ex. Eiríkur Guðmundsson et. al. Sjávarbyggð undir jökli, p.206, and the report of the tax review commission of 1875-1877 in Alitsskjal um skattamál Íslands, samið af nefnd þeirri, sem skipuð var samkvæmt konungsúrskurði 29. dag októbermánuðar 1875 til að semja ný skattalög fyrir Ísland o.s.frv. (Reykjavík, 1877), pp.44-5.

From 1880 dues were no longer kept as a separate revenue category in Crown land accounts but included in the land rent itself, cf. Stjt. 1880 B, p.106.

<sup>53</sup> Um þjóðjarðir á Íslandi í fardögum 1854, Skyrslur um landshagi á Íslandi I (Copenhagen, 1858), pp.190-1. The net income ratio, i.e. after the cost of collection has been deducted, is only 3.4%.

<sup>54</sup> Calculated from Guðmundur Hálfdanarson, 'Afkoma leiguliða', p.24. However, the form of payment, as the author points out on pp.25-7, varied greatly and had some effect on the actual value of payments.

2.4% dues in the latter.<sup>55</sup>

Despite significant regional variation this data shows beyond doubt that by the middle of the nineteenth century lease terms had, in contrast to earlier times, become considerably easier on Crown land than private land and the difference lies mainly in the dues, particularly the leased livestock.

#### 2.4. Reforms on private and ecclesiastical land

Reforming tenures on Crown land did not pose any major problems in comparison with changes in tenure on private land where customary rights and the sanctity of private property dictated attitudes and public actions. Property rights on ecclesiastical land were in many respects comparable to those of private land since the Church had been regarded as a private institution with its own customary rights to exploit and dispose of its properties. Throughout the eighteenth and nineteenth centuries, however, the Church was gradually being absorbed by the secular state, becoming just another pillar of its power. The reorganization of the Church around 1800 and the consequent sale of diocese land was a major step in that direction as was increasing government involvement in the management of ecclesiastical land, church farms and beneficia, the latter being private property under the auspices of the two bishoprics.

The government self-ownership policy after 1780 centered around the sale of public land to tenants, but it also showed interest in promoting owner-occupancy on private land. In this vein was its decision in 1797 to let Norwegian law of 1723, which gave tenants pre-emptive rights to buy their farms provided they had the highest bidding

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<sup>55</sup> Jón Johnsen, *Jarðatal*, pp.46, 77-8. The source gives only the number of leased livestock, not the rent from it, which is here conservatively estimated 12% of the value of leased livestock.

offer, also be valid for Iceland.<sup>56</sup> The law seems to have had no impact in Iceland as it was neither complied with nor were tenants offered any financial means to take advantage of it.<sup>57</sup>

Resolute actions to reform tenures on private land might have been expected if the government's policy in Denmark was anything to go by, but few direct measures were taken in Iceland. The dominant attitudes were still very much that lease terms should be settled in an agreement between the landlord and the tenant without any outside interference. Three measures, however, are worth mentioning which indicate the government's will to improve lease terms. First, a law of 1785 enacted that labour services and dues, namely mannslán, dagsverk (including dagslátta) and hestlán were to be commuted for money payments on ecclesiastical land.<sup>58</sup> The commutation appears to have been sluggishly enforced as it was extremely difficult for the authorities to monitor the change. The commutation of the dagslátta was probably not carried out at all by fief-holders in the first decades after the law was enacted, probably because it was priced too low in money terms in the public regulations stipulating the conversion into money payments.<sup>59</sup> Tenant obligations were of enormous economic importance to the clergy who raised greater part of their income from land rent and dues on Church land. The sternest opposition against the reduction of these obligations were therefore to be found among the clergy, concerned with the maintenance of its own position.<sup>60</sup>

Secondly, the decrees stipulating the sale of diocese

<sup>56</sup> Lovsamling VI, pp.314-15.

<sup>57</sup> Jón Johnsen, Hugvekja, p.66.

<sup>58</sup> Lovsamling V, pp.117-18; see also Bjarni Thorsteinsson, Om kongelige, pp.157, 160-1.

<sup>59</sup> Bjarni Thorsteinsson Om kongelige, p.160.

<sup>60</sup> See for example Eiríkur Guðmundsson et. al., Sjávarbyggð undir Jökli, pp.217-18.

land and Crown land clearly stated that labour services (dagsverk and mannslán) and a type of leased livestock called föst innistæðukúgildi (inventarii in Latin) which had been exacted on diocese farms were to be abolished when sold to private persons.<sup>41</sup> This measure may have somewhat reduced the burden of dues on former diocese and Crown land, but it was not consistently enforced on local level. It would have been extremely difficult to do so anyway because leased livestock could still be levied in "a free agreement" between landlords and tenants. It is therefore unlikely that public decrees regarding leased livestock on private land made any significant impact. Labour services were more likely to be reduced as they had always been regarded less acceptable and were more resisted by tenants.<sup>42</sup> Yet, numerous sources indicate that tenants on former diocese farms continued to render labour services in natura.<sup>43</sup>

A more successful attempt to abolish labour services on private land was the decree of 13 June 1787 which prohibited merchants occupying farms in coastal areas to levy mannslán on boat-owning crofters on their land.<sup>44</sup> This provision helped crofters in coastal villages and trade ports to engage in independent fishing on their own boats, free from

<sup>41</sup> This did, however, not apply to the so-called Church-inventarii. - Lovsamling V, pp.151-2. - Lovsamling VI, pp.549, 772.

The inventarii formed part or even all the leased livestock and was regarded as a fixed rent regardless of the actual livestock leased out to the tenant since it was up to him to maintain and renew the livestock. In cases where the landlord contributed nothing towards the renewal of the inventarii they were in effect part of the land rent rather than rent on livestock, see for example Björn Teitsson, Eignarhald, pp.133-4 and Guðmundur Hálfdanarson, 'Afkoma leiguliða', pp.13-17.

<sup>42</sup> Alþt. 1847, pp.56-57, 370-80, 454.

<sup>43</sup> Jón Johnsen, Jarðatal. - Alþt. 1847, pp.57, 377. - Guðmundur Hálfdanarson, 'Afkoma leiguliða', pp.28-9.

<sup>44</sup> Lovsamling V, p.437. - Eiríkur Guðmundsson et. al., Sjávarbyggð undir Jökli, pp.206, 212-13.

boon works. The decree also proclaims that the government is expecting proposals from officials in Iceland on the advance of the fisheries, in particular proposals on how to reduce or eliminate labour services, as is already under way on Crown land.<sup>45</sup> However, since this interesting statement was neither an outright ban on labour services on private land nor, it seems, followed up in any way, private landowners were free to demand labour services as custom had it.<sup>46</sup>

These laws and other regulations regarding tenure on private land are likely to have improved lease terms on private land to some extent, although only a detailed study of farm tenures will reveal their actual effect. The government's more liberal management on Crown land, offering comparatively good terms for the 500-600 farms still leased out in the middle of the nineteenth century, may also have affected lease terms in general. The decree from 1705 on "the abolition of various misconduct" which stipulated that no new obligations be levied on tenants beyond those existing from time immemorial was probably poorly enforced during most of the eighteenth century, but in the new climate after 1780 landowners are likely to have found it difficult to be as harsh to their tenants as previously. Various dues became less heavy and even abolished, but leased livestock continued on a vast scale and probably increased with more pressure on scarce land resources towards the middle of the nineteenth century. By then it was common to lease one cow-value (i.e. a cow or six sheep) for every ten, even every five, hundreds of land in rural areas; leased livestock was much rarer in the fish-based coastal areas, where instead many tenants had to pay higher

<sup>45</sup> Lovsamling V, p.449.

<sup>46</sup> Cf. Bjarni Thorsteinsson, Om kongelige, p.159.

land rent.<sup>67</sup>

Labour services in particular are likely to have been reduced because they were not as ingrained in the social structure as the practice of leased livestock and were seen by many to be in flagrant contradiction to the personal freedom which all farmers were supposed to enjoy. In a debate on labour services in the Althing in 1847, the bishop of Iceland, H. G. Thordersen, stated that labour services had been on the decline on its own accord in recent years and "the spirit of the time" would see to it that they continued to do so.<sup>68</sup>

Thordersen's comment was made in a debate on a petition signed by 30 tenants in the district of Borgarfjarðarsysla presented to the newly restored Althing in 1847. The petition asked for the abolition of mannslán or its commutation for money payment.<sup>69</sup> After a long debate on the property rights entailed in the mannslán the parliament agreed to send a petition to the King (i.e. the Danish government) asking for the abolition of this service which the parliament knows to be

very unpopular among the common people and can also, if it is rigorously exacted in order to man the fishing boats, be detrimental to tenants' welfare and prosperity and put excessive limits on their freedom...<sup>70</sup>

A majority of 17 MP's against 6 were of the opinion, however, that the mannslán should only be abolished if substituted with a payment since it was a customary right that could not be infringed upon by law. The government responded by referring the matter to a commission, set up in

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<sup>67</sup> Jón Johnsen, Jarðatal, f.ex. pp.46, 77-8, 101-2, 136-7, 277-8. -- Björn Bjarnarson, 'Bendingar til landbúnaðarframfara', Búnaðarrit I (1887), p.151.

<sup>68</sup> Alþt. 1847, pp.56-7.

<sup>69</sup> Alþt. 1847, pp.55-6.

<sup>70</sup> Alþt. 1847, p.454.

1845 to modify the ancient land laws.<sup>71</sup>

The tenancy question had been on the government's agenda more or less since 1830. Between 1829 and 1835 a wide-ranging exchange of opinion took place among senior officials in Iceland and the main government departments in Copenhagen, the rentekammer and the kanselli, on the question of land laws which throws a light on the conditions of tenants and their social circumstances.<sup>72</sup> The discussions were initiated by the governor of Iceland, P.F. Hoppe, an enlightened Danish aristocrat, who in an extraordinary letter to the authorities in Copenhagen accused landlords of ill-treating their tenants and evading the law from 1705 which stipulated that tenants should be given written lease contracts. Hoppe implied that officials, being landowners themselves, failed to carry out the law out of self-interest and urged the government to take measures to enforce the law to the letter.

Hoppe's letter sparked off wide-ranging discussion in government circles over the next six years on the tenure laws, their enforcement and whether there was a case for modification. Most officials taking part rejected Hoppe's claim that tenants were being badly treated, although they agreed that written contracts were rare and tightening the law might be desirable. More important and sensitive issues were drawn into the debate such as the security of leases, the responsibility for renovation of farm buildings and other tenant obligations. Not surprisingly, the Icelandic officials viewed the matter from the landlords' standpoint stressing their right to dispose of their land at free will and rejecting calls for increased legal protection of tenants.

These discussions, which marked the beginning of a long-drawn public debate on tenure arrangements during the nineteenth century, were especially interesting for the

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<sup>71</sup> Þorkell Jóhannesson, Alþingi og atvinnumálin, p.27.

<sup>72</sup> Guðmundur Jónsson, 'Sambúð landsdrottna', pp.63-106.

"dissident" views of senior officials, so rare among the ruling elite when it came to sensitive social issues. Grímur Jónsson, district governor in North- and the East-Iceland and, more forcefully, Páll Melsteð, magistrate in the district of Norður-Múlasýsla, argued not only in favour of Hoppe's recommendations but wanted to go further and proposed a radical extension of tenants rights. Both of them stressed the need for a consistent and unambiguous legislation in which life tenure for all tenants was guaranteed, a rise in land rent and dues from that described in the land register of 1760 be prohibited and clearer rules enacted regarding maintenance of farm buildings. Nothing would be more useful to put this right, said Páll Melsteð, than to extend the Danish Act of 1787 on the rights and duties of landlords and tenants to Iceland also. These reforms, both of them argued, were prerequisites to improvements in tenants' living conditions as well as any advance in farming itself.

Most of the officials, however, were fairly content with the existing legislation and were able to convince the commission of senior officials in Denmark whose task was to make a summary report on the issue and, consequently, the two government departments, that there was no need for substantial change in the tenure law.<sup>73</sup> Three sets of arguments were put forward in defence of status quo. First, the sanctity of private property and the freedom of contract which flows from it had been the cornerstone of the legal relationship between landlords and tenants in Iceland for centuries. These principles are in accordance with man's natural rights and guarantee an equal and reciprocal status of both parties, giving them equal right to terminate a lease. To ban short-term leases, for example, would be a serious infringement on the right to freely dispose of one's own property.

Secondly, Icelandic and Danish farming differ in many important ways, so that various public measures in Denmark

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<sup>73</sup> Ibid, pp.88-95.

do not apply in Iceland. The most fundamental difference in this context is that in Denmark, where crop growing is the mainstay of agriculture, the farmer has little reason to move to another farm, whereas in Iceland animal husbandry requires the farmer to be mobile and choose holdings which suit his changeable livestock.

Thirdly, the social divide between landlords and tenants is much smaller in Iceland than in Denmark where the need has been felt to give legal protection to the underclass of tenants against the superior and dominant class of landlords. As the rentekammer put it,

since no estates exist in Iceland and the proprietors are not, as in Denmark, of higher standing and presumably not of greater intelligence and independence than the common people, to which the tenants belong, but where landlords and tenants normally are on equal standing in terms of enlightenment and education [Oplysning og Dannelsel], there is much less need for the legal protection of the tenant against the superiority of the landlord than in Denmark.<sup>74</sup>

These were the main arguments set forward by the authorities around 1830 and they were to be repeated over and over again with variations in the protracted debate on tenancy reform during the nineteenth century by those opposed to any substantial change. The long-standing appeal of the status quo stance is no doubt due to the credibility of the arguments: after all sheep farming in Iceland required a certain degree of mobility, and social barriers between tenants and landlords were not at all great, both belonged to the class of bændur (sing. bóndi), who occupied the land and enjoyed the full status of citizens. Hardly any formal or institutional barriers existed between the dominant elite of officials, clergymen and big landowners on the one hand and the peasantry on the other hand. Seven out of the 22 top officials in the country in 1850 were sons of farmers and 65 out of 181 clergymen.<sup>75</sup>

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<sup>74</sup> Ibid, p.90.

<sup>75</sup> Guðmundur Hálfdanarson, 'Old provinces, modern nations', pp.54-7.

Nevertheless, the Danish government found itself in a somewhat awkward position because the 'dissidents' stance was very similar to the prevailing reformist ideas in Denmark pursued in public policy over the last half a century. As it turned out, the government had no wish to go against the majority opinion of Icelandic officials on the tenancy issue, they were after all its main source of information and advice on Icelandic affairs. It accepted the view that the special circumstances of Iceland made tenure reform unnecessary. Besides, as the government was not pressed by Danish political or financial concerns as had been the case with the sale of public land, it seems to have come to the conclusion that in an issue of such major potential conflict of interests it would be best to leave the matter to the Icelanders themselves.

The debate around 1830 revealed acutely how ambiguous and often inconsistent the existing land laws were, even so that senior officials interpreted fundamental clauses in a diametrically opposed way. This may have been one of the reasons for setting up of a government committee in 1845 which was to prepare a major revision of the whole body of land laws, the bulk of which dated back to the Middle Ages. Some work was done by the committee but it was only to gather dust in government departments in Copenhagen. With the restoration of the Althing in 1845 voices of discontent from the public could get a better hearing through petitions to the parliament, although itself did not take much interest in furthering the issue for a long period of time. There were occasional debates and even petitions were sent to the King on the various aspects of the land laws in the following two decades, but they quickly receded from the agenda either because they were referred to the aforementioned committee or silenced with the argument that a revision of the land laws in toto was expected. Three decades were to pass before the government put forth its long-awaited proposals on the land laws.

### 3. LAND POLICY, 1870-1930

In the late 1860s the land laws came again to the forefront of public policy and remained an issue of great public concern for the rest of the period under investigation right up to the middle of the 1930s. It was during this period that the social framework of agriculture underwent a radical change and its contemporary basis was laid.

After 1870 land tenures were coming under a mounting attack, seen by a growing section of the population as one of the greatest social evils in the land, especially the insecure leases which were believed to be a deterrent to rational and progressive farming and the root of great social injustice. Two broad strategies emerged as a political response to the problem. One was to go for a radical change in the tenancy law which would improve the tenant's lot and provide him with a decent social environment, the other to give every public support to the movement towards freehold farming in the hope that tenancy would eventually be uprooted. The public promotion of freeholding took primarily on the form of public land sale. For reasons we have described in the previous chapter this latter option was politically more acceptable, although the scope and capacity of government to encourage owner-occupancy was limited, not only by the same political attitudes as stifled tenure reform, but also by the fact that self-ownership of land hinged ultimately on the development of the private land market.

These two strategies, examined in this chapter, were of course interrelated in that reformed tenures and increased rights of tenants were seen as steps towards freeholding, enhancing the tenants' chances of buying their own farms. Self-occupancy was certainly preferred to tenure by the tenants themselves and as it turned out both the dominant political ideology and the general economic development tended to work in favour of that preference.

### 3.1. The sale of public land, 1880-1930

The idea of owner-occupancy was slow to attract strong support during the nineteenth century, although occasional petitions to the Althing and writings called for such a policy. It was not until the last third of the century that strong demands were made and only after 1890 can owner-occupancy be regarded as the preferred policy of the majority of the Althing. The issue was gaining more urgency towards the end of the century as pressures built up from farmers wanting to escape the insecurity of their tenancies as they became more able and willing to invest in farm improvements.<sup>1</sup>

With still nearly 30% of all land in state or church ownership in 1870 the government had a considerable scope for influencing land tenures and even self-ownership if there was political will to continue the sale of public land. The sale of state farms had been discontinued in the late 1850s presumably because of the unsettled political situation during the 1860s and early 1870s with changes in the constitutional status of Iceland hanging in the air. At that time the number of crown farms and cottages was about 568 valued as 10% of the total land value.<sup>2</sup>

Calls for the resumption of the sale of state farms (which now were called national farms) were heard soon after

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<sup>1</sup> It has been asserted that the original impetus for owner-occupancy in Iceland is to be found in the nationalist, romantic ideology which perceived it as a revival of the "golden age" of medieval agriculture, cf. Gísli Gunnarsson, 'Frá bændahaldi til bændaframsóknar', þjóðviljinn 12 May 1988, p.16.

Although it may have coloured the arguments in favour of owner-occupancy, in particular after the turn of the century, the evidence does not indicate that this idea had any significant effect on either policy or the actual trend towards owner-occupancy.

<sup>2</sup> According to Um þjóðjarðir, pp.179-214, the Crown owned 535 main farms and 34 cottages in 1854 (excluding 6 unoccupied main farms). Only one farm was sold 1854-1857 after which the sale was halted.

the constitutional change in 1874. A bill proposing a general sale was defeated in the 1877 session of the Althing, but a more moderate resolution was passed by the lower chamber in 1879 laying down the procedures which state tenants wanting to buy their holdings had to follow.<sup>3</sup> The principle was established in the first land sale laws passed by the Althing in 1883 that every sale had to be authorized by the parliament, a principle which the government was to cling to in the following decades. Although considering at one point a law authorizing a general sale the government came to the conclusion that such a law would require fixed rules which could be difficult to set and moreover a general sale would not be as financially advantageous for the government.<sup>4</sup>

Later on, especially during Magnús Stephensen's time in office as Governor of Iceland between 1886 and 1904, the government's main argument against a general sale was its reference to article 23 of the constitution which prohibited "the selling or otherwise giving away of any public property except by law". This was taken by the authorities and the majority in the Althing to mean that one law could not authorize a general sale of public land, the sale of every landholding and its terms had to be authorized by law.

*(was* The first land sale law *passed by* the Althing in 1881, but did not get Royal Assent because the government thought it unacceptable on a number of points, one of which was a clause stipulating that farms should be offered to the highest bidder regardless of whether he was the occupant or not.<sup>5</sup> In 1883 the first land sale law entered the statute book authorizing the sale of 17 main farms and 11 cottages.<sup>6</sup> In it the Althing accepted the principle - as it

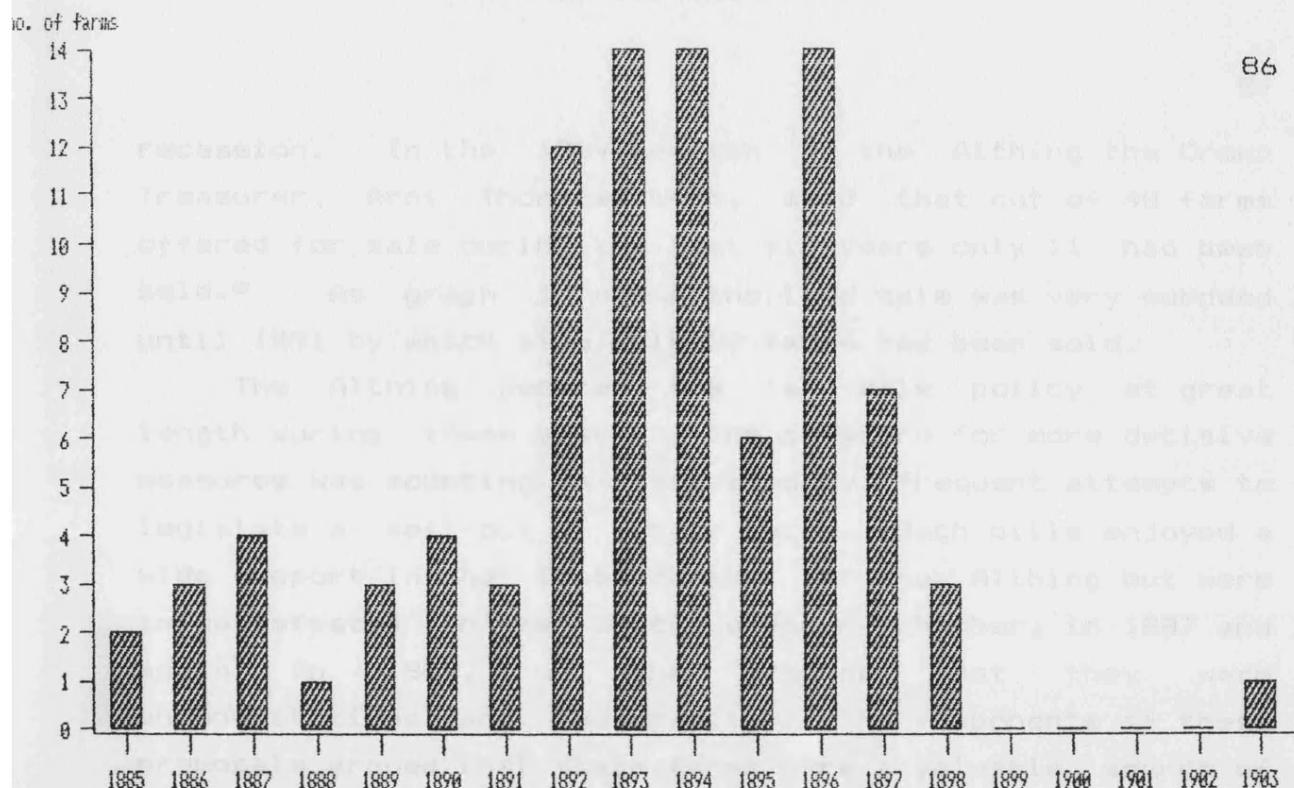
<sup>3</sup> Alþt. 1879 I, p.399. - Stjt. 1879 B, p.148.

<sup>4</sup> Alþt. 1883 C, p.9.

<sup>5</sup> Stjt. 1882 B, pp.81-3. On the Althing's position see for example Alþt. 1881 I, pp.86-8.

<sup>6</sup> Stjt. 1883 A, pp.106-9.

Graph 2 SALE OF STATE FARMS, 1885-1903



Source: BS. Einkaskjalasafn: 76.6 Sigurður Sigurðsson búfræðingur frá Langholti. Nr. IX. Skýrsla um sölu þjóðjarða.

Note: Both main farms and cottages are included in the figures although the latter may be slightly underrecorded.

had indeed done in the aforementioned resolution of 1879—that the state farms should be exclusively sold to the tenants occupying those farms.

The first farms were sold two years later at a price arrived at by multiplying the average land rent over the last 10 years before the sale with 25, a rule of thumb that had been practiced in Denmark for a long time and was to be used for decades to come in Iceland.<sup>7</sup> The buyer had to pay a quarter of the price at the exchange of contracts, another quarter within five years, but the rest had not to be repaid so long as 4% interest were paid annually on the outstanding debt and the farm was occupied by the tenant and his family.

Few farms were bought in the 1880s due to the economic

<sup>7</sup> Alþ. 1903 C, p.316. — Páll Briem, 'Erfðaábúð', Lögfræðingur I (1897), p.40. — Björn Teitsson, Eignarhald, p.114.

recession. In the 1889 session of the Althing the Crown Treasurer, Arni Thorsteinsson, said that out of 48 farms offered for sale during the last six years only 11 had been sold.<sup>6</sup> As graph 1 shows the land sale was very subdued until 1891 by which time only 20 farms had been sold.

The Althing debated the land-sale policy at great length during those years. The pressure for more decisive measures was mounting as indicated by frequent attempts to legislate a sell-out of state farms. Such bills enjoyed a wide support in the lower chamber of the Althing but were twice defeated in the cautious upper chamber, in 1887 and again in 1889, on the grounds that they were unconstitutional and too drastic. The opponents of these proposals argued that state farms were a valuable source of revenue for the Treasury which helped keep taxes down. This view was frequently expressed by the Governor himself, Magnús Stephensen, who exerted great influence in the Althing, especially on the six government nominated members in the upper chamber. In a debate on the sale of public land in 1903, his last year in office, Magnús Stephensen made a frank statement about his position:

I have always been against the sale of public land; I cannot see that it is right to throw a large part of the Treasury's assets away and gain nothing in return. Lets hope fortune be with our descendants who inherit the financial situation caused by these actions.<sup>7</sup>

The argument that the land sale would greatly impair the Treasury had, however, become anachronistic by now as revenue from rent and dues on state farms had steadily declined over the last decades. By 1904 it accounted for only 2.3% of the total revenue against ca. 10% twenty years earlier. In addition to the land sale the government's decision after 1880 to allow a considerable part of the incomes from public land to be spent on farm improvements (see chapter 3.5) led to a further erosion of this old

<sup>6</sup> Alþt. 1889 A, p.97.

<sup>7</sup> Alþt. 1903 B, 110.

revenue base.

A general sale was proposed yet again in 1891, but the lower chamber decided in the light of previous opposition in the upper chamber to a general sale to opt for a vigorous sale of individual farms, authorizing 74 farms to be sold.<sup>10</sup> In the following years the sale was quite brisk with some 70 farms being sold between 1892 and 1898 spurred by the rapidly improving economic climate after 1890.

A backlash came in the land sale in the late nineties. Many MP's were disappointed over the frequency of cases where farms ended up in the hands of landowners and not tenants themselves, thus undermining the whole purpose of the sale. Some MP's were also critical of the way in which the proceeds from the sale were used, absorbed by the Treasury for general expenditure instead of being used for specific development projects. Others simply liked to see a slow-down in the sale which had been gathering pace over the recent years. For these reasons the Althing lost interest in selling public land for a while. Compared to 40 farms in 1895 only one farm was authorized by the parliament to be sold in the following 10 years.

The idea of heritable tenure was on the other hand becoming popular and even gained substantial support in the Althing. It had been aired in the Althing as early as in 1853 with a petition from the district of Húnavatnssysla asking for state land to be sold on heritable tenure in order to facilitate poor tenants to own their holdings.<sup>11</sup> Interest in this "foreign" idea of "incomplete" property right, as it was perceived by many people, increased sharply during the 1890s, not least because of the policy of Reykjavík council, who had for some time been selling plots of land to individuals on leasehold in return for an annual rent, retaining pre-emptive right to buy the land back.

<sup>10</sup> Stjt. 1891 A, pp.124-8. Cottages are included in this figure.

<sup>11</sup> Alþt. 1853 pp.184-195. - See also E.M. and G.Ø, 'Um jarða bygging og ábúð', Ny félagsrit XXIV (1864), pp.156-172.

Considerable number of people bought these plots which were used to grow vegetables and even rear milking cattle, horses and sheep.<sup>12</sup>

In 1895 the lower chamber of the Althing declared its support for this idea in a resolution, stating that it would be "beneficial" as a long-term policy to sell state farms to tenants on leasehold, although the state would remain the formal owner.<sup>13</sup> This idea was, however, rejected by the government for a number of reasons arguing among other things that it served no purpose because life tenure was anyway a common practice on state land.<sup>14</sup>

The Althing's opposition to the land sale did not last long. Requests from tenants to buy state farms were piling up, indicating a strong drive towards owner-occupancy as farmers felt more the need for investing in farm improvements and residential housing. The link between the growing interest in farm improvements and self-ownership was now increasingly acknowledged as more people came to realize the detrimental effects of existing tenure practices, especially on private land.<sup>15</sup>

The decisive policy turn in favour of the pro-sale stance came first with Home Rule in 1904 as governor Magnús Stephensen left office and Hannes Hafstein became a Minister of Iceland. Hannes Hafstein was a firm supporter of the land sale policy and the view was now taken by the government that a law enacting a general land sale did not

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<sup>12</sup> Páll Briem, 'Erfðaábúð', Lögfræðingur I (1897), p.59-60. - Þórunn Valdimarsdóttir, Sveitin við Sundin. Búskapur í Reykjavík 1870-1950, Safn til sögu Reykjavíkur (Reykjavík, 1986), pp.38-43.

<sup>13</sup> Alþt 1895 C, p.503.

<sup>14</sup> Stjt. 1897 B, pp.159-161.

<sup>15</sup> This view is forcefully argued for in the influential report and proposals of the agricultural commission of 1904-05, cf. Frumvörp og athugasemdir, especially pp.43-8.

violate article 23 of the constitution.<sup>14</sup> A commission consisting of five members, three appointed by the Althing and two by the Minister was set up in 1904 to review the vast body of agricultural legislation. The Minister appointed Bórhallur Bjarnarson as a chairman, a well known proponent of a general land sale. The commission's report was published only a year later recommending a radical change in a whole variety of agricultural matters in the form of 12 new bills.<sup>15</sup> The committee was in favour of active public involvement in promoting agricultural change, in particular increasing self-ownership of land. Its most important proposal was a general sale of all public land, both state farms and Church farms, which was adopted by the government and presented to the Althing that same year.

The Government tabled a bill on general sale of public land in 1905, but made two major amendments to the commission's proposals. The pre-emptive right of local authorities to purchase land was taken out and so were the sections concerning the sale of Church land. The government took the view that the commission had not adequately ensured alternative funds for the clergy's upkeep in its proposals for Church land was reserved for financing the Church and provided residence for most ministers. The bill was passed in its final draft by a good majority in the Althing, very much along the government's line.<sup>16</sup>

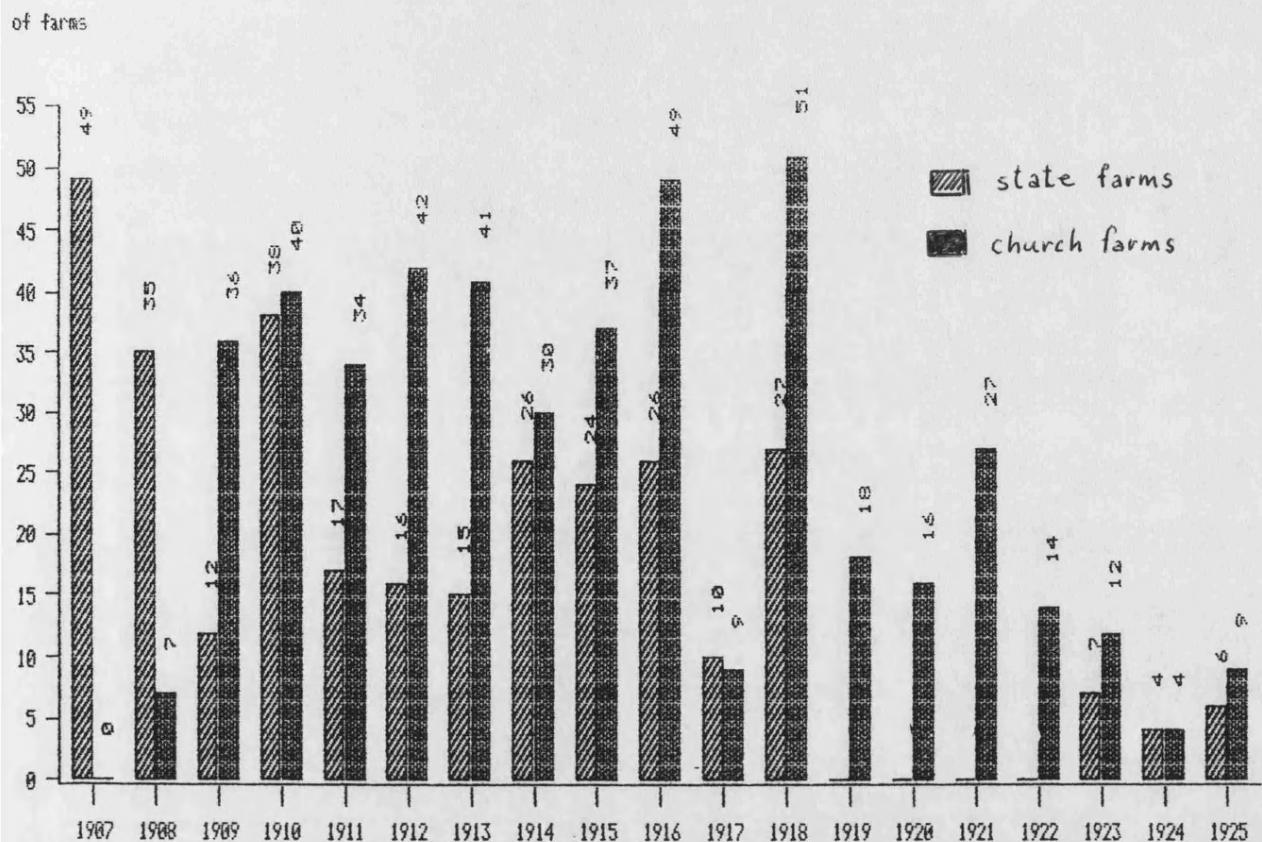
The new law authorized the government to sell state tenants their holdings but exempted from sale were farms required for schools, hospitals, official residence or other public purposes. Tenants were offered good terms and only required to pay 10% of the purchase price at the exchange of contracts and the rest over 28 years at 4% interest. If the farms were leased out during that time the whole loan became

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<sup>14</sup> Alþt. 1905 A, p.293.

<sup>15</sup> Frumvörp og athugasemdir.

<sup>16</sup> Stjt. 1905 A, pp.202-6.



Sources: bS. Einkaskjalasafn: 76.6 Sigurður Sigurðsson búfræðingur frá Langholti. Nr. IX. Skýrsla um sölu þjóðjarða. - bS. SSI III, Ópinberir sjóðir 1923-25. Reikningar Kirkjujarðasjóðs 1920-1925, Reikningar Ræktunarsjóðs 1923-25.

Notes: Both main farms and cottages are included in the figures although the latter is presumably slightly underrecorded. - Data on the sale of state farms 1919-1922 is not available.

due.

Already in the following session of the Althing, in 1907, a similar law was enacted on the sale of Church land in conjunction with a number of other laws which entailed a major restructuring of the Church finance and its organization.<sup>17</sup> Parsonages were to be excluded from the sale, the proceeds deposited in a special Church Land Fund and ministers were to receive fixed salaries financed by the fund.

These two acts signified a turning-point in public land

<sup>17</sup> Stjt. 1907 A, pp.312-18.

policy and had immediate effects. In the coming decades hundreds of state and church farms were sold as graph 4 demonstrates, the biggest spurt taking place right from 1907 to the end of the First World War after which the sale slowed down to a trickle in the late twenties. The available data (data on the sale of state farms 1919-1922 has not been found) shows that 312 state farms and 476 church farms were sold to tenants between 1907 and 1925 or 788 farms in all.

Assuming that state farms were 568 at the start of the sale in 1885 more than 70% of them were sold during the period 1885-1925, leaving only 165 farms in state ownership in 1925.<sup>20</sup> A much lower ratio of church farms were sold 1907-1925 or just over two fifths if we assume that their number was about 1100 at the start of the sale. By 1930 some 462 farms were still in the ownership of the Church.<sup>21</sup>

An undisputable factor contributing to the speed with which the sale was carried out was the reasonable price that tenants were offered in line with the agriculture commission's view that the priority in the land sale should not be to achieve the highest price for the farms, but that they "fall into the right hands and that owner-occupancy become attractive".<sup>22</sup> Instead of putting the farms out for tender the price was, as in previous sales, derived from the land rent and dues levied in the previous 10 years.

A parliamentary report in 1911 noted that as a result of this rule tenants had bought their holdings below the

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<sup>20</sup> This fits roughly with Arnór Sigurjónsson, 'Þættir', p.28, which says that state farms in 1930 were 175; there is a small degree of error in all these figures for a number of reasons: a) farms were sometimes parcelled out and sold separately, b) the state occasionally bought farms for public purposes, c) cottages are not always included in the sales figures.

<sup>21</sup> Arnór Sigurjónsson, 'Þættir', p.28.

<sup>22</sup> Frumvörp og athugasemdir, p.46.

market price. The report estimated that church farms had been sold for about 90% and state farms 87% of the market price.<sup>23</sup> The hyperinflation during the war edged greatly into the real purchase price and tenants who were fortunate enough to buy then picked up a bargain. Between 1907 and 1911 state farms were sold on average for 117 kr. per hundred and church farms 121 kr. per hundred against 186 kr. and 227 kr. respectively in 1918.<sup>24</sup> The purchase price of public land rose therefore by 74% during that period years compared with a rise in general price level by 258%! In spite of this unfavourable price development for the Treasury and proposals in the Althing in 1915 and again in 1917 to postpone the land sale there was no slow-down during the war.

How the proceeds from the land sale should be used was one of the few controversial issues raised during the parliamentary treatment of the public land sale bills. The decision was made to appropriate the proceeds to the newly founded Cultivation Fund which granted credit to farmers for agricultural improvements and land purchases which meant that the Treasury lost considerable sums in revenue. This arrangement, some MP's argued, entailed that the Althing had relinquished a part of its fiscal power to another body. Another objection to the application of the proceeds was that the sale of this national property would only benefit one sector of the economy. This criticism, however, was drowned in the enthusiasm surrounding the sale and did not have any significant impact on the way in which the sale was conducted.<sup>25</sup>

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<sup>23</sup> Albt. 1911 A, pp.492-3.

<sup>24</sup> The figures for 1918 include all the 27 state farms and 24 out of 52 church farms sold in 1918, see bS. Einkaskjalasafn: 76.6 Sigurður Sigurðsson búfræðingur frá Langholti. Nr. IX. Skýrsla um sölu þjóðjarða.

<sup>25</sup> The only effect of this criticism was the change in the law on the Cultivation Fund in 1905 which gave crofters access to the Fund's lending, although in a small way.

Attempts were made already in 1909 to change the law. As before, the criticism was levied against what was believed to be inadequate measures to prevent farms being sold to others than their occupants. There could be many reasons why the farms continued to be leased out after the state had sold them, perhaps the tenant who originally purchased the farm did not afford it or he had acted as a stooge for a landowner or even a speculator, especially if the farm was situated in the vicinity of an urban area. Many MP's wanted to give the government more powers to buy back former public farms which had become leaseholds, but all such proposals failed to gain the support of the majority in the Althing.

Closely connected with the land sale acts was a government bill passed by the Althing in 1905 giving tenants on private land a pre-emptive purchase right when their holdings were put on sale. The motive was the same as behind the sale of public land, to encourage owner-occupancy among the 3000 or so tenants on private land, but tenants with life tenures had already acquired this right in 1797.<sup>24</sup> The Act, however, served only partly its purpose as tenants had to be prepared to offer the market price without any aid to buy their holdings and there were no provisions in the law that prevented the tenant from selling the farm as soon as he had bought it.

The sale of public land changed significantly the pattern of landownership. Public land accounted for more than 30% of all land in 1850 but had dropped to 14% in 1930. (table 6) The direct impact of the sale of public land on owner-occupancy is on the other hand difficult to assess due to lack of relevant data and also because there was simultaneously a shift towards freehold farming on private land, especially after 1890. Over one thousand public farms were sold between 1842 and 1930 while the number of

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<sup>24</sup> Stjt. 1905 A, pp.198-201.

freeholders rose from 1237 to 3390 at the same time or by 2153. On the basis of these figures we can assume, to give a vague idea of the possible contribution of the sale of public land, that it accounted for nearly half of the increase in the number of freeholders, assuming of course that all the state and church farms ended in the hands of their occupants.

The shift into owner occupation was the result of a combination of several factors. A crucial one was that as landowners saw new investment opportunities opening up they gradually broke the habit of investing their money almost exclusively in land.<sup>27</sup> The growth of the decked vessel fishery, trade, construction industry and other urban activities towards the end of the century offered alternative investment opportunities. The shift to urban investment is likely to have been most decisive among the many landowners living in towns, who were quite willing to sell out when opportunities arose to invest in the growing urban industries. Some of the well to do landowning farmers may have been tempted to shift from investments in land to the profitable fisheries, but their energies - and spare funds - were more likely to be absorbed in farm investments, horse-drawn mowers and rakes, carts, barbed wire and housing improvements. The advent of financial institutions and the raising of the maximum interest rate on mortgages to 6% in 1890 also gave landowners the opportunity to activate farm profits in a more secure, convenient and even more profitable way than buying and leasing out farms.<sup>28</sup> The results of these changed investment opportunities for owner-

<sup>27</sup> The one-sided investments in land were seen by many contemporaries as a barrier to wider ownership of land as the well-off investors outbid tenants, see f. ex. Arni Thorsteinsson, 'Um banka og lánsfjelög', Isafold III (27 July 1876), pp.69-70.

<sup>28</sup> See for example Landshagsskýrslur 1899, p.101 which asserts that the number of bigger landowners had fallen and investment is increasingly being diverted from the land to other more profitable sectors; see also Frumvörp og athugasemdir, p.44; Alþ. 1905 B, pp.1302-3.

Table 11 AGRICULTURAL RENT IN TWO COMMUNES, 1842 AND 1903

in hundreds

commune	no. of farms	land value	leased livestock	land rent	live-stock rent	rent as % of land value
Rauða-sands	1842 15	204	60	13.1	7.2	9.95
	1903 15	204	47	10.0	5.6	7.65
Lytings-staða	1842 18	269	37	15.4	4.4	7.36
	1903 18	269	27	11.9	3.2	5.61

Sources: Jón Johnsen, Jarðatal, pp.181-3, 259-63. - Ný jarðabók fyrir Ísland (Copenhagen, 1861), pp.73-4, 105-6. - BS. Skjöl Búnaðarfélags Íslands no.162: Skýrslur yfir ábúð á bændaeignum 1903.

Notes: The money value of the hundred in 1903 is put at 63,84 kr. according to the average price in the market scales that year. - Some holdings were subject to subdivision between 1842 and 1903. The rent has been reduced on four farms in 1842 in order to compare the same size of land. - Most of the rent in Lytingstaða commune was paid in wether in 1903, here valued at 10 alnir (0.12 hundreds) each. - Livestock rent is estimated at 12% of the value of the livestock.

occupancy were to diminish the surge of monied men to land investments, giving the tenants better access to become owners of their occupancies.

Secondly, there is a strong indication that renting leaseholds was becoming less profitable in absolute terms during the decades before and after the turn of this century, in particular as the population pressure in rural areas receded and the land market became more balanced. Signs of these changes were reductions of tenants obligations and dwindling demand for rented cottages. Table 11 compares agricultural rent (i.e. land and livestock rent) on 33 out of 37 privately owned farms in two communes for the years 1842 and 1903.<sup>27</sup> Although these two observations

<sup>27</sup> The livelihood of the inhabitants of Rauðsands commune in the North-West was a mixture of fishing and farming whereas in Lytingsstaða commune in North-Iceland farming was the main livelihood.

with 60 years between them must be taken with caution the striking similarity of the two communes is noteworthy: land rent fell by 24% and livestock rent by 22% in Rauðasands commune whereas in Lytingsstaða commune the respective figures are 23% and 27%. The advent of property taxes and higher death duties with the tax reform of 1921 may also have been yet another spur on landowners to sell their leaseholds, although no study has been done on the effects of the tax system on landownership.

Other obligations than leased livestock were also on the decline. The reduction of labour services is one of the best examples of changes in land tenures without direct public intervention, although a ban on public land since the late eighteenth century no doubt precipitated its demise on private land. Mannslán was still levied in the late nineteenth century but was becoming very rare and almost entirely confined to crofters in few places who were required to row on the landowners' boats.<sup>30</sup> Labour services on crofters were abolished at last by law in 1907 (except for improvements on the plot occupied by the crofter), although evidence suggest that it continued in exceptional circumstances.<sup>31</sup>

All these changes in farm tenure made land leasing less attractive to landlords and monied men turned more and more away from farming. As a result the pattern of landownership gradually changed; instead of private land being concentrated in the hands of relatively few landowners, the trend was towards owner-occupancy on the majority of farms.

The motives and the economic means of tenants themselves to own their holdings have also to be considered.

<sup>30</sup> Þorkell Bjarnason, 'Um fiskiveiðar Íslendinga og útlendinga við Ísland að fornu og nýju' Timarit hins íslenzka bókmennatafélags IV (1883), pp.214-15.- Vestmanneyingr, 'Mannslán og "skipsáróðrar"', Fjallkonan XI (4 April 1894), p.55. - Alþt. 1901 B, 1734. - Alþt. 1907 B, p.2043. - Eiríkur Guðmundsson et. al., Sjávarþbyggð undir Jökli, pp.206-7. - Lúðvík Kristjánsson, Íslenzkir sjávarhættir III, p.124.

<sup>31</sup> Stj. 1907 A, p.402. - Alþt. 1913 C, p.229.

We have already mentioned the growing need of farmers to invest more on their farms to increase hay-crops and improve farm housing, but self-ownership was seen as a pre-condition for such a modernization. The rapidly improving conditions from 1889 onwards gave many farmers the opportunity to save money to buy their holdings. An important factor in raising farmers incomes at that time was the buoyant sale of live sheep to Britain which together with the sale of live horses provided farmers with cash incomes which were necessary when purchasing land. The advent of the National Bank's mortgage department and even more the Cultivation Fund after the turn of the century offered tenants credit to buy their farms.

The effects of the increased self-ownership on performance in agriculture are hard to measure, if only because it is impossible to separate it from other factors at work. The qualitative data, with very few exceptions, indicates clearly a positive effect of selfownership on farming. The trend towards the reduction of cottages, which was a positive sign from the point of efficiency, was certainly strengthened by the land sale as they were often merged with the main farm.

The beneficial effects of owner-occupancy lay primarily in removing the disincentives to invest and improve farms which had undeniably been so characteristic of leaseholds. Assessing the change over to freehold farming from the advantageous point of a public inspector of farm improvements in the district of Eyjafjarðarsysla, Stefán Stefánsson remarked in Althing in 1913:

The freeholds are evidently quite different in general from those occupied by tenants. This is especially true as hayfields are concerned and even meadows, where appropriate, both of which have greatly improved as have diligence and orderliness on the farm.<sup>52</sup>

The same picture emerges in an extremely valuable source, hitherto unexplored by historians. The BI launched an investigation at the request of the government into tenure

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<sup>52</sup> Alþ. 1913 C, pp.2368-9.

on private land all over the country in 1903.<sup>33</sup> The comments by individual reporters can be summed up as follows: In general, freeholds are better farmed than leaseholds, although some improvements have also been made there in recent times. The greatest difference, however, lies in housing. As landlords contribute little or nothing to the maintenance of buildings and do not compensate the outgoing tenant for improvements, the situation can only get worse. Some tenants as in the Rauðasands commune in the North-West built their own residential houses but also maintained "the old huts" owned by the landlord to return them if and when they had to leave.

The most comprehensive comparison of freehold and leasehold farming was undertaken by the agricultural committee appointed in 1927 to consider agricultural legislation, one of which was the revision of the land tenure law. All commune councils in the country were asked questions regarding land tenure in their area and the committee received reports from a vast number of them.<sup>34</sup> The conclusion drawn from this information was as follows:

1. Leaseholds are normally much less worked than freeholds.
2. Farm buildings, both residential buildings and outhouses, are in a much poorer state on leaseholds than freeholds, even to the extent that many of them constitute health hazards.
3. The shorter the leases are, the poorer is the state of farm buildings and hayfields.
4. The very few leaseholds which compare with freeholds are the ones which offer life tenure, i.e. mainly church and state farms.
5. Houses on leaseholds are normally built of non-durable material and will consequently not last long.

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<sup>33</sup> BS. Skjöl Búnaðarfélags Íslands no.162: Skýrslur yfir ábúð á bændaeignum 1903. Tables 8 and 11 are based on this source.

<sup>34</sup> Alpt. 1929 A, pp.700-1.

### 3.2. Failure of land tenure reform

The debate on the land laws resumed in the Althing in the late 1860s. A number of petitions were presented to the parliament during those years calling for modifications of the tenancy laws with the aim of increasing tenants' rights.<sup>35</sup> In 1870 the government appointed a commission at the Althing's request to revise the vast body of land laws in an attempt to get definitive results in this long-drawn issue.

It took the commission six years to finish its work, but it failed to come to an agreement, especially on the section concerning land tenure. Of the three prominent MP's in the commission Jón Sigurðsson, a well-to-do landowner, and Bergur Thorberg, a district governor and government appointed MP, formed the majority and came up with a remarkably liberal proposals on the tenancy question. Farms were to be leased for a minimum of 15 years, a ceiling set on land rent as well as the number of leased livestock on each farm. Minimum standards regarding the size and quality of buildings were to be set with which every leasehold had to comply and, lastly, outgoing tenants were to be compensated for part of the improvements they had made.<sup>36</sup>

Jón Pétursson, in a minority of one, was opposed to any radical change which entailed an extension of tenants' rights, although he favoured a limited compensation to the tenants for farm improvements.<sup>37</sup> On the whole his proposals

<sup>35</sup> See f. ex. a parliamentary committee report on some of these proposals in Alþt. 1865 2, pp. 436-43.

<sup>36</sup> Frumvarp til landbúnaðarlaaga fyrir Ísland, samið af meiri hluta nefndar þeirrar, er skipuð var samkvæmt konungsúrskurði 4. nóvember 1870 til að semja ný landbúnaðarlög fyrir Ísland, amtmanni Bergi Thorberg og alþingismanni Jóni Sigurðssyni á Gautlöndum (Reykjavík, 1877)

<sup>37</sup> Frumvarp til landbúnaðarlaaga fyrir Ísland, samið af minna hluta nefndar þeirrar, er skipuð var samkvæmt konungsúrskurði 4. nóvember 1870 til að semja ný landbúnaðarlög fyrir Ísland, yfirdómara Jóni Péturssyni

reflected the viewpoint and interests of landowners, sticking firmly to the basic tenets of the medieval statute book, Jónsbók: freedom of contract and the inalienable right of landowners to dispose of their land.

In 1879, forty years after the revision process of land laws had started, a government bill was presented to the Althing, based on the majority's proposals. In the section on land tenures the government went further than the commission on one point, obliging the landlord to buy "useful buildings" which the tenant had built on the farm during his tenure. But that was an exception as other parts of the section embodied a modest or no change at all to the existing law. On one of the most sensitive issues, i.e. whether to legislate a certain minimum lease time, the governor of Iceland, Hilmar Finsen, had earlier in a report to the Ministry of Iceland expressed his approval of the majority's proposal of a 15 years minimum lease period.<sup>38</sup> He maintained, however, that this rule should be reciprocal, i.e. not only should it apply to landlords but also to tenants, who would be obliged to occupy a farm for at least 15 years. He argued that the insecure tenures were not the only obstacle to farm improvements; as "unfortunate" was "the tenant's notion that there is possibly a better lease on offer elsewhere which nothing is stopping him from taking."<sup>39</sup>

When the government presented its bill in the 1879 session Hilmar Finsen's earlier view had been discarded. The government was now of the opinion that the commission's proposals entailed unacceptable restrictions on the freedom of contract, they encroached too much upon the rights of individual tenants and landlords to reach an agreement on

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(Reykjavík, 1878).

<sup>38</sup> ÞS. Íslenska stjórnardeildin L. I,2, Landbúnaðarmál, bréf og tillögur 1829-1876, The Governor to the Ministry of Iceland 22 November 1876.

<sup>39</sup> Ibid.

their own. Property rights settled by individual agreement were the most suitable arrangement, "especially in Iceland where both parts stand on equal footing..."<sup>40</sup>

The bill underwent a radical change in the parliamentary process and the majority decided to throw out all parts of the bill other than the tenancy section which was seen as the most important issue. But this treatment did little to further the bill as the government and the Althing struggled over it for three successive sessions, 1879, 1881 and 1883. The Althing was certainly content with the government's decision to abandon the idea of minimum lease period, as indeed the governor had expected it would be in his report, but it moreover sought to dilute the commission's proposals even more than the government did in its bill. The crucial article dealt with the duty of the landlord to compensate the outgoing tenant for housing improvements, a provision that was considerably watered down in the Act itself on the grounds that it would invite tenants to make "excessive" housing improvements.

The majority in the Althing was of the opinion that there was no need to improve tenure arrangements as Benedikt Sveinsson, a prominent MP and a magistrate, expressed forcefully in the 1883 session, echoing familiar arguments from the early century:

Danish land laws have been based on the principle of protecting the rights of tenants against the landlords so that they could not abuse their power and education. The situation is totally different in this country where landowners are, generally speaking, not better educated than tenants, and it could even be said that those who have been the biggest investors in land have often been men of low culture, not to mention that landlords in this country have no more power or authority over tenants than any others who enter contractual agreements. There is consequently no reason to have anything but complete equality between both parts, landlords and tenants.<sup>41</sup>

The end result of the long debate in the parliament was in

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<sup>40</sup> Alþingistíðindi 1879 I, p.60.

<sup>41</sup> Alþ. 1883 B II, p.183.

little relation to the efforts and time given to it. The new law, enacted in 1884, did not ring in any significant change but mainly confirmed existing laws and practices concerning land tenure, some of which had hitherto had dubious legal basis.<sup>42</sup> Lease time, land rent and dues were subject to an agreement between landlord and tenant, the responsibility of maintaining inventarii and farm buildings rested solely with the tenant who also had to pay all taxes levied on the leased farm. The overall result was the strengthening of the landowners' legal position vis-a-vis tenants for the law annulled some tenants rights which had been legislated during the last two centuries.

The only positive change in the law for tenants was limited compensation for improvements. But even this provision had little or no effect in practice because of the complicated procedures and strict conditions demanded of the tenant to obtain compensations. The clause was effectively a dead letter.<sup>43</sup>

After the Land Tenure Act of 1884 the tenancy issue was much less on the political agenda. In the coming decades the Althing focussed primarily on the sale and tenure arrangements on public land, and only after 1900 was tenancy on private land back to the forefront of public debate. Having considered tenancy reforms on private land the progressive and prolific agricultural committee of 1904-1905 found it too daunting a task and put the issue aside.<sup>44</sup> In its report the committee expressed the hope that the sale of public land and other measures would speed up the process

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<sup>42</sup> Stjt. 1884 A, pp.2-17.

<sup>43</sup> Magnús Bl. Jónsson, 'Leiguábúð og sjálfssábúð', Bjarki VIII (7 May 1903), p.2. - Alþt. 1911 A, p.881-2. - Alþt. 1911 B.I, p.809-10. - Alþt. 1913 A, pp.748-50. - This can also be read from the reports on tenure on private land in 1903, cf. BS. Skjöl Búnaðarfélags Íslands no.162: Skyrslur yfir ábúð á bændaeignum 1903.

<sup>44</sup> Alþt. 1907 B.II, pp.1835-6. - Frumvörp og athugasemdir, pp.69-71.

towards owner-occupancy, thus reducing tenancy and putting pressure on landowners to contribute towards improvements on their land. If that would not happen the tax laws might prove the most effective way of eliminating tenancy or at least its worst drawbacks as more people came to realize that "no one has the full and unlimited right to hold more land than he uses for himself and his family or in partnership with big or small social organizations."<sup>45</sup>

Every session of the Althing from 1907 up to the war dealt with the tenancy issue in one form or another. In these proposals, as others before them, attempts were made to formulate new regulations that would ensure more secure tenures and greater responsibility of landlords in regards to maintenance of farm buildings and improvements on the farm. Chief among the proposed changes were a minimum lease time, commutation of leased livestock and other dues for money payments once and for all, and more compensations for improvements.

Although most MP's acknowledged the seriousness of the problem in general and quite a few of them paid at least lip service to tenure reform, the issue dragged on session after session without any change in the law. Þórhallur Bjarnarson, chairman of the agricultural commission 1904-1905, came to the heart of the matter in a parliamentary debate in 1903 saying that he doubted whether it was possible at all to improve tenants conditions on private land by law, because all such measures were blocked by property rights.<sup>46</sup> The great stumbling block was the principle of freedom of contract, but as for a greater financial contribution of the landlord to his leaseholds a more fundamental obstacle seemed to be in the way. It was frequently maintained by the defenders of existing

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<sup>45</sup> Frumvörp og athugasemdir, pp.70-1. Although not quite clear what is meant by "social organizations" in this context, it seems to refer to municipal or state ownership of land.

<sup>46</sup> Alpt. 1903 B, p.291.

arrangements that landlords were unable to carry these proposed duties or invest on a significant scale in improvements on the leaseholds because rent margins were so low. Again, low yields on farmland made it difficult to raise the rent, which was needed to persuade landlords to bring additional capital to the leaseholds.<sup>47</sup> The outcome, then, was status quo in tenure arrangements on private land for some time to come until the political opinion in the Althing had changed decisively in favour of tenants.

Only in one aspect was there a legal change in land tenure before the war and it was only confined to crofters. A law of 1907 stipulated that crofts on a virgin land should be leased to a minimum of eight years and all labour services be banned except those confined to improvements on the plot itself.<sup>48</sup>

### 3.3. Agrarian radicalism on the upswing

The disappointment with the handling of the sale of state farms during the late 1890s and the backlash it brought to the sale itself gave rise to more radical ideas on land policy around and after the turn of this century. A growing number of public figures expressed the view that not only should the sale of public land be stopped but public ownership of land be extended, the staunchest radicals even calling for virtual nationalization of land. Rarely had there been a public agitation for public ownership of land before.<sup>49</sup> Calls for a shift towards public ownership first became pronounced after the turn of this century, bolstered by the unsuccessful attempts to reform the Land Tenure Act

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<sup>47</sup> A typical exposition of this view is offered in a committee report in the upper chamber of the Althing in 1911, see Alþt. 1911 A, p.883.

<sup>48</sup> Stjt. 1907 A, p.402.

<sup>49</sup> See, however, the debate on the agricultural commission's report from 1877 in Norðanfari XVI (1877) no.45-46 and subsequent issues, and in Norðlingur III (1877) no.47-48 and subsequent issues.

of 1884 and the criticism of the sale of public land for failing to prevent farms ending up in the ownership of landowners and not tenants themselves.

Foreign ideological currents inspired the debate, but those in the forefront were rather peasant radicals than socialist ideologues, influenced more by Henry George's ideas on land reform propounded in his book Progress and Poverty in 1879 than the marxist program of the socialization of the means of production. They did not reject private landed property as such but the irresponsible conduct of the big landowners who exploited their tenants and were preoccupied with owning the biggest land without necessarily turning it into use or embark on farm improvements.

Yet, georgism took on a radical form in Iceland and was, at least earlier on, associated with public ownership of land rather than the "single tax". This is not surprising when it is borne in mind that modern development had just started in Iceland, the effects of urbanization and industrial growth on the land market were only beginning to be felt; land tenures on the other hand were perceived as one of the gravest social problems. In this way Georgism struck a more radical chord than the movement in Denmark and Norway, whence so many social and political ideas were imported to Iceland.

Selling public land on leasehold with hereditary tenure was the form of public control over the land most commonly envisaged by the radicals, an idea that had been gaining popularity since the late 1890s. The linkage with the small holding policy which was also gaining popularity at that time (see chapter 5.3) is obvious, both were directed against the vested landed interests and public control of the land was believed to be the best way to ensure that landless people who wanted to take up farming were provided with a plot of land.

In the period 1915 to 1925 the staunchest supporters of georgism gathered around the journal Réttur, bearing the

same name as the organ of the movement in Denmark, Ret.<sup>50</sup> Quite a few prominent MP's, among them Jens Pálsson, Valtýr Guðmundsson, Pétur Jónsson, Sigurður Sigurðsson and Bjarni Jónsson, expressed on one or more occasions their support for public ownership of land and their allegiance to georgism. The idea was met only with scorn from Hannes Hafstein, the Minister of Iceland from 1904 to 1909, who, in response to criticism of the government bill on the sale of public land, said:

So long as the law permits the land to be individually owned - and the idea that the state is regarded as the owner of all the land has presumably a long way to go - I think it is pointless to let those few state tenants pay for the fact that Henry George has put forward his "theories". The state farms are few compared with all landed property in the country. - One must act on the basis of the existing social relations and accepted property rights.<sup>51</sup>

One of the radicals, Pétur Jónsson, was to take a remarkable turnabout on the issue. In the 1903 session of the Althing he argued strongly for a radical land policy:

It is my fundamental belief that the nation should own most of the landed property in the country because farm improvements would be put on a firmer footing, and the tenants living conditions will be much more secure if they have the legislature as their landlord rather than being exposed to individual landlord's whim, always having to be prepared to move to a new master.<sup>52</sup>

Only a year later Pétur Jónsson took a seat in the agricultural commission which initiated a whole series of agricultural legislation, one of which was the General Sale of Public Land Act in 1905. Pétur Jónsson explained his position during the debate on the government bill on the issue in 1905 saying that his previous opposition to the sale had been evoked by the frequency of former public land falling into the hands of those already owning land. The

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<sup>50</sup> Ólafur Jens Pétursson, 'Henry George og "einfaldi skatturinn" II Andvari XC (1965), p.193.

<sup>51</sup> Alþt. 1905 B, pp.1296-7.

<sup>52</sup> Alþt. 1903 B, p.110.

sale had moreover invited the danger of these farms being parcelled out to cottars, creating a class servile to landowners.<sup>53</sup> He had come to accept the idea of a general sale of public land provided that local authorities were given pre-emptive rights to buy land in order to reduce this danger. The commission's proposals had contained a clause on this but now that the government had regrettably taken it out in its bill Pétur Jónsson announced that he could not support the bill.

Although failing to gain popular support the demand for public ownership of land coloured the arguments of those opposing the sale of public land during the first three decades of the century. The frequent parliamentary proposals calling for a halt to the sale of public land were clear examples of that. Bjarni Jónsson, who publicly declared his allegiance to georgism, often showed a great distaste for compromise on issues he had strong views on. In a bill moved in the Althing in 1913 he proposed a stop to the selling of public land and that the government be given pre-emptive rights to buy all landed property on the market and authorized to spend up to 600,000 kr. a year to buy up land.<sup>54</sup> The total government spending that year was 1.7 m.kr.

During the 1920s the demand for public ownership of land was most firmly backed by the Social Democratic Party, demanding that the sale be stopped immediately and radical reform enacted on the land laws.<sup>55</sup> But the party was small and the support for this policy was limited in other parties. The idea of hereditary tenure and public ownership of land was nevertheless to set its mark on public land policy in the 1930s. Its appeal then was not based on an

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<sup>53</sup> Alþt 1905 B, p.1210-11.

<sup>54</sup> Alþt. 1912 A, pp.402-3.

<sup>55</sup> Alþyðuflokkurinn. Nýr stjórnmálflokkur. Hvað hann er og hvað hann vill (Reykjavík, 1917), p.19. - Stefnuskrá Alþyðuflokkssins á Íslandi (Reykjavík, 1923), p.7.

ideology inspired by the ideal of equality but the grim economic realities of the Depression and the heavy debts it had inflicted on the farmers. There were still in 1930 a large number of publicly owned farms, 175 state farms and 462 church farms in 1930 in addition to 201 farms owned by municipalities according to one source.<sup>56</sup> A law passed in 1936 repealed the laws on the sale of public land from 1905 and 1907 and stipulated that all farms in public ownership were to be offered on hereditary tenure with a fixed rent amounting to 3% of the land value. This was a clear break from the official land sale policy of the last three decades.

That same year another law was passed authorizing the government to use revenue from public land to buy farms in private ownership, leading to some state purchases of land. These measures were designed to aid debt ridden farmers who were now given the opportunity to sell their farms to the state while keeping them on hereditary tenure. A fair number of farms were bought by the state in that way up to the Second World War.<sup>57</sup>

### 3.4. Tenant protection policy at last

Attempts to reform the land laws continued during and after the war, backed by a determined minority in the Althing. The main agricultural organization, Búnaðarfélag Íslands (abbr. BI), seems to have taken little interest in the issue and no political party was wholly committed to reforms on land tenure except the Social Democratic Party.

It was first with the appointment of a commission set up to revise the agricultural legislation in 1927 that the issue was given serious consideration.<sup>58</sup> The commission embarked upon a major revision of the Land Tenure Act from

<sup>56</sup> Arnór Sigurjónsson, 'bættir', pp.28-9.

<sup>57</sup> Þorkell Jóhannesson, Alþingi og atvinnumálin, pp.47-51. - The number of state farms rose from 175 in 1930 to 323 in 1940 or by 148, see Arnór Sigurjónsson, 'Bættir', pp.28-9.

<sup>58</sup> Alþt 1927 A, p.750.

1884 and two of its members, Jörundur Brynjólfsson and Bernharð Stefánsson, presented a bill to the Althing in 1929, proposing a radical extension of tenants' rights.<sup>59</sup> The fact that it was not tabled as a government bill indicates that the government of the Progressive Party was not united behind this policy and may explain why the bill, although supported by 14 votes against 3 in the lower chamber, failed to go through. The story was repeated in 1930 and 1931, but in the 1932 session, after the most critical pro-tenant aspects of the bill had been somewhat modified, the bill was debated at length and passed by the lower chamber, but failed to complete its journey through the upper chamber. It was however clear by now that the issue had gathered such momentum that it was just a question of time when the bill would pass. In 1933 a new law on land tenure was enacted at last with about two thirds of the votes in the lower chamber voting for it and all the votes in the upper chamber.

The Land Tenure Act of 1933 was a victory for tenants who now obtained legal rights for which had been campaigned for centuries: life tenures became the rule on all farms unless the landlord or his closest relatives chose to occupy them, farms had to be leased with "necessary houses" assessed by two officially appointed inspectors, tenants were compensated for farm improvements, landlords were made responsible for natural depreciation of farm houses, a fixed 6% maximum rent set on leased livestock, and limitations imposed on landlords for exempting farm's properties or rights of use (such as fresh water fishing, shooting of seal and fowl, egg collecting) from the lease.<sup>60</sup>

There are a number of reasons for this shift of balance towards a pro-tenant policy. The political composition in the Althing had changed since the war with the emergence of a modern party system which brought with it a wholly new

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<sup>59</sup> Alþt 1929 A, pp.668-719.

<sup>60</sup> Stjt. 1933 A, pp.221-35.

agenda dominated by economic and social issues instead of the old nationalist politics centered around the struggle for political independence from Denmark. The Social Democratic Party (4 MPs in 1933) and, more importantly, the vast majority of the 23-member agrarian based Progressive Party supported this policy and even some of the 15 members of the Conservative Party. The development of landholding in recent decades had reduced the economic interests at stake on the side of landowners. The influential landowning class of the past was disappearing and its representation in the Althing had been reduced. As more capital-intensive agriculture was gradually replacing the old one-sided farming of sheep rearing the opposition against secure tenure and compensation for improvements became more untenable than ever.

### 3.5. Management of public land

During the period of the sale of public land, i.e. ca. 1885-1930 a substantial change was simultaneously under way in regards to management of public land. With the financial re-organization of the church in 1907 commune councilors (*hrepppstjórar*) were given the task of overseeing all church farms except vicarages themselves in their parish, collect the land rent on 6% commission and lease the farms out in conjunction with the district magistrate.<sup>61</sup> Ministers were assigned certain sources of income (rents from houses on the vicarage land etc.), but other dues that had hitherto been paid directly to them, i.e. the tithe, daysworks, fees to ministers (*offur*), licence fees for free labourers (*lausamannsqjald*) and the keep of a lamb (*lambsfóður*) were to be collected by the parish committee and used primarily for funding ministers' salaries when earmarked incomes did not reach the legal minimum.

Now the government turned to the task of revising management on state farms. Crown land had in earlier times been allotted as fiefs for a fixed sum to be paid to the

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<sup>61</sup> Stjt 1907 A, pp.290-301.

Crown Treasurer.<sup>42</sup> By the nineteenth century, however, the fiefholders, who were normally prosperous farmers themselves or even magistrates, received as a rule one sixth, and in exceptional cases up to a quarter, of the incoming land rent and dues for their services.<sup>43</sup> Incomes from smaller estates and individual Crown farms were paid directly to the Treasury towards the end of the century and the number of fiefs (i.e. umboð) were reduced as a result of the sale of state farms.<sup>44</sup>

In 1913 a law was passed which did away with this old system. As in the case of church land commune councilors were given the task of managing state farms as the fiefs became vacant. They leased them out in collaboration with the district magistrate and collected rents and dues, now paid exclusively in money, in return for 6% commission of all incomes.<sup>45</sup>

Tenants on many Crown farms were obliged in the lease contracts to make specific improvements on their land. With a more secure tenure towards the end of the nineteenth century - a hereditary tenure is clearly spelled out in government regulations from 1880<sup>46</sup> - tenants took more interest in farm improvements. The government encouraged this development by offering grants to improvements on state farms in 1880.<sup>47</sup> The amount equalled one half, and in special circumstances, up to three quarters of the cost of

<sup>42</sup> See f.ex. Björn Teitsson, Eignarhald, pp.107-9.

<sup>43</sup> Um þjóðjarðir, pp.181-7. - Alitsskjal um skattamál, pp.112-19.

<sup>44</sup> Stjt. 1880 B, p.108. - This can also be seen from the Government Accounts, Landsreikningurinn (abbr. LR.) and its supplementary documents.

<sup>45</sup> Stjt. 1913 A, pp.40-1.

<sup>46</sup> Stjt. 1880 B, pp.106-8.

<sup>47</sup> Ibid.

improvements in return for a corresponding increase in the land rent, i.e. 4% of the grant.

In addition to these rules the government was authorized in article 3 of the Finance Act for 1900/1901 to contribute up to half of the rental from state land to housing improvements on state farms without raising the rent provided the tenant's contributions amounted to a third of the cost.<sup>68</sup> These rules seem to have greatly encouraged improvements as indicated by the fact that all incomes from public farms in the district of Gullbringu- og Kjósarsysla in 1904 were spent on housing improvements there and costs of improvements even exceeded incomes in the district the following year.<sup>69</sup> This generous spending became a subject of dispute between the Budget Auditors and the government, who justified the expenditure by referring to the 1880 regulations, not the Finance Act. Since the tenants paid so low rent, the Governor argued, they would have received quite insufficient grant according to the Finance Act to improve their appalling housing conditions.

The Finance Act grant was abolished in the financial period 1908/1909 due to bleak economic prospects. Another reason given for its abolition was that it would not be right, now that the public land sale was under way, to spend public money on these improvements as they would not affect the selling price.<sup>70</sup> Yet, public farms, especially vicarages, continued to receive some financial assistance for housing improvements from the government who, in addition to disbursing moderate sums from the Treasury according to a law from 1907<sup>71</sup>, allowed them to use part or, in some cases, all the land rent and dues for that purpose.

The grant system prescribed in the Cultivation Act of

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<sup>68</sup> Alþt 1899 C, p.662.

<sup>69</sup> LR 1905, pp.92-3, 106 and 116.

<sup>70</sup> Alþt. 1907 B, p.451.

<sup>71</sup> Stjt. 1907 A, pp.186-90.

1923 greatly encouraged improvements on public land.<sup>72</sup> Tenants on state and church farms were not eligible for grants under the general scheme, but they could make improvements towards the reduction of land rent and dues. This provision boosted farm improvements, which shot up from 5,311 daysworks on 85 farms in 1925 to 14,312 daysworks on 325 farms by 1934 - accounting for about a half of the total number of state and church farms. The improvements during those 10 years cost the state 380,000 kr.<sup>73</sup>

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<sup>72</sup> Stjt. 1923 A, p.183-4.

<sup>73</sup> Sigurður Sigurðsson, Búnaðarhagir, Búnaðarfélag Íslands, Aldarminning II. (Reykjavík, 1937), p.208. This source puts the number of public farms in 1930 at about 700, whereas here we follow Arnór Sigurjónsson, 'Þættir', pp.28-9, which puts the number at 637.

#### 4. THE REGULATION OF THE LABOUR MARKET

##### 4.1. Labour shortage amid under-employment

The pre-industrial labour force in Iceland was overwhelmingly made up of servants, apart from the farming family itself. In 1870 there were 7,219 heads of households in farming and their servants were no less than 15,373. (table 12) Servants were by far the biggest section of the working class in pre-industrial Iceland, accounting for roughly a quarter of the whole population during the latter part of the nineteenth century and no less than 35-40% of the "economically active population", defined here as the population above 15 years of age.<sup>1</sup> This is a much higher proportion than is known in other pre-industrial societies, even in England where the servant class was very large or about one eighth of the population.<sup>2</sup>

Servants were normally hired over a period of one year and lived in their masters' households. They had to take on all the work demanded of them in return for food, clothing, lodging and a small wage paid almost always in kind, homespun cloth, tallow, butter, sheep or the keep of sheep, or by crediting the servants' accounts at the nearest merchant. An ordinance issued in the early eighteenth century to regulate servants' wages seems not to have been enforced and was certainly a dead letter by the nineteenth century.

Farmers also recruited casual labour during the hay harvest, chiefly from the poorer sections of the fishing population by the coast. Fishing farmers, cottars and their servants took off to the inland areas in early July and hired themselves on the farms for 8-10 weeks during the hay season, earning 7-10 kg. of butter or its equivalent in other farm produce for a good male worker. The extent of

<sup>1</sup> Guðmundur Jónsson, Vinnuhjú, p.7, 11.

<sup>2</sup> Laslett, P., 'Introduction: The History of the Family' in P. Laslett and R. Wall (eds.), Household and Family in Past Time (London, 1974), p.56-7.

Table 12 THE FARMING POPULATION, 1870-1930

	1870	1890	1910	1930
heads of households	7219	6453	6065	6620
male servants	6703	5788	6176	6309
female servants	8670	7689	6045	3319
seasonal labourers			2235	1036
other employees			298	175
dependents	30978	26719	22592	21544
	=====	=====	=====	=====
total	53570	46649	43411	39003
% of total population	76.8	65.8	51.0	35.8
heads of househ./servant ratio 1:2.1		1:2.1	1:2	1:1.5

Sources: See table 2.

Notes: As the sex ratio of servants is not given in the 1870 census the ratio in the 1880 census is used, i.e females 56.4%, males 43.6%, cf. Guðmundur Jónsson, Vinnuhjú, p.10. - The servants category includes servants of officials residing outside Reykjavík 1870 and 1890. - The drop in the number of female servants in 1910 is partly due to changed classification as domestic servants in agriculture are from then on classified under private services. Seasonal labourers are not counted separately in 1870 and 1890 and are presumably included in the fisheries where their main occupation was. - Dependents include primarily farmers' wives, children and relatives.

the seasonal migration is impossible to measure with precision, but it is not unreasonable to estimate that at least half of the ca. 5000 persons "economically active" outside agriculture in 1870 were working on the farms during the summer. Not until the 1910 census have we data on seasonal labourers, then just over 2200 persons report it as their main employment but there were doubtlessly more people who participated in the busy haymaking season.

Another group of the rural labour force was húsmenn who in Iceland were normally persons having their own household but living in the farmer's house and not in separate houses or huts on the farm as was customary in Norway and Denmark. The húsmenn class did never become a large and clearly separate class; rather the position of húsmáður signified a temporary stage in a person's life cycle and the class

consisted largely of single men waiting for a vacant landholding and adult relatives of the farmer's family. Many of them worked for the farmer as well as having a few sheep of their own and a part of the hayfield or the meadow. Numerical information on húsmenn is scarce and unreliable as they were not counted separately in most decennial censuses and were sometimes confused with sub-tenants, hjáleigubændur, who occupied a cottage within the boundaries of the main farm. Most of the húsmenn are presumably contained in the heads of households category in table 12. The available information indicates a rise in the húsmenn class during the first half of the century: 1642 in 1823, 2549 in 1833, 2889 in 1843 and 3409 in 1852.<sup>3</sup> In the census 1901, however, they numbered 1606.<sup>4</sup>

On the whole agriculture's labour requirements fitted well with those of the second biggest industry, the fisheries, for the main fishing season was during winter. In February and March servants, sons of farmers and even the farmers themselves flocked to the fishing stations in Snæfellsnes and Reykjanesskagi peninsulas in the west and south-west to work as deck-hands or foremen on boats owned by either themselves or fishing farmers in the coastal areas.<sup>5</sup> Assuming that about 8500 men were employed in the winter fishing season<sup>6</sup>, of whom 1900 men were fishermen proper according to the 1870 census (i.e. half of those employed in the fishing sector, the rest assumed here to be

<sup>3</sup> Guðmundur Jónsson, Vinnuhjú, p.63. - Um búnaðarhagi Íslendinga, Skýrslur um landshagi á Íslandi II (Copenhagen, 1861), p.182.

<sup>4</sup> Fólkstala á Íslandi 1901, p.157. This figure includes dependents.

<sup>5</sup> The timing and the extent of the labour migrations between agriculture and the fisheries varied from one region to another, but the description fits well the pattern in the southern and western part of the country, where the biggest fishing areas were.

<sup>6</sup> Þorkell Bjarnason, 'Um fiskiveiðar Íslendinga', p.240.

female heads of households and female servants who normally did not go to sea), the rough guess is that more than three quarters of the men participating in the winter fishery, or 6600 persons, were recruited from rural areas. When the season was over by the middle of May the farmers and their labourers returned home to take up farm work, shear the sheep and prepare the hay harvesting season.

In this way the two main industries formed a highly integrated system of labour and goods exchange, which was mutually beneficent in many respects and helped reducing the greatly fluctuating labour requirements imposed by the natural circumstances.

Despite the fact that Icelandic farmers had proportionally larger labour force of servants at their disposal than their counterparts in other countries, complaints of labour shortage are one of the most common themes in writings on farming in past times. The labour shortages which farmers were undoubtedly experiencing were, however, mainly confined to the summer due to the upsurge in labour demand in farming during that time. As one historian remarks about European agriculture during the nineteenth century:

Even in the most lowly productive agricultures and under conditions of chronic structural unemployment the highly seasonal nature of crop production can easily create serious labour shortages at peak activity periods of the farming year.<sup>7</sup>

The remark is very relevant for Icelandic conditions too, even though crop growing was only confined to hay. The short summer during which long spells of rain frequently hampered hay-work made the hay-harvesting season in July and August a period of intense work. Scything, drying, and bringing home the hay with primitive tools and implements

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<sup>7</sup> Collins, E.J.T., 'Labour Supply and Demand in European Agriculture 1800-1880', in E.L. Jones and S.J. Woolf (eds.) Agrarian Change and Economic Development (London, 1969), p.61.

involved immense work during this fairly short but busy time of the year. Other seasons were much less labour demanding, we can even speak of under-employment in agriculture, especially during the long winter when little work was to be done apart from feeding the livestock and working the wool.<sup>e</sup> In this way the population met most of its need for clothing, but as salable goods the wool products were on a steady decline, precipitated by increased imports of ready made clothes in the last decades of the nineteenth century. The woollen knitwear had long ceased to yield any profits by that time, although country people continued to produce knitwear to sell in the market for some time to come. The decline of the domestic production during the nineteenth century meant, inevitably, that more and more of the wool from the expanding sheep farming was exported unprocessed.

#### 4.2. Labour regulated

Scarcity of labour in farming can not entirely be attributed to seasonal upsurge in demand. An inbuilt tension existed between the two principal industries, despite their close relationship. The fisheries had a greater growth potential thanks to their largely unexploited resource, the fish stocks, and relatively favourable market position overseas; they offered people opportunity to increase their incomes significantly if fishing was good. Agriculture on the other hand stood for stability, and as most available farmland was occupied it could absorb only a moderate population increase within the existing economic and technological framework. Agriculture's potential for growth was further hampered by its disadvantageous market position abroad, some of its traditional produce like woollen knitwear and salted mutton was in irreversible decline during the eighteenth and nineteenth centuries.

The period 1770-1790 was a time of great tension on the

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<sup>e</sup> Until the last decades of the nineteenth century wool processing was entirely an unmechanized domestic industry, from carding and spinning to knitting fabrics (jumpers, stockings and mittens) and weaving the cloth (vaðmál).

labour market, caused by a surge to the coastal areas which threatened the balance between the two sectors. The fisheries were enjoying favourable external conditions with price rises of dry fish on foreign markets due to both the American Revolution and a new market for saltfish opening up in Spain. This was reflected in a new official price list for the foreign trade goods, with which all traders had to comply.<sup>7</sup> The price of some important agricultural products was on the other hand reduced at the same time. Agriculture's troubles were deepened further by the sheep epidemic during the 1760s and 1770s killing a greater part of the sheep flocks. Thousands of people lost their livelihood as a result and migrated to coastal areas to settle in crofts or to make a living as casual labourers.

The population growth in coastal areas was not welcomed by the landed interests. The deep-seated social values of the rural community of independent farmers dominated people's economic ideas and their views on the ideal structure of the economy. Agriculture had always been the principal industry whereas fishing had emerged as a subsidiary occupation. It was axiomatic to the landed men that agriculture formed the basis of economic activity and social life, because it was not only the most reliable and resourceful occupation but also a morally and socially superior way of living. From this flowed that agriculture should have a priority in public policy.

The farming community maintained that the fisheries were draining agriculture of scarce labour, making workers arrogant and causing fierce competition which lead to higher wages, less farm work and hence reduced farm incomes; poor farmers, it was claimed, were even forced to leave their farms and settle in crofts for want of labour. The conditions of the crofters, agriculture's advocates warned,

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<sup>7</sup> Gisli Gunnarsson, Upp er boðið Ísaland, pp.55-6, 113-4, 177-8. - Valdimar Unnar Valdimarsson, 'Saga S.I.F. og saltfiskverkunar á Íslandi til 1985' unpublished paper.

were poor and gave ample occasion and temptation to take up immoral and lazy life. The fisheries had some growth potential, it was acknowledged, but their growth tended to be short-lived and inherently unstable because of their seasonal nature and fluctuations of the fish catch. When the fish did not strike, as sometimes happened for the whole seasons, the poor crofters who had little or no work to fall back on were an easy pray for destitution and famine and had to flee the coastal areas and seek refuge on farms as servants, or more commonly, as paupers. The economic history of Iceland had proved beyond doubt that unrestricted fisheries were not sustainable, societal control was needed to prevent disasters.

A good example of upper class attitudes on how to resolve this problem and control the recurrent tensions between agriculture and the fisheries are the writings of Ólafur Stephensen, district governor and, from 1790 to 1806, a governor of Iceland. Few wrote with more clarity on the "ideal" social and economic structure of society seen "from above". All existing farms in rural areas, he wrote in an essay from 1786, should be occupied and the principal occupation of the population be agriculture which was capable of employing a far greater number of people if appropriate improvements were made.<sup>10</sup> The fisheries are useful but have their limitations because their unstable nature makes the fishing population so exposed. They moreover drain farming of valuable workforce and hence reduce farm work.

How can fishing best be organized to ensure that the rural population does not flock to the coastal areas with the consequent swelling of the crofter class? Ólafur Stephensen believed that boats and ships should be manned with a limited number of fishing farmers and crofters living in coastal areas as well as farmers and their servants

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<sup>10</sup> Ólafur Stephensen, 'Um jafnvægi biargræðis-veganna á Íslandi', Rit þess Íslenska Lærdómslistafélags VII (1786), pp.113-93.

during the winter season. Fishermen will always go to sea in other times than the winter season in the west and south-west of the country, but that fishing should be confined to the coastal population of fishing farmers and their cottars and crofters. Being himself one of the biggest landowners in the country counting among his properties land in a good fishing station in the south-west, it was not surprising that Ólafur Stephensen considered the best way for owners of coastal farms to exploit the fishing grounds was to man their boats through labour services of tenants, whether cottagers or crofters, who lacked in his opinion both the means and the enterprise to have their own boats.

This regime was broadly adhered to in public policy in which two strategies in particular were adopted to keep agriculture in favourable position. First, there was a price discrimination against the fisheries carried out through fixed prices in foreign trade during the era of the Monopoly Trade up to 1787.<sup>11</sup> As foreign trade was gradually liberalized 1787-1855 the farming community relied more on a wide-ranging social legislation and administrative devices to keep a balance between the two main sectors of the economy.<sup>12</sup>

The social legislation consisted of three main strands. First, limits were set on free labour by obliging people who did not live independently as farmers or crofters to hire themselves as servants of those in independent positions. The only exceptions from this rule were free labourers (lausamenn) who did not have to have a permanent residence and were allowed to take on temporary work on seasonal, weekly or even day-basis provided they owned the equivalent of 10 hundreds. This was a big sum bearing in mind that the value of most cottages was below that limit and the minimum

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<sup>11</sup> Lúðvík Kristjánsson, 'Úr heimildahandraða', pp.148-51.

<sup>12</sup> Still, during the nineteenth century, price distortions in favour of agriculture at the expense of the fisheries continued.

possession required to establish an independent household was 3 hundreds.<sup>13</sup> Free labourers were normally single persons selling their labour to the highest bidder, working as deckhands for a share of the catch during fishing seasons and as casual labourers on the farms during the summer. There was very little work to have outside agriculture and fishing, although a small number of people were employed by merchants or as artisans and tradesmen. Free labourers earned much more than servants, but they risked seasonal unemployment and often had to cost part of their food and clothing.

By law of 1783 the class of free labourers was banned and all persons 16 years and older not living with their parents or having a household of their own were ordered to seek positions as servants in other households.<sup>14</sup> Even farmers' sons over 18 years of age were obliged to leave home and enter service elsewhere if they were not earning a wage as servants. In contrast to the relationship between landlords and tenants, freedom of contract was not applicable in farmers' dealings with workers.

The motives for these draconic measures were spelled out in the Act itself: free labourers were causing a great harm in the community by taking excessive wages, exploiting farmers and causing scarcity of servants.<sup>15</sup> Despite its

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<sup>13</sup> Gisli Gunnarsson, Upp er boðið Ísland, pp.32-3. During the nineteenth century, however, there were no laws in force regarding minimum farm size.

<sup>14</sup> Guðmundur Jónsson, Vinnuhjú, p.17.

<sup>15</sup> The immediate events leading to the ban have not been examined sufficiently. Gisli Gunnarsson, Upp er boðið Ísland, pp.34-5, maintains the law was enacted to stem the flow of migrant workers to the fishing stations which in themselves had been bolstered by the Danish government's efforts to promote decked vessel fishing in the 1770s and 1780s. This explanation seems paradoxical, however, for it implies that the government worked deliberately against its own plans to modernize the fisheries by turning off the supply of casual labour, cf. Björn S. Stefánsson, 'Forsendur og fyrirstaða nysköpunar á 17. og 18. öld', Saga XXVI (1988), p.138.

unprecedented harshness the law did not produce any fundamental change in the labour market for free labourers constituted only a small part of the working classes. Húsmenn and artisans were still allowed to take on casual work as well as crofters and cottagers outside the fishing season, and these classes had traditionally been the main source of migrant workers. Nevertheless, the law gave the authorities powers to curb any potential rise in the class of free labourers and imposed strict limits on the freedom of landless people to seek work, so strict in fact that the law was widely evaded in times of economic expansion. Free labourers were given a legal status again by law of 1863 by exempting persons whose annual income exceeded five hundreds from the labour bondage.<sup>14</sup> Divorced women, widows and widowers, persons between 16 and 25 years of age earning more than one hundred a year and all persons over 25 could buy a licence from the local authorities to become free labourers for a fee of one hundred for men and half a hundred for women (approximately a year's wage for a servant). Licenses could be granted free of charge to those who had held independent positions for 15 years and labourers after 20 years of service.

The second strand of the social legislation were legal restrictions on húsmenn and crofters. For centuries the minimum value of land required to establish a croft was three hundreds. This was reduced to one hundred by law in 1808, in order to adapt the ancient law to customary practices rather than to widen the access to crofting.<sup>17</sup> By a law in 1863 no minimum requirement was demanded, but a permit from the local authorities was required to settle in a commune as a húsmaður or a crofter.<sup>18</sup> As late as 1888 the law was tightened and people required to apply in writing to

<sup>14</sup> Lovsamling XVIII, pp.544-57.

<sup>17</sup> Lovsamling VII, p.208.

<sup>18</sup> Lovsamling XVIII, pp.544-57.

the local authorities where they wanted to reside for a permit to become crofters.<sup>17</sup> They had to prove they were "orderly and prudent" persons and own 400 kr. in addition to household articles. Crofters outside urban areas were required to occupy a plot of land not smaller than 1400 square metres containing a vegetable garden.

The poor law was the third element in the social legislation aimed at regulating the labouring classes. Local authorities applied it to a great extent in order to control the migration of people and avoid the burden of the poor. Men and women were legally tied to the commune of their birth or to the commune where a "settlement" had been acquired (obtained after 5 years of permanent settlement in a commune without receiving financial help by law of 1834, increased to 10 years in 1848). The commune had to care for needy people either by giving families considered to be in temporary financial difficulties (due to illness, mishaps, short-term unemployment) some support in form of food or money or by dissolving destitute families considered unable to maintain themselves and finding a place to live for their members among the other households in the commune.

Local authorities were always on guard against immigrants because of the provision in the law regarding settlement rights. They therefore often prohibited poor people, who were considered likely to become a public charge, from settling in the commune or even forced them to leave before they gained settlement rights. Even in Reykjavik, the biggest town with the widest range of employment, the authorities showed little sympathy towards poor people wanting to settle there during most of the century. In 1879 four out of the six persons applying formally for a status of crofters or free labourers were turned down on the grounds that they were too poor; in a reply to one of the applicants the poor commission remarked that "there is no likelihood that he will be able to maintain himself here for it was the commission's view that

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<sup>17</sup> Stjt 1888 A, pp.2-5.

there are already too many crofters and that it would be unsafe to increase the number of poor crofters here."<sup>20</sup>

Town councils were therefore, if anything, more resolute than rural authorities in stemming the migration from rural to urban areas. The law acted as a barrier on this population movement and, in combination with other social legislation, gave the authorities, especially on local level, tremendous powers over the personal affairs of poor people: they could prevent in-migrants from settling in the commune, dissolve poor families, ban people from working as free labourers, prevent poor people from marrying and regulate the classes of húsmenn and crofters.<sup>21</sup>

It must be recognized, however, that this wide ranging legislation served a broader aim than simply to regulate the labour force in favour of agriculture by supplying farmers with cheap labour. It was also designed to ensure social discipline, prevent vagrancy, keep a balance between the population and scarce economic resources. The advance of the fishing sector, which had a similar role vis-a-vis agriculture as manufacturing industry in many other European countries, was seriously hampered by its instability and seasonal character. It was only capable of giving the workforce semi-employment, limited to three up to a maximum of six months a year, often interrupted by bad weather or catch failures. The unsophisticated range of economic activity which the small towns and villages had to offer wage earners gave the advocates of landed interests ample evidence of the need to limit people's access to the urban areas.

All the measures in the social field touched in one way or another on the problem of poverty. By requiring every person to belong to a household and own a minimum property in order to live independently the social legislation, seen

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<sup>20</sup> Gisli Agust Gunnlaugsson, Ómagar og utanqarðsfólk, p.146.

<sup>21</sup> For a more detailed description of the social legislation, especially the poor law, see Gisli Agust Gunnlaugsson, Family and Household, pp.90-107. -

in its broadest terms, was society's defence mechanism against the danger of poverty and dependence. The law imposed great restrictions on the occupational freedom of the working classes, but in accordance with the paternalistic tradition it placed also obligations on masters for taking care of labourers in sickness and health. With the one-year-service servants were guaranteed food, clothing and accommodation during the slack seasons.

The harsh regulation of the labour market was originally a response to the surge of the lower strata of the rural population into crofting or free labour. The population growth of the nineteenth century called for a new function of the social legislation, that of keeping a check on the growth by regulating family formations, ascribing most landless people to the status of servants, who were overwhelmingly single persons and therefore "a socially infertile" class.

The unavoidable effects of the labour regulation, which did not start to break up until the last decade of the nineteenth century, were to retard the transfer of labour from agriculture to the fisheries and other urban industries by limiting the pool of labour required by the urban economy in order to expand. It was to slow down the urbanization process and stifle work specialization. The main conclusion which the landowning elite was to draw from the perception of crofting as a hazardous and morally corrupting occupation was not that the fisheries had to be improved and more advanced techniques employed, but that the fisheries could not be sustained as an independent sector and had therefore to be contained. The surge to crofting, as Jón Sigurðsson remarked,

has been met with dislike by the most prominent men in the land, but like so many people still today they observed the shortcomings only to complain about them instead of overcoming them, which is the crux of the

matter.<sup>22</sup>

The negative effects of the labour bondage on the fisheries has been disputed on the grounds that as it applied to all sectors of the economy it did not disadvantage the fisheries especially.<sup>23</sup> Björn S. Stefánsson claims that there is no evidence of the vessel fishery and other new techniques being hampered by labour shortages due to the labour bondage or restrictions on crofters. The chief objective of the social legislation, says he, was to keep a check on the poor by discouraging the rise of classes unable to sustain themselves. But as fear of the poor burden receded with economic progress employers in both the main sectors of the economy took the view that free labour would be advantageous and this shifted opinion in the Althing towards liberalization of the labour market.

There is no need to take at face value the farming community's claim, as Björn S. Stefánsson seems to do, that the life of crofters and free labourers was little else but misery; if we take the patchy information about the number of paupers as an indirect indication of the employment situation then the small towns and villages were not doing badly in comparison with the rural areas. Although Vestmanna Islands, a small, backward crofting settlement had the highest pauperism ratio in 1871, 10.5% of the population, it was followed by more populated and predominantly rural districts like Skaftafelssýsla (8.3%), Myrasýsla (8.2%) and Rangárvallasýsla (8.1%) whereas the lowest ratio was in Reykjavík (3.3%).<sup>24</sup> One historian examining the development on pauperism in the second half of the 19th century remarks:

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<sup>22</sup> Jón Sigurðsson, Litil varningsbók handa bændum og búmönnum á Íslandi (Copenhagen, 1861), pp.100-101.

<sup>23</sup> Björn S. Stefánsson, 'Ráðningarskilmálar í lok 19.aldar', Skírnir CLX (1986), pp.223-30.

<sup>24</sup> Lyður Björnsson, Saga sveitarstjórnar á Íslandi I (Reykjavík, 1972), p.180. The national average was 6.1%.

It is therefore obvious that the increasing poor relief burden carried by the municipal authorities during the period 1850-1870 can not be explained by accelerating urbanization which seems rather to have reduced pauperism...<sup>25</sup>

Thus, the historical evidence indicates that there was more scope for population growth in urban areas than in the countryside. The number of paupers in urban areas would no doubt have increased with less regulated labour market, but so too would the number of employed people, not least crofters and labourers.

Secondly, Björn Stefánsson's reasoning is based on the notion that the social legislation was primarily a rational defence against pauperism which did not influence the allocation of labour in favour of any sector of the economy. This highly doubtful claim ignores the regulation's central aim and actual effect which was to retain labour in farming by restricting free labour and the migration from country to town. The restrictions tended to stem the rise of crofters and free labourers whose main employment was fishing. The

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<sup>25</sup> Lyður Björnsson, Saga sveitarstjórnar I, p.180. Poor relief data from 1901 point in the same direction. The four biggest towns were well below the national average cost of poor relief, 2.13 kr. per head: Reykjavík with 2.04 kr. Seyðisfjörður 2 kr., Ísafjörður 1.67 kr. and Akureyri 0.54 kr., the last one with the lowest cost over the whole country. The highest cost was in the districts of Gullbringu- og Kjósarsýsla 3.32 kr., Borgarfjarðar-sýsla 3.21 kr. and Rangárvallasýsla 2.95 kr., the last two predominantly farming areas, but the first with a high proportion of its population as crofters, cf. Gísli Ágúst Gunnlaugsson, Ómagar og utangarðsmenn, p.141.

In another study of household structures by Gísli Ágúst Gunnlaugsson the same pattern emerges: the number of paupers per household in the rural commune of Hruni was much higher than in the urban commune of Garðar throughout the period 1845-1901 after which pauperism disappeared, see Family and Household, p.127 and 151.

These figures, however, must be carefully treated because the poor relief burden was effected by a number of factors other than the level of employment such as age composition, always favourable to the growing towns as they had a high proportion of young and able people. Nevertheless, this data shows clearly an inverse correlation between cost of poor relief and the degree of urbanization.

resolute and often successful efforts of the authorities to prevent the rural poor from leaving the increasingly crowded countryside and make a living from fishing in coastal areas where employment opportunities were at least as good indicate an ill-adjusted labour-regulation policy.

The claim that the social legislation did not impede the growth of vessel fishery particularly is also doubtful. If we accept that the legislation did hamper the migration from rural to coastal areas the detrimental effects of the labour regulation are apparent, especially in the light of the labour shortages in the vessel fishery in the late 1880s and early 1890s.<sup>24</sup>

It is true as Björn Stefánsson rightly points out that the law did not prevent employers in the fisheries from hiring people, even temporarily, as servants and the servants themselves were allowed to seek employment with another master during slack seasons in the fisheries. Although this may have occurred most servants seems to have been recruited on an annual basis because farmers, who commanded the greatest part of the labour force, preferred long hires. The annual contracts gave them more reliable source of labour and enabled them to skim off the earnings brought home by the servants from fishing during the slack seasons in agriculture. Only with the intensified competition on the labour market during the last two decades of the century were farmers forced to allow their servants "to work for themselves" for a short period during the idle times in farming or offer them a half of their earnings as deckhands over the fishing season.<sup>25</sup>

Vessel owners seem on the other hand to have preferred

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<sup>24</sup> Kaupstaðarbúi, 'Bilskipa-Útvegurinn og manna-eklan', Bjóðviljinn I (21 January 1892), p.59. - Gils Guðmundsson, Skútuöldin IV (Reykjavík, 2nd ed., 1977), p.146. - Gils Guðmundsson, Skútuöldin V, pp.7-8. Moreover, the task of recruiting men on the decked vessels was made more difficult as they were mainly operated in spring and summer in the North and the West.

<sup>25</sup> This became a common form of payment at the end of the century, cf. Guðmundur Jónsson, Vinnuhjú, p.36.

seasonal labour and not full-year servants; the evidence suggests that even owners of rowing boats in towns like Reykjavík found it more profitable to recruit workers residing in town instead of seasonal migrant labourers from rural areas (farmers and servants) who had to be boarded within the employers household and provided with food and accommodation.<sup>28</sup>

One of the biggest vessel owners in the second quarter of the century, Guðmundur Scheving, wrote in 1832 that one of the main obstacles he faced in operating vessels was the difficulty of recruiting good fishermen because of the animosity and opposition he met from many people. This was especially true of farmers, he maintained, who feared labour shortages and wanted to keep good workers to the boat fishing and haymaking instead of uncertain fishery on decked vessels.<sup>29</sup> Another obstacle, said he, was the practice of some vessel owners of paying their employees not with a share in the catch but fixed wages which reduced efficiency. This applied to servants who, although hired under a share arrangement, were only paid a fixed annual wage by their masters who pocketed the difference. For these reasons Guðmundur Scheving avoided hiring servants and preferred instead good and experienced fishermen in the vicinity of his fishing station, whether single or family men.

#### 4.3. Liberal framework introduced

The institutions of unfree labour did not hold up to the pressures set in train by the penetration of the market economy. The historical evidence clearly indicates that the law both on free labourers and crofters was widely evaded as the nineteenth century wore on, but to what extent is impossible to say. Economic growth and the rising number of

<sup>28</sup> Agnes Siggerður Arnórsdóttir, 'Útvegsbændur og verkamenn. Tómthúsmenn í Reykjavík á fyrrri hluta 19. aldar', *Landnám Ingólfss* III (1986), p.119.

<sup>29</sup> Guðmundur Scheving, 'Nokkrar hugleiðingar um bilskipaveiðar á Íslandi', *Armann á Alþingi* IV (1832), pp.100-2.

new settlements during the period ca. 1820-1855 led to an increasing labour scarcity as many servants took the opportunity and left service to hire themselves on casual basis or squat in towns and villages - or if they had the means, to enter farming. Work opportunities outside service fluctuated with the activity in the two main sectors of the economy, greatly reduced in the 1860s due to the sheep epidemic and frequent failures in the fish catch, but improving again in the 1870s, spurred not least by the advent of whaling and herring fishing as well as the sale of live sheep and horses to Britain.

Two events radically changed the situation on the labour market in the last two decades of the century. In the early 1880s the economy ran into deep recession and people started to emigrate to North-America. Emigration soared from rural areas, particularly where rural settlements had expanded most in recent decades,<sup>30</sup> whereas towns and villages were much less affected despite considerable unemployment. Nearly 4,700 people left the country at the height of the emigration 1886-90, draining agriculture still further of labour. During the main emigration period between 1873 and 1893 the servant proportion of the emigrants was roughly the same as their number of the total population, which is remarkable considering that poverty constituted an important threshold. The emigration of servants undoubtedly increased the scarcity of labour because smaller farmers with limited need for hired labour tended to emigrate more than the bigger ones and some of the farms left vacant were occupied by servants.

The second factor intensifying the competition on the labour market was the growth of the fisheries, particularly the rise of the decked vessel fishery which expanded from 64 ships with estimated 768 men in 1880 to 85 ships and 1063

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<sup>30</sup> Helgi Skúli Kjartansson, 'Emigrant fares', p.65.

men in 1890, and 139 ships and 2165 men in 1900.<sup>31</sup> This growth in the fisheries, most clearly observable in Reykjavík, the Vestfjords and the Eastfjords, boosted urban economic activities such as fish processing and transports as well as trade and the construction industry. Serious labour shortages were felt because of these expanding activities and also because the ships were operated longer than the rowing boats, even throughout the summer when labour was most needed in agriculture. One newspaper in the Vestfjords reported in 1892 that the labour shortage had steadily increased since the biggest fishery firm in the town of Isafjörður, A. Asgeirsson, started decked vessel fishing few years back. Although only 20 fishing vessels were operated in the town shipowners had to search far beyond the area for deckhands and on one ship only Faroese fishermen had been recruited last summer.<sup>32</sup>

The migration from rural areas now took the course on the coastal areas. As table 12 shows the ratio between heads of household and servants in agriculture started to fall slowly from 1:2.1 in 1890, to 1:1.5 in 1930, but the figures on heads of households include both employers and self-employed farmers with no servants and do not therefore show the full impact of the change. The trend can also be seen in table 13, based on a study on the development of household structures in two communes representing typical household patterns in rural and coastal areas. The commune of Hruni is in inland farming area, whereas Garðar is in a coastal area in the neighbourhood of Reykjavík where the town of Hafnarfjörður was rising at that time. The average number of servants per household in Hruni commune dropped

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<sup>31</sup> Magnús Magnússon, Iceland in Transition, p.268.

<sup>32</sup> Kaupstaðarbúi, 'Bílskipa-Útvegurinn og manna-eklan', Bjóðviljinn I (21 january 1892), p.59. - Similar situation is reported in Reykjavík at that time, see Gils Guðmundsson, Skútuöldin V, pp.7-8.

Table 13 HOUSEHOLD STRUCTURE IN THE COMMUNES OF  
HRUNI AND GARÐAR 1860-1930

no. of households	population		mean household size		size of nuclear family		servants per household	
	H	G	H	G	H	G	H	G
1860	40	149	336	702	8.4	4.7	4.9	3.6
1880	40	157	380	779	9.5	5.0	5.2	3.7
1901	43	195	319	926	7.4	4.8	4.2	3.8
1930	60	782	408	3515	6.8	4.5	4.6	3.8
							0.9	0.2

Source: Gísli Ágúst Gunnlaugsson, Family and Household,  
pp.127 and 151.

Note: H = Hruni commune; G = Garðar commune.

from 3 in 1880 to 2.1 in 1901 and still further to just under 1 in 1930. The same trend can be seen in Garðar commune but the servant ratio there as in other coastal areas was much lower than in predominantly farming areas.

It was first in the late 1880s that the labour bondage came under serious attack, mounted mainly by two groups. A growing discontent could be discerned among the servants and labourers themselves, who had traditionally been a passive social group and alienated from the political process, but were now making their complaints heard. The bondage prevented them from becoming "their own masters" as one petition from the Vestfjords puts it.<sup>53</sup> Tempted by the potentially high earnings from fishing the servants and non-agrarian groups increasingly saw the bondage as an awkward and repressive tie, in particular because of the practice of farmers sending their servants to work in fishing and retaining most of the earnings themselves. The second group represented the liberal strand of public opinion led by a group of MP's, jurists, middle-rank officials, publicists etc., who were less tied to the land than the majority of the Althing. They criticized the law for being in flagrant violation of the legal equality and the

<sup>53</sup> Guðmundur Jónsson, Vinnuhjú, p.72.

occupational freedom guaranteed in the constitution to all Icelanders. They argued moreover that the matter should not be judged purely from the standpoint of the farming community; the needs of the fisheries and other urban industries had also to be considered. The recent advance of the decked vessel fishery, which relied primarily on wage labour in contrast to the principally household-based rowing boat fishery bolstered labour demand of the fishing sector even further.

The political outcome of the dispute depended in the last analysis on the response of the farming community itself, without which a majority in the Althing could not be formed. Interestingly, it was Hermann Jónasson, a well known head of an agriculture college, who was one of the first to call for the outright abolition of the labour bondage in a long article in his journal, Búnaðarrit, in 1888.<sup>54</sup> Hermann Jónasson maintained that mutual dissatisfaction among masters and servants were so seriously undermining good order and house discipline that he saw no other remedy than to lift the labour bondage. In Hermann Jónasson's opinion there were above all powerful economic arguments for the abolition of the one-year-service: instead of keeping servants over the whole year, providing them with food, clothes and wages, masters who did not need servants all the year should only hire workers during the busy times which are perhaps only 12-14 weeks. Even assuming an employment period of 22 weeks the total cost of keeping a labourer would be cheaper than that of the servant, 330 kr. compared with 400 kr.

Were the labour bondage abolished, Hermann Jónasson argued, wages would be more related to performance, labourers made responsible for their work and masters able to sack idle labourers, all of which would bring about a more rational and competitive system based on more efficient

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<sup>54</sup> Hermann Jónasson, 'Athugasemdir um heimilisstjórn, vinnumennsku og lausamennsku', Búnaðarrit II (1888), pp.62-95.

work practices. By the same token, servants could leave their job if they were dissatisfied and seek work wherever they chose in order to increase their earnings, yet compelled to show more prudence and efficiency under the discipline of competition. Furthermore, the grave injustice to female workers under the existing system would diminish as labour would be rewarded more in accordance with its real value under free competition.

Hermann Jónasson's widely read article presented one of the most articulated reasoning for freeing the labour market on economic grounds, arguments that were to be reiterated in the debate on the abolition of the labour bondage in the coming years. They were signs of growing awareness among farmers of the diseconomies of bound labour and the inefficiency and under-employment associated with it. With rising labour costs farmers were forced to reconsider their attitudes towards the employment of servants, for example whether it really made economic sense for a small farmer to keep two or three servants as was common. Farmers were fighting a loosing battle with the fisheries over labour and as they were unable to pay competitive wages economies had to be made by less reliance on hired labour and more efficient use of it. The intensified competition for labour made agricultural servants more confident in bargaining with their masters who were increasingly forced to pay servants half of their earnings from the fishing as an annual wage, even to allow them to freely dispose of their labour during slack seasons in farming. For many farmers the only way to attract farm workers under the increased competition was to hire casual labour.

The dissatisfaction and constant complaints of "unruly servants" had been brought about with demographic and economic changes in recent decades. The population pressure on the land had disrupted the traditional life-cycle in rural areas frustrating the aspirations of young people, whether farmers' sons and daughters or servants, who found it increasingly difficult to enter farming as their

predecessors used to do earlier in the century.<sup>35</sup> A growing number of them were doomed to stay in service all their life or, at best, become cottars and crofters. The advance of the vessel fishery and whaling with much higher wages than workers were used to tended to heighten servants' frustration still further.

A bill proposing the abolition of the bondage was presented to the 1889 session of the Althing, but was defeated on equal votes after a long debate. It was reintroduced in 1891, but did not get through. The government, favouring more liberal labour laws, saw that there was now substantial support in the Althing for a change and introduced a bill in the 1893 session which was a compromise between the two conflicting camps. The bill was passed with minor amendments and enacted in the following year. It entailed a great liberalization of the bondage as every person 22 years and older was allowed to be free from labour service if he or she obtained a licence from the police authorities for a small fee (15 kr. for men, 5 kr. for women). Every person obtaining the licence was required to have a fixed address and register with the local authorities every year.

Although the bondage was not abolished outright what remained of it proved ineffective in practice as people poured into towns and villages to become labourers and crofters without complying with the law.<sup>36</sup> One can only speculate as to whether the labour bondage in its pre-1894 form would have held unchanged much longer, but rapid urbanization and the widespread evasion of the law suggest that together with other occupational restrictions the bondage was close to a breaking point and would not have

<sup>35</sup> Guðmundur Hálfdanarson, 'Old provinces, modern nations', pp.105-10. - The growing tension between farmers and their servants generated by demographic and economic changes is similar to the experience of the other Nordic countries during the nineteenth century, cf. O. Löfgren, 'Family/Household', pp.89-91.

<sup>36</sup> Guðmundur Jónsson, Vinnuhjú, p.73-4.

withstood the rapid demographic and economic changes in the 1890s and 1900s.

The labour bondage had not only been undermined by greater demand for labour in rural areas, but also by new economic activities which interrupted the traditional labour flows between agriculture and the fisheries: herring fishing, the vessel fishery, whaling, light industry, road works, the construction industry and services, all created demand for labour over the summer months and were therefore bound to strain agriculture at the most vulnerable time of the year.

The abolition of legal restrictions on crofters and cottars was soon to follow. By law of 1907 minimum property was no longer required for crofting in urban areas and the only condition left was that crofters and cottars had to register with the police.<sup>37</sup> The age-old powers of local authorities to regulate crofters and cottars in their areas was at long last discarded. The law also relaxed the labour bondage further still, allowing everyone over 20 years of age with an annual income above 200 kr. to be free from service.

The Althing, by greatly relaxing the labour bondage in 1894 and abolishing the legal restrictions on crofters and cottars in 1907, abandoned one of the central tenets of traditional economic policy. This was a part of a wider process of replacing the social regulations of traditional society with liberal policy where economic relations governed. No longer having effective control of the labour supply, agriculture lost its privileged position on the labour market and had to face the difficult task of recruiting labourers in free competition with other sectors of the economy which were rapidly expanding.

The break with traditional economic policy was, however, not a sign of less public commitment to agriculture and its development. The worries of the farming community were widely shared by the government and the parliament who

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<sup>37</sup> Stjt. 1907 A, pp.398-404.

were most willing to use political power and public money to ease the dislocated farming population during this period of great social change. Although agriculture was loosing its position as a leading sector of the economy, Iceland was to remain a predominantly rural society for decades to come where farming interests were strongly represented in the cultural and political sphere as well in economic affairs.

Instead of settlement restrictions and controls on the labour force public support to agriculture took now on the form of financial assistance through fiscal means and credit policy designed to facilitate agriculture's access to much needed credit. These "modern" instruments of the state will be explored in the second and third part of the thesis.

## 5. FARM STRUCTURE AND CLASS STRUCTURE

### 5.1. Farm size and structure

The growing number of barely sustainable farms was an acute problem during the latter part of the nineteenth century. The disadvantages of the small farms were becoming all too clear as a large section of the population was living on the edge of bare subsistence, trapped in utter poverty which gave little or no scope for capital accumulation, which was vital for investment and modernization.

The physical size of land holdings was not the problem in most cases, rather the limited capacity of the farms to support livestock. Farms had often extensive land, but only small part of it was intensively worked as hayfields and harvested meadows, the rest was devoted to pasture or not usable at all. The availability of pasture or meadow grass was the major determinant of the size of the livestock as farmers tended to rely on grazing to the utmost, keeping horses and even sheep out as long as there was scrap of grass to eat. This was especially true of wethers which in many areas were never taken into stalls or huts. Economic expansion under this type of farming was extremely sensitive to climatic changes, even more so as many farmers showed careless reliance on winter grazing with the consequent fluctuations in the size of the livestock. Increasing the hay-crops by various farm improvements offered therefore the greatest potential for a more stable growth and was, in addition, a precondition for any significant advance of cattle farming.

Comparison of farm size with other countries is difficult to make due to lack of relevant data; not even the farmers themselves knew how big their farms were except perhaps the hayfields. Although varying greatly in size many farms were quite large, the average probably between 300 and 400 ha., but only a small part of the land was suitable for grass or vegetable growing. As late as 1930 the average cultivated area (hayfields, vegetable gardens,

Table 14 THE SIZE OF MAIN FARMS ACCORDING TO THE LAND REGISTER OF 1695

measured in hundreds

tax value	number of farms	in %	total tax value	in %	tax value, mean value
1-12	1,374	34.2	13,094	14.8	9.5
13-24	1,597	39.7	30,816	34.8	19.3
25-36	485	12.1	14,560	16.5	30.0
37-48	274	6.8	11,114	12.6	40.6
49-60	223	5.5	12,697	14.3	56.9
60-	67	1.7	6,235	7.0	93.1
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	4,020	100.0	88,516	100.0	22.0

Source: Björn Lárusson, The Old Icelandic Land Registers, p.33.

irrigated meadows) on each farm is estimated at only 4-5 hectares despite great efforts in the preceding decades to encourage cultivation.<sup>1</sup>

A much better indicator of farm size than acreage is the capacity of the farm to support livestock. This was indeed the basis of the old land value system, its main unit being the hundred, which in fact was a tax value unit that represented the equivalent of one cow.<sup>2</sup> Thus, a farm valued at 20 hundreds - often taken to represent the average size of farms in Iceland - was expected to support 20 cows or 120 sheep. This ancient land evaluation was primarily based on the capacity of the farm to support livestock (depending on hay harvested from hayfields and meadows, grass from pastures and commons), although other factors such as fresh

<sup>1</sup> Iceland 1930, pp.51-2.

<sup>2</sup> There were 120 ells (originally of homespun cloth) and 240 fishes in a hundred. These were the basic units in the ancient price system codified in the Búalög, which contained the price relationship between all common goods sold and bought in Iceland. For example, a hundred equalled one cow (4-8 years old that had calved at least twice) or one horse (4-10 years old) or six ewes with wool and lamb in Spring. See Búalög. Verðlag á Islandi á 12.-19.öld, ed. Arnór Sigurjónsson (Reykjavík, 1966).

water fishing, eiderdown, egg collection, drift wood and servitudes were also taken into account. Interestingly, a farm's strategic position in regards to sea fishing was only to limited extent taken into account in older land assessments.

Table 14 shows the size of main farms in the country at the end of the seventeenth century and this pattern remained remarkably stable until at least the latter half of the nineteenth century. The number of main farms had risen only moderately during that time or from 4020 in 1695 to 4347 in 1850. The 67 farms exceeding 60 hundreds come nearest to represent estates, but they do not compare with prosperous estates in other countries as only few of them were able to support more than 100 hundreds, i.e. 600 sheep. The largest number of farms was in the range of 13-24 hundreds, followed by the smallest category, 12 hundreds or less, consisting of 1374 farms or over one third of all holdings. These small farms provided the farmer and his family with very limited means of livelihood, in fact, most of them were subjected to grinding poverty.

The picture of landholding is complicated by two factors. First, the table includes all landholdings whether the main occupation of the occupants was agriculture or fishing. In fact there was not a clear cut division between these two main sectors of the economy; a great number of inland farmers (so-called lændbændur or sveitabændur) supplemented their meager farm incomes with fishing during the winter fishing season, on the other hand the fishing farmers (sjávarbændur or útvegsbændur) in coastal areas whose holdings are also included in the table, made a living from fishing but many of them also raised part of their incomes from farming. Both classes were called farmers (s. bóndi pl. bændur), but were distinguished by the suffixes land and sea.

Secondly, cottages (hjáleiquur) are not included in table 14 which would inevitably reduce the actual average size of farms considerably. On many main farms a plot or plots of land, varying usually between 1 and 10 hundreds,

were parcelled out for these cottages and occupied by sub-tenants (hjáleigubændur). Bigger farms comprised as a rule one or more cottages which makes large-scale farming in Iceland even less impressive than the land value of main farms suggests. A cottage had normally a separate hayfield and meadow but a joint pasture with the main farm. They were particularly numerous in the districts of Arnessysla, Suður-Múlasýsla and Rangárvallasýsla in the south and south-east, forming with the main farms dense rural settlements in some places.

Nor are the crofts (tómthús or purrabúðir, literally houses with no milking livestock) by the seaside included in table 14. A croft was a house or a hut with, at best, a small plot of land and a livestock of a cow and two horses, but more commonly with no livestock at all. It was occupied by a poor fisherman and his family who made a living primarily from fishing during winter and casual farm work during the hay harvest. The biggest concentrations of crofters were in the districts of Gullbringu- og Kjósarsýsla and Snæfellsnessýsla.

The number of crofts and cottages in the country around the middle of the nineteenth century was 1300 or just under a quarter of all landholdings according to the statistical analysis of farm size by owner categories presented in table 15.<sup>3</sup> The table is based on a nation-wide land evaluation carried out in 1849 and 1850. The data here is taken from the Althing's bill from 1857 instead of the final authorized land register of 1861 because the latter does not contain information on owner categories. The two sources are, however, very similar and discrepancies in land values are

<sup>3</sup> In the census of 1703 the number of crofts and cottages (i.e. tómthús and hjáleigur) was 1483, cf. Manntalið 1703, Hagskýrslur Íslands II, 21 (Reykjavík, 1960), p.21. Although not quite comparable, these two sources show a close resemblance. The census of 1703 counts all households whereas the land valuation of 1849-1850 counts the number of landholdings with a status of a main farm or a cottage, not taking into account that some holdings were shared by two or more households.

Table 15 THE NUMBER AND SIZE OF FARMS BY OWNERSHIP  
1849-1850land values in hundreds

	(a) no. of main farms	(b) no. of crofts/ cottages	(c) total no. of farms	(d) mean value of (a)	(e) mean value of (c)	(f) land value in hundreds
private land	2961	879	3840	20	16	60063
state farms	514	72	586	17	15	8738
other public land	42	33	75	26	15	1099
church farms	560	81	641	15	13	8589
beneficia	143	222	365	46	18	6534
priv. church farms	127	13	140	13	11	1605
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total	4347	1300	5647	20	15	86628

Source: Jarðamat á Íslandi 1849-1850, Skýrslur um landshagi á Íslandi I (Copenhagen, 1858), pp.620-801.

Notes: Unoccupied farms, land of trading companies, disputed land and all land in the Reykjavík area are excluded. - Other public land consists of hospital land and poor relief land (ad pios usus). - Glebe (lénsjarðir presta) is included in the church farms category. - Only crofts with the status of a cottage (hjáleiga) are included leaving out a significant number of them, especially in densely populated coastal areas.

negligible.

If we assume that the pattern of farm size was the same as in 1695 it is reasonable to believe that holdings smaller than 12 hundreds accounted for no less than half of all farms in the middle of the nineteenth century. This ratio is likely to have increased over the period 1860-1890 as a result of a mounting population pressure on land in rural areas. These figures, although a rough reckoning, indicate appalling conditions of the farming population during the latter half of the nineteenth century.

Table 15 also reveals interesting variations in farm size by ownership. Compared with the mean value of main farms, 20 hundreds, beneficia were biggest with 46 hundreds on average, followed by "other public land" (hospital land, poor relief land), whereas church farms and privately owned church farms were on average smallest, 15 hundreds and 13

hundreds respectively. The difference tends to level out when cottages are taken into account as column (e) shows because they were commonest on the bigger holdings, especially beneficia.

We have so far concerned ourselves with the number of farms and their size, but when assessing the actual living conditions in the countryside the number of households has also to be considered. A significant number of farms was shared by two or more families either when independent households shared a farm (marþbyli) or when families or more commonly individuals lived as húsmenn on the farm. In the 1850 census the number of households in Iceland was 8750, but in order to make that figure compatible with table 14 we have to subtract the number of households in Reykjavík and on the land of two other trade centres, Ísafjörður (or Eyrar í Skutulsfirði) and Akureyri (or Hrafnagilshreppur), i.e. the three places worth calling villages or towns.<sup>4</sup> The number of households in rural areas thus defined was 8342 in 1850, which means that there were 1.55 households for every farm and cottage in the country in the middle of the century.

### 5.2. Causes and consequences of land fragmentation

The population growth in the second and third quarter of the century, 67,000 in 1860 compared to 48,000 in 1820, led to a rise in the number of holdings until about the middle of the century, after which the scope for new holdings in rural areas was rapidly narrowing. The drive to get hold of a plot of land was stronger as occupancy of farmland was almost the only way to make an independent living. The population growth was increasingly accommodated

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<sup>4</sup> Fólkstala á Íslandi 1. dag febrúarm. 1850, pp. 19, 22, 25 and 27. It is a matter of judgement were to draw the line between rural and urban areas, especially as many settlements in coastal areas after 1850 were becoming dense. The three places excluded were distinctly urban and had the highest household/farm ratio in the country.

by the urban areas, especially after 1850, but they were strained by restrictive social legislation and limited range of occupational opportunities.<sup>5</sup> Landowners on the other hand took advantage of the situation and subdivided their leaseholds in order to raise the rental and tempted the empty-handed starters with leased livestock.<sup>6</sup>

The negative economic effects of farm partitions were not hard to see and farmers as well as the authorities were increasingly expressing their fears of this tendency: a growing number of farmers was living on unsustainable and often over-grazed plots without any means to improve their lot. The better off farmers worried about the peril of pauperization and labour shortages and hence deterioration on the farms caused by too many people trying to make a living from farming.

The signs of overpopulation were becoming all too clear by 1860: the marriage rate was one of the lowest in Europe while the age at marriage and the proportion of the population working as servants were extremely high. The households were getting ever bigger, peaking in the decennial censuses of 1870 and 1880 as the mean household size reached 7.5. and 7.4 respectively.<sup>7</sup> One of the consequences of the population pressure was the rising number of farms occupied by two or more farmers and the

<sup>5</sup> See for example Gísli Ágúst Gunnlaugsson, Family and Household, pp.99-107. - Guðmundur Hálfdanarson, 'Aðdragandi iðnbyltingar á 19.öld', Iðnbylting á Íslandi. Umskópun atvinnulifs um 1880 til 1940. Ritsafn Sagnfræðistofnunar 21 (Reykjavík, 1987), pp.29-31.

<sup>6</sup> See f.ex. Björn Bjarnarson, 'Bendingar', pp.138-40. - Sighvatur Arnason, 'Sveitarþyngslin, undirrót þeirra og ráð gegn þeim', Isafold XVIII (4 April 1891), p.106. - Alþt. 1887 B, pp.24-6 - Alþt. 1891 B, pp.344-5.

<sup>7</sup> Helgi Skúli Kjartansson, 'Vesturfarir af Íslandi', (unpublished Cand. Mag. thesis in history, University of Iceland, 1976), pp.234-5. - Gísli Ágúst Gunnlaugsson, Family and Household, pp.41, 108-12. - Guðmundur Jónsson, Vinnuhjú, p.11.

tendency to carve up farms into smaller units either by establishing cottages or even main farms.

Another likely factor contributing to subdivision of the land was the law of inheritance, but for want of research we can only speculate about its impact on landownership. As in other Nordic countries up to the middle of the nineteenth century sons were awarded double the share of daughters and no rule of imitable landed inheritance such as primogeniture was sanctioned by law in order to preserve land holdings from partition.<sup>8</sup> Indeed, under the Icelandic law a large number of relatives was entitled to inheritance and land could therefore be split in many parts if next of kin or a widow (or a widower) were not to inherit.

In 1852 a new law came in force which reduced the number of legal heirs but distant relatives continued to have inheritance rights as kinship was highly regarded. Free testamentary disposal of property was only allowed if there were no legal heirs; if the deceased had descendants (or descendants and a spouse) only a quarter of the inheritance could be disposed of in that way and two thirds if only a spouse was alive, a rule which clearly indicates the preference of blood-ties over marital ties.<sup>9</sup> An important change in the new law was to give women equal status to men by awarding daughters the same share as sons, a provision that tended to distribute inheritance more than the previous rule.<sup>10</sup> No preference was given to the heir

<sup>8</sup> Löfgren, O., 'Family and household', p.100. Norway was, however, the exception with its rules of odal or primogeniture.

<sup>9</sup> Lovsamling XIV, pp.607-17. - Einar Arnórsson, 'Nokkur orð um erfðarétt', Timarit lögfræðinga I (1951), pp.6-8.

<sup>10</sup> It is also likely, as Björn Teitsson, Eignarhald, p.120 suggests, that the increased distribution in turn encouraged the trend towards owner-occupancy.

The Danish inheritance law of 1845 on which the Icelandic law was modelled still discriminated against women until a change in the law in 1857, see Ármann Snævarr, 'Nokkrir

occupying the inherited property so farms were frequently owned by a group of persons and occasionally split up between the heirs.

The problem of overpopulation was most acutely observable on many of the small state farms, most of which were clustered in several estates in different parts of the country for historical reasons (i.e. former monastery land). The auditors of the Government Accounts for the fiscal years 1888/1889 commented on the conditions of state tenants in the Crown estates of Kirkjubæjarklaustur and Þykkvabæjarklaustur in the district of Vestur-Skaftafellssysla in the south-east of Iceland. They pointed out that the collection of rents and dues had been difficult in recent bad years due to the poverty of the tenants and the deterioration of the farms because of sandstorms and flooding. The small land rent clearly indicated that holdings were too small, but "it is extremely important that the size of the holdings does not drop below the limit necessary for a family to make a decent living."<sup>11</sup>

In spite of the smallness of these 90 holdings, the auditors continue, of which one third is valued below 8 hundreds and nearly one fifth is below 5 hundreds, more than one third of the total is shared by two or more tenants.

Co-tenancies on the estates were as follows:

17 holdings occupied by 2 tenants	
5 - // -	3 -
6 - // -	4 -
2 - // -	5 -

The auditors conclude:

When the farms are parcelled out in this way the normal limits have been surpassed, because in addition to the apparently difficult living conditions on these small plots the Treasury is bound to loose by this land fragmentation in the long run, although it may make some short-term gain from higher land rent. We believe it is urgent that sharing of farms on state land will

be abolished in due course and the already existing one-family farms will not be hired out to more than one person.<sup>12</sup>

In response to this observation the Governor said he agreed with its content and that it had in fact been the government's policy in recent years to reduce the number of households on these lands when opportunity had arisen.<sup>13</sup> The issue was also discussed in the Althing in 1889 and 1891 and a resolution was passed requesting the government to reduce the number of farms in the district of Vestur-Skaftafellssysla as soon as possible.<sup>14</sup> The government was, however, not in a position to do much about the overcrowding on state farms as it was unwilling to resort to eviction.

Various measures were contemplated or actually taken by the legislature in response to the population pressure, but as we have seen in chapter 4.2 they were primarily aimed at controlling family formations by limiting people's access to farming and fishing rather than preventing further partition of farms. Public policy in this area is therefore very similar to that pursued in the other Nordic countries during the nineteenth century.<sup>15</sup> The only piece of legislation directly attempted to tackle the problem of land fragmentation was, paradoxically, The New Settlement Act of 1897 which was to provide the legal framework for establishing new farms, but its implicit objective and its actual effect was to make it virtually impossible for people to settle on existing, unoccupied farms and in uninhabited

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<sup>12</sup> Ibid, p.98.

<sup>13</sup> Ibid, p.111.

<sup>14</sup> Cf. Stjt. 1892 B, pp.161-2.

<sup>15</sup> Löfgren, O., 'Family and household', pp.89-90. - Smout, T. C., 'Landowners in Scotland, Ireland and Denmark in the Age of Improvement', Scandinavian Journal of History XII (1987), p.89. - Gisli Agust Gunnlaugsson, Family and Household, pp.21-22, 90-107 - Jón Blöndal and Sverrir Kristjánsson, Alþingi og félagsmálín, Saga Alþingis IV (Reykjavík, 1954), especially pp.18-22.

areas used for grazing sheep and horses.<sup>14</sup>

### 5.3 Big farmers or small?

After the turn of this century worries over land fragmentation and too small farms were quickly waning as major demographic changes after 1880 helped to alleviate the pressure on the land. Emigration to North-America and then the migration from the country to urban areas caused a fall in the rural population from 69,000 in 1880 to 49,000 in 1930; proportionally the drop was more dramatic, falling from 95% to 45% of the total population during the same period.

People's perceptions of the optimal farm size were also changing. The idea of small-scale farming was becoming attractive as the view gained ground that it could well be economically viable for farmers to turn away from land extensive sheep rearing to farming primarily milking cattle, producing milk, cheese and butter. This intensive animal husbandry on small farms would require less land and reduce the need for hired labour, which was becoming ever more expensive, but the land would have to be much better worked as tended hayfields would largely replace the vast pastures as the primary source of hay.

These ideas were bolstered by worries in farming over labour shortages and the market difficulties of the traditional farm produce. As time passed the advocates of the small holding policy saw the new type of farming not only as an alternative strategy for growth in agriculture but as a highly relevant countermeasure against the migration to urban areas by offering landless country people

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<sup>14</sup> Stjt. 1897 A, pp.98-100. - Þorkell Jóhannesson, Alþingi og atvinnumálin, pp.69-70. According to Alit og tillögur skipulagsnefndar atvinnumála I (Reykjavík, 1936), p.20, hardly any new farms were established on the basis of the law up to 1936. See also Frumvörp og athugasemdir, pp.114-17.

small plots of land.<sup>17</sup>

It is not hard to discern the intellectual influence from Denmark on this issue, where the question of husmandsbrug, the place of the class of húsmenn in farming, was coming to the forefront of agricultural policy. There it had been boosted by the success of the small farmers organized in co-operative dairies and slaughterhouses during the last three decades.<sup>18</sup> The immediate circumstances, however, leading to a more active public land policy towards husmandsbrug (or grasbýlisbúskapur as it was named in Iceland) at the turn of the century were the difficulties of Danish agriculture around and after 1890 prompting concerted pressure from the farming community on the government for assistance. One of the public measures taken was a law enacted in 1899 authorizing significant state loans to agricultural labourers for buying small plots of land. The law, signalling a break from previous liberal land policy, was a compromise between the bigger landowners' need for labour and the social concern for the rural poor seeking to become independent people. In the course of the next decades public policy leaned more and more towards the latter objective, promoting bigger and thus more sustainable land holdings for the rural poor.<sup>19</sup>

There were many similarities in public policy between the two countries, and for good reasons because agriculture in both countries was facing related economic problems although emerging at an earlier point in time in Denmark. Limited growth potential of traditional sheep farming, serious difficulties in overseas markets for live sheep and

<sup>17</sup> See f.ex. one of the first writings along these lines in Magnús Bl. Jónsson 'Hverniq á að rækta upp landið?', Bjarki VIII (2 April 1903), pp.1-2.

<sup>18</sup> Hansen, S. H., Økonomisk vekst i Danmark I (Copenhagen, 1972), pp.212-15, 278-81. - Waage, H., 'Oprettelse af Husmandsbrug ved Statens Hjælp', Nationaløkonomisk Tidsskrift (1904), pp.1-31.

<sup>19</sup> Hertel, H., 'Danska smábylalöggjöfin', Búnaðarrít XLI (1927), translated by Sigurður Sigurðsson, pp.333-42.

shortage of land led a growing number of people to believe that farming on small holdings with intensive farming methods could be the answer to these problems. The Danish model seemed to offer a way out of the impasse which Icelandic farmers found themselves in around the turn of the century: small-scale intensive animal husbandry, co-operative dairies and slaughterhouses, butter and cheese production for exports and dairy farming for a growing home market; these became the keywords in the new strategy constantly reiterated in the public debate during the first three decades of this century. Signs of actual change could already be discerned around 1900 when farmers themselves, individually and in co-operatives, started to put more energy into farm improvements and establish co-operative creameries (1901) and slaughterhouses (1907).

Certain ambiguity surrounded the small holding policy from the outset as in Denmark. Was it a device to tie the rural poor to the land in order to provide the bigger farmers with increasingly scarce labour or was it aimed at offering the rural poor a chance to live off their own land? Lets first look at the question whether the promotion of husbandsbrug in Iceland can be seen as a strategy to supply bigger farmers with labour.

Gentlemen farming supported by the work force of húsmenn was an idea with long lineage in Iceland and, although far from gaining the same foothold as in Denmark or even Norway, it spread during the nineteenth century. The scattered evidence suggests a rise in the number of húsmenn in Iceland in the second quarter of the century and presumably continued to rise well into the third quarter, although the sources are silent on that.

In public policy the idea had been advocated by Jón Pétursson during the revision of the land laws around 1870, but received little support. A judge and a government appointed MP, Jón Pétursson was one of the influential figures in public life in the third quarter of the century, an expert on land laws and had been a member of the agricultural committee of 1870-76. Jón Pétursson regarded

the tendency towards subdivision of land with great dislike and wanted to see a complete reversal. His draft bill on new land laws as a member of the agricultural committee contained clear rules designed to restrict the division of farms, in particular bigger farms or estates (höfuðból, by his own definition farms valued over 50 hundreds). These should only be allowed to be subdivided if the value of the main farm remained above 55 hundreds. Estates were to be inherited by the right of primogeniture, i.e. inherited undivided by the eldest son.<sup>20</sup>

Jón Pétursson had expressed his views on land policy in a letter in 1867 to Jón Sigurðsson of Gautlönd, who was also to become a member of the agricultural committee. Jón Pétursson believed that the land laws should encourage the rise of big landowners by facilitating the merging of farms and prohibiting farmers to sell parts of their land under cottages.<sup>21</sup> Inheritance laws should be changed in such a way as to secure one-person-ownership of farms and that bigger farms in particular ought to be kept within families. Jón Pétursson envisaged a social system where big landowners formed the core of the farming community, not much different from the Norwegian property system, where farmers retained their farms by the right of the "odal" and relied on waged labour of húsmenn, who rented a small plot of land from the landowner in return for labour services.<sup>22</sup>

Of similar opinion was Þórhallur Bjarnarson, MP and president of the BI 1901-1907. He was in favour of large scale farming on estates, höfuðból (i.e. farms larger than

<sup>20</sup> Frumvarp til landbúnaðarlaaga, pp.45-55.

<sup>21</sup> Lbs. 2744, 4to. Bréf til Jóns Sigurðssonar á Gautlöndum. Letter from Jón Pétursson 29 Mars 1867. - See also Gunnar Karlsson, Frelsisbaráttu suður-Þingeyinga og Jón á Gautlöndum (Reykjavík, 1977), p.439.

<sup>22</sup> However, Jón Pétursson wanted the cottagers or husmenn to have a certain degree of economic independence, f. ex. that labour services levied on them should not be so burdensome as to prevent them from coming boat-owners themselves, cf. Alþt. 1879 II, p.740.

60 hundreds), not so much in order to preserve the hierarchical social order of rural society as to increase economic efficiency in farming. In the 1903 session of Althing he remarked:

No significant advance will be made in this country until estate farming has been established. First then is large scale farming possible, utilizing farm machines and all the necessary implements. But I can not envisage this type of farming on state farms; the opposite would be true, however, if the land became private property. An example that points in this direction is the Kaldaðarnes land, but it lacks of course the cottages to become the estate of the future.<sup>23</sup>

The government and the Althing showed some willingness to promote the rise of húsmenn in the countryside, if it could be of help to not just the bigger but the ordinary farmers. As a measure to address the problem of labour shortage in agriculture the Immigration Act of 1903 authorized the government to offer immigrants untilled plots on state land, preferably on unoccupied farms, but the law, not surprisingly, failed to tempt foreigners to settle in Iceland's rural areas.<sup>24</sup>

Under the premiership of Þórhallur Bjarnarson the BI took a positive stance on small-scale farming without making it an official policy. At the initiative of the agricultural committee of 1904-05, of which Þórhallur Bjarnarson was a chairman, the Cultivation Fund was authorized to grant loans for the purchase of cottages and crofts outside urban areas on the same terms as other land purchase loans. Whether this change in the law was meant to be a small measure to address the rural labour shortage is difficult to say, but the explicit aim of the committee was to stave off criticism that the interest of coastal areas were being ignored in the legislation on the Fund.<sup>25</sup> So much do we know that the agricultural committee favoured

<sup>23</sup> Alþt. 1903 B, pp.119-120.

<sup>24</sup> Stjt. 1903 A, p.334.

<sup>25</sup> Frumvörp og athugasmdir, p.67.

húsmenn farming in rural areas and viewed the Danish legislation with apparent admiration.<sup>26</sup>

Large-scale farming with reliance on the labour force of húsmenn was, however, not welcomed by the farming community in general. The efforts to bolster the húsmenn class were believed to be, at best, ineffective in meeting the rural labour demand as most húsmenn would strive towards an independent status, at worst they could seriously harm agriculture. Traditionally, farmers's main source of labour supply was the servant class and to smaller extent migrant workers and crofters from coastal areas during the hay-harvest, whereas húsmenn labour was seen as a last resort. There was a widespread dislike of them as indeed of cottagers and crofters: these poorest households in the country were seen as breeding grounds for utter poverty and destitution.<sup>27</sup> This view is graphically expressed in reports gathered by the BI as the small holding policy was under review by the organization in 1916 and 1917. In one of the reports it is maintained that

if the idea of establishing small holdings (grasbyli) will be carried out it will have detrimental effects on agriculture and cause inestimable damage to the whole nation, because it would create a large group of people who could barely, if at all, support itself. Instead of sharing the burden of the commune and contribute to the prosperity and wellbeing of the public it would in many cases add to the burden and have quite the opposite results of what the advocates of the small farming idea anticipate.<sup>28</sup>

From the perspective of the labourers themselves, there

<sup>26</sup> Frumvörp og athugasemdir, pp.117-18.

<sup>27</sup> Sighvatur Arnason, 'Sveitarþyngslin', p.106. - Sigurður Sigurðsson, 'Verkafólksskorturinn í sveitunum', Búnaðarrit XXI (1907), p.283-4. - Alþt. 1914 C, pp.982-3.

<sup>28</sup> BS. SSI III Fjármálaráðuneytið, Skýrslur um smábyli og grasbyli. Sigurður Kristjánsson to the BI 28 November 1916. See also Sig. Pálason to BI 10 December 1916 and Hjörtur Snorrason to BI 14 March 1917. - These reports were the only tangible results of Althing's resolution in 1914 requesting the government to investigate the conditions of small holders.

seems to have been little interest in taking up small-scale farming and supplement it with wage labour on bigger farms. As employment opportunities were now opening up for them in towns and villages by the seaside they saw the possibility of escaping the humble status of servants on the farms. One of the young men to leave the country for a job as a deckhand in Reykjavík was Ottó N. Þorláksson, later to become the first president of the Trade Union Federation of Iceland (Alþýðusamband Íslands) in 1916. He explains:

The servants were opening their eyes to the absurdity of toiling all year long, mostly away from the household, and getting no more wage than the equivalent of one month's fish catch, which could be very small as when the fish did not strike... Had the farmers, instead of treating their servants in this way, tried to hold on to them and improved their lot, parcelled out a part of the bigger farms for those who wished to farm and helped them during the first years, then many of those who left would not have gone. If that had happened there would now be more independent farmers and fewer farms deserted, fewer proletarians in towns and fewer big shots.<sup>27</sup>

Large-scale, advanced farming without the húsmenn contingent enjoyed nevertheless support among the upper echelons of society during the first decades of the century. To its advocates the enterprise of Thor Jensen, a successful fishing capitalist turned gentleman farmer, was a shining example of the potential of large-scale farming. By merging four farms in the vicinity of Reykjavík Thor Jensen consolidated 1200 ha of land (although only 200 ha. of it were intensively worked by 1930), thus farming the biggest land in the country during the 1920s. He had 250 milking cows on the farm in addition to another 50 cattle and 14 horses. The most advanced technology was used, a fully equipped dairy was operated and a specialized work force

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<sup>27</sup> 'Frásögn Ottós N. Þorlákssonar. Af kjörum sjómanna í Reykjavík og upphafi íslenskrar verkalyðshreyfingar', Landnám Ingólfss III (1986), p.90.

employed in addition to casual labour during the summer.<sup>30</sup>

But this type of farming was also met with skepticism by the farming community in general and the smaller farmers saw it even as a threat to their livelihood. It was therefore hardly to be expected that big farms were promoted by the two biggest political parties, the Independence Party and even more so the Progressive Party, whose support came overwhelmingly from rural areas. Only a small minority in the Independence Party and in the SDP advocated large-scale farming and called for public promotion of bigger units in agriculture.<sup>31</sup>

In a response to the intense competition in the early 1930s, particularly in the Reykjavík area, the Milk Marketing Board was founded in 1935 and with it came fixed milk prices and strict quality control on all producers. These measures eliminated competition and were, as intended, a great blow to Thor Jensen's dairy production whereas the small producers benefitted from the fixed price which gave them as good a market position as any other dairy farmer.

Thus, neither húsmenn farming nor large-scale farming had a great appeal and the promotion of a dependent class of húsmenn in the countryside was met with firm opposition from the farming community. The only acceptable husbandsbrug policy in rural Iceland was the one which promoted small farms that were fully capable of sustaining a family. This policy, widely welcomed by farmers, was seen as a way to provide land for those who wanted to stay on in the country and hence it would be an important strategy to stem the flow of people to the urban areas. In the interwar period this idea rhymed well with a growing demand from the farming community for a public promotion of new settlements in the countryside to counteract the migration from country to

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<sup>30</sup> Thor Jensen, Minnigar II (Reykjavík, 1983), pp.221-36.

<sup>31</sup> Ólafur Ásgeirsson, Iðnbylting hugarfarsins. Atök um atvinnuþróun á Íslandi 1900-1940, Sagnfræðirannsóknir 9 (Reykjavík, 1988), especially pp.56-73.

town; in both cases land holdings were to be fairly small but big enough to fully support a family.

Sigurður Sigurðsson, MP and an adviser at the BI, echoed the widely shared view that small-scale farming could be of great help to many people who had been brought up in the countryside but were forced to leave because of the shortage of land.<sup>32</sup> Dividing farmland into smaller units, he and others argued, was particularly appropriate in Iceland where there was a large number of big and inefficient farms occupied by only one farmer with just a small part of the land intensively worked. By carving up these farms, where suitable, servants, labourers and farmers' children could be given access to the land which would as a result be much better worked for hay-growing.

The development in the land market, however, worked against this idea. Not only were bigger farmers unwilling to sell parts of their farms under smaller holdings, but the spread of owner-occupancy and the sale of public land encouraged land consolidation, not fragmentation. A report from the district of Myrasýsla in the West to the BI on small holdings in 1916 commented on this development in the following way:

The greatest obstacle in this matter is that few of the big farmers would give parts of their land away and it is impossible to take the land with force - compulsory laws are always unpopular.

The richest farmer here in Myrasýsla now occupies five farms and rumour has it that he has bought the sixth. He has never made any farm improvements, only fenced a bit with barbed wire. - The legislature has to find effective ways to stop such conduct for if the whole areas are more or less taken up by single persons, they will decay and cause irreparable damage to farming.<sup>33</sup>

<sup>32</sup> Alþ. 1913 C, pp.2366-7 - See also his 'Verkafólksskorturinn', pp.284-5.

<sup>33</sup> PS. SSI. III Fjármálaráðuneytið. Skýrslur um smábyli og grasþyli. Sigurjón Kristjánsson to the BI 28 November 1916; Similar views are also expressed in the other reports, f.ex. Sig. Pálmarson to BI 10 December 1916 from the district of Húnavatnssýsla.

To the reporter it was an indefensible behaviour of the landowners to stretch their land over many farms without putting anything into them at the same time as people were leaving the countryside in their thousands for work in towns and villages by the seaside. The sale of public land was also working against farming on small holdings as it led to the reduction in the number of cottages which were frequently merged with the main farm, sometimes even the main farms themselves were merged.

The tendency towards land consolidation was one of the reasons for the opposition of the advocates of small holding farming to the sale of public land. But they also saw that small holding policy stood a much greater chance of being carried out if the land was in public ownership as the government was able to divide bigger farms between landless people and sell them on hereditary tenure. This view gained considerable strength in the years leading up to the First World War and in the 1913 session of the Althing the issue was debated at length, although its proponents were unable to rally the majority behind this policy.

As early as 1905 Sigurður Sigurðsson had put forward the idea that farmers in areas where irrigation projects were being planned should sell plots of their land to the state which in turn would hand them over to smaller farmers, thus providing land and leading to a more efficient use of the irrigated areas.<sup>34</sup> The idea was not accepted by the landowners in the irrigated areas until around 1930 as a part of a debt settlement between them and the state, allowing farmers to repay the huge debts incurred by the irrigation projects with land. By 1936 60 farms had repaid all or part of their debt in land to the state, 1244 ha. of

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<sup>34</sup> Helgi Skúli Kjartansson, 'Aveiturnar miklu á Skeið og Flóa. Dæmi um umdeilanlega opinbera fjárfestingu', Skírnir CLXII (1988), p.345.

irrigated land and 250 ha. of pasture.<sup>35</sup> However, the idea of establishing small holdings on the land acquired by the state in that way did not materialize.

A bill on small holdings was presented to the Althing in 1914 modelled on the Danish legislation, but public lending was to be on a much more modest scale.<sup>36</sup> The proposer, Jóhann Eyjólfsson, said the main reason for the falling number of farmers in recent years was that the more prosperous landowners saw merging cottages with the main farms as a cheaper way to increase the livestock than working the land better. The bill's aim was to reverse this trend, increasing the number of farmers and encourage cultivation by giving support to dairy farming on small holdings. The government was to grant loans on good terms to the founding of 10 new farms a year, bought as either freeholds or leaseholds, and authorized to buy four farms a year if land for small holdings was in short supply. The minimum size of farms eligible for a loan was 10 ha. compared with 1 ha. in the Danish law.<sup>37</sup> The principles set out in the bill enjoyed a strong support in the Althing, but the bill failed to go through. Instead, the government was asked to examine the case for small holding and, if necessary, prepare legislation on the matter.

No clear public policy was pursued in regards to small holdings or new rural settlements in the coming years due to the war. Interest in new settlements, however, was increasing during the 1920s, and in all the plans put forward self-sustainable farms were presupposed. The Cultivation Act of 1923 authorized the subdivision of public farms into small holdings where suitable if recommended by

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<sup>35</sup> Sigurður Sigurðsson, Búnaðarhagir, p.142.

<sup>36</sup> Alpt. 1914 A, pp.120-4.

<sup>37</sup> Farms in Denmark were of course more intensively worked so the difference is much less than the acreage indicates.

the BI.<sup>38</sup> Political support for such measures was growing in the late 1920s, especially with the Progressive Party coming to power in 1927. By then the emphasis was not so much on providing land for the rural poor - the bulk of them had already moved into towns and villages - but to launch an offensive against the urban economy, give it a real counterweight by modernizing the countryside, build better houses, support farm improvements, establish dairies, vastly improve educational opportunities and above all provide people with land and the means to farm it in order to attract people back to the countryside. Establishing small Land holdings would be an important part of the strategy.

The political drive behind these efforts was nourished by a mixed bag of ideas, plans to modernize the backward agriculture, age-old notions of agriculture as the core of the economy and the cultural and moral superiority of country life, now under an immediate threat from the disruptive advance of capitalism. Many defenders of the agriculture sector genuinely believed that the urban population was soon about to reach its upper limits and that only agriculture was capable to accommodate the future population growth.<sup>39</sup>

The Housing and Settlement Fund, established in 1928, is one of the best examples of the execution of these ideas. One of its tasks was to grant loans to new settlements on private and public land, especially for landless people wanting to take up farming. The bill had originally been tabled by Jónas Jónsson, one of the Progressive Party's leaders, in the 1925 session of the Althing. The explicit aim was to counteract the steady flow of people to towns, where living conditions were often depressing and squalid, and to give the countryside its former prominence by

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<sup>38</sup> Stjt. 1923 A, p.183.

<sup>39</sup> This resolute ideology is excellently explored in Ólafur Asgeirsson, Iðnbylting hugarfarsins.

starting new settlements in rural areas.<sup>40</sup> The new farms should be big enough to support a farmer and his family, and farms on public land were to be sold on leasehold with an annual rental of 4% of the land value.

The worsening economic situation after 1929 was to seriously undermine this policy and new settlements were given a low priority in the Fund's lending policy in the coming decade. Between 1929 and 1936 only 275,000 kr. were lent for this purpose or just over 10% of the total credits extended during that period.<sup>41</sup> Data on the number of new farms financed by these loans is not available, but assuming they were as big as those granted by the fund to housing on existing farms, the average loan would have been 6600 kr. and only 42 loans granted to establish new farms.<sup>42</sup>

Political support, then, was growing for public promotion of new settlements during the interwar period. Such plans normally presupposed farming on co-operative basis or on state land, to be sold as self-sustainable leaseholds. But since the political support for these ideas was slow to develop into publicly promoted programs, in fact not until around 1930 when the Depression had made all such plans in effect redundant, the bold schemes crumbled away. The towns continued to appeal to the rural population during these first decades as evidenced by the growth of the urban population on the one hand and the falling number of farms on the other, dropping from 6796 in 1901 to 5775 in 1930.<sup>43</sup> No wonder why the fantastic schemes of back-to-the-land movement did not materialize. The fact was that there were no compelling economic reasons to implement them: on the one hand was agriculture able to meet the domestic demand for

<sup>40</sup> Alpt. 1925 A, pp.309-313.

<sup>41</sup> Sigurður Sigurðsson, Búnaðahagir, p.400. - See chapter 15.3 on the operation of the fund.

<sup>42</sup> Haukur Þorleifsson, 'Búnaðarbanki Íslands' Arbók landbúnaðarins 1950, p.30.

<sup>43</sup> Alit of tillögur, p.20.

farm products and on the other hand did unemployment in urban areas not present a major problem until after 1930.

We have so far deliberately focussed on only one side of the small holding policy, i.e. plans and policies of promoting small holdings in rural areas. But an important strand of the policy was public efforts to support crofters in coastal areas, which can be seen as an Icelandic translation of the Danish husmandsbrug policy.

Understandably, this was going to be an important part of the húsmenn policy in Iceland, because although húsmenn in Iceland and Denmark shared a similar type of living, a mix of wage labour and small scale farming, the main employment of the húsmenn in Iceland was not farming but fishing.

It was in the first years of the century that the policy to assist crofters was adopted. The objective was to encourage them to broaden their narrow base of living from unstable fishing or wage labour by taking up small-scale farming, rearing a small livestock and growing vegetables. The first public measure in this direction was the authorization in the Finance Act for 1902/1903 to grant loans from the Reserve Fund to crofters outside urban areas to promote hay and vegetable growing on their plots or make housing improvements. The aim according to the proposer, Skúli Thoroddsen, was to help the poor and exploited class of crofters to become more self-reliant and independent.<sup>44</sup> Repayments of loans started after four years with 3½% interest and amortization time of 24 years. The loan sums involved were tiny, 7,500 kr. was authorized annually between 1902 and 1907, then lowered 1908-15, but from 1916 onwards workers in towns and villages were also included and the total sum authorized slightly raised. The actual credit granted was consequently small and individual loans were at first limited to 400 kr. Total lending of the Reserve Fund for this purpose up to 1930 reached only 91,000 kr., a somewhat smaller sum than the Finance Act authorized.

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<sup>44</sup> Albt. 1901 B, pp.1734-5, 1754-5.

At the initiative of the agricultural commission of 1904-05 crofters were also given access to the Cultivation Fund. A change in the law in 1905 allowed the Fund to grant loans to crofters outside urban areas and small holders for purchasing their holdings on the same terms as other land purchase loans, i.e. the amount could be as high as 60% of the land value repayable at 4% interest up to 16 years.<sup>45</sup>

All these measures indicated a more positive attitude of the Althing towards the crofters class than it had previously shown. Until then the law and the local authorities had aimed at curbing the rise of crofters. A new law on crofting in 1907 was yet another indication of a change in policy as access to crofting now became wide open.

There was, however, a provision in the new law which increased the minimum land size from ca. 1400 square metres to just under 3200 square metres (a third of a hectare) which was required for crofters outside urban areas. This amendment to a government bill, its proponents argued, was not an unconditional requirement but an encouragement to small-scale farming, taking account of the fact that the land requirement in existing laws was of little use as crofters were reluctant to grow vegetables, while the plots were too small to rear cows or sheep.<sup>46</sup>

Not all agreed to these changes and the Minister expressed his discontent. He said that

the aim of the legislation should be to make it easier for people to settle down at their convenience and encourage crofters who so wish to get hold of a plot of land for farming without any hindrance. The law should seek to persuade landowners in possession of vast tracts of unworked or unused land, to offer land on good terms to those crofters who wish, instead of forcing people to farm a land against their will or occupy more land than they want.<sup>47</sup>

This provision was difficult to implement rigorously in

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<sup>45</sup> Stjt. 1905 A, p.214.

<sup>46</sup> Alpt. 1907 B, 2027-8, 2052.

<sup>47</sup> Alpt. 1907 B, p.2031.

coastal districts with limited land and is likely to have been liberally interpreted, like the previous law on crofting from 1888.

An important step to help crofters and others in coastal areas to supplement their income with farming was the Cultivation Act of 1923. Local authorities were to provide small plots of land, 2-5 ha., in the vicinity of towns and villages where people could grow vegetables or hay for animals.<sup>48</sup> The plots were as a rule rented on heritable tenure with annual rent amounting to 5% of the land value. Many townspeople took this new opportunity and settled on these plots,<sup>49</sup> some earning a living from a small livestock of milking cows and perhaps sheep and poultry, others using it to supplement their main employment. In and around Reykjavík, where the sale of leaseholds had been common for decades, the number of small holdings rose from 130 at the turn of the century to 306 by 1930 covering about 940 ha of land, the size of the average plot being only about 3 ha.<sup>50</sup>

The Cultivation Act also promoted cultivation in and around urban areas through its generous grant scheme for farm improvements for which members of agricultural societies in urban areas were eligible. This policy was in line with municipal programs designed to promote cultivation on allotments and small holdings in the vicinity of urban areas, especially after 1920. Clear indication of the energy put into this "urban farming" is the size of grants received by agricultural societies in towns and villages, the Reykjavík society in fact receiving the highest grant every year up to the late 1930s, not just of the urban but all societies in the country. Other societies with primarily urban population such as in the communes of Garðar and Bessastaðir, and the towns of Akureyri and Húsavík also

<sup>48</sup> Stjt. 1923 A, pp.184-6.

<sup>49</sup> Sigurður Sigurðsson, Búnaðarhagir, p.184.

<sup>50</sup> Þórunn Valdimarsdóttir, Sveitin, p.48.

ranked high in the allocation of grants.<sup>51</sup> The majority of these grants was presumably picked up by full-time dairy farmers in and around the towns, but considerable sums went also to part-time farmers.

The type of economy which this policy promoted in coastal areas, i.e. fishing and other urban employment supplemented with small-scale cattle farming or sheep rearing, can be viewed as a transitory stage in Iceland's economic development. It represented a stage in which capitalist production relations had gone quite a long way in destroying the traditional peasant society without fully replacing it. One major factor impeding this process was the highly seasonal character of urban economic activities due to predominance of the fisheries and related industries.<sup>52</sup> For a long time to come towns and villages were unable to offer the majority of working people steady employment all year round; many of them are still moulded in this way.

The public assistance had the important function of helping the urban poor to compensate their meager incomes with small-scale farming, a response to the fluctuating supply of wage labour in urban areas. Simultaneously its effects were to prolong the agrarian character of the urban economy and slow down the proletarianization of the working class, although it seems not to have had significantly influenced the long-term trend towards more specialization and social division of labour.

Part-time farming retreated with rising labour demand in the late 1930s. The picture changed most dramatically during the Second World War with the influx of first British and little later American occupation forces, which totally upset the labour market. Full-time "urban farming" was also bound to decline in the long term. The regulation of

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<sup>51</sup> Sigurður Sigurðsson, Búnaðarhagir, pp.192-207. — Þórunn Valdimarsdóttir, Sveitin, pp.53-68.

<sup>52</sup> See also Gisli Agust Gunnlaugsson, Family and Household, pp.156-9.

the milk market by law in 1935 was disadvantageous to the urban dairy farming and shifted most of the production to rural areas. With the economic progress in the countryside, improved transport links with urban areas and more efficient production geared towards the growing home market this petty farming in and around towns and villages lost its niche.

#### 6. AGRARIAN REFORM IN A NORDIC PERSPECTIVE

An important element in the transformation of agriculture during the late nineteenth and early twentieth centuries was the change in its social structure which brought about new social relations. It also had profound effects on the outcome of agricultural activity. This change in the social and economic framework of the economy has until recently been given little attention in historical research compared with other aspects of agricultural change such as market adaptation, organizational innovations and technological changes.

Agriculture's transformation from a largely peasant mode of subsistence production to an advanced market production entailed radical restructuring of its institutional framework which can be summed up as follows:

- a) land reform, aimed at transferring public land into private ownership and increasing owner-occupancy,
- b) tenurial reform which gave tenants secure leases and liberated them from various peasant obligations such as livestock lease and labour services,
- c) the creation of a free, capitalist labour market by the abolition of settlement and occupational restrictions on free labourers, crofters and cottars.

By 1930 the social structure envisaged by the nineteenth century reformers had largely materialized: a class of autonomous freeholders was in the making, free from non-economic compulsion imposed on them by landlord rights. Although two fifths of farmers were still tenants, their conditions were by now not much different from those of freeholders, secure tenure was about to be enacted, the level of land rent had been reduced and tenant obligations mostly wiped out. Concomitantly, a "free" working class emerged, who enjoyed the full right of disposing of its labour power.

These changes were an integral part of the transformation towards modern, more rational farming and

were essential for the general economic development of Iceland. Improvements in the economic performance and living conditions of Icelanders hinged not only on the development of the fisheries into an independent and technologically advanced activity, but the social and economic advance of agriculture which was the largest sector of the economy in terms of employment and second largest in terms of national income for the greater part of the period.

Government played a crucial role in this transformation. For most of the nineteenth century its involvement was largely confined to institutional change, although financial assistance was increasing towards the end of the century. For whatever reasons, be they the predominance of agriculture in the economy, a long-standing skepticism towards the sector which was to lead the economy into the modern age, strong political position of the peasantry or simply the cultural make-up of the population, agriculture was the focus of development policy in Iceland throughout the transitional period to a modern capitalist economy. This is a characteristic which she shared with other Nordic countries where "government was compelled, faute de mieux, to cling to the belief in agricultural development as the source of prosperity."<sup>1</sup>

The transition to freehold farming in Iceland came much later than the other Nordic countries. It was not until the 1920s that the majority of farmers had become freeholders (59% in 1930), a stage that was reached, roughly speaking, by 1820 in Norway, in the 1830s in Denmark and by 1850 in Sweden.<sup>2</sup> Why was selfownership so slow to develop in

<sup>1</sup> Milward, A. 'Strategies for Development in Agriculture: The Nineteenth-century European Experience', in T. C. Smout (ed.), The Search for Wealth and Stability (London, 1979), p.38.

<sup>2</sup> On the rise of freehold farming in the other Nordic countries, see Tønnesen, Kåre, 'Tenancy', pp.191-206. - Bjørn, Claus et. al. (eds.), Det danske landbrugs historie (Odense, 1988) II, pp.351-9; III, pp.28-9, 94-5. - Johansen, Hans Chr., Dansk økonomisk politik i årene efter 1784 I (Aarhus, 1968), pp.167-8, 225-6. - Dyrvik, Ståle et

Iceland?

The government promoted owner-occupancy from the late eighteenth century as it did in Denmark. There a much bolder public policy was adopted in which three types of strategies were employed; first, the sale of public land to tenants on favourable terms; second, measures to encourage tenants on private land to buy their leaseholds by offering them pre-emptive rights and financial means to buy them; third, measures to discourage concentration of private landed property by changing land laws decisively in favour of tenants.

Only the first strategy was carried out in Iceland during the nineteenth century and even here the government failed to achieve its declared objective. The scope for extending self-ownership was, it is true, greater in Denmark because there was not only Crown land to sell but estates and other private land to be broken up into many smaller holdings and redistributed. Tenants in Denmark may also have been financially stronger than in Iceland thus making the transition more successful.<sup>3</sup> The economic position of the peasantry was at least much more favourable in Denmark during time of the sale from ca. 1787-1807. The high inflation coupled with high profits on sales of food during the Napoleonic Wars greatly helped the Danish peasant to pay off his mortgage.<sup>4</sup>

The Icelandic peasant on the other hand struggled through extremely bad years at the beginning of the

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al., Norsk økonomisk historie 1500-1970 I (Bergen, 1979), pp.184-6.

<sup>3</sup> A study of freehold purchases in one district in Jutland indicates that Danish farmers, too, were struggling to raise money for the farm purchases, relying largely on borrowed money, cf. Henriksen, Ingrid, 'Peasants and the Market', Scandinavian Economic History Review XXXVIII (1990) no.3, p.17.

<sup>4</sup> Bjørn, Claus et. al., Det danske landbrugs historie II, pp.358-9. - Smout, T. C., 'Landowners in Scotland', pp.94-5. However, high interest rates and the financial collapse forced many freeholders to sell up after 1807.

nineteenth century followed by severely reduced foreign trade 1806-1813 due to the war. The high inflation does not seem to have worked particularly to buyers' advantage as they tended to pay the purchase price in full or over a short period of time, but, of course, those who had longer mortgages paid them off with ease.<sup>5</sup>

It has to be recognized that the laws stipulating the sale in Iceland gave not the tenant but the highest bidder the unequivocal right to buy. More important, the insufficient financial support given to tenants in Iceland is likely to have contributed to the comparatively low ratio of leaseholds bought by tenants. The land parcellled out in Denmark was sold overwhelmingly to tenants who were granted loans up to three quarters of the purchasing price at 4% - later 3 3/8% - interest up to 28 years.<sup>6</sup> Thirdly, except for the dioceses land no measures were taken to transfer the big landed property of the Church, accounting for nearly one fifth of all land, to tenants until after the turn of this century. Such a transfer was a complicated task which required among other things a radical revision of the Church finances, a shift in the revenue base from Church land (rent and dues) to state taxes. A financial change of this sort would have been almost unthinkable under Danish fiscal rule because the political struggle between the Icelandic nationalists and the Danish government prevented a substantial rise in taxes, and any tax reform for that matter.

The other two strategies pursued in Denmark to encourage self-ownership were not given a muscle in public policy in Iceland during the nineteenth century - which in effect meant that tenant protection did not become an objective of agricultural policy. The government was

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<sup>5</sup> Þorkell Jóhannesson, Saga Íslendinga VII, p.389.

<sup>6</sup> Bjørn, Claus et. al. (eds.), Det danske landbrugs historie II, pp.355-8. - Johansen, Hans Chr., Dansk økonomisk politik, pp.167-8, 225-6. Both Kreditkassen and to lesser extent Finanskollegiet granted huge amounts of loans for this purpose, starting in 1786.

persuaded by Icelandic officials and later supported by the majority of the Althing that such measures would be too great an infringement on the property rights of landowners and inappropriate under Icelandic circumstances because of the alleged uniqueness of her farming and the social structure. These strategies were therefore politically unacceptable in Iceland so long as the old landowning class remained firmly in place. The development of landownership in Iceland during the early nineteenth century did little to reduce its hold on power, on the contrary, it can be argued that the first phase of the sale of public land, ca. 1786-1857, strengthened the position of landowners since it was not accompanied by a corresponding extension of lanownership to farmers in general.

The political development worked also in the landowners' favour for a while because although the democratization process had started and the Althing given an influential position in the political system as vox populi, the fact was that it represented and voiced the views of a small part of society, that of landowners as is so clearly demonstrated by its stance in the important social issues it was confronted with: time and again it set itself against land reform and liberalization of the labour legislation while the Danish government took a more liberal attitude and showed more concern for the lower strata of society.

Yet, the government trod the liberal path cautiously and its readiness to acknowledge the uniqueness of Iceland was translated, with the help of Icelandic officials, into "non-decisions" to borrow a term from political science. The Danish government even directly defended status quo by arguing that tenure arrangements were in little need of reform. It did not apply to Iceland the basic premises it had long before accepted in agricultural policy at home in Denmark, that peasant tenures worked to the disadvantages of tenants and constituted a serious obstacle to the advance of agriculture in general, and the way to overcome it was to infringe on the property rights of landowners and limit their freedom to dispose of their farms at will.

Farmers, whether tenants or freeholders, could unite in imposing severe restrictions on the mobility and occupational freedom of the working classes which had few comparisons in Europe in the latter part of the nineteenth century. The main motive was to regulate the landless poor for their own interests and hinder the rise of the fisheries as an independent sector of the economy.

In a relatively short span of time, ca. 1894-1907, all this was to change. The defenses of the old regime were dismantled and simultaneously the Althing adopted a vigorous policy to encourage self-ownership of land. Tenure reforms on private land were much slower to gain political backing, but were decisive when they came in the early 1930s.

These important changes which had been sparked off by the advancing market economy heralded a new era in economic policy. Agriculture still remained in the forefront of government development policy at least until the Second World War, but with the penetration of market forces the control mechanisms of the old regime were thrown away. Policy aims were rapidly being shifted from preserving the social structure of agriculture to promoting development towards a more rational and modern farming with the increasing use of fiscal instruments and public credit institutions created during the first decades of this century.

In a sense, though, the agrarian offence in the 1920s was a continuation of the nineteenth century policies of agricultural protection dressed in a modern form. As before the policy was based on the fundamental belief that agriculture would continue to be society's centre of gravity in cultural and political as well as economic terms. It is therefore important to see the new agricultural policy not in terms of pure economic objectives such as rationalization and cost-effectiveness; it was a part of a wider set of economic and social ideas which presupposed the continued predominance of agriculture which now operated within a different framework, a new type of economy.

Land policy after 1900 and economic policy in general

towards the end of the period were increasingly designed to promote a class of independent small producers, whether farmers or fishermen, whose economic activities centered around the household rather than the capitalist firm. These classes would ideally be self-employed, rely as little as possible on wage-earning themselves and, in the case of the farmers, limit their need for hired labour. Both large scale farming and the Danish husmandsbrug policy in its earlier form were rejected as models of agricultural development and the small boat- and shipowners were preferred to the big fishing businessmen in the fishing sector after it ceased to be a subsidiary industry of the agriculture sector.

This was in essence the petit-bourgeois vision of society, the populist "third way" to the good society, which rejected both the capitalist and the communist path.<sup>7</sup> It

it enjoyed a wide support during/first half of the twentieth century and became the official programme of the Progressive Party, the dominant political force between 1927 and 1942, but also broadly adhered to by influential factions in the large right-wing Independence Party and even the Social Democratic Party.

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<sup>7</sup> An illuminating study of these agrarian based populist policies and their success in the 1930s is Órn D. Jónsson, På sporet af den populistiske økonomi. Erhversudviklingen i mellemkrigstidens Island, unpublished paper.

PART TWO

PUBLIC FINANCE AND ECONOMIC DEVELOPMENT

1874-1930

## 7. DEVELOPMENT PATTERNS OF PUBLIC FINANCE, 1874-1930

Although fiscal policy in the sense of using the instruments of public finance to influence the overall direction of the economy was not pursued during the period under examination, politicians and administrators saw government as a powerful tool to affect particular aspects of economic life through taxation and allocation of public money and - in the Icelandic case - lending of public money. The study of public finance, moreover, clearly reflects the economic objectives of powerful groups in political life and the ways in which they were translated into concrete political action. In this part of the thesis we focus the attention on the various ways in which fiscal policy, more precisely the expenditure side of the public finances, influenced the course of the economy during the period 1874-1930 and the public financial measures addressing the wider issue of economic development.

The study is confined to central government, but it must be borne in mind that local governments were concerned with many important tasks which influenced the economy, either directly as the promotion of industries and building roads and harbour facilities; or indirectly as the financing of its costliest task, poor relief, and other social services emerging around the turn of this century. The aggregate expenditure of local governments was not much lower than that of central government until the First World War, when their share of total public expenditure dropped considerably. Thus, local government expenditure was 46% of total general government expenditure in 1890 as against 36% in 1927.<sup>1</sup>

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<sup>1</sup> Gísli Blöndal, 'The Development of Public Expenditure in Relation to National Income in Iceland' (unpublished Ph.D. thesis, London School of Economics, 1965), pp.273-275, 291. - On the development of central government expenditure, see also his 'The Growth of Public Expenditure in Iceland', Scandinavian Economic History Review XVII (1969), pp.1-22.

Table 16 CENTRAL GOVERNMENT EXPENDITURE, 1876-1930

thousand kronur

at 1876 prices

	at current prices	at const. prices	index	annual rate of growth	kr. per capita of pop.	as % of GNP
1880	339	335	100		5	
1890	452	470	140	3.5	7	
1901	776	876	261	5.8	11	3.2
1910	1502	1523	455	6.4	18	4.4
1920	11991	2571	767	5.4	27	7.7
1929	12405	5067	1513	7.8	48	8.6

Sources: Gisli Blöndal, 'The Development', pp.256-7, 273-5.  
- *Tölfræðihandbók* 1984, p.7. - Torfi Ásgeirsson,  
'Verðlagsbreytingar', p.299. - Appendix B.

Note: Annual rate of growth is measured between the dates given, e.g. 1880-1890: 3.5%, etc.

The public sector was extremely small at the beginning of the period. The main trends in the development of public expenditure over the whole period are shown in table 16 which indicates a rapid expansion of the public sector both in actual and real terms. This is especially true for the last decade of the period, but even the early years of Icelandic self-rule show a considerable growth or 3.5% annual rate of growth during the 1880s. This growth, however, must be set against the extremely low level of spending at the beginning of the period.

A more substantial growth occurred in the 1890s and again with the advent of Home Rule in 1904. From the first budget in 1876 to the First World War expenditure rose from a mere 200,000 kr. to 1.6 million kr. at constant prices which is an eightfold increase. The 1920s show the highest growth rates over decades at 7.8% a year up to 1929 by which time public expenditure had risen to 5 m.kr. at constant prices.

Comparing public expenditure with national income during that period is fraught with difficulties due to poor data and the only estimate available shows a ratio of 3.2%

Table 17 PUBLIC EXPENDITURE BY FUNCTION, 1876-1930

five years averages  
in thousand kr. at current prices

administration	national debt		law and order		social services		economic services		total
	kr.	%	kr.	%	kr.	%	kr.	%	
1876-80	58	20	—	—	51	17	146	49	296
1881-85	66	17	—	—	82	21	171	44	389
1886-90	63	14	—	—	87	20	203	47	436
1891-95	73	14	—	—	86	17	218	43	509
1896-00	65	9	—	—	88	13	276	39	702
1901-05	97	11	—	—	88	10	355	39	904
1906-10	165	12	8	1	89	6	504	35	1429
1911-15	190	10	76	4	93	5	715	39	1846
1916-20	1084	16	688	10	269	4	2102	31	6750
1921-25	1280	15	1137	13	516	6	3101	37	8587
1926-30	1776	14	840	7	664	5	4223	34	12249

Source: Gisli Blöndal, 'The Development', pp.273-5.

in 1901, rising slowly to 4.4% in 1910 and further to 8.6% at the end of the period. The full extent of the expansion of the public sector is not appreciated in these figures as the three decades of this century were a period of high economic growth.

Now that we have distinguished the growth pattern of the Icelandic public sector and discerned a substantial growth in real terms the question must be asked to what extent the public finances affected the economy. One way of answering the question is to examine how public money was spent and by disaggregating expenditure into five major categories in table 17 the main features of the spending policy become more visible. For the earlier parts of the period administration, the judiciary and police were the costliest public functions. They are contained in the categories of administration, law and order, and partly the social services for it includes costs of civil servants pensions. Taken together, administration and law and order accounted for nearly 40% of the aggregate expenditure at the beginning of the period declining rapidly after 1890 and settled around 20% for the rest of the period.

The second major function of government was the provision of social services, which consisted mainly of education and health services. Social security was for greater part of the period not considered a public responsibility and the burden of poor relief rested mainly with local governments. Yet, expenditure on this category was remarkably high or nearly half of the total budget earlier on falling gradually to about two fifths of all expenditure in the pre-war period. The inclusion of civil servants' pensions and costs of the State Church go far in explaining the extraordinarily high share of social services throughout the period. Both these types of expenditure belonged, however, more appropriately to the "the

establishment" rather than social services proper.<sup>2</sup> Even the school system, absorbing an increasing share of the expenditure on social services, served for most part as a preparation for government officials, the main schools publicly maintained being a grammar school, a school of theology and a medical school. Public support to other types of schools, however, increased in the last quarter of the nineteenth century, both on primary and secondary level as well as in vocational training.

Expenditure on economic services was the third major category, starting from a modest level of 15-20% of the aggregate expenditure, then leaping forward after 1890. At the turn of the century it accounted for no less than 40% of total expenditure, a level maintained for the rest of the period except for a few years immediately after the First World War. Most of this increase was spent on the economic infrastructure, but financial support to various industries was also growing.

The main development patterns of public expenditure become clearer when we compare Iceland with her neighbouring countries in Northern Europe. Tables 18 and 19 reveal that the level of public spending was much lower in Iceland than the other countries for greater part of the period. Expenditure per head was just under 5 kr. in Iceland in 1880 against 17 kr. in Norway and Sweden and 23 kr. in Denmark. By the end of the period Iceland had almost caught up with most of the countries, spending 117 kr. per capita or

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<sup>2</sup> The expenditure classification of Gisli Blöndal is inadequate in this respect. Looking at the function of the Church in the context of nineteenth century society it belongs more properly to administration than social services. This is even more true for Iceland than many other European countries where the Church was heavily involved in poor relief and education. In Iceland poor relief was on the other hand provided for mainly by secular institutions, i.e. local governments, and the formal educational system grew largely beyond the realm of the Church.

Table 18 CENTRAL GOVERNMENT EXPENDITURE IN NORTHERN EUROPE  
1880, 1910 AND 1930

current prices

Icelandic krónur per capita

	1880		1910		1930	
	total expend.	econ. serv.	total expend.	econ. serv.	total expend.	econ. serv.
Belgium	29.59	6.07	46.63	7.51	189.40	26.71
Denmark	23.06	0.97	43.42	5.30	126.12	12.86
Iceland	4.68	0.96	17.80	8.25	117.49	44.42
Netherlands	42.26	7.44	52.22	10.86	167.60	32.35
Norway	17.15	1.41	34.70	4.30	135.50	21.00
Sweden	17.19	1.15	39.28	5.22	135.32	28.55

Sources: Gísli Blöndal, 'The Development'. - Flora, P. et al. (eds.), State, Economy and Society in Western Europe 1815-1975 I-II (Frankfurt, 1983, 1987). - Bidwell, R.L., Currency Conversion Tables. A Hundred Years of Change (London, 1970).

Notes: Figures refer to central government expenditure on dates given or, if not available, dates closest to them. - The year 1929 is chosen for Iceland instead of the freak year 1930, when expenditure was extraordinarily high. - Exchange rates: £1 = 18.16 kr. in 1880 and 1910, £1 = 22.15 kr in 1930

slightly less than the other Nordic countries. Per capita expenditure on economic services was 1 kr. in Iceland at the beginning of the period, lower than in any other country except Denmark, but by 1910 she was second after Netherlands with 8.25 kr. and ranking higher than the other Nordic countries. By 1930 Iceland had by far the highest level of spending, with per capita expenditure of 44 kr. against 32 kr. in Netherlands down to 13 kr. in Denmark.

Iceland's expenditure pattern differs from the other countries in three aspects which can clearly be discerned in tables 18 and 19. Having no proper armed forces, military expenditure was nonexistent in the Icelandic budget, whereas in the neighbouring countries it constituted the biggest category, accounting for one fifth up to two fifths of the aggregate expenditure. Iceland was therefore in the unique position among nations to be able to concentrate on various civilian functions and use a substantial share of its public money for economic purposes.

Table 19 CENTRAL GOVERNMENT EXPENDITURE BY FUNCTION  
IN NORTHERN EUROPE, 1880 AND 1930

percentages

	defense		adminstration/ judiciary		economic services		social services		debt interest	
	1880	1930	1880	1930	1880	1930	1880	1930	1880	1930
Belgium	20.9	10.0	15.7	10.3	14.2	14.1	10.1	20.1	36.4	34.5
Denmark	38.9	14.2	24.5	4.3	4.2	10.2	3.4	42.3	28.9	29.0
Finland	25.9	15.2	28.7	12.4	9.8	24.7	19.5	27.6	12.2	8.8
Holland	28.4	14.0	27.5	19.8	17.6	19.3	-	32.9	24.7	(14.0)
Iceland	0.0	0.0	22.7	21.5	20.6	37.8	46.3	32.7	0.0	8.0
Norway	27.1	12.4	28.6	11.6	8.2	15.5	16.9	27.8	14.5	(32.7)
Sweden	40.9	22.5	20.6	12.8	7.1	21.1	19.7	25.2	11.7	-
U.K.	43.4	16.4	15.5	4.8	1.2	2.4	9.8	35.9	29.6	40.3

Sources: Flora, P. et al. (eds.), State, Economy, I and II. - Gisli Blöndal,  
'The Development'.

Note: The year 1929 is chosen for Iceland instead of the year 1930, cf. notes  
to table 18. In 1930 the ratio for economic services jumped to 46% - Figures  
in brackets signify residual expenditure including interests on public debt.

Second, public borrowing to finance government spending was unheard of in Iceland until after the turn of this century. This clearly demonstrates the fact that Iceland was a late developer not only as the general economic level was concerned but also in public finance. Indeed, the emphasis was not on borrowing but saving public money in order to accumulate financial reserves. Expenditure on national debt came late, the first state loan was raised as late as 1908 in order to finance the telegraphic system which was being erected at that time. It was not until after the First World War that interest payments on debt became a significant sum, a clear sign that the old style fiscal policy had been abandoned. Still, by 1929 debt interest accounted for only 8% of all expenditure in Iceland while it formed a large part of expenditure in all of the countries compared, though varying greatly from one country to another.

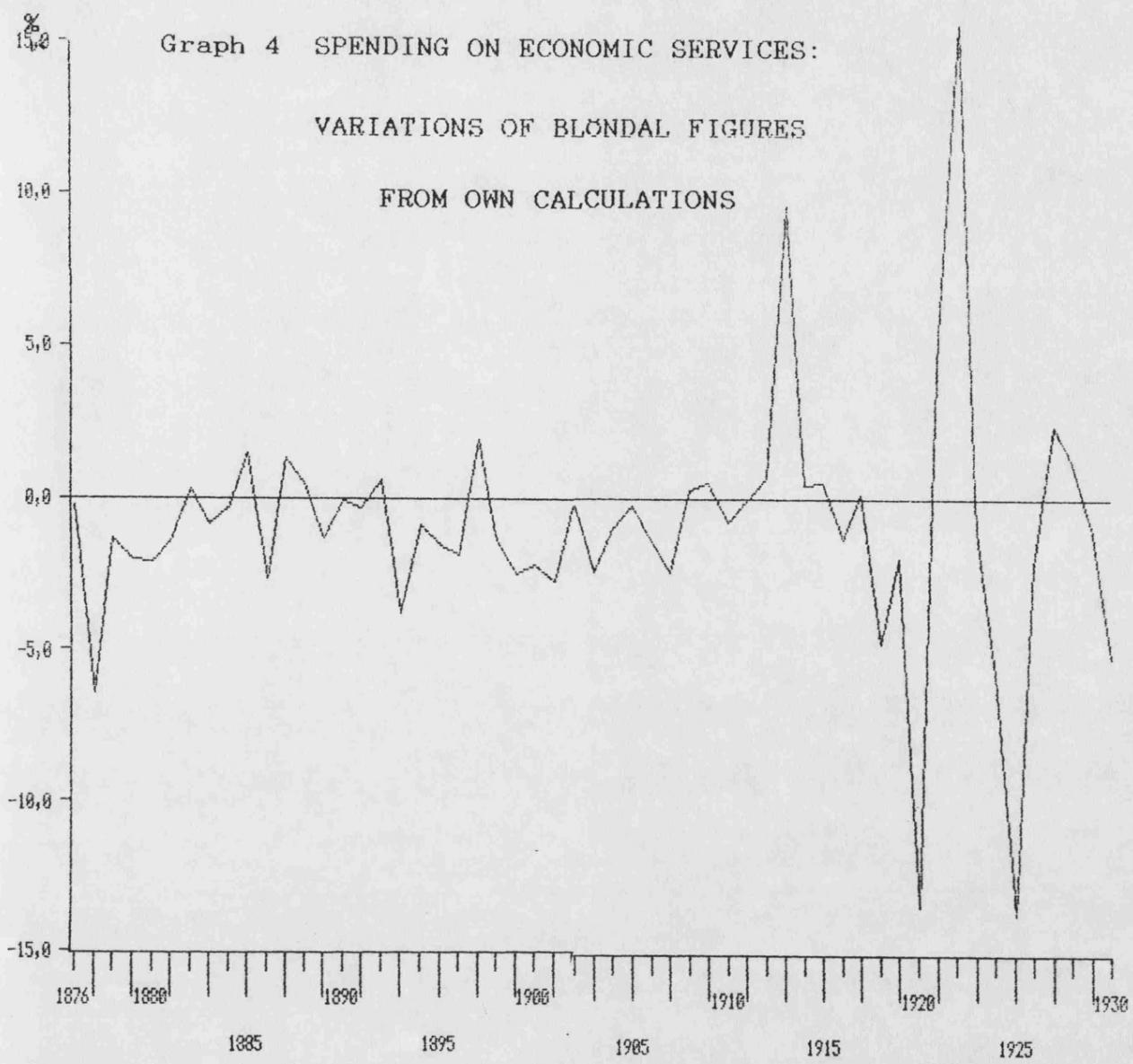
Third, expenditure on economic services in Iceland became exceptionally high in comparison with other countries as we have already mentioned. Table 19 shows that its share in the aggregate expenditure was no less than 38% in 1930 or almost twice as great as in the following country. It is this third observation that is especially relevant for the question of the state's role in the economic development of Iceland. High public spending on economic services indicates a strong government commitment to economic matters and a potential political influence on the course of the economic development. In this section of the thesis we will be concentrating our study on this particular part of the public finances and its bearing on the economy during the period under examination.

### 8. PUBLIC EXPENDITURE ON ECONOMIC SERVICES

The aggregate expenditure on economic services has been calculated in Gisli Blöndal's thesis, but it does not offer a breakdown of this category. In order to see the composition and the value of individual items in this extremely important part of the budget the Government Accounts have been closely examined and both aggregate figures and the main expenditure items have been calculated.

It would have been preferable for comparative purposes if Gisli Blöndal's method and procedures could have been rigorously employed in order to make his aggregates exactly compatible with the present study of the Government Accounts. Unfortunately, he does not give a sufficiently detailed description of his definitions of expenditure and classification to enable one to take full advantage of his study in this respect and arrive at identical figures for the economic services. Nevertheless, his method has been applied here as far as it can be read from his work with the result that my series, although not identical, comes very close to his aggregate figures on economic services. The relationship between the two series is shown in graph 4 where his figures have been plotted as a variation from my own findings. Blöndal's figures show a mean deviation of 2.4% for each year from my own and most of the divergence occurs in a span of few years, i.e. 1920-25. A detailed description of the accounting method and definitions as well as the classification scheme employed in the study is given in Appendix C with the statistical findings of the exercise.

The discrepancy between Blöndal's series and mine causes some problems when setting the individual expenditure items against aggregate figures. For the sake of consistency, Blöndal's figures are used when the five main expenditure categories (administration, law and order, national debt, social services and economic services) and their relationship with aggregate expenditure are referred to, whereas figures on economic services per se and their breakdown into sub-categories and individual items are based



Sources: Gisli Blöndal, The Development, pp.273-5.-  
Appendix C.

on my own calculations. The only exception from this is graph 5 in which expenditure on economic services and their sub-categories are plotted as proportions of total expenditure according to Gisli Blöndal's study.

The development of the public finances 1876-1930 is examined in the following chapters focussing on government financial contribution to the economy. The central discussion evidently revolves around the economic services category according to my findings. Three distinctive periods can be distinguished in this respect, the first from 1874 to 1890, the second from 1891 to 1913 and the last from 1914 to 1930, each one dealt with in separate chapters.

9. A POLICY OF PUBLIC THRIFT, 1874-1890

Despite the limited political reforms in the 1870s Icelanders had achieved a considerable degree of financial independence in domestic affairs and the Althing, however discontented, had in control of fiscal policy a powerful instrument at its disposal. Lacking experience in budgeting it had to learn the art of fiscal policy from scratch in the course of the next decades, how to spend and tax the nation and manage the public funds under its control.

Under Danish rule Iceland's public finances had been stagnant and undeveloped in most respects during the nineteenth century. In the decades prior to the political changes in the 1870s modernization had been hampered largely by a political stalemate between the Danish government and the Althing. In contrast to Denmark the sale of public land had not been followed by modernization of the tax system in which the loss of revenue emanating from Crown land was compensated by a higher level of taxation. The nationalists in the Althing opposed any substantial change in taxation as long as Icelanders were not in control of their affairs. The government was on the other hand eager to raise taxes in the face of accumulating deficits resulting from higher spending since the 1840s without a corresponding rise in revenue. Income from public land, traditionally the principal source of revenue, was steadily falling due to the sale of church and state farms and strained the Treasury still further. In that way the colonial relationship between Iceland and Denmark impeded fiscal reforms and prevented the state from taking active part in the economic modernization of the country.

The government did not want to increase taxes substantially against the Althing's will and had to put up with slowly rising administrative costs and expenditure on education in the 1850s and the 1860s. As a consequence, the Minister for Icelandic affairs was unwilling to embark upon any new tasks and pursued a predictably restrictive fiscal policy. This stalemate in fiscal matters and growing

deficits were an important factor in prompting the government to rethink its policy on Iceland's status within the Monarchy and eventually grant it more powers over its own affairs in the 1870s. It would be best to let Icelanders themselves tackle their own deficits.

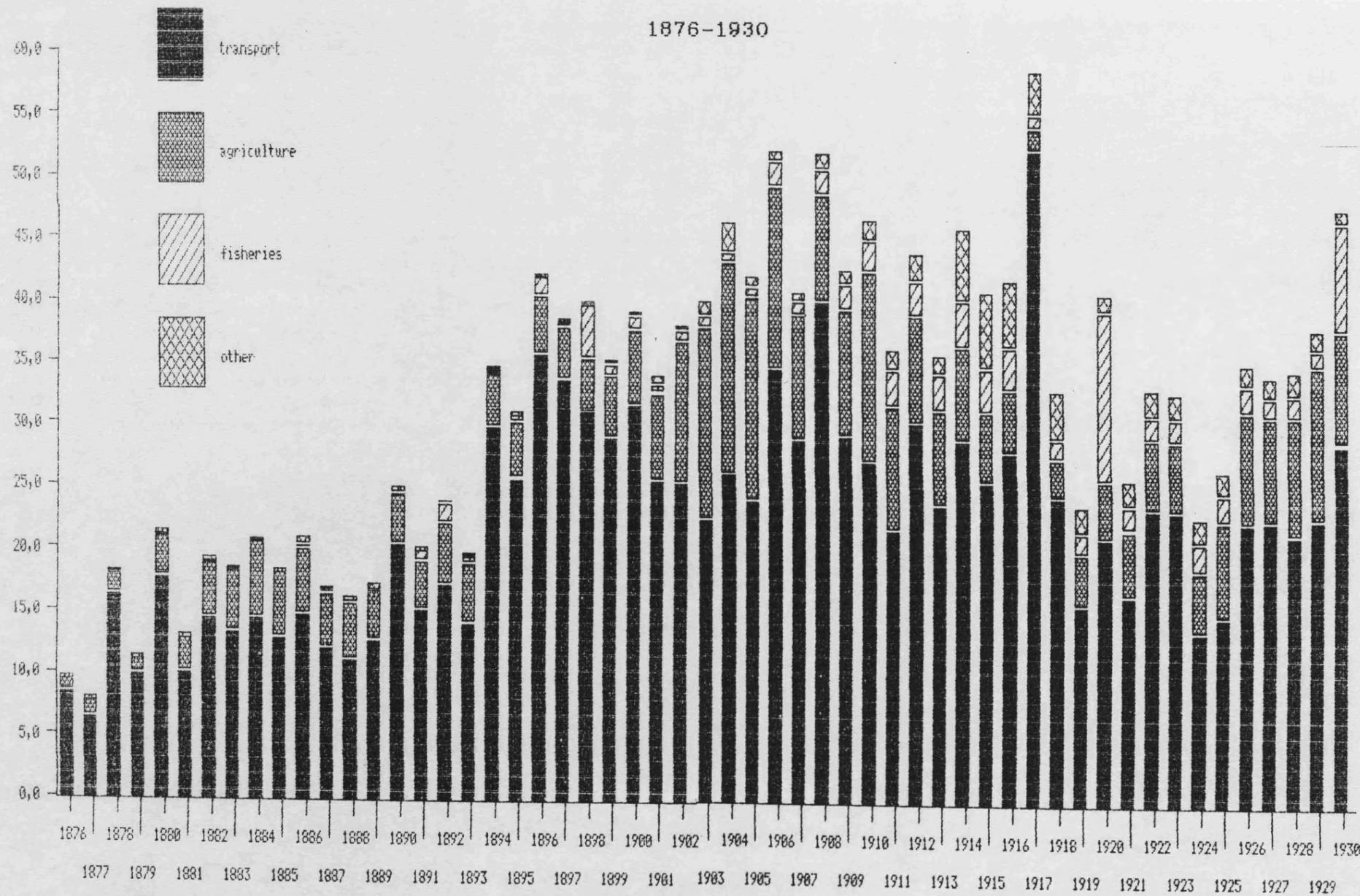
The public finances were then, not surprisingly, far from being in a healthy state when Icelanders took over fiscal control. The taxation system was long outdated and unproductive. The expenditure policy was, characteristically, passive and fairly inflexible. Due to bureaucratic neglect and unsatisfactory accounting methods it was difficult to assess the actual status of the finances from the Government Accounts, and accounts of some public funds were even missing completely. The Status Act of 1871 was thought of considerable help in that the Danish government obliged itself to pay into the Icelandic Treasury a sum of 100,000 kr. annually for the next ten years after which it would gradually be reduced to 60,000 kr. This provision was seen by the Danish government as a fair settlement of the longstanding dispute with the nationalists over the financial relations between the two countries.

Generally speaking, the nationalists were in favour of greater public involvement in the economic development of the country. One of the main objectives of the nationalist movement since its emergence in the 1830s had been not only to gain control over the political institutions in the country, but to use them for the purpose of raising the material and cultural level of the nation. Jón Sigurðsson, the leader of the movement, spoke of the Althing as "the seed of all progress and prosperity in our land"<sup>1</sup>, in accordance with the widespread view that representative government was an essential factor in the progress of the country by offering vital services and facilities that the private sector was unable or unwilling to provide. The

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<sup>1</sup> Jón Sigurðsson, 'Um alþing', in Hugvekja til Íslendinga, ed. Sverrir Kristjánsson (Reykjavík, 1951), p.57.

Graph 5 ECONOMIC SERVICES AS A PERCENTAGE OF TOTAL EXPENDITURE



tasks most frequently perceived as ideal for public involvement were schools, health care, transport and communication.

Moreover the fiscal means for a more positive government role were at hand: the economy had been growing, if slowly, since the 1820s without corresponding rise in Treasury revenue. As taxes were extremely low and the tax base narrow, there were ample opportunities for the expansion of the public sector. Thus, given the will, the means and a rationale for a more public involvement in economic life, one would have expected a more positive growth-oriented fiscal policy with the introduction of financial autonomy for Iceland.

Yet, contrary to expectations, no substantial change occurred in the field of fiscal policy after 1874. The Althing responded slowly to the opportunities offered by the economic circumstances and its new powers and, instead, resorted to similar policies in financial matters as the Danish government had done previously. Although the level of spending rose somewhat from the pre-1874 period, the pattern of expenditure remained unchanged for 15 years. The public sector was very small and economic services accounted for only 15-20% of the total expenditure up to 1890, which was in itself not an insignificant share, but these were tiny sums in real terms due to the low level of spending. The distinctive features of this period are clearly discerned in graph 5 which gives an overview of the expenditure on economic services for the whole period from 1876 to 1930 where the share of economic services in the total expenditure has been plotted.

Table 20 shows that the average annual spending on economic services was only 65,000 kr. during the period 1876-1890, with most of the money devoted to the economic infrastructure or 49,000 kr. Road and bridge construction as well as subsidies to the post ships sailing between Denmark and Iceland where the principal expenditure items while spending on the post service was modest, not only because it was a fairly rudimentary, but also because its

Table 20 PUBLIC EXPENDITURE ON ECONOMIC SERVICES  
1876-1890

krónur at current prices	average annual spending	as % of total spending	as % of total economic services	as % of total expend.
INFRASTRUCTURE	49,360	740,397	76.4	13.2
post service	9,532	142,978	14.8	2.6
land transport	20,827	312,409	32.2	5.6
sea transport	19,001	285,010	29.4	5.1
other services				
AGRICULTURE	14,402	216,026	22.3	3.9
education	6,719	100,779	10.4	1.8
cultivation	6,937	104,050	10.7	1.9
research and development	33	500	0.1	0.0
other expenditure	713	10,697	1.1	0.2
FISHERIES	473	7,100	0.7	0.1
education	592	7,100	0.7	0.1
research and development				
other expenditure				
OTHER INDUSTRIES	367	5,500	0.6	0.1
manufacture	233	3,500	0.4	0.1
trade and commerce				
banking	1,000	2,000	0.2	
	=====	=====	=====	====
TOTAL	64,602	969,023	100.0	17.3

Source: Appendix C.

own revenue covered large part of the costs.

Public assistance to industries was very limited at that time; agriculture received the little money there was or around 14,000 kr. The three agricultural schools that were founded in the 1880s and the numerous agricultural societies were the principal recipients of this money. If agriculture received little public support the fisheries hardly got any at all, a few hundred krónur each year for covering the costs of courses in navigation and seamanship. Although the share of the fisheries rose somewhat as time passed they never got half as much as agriculture during the whole period until 1930.

Althing's fiscal policy during the first period was characterized by a strong desire to prevent taxes and expenditure from rising, keep the budget balanced and, preferably, build up financial reserves that could be

resorted to in bad years. Public money was to a large extent absorbed by the traditional functions of the state, the civil service, the judiciary system and the police and the Church. The dominant policy did not give much scope for an active public involvement in economic affairs and the economic recession in the 1880s made the Althing hold ever tighter to the public purse.

The cautious attitude of MPs in the first sessions of the Althing as a legislature is not difficult to understand. They lacked experience in budgeting and were unprepared to go for sweeping changes at the start, when information and accounts of the public finances were incomplete, accounts of some funds even missing and accounting methods badly in need of improvement. Most important, the Althing recognized that a tax reform and increased revenue was a prerequisite for any substantial rise in expenditure. In the 1875 session of the Althing the government's finance bill was in the same vein as usual, but the parliament did not alter it in any significant way (members had unlimited rights to move amendments). Subsidies for coastal sailing were increased, a medical school was to be founded, but the only substantial expenditure increase passed by the parliament was, ironically, the raising of officials' salaries. So seriously did the Althing take its new financial powers that it felt necessary to invigorate the main instrument of the Danish rule in Iceland, the much disliked "bureaucracy".

Although the Althing overcame these initial difficulties as time passed, no significant change occurred in fiscal policy in the course of the next 15 years. A tax reform was carried out in 1877 which led to a more rational and consistent tax structure, but it raised public revenue only moderately. Budget surpluses started to accumulate as the Althing kept a firm check on expenditure rises. Besides keeping taxes and expenditure as low as possible, the primary aim of fiscal policy was to keep the budget balanced, preferably to have an overbalance. One of the most effective ways to produce a surplus was to deliberately underestimate revenue in the Finance Bill, thus allowing

some expenditure increase without exceeding revenue. Another effective instrument was the parliament appointed Auditors who rigorously scrutinized the Governments Accounts with the aim of keeping the finances strictly within the limits of the Finance Act.

A budget surplus was strived for essentially in order to strengthen the country's meager resources and thus its financial autonomy. In the final analysis, stronger public finances guaranteed national security. This justification for overbalance was firmly rooted in the political struggle against the Danish government which had for decades refused to grant Icelanders financial independence. The government believed, especially in the early days of the struggle, that the country could not support itself, and some leading Danish politicians expressed the view that Icelanders were incompetent in running their own financial affairs. When gaining financial autonomy the Althing felt the need to demonstrate that it was up to the important task that had been bestowed on it. Gisli Blöndal rightly observes that

although the economic progress of the country was gradually to strengthen the nation's feeling of security, this cautious policy of balanced budget continued to be the cornerstone of fiscal policy. The explanation for this is to be found in the close relationship between the policy and the nation's struggle for independence. A budget deficit would cut the deposit of the Reserve Fund and permanent deficits would sooner or later create a national debt abroad. For both these reasons a deficit was regarded as a direct threat to the financial and political autonomy of the country...<sup>2</sup>

Running Iceland's financial affairs at least as "well" as the Danish authorities meant in practice that there was little change to be expected in fiscal policy.

This extremely cautious and conservative policy was not, however, confined to members of the Althing and the administration; it seems to reflect deeply rooted attitudes in society in general. From the frequent petitions passed

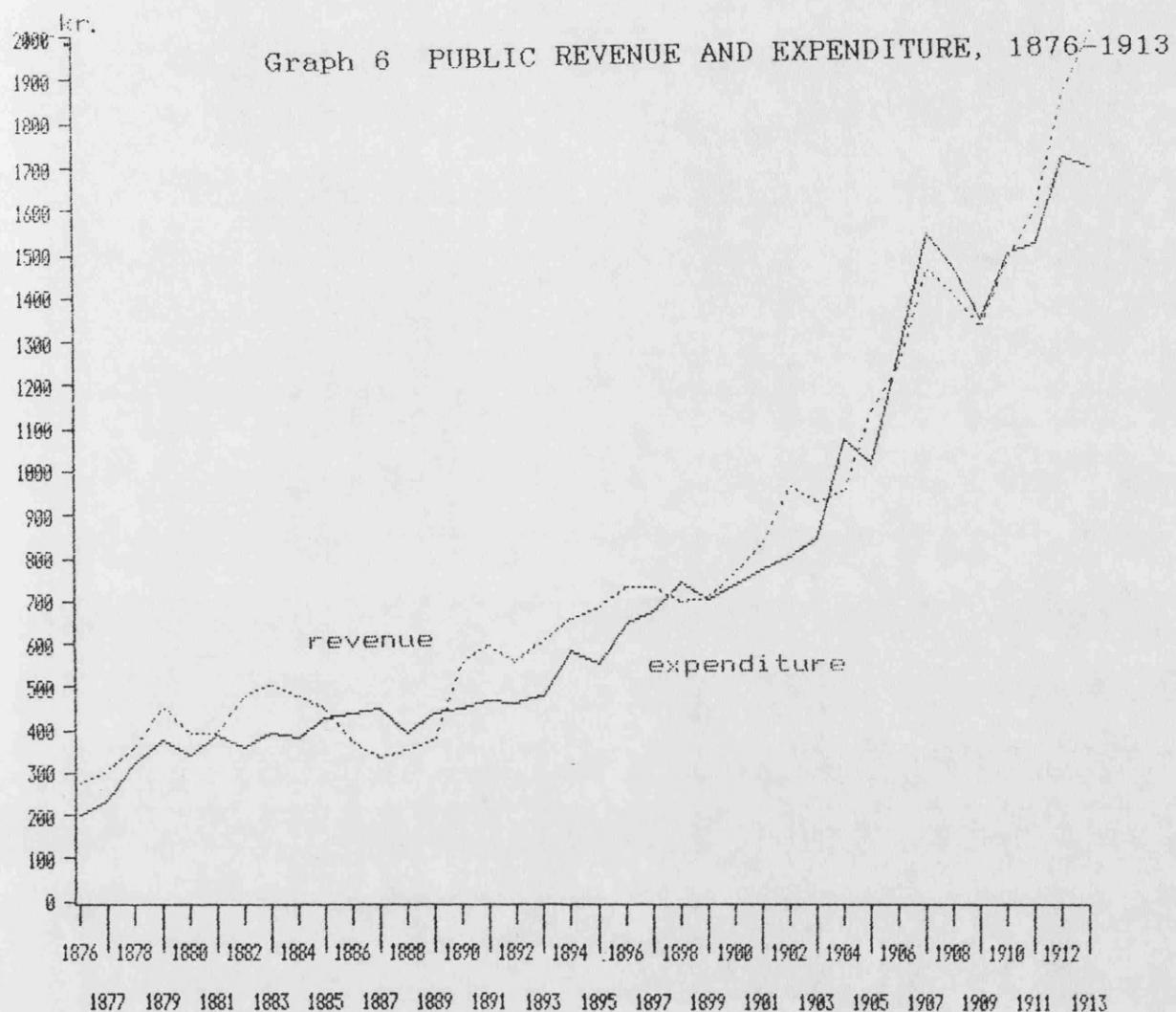
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<sup>2</sup> Gisli Blöndal, 'Próun viðhorfa í íslenzkri fjármálastjórn', Fjármálatíðindi XII (1965), p.102.

at political meetings throughout the country and presented to the Althing we can see that people's main concern in fiscal matters centered on balanced budget and keeping expenditure in check.<sup>3</sup> Government was a distant element in ordinary people's lives, uninterested in improving their lot, and interfered little with their life of self-sufficiency except when it came to collecting taxes. The money spent by government was expended in the main to the upkeep of itself, the administration, the Church, the elite schools. As a consequence, increased taxation was met with dislike. On the other hand, farmers did not expect to benefit much from government and did not make strong demands on the national budget. These attitudes began, however, to change during the last quarter of the century and a growing number of people, inside and outside the Althing, recognized the potential of using public money to further their interests, or more generally, realized the possibilities of positive public involvement in economic life. But the change in attitude came about only slowly.

The consequence of this cautious policy was, not surprisingly, a budget surplus in most years and even a huge one during the first decades, when it was not uncommon that expenditure exceeded revenue by 20%. Revenue and expenditure for the period 1876-1913 are plotted in graph 6 which depicts how successful the balanced budget policy was. The Althing and the government managed to keep the budget balanced for all but 11 years out of 38 up to the war. Deficits occurred in 1886-89, 1898, 1904 and 1906-10 and were in most cases minor and caused not by the Althing's spending overshoot, but unexpectedly low revenue as a result of dire economic conditions. A case in point is the year 1898 and even more so 1886-89 when revenue shrank substantially due to the economic depression and the reduction of tax rates as a measure of alleviating the

<sup>3</sup> A detailed study of these petitions from the district of Suður-bingeyjarsýsla is Gunnar Karlsson, Frelsisbaráttu suður-bingeyinga, see especially pp. 49-53, 123-127.



Source: Gisli Blöndal, 'The Development', pp.273-4, 303-4.

burden of the farming population. The situation was different in 1904 and 1907 as sharp increases in expenditure occurred due to a sudden rise in administrative costs, namely the introduction of Home Rule in the former case and the visit of King Frederic VIII of Denmark in the latter!

The budget surpluses were kept in the Reserve Fund, a special fund set up for that purpose in 1871. As the name suggests, the Reserve Fund was seen as a security measure for the national finances to be resorted to in case of budget deficits. However, with continuous budget surpluses accruing during the 1870s the fund's assets, plotted in

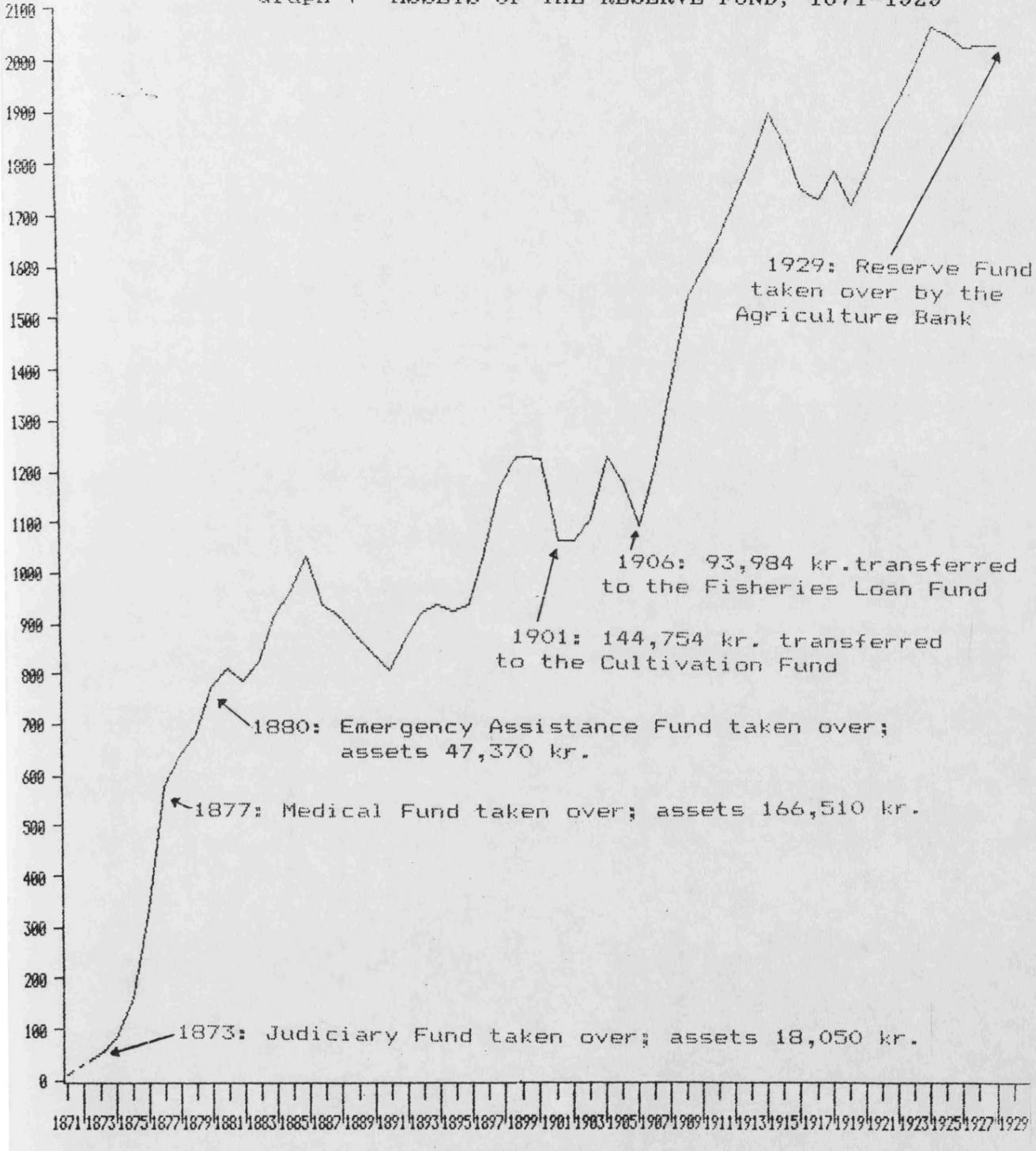
graph 7, grew rapidly from a mere 10,000 kr. in 1871 to just over 1 million kr. in 1886. It was further bolstered when three funds were merged with it, the Judiciary Fund (Dómsmálsjóður) in 1873, the Medical Fund (Læknasjóður) and the Emergency Assistance Fund (Styrktarsjóður Íslands) in 1880 in 1877. Moreover by law in 1883 the fund was to receive all revenue emanating from the sale of Crown land, a revenue which it retained until 1901. In the late 1880s considerable amounts of money were disbursed from the Reserve Fund to finance deficits, but from 1890 onwards it was strengthened again with massive surpluses.

The Reserve Fund was never as big in real terms as during the two decades prior to the war, when it reached just under two million kr. This increase occurred despite money being transferred from the fund to form two public investment credit funds around the turn of the century. One was the Cultivation Fund of Iceland, established in 1900, which received starting capital of 145,000 kr., the other the Fisheries Loan Fund of Iceland, founded in 1905 with a starting capital of 100,000 kr., thereof 94,000 kr. from the Reserve Fund.

During and after the war the Reserve Fund lost its function as a balancing instrument in the public finances as most of its resources were lent to local authorities and individuals, and the government resorted more and more to short-term borrowing to cover deficits. The total assets of the Fund settled around 2 million kr. during the 1920s by which time it served solely as a public lending fund until the government decided to hand it over to a new state owned bank, the Agriculture Bank of Iceland in 1929.

The Reserve Fund was managed from the beginning by the Governor of Iceland who in conjunction with the Althing decided on the disposal of the fund's assets. A closer examination of the Fund's lending operations is undertaken in chapter 14.3, but here we will consider its general role as an instrument of fiscal policy. The Danish government wanted to keep the Fund as a reserve fund proper to cover

Graph 7 ASSETS OF THE RESERVE FUND, 1871-1929



Sources: Athugagreinir yfirskoðunarmanna [1876-77], p.15-17.  
 - LR 1878-1929. - Alþt. 1879 I, p.175-7.

deficits and short term cash needs of the Treasury.<sup>4</sup> It was therefore eager to keep a good part of it in liquid assets and bought Danish Government bonds for large sums of money. In 1880 these bonds amounted to over 400,000 kr. or 53% of the assets, thus extracting considerable part of public savings out of the national economy to be deposited in Denmark at 4% interest.

In contrast, the Althing had expressed its wish already in the 1875 session that the Reserve Fund's money should be brought into play within the Icelandic economy through lending. The pressure for increased lending was particularly strong since no proper bank existed in the country right up to 1885 when the National Bank of Iceland was founded. Hilmar Finsen, the first Governor of Iceland, in office between 1873 and 1882, was sympathetic to the Althing's demand but the Minister for Iceland was more reluctant.<sup>5</sup> Gradually, though, the government gave in to the Althing's view and devoted more of the Fund's money to lending, offering individuals and public bodies mortgages.<sup>6</sup> With the increased lending operations the share of Danish government bonds gradually fell to about a quarter of the total assets at the turn of the century, remaining at that level or slightly lower right up to 1929.

What was the Reserve Fund's role in fiscal policy? In the first place, the government could, at least in theory, resort to it in times of deficits instead of increasing tax rates or borrowing money. But its function as a reserve

<sup>4</sup> Both Hilmar Finsen, Governor of Iceland and Arni Thorsteinsson, the Government Treasurer, thought it was "inconvenient" to lend the the disposable income of the Fund to a great number of small borrowers and preferred to keep its deposit in the more liquid government bonds, see Indriði Einarsson, Sjeð og lifað. Endurminningar. (Reykjavík, 1936), p.247.

<sup>5</sup> Stjt. 1876 B, pp.33-4; 1878 B, p.163; 1879 B, pp.157-8.

<sup>6</sup> This is acknowledged in the King's Message to the Althing in 1881, c.f. Alþt. 1881 II, p.3.

proper was never thoroughly fulfilled and by 1914 it had totally vanished. Increased lending resulted in an ever bigger share of the assets tied in outstanding loans, leaving the fund with little liquid money to balance the budget when needed. Moreover, the fund's resources were not as important for the finances since the Governor could turn to the Danish Treasury right up to 1918 in case of short term financial difficulties. Despite ample reserves, the deficits of 1886-89 were only partly covered by disbursement from the Reserve Fund, and the rest financed by a short term loan from the Danish Treasury, probably free of interest.<sup>7</sup> After the Bank of Iceland started its operation in 1905 the government (by then The Minister of Iceland) also turned to the bank for bills of exchange to bridge short-term cash problems.<sup>8</sup>

The fact is that the government was reluctant to use the Reserve Fund for balancing the budget. One of the main reasons was that the fund had been an important source of revenue for the Treasury from the start as interest on loans and bonds was used by the Treasury for general expenditure. Already in the 1880s this revenue amounted to 30-40,000 kr. a year and increased to 5-10% of total revenue in the decades leading up to the war. The importance of the Reserve Fund as a source of revenue for the Treasury affected the Governor's and the Althing's perception of it, and partly explains their willingness to strengthen it earlier on. The Althing's Appropriation Committee rejected an amendment to the Finance Bill in 1883 which proposed that a bridge construction be financed by the Reserve Fund, on the following grounds:

It is impossible to finance this measure out of the budget's disposable income, and to cut the Reserve Fund's deposits by giving its money away

<sup>7</sup> Alþt. 1889 B, pp.10-12.

<sup>8</sup> In October 1912, for instance, short-term borrowing from the Bank of Iceland amounted to 300,000 kr., but total government expenditure that year was 1,723,000 kr., see Alþt. 1913 C, p.13.

is in contrast to its nature as an interest yielding asset, which seems impermissible to reduce except in case of utmost necessity or emergency, or when it obviously and directly concerns the whole country.<sup>7</sup>

Both the government and the Althing frequently expressed their preference for a strong Reserve Fund. Magnus Stephensen, Governor of Iceland between 1886 and 1904, saw the fund's revenue as a substitute for the diminishing financial contribution from the Danish Treasury. Commenting on the public finances in the 1891 session of the Althing, the Governor remarked that due to the shrinking assets of the Reserve Fund in the late eighties the government took the view that a stringent fiscal policy had to be pursued in order to restore the fund's deposits to their previously highest level:

The government believes that the deposits of the Reserve Fund should be kept at a level which yields revenue that fully compensates for the loss of the financial contribution from the Danish Treasury, soon dropping from, originally, 100,000 kr. to 60,000 kr.<sup>10</sup>

This notion of the Reserve Fund as a source of revenue for the Treasury somewhat reduced the need for increased taxation, at least for a while. Bearing also in mind revenue from public land, this state of affairs can be seen as a transitory stage between the old domain state, basing its revenue principally on rents and dues from public land and enterprises, and the tax state, raising its income on current taxes and levies. The Althing and the government fiscal ideas were still greatly influenced by the old notion of the state financing its budget to large extent on its own assets.

The impact of the Reserve Fund and fiscal policy in general on the economy is more difficult to assess. Gisli Blöndal states that

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<sup>7</sup> Alþt. 1883 C, p.271.

<sup>10</sup> Alþt. 1891 B, p.10

the Reserve Fund was to act as a balancing factor between "good" years and "bad" years. The government was to extend its activities in depression and save in the upswing although the former objective was highly restricted by the desire to play safe...<sup>11</sup>

Gísli Blöndal discerns a rudimentary notion of modern macro-economic considerations in public policy at that time, but this is to read too much into fiscal ideas prevailing in the last quarter of the nineteenth century. There was, of course, no formulation of counter-cyclical fiscal measures, rather the Reserve Fund was to act as a balancing instrument in the public finances themselves. Using expenditure and taxes in order to influence the general level of economic activity was, however, not the case. On the contrary, a clear contractive policy was carried out during the depression of the 1880s and, conversely, expansionist policy in the period of rapid growth from 1890-1913. The only example that bears resemblance to counter-cyclical fiscal measure was the increased lending of the Reserve Fund in the 1880s to local governments and individuals to meet the acute economic difficulties. Giving emergency assistance, especially to local governments, was seen as an important role of the fund, but this role ceased in 1913 with the founding of a new fund, the Contingency Fund of Iceland (Bjargráðasjóður Íslands), set up solely to deal with emergency situations caused by natural catastrophes.

Thus, lending of the Reserve Fund cushioned to some extent the contractive effects on the economy caused by the tight fiscal policy and the consequent big public savings. Increased lending of the Reserve Fund was one of very few positive public measures to encourage economic activity during the recession of the 1880s, and even more important was the fact that a larger proportion of its lending was

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<sup>11</sup> Gísli Blöndal, 'The Development', p.143. This is even more straightforwardly put in his 'Þróun fjármálaþorfa', pp.104-5, where he maintains that counter-cyclical notions were "generally accepted".

directed towards growth-inducing investments than previously had been the case. Still, a very large part of the public savings was locked up in the Reserve Fund, adding if anything to the serious economic problems of those years.

The fiscal policy considerations as expressed in the operation of the Reserve Fund were much more akin to age old peasant housekeeping ideas than modern macro-economic policy. The idea that the Treasury was the national equivalent of the farmer's household was widely cherished and frequently expressed by politicians of that time. The national household was governed by the same principles as each farm. Thrift, cautiousness and saving in a "good" year to be resorted to in a "bad" year were the hallmarks of sound housekeeping. These principles reflected deep-seated attitudes of the cautious, self-reliant farmers whose lives under "a biological regime" were often exposed to sudden and unforeseeable misfortunes, "a bad year", accident or failure in the fish catches. Warning against increased expenditure in the 1899 budgetary debate, the Speaker of the Appropriation Committee of the Upper House, Sigurður Stefánsson, remarked:

as farmers on the national farm we must cut our coat according to our cloth, for this matter is subject to the same principles as each individual's household: even though the farmer sees that various expenditure will improve his farming, he often has to go slower than he wishes and wait for a better year for improvements on his farm. The Althing must follow exactly the same principle in public finance and consider carefully, before it accepts one expenditure item after another, whether the Treasury can really meet the costs.<sup>12</sup>

There had always been voices of opposition to the dominant fiscal policy. Already in the 1875 session some members expressed a strong desire for a more active public involvement in economic affairs. In the 1877 session a number of proposals were tabled during the debate on the Finance Bill pressing for increased public spending on economic services.

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<sup>12</sup> Alþ. 1899 A, p.307.

The most ambitious and innovative proposal was to offer a 150,000 kr. loan to two districts in the southern part of the country for the construction of bridges over two big rivers, Ólfusá and Þjórsá, but it was rejected by the majority of the house. A fresh attempt made in the 1879 session proved more successful, helped by the fact that the first financial period, 1876-77 (the financial period was two calendar years until 1921), had produced a considerable surplus. The outlook was moreover bright as increased revenue was anticipated with the introduction of the new tax system. The Althing, encouraged by these favourable circumstances, decided to increase spending on education, build a house for the parliament and authorize a 100,000 kr. interest free loan from the Reserve Fund for the above-mentioned bridge construction which the government was to carry out. The finance bill was passed with deficit which was to be balanced with appropriation from the Reserve Fund.

All this indicated that the cautious and conservative members of the Althing were loosing their grip on its fiscal policy. Expenditure increased moderately as a result of the parliament's more relaxed spending policy, but in the case of the loan for bridge construction, things took an unexpected turn. The Governor refused to seek Royal Assent for the Althing's resolution on the grounds that it was ill-prepared and had not been ensured sufficient funds to finance the project.<sup>13</sup> Many were to agree with the government that the Althing's decision had not been sufficiently thought out, was even foolhardy considering the scale of the project. The proposed 100,000 kr loan amounted to over a quarter of the 1879 budget expenditure, and according to the government's own investigation the project would have cost almost twice as much as the proposal suggested.

Another objection to the enterprise and a more basic one was raised in the debate: what practical use was there for costly and complicated bridges in a land where hardly

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<sup>13</sup> Stjt. 1881 B, pp.62-3.

any roads and no vehicles existed? This was an understandable and legitimate question as the transport and communication system were extremely backward. The size and the geography of the country partly explains its backwardness: the second largest island in Europe, mountainous with voluminous rivers and vast and rugged lava fields; another factor was the diminutive size and sparseness of the population. Establishing even the most basic transport facilities was a gigantic task for the few and poor inhabitants, who after one thousand years of settlement had hardly made any effort to improve transport. There were no proper roads and only one or two bridges, horses were the only aid for transporting goods and people, and carriages were very rare until after the turn of this century.

One would have expected that water transport would have fared better in the country, located far in the North Atlantic and surrounded by the sea on all sides; but the situation was no better in this respect. Trans-ocean traffic was almost exclusively in the hands of Danish merchants, although Icelandic fish-merchants were slowly entering the trade and forming direct links with their partners in Southern Europe. Icelanders stuck basically to the open rowing boats and increasingly decked vessels for their coastal fishing. Harbour facilities were poor, but there were fortunately many good natural harbours in all coastal areas except in the South.

The need for improved transportation was obvious and felt everywhere, the more so as the economy was becoming more market-orientated and Icelanders were selling more of their produce in foreign markets. But there were hardly any improvements during this period as the Althing and the Danish government considered it beyond either their responsibility or their financial capacity to involve themselves in such novel tasks.

We have seen how conservative and small-minded Althing's fiscal policy was in most areas, despite its

verbal commitment to economic progress and aroused public expectations in the wake of the increased political autonomy in 1874. This policy can best be explained by the deep-seated and widespread attitudes based on thrift and self-reliance as already mentioned.

But it is also important to recognize that the economic depression of the 1880s gave little room for manoeuvre in the field of fiscal policy. The situation became so critical that people starved in some areas where livestock had been drastically reduced. Charity assistance was received from Denmark, Britain and other countries, which provided several hundred thousand krónur worth of aid in form of money and food; a growing number of people chose to emigrate to America.

The response of the government and the Althing to the distress is telling of the economic and social attitudes of the governing people in the land. The vast majority of MPs called for cuts in public spending, further tightening of fiscal policy. Some measures were taken to limit spending in the course of the next years and the rate of land and moveable assets tax was reduced temporarily. There was, however, no direct financial assistance given to people or local governments in need, only loans from the Reserve Fund were offered to local authorities for relief assistance. The Fund lent the districts 81,000 kr. in the 1880s for these purposes. (see pp.327-8) A pessimistic mood dominated public policy in these bleak circumstances and the politicians who advocated tight spending and thrift for its own sake were in a stronger position than ever.

The reason for the Althing's rather passive response to the dire economic situation was not to be sought in the bad state of the public finances. On the contrary, they were in a good shape and there were considerable financial reserves to fall back upon. The budget continued to return surpluses year after year and never bigger than during the most difficult years. Expenditure exceeded revenue by 25-35% in the early 1880s producing a surplus of 121,000 kr. in 1882, 100,000 kr. in 1883 and 100,000 kr. 1884. It did not come

as a surprise when the Governor admitted a few years later that the financial status of the Treasury had never been as good as in the financial period 1884-85.<sup>14</sup>

Some MPs expressed their uneasiness over the huge public savings while people suffered starvation and calls were made by local governments for emergency assistance. But there was no change of policy except for the increased lending to private enterprise from the Reserve Fund. The financial situation rapidly deteriorated after 1885. Tax cuts and economic recession led to a sharp decline of revenue while expenditure remained more or less unchanged. The year 1886 resulted in a deficit for the first time since 1874 and the budget was underbalanced for the next three years, covered by disbursements from the Reserve Fund and some short-term loans from the Danish Treasury.

One of the radical nationalists' justifications for not focussing more attention and devoting more resources to economic issues was their claim that a genuinely progressive economic policy could not be pursued so long as Icelanders were denied full autonomy in their affairs. Was it true, then, that the Danish government represented an obstacle to a more progressive policy? The government's fiscal policy can most clearly be discerned in the Finance Bill and it is not an exaggeration to say that it remained staid well into the 1890s. The occasional proposals to embark on new ventures or increase public assistance to industries came as a rule from members of parliament. The pressure for higher spending came from the Althing and certainly not the government, which acted more as a break on increased spending. The plan to construct the bridges over Ælfusá and Þjórsá rivers provides a good example of their differing attitude.

But although the Danish government pursued a more stringent fiscal policy than even the conservative Althing, it did not dictate the actual policy. It was the Althing's

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<sup>14</sup> Alþt. 1891 B, p.8.

job to pass the Finance Bill, levy taxes and decide on the allocation of public money through various legislation. The responsibility for the fiscal policy right from 1874 rested therefore with the Althing in conjunction with the government which it rarely found itself in conflict with in financial matters before 1890.

It was only a minority of moderate MPs, especially government appointed members, who thought that the constitutional status of the country did not present a barrier to a more active economic policy and wanted the Althing to turn its attention to the urgent task of promoting economic progress. But the radical idealists, preoccupied with the formal and constitutional side of the struggle for full autonomy, had the upper hand in the Althing until the late 1890s and directed their efforts towards the political struggle against the Danish government and related issues like the building of parliament's house and founding of an Icelandic university, while other issues, especially of economic nature, received much less attention.

There were clear signs of policy change after 1890 and in the following years the tight spending policy gave way to a more growth-orientated policy. The claim of some of the radical nationalist that a more active economic policy was impossible to adopt within the existing constitutional framework was proved wrong as a more adventurous fiscal policy was embarked upon without any change in the distribution of political power.

## 10. ACTIVE FISCAL POLICY, 1891-1913

The new fiscal policy was manifested by two important changes. The first was more relaxed public spending. From table 21 we can see the growth patterns of expenditure up to the War, starting with 1879 when the new tax system had taken effect. Expenditure rose very modestly by just under 2% from 1879 to 1893, then increasing by 6% on average for the next 10 years. The first years of Home rule, 1903-07, were years of rapid expansion of the public sector with an annual growth rate of well above 16%, but spending slowed down considerably in the years immediately before the War.

Table 21 PUBLIC EXPENDITURE, 1879-1913  
Average annual growth

1879-1893:	1.7%
1893-1903:	5.9%
1903-1907:	16.3%
1907-1913:	1.6%
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1879-1913:	4.5%

Source: Appendix C.

Notes: Growth rates are measured from trough and peak.

Secondly, higher spending was accompanied by a change in the composition of expenditure. The share of the administration and law and order categories gradually declined, as shown in table 17, and so did the social services category to a lesser extent as the burden of poor relief became lighter. The only category increasing its share was economic services, with a rise from 15-20% of total expenditure before 1890 to over 40% by the end of the century, a remarkably high percentage in international perspective. The jump in economic services expenditure in 1894 can be clearly observed in graph 5, rising to about 230,000 kr. in few years, in contrast to 70-80,000 kr. in the 1880s. Another sharp rise occurred in the first years of Home Rule after 1904 when the government started the

erection of the telegraphic system. Spending on this category was subject to greater fluctuations than other categories, but it was usually between 4-500,000 kr., reaching a peak of just under 600,000 in 1906 and 1908.

The Althing, then, abandoned the passive policy of thrift in a short span of time and started to expend huge sums of money, both in absolute and relative terms, on economic matters. Its commitment grew stronger as time passed and the first public borrowing in 1908 for the erection of the telegraphic system, was a clear break with traditional fiscal principles. What caused this change in public finance? The obvious cause was the changing fortune of the economy which was emerging from the depressive eighties and entering a path of accelerating growth from 1890 onwards. The economic growth with a much brisker trade provided the Treasury with rapidly rising revenue. The public finances were moreover helped by a series of measures taken in the 1889 session of the Althing to increase revenue, not only in order to balance the books, but with the explicit aim of providing the Althing with more resources for economic purposes. The land and moveable assets tax was fully levied again, export duties were extended to whale products, but the most significant additional source of revenue was the import duties on coffee and sugar introduced in 1890, which soon represented no less than a quarter of total revenue.

Economic growth and increased taxation radically altered the state of public finances from deficits in 1886-1889 to massive surpluses: 103,000 kr. in 1890, 128,000 kr. in 1891, 94,000 in 1892 and 129,000 kr. in 1893. The financial conditions for a more active and expansive policy were certainly at hand and these changed fortunes made the Althing rethink its policy in fiscal matters. The gloomy attitudes of the past decade were being replaced by a more robust and optimistic attitude towards public spending. Jens Pálsson's view of public thrift, expressed in the debate on the Finance Bill in the 1891 session, was typical for the new times:

Thrift is useful and admirable, but when it is carried beyond its limits it becomes harmful. Thrift is admirable when it is motivated by cautiousness and foresight. This is one side of public thrift; but if one looks at the policy of thrift from another point of view, the viewpoint of bold advance, then the other side of it appears, which makes one suspect that massive saving, as has been the case in the Icelandic public finances, may have been the result not only of foresight but of lack of faith both in the country's future and, no doubt, the beneficial effects of generous public support to transport and the industries. There are so many who lack faith in the country's future as can best be seen in the massive emigration of people to North America.<sup>1</sup>

The popular argument against increased expenditure, that it would lead to deficits and eventually to the ultimate sin-public debt, sounded ever more hollow as the budget returned a surplus year after year thus fattening the already well-fed Reserve Fund. After 15 years of financial autonomy the Althing had managed to create huge public savings, even during an economic recession, but faced with continuing overbalance the old stringent fiscal policy could not hold any longer.

The new fiscal policy was only a part of wider economic and political change already discussed in the first part of the thesis, where a positive liberal economic policy was gradually replacing the economic regime of the "traditional" peasant society. As the economy was increasingly geared towards market production, the pressure was growing for public measures to actively promote the industries and adapt the institutional framework of the economy to the changing environment. In order to take advantage of new market opportunities the economy was increasingly calling for public assistance, above all to improve radically the economic infrastructure of the country.

At the same time as economic conditions and the public finances were steadily improving a decisive renewal in the Althing was under way. A new generation was making its way

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<sup>1</sup> Alþ. 1891 B, p.632.

into the parliament as can be seen from the fact that a majority of MPs in the 1895 session had first taken their seats after 1890.<sup>2</sup> These men were typically progressive and optimistic liberals who called for more adventurous fiscal policy, some even advocating massive state involvement in the economic life. Many of those younger men had adopted the outlook of the small but growing middle class whose income was not entirely derived from the land. Educated in Denmark they were ideologically closer to European middle class liberals than Icelandic farmers and therefore not as tied to the interest of the farming community as MPs had been ever since the restoration of Althing in 1845.

These new attitudes corresponded to a change taking place simultaneously in the struggle for political autonomy. A more pragmatic approach, known to be more acceptable to the Danish government, was gaining ground among roughly the same group of politicians who were willing to settle for a more modest constitutional change than the radical nationalists on the condition that the executive power be vested in an Icelandic minister responsible to the Althing. One of their principal objectives was to divert the Althing's work from what they considered futile attempts to increase Icelandic self-government towards more realistic targets in order for the parliament to concentrate its efforts on urgent social and economic issues.

The Governor of Iceland, Magnús Stephensen, was not keeping pace with these changes. As liberal ideas came to dominate the Althing's attitudes in economic affairs in the last years of the century, his policy was increasingly seen as an obstacle to progressive economic reforms. The liberals saw everywhere urgent economic tasks waiting to be undertaken: roads, bridges and harbour facilities had to be built almost from scratch, telegraphic service be established and the main sectors of the economy, the

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<sup>2</sup> Gunnar Karlsson, Frá endurskoðun til valtysku, Sagnfræðirannsóknir I (Reykjavík, 1972), pp.49, 133-7.

fisheries and even more agriculture, were in need for modernization. Magnús Stephensen was, however, no spendthrift to say the least and was reluctant to embark upon major economic tasks as could be so vividly seen in the debate on the telegraph issue.

Home Rule in 1904 did not signify any break in the Althing's economic policy, but it now had full-fledged legislative powers to carry its policies through. There was, however, a breakthrough in economic policy as the executive power was concerned with the departure of Magnús Stephensen; in came a more daring and more ambitious politician as the Minister of Iceland, Hannes Hafstein, supported by the majority of the Althing. The Home Rule marked therefore a turning point not only in the political development of the country but also in economic matters with the executive power no longer acting as a break on the expansionist policies of the Althing. In the following years Hannes Hafstein embarked upon even bolder projects and more expansive fiscal policy than the Althing had dared to adopt.

When the liberal economic ideas began to spread after 1890 and grand development schemes were thought up, the question of financing and carrying out expensive enterprises and projects became an urgent political issue. The fact was acknowledged that infrastructural investments often carried heavy externalities which rendered them unattractive to private investors. But it was also evident that in such a sparsely populated country with adverse natural conditions most of these projects were looked upon as almost natural tasks of the state. This was particularly true of land transport in the sparsely populated and remote rural areas and also costal shipping between the small coastal towns and villages. Returns on this type of investment were bound to be very low.

These circumstances go far in explaining why private investment, whether domestic or foreign, in the economic infrastructure turned out to be insignificant on the whole. Even if projects of this kind could have been made

attractive to private investors Icelandic entrepreneurs were unlikely to get involved, at least earlier on. First of all, they lacked the capital to finance these relatively expensive projects. By combining fishing, fish exports and to lesser extent retailing, they had only recently entered into commerce and in the 1890s were still heavily dependent on Danish merchant houses for working capital. Secondly, they were fishermen and traders, not engineers and developers, and had hardly any experience outside these activities. In fact, large-scale construction and engineering projects were almost unknown before 1890 except for the few whaling stations set up by Norwegian entrepreneurs in the 1880s. The know-how and the organizational structure were therefore lacking altogether in the country when calls for various infrastructural investments became pronounced at the end of the century.

The telephone service raised a different set of arguments for state intervention. The principal justification for a state-owned service was not that it carried heavy externalities which were difficult to provide for through the market mechanism, but it was seen as a "natural" monopoly which should be in the hands of the state rather than private individuals. Telephone networks in the bigger towns turned out to be manageable for small entrepreneurs as the initial capital costs were easily sustainable and the businesses commercially viable. But the monopoly position which these small companies acquired, leaving the state with the more unprofitable parts of the national network, was an unacceptable arrangement to both the government and the great majority of the Althing.

Infrastructural investments, then, were seen almost as a natural task of government. Roads and bridges, lighthouses and harbours, telegraph and telephone services all became public charges. The positive externalities of this type of investment were widely acknowledged while the obstacles to providing it through the market mechanism were realized. In a report by a committee set up by the Althing in 1908 to consider changes in taxation the economic role of

government is described. The committee saw government as carrying out two main functions; one aimed at preserving order in society, guaranteeing and improving the rights, morality and health of the individual, and these tasks are represented in expenditure on legislature, administration, higher education, the Church and health service. The other function, consisting of economic services, industrial promotion and public education, was observed by the committee as being

a fairly new one, or has mostly come about during the last two decades ... This strand aims at the co-operation of individuals and leads not only to indirect benefits, but direct financial gains for each and every person. These are all tasks which, if the state stays inactive, the individuals have to undertake separately or in smaller or larger groups with much greater effort. To give up these tasks altogether would cause irreparable mental and physical damage. In short, the aim of all co-operation is - in physical terms - to clear with united effort the road of stones, which each individual is unable to move.<sup>3</sup>

The fact that government financed these economic projects as well as carried them out can be attributed to the lack of know-how and the weakness and inexperience of the indigenous business class in carrying out larger projects.

The general ideological environment for public involvement in the economy has also to be taken into account when the economic role of the state is considered. It is difficult to discern any deep rift in the political culture before the War between laissez-faire liberalism and a more collectivist economic strand of policy. The ethos of "free enterprise" was accepted by the business community and political parties, and no fundamental political debate took place on the dividing line between private business and public provision. With the important exception of infrastructure, the prevailing view was that government should not become directly involved in economic activity.

On the other hand, a full-blooded laissez-faire

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<sup>3</sup> Tiliögur um skattamál Íslands (Reykjavík, 1908), p.15-16.

economic policy never took roots since the historical conditions for it were lacking. Historically, the most powerful force feeding liberal policies was the hated legacy of the Danish Monopoly Trade and the consequent restrictive practices imposed by the state. But the nationalists controlling the Althing did not embrace laissez-faire liberalism except in foreign trade and saw government as a quite natural instrument in promoting economic development. With increased political self-determination the state ceased to be identified with the foreign domination of Danish bureaucrats and parasites as it came to represent the "national will". The emerging nation state was perceived as a positive agent of economic change and the commitment of successive Icelandic governments to the economic advance of the country was not disputed as had been the case with Danish rule in Iceland.

An example of how government was seen and acted as a driving force of economic advance is the correspondence between the newly appointed Minister of Iceland, Hannes Hafstein, and district councils in 1904. In his second week in office the Minister requested detailed opinion from all district councils on "projects [that] are necessary for the advance of both transport and the industries" in their area for the government to use in the preparation of the next session of the Althing.<sup>4</sup>

As expected, the responses were good with every district council drawing up a long list of proposals for government action in economic matters. Apart from demands for various changes in legislation all the reports stressed the importance of increased public financial support to transport: roads and bridges, coastal sailing, harbours and lighthouses - one district even asked for public support to set up regular coach trips. Calls for assistance to industries were also prominent such as to increase grants for farm improvements, establish credit institutions for

<sup>4</sup> bS. SSI II, db. 1-9. The Ministry to all district councils 8 February 1904.

agriculture, extend the lending capacity of the Reserve Fund, support farmer's trading co-operatives and even provide a good market for agricultural produce (no concrete measures were mentioned as to how that should be done, except a number of reports asked for a government commercial attaché abroad). As far as the fisheries were concerned, calls were made for better protection of Icelandic waters within the fishing limits (which was then only 3 nautical miles), public promotion of insurance societies and direct financial support to ship building and ship maintenance services, ice houses, advisory services for the fisheries and quality promotion in saltfish production. Other industries were given less attention but the need was expressed for improvements in trade practices, monetization of the economy, and the advance of woollen mills and the construction industry.

This evidence illustrates the widespread readiness to involve government in economic affairs, big and small, and the same attitude is prominent in the parliament and the press. The state's rôle, as the relationship between government and the private sector after 1900 indicates, was by no means confined to the provision of the economic infrastructure. Individuals and companies increasingly sought public financial assistance, direct grants as well as credit, for all sorts of business operations and the positive response from the Althing and government reinforced this process. Financial assistance came to be taken for granted in many areas, most notably in agricultural development projects. Every time the Althing was in session the appropriation committee had to plough through a pile of petitions from individuals and companies asking for either direct grants or credit from public funds. This procedure lessened somewhat with the expansion of the banking system and growing financial independence of public funds and bodies from the Althing, but petitions from individuals and companies were still a distinctive feature of the budgetary process in 1930.

The public sector expanded rapidly as pressure for

higher spending grew and expenditure on the economic services, infrastructure in particular, witnessed a dramatic rise.<sup>5</sup> Although a balanced budget remained the basic objective of fiscal policy, relaxed spending put more strain on the Treasury. Surpluses tended to be more modest towards the end of the century and deficits occurred more frequently, in 1898, 1904 and 1906-1910. Still, all of them were minor except the one in 1904 when expenditure exceeded revenue by 125,000 kr. or 11%. Unexpectedly low revenue contributed to the deficits in most cases but higher spending was also to blame. High spending in 1904 was due to administrative costs associated with the introduction of Home Rule, but the 1906-1910 deficits were partly caused by the erection of the telegraphic and telephone system whilst revenue fell due to the recession. The government responded quickly and cut spending in order to adjust expenditure to the new situation, halting for a time the strong tendency for expenditure to rise.

As more of the Reserve Fund's assets were tied up in loans it soon ceased to function as a balancing instrument of the public finances. Liquidity conditions of the Treasury were further strained by the ever smaller budget surpluses and the more frequent deficits after the turn of the century which it solved by turning to the Danish Treasury or the Bank of Iceland for short-term credit. The situation became critical in 1910 when the government floating debt owed to the Danish Treasury was nearing 700,000 kr. Amid mounting pressure from the Danish government and criticism in the Danish newspapers the debt

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<sup>5</sup> An identical development occurred in local government finance, although on a smaller scale. No comprehensive study of local government finance has been done for this period, but a glance at the original accounts of town and district councils shows a much higher spending on land transport after 1890. Increase in other types of infrastructural investments (water works, gas works, electricity supply systems, harbour facilities) can be detected after the turn of the century, especially from 1909 onwards, leading to an expenditure explosion. The local government accounts are printed in Landshagsskýrslur.

was drastically reduced in the following year by the sale of government bonds and remained insignificant until expensive war measures forced the government to resort again to short-term borrowing.<sup>6</sup>

A more significant policy change occurred in 1908 when the first long-term public loan was raised. Public borrowing had been a taboo in fiscal policy for a long time, the preference, as we have seen, having been on accumulating revenue through the operation of the Reserve Fund. Some liberals started to advocate public borrowing for economic purposes already around 1890, but such proposals got a mixed reception and took a long time to gain ground. Skúli Thoroddsen and Jens Pálsson presented a bill in the Althing in 1891 proposing a 300,000 kr. public loan to finance the erection of telephone lines between the main towns in the country, but it was rejected primarily on the grounds that it required public borrowing.<sup>7</sup> In the campaign for the 1892 general elections one of the candidates, Bogi Melsteð, advocated huge foreign loans to be used for public infrastructural investments.<sup>8</sup> Melsteð could not be present at one of the political meetings in his constituency, so one of his supporters had to read aloud his political program. When he came to the part about foreign loans he skipped it because "such credit policy is not to be mentioned around here", he later wrote to Bogi Melsteð.<sup>9</sup>

Just over a decade later the ice was broken when public borrowing was authorized for the first time by the 1903 session of the Althing, commonly referred to as "the million parliament" ("milljónabingið") by contemporaries for passing for the first time a budget in excess of one million kr. a

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<sup>6</sup> ÞS. SSI III, db.8-857. Skýrsla um verðbréfaveign og skuldir 27. júlí 1912. See also table 27.

<sup>7</sup> Jón Guðnason, Verkmenning Íslendinga 3: Fjarskipti (Reykjavík, 1974), p.6. - Krabbe, Thorvald, Island og dets tekniske udvikling, pp.201-2.

<sup>8</sup> Þorsteinn Thorarensen, Vaskir menn (Reykjavík, 1971), p.389 and 395.

Table 22 PUBLIC EXPENDITURE ON ECONOMIC SERVICES  
1891-1913

krónur at current prices	average annual spending	total spending	as % of total economic service expenditure	as % of total expenditure
INFRASTRUCTURE	275,040	6,325,913	69.1	27.9
post/telecommunication	67,652	1,420,684	15.5	6.3
land transport	118,469	2,724,781	29.8	12.0
sea transport	93,634	2,153,572	23.5	9.5
other services	4,479	26,876	0.3	0.1
AGRICULTURE	95,070	2,186,615	23.9	9.6
education	20,432	469,943	5.1	2.1
cultivation	19,421	446,674	4.9	2.0
research and development	23,707	545,250	6.0	2.4
other expenditure	31,511	724,748	7.9	3.2
FISHERIES	17,031	391,723	4.3	1.7
education	6,063	139,443	1.5	0.6
research and development	967	22,243	0.2	0.1
other expenditure	10,002	230,037	2.5	1.0
OTHER INDUSTRIES	11,028	253,646	2.8	1.1
manufacture	6,808	156,593	1.7	0.7
trade and commerce	3,248	74,714	0.8	0.3
banking	5,585	22,339	0.2	0.1
TOTAL	398,169	9,157,897	100.0	40.4

Source: Appendix C.

year. The 500,000 kr. public loan was to be used to balance the budget which was set to run into deficit, due partly to the Althing's commitment to the financing of fence material for farmers.<sup>7</sup> Borrowing turned out to be unnecessary this time and it was not until 1908 that the first public loan was raised, 500,000 kr. from the Danish government for the erection of the telegraphic system. By then government and the Althing had recognized the need to finance major public projects in this way. More loans were soon to follow although on a modest scale and not all of them raised for public projects. A loan of 1.5 million kr. was taken in 1909 and another one of 250,000 kr. in 1913 for the purchase of National Bank bonds in order to provide it with additional capital. The government raised a loan of 500,000

<sup>7</sup> Stjt. 1903 A, p.336.

kr. in 1912 in order to meet its obligations in regards to the construction of Reykjavík harbour and a year later another 500,000 kr. were raised for the extension of the telegraphic system. Still, government debt was small and did not pose any significant burden on the Treasury; total long-term public debt amounted to only 2.9 million kr. at the eve of the war and part of the repayments was financed with interest on securities bought for part of the loan capital.<sup>10</sup>

Taking a closer look at the development of expenditure on economic services between 1891 and 1914 table 22 presents this expenditure and its breakdown in a summarized form. The spending pattern changed only slightly from the previous period, despite the otherwise important changes in fiscal policy and a higher level of public spending on economic services, 398,000 kr. on average a year compared to 65,000 kr. a year between 1876 and 1890.

The share of infrastructure dropped slightly to 69%, but was still far the biggest type of expenditure. This category comprises investments in roads, bridges and later lighthouses, sea defenses and harbours as well as the post service and telegraph system. These services were set up and run by public authorities, either central government, district or town councils, but planning and supervision were solely provided for by the central government.

This heavy public involvement marked an important change from the first period. Although the importance of transport for the economic advance of Iceland had long been recognized, the parliament's efforts to provide resources to improve them since 1874 had made little impact as already mentioned. One expenditure item in the 1889 budget illustrates well the primitive state of the road network: a tiny sum of 2996 kr. was expended "to employ a man to travel

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<sup>10</sup> As table 27 shows, only a small part of the loans raised to buy bank bonds is treated as government debt, so that the actual debt was only 1.7 m.kr. at the beginning of the war.

Table 23 THE ROAD NETWORK, 1907-1930

kilometers	1907	1925	1930
roads for motor vehicles	0	612	1928
roads for carriages	241	712	450
bridleways	1789	830	725
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main (national) roads	2032	2154	3103

Sources: Alþt. 1907 A, pp.257-8; 1925 A, pp.402-3; 1933 A, pp.746, 751. - Jón Guðnason, Verkmenning Islandinga 5: Vegamál (Reykjavík, 1975), pp.10-13.

Notes: Classification of roads changed over time so the figures are not wholly comparable. For 1930, roads suitable for motor vehicles are of two types, passable roads (1006 km.) and roads only passable during summer (922 km.). Another road category of 450 km. is passable during summer but many of these roads are described as "rough", which means they are in awful condition on European standards.

around the country and decide where to lay the mainroads".<sup>11</sup> Still, the year 1889 marks the beginning of greater efforts by the Althing to improve transport and communication with the allocation of a handsome sum of money towards the construction of the first iron bridge in the country, a 246 feet suspension bridge over the Ólfusá river and a loan from the Reserve Fund to cover the rest of the cost. Other bridges were soon to follow and had an immediate impact on the countryside, since the many voluminous rivers were the most formidable obstacles to transport on land. The countryside was thus gradually linked with the towns and villages, almost all of which were located in coastal areas.

The first steel bridges represented a major challenge to the nation both in terms of finance and technology. They were the first large-scale projects financed by central government and once the Althing's and even more the government's reluctance had been overcome politicians enthusiastically endorsed such public investments. Since the bridge constructions were one of the largest projects

<sup>11</sup> LR 1889, p.10.

Table 24 BRIDGES, LONGER THAN 10 M., BUILT 1890-1930

	1890-1906	1907-1910	1911-1919	1920-1930
wooden bridges	30			
iron bridges	8	10	4	23
concrete bridges		4	41	117
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	38	14	45	140
bridges built on average a year	2	4	5	13

Sources: Krabbe, Thorvald, Island og dets tekniske udvikling, pp.45-50. - Geir Zoéga, 'Brúargerðir hér á landi', Timarit Verkfræðingafélags Íslands XVI (1931), p.45. - Jón Guðnason, Vegamál, p.52.

undertaken in the country and technology and experience in large scale construction were lacking, the government put the first ones out to tender and sought design, technical assistance and material to Britain and Denmark. As experience of transport engineering accumulated, however, and reinforced concrete replaced iron as the principal building material after 1900 all stages of the projects were undertaken in Iceland under the auspices of the Office of State Engineer. Set up in 1893 the Office operated its own workshop and serviced all these public undertakings, the road works, bridge and harbour constructions and later the State Shipping Service.<sup>12</sup>

Local governments had been made responsible by law in 1861 for most of the road network, which then consisted of bridle paths and not carriageways. Every man between 20 and 60 had to render a half day's work or its equivalent in money for road construction, but this labour service does not seem to have substantially improved the roads. It was first by law in 1875 that central government was obliged to contribute financially to the road network. The emphasis was on improving the principal mail routes and mountain roads rather than roads of more strategic importance for

<sup>12</sup> Krabbe, Thorvald, Island og dets tekniske udvikling, pp.46-7.

economic activity until a new system was introduced with the Roads Act of 1894.<sup>15</sup> A new road construction plan was authorized which entailed 375 km long network of so-called transport roads to be built in the most populated areas, linking the coastal towns and villages with the rural areas.

The road system was now seen as a part of a national transport system serving the needs of the economy, not just the post service, the other major part being the sea routes between Reykjavík and all the major trading centres along the long coast. The new road system was to be financed mainly by central government and was the first decisive step in shifting the finance of inland transport from communes and districts to central government. The roads were to be built to suit carriage traffic which was slowly increasing at that time in and around towns and villages, but was as yet almost non-existent in rural areas. Since the road system was so late to develop in Iceland the age of carriages was short-lived, in fact not more than 40 years from 1890 to 1930, by which time they were rapidly being replaced by automobiles.

Sea transport was also becoming a major field of public concern during this period and public involvement was increasing steadily. The average annual spending during that period was 94,000 kr. or nearly a quarter of total spending on economic services. Coastal sailing was difficult to make commercially viable for private companies, so calls for government support had been made as far back as the middle of the century. The form of government support started with a subsidy to the United Danish Steamship Company (Det Danske Forenede Dampskip Selskab, DFDS), in return for scheduled routes between Denmark and Iceland and along the Icelandic coast. The company also received a grant from the Danish Treasury for the carriage of mail between Denmark and Iceland. As trade expanded the Althing was caught between a mounting pressure from people living in

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<sup>15</sup> Jón Guðnason, Verkmennning Íslendinga 5: Vegamál, pp.8-9.

thinly populated coastal areas and the mounting costs of the services, which were impossible to sustain without considerable subsidies due to the modest traffic and volume of trade involved.

Discontented with DFDS's insufficient and expensive services the Althing decided in 1895 to start a publicly run shipping company for coastal sailing. Due to inexperience and a series of mishaps the enterprise proved disastrous in financial terms, with a drain on the Treasury running up to 162,000 kr. after only two years compared with annual expenditure of 20-25,000 kr. on sea transports in the preceding years.<sup>14</sup> The enterprise was brought to an end and the Althing reluctantly resumed its subsidization of DFDS in 1898 with an annual sum of 55,000 kr. towards the coastal sailing service. This publicly subsidized service accounted for a growing part of the total volume of shipping, 12% of the total tonnage at Icelandic ports in 1880, 15% in 1901 and in 1910 it jumped to no less than 32%<sup>15</sup>

The demand for improved services was growing after the turn of this century, yet no Icelandic private initiative came forth. Government participation in shipping was therefore discussed time and again during the years leading up to the war, most extensively in 1909 in conjunction with a bill proposing a joint venture of the government and the Thore shipping company to run both a coastal and overseas service.<sup>16</sup> The proposal was narrowly defeated.

The Althing furthermore subsidized private companies running regional coastal services with modest sums of money, around 10,000 in the early 1890s, but these grants had risen to about 40,000 kr. just before the war. Most of them were offered in return for providing regular mail routes to the

<sup>14</sup> Þorleifur Óskarsson, 'Siglingar til Íslands 1850-1913', (unpublished B.A. thesis in history, University of Iceland, 1984), pp.100-105. - Guðni Jónsson, Eimskipafélag Íslands tuttugu og fimm ára (Reykjavík, 1939), pp.27-8.

<sup>15</sup> Þorleifur Óskarsson, 'Siglingar til Íslands', p.52.

<sup>16</sup> Alþ. 1909 A, pp.874-5, 893-7; B.II, pp.1656-1798.

smaller ports to which the bigger ships did not sail.

Expenditure on harbours and navigation facilities contained in the sea transport category, was surprisingly low before the turn of the century. The first lighthouse was built in 1878 and then none until twenty years later. With Home Rule in 1904 more effort was made to improve the situation. A new levy on ships helped to finance these projects and the number of lighthouses rose to 9 in 1910 and 35 in 1920.<sup>17</sup> All the major lighthouses were erected and operated by central government.

Harbour facilities were very basic for most of the period and formed the only part of the economic infrastructure that was mainly provided for by the private sector. But most of these investments, built by the biggest trading or fishing companies in each coastal village or town, consisted of fairly simple piers, unsuitable for freighters and bigger fishing vessels. The need for proper harbour facilities was, however, growing fast with the use of bigger ships and the expansion of trade and the fisheries. By 1900 only about 45 boat piers and 6-8 ship piers had been built, most of them very basic facilities set up by private companies.<sup>18</sup> Unlike the rowing boats the bigger decked vessels could not be tossed ashore by manpower alone and had to be provided with fairly expensive harbour facilities and preferably dry docks between fishing seasons. The trawling industry, which started in 1905, could not do without good harbours for reasons of safety and landing the catch.

Local authorities found themselves under growing pressure to provide better facilities and they in turn

<sup>17</sup> Arbók Hagstofu, p.63. - Krabbe, Thorvald, 'Vitamál Islands', Tímarit Verkfræðingafélags Íslands XV (1930), pp.18-21. - Krabbe, Thorvald, Ísland og dets tekniske udvikling, pp.123-40.

<sup>18</sup> Finnbogi R. Þorvaldsson, 'Hafnargerðir á Íslandi', Tímarit Verkfræðingafélags Íslands XXXIV (1949), p.41-2.

sought financial assistance from the Althing. In the first two decades of this century local governments took most of the responsibility for this task and the financial obligations that it entailed, but enjoyed a growing financial support from central government, particularly for the bigger ports. A few piers and quays continued to be built by larger private companies, but this became rarer.

The only support given by central government before the turn of the century was a 5000 kr. grant in 1894 for the construction of a pier in Blönduós, a coastal village in the northern part of the country. During the first decade of this century the Althing started to give grants for the construction of piers, quays and sea defenses in number of ports, in most cases under the auspices of local governments. Yet, the total state grants amounted to only 82,000 kr. from 1902 to 1912, and the biggest of these was a 25,000 kr. grant to Hafnarfjörður harbour in 1912, covering 20% of the building cost.<sup>19</sup> The following year saw the beginning of the first large-scale harbour construction in the country, the Reykjavík harbour, financed by the town council with a financial support from the Althing amounting to 400,000 kr. between 1913 and 1916, covering about 16% of the total costs.<sup>20</sup>

The biggest public project of the period was the construction of the telegraph and telephone system. The issue had been dragging on in parliament since the early 1890s where it faced formidable obstacles. One was a political wrangle between the two main factions in the Althing whether to go for a telegraph cable or the wireless telegraphy, which was just starting to be utilized. Another hurdle was to reach an agreement with a foreign company to lay a submarine telegraphic cable across the North-Atlantic,

<sup>19</sup> Krabbe, Thorvald, Island og dets tekniske udvikling, p.197.

<sup>20</sup> Finnbogi R. Þorvaldsson, 'Hafnargerðir á Íslandi', p.42, according to which total cost of the harbour was 2.566 m.kr., but T. Krabbe, Island og dets tekniske udvikling, p.160, gives a slightly lower figure, 2.36 m.kr.

which required careful consideration on behalf of the Icelandic authorities on the finance and the duration of the concession for the enterprise. Foreign companies were not enthusiastic about the project. Despite the fact that the Althing had accepted an offer from the Danish firm Det Store Nordiske Telegraph Selskab (The Great Northern Telegraph Company) in 1899, no measures were taken in the course of the following years for lack of interest on behalf of the company.

The crucial problem was, however, the huge costs of the enterprise in relation to the Icelandic finances, which the Althing realized eventually had to be met, at least partly, by substantial public borrowing. An agreement was finally reached in 1905 with Det Store Nordiske to lay and maintain a cable from the Shetland Islands by way of Faroe Islands to Iceland. The concession time was 20 years during which the firm was to receive an annual sum of 35,000 kr from the Icelandic government and 54,000 kr. from the Danish government in addition to operation incomes. All land facilities were on the other hand in public ownership, financed and erected by a state company set up for this purpose, Landsimi Íslands (the State Telephone and Telegraphic Service, STTS) which was granted a monopoly right to operate telephone and telegraphic services. Det Store Nordiske was to pay a once and for all sum of 300,000 kr. towards the costs of the overland telegraph and telephone lines from the town of Seyðisfjörður in the east to Reykjavík in the south-west.<sup>21</sup>

There was never any question about the form of ownership of the telegraph system. The cable would in any circumstance be owned and operated by the firm laying the line during at least the initial concession time. The land

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<sup>21</sup> Jón Guðnason, Verkmenning Íslendinga 3: Fjarskipti, pp.6-12. The Danish transport minister decided the rates for the use of the submarine cable, the Icelandic authorities the rate for domestic use. The agreement was renewed in 1926 on more favourable terms to the Icelandic government and Icelandic customers, see Agnar K. Jónsson, Stjórnarráð Íslands 1904-1964 II (Reykjavík, 1969), pp.638-640.

facilities were on the other hand to be in public ownership. Private firms had not even made offers to run the land facilities, let alone own them. Who would construct the system, private firms or government, was on the other hand a matter of political judgement, and the Minister came to the conclusion that letting a government agency carry the work out was a better guarantee for effective and speedy operation. This appears to have been a sound decision for the STTS had completed the first phase of the project already in 1906, with installations consisting of 615 km telegraph and telephone line on land between Reykjavík and Seyðisfjörður and a submarine cable stretching 535 nautical miles from Shetland Islands to Seyðisfjörður. Capital expenditure on the land facilities was in all 538,000 kr., of which Det Store Nordiske paid 292,000 kr., the state 244,000 kr. and private individuals 1760 kr.<sup>22</sup>

As for the telephone service some conflict arose between private interests and those who advocated public ownership. Iceland was probably the only country where the telephone preceded the telegraph, with a number of individuals and private companies starting already in 1889 to install their own lines.<sup>23</sup> All these networks were small and confined to short distances in towns, the biggest being a network in Reykjavík, which was extended to the nearby town of Hafnarfjörður.

When the government decided to erect the telegraph and telephone system in 1905 a legal framework for these services had to be provided. The fundamental issue was how wide the powers of the new state enterprise should be. A government bill on telephone and telegraph presented in the Althing in 1905 proposed a state monopoly and argued that the linking of all the regional networks into a national framework could only be guaranteed by a state-owned company

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<sup>22</sup> Alþt. 1911, p.1066. A slightly higher figures are given in LR 1906, pp.51-53.

<sup>23</sup> Heimir Þorleifsson, Söguþræðir símans (Reykjavík, 1986), p.41.

operating on a national basis, not local private companies. It was further argued by the advocates of the bill that since telephone service was a natural monopoly, it would be unacceptable to let private individuals decide tariff, almost at will. Guðmundur Björnsson, speaking on behalf of the government, elaborated on this point:

It is highly unlikely that two companies could operate in the same area, installing lines side by side and compete with each other; if that happened, either one of them would go bankrupt. The rate would therefore no doubt be generally higher if everyone was allowed to operate a telephone service and the government had no say in the matter, no power to influence the upper limits of the rate.<sup>24</sup>

A minority of MPs, although welcoming the government enterprise itself, opposed the state monopoly and even concessions to private regional companies for that matter. Björn Kristjánsson, the most prominent representative of this view, favoured a totally open entry to this new business and envisaged a free competition between the state enterprise and private companies. He warned that a situation could be created similar to that of many other countries where telephone companies totally dominated in their area, and argued instead for free competition, which was the best way to make the service cheap.<sup>25</sup> The Minister, Hannes Hafstein, a determined advocate of publicly run telephone service, pointed out that the bad experience from private companies abroad such as in Copenhagen justified the case for government involvement because "the state is granted a monopoly right, precisely in order to prevent monopoly by private individuals".<sup>26</sup>

The government had its way in this matter and the STTS received monopoly rights to establish and operate the telegraph and telephone service. An important provision was

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<sup>24</sup> Alþ. 1905 B, p.1676.

<sup>25</sup> Alþ. 1905 B, p.1677-80.

<sup>26</sup> Alþ. 1905 B, p.1680.

made in the law which authorized the Minister to offer individuals or companies concessions to operate within an area decided by the Minister up to a maximum of 20 years. Twelve concessions in all were granted between 1906 and 1911, seven to private companies or individuals and five to municipalities, the former located in urban areas, the latter in predominantly rural areas or small villages.<sup>27</sup>

But this obviously was a transitory stage until the state was ready to gain full ownership of the telephone system. The private initiatives were not at all opposed by the government in the first years of the STTS. On the contrary, stretched in terms of manpower and financial resources, the government had to concentrate its efforts on the trunk line and lines between the principal population areas and therefore took a positive view of outside initiatives on the minor lines. In fact, many of these twelve networks outside the STTS can hardly be considered independent undertakings. Most of them were set up by local people in co-operation with and even supervised by the STTS simultaneously with the installation of the trunk line in 1906 when they realized they would not be linked with the network in its initial stage. These lines were expected to be taken over sooner or later by the state and in the case of the towns of Seyðisfjörður and Akureyri, the concession time was only two years, ending in a takeover by the STTS.<sup>28</sup> Even the most commercially viable company, the Reykjavík Telephone Company, does not seem to have had any political backing for its request in 1906 for a 20 years concession time. The company made an agreement without a fuss with the government on linking its network with the national network, accepting in 1908 a 4 year concession after which a take-

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<sup>27</sup> Heimir Þorleifsson, Söguþræðir simans, pp.121-2, 128-147.

<sup>28</sup> Alþ. 1907 A, pp.52-3.

over by the STTS was expected.<sup>29</sup> No concessions were granted after 1911 and the STTS took over the lines outside its network one by one, all the big ones before 1913, and the last one in 1951. The government was evidently in a strong position to impose its will on the issue, not only because concessions for private companies in towns enjoyed little political support, but also for the simple reason that the STTS owned the trunk line across the country, without which the smaller networks could not survive. The government was determined not to let the private companies carve out for themselves the most profitable parts of the telephone service in the biggest towns and be left with the vast and costly rural areas.

Data on the cost share between private companies, local and central government is incomplete, especially information on private investment. If we use the acquisition price of the private lines when they were taken over by the STTS as a proxy for initial capital costs of the private companies their investment amounted to 177,853 kr. between 1905 and 1911 as shown in table 25. This figure is, if anything, too high and represents just under 13% of total capital expenditure on the telephone and telegraph system up to 1911, after which no concessions were granted and the private lines were gradually bought by the STTS. Local authorities made some contributions, but as table 25 shows they accounted for no more than 6% of the total investment. A law of 1913 on telephone and telegraph, providing a legal framework for the operation and financing of the STTS, shifted the financial responsibility of the STTS still further to central government and the local authorities' contribution declined to insignificant sums as a result.<sup>30</sup>

<sup>29</sup> Alft. 1907 A, pp.51-2. - Heimir Þorleifsson, Söguþræðir simans, pp.122-8.

<sup>30</sup> Stjt. 1913 A, pp.46-8. - Heimir Þorleifsson, Söguþræðir simans, p.147. According to Skýrslur um nokkrar framkvæmdir ríkisins 1927-1930 (Reykjavík, 1931), p.58, the STTS capital expenditure was 5.409 m.kr. 1912-1930, of which 5.224 m.kr. or 96.6% was financed by central government and

Table 25 CAPITAL EXPENDITURE ON THE TELEGRAPH/TELEPHONE SERVICE, 1905-1911

	kr.	%
State (the STTS)	847,486	60.5
Local authorities	84,160	6.0
Det Store Nordiske	292,000	20.8
Private companies	177,853	12.7
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	1,401,499	100.0

Sources: Alþt. 1911 A, p.1066 - LR 1908, p.51; 1909, p.52; 1910, p.47; 1911, p.47; 1912, p.103. - Heimir Þorleifsson, Söguþræðir símans, pp.117-38.

Notes: Due to lack of data on private companies their expenditure is here estimated to be equal the acquisition price of private lines paid by the STTS. - The cost of the submarine cable, owned by Det Store Nordiske, is excluded.

The STTS enjoyed a generous financial support from the Althing from the start. The company's revenue was also rising at an unexpectedly high rate, facilitating rapid extension of the system from 22 stations with 615 km. of lines at the beginning to 344 stations and 3600 km. of lines in 1930, in addition to a 150 km long sea cable.<sup>51</sup> Despite a costly extension of the network revenue exceeded expenditure already in 1914. As far as the use of the telegraphic service is concerned Icelanders seem to have been very receptive to this new technology. There were 1.63 telegrams per capita sent in Norway in 1927, 1.46 in the United Kingdom, 0.97 in Denmark, 0.88 in Sweden and 0.71 in Germany against 2.27 for Iceland.<sup>52</sup> The telephone network on the other hand expanded much more slowly, and it was only after major efforts between 1926 and 1930 that the circle around the country was closed. By 1930 there were 45

only 3.4% by others, i.e. local authorities.

<sup>51</sup> Krabbe, Thorvald, Island og dets tekniske udvikling, p.208-9.

<sup>52</sup> Árbók Hagstofu, p.142. Population figures refer to 1930.

telephones per 1,000 inhabitants in Iceland or a similar ratio as that of Denmark and Sweden in 1914.<sup>33</sup>

The post service was slow to expand due to both the physical character of the country and the poor conditions of transport. The infrequent coastal sailing made it difficult for the Post Office to rely on carriage by sea, so its principal business, the carriage of letters, was operated on land by brave postmen travelling with a train of horses to carry the mail. It was not until 1900 that the first mail coaches were taken in use, but this mode of transport soon spread as did mail carriage by ships with the advance of coastal sailing.

The use of the post service rapidly increased during the last decades of the 19th century with the carriage of ordinary letters alone totalling only 18,000 in 1884, but rising to 180,000 in 1894 and 1,455,000 in 1929.<sup>34</sup> This led to rising costs amounting to about 70,000 kr. at the turn of the century, of which only 50-60% was covered by the Post Office's own revenue. The government had therefore to supplement its income with some 20,000-30,000 kr. every year. With rising revenue around the turn of the century the Post Office budget was breaking even and in the years leading up to the First World War it even produced returns on its operations.

The only industry enjoying public financial aid worth the name before the war was agriculture, receiving 95,000 kr. a year on average or nearly a quarter of public spending on economic services. Public spending in this field was typically of infrastructural nature, i.e. research and development, agricultural schools, tree planting and land reclamation. Government provided most, in many cases all,

<sup>33</sup> Krabbe, Thorvald, Island og dets tekniske udvikling, p.210. - Milward, A. and S.B. Saul, The Development of the Economies of Continental Europe 1850-1914 (London, 1977), p.544.

<sup>34</sup> Magnús Jónsson, Tímabilið 1871-1903. Landshöfðingjatímabilið, Saga Íslendinga IX 1871-1903 (Reykjavík, 1957), pp.220-3. - Arbók Hagstofu, p.66.

the financial resources, used for these purposes. The costs of curing and controlling animal diseases, most notably sheep scab, were by and large covered by central government and constituted quite a significant item right up to 1920.

The costliest public program in agriculture was the four agricultural schools, of which two were strengthened and turned into state schools in 1905, fully maintained by central government. When The Agricultural Organization of Iceland (Búnaðarfélag Íslands, abbr. BI), was established as the national organization of the farming community at the turn of the century, it was financed entirely by the government and was soon elevated to a semi-public status, exerting great influence on agricultural policy. The Althing supported various projects through the BI such as marketing, research on new production methods of lamb and mutton, and advisory service to farmers.

As for direct public investment in agriculture the contribution of government was less significant. The most important contribution were government grants to farmers through agricultural societies, established in almost every rural area during the second half of the nineteenth century to promote cultivation and other improvements on the farms. A comprehensive set of rules was enacted in 1891 and the grants were increased significantly as a result. Detailed records of farm improvements had to be kept by the societies to prove eligibility and determine the amount each one would receive. Farm improvements eligible for grants were fencing, extension and improvement of hayfields, vegetable cultivation, irrigation and drainage of arable land and construction of manure containers or sheds. Each type of improvement was assessed in terms of "daysworks", i.e. basically a labour unit which was required to have the work done. For example, the work needed for a 3 feet high and 3 fathom long stone fence or a 25 squarefathoms vegetable garden equalled one dayswork.

As the measurement unit indicates, these different types of improvements consisted mainly of labour inputs by the farmer and members of his household using very little

purchased material. To what extent this type of input was actually supported by public grants we do not know, but one way of estimating it is to use the so called market-place scales (verðlagsskrár) for valuing "daysworks" in money terms. Assuming that the dayswork in these scales equals two daysworks in the farm support scheme we arrive at 2,576,820 kr. worth of "daysworks" in farm improvements supported by public grants for the period 1892-1914, while the grants themselves given to the agricultural societies at the same time amounted to 446,674 kr. or about 17,3% of the total value of the "daysworks".<sup>35</sup> These figures should only be taken as a rough indication of the level of public subsidization of farm improvements. The money value of a "dayswork" is probably estimated too high and the "daysworks" eligible for grants include, of course, not all the efforts made by farmers to improve their farms.

Other direct government support to agriculture was the promotion of new economic projects after the turn of the century. The first slaughterhouses were built with some financial assistance from the BI and government support was also crucial for the founding of creameries during the first years of the twentieth century. In addition to providing the creameries with credit to cover initial costs (see chapter 14.3) the government subsidized their butter export right from the start in 1901 and up to 1913, totalling 169,000 kr. in all.

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<sup>35</sup> According to Sigurður Sigurðsson, Búnaðarhagir, p.187, the number of these "daysworks" was 1,923,000 kr. 1892-1914. Valuing them in money terms is difficult, but here we base our calculation on Magnús S. Magnússon's, Verðlagsskrár 1818-1915, unpublished paper on the market-place scales. These scales were official records published annually to indicate market prices for common domestic articles, among them wage indices for casual labour, dagsverk, which was to signify a day's pay for a labourer during the hay harvest. These are much higher wages than servants were paid, on whom farmers traditionally depended for labour. Here a "dayswork" for farm improvements is estimated at half the value of the average dayswork given in the market-place scales for the period 1892-1914, i.e. 1.34 kr.

Although more was spent proportionally on the fisheries and other sectors of the economy than before, the actual amounts involved were not of great significance. It is one of the interesting findings of the study how little was spent on the fisheries, in fact not more than 17,000 kr. a year on average. This is all the more interesting for the fact that the fisheries were indisputably the leading growth sector of the economy and an ever bigger source of public revenue. Around 6000 kr. was spent annually to cover the costs of the Nautical School in Reykjavík, founded in 1890, later to become publicly owned. A financial contribution was annually made to the Fisheries Loan Fund of Iceland, a public investment fund founded in 1905 to advance the fisheries, in all 129,000 kr. 1906-1913. The emerging insurance companies for the fisheries were granted 34,000 kr. during the same period, the lion's share going to a national insurance company for the fisheries, Samábyrgð Islands á fiskiskipum. In 1911 the Fisheries Organization of Iceland (Fiskifélag Íslands) was founded and was publicly financed, but received a much smaller grant than the BI, the parallel organization for agriculture.

Manufacture, trade and banking received together a mere 11,000 kr. a year, most of which was allocated to vocational training and research, but only occasional grants were given to private companies. To name the bigger ones, 10,000 kr. was granted to the slipway in Reykjavík in 1904 and 4841 kr. to the founding of a textile factory 1901-02 and another 6000 kr. in 1912. On the whole, expenditure on these industries was insignificant.

The Althing's limited support to the fisheries is probably best explained by two factors. The political influence of the fishing capitalists, merchants and other urban groups lagged behind their economic role and its interests were voiced by only a few although a growing number of MPs. Moreover, as the fisheries were booming and enjoying favourable market conditions abroad, they were not considered to be in the same need of direct public support as agriculture, although a great need was felt for

improvements in the economic infrastructure. Agriculture, in contrast, had to deal with serious economic problems around the turn of the century, intensified competition with the fisheries and other urban industries for scarce labour and capital and severe market difficulties overseas.

The priority of agriculture over the fisheries in fiscal policy is also reflected in the spending pattern of infrastructural investments. Up to at least the 1920s the priority was on building roads and bridges and keeping up coastal shipping to areas where land transport was limited by natural circumstances, all of which benefitted primarily the farming community, while political support for the advance of harbours and related investments was much slower to develop. This was most acutely displayed in the case of investment in navigation facilities, where lighthouse dues far exceeded spending on lighthouses.

We have seen how government became increasingly involved in important aspects of the economy during the two decades prior to the War. Government gradually assumed greater responsibility for much of the infrastructure, often in co-operation with local authorities as in the case of road and harbour investments. Assistance to the private sector was also increasing and became more wide-ranging, although it was for the most part confined to agriculture. Other industries, most notably the fisheries, received a rather sluggish support and the little there was consisted principally of infrastructural investment, educational services, research and the like.

#### 11. STATE-INDUCED ECONOMIC DEVELOPMENT, 1914-1930

The period after 1913 is characterized by a greater state participation in economic activity previously reserved for the private sector. So far as expenditure policy was concerned, the main tasks of government in the economy was as before the provision of infrastructure and financial assistance to infant industries, but this trend was strengthened during the 1920s as developments which had already occurred in the previous period were extended and consolidated. Not only can we detect a vigorous industrial promotion policy aimed at creating better opportunities for private individuals in the 1920s, but also an increasing readiness of government to participate more directly in spheres previously left to individuals, leading in several cases to the founding of state enterprises.

The First World War was the catalyst of these changes and represented a distinctive phase in the relationship between government and economy as elsewhere in Europe. Although distant from the battlefields of Europe, Iceland experienced its own version of "the war economy" and was greatly affected by the economic warfare because of its dependence on foreign trade. In 1916 the government had to make a trade agreement with the British government, which was eager to stop contraband flow from Iceland to Germany and to secure some of Iceland's products for its domestic use.<sup>1</sup>

These and other war measures called for extensive government regulation of foreign trade and shipping and even led to direct public involvement during the last years of

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<sup>1</sup> Sólrún B. Jensdóttir, Ísland á brezku valdsvæði 1914-1918, Sagnfræðirannsóknir 6 (Reykjavík, 1980); the work has also been published in an English version, cf. Anglo-Icelandic Relations during the First World War (New York, 1986).

Table 26 WAR RELATED PUBLIC EXPENDITURE, 1914-1921

thousand kr.

	public works, shipping hardship services	Tjörnes and other coal mines	State Trading Company	outstanding loans to STC
1914			321	321
1915			79	400
1916			191	591
1917	3554	29	463	5071
1918	236	257	153	3451
1919	227	19	78	5661
1920	120	19	1488	9112
1921	383			6319
	====	==	====	2942
Total	4520	324	1951	2007
				9113

Source: LR 1914-1921.

Notes: Figures in column 1 may be inaccurate due to inconsistency in the accounts of the shipping service. - Column 2 includes road work in the Reykjavík area especially aimed at easing the unemployment problem 1917-1918. - The costs of the State Trading Company (STC) are treated as loans and not expenditure in the thesis as they were repaid to the Treasury after the war. - The loans to the STC show only the outstanding loans without interest, although the company eventually paid interest on its debts. - Subsidy on coal 1917 is classified as social services, whereas the 1920 subsidy on coal and salt is classified as economic services, c.f. Appendix C.

the war.<sup>2</sup> Government started its own trading company, Landsverslun, as early as 1914 and by 1918 it was importing one third of the country's imports. A shipping service was operated in conjunction with the State Trading Company operating 3 ships bought by the government in 1917 in addition to a number of leased ships. Public intervention

<sup>2</sup> Government economic activities during the war are examined in Guðmundur Jónsson, 'Upphaf ríkisafskipta af efnahagsmálum. Efnahagsmál á Alþingi og í ríkisstjórn á árum fyrri heimsstyrjaldar 1914-1918' (unpublished Cand. Mag. thesis in history, University of Iceland, 1983) - See also Guðmundur Jónsson, 'Baráttan um Landsverslun 1914-1927', in Heimir Þorleifsson (ed.), Landshagir (Reykjavík, 1986), pp.115-138, which studies the State Trading Company during and after the war.

in the domestic market was also far-reaching. After years of high economic growth, Iceland's economy plunged into severe recession due to market restrictions and increasingly unfavourable terms of trade. Many imported articles were rationed, price controls were set up, coal and salt were subsidized for some time, and public works were initiated in the Reykjavík area 1917-1918 to ease unemployment.

All these measures, especially the State Trading Company, were a heavy financial burden on the Treasury as shown in table 26. The company was heavily depended on the Treasury for working capital, so much so that by the end of the war its debt to the Treasury had soared to 9.1 million kr. The Company imported many of the country's most important goods, cereals, sugar, kerosene and coal, and after the war it continued to operate as a supplier of a wide range of necessities, although substantially trimming its sails after the war. The STC stopped trading in common consumer goods in 1922 and was turned into a tobacco and kerosene monopoly until its abolition by the Conservative government in 1927.<sup>3</sup> The Company started to repay its debt to the Treasury immediately after the war and had reduced it to 700,000 kr. by 1924.

The second biggest war measure in terms of expenditure was the public shipping service starting in 1917. Icelanders, only just beginning to build up their own commercial fleet, were totally reliant on foreign shipping companies for external trade at the outbreak of war. Overseas shipping became increasingly difficult as the war went on and the pressure was on the government to ease the situation. What sparked the Althing to take direct action was the decision of the DFDS to raise fares and freight substantially in 1916 against an agreement with the government on providing shipping lines on the coast. In response, the Althing authorized the government to buy ships

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<sup>3</sup> Guðmundur Jónsson, 'Baráttan um Landsverslun', pp. 115-38.

for both coastal and overseas shipping "as needed".<sup>4</sup> The government purchased three freighters in 1917 and leased several other ships for servicing the rapidly expanding State Trading Company and keeping up the coastal shipping service. The operation of the state-owned ships was not given a formal company structure since the newly formed Icelandic Steamship Company was entrusted with their management. The ships were bought at an extremely unfortunate time costing 3.5 million kr. and accounted for a great part of the sharp rise in expenditure in 1917. When the service was abolished in its original form in 1923 it had drained the Treasury of some 4.5 million kr. including initial capital costs.

Other measures were primarily designed to deal with the deteriorating economic conditions at home, unemployment in the bigger towns, rocketing prices and shortage of food and fuel. This applies to hardship relief and loans to district councils, public works and subsidies on coal for domestic consumption in 1917. Coal and salt were subsidized in 1920 in order to shelter the STC from the price fall on international markets and was aimed at easing the rising operation costs of the fishing sector.<sup>5</sup>

During the first war years expenditure had been falling in real terms. In contrast, an expenditure "explosion" occurred in 1917 with a rise from 2.3 million kr. to 8.1 million at current prices, mainly due to the costs of the shipping services and other war measures. Although the rise was much less in real terms as inflation was soaring, expenditure still jumped by 124% at constant prices. The Althing was very slow to respond to the rapidly deteriorating situation, for example the hesitant measures taken in the 1917 session of the Althing to increase revenue were not to take effect until 1919. As a consequence,

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<sup>4</sup> Guðmundur Jónsson, 'Upphof ríkisafskipta', pp.85-6.

<sup>5</sup> Coal was again subsidized in 1922 incurring a cost of 818,000 kr., which the State Trading Company was ordered to pay.

Table 27 CENTRAL GOVERNMENT DEBT, 1908-1930

thousand kr. at  
current prices

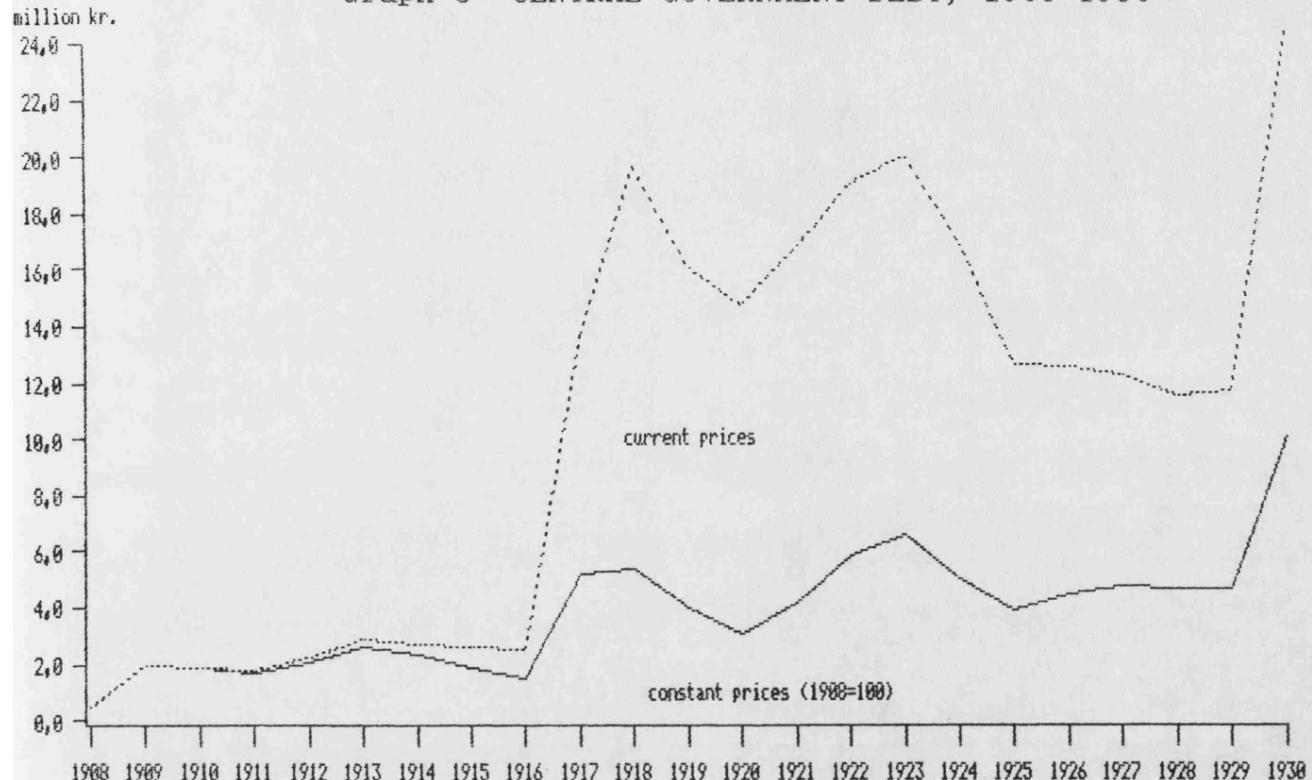
	FOREIGN DEBT		DOMESTIC DEBT		TOTAL
	long- term	short- term	long- term	short- term	
1908	500				500
1909	898				898
1910	851				851
1911	805				805
1912	1,258				1,258
1913	1,744				1,744
1914	1,653	8		41	1,702
1915	1,563	21		813	2,397
1916	1,471	262	100	600	2,433
1917	9,876	3,255	96	2,783	16,009
1918	9,576	2,653	2,674	3,983	18,886
1919	7,776	1,354	2,566	3,868	15,564
1920	7,248	898	5,459	301	13,905
1921	9,467	935	5,284	310	15,996
1922	9,950	2,179	5,177	819	18,125
1923	9,711	2,575	4,779	2,120	19,185
1924	8,300	1,779	4,509	1,693	16,282
1925	8,117		3,752	17	11,886
1926	7,855		3,496	524	11,875
1927	7,392		3,247	991	11,630
1928	6,944		3,033	977	10,954
1929	6,638	1,069	2,953	460	11,120
1930	19,251	1,551	2,798	331	23,931

Sources: LR 1908-1931. - Alpt. 1931 C, pp.132-4. - Arbók Hagstofu, pp.69-70.

Notes: Loans relent to banks or employed to buy bank bonds are not treated as government loans in the thesis except 27% of the loans taken in 1909 and 1913 in accordance with the Althing's resolution of 20 August 1931 on state debt classification, see LR 1930, pp.xxix-xxx. - Foreign loans are calculated at December exchange rates each year. - Short-term debt before 1914 is not included as it was insignificant until then. - Only debt to the Danish Treasury is included in the short-term foreign debt 1914-1920.

revenue dropped steadily in real terms from 1915 to 1918 contributing to unprecedented deficits. During the last two years of the war the deficits soared to 7 million kr. with expenditure exceeding revenue by 174% in 1917 and 61% in

Graph 8 CENTRAL GOVERNMENT DEBT, 1908-1930



Sources: See table 27. - *Tölfræðihandbók 1984*, p.165.

1918. The government had to resort to massive borrowing and was now for the first time borrowing money on a big scale to cover current-account expenditure. As table 27 indicates, the debt was running at 18.9 m.kr. by the end of the war out of which 6.6 m.kr. was floating debt mainly due to the State Trading Company. Graph 8, which plots government debt at both current and constant prices, shows however that the debt increase was much less in real terms due to the rampant inflation.

The debt incurred by the war measures and the unsettled post-war circumstances did not deter the Althing from embarking on an expansionist fiscal policy in 1919. As strong demand for replacement of stocks, new capital and consumer goods was felt throughout the economy, the Althing agreed in 1919 to increase spending on a wide range of programmes. So spendthrift was the parliament that

expenditure rose by 65% in real terms in 1920 from the previous year. Civil servants' salaries were raised considerably, more was spent on education, health and land transport and the expensive subsidization of coal and salt prices that year helped push expenditure still further up. Not surprisingly, the Treasury continued to run huge deficits in the following years up to 1924 which were met by massive borrowing. A huge English loan in 1921 was particularly unfavourable, adding to the mounting debt burden, which was by now absorbing about 13% of the aggregate expenditure.

It was first in 1923 that encouraging signs began to appear and in 1924 and 1925 the financial situation improved dramatically. It was a combined result of three factors. The accumulating public debt and continuous deficits had sparked off a strong reaction against high spending in the Althing, but it was not translated into a tighter budgetary policy until 1923 when expenditure can be said to have been contained. A more stringent fiscal policy was carried out by the government of the Conservative Party which came to power in 1924 and put a balanced budget, repayment of public debt and the winding down of public enterprises at the top of its list of priorities. The abolition of the State Trading Company and the overseas shipping service released big sums of public money which helped produce substantial budget surpluses and repay public debt. By 1928 total government debt was down to 11 m.kr. against 19.2 m.kr. five years earlier.

A second factor in improving the state of the public finances was increased revenue due to a number of deliberate measures, one of which was the tax reform enacted in 1921 introducing a more flexible tax structure. However, the crucial factor was a rapid economic growth in the mid-twenties due to both increasing fish catch and more favourable external trade on which the government raised the bulk of its revenue.

The favourable economic conditions tempted the government to increase expenditure substantially during the

last years of the decade. The upward trend had already been set with the legislation of costly agricultural programmes during the time of the Conservative government 1924-1927, but with the Progressive Party gaining power in 1927 an expansionist economic policy was implemented, which entailed greatly increased industrial promotion and a number of costly public works and projects. The period ended with the most spectacular fiscal year of the whole inter-war period, the year 1930, when public expenditure rose by 54% in real terms from the previous year.<sup>4</sup> The increase occurred in a wide range of expenditure programmes, but the economic services category experienced the biggest rise, jumping by 80% to 8.4 m.kr. or no less than 46% of total expenditure.

The substantial part of the increase was incurred from a number of individual projects confined to that year alone, the erection of the first state herring plant costing nearly 1.5 million kr., new central telegraph and telephone station in Reykjavik and the expansion of the state coastal shipping services. Other expensive items outside the economic services category were the construction of the National Hospital and the founding of the State Broadcasting Service.

This extraordinary increase was only matched by even more spectacular borrowing from abroad, of which a large part was used to finance the costly government measures, but the massive borrowing was also due to capital injection to the three banks, now all in public ownership, as a part of a major restructuring of the bank system (see chapter 17). Public loans raised that year amounted to 15.2 million kr., thereof a £610,000 loan (13.5 million kr.) from Hambro's Bank in London, but the money received by the banks accounted for a good half of the total borrowing. As a consequence central government debt rose from 11.1 m.kr. in 1929 to no less than 23.9 m.kr. in 1930 while government loans relate to the banks (and therefore not counted as

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<sup>4</sup> The ratio in 1919 was greater, but is largely due to the low expenditure level in 1918.

government loans) increased from 18.9 m.kr. to 23.8 m.kr.<sup>7</sup>

From the above account of the public finances in the 1920s we can discern several general trends in fiscal policy. The Althing and the government lost their grip on the public finances in the war, which was not regained until the mid-1920s. Although a balanced budget continued to be a cornerstone of fiscal policy the Althing grew ever more soft on this principle. A striking disregard for the traditional policy of thrift and balanced budget characterized the first years of the decade as government and the Althing were even prepared to raise loans to finance current expenditure. This change in policy can in part be accounted for by the great pressure for expansionist public policy, although the unstable financial situation and the depression of 1920-21 were also at work.

High spending policy was again carried out after a short interval in the mid-twenties, and only economic growth and brisk external trade saved the Treasury from slipping into deficits again. There is little evidence to suggests that government conducted tighter fiscal policy during the time of economic expansion. On the contrary, its high spending fuelled demand in time of the upswing in the economy in 1919-1920 and again in 1926-30. In the former case the government was reluctant to finance the deficits in non-inflationary way and resorted instead to borrowing. The only attempt to pursue a sort of counter-cyclical economic policy was in 1924 and 1925 when both tight spending policy and deflationary monetary policy were pursued during an economic upswing.<sup>8</sup>

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<sup>7</sup> See the sources referred to in table 14.

<sup>8</sup> Jón Þorláksson, the Finance Minister, advocated and even embarked upon a counter-cyclical fiscal policy, which proved short-lived and unsuccessful. See his view on this matter in Alpt. 1925 B, pp.242-3. - Similar notion is expressed much earlier by Jón Krabbe 'Islands økonomiske udvikling', Nationaløkonomisk tidsskrift (1906), pp.344-5.

Table 28 PUBLIC EXPENDITURE ON ECONOMIC SERVICES  
1914-1930

krónur at current prices	average annual spending	as % of total spending	as % of total economic services expend.
INFRASTRUCTURE	1,969,291	33,477,946	64.4
post/telecommunication	186,335	2,049,690	3.9
land transport	740,217	12,583,687	24.2
sea transport	1,042,718	17,726,200	34.1
other services	65,786	1,118,369	2.2
AGRICULTURE	591,567	1,005,664	19.4
education	59,204	1,006,476	1.9
cultivation	223,853	3,805,493	7.3
research and development	151,758	2,579,879	5.0
other expenditure	156,753	2,664,799	5.1
FISHERIES	314,667	5,349,347	10.3
education	37,280	633,763	1.2
research and development	54,120	920,045	1.8
other expenditure	223,267	3,795,539	7.3
OTHER INDUSTRIES	180,863	3,074,674	5.9
manufacture	47,015	799,253	1.5
trade and commerce	28,552	485,381	0.9
banking	105,296	1,790,040	3.4
TOTAL	3,056,389	51,958,614	100.0
	=====	=====	=====
			36.7

Sources: Appendix C.

The net result of the spending policy in the twenties was a vastly bigger public sector than before the war. In real terms government spent on average nearly three times more money annually than during the preceding period. Economic services, however, proved to be the type of expenditure most vulnerable to cuts in times of dire financial circumstances. Many types of economic expenditure were of temporary nature such as grants and subsidies to the private sector or specific projects, which were easier to cut than the more permanent public services. This is also true for the preceding periods, where expenditure on economic services fluctuated far more than other categories since it was more sensitive to the general state of the public finances. These fluctuations were, however, greater

during the 1920s than any time before due to the extremely precarious state of the public finances. Thus, economic services dropped to just under 30% of total spending 1920-1925, i.e. to a similar ratio as in the early 1890s.

The rapid economic growth from 1924 onwards, however, boosted the public finances which in turn gave rise to demands for various economic projects. No expenditure category rose as sharply as the economic services during the expansionary years from 1926 to 1930. This category experienced a phenomenal annual growth in constant prices of 23.3% from the 1924 trough to the 1930 peak, thus absorbing nearly 40% of total public expenditure during the last five years of the period. This growth was manifested in many areas as can be seen in table 28 on expenditure on economic services and its breakdown for the period 1914-30. Annual average spending in this field was just over 3 m.kr. or nearly eightfold increase on the previous period, but in real terms it represents an increase of about 270%.

The composition of economic services remained fairly stable compared to the previous period with no sweeping changes of the spending pattern. The share of infrastructure continued to drop from 69% to 64%, and so did agriculture from 24% to 20% while the share of fisheries rose from 4% to 10% and other industries from 3% to 6%. Two major growth areas in terms of expenditure stand out, sea transport and agricultural projects. In the following pages we will look closer at the development of public spending on economic services during the period and offer estimates, as far as evidence allows us, of the share of public investment in each of the major fields concerned.

As for sea transport, private companies continued to receive subsidies to uphold coastal sailing and regional lines. The main government support to individual companies went to the Icelandic Steamship Company (Eimskipafélag Íslands), founded in 1914 and the first Icelandic shipping company to operate on a national level. The government bought shares in the company for 100,000 kr. which accounted

Table 29 PUBLIC EXPENDITURE ON SEA TRANSPORT, 1914-1930

	grants to shipping companies	state shipping service	light- houses	harbour facilities	other	total
'000 kr.	2,891	7,851	3,914	2,629	441	17,726
%	16.3	44.3	22.1	14.8	2.5	100

Source: Appendix C.

for just over 12% of the total value of shares at the end of 1915,<sup>7</sup> as well as giving it grants worth 200,000 kr. between 1915 and 1919. From 1924 to 1930 the company also received 506,000 kr. in government grants for running shipping service in the smaller ports. The company was moreover granted exemption from income and property taxes from 1924 that stood for decades, but such tax privilege was exceptional during that period.<sup>10</sup>

Government involvement greatly intensified during the war as already mentioned and expenditure on sea transport became the most costly public infrastructure undertaking between 1914 and 1930 taking up more than a third of the total spending on economic services. Table 29 shows that the biggest costs were incurred from the state shipping service, which received substantial financial support from the start in 1917. The trans-ocean service was discontinued soon after the war except for one ship, "Willemoes", which supplied the State Kerosene Company (a branch of the State Trading Company) with oil until the abolition of the company in 1927. The government decided to concentrate more on improving the coastal services and bought a ship for this purpose in 1922, but its management was handed over to the Icelandic Steamship Company as had the operation of previous

<sup>7</sup> Guðni Jónsson, Eimskipafélag, p.286.

<sup>10</sup> Guðni Jónsson, Eimskipafélag, p. 206. - Björn Björnsson, 'Agrip af sögu íslenzkrar skattalöggjafar', Afmælisrit til Þorsteins Þorsteinssonar (Reykjavík, 1950), pp.63-5.

state owned ships. This public involvement took on a new form with the decision of the government in 1929 to establish its own shipping company, the State Shipping Department (*Skipaútgerð ríkisins*). Initially, the company operated three coast guard boats, a lighthouse tender and two ships for coastal sailing, but it soon expanded its operations to become the principal company in coastal shipping.<sup>11</sup>

The government also subsidized a number of local private ferries and shipping lines, partly in return for maintaining post service in the areas concerned. Another type of government assistance was a grant of 350,000 kr. to the Icelandic Steamship Company in 1926 towards the purchase of a cold-storage freighter.<sup>12</sup> This grant had been authorized by the Althing in 1926 under pressure from the co-operative movement and the Progressive Party to promote exports of frozen lamb. Light salted mutton had been the principal meat produce since the virtual closure of the British market for imported live sheep in 1897, but mutton exports were now facing serious difficulties. Most of the mutton was sold to Norway where, in addition to already depressed prices and the entry of Argentinian salted mutton in 1925-26, tariffs were being significantly raised to protect farmers.<sup>13</sup> In response Icelandic farmers, eager to find new outlets, started to divert some of the meat production over to lamb carcasses to be sold refrigerated or frozen in the British market, but government financial support was considered an essential prerequisite for this

<sup>11</sup> Skipaútgerð ríkisins 1929-1949 (Reykjavík, 1951), pp.3-5.

<sup>12</sup> Guðni Jónsson, Eimskipafélag, pp.172-7. The grant covered a quarter of the ship's purchase price.

<sup>13</sup> Agnar Kl. Jónsson, Stjórnarráð Íslands II, pp.625-31. - Gísli Guðmundsson, Samband íslenzkra samvinnufélaga 1902-1942 (Reykjavík, 1943), pp.145-6.

transition.<sup>14</sup>

Public spending on harbour facilities and lighthouses was also increased, the latter rising rapidly in number during the tens and twenties: 9 in 1910, 35 in 1920 and 57 in 1930.<sup>15</sup> The management and maintenance costs of the lighthouses rose by each year reaching about 100,000 kr annually by the end of period. In addition, 44 harbour and other leading lights as well as 160 unlighted day-marks and buoys had been set up, which were much cheaper to build and run than the proper lighthouses; these facilities were either set up by central or local authorities, but rarely by private companies.<sup>16</sup> Since information is only available on the costs of central government expenditure on lighthouses and related facilities, the cost shares of the private sector, central and local government are unknown. Central government expenditure was 4.445 m.kr. 1874-1930 and a rough estimate puts the total capital and operation costs of all facilities in the country during the same period at about 5 m.kr., which means that the central government cost share was just under 90% The rest was covered by local authorities and only a fraction by private individuals.

Central government played a minor part in the modest harbour investments in the pre-war period whereas local

<sup>14</sup> The Confederation of Icelandic Co-operatives, which spearheaded the initiative, was also promised compensations in the Finance Acts from 1924 onwards if lower prices were fetched in foreign markets for refrigerated or frozen lamb than salted mutton. The sale of the frozen lamb, however, was reasonably successful and government subsidies proved unnecessary.

<sup>15</sup> Arbók Hagstofu, p.63. - Krabbe, Thorvald, 'Vitamál', pp.18-21. - Krabbe, Thorvald, Island og dets tekniske udvikling, pp.123-40.

<sup>16</sup> Privately built lighthouses were for example in Geldinganes (owned by 'Milljónafélagið') and in Patreksfjörður (owned by Ólafur Jóhannesson), but these were the exceptions from the rule.

authorities were increasingly assuming responsibility for this part of the infrastructure. With the Reykjavík harbour project 1913-1917, followed by numerous other projects during the 1920s, the government started to devote large amounts of money to these investments, rising to over 200,000 kr. annually in the last five years of the period. The Finance Act authorized a state grant of up to 1/3 of the total costs of these investments matched by 2/3 from other bodies (local authorities as a rule). In some cases the central government share accounted for 50% of project costs. About half of public expenditure on harbours during the 1920s or just over one million kr. was spent on the biggest and most complicated harbour project of the period, the harbour of Vestmanna Islands south of the mainland.<sup>17</sup>

Aggregate figures on harbour investments are hard to come by and the nearest we can get is to look at the cost share of central government in the major projects of the 1920s when data becomes more readily available. By far the most expensive harbour projects before 1930 were those of Reykjavík and Vestmanna Islands harbours. The first phase of the harbour in Reykjavík, 1913-1917 was supported with a state grant of 0.4 m.kr. or 16% of the total cost of the project. Construction of the Vestmanna Island harbour started in 1913 with the total costs reaching 2.33 m. kr. by 1940, whereof the state had paid 1.5 million kr. or 64%, partly as a grant and partly as a state guaranteed loan.<sup>18</sup> Other harbour investments were on a much smaller scale, but in most cases the costs were shared with the state. As already mentioned, the general rule during the last five years of the period, 1926-1930, as laid down in the Finance Act or special laws, was that the state paid one third and up to half of the total costs.

There were only two major harbour projects which were undertaken by local authorities without receiving direct

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<sup>17</sup> Skyrslur um nokkrar framkvæmdir, pp.65-70.

<sup>18</sup> Krabbe, Thorvald, Island og dets tekniske udvikling, p.175.

state support, i.e. in the towns of Síglufjörður and Akureyri. The state, however, helped with credit, in the former case by providing a state guaranteed loan of 260,000 kr., and in the latter by a Reserve Fund loan of 35,000 kr.<sup>19</sup> No estimates are available for private harbour investments, but the biggest private project of this kind was presumably the facilities set up in 1907 by P.J. Thorsteinsson & Co. in Viðey, a small island off the coast of Reykjavík. Despite this big investment the harbour facilities themselves cost probably not more than 30,000 kr.<sup>20</sup> Private companies continued to construct individual piers and berths for their ships during the inter-war period, but it became rarer as local authorities engaged in ever bigger projects which served the local community as a whole. Consequently, the share of private investments steadily shrank and was by all likelihood well under 10% of total investment during the inter-war period.

From these scattered pieces of information we can make a rough estimate of the share of central government in the total harbour investment from the time it started to involve substantial resources, i.e. with the Reykjavík harbour project starting in 1912. Bearing in mind the weight of the Reykjavík and Vestmanna Island projects, in which government grants accounted to just under 40% of the total investment (i.e. including loans which were presumably only partly repaid), the evidence indicates that the cost share of central government during the last period, 1914-1930, was in the region of 30-35% of total harbour investment.

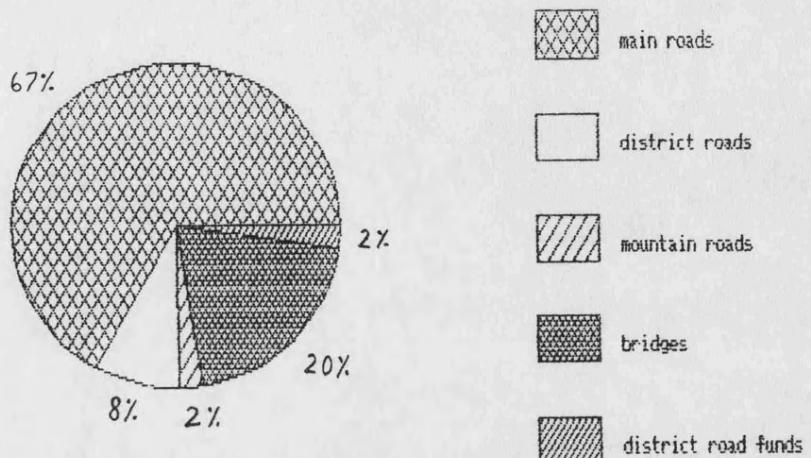
Although land transport did not keep up with the general increase of infrastructure expenditure, far more was spent in this area than before, in particular on bridge

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<sup>19</sup> Skýrslur um nokkrar framkvæmdir, p.67.

<sup>20</sup> The company's land facilities were valued at 444,000 kr in 1911, including warehouses, fish processing houses, waterworks, three residential houses, roads and rails on the island and several boats, in addition to the piers, cf. Thor Jensen, Minnigar II, pp.91-2.

Graph 9 PUBLIC SPENDING ON LAND TRANSPORT, 1876-1930



Source: Alpt. 1933 A, pp.751-2.

Note: Because LR does not allow a breakdown of land transport expenditure of this kind the data used here is taken from the parliamentary papers. The aggregate figure in Alpt. is almost identical to the statistical findings in Appendix C and the small discrepancy can be explained by the inclusion of costs of geodetical surveys in my calculations.

construction during the 1920s. One of the biggest costs of the road system was incurred by the bridge constructions over the numerous great waterfalls. As the road network expanded an ever bigger share of the land transport expenditure had to be channelled into bridges with the result that ordinary road work was being slowed down. In order to overcome this bottleneck a law was enacted in 1919, The Bridge Construction Act, in which a national bridge construction programme was authorized and revenue was earmarked for these outlays.<sup>21</sup> The Act authorized the government to build, in addition to smaller bridges, 70 bridges over 10 metres long, comprising 36 new bridges and the renovation or upgrading of 34 older ones. This programme was to be financed mostly by central government and the money raised by borrowing.

There was strong support in the Althing for the extension of the road network and in a new law in 1925 the

<sup>21</sup> Stjt. 1919 A, 192-5.

Table 30 PUBLIC EXPENDITURE ON LAND TRANSPORT, 1876-1930

	1876-1890		1891-1910		1927-1928	
	kr.	%	kr.	%	kr.	%
central governm.	312,409	44	2,257,830	70	2,315,123	67
local governm.	391,311	56	961,160	30	1,126,552	33
	703,720	100	3,218,990	100	3,441,675	100

Sources: Landshagsskýrslur 1901-1911. - Arbók Hagstofu, pp.104-7. - Appendix C.

government commitment was further increased. Despite significantly more resources provided by the new law and a generous budget, the government greatly overspent on land transport 1926-30, mainly because of the rapid implementation of the bridge construction programme. Thanks to these vigorous efforts the number of bridges built in the 1920s shot up to 140 against 45 during the previous decade. For the whole period from 1876 bridge construction accounted for a fifth of total expenditure on land transport as shown in graph 9.

Private investment in land transport was negligible during the whole period. The costs were shared by central and local government, but since local government accounts are patchy or do not always offer a breakdown of expenditure, we do not have the complete picture for the whole period. Reasonably accurate data on local government expenditure on land transport show spending of 391,000 kr. for the period 1876-1890 and 961,000 kr. for the period 1891-1910 representing 56% and 30% respectively of total public spending on land transport. (table 30) These figures confirm that the trend was towards a greater involvement of central government in land transport over the whole period from 1870 to 1930. As for the 1920s, published accounts of all districts and communes in the country show expenditure of 1.1 m.kr. on roads and bridges for the years 1927 and 1928 against central government's expenditure of 2.3 m.kr.,

which puts the share of local government at about one third against two thirds of central government expenditure on land transport.<sup>22</sup> We can therefore assume on the basis of this data that central government expenditure accounted for roughly two thirds of total expenditure on land transport for the period 1876-1930 as a whole against one third financed by local authorities.

Government greatly increased its support to the private sector which more than doubled in real terms from the previous period as shown in table 31 (expenditure on economic services less infrastructure). The table clearly demonstrates the priority given to agriculture for the whole period from 1876 to 1930. Despite a falling share towards the end of the period it received 10 m.kr. during the last period against just under 8.5 m.kr. allocated to all other industries. For the period 1876-1930 the share of agriculture was 58% against 27% of the fisheries whereas the other three accounted together for only 15%. The fisheries' share is, in fact, somewhat exaggerated for it is credited with 1.4 million kr. price subsidy in 1920 which was primarily designed to shelter the State Trading Company from falling world market prices.

Turning to individual industries, agriculture suffered substantial cuts in public spending during the early 1920s, because of the depressed state of the public finances. But some public programs were also becoming cheaper such as animal disease control and the agricultural schools after their initial costs had been paid. The trend in spending was radically reversed towards the end of the period as the government embarked upon expansionist agricultural policy initiating several costly programs. As a consequence, expenditure on agriculture soared, accounting for 26% of

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<sup>22</sup> As town councils' expenditure for 1928 is not given, it is assumed to have been equal to previous year's expenditure. Town councils' spending on street lightning is not included.

Table 31 PUBLIC SPENDING ON INDUSTRIES, 1876-1930

thousand krónur  
current prices

	1876-1890		1891-1913		1914-1930		1876-1930	
	kr.	%	kr.	%	kr.	%	kr.	%
agriculture	216	94	2,187	77	10,057	54	12,459	58
fisheries	7	3	392	14	5,349	29	5,748	27
manufacture	4	2	157	6	799	4	959	4
trade/commerce	0	0	75	3	485	3	560	3
banking	2	1	22	1	1,790	10	1,814	8
	---	---	---	---	---	---	---	---
Total	229	100	2,833	100	18,480	100	21,540	100

Source: Appendix C.

total expenditure on economic services during the last six years of the period.

The public support was channelled into a wide range of items, from the provision of capital for dairies to massive farm support programs. The grant to the BI more than trebled in 1920 and enabled it to provide the farming community with an advisory service in all the major fields of farming, improve research and educational services and increase its support for the regional agricultural societies.<sup>23</sup>

No undertaking received as generous financial backing as the farm support schemes, in particular those aimed at encouraging hay production and other improvements. This category rose from an annual average of 20,000 kr 1891-1913 to 237,000 kr. 1914-1930, a fourfold increase in real terms, but for the last five years of the period it represented as much as half of the public expenditure on agriculture. Out of 10 m.kr. spent on agriculture 1914-30 3.8 million kr. were allocated to these programs which can be divided into mainly four types:

a) The agricultural societies continued to receive grants totalling 215,000 kr. between 1919 and 1930. This support,

<sup>23</sup> Skyrslur um nokkrar framkvæmdir, pp.190-3.

however, was rapidly shrinking since its nominal value was kept unchanged throughout and after the war. In 1928 this form of grants was discontinued altogether as an elaborate and extensive grant scheme for agriculture was taking effect.

b) The Cultivation Act of 1923 formed the legal framework for the new grant scheme which took full effect two years later. It marked a turning point in state support for agriculture and was widely supported in all political parties as an important measure to help farmers to modernize their farming and extend cultivated land. Grants were offered to farmers who extended and improved their hayfields and vegetable cultivation, built barns, silage towers and manure containers, purchased tools and hay harvesting machines.<sup>24</sup>

Up to 1930 the government allocated no less than 1.635 million kr. to farmers according to the Cultivation Act of 1923. As the law stood the farm improvements were to be subsidized up to 20-33% of the incurred costs, varying with the type of improvement (biggest grants for manure houses, smallest for vegetable gardens). In practice, however, a scheme was worked out similar in form to the one operated previously for the agricultural societies whereby improvements were measured in "daysworks" and subsidized to a varying degree according to the type of improvement.

In the first years of the grant system money was channeled to farmers in three ways. The most important one was the elaborate scheme prescribed in the second chapter of the Cultivation Act, described above. Secondly, the agricultural societies continued to receive grants according to the older rules until 1928 when their grants were transformed into state contribution to the Implements Purchase Fund (*Verkfærakaupasjóður*), owned by the agricultural societies. Thirdly, tenants on state and church farms were according to the Cultivation Act allowed to make improvements towards the reduction of land rent and

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<sup>24</sup> Sigurður Sigurðsson, Búnaðarhagir, pp. 179-86.

dues.

The total number of "dayworks" subsidized by the state was 2,964,958 between 1924 and 1930. Assuming that the average money value of a "dayswork" at that time was 4 kr., we arrive at the total value of 11,866,992 kr. for the "dayworks" receiving government grants, and that sum probably represented the bulk of the labour inputs into agriculture during that time. Adding state grants according to the Cultivation Act and grants to the agricultural societies 1924-30, 1,720,446 kr. to the loss in government revenue due to the reduced land rent on public land, 204,300 kr., the total contribution of government amounts to 1,924,746 kr. or 16,2% of the total value of "dayworks".<sup>28</sup> This ratio was to rise in the early 1930s, but then it started to fall as agricultural subsidies were cut.

Another indication of the scope of the grant scheme is the number of farmers receiving grants. Between 1925 and 1930 there were on average 3784 farmers annually receiving

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<sup>28</sup> The number of 'daysworks' is from Sigurður Sigurðsson, Búnaðarhagir, p.188, data on government grants is based on LR, whereas the value of 'daysworks' on Church and state farms is from Alit og tillögur I, p. 273. "Dayworks" receiving state grants 1925-30 were as follows:

no. of	according to      through			Total
	2. chapter of agric. soc.	on State and	Cultiv. Act      et.al.	
daysworks	2,003,092	912,581	49,285	2,964,958
value of days- works in kr.	8,012,368	3,650,324	204,300	11,866,992

The value of a "dayswork" in money terms is here put at 4 kr. in accordance with Alit og tillögur I; that is less than half the value of a "dayswork" according to market-place scales at the time.

In Alit og tillögur I, pp.271-73, a somewhat different method of estimating the aggregate number of "dayworks" is employed, but the total sum is only slightly lower than ours. It shows on the other hand a slightly higher ratio of government subsidies of the "dayworks" as its data on grants refers to money received by farmers whereas I use outlays from the Treasury recorded in the LR, which are for some reason lower.

public grants which accounts for no less than 57% of heads of households in agriculture at that time.<sup>24</sup>

c) Measures were taken by the government to promote the use of modern machinery and equipment in agriculture. The Implements Purchase Fund was founded by an amendment to the Cultivation Act in 1928 in order to encourage the use of modern implements and machinery by offering farmers grants and credit towards the purchasing price. The fund replaced the grants given to the agricultural societies since 1889 and was managed by the societies. The government was required to contribute 10 aurar for each "dayswork" to the Fund in addition to an annual contribution of 20,000 kr., a rule that was discontinued after few years. The societies were authorised to offer farmers grants worth a quarter of the purchasing price of tractors and half the price of various implements and horse-drawn machinery like plows, hoes and manure spreaders. In 1933 hay harvesting and textile machinery were added to the list as items eligible for grants up to one third of their price. Grants disbursed from the Fund amounted to 146,000 kr. in 1929 and 1930.<sup>25</sup>

The Machinery Fund (Vélasjóður), founded in the Cultivation Act of 1923, played a similar role and was to finance the operation of agricultural machinery. Between 1928 and 1930 the Fund lent 126,000 kr. to agricultural societies for tractor purchases.<sup>26</sup> The lending of the Machinery Fund and the grants of the Implements Purchase Fund 1929-1930 equalled about one third of the total value of imported machinery to agriculture during these years.<sup>27</sup>

Heavy and expensive excavators were needed in drainage

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<sup>24</sup> The number of heads of households in agriculture was 6620 according to the 1930 census, see Manntal [1930], p.75.

<sup>25</sup> Skyrslur um nokkrar framkvæmdir, p.174.

<sup>26</sup> Skyrslur um nokkrar framkvæmdir, p.175.

<sup>27</sup> Verslunarskyrslur 1929-1930, Hagskyrslur Islands 71 and 74, (Reykjavík, 1931, 1932). Machinery to the dairy industry is not included, which also enjoyed generous state aid under another public programme, see pp.261-2.

and irrigation works and these were provided for by the government who also financed operation and maintenance costs. An excavator was bought for public money for the use of Skeið irrigation project in 1916, another was bought in 1927 for a different project, and a law of 1930 authorized the government to buy in association with the BI one excavator a year for an unspecified number of years for similar purposes.<sup>30</sup> One third of operating costs was to be financed by the state, but due to the Depression the legislation was not implemented in the following years.

d) One of the most ambitious public efforts to promote cultivation was a number of irrigation projects, carried out in the south of Iceland during the second and third decades of this century. The idea was to irrigate large tracts of mainly wet meadows or marshlands with water from rivers rich in minerals by a vast network of canals and dikes in order to greatly increase hay-crops.<sup>31</sup> All the major projects were largely financed by central government as table 32 illustrates.

The first of these was the irrigation of Miklavatnsmýri 1912-1913, marshland in South Iceland covering about 2018 ha. The government paid 30,000 kr. of the total 55,000 kr. cost. It was followed by the two biggest irrigation projects ever undertaken, in Skeið and Flói. The Skeið project, mainly carried out between 1917 and 1923, involved an area of 3120 ha on 20 farms. The initial cost of the Skeið irrigation was 423,000 kr., but when the project was eventually finished in 1930 additional work had pushed it up to 478,000 kr. Originally, the state was only to cover about one third of the total cost but the farmers, who had financed their share almost exclusively by loans from the National Bank and to a lesser extent from the Reserve Fund, had repaid none of their debts by 1930 and found themselves unable to pay in a rapidly deteriorating economic climate.

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<sup>30</sup> Stjt. 1930 A, pp.160-1.

<sup>31</sup> Sigurður Sigurðsson, Búnaðarhagir, pp.121-54.- Helgi Skúli Kjartansson, 'Aveiturnar miklu', pp.330-60.

Table 32 PUBLIC EXPENDITURE ON IRRIGATION PROJECTS  
1910-1930krónur at  
current prices

year	Miklavatns- mýri	Skeið	F1ði	Other projects	total
1910		1663	1663		3326
1911		337	337		674
1912					
1913					
1914		5000		4500	9500
1915					
1916	13000	2041	4294		19335
1917	3192	842	842	14072	18948
1918	5298	747	747		6791
1919	550	51426	30219		82194
1920	3000	12000			15000
1921		35443	4233	615	40291
1922	1800	19000	61242		82042
1923		18381	60630	85033	164044
1924			24662	5000	29662
1925			71273	17128	88401
1926		14000	66055	14471	94526
1927	3133	6000	44029	6441	59603
1928		6000	67636	10451	84087
1929		12000	136560		148560
1930		5679	61614	36284	103577
	=====	=====	=====	=====	=====
Total	29973	190558	636035	193995	1050561
Loans overtaken by the government		287176	1093511	9000	
	=====	=====	=====	=====	=====
Total govm. costs	29973	477734	1729546	202995	2440248
Farmers contribut.	25027		270269	72487	367783
	=====	=====	=====	=====	=====
Total project costs	55000	477734	1999815	275482	2808031
Government cost share in %	54	100	86	74	87

Sources: LR 1910-1939. - Sigurður Sigurðsson, Búnaðarhagir, pp. 125, 141-2, 148-9. - Alþt. 1930 A, p.117. - Þorkell Jóhannesson, Alþingi og atvinnumálin, p.171.

Notes: Unspecified research and management costs incurred 1910-19 and the purchase price of an excavator in 1919 are equally divided between Skeið and F1ði projects. - "Other projects" include river defenses, the most expensive along the Þverá and Markarfljót rivers, 153,276 kr. - Farmers' contributions are estimates in most cases. - The debt of the Skeið project is shown as it was in 1930 when the work was completed. In the final debt settlement between the government and farmers in 1936 this figure had risen to 353,797 kr., shown on the Treasury's balance sheet as an outstanding loan to the project, but was apparently never repaid. Contd. next page.

In a deal struck between the government and farmers, part of the debt was taken over by the state and farmers were to repay the rest on long term. This debt, however, seems not to have been paid and the costs therefore fell almost entirely on the state.

The Flói irrigation project was by far the biggest and most expensive of these projects extending over 11473 ha and involving 166 farms. The irrigation work itself started in 1922 and the main work was completed 1930. According to a law enacted in 1917 the government was required to pay a quarter of the costs and the rest financed by loans - also provided by the government. The total cost until 1930 ran at 2 m.kr., but it included, in addition to the irrigation network itself, the initial costs of a dairy, Mjólkurbú Flóamanna (MBF), set up as a part of the overall project. Of these Treasury outlays of nearly 2 m.kr., 636,000 kr. were regarded as a state grant and the rest credit to farmers, which in 1930 stood at 1.331 m.kr.<sup>32</sup> A settlement was made between the government and farmers in 1933 whereby the debt was written off in return for a small levy on farmers for 30 years or alternatively a payment in land, both of which were favourable to farmers.<sup>33</sup> In a final settlement in 1937 farmers' repayment obligations were further reduced with the result that they had eventually to pay only 14% of the total costs. In all, then, the government had to pay 2.4 m.kr. to various irrigation

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Notes to table 32 contd.: The Flói project debt is shown as it was in 1937 (1,363,780 kr.). The state wrote off 1,093,511 kr. in 1937, farmers presumably repaid the rest: 98,659 kr. in land, 92,125 kr. with securities whereas 79,485 kr. are assumed to have been repaid in other ways. Figures show costs only up to 1930, including road works (136,671 kr.) and capital cost of the MBF dairy (326,800 kr.), but the state spent a further 66,000 kr. until the WWII.

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<sup>32</sup> LR 1930, p.xxiv.

<sup>33</sup> Sigurður Sigurðsson, Búnaðarhagir, pp.141-42.

projects before the end of 1930 or 87% of the total costs.

e) The last of the government's measures directly aimed at advancing cultivation was a law in 1928 establishing a state trade monopoly of artificial fertilizers.<sup>34</sup> The management and distribution of the imports were handed over to the Federation of Iceland Co-operative Societies (Samband íslenskra samvinnufélaga) which retailed them to farmers and gardeners. The law moreover authorized the government to subsidise the imports by paying all transport costs from abroad to bigger ports. This provision incurred considerable costs to the Treasury and already in 1929 the subsidy was somewhat reduced, although more support was given to remoter areas in the new regulations than in the original Act.

The government's justification for taking over the trade in fertilizers was that it was already virtually monopolized by a private company and a state monopoly was believed to be a better way of providing farmers with appropriate fertilizers at a reasonable price.<sup>35</sup> The government subsidy cost the Treasury more than 200,000 kr. over the two years, 1929 and 1930, and constituted 10-15% of the purchase price.<sup>36</sup>

These farm support programs were among the most important and ambitious public actions aimed at advancing agricultural production; but there were a number of other state aided projects that also had decisive impact. The MBF dairy was built in conjunction with the Flói irrigation project in 1929. As the law stood the government was to cover a quarter of its initial costs and grant credit for the rest, but it ended up paying all the costs, 326,800 kr.; this figure is included in the total costs of the Flói

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<sup>34</sup> Stjt. 1928 A, pp.128-9.

<sup>35</sup> Skýrslur um nokkrar framkvæmdir, p.163. See also Búnaðarsamtök á Íslandi 150 ára. Afmælisrit Búnaðarfélags Íslands 1837-1987 I (Reykjavík, 1988), pp.154-68.

<sup>36</sup> Skýrslur um nokkrar framkvæmdir, pp.166-67.

irrigation project.

The Progressive Party's government believed that further public assistance was needed in order to put the infant dairy industry on a firm footing. In the Finance Act for 1929 the government was authorized to offer financial help to new dairies on the condition that they were operated on a co-operative basis.<sup>37</sup> The assistance was to cover all initial costs, a quarter by direct grants and the rest with credit from the Reserve Fund. In addition to MBF three dairies had been established by 1930, in Reykjavík, Ólfus and Eyjafjörður, all enjoying generous government support. By then they had received 225,000 kr. in public grants in addition to 365,000 kr. credit.<sup>38</sup> The direct support was increased further by a law in 1933 enacting that government grants could amount to 50% of the dairies' initial costs.<sup>39</sup>

Of similar nature was public assistance to establish a small milk canning factory in 1926, Mjólkurfélagið Mjöll, in the district of Borgarfjörður, which also received subsidies on production amounting to 23,000 kr 1926-1929.

Finally, considerable public resources were devoted to establishing credit funds for agriculture between 1925 and 1930. The Housing and Settlement Fund (Byggingar og landnámssjóður) was established in 1928 with direct Treasury contribution, amounting to 400,000 kr. before the end of 1930. Its aim was to offer credit for the construction of rural housing, new settlements and cattle farms in the vicinity of urban areas. Secondly, the Cultivation Fund was thoroughly reorganized in 1925 and given a much more prominent role in providing agricultural credit. It was injected with large sums of public money in the following years amounting to 1,320,000 kr. by the end of 1930. Forming only part of the Fund's capital this money was lent

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<sup>37</sup> Alþ. 1928 A, p. 1120 and 1122.

<sup>38</sup> Skyrslur um nokkrar framkvæmdir, pp.203-4.

<sup>39</sup> Alþ. 1933 A, pp.1116-7. - Stjt. 1933 A, p.281.

to farmers on favourable terms for cultivation improvements and renovation of rural housing. The lending activities of these funds are examined specifically in chapters 15.2 and 15.3.

The fisheries' share in expenditure on economic services increased from 4% in the period 1891-1913 to just under 10% 1914-1930. A significant part of this increase was due to the strengthening of the Fisheries Association which received 60-80,000 kr. a year in the 1920s. Marine biology research was also given more support and some 40-60,000 kr. was spent annually on fish quality inspection. A publicly operated inspection of exported salt fish to Italy and Spain was set up by law in 1910 and was made compulsory in 1921 as had been done in the case of fresh herring just before the war.<sup>40</sup> These measures were crucial for the advance of fish exports since consistent and reliable quality inspection and grading of fish improved the treatment of this delicate product and enhanced its reputation among foreign buyers. The early introduction of national inspection of fish contributed to the high quality of Icelandic fish which gave exporters a competitive edge in foreign markets and helped putting Iceland into a leading place as an exporter of salted cod to Europe during the interwar period.<sup>41</sup>

Two individual measures stand out in terms of public spending on the fisheries. The first was a subsidy of 1.534 million kr. on coal and salt in 1920. Faced with a sharp price fall at the end of the war the State Trading Company was given a monopoly of the sale of coal and a number of other goods in order to get rid of massive supplies.<sup>42</sup> The

<sup>40</sup> Sigfús Jónsson, Sjávarútvegur Íslendinga, pp.125-6.

<sup>41</sup> Sigfús Jónsson, 'International Saltfish Markets', p.30 - Guðjón Friðriksson, 'Borsteinn Guðmundsson yfirlíkumsmaður', þeir settu svip á öldina, Íslenskir athafnamenn III (Reykjavík, 1989), pp.237-44.

<sup>42</sup> Guðmundur Jónsson, 'Baráttan um Landsverslun', p.130.

government ordered it to reduce the price of coal and salt almost in line with the price fall in foreign markets for the benefit of the fishing industry, but the Treasury had to bear the losses.

Secondly, the government decided in 1928 to found a state-owned herring reduction factory for the production of oil and meal with capital cost of 1.540 million kr., falling mostly on the year 1930.<sup>43</sup> The herring industry had become a great public concern during the 1920s because of the often chaotic and highly speculative export trade in herring products which occasionally exposed sellers to very large losses. Calls for public action prompted the government of the Progressive Party to establish a State Herring Export Monopoly (*Sildareinkasala ríkisins*) in 1928 with wide-ranging powers to monitor herring fishing and engage in exports. This arrangement, however, lasted only three years.

The state herring reduction factory was a response to the same problem as it was hoped that big reduction factories financed or even run by the state could promote a more organized market, providing more stability and offering a counterbalance against large foreign buyers who had also stakes in the domestic production.

The state factory was the second biggest of its kind in Iceland and marked the beginning of a prominent state enterprise, the State Herring Factories (*Sildarverksmiðjur ríkisins*). Already in 1935 it was operating four factories valued at 3.3 m.kr. which represented about 57% of the total value of all herring factories in the country operating at that time.<sup>44</sup> Herring reduction was fast becoming the biggest branch of the fish processing industry during the 1930s with herring meal and oil accounting for 28% of export earnings 1936-1940.<sup>45</sup>

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<sup>43</sup> Of this sum, 1.491 m.kr. were incurred in 1930.

<sup>44</sup> Alit og tillögur I, pp.513-14.

<sup>45</sup> Tölfræðihandbók 1984, p.131.

As before, other industries than agriculture and the fisheries received modest public support, totalling 3 m.kr between 1914 to 1930. Trade and commerce got the smallest share or 485,000 kr., of which a large part was spent on supporting two business schools. More money was also spent on marketing and market research undertaken mainly by the national organizations of agriculture and the fisheries, or 274,000 kr. during the 1920s.

Manufacture received 800,000 kr. in public support during the period and the largest item here was grants to vocational education. Other significant items were promotion of domestic woollen industry, advisory service in the construction industry and charcoal research and mining. Some 47,000 kr. was expended in 1930 on a workshop which had been under the auspices of the Office of State Engineer and was now being turned into a full-fledged state company, the State Workshop (Landssmiðjan), employing in its first year 50-60 workers. Its main task was to service the State Shipping Department and other public enterprises, but it also sought for projects from the private sector.<sup>46</sup>

Interestingly, banking services received the biggest public support of these three industries, about 1,790,000 kr. 1914-30. All this money was used to reinforce the publicly-owned National Bank (Landsbanki Íslands) and almost the entire sum, 1,700 kr. was employed to redeem bonds issued by the bank and was regarded as the state's stake in the bank.<sup>47</sup>

We have hitherto examined the principal categories of economic services receiving public financial support and tried to estimate the relative size of government contribution to each of them. It is difficult in the present state of knowledge to take these generalizations further and, for example, attempt to estimate the proportion

<sup>46</sup> Skyrslur um nokkrar framkvæmdir, pp.218-221.

<sup>47</sup> Landsbanki Íslands 75 ára 1886-1961 (Reykjavík, 1961), p.22.

of total investment in the economy attributable to government expenditure. National accounting for this period has not yet reached the stage where we can estimate aggregate investment and other principal components of national income.

The main features of government financial contribution are nevertheless clear, and in the case of individual sectors subject to government involvement, the above account has offered estimates and even concrete evaluation of government contribution. Land transport was entirely financed by local and central government, the latter financing about two thirds of the total investment. Right from 1874 government gave subsidies to coastal shipping companies, but the war marked a turning-point in its involvement. Publicly run shipping service was started and acquired a prominent role in the national coastal sailing.

Harbour facilities entered the public domain after 1900 with local authorities undertaking all the major projects with a growing support from central government, which probably provided about a third of the capital. Central government financed and built all lighthouses but shared the investment costs of other navigation lights with local authorities. The telephone and telegraph service was established as a joint undertaking by the state and Det Store Nordiske Telegrafsekskab, land facilities owned and operated overwhelmingly by the former and the submarine cable by the latter. The financial contribution of central government covered about 60% of the initial capital costs of the service up to 1911, but from then on it was entirely financed and run by the state.

Financial assistance of the state was crucial for agriculture's modernization in the first decades of the century. The bulk of public support was aimed at lowering input costs of various sorts. All major cultivation improvements, which were basically labour inputs, were subsidized up to about one fifth. The public share of financing the big and costly irrigation projects was just under 90% and the government expended considerable sums of

money to public credit funds set up to help farmers make improvements in housing and farming. Other industries were not dependent upon state support to the same degree as agriculture, but government provided financial means for various infrastructural investments essential for their development.

Taken together, these financial contributions indicate a heavy government involvement not only in the major part of the economic infrastructure, but also in key areas of the private sector, particularly agriculture. This meant that a wide range of economic decisions was taken through the political process, particularly by the Althing, and by their very nature, the spending decisions were often influenced by political pressure from social and regional groups as well as calculations of growth inducement for the economy. The economic results of public investment and spending programs is the subject of the next chapter.

12. THE EFFECTS OF PUBLIC SPENDING ON THE ECONOMY

Evaluating the effects of public economic expenditure on the economy is a difficult but an important task. The question must be asked how sensible were political decisions on public spending in terms of economic rationality and what was the actual impact of the different spending programmes. It is of course impossible to make well-founded generalizations about the economic soundness of public expenditure except by careful case by case study of the many different programmes, works and services in question. Rough estimates, let alone detailed calculations, of returns on public investments are almost non-existent for the period under investigation. At best, feasibility studies are available for a number of individual programmes with haphazard calculations of expected returns, often made in order to justify the spending involved. Evaluations of completed projects are on the other hand extremely rare; in fact, the most thoroughly evaluated public programmes were, ironically, the largely ineffective irrigation projects of Skeið and Flóði.

On a deeper level the task of evaluating the economic impact of public investment programmes is made more complicated by the fact that they so often carry heavy externalities which are impossible to measure in a strict economic sense. In order to assess their total economic benefits and losses it would be insufficient to confine such assessment to direct profits and losses on operations of various public works or grants to the private sector. Public spending on economic activities is often meant to have not only economic but social and even political effects as well. On the following pages some of these questions will be dealt with in order to throw light on the economic effects of public expenditure up to 1930. These considerations should not be taken as a comprehensive assessment, rather, we will take stock of the existing material on the issue and consider the major public expenditure programmes in a wider economic context.

When opportunities for the expansion of the public sector opened up towards the end of the nineteenth century the focus of public involvement was obviously centered around transport improvements. Bad harbour facilities restricted the use of bigger ships and increased the costs of loading and unloading. The almost non-existence of roads prior to 1890 meant that people travelled on foot or horseback and goods had to be carried either by people or horses, severely restricting the development of agricultural production for the domestic market. A good transport system was even more urgent on account of the fact that substantial and increasing part of the production was not for household consumption but destined for the market, domestic or foreign.

There is no need to elaborate on the importance of developing a transport system; but the interesting point in the context of public spending is that in a country with such an utterly undeveloped transport system moderate improvements could have great impact and reduce production costs considerably. Throughout the period the bulk of public spending on economic services was devoted to the building of an economic infrastructure for the country. Although its proportion dropped slightly during the period, infrastructure expenditure accounted for about two thirds of the expenditure on economic services during most of the period. Roads, bridges, harbours, telecommunications and the post service, vocational schools, research and development were crucial elements in the economic modernization of the country.

By providing these basic services and utilities the state enhanced the productive potential of the nation and the improved infrastructure extended markets and opened up new ones, lowered transport costs and spread new skills. Generally speaking, rates of return on infrastructural investments were bound to be low due to the economic and geographical features of the country, although the economic impact and returns greatly varied from one program to another.

Not surprisingly, land transport was given a high priority in the Althing as it was most beneficial to farmers by reducing their transport costs. Sparseness of the population, rugged landscape and inhospitable climate limited returns on investment in land transport. Most towns and villages were moreover situated along the coast and their economies geared towards external trade as most of their produce was exported and their consumer and capital goods increasingly imported. The coastal urban areas were therefore less dependent on the rural community for their economic development so long as their growth was onesidedly geared towards exporting fish products. Good roads made the movement of labour evidently easier, but the highly migratory working classes resorted in increasing numbers to the slowly improving coastal shipping services during the last two decades of the century. This goes more or less also for the modest but growing trade and transport of goods between towns.

A second factor limiting the benefits of inland transport improvements in comparison with many other countries was the fact that demand for bulky materials like coal, salt, lumber and iron was mostly confined to the seaside towns. As Iceland had none of these materials they had to be supplied by ships from abroad, and the linkage effects of inland transport improvements were therefore limited.

This being said, the importance of agriculture in the national economy must be acknowledged. National income derived directly from agriculture was very large, although declining, and improved land transport therefore made a direct impact on a major part of the economy. The self-sufficiency of rural households has been somewhat exaggerated in many historical writings: the fact is that farmers were traditionally dependent on trade to a large extent. A good part of their produce was sold and many of their consumables were bought in the market. Trade was essential for farmers who had to make long journeys with their produce to the trade ports on the coast and bring home

household provisions.

Great importance was attached to roads because other means of inland transport did not prove economically viable, neither canals nor railways, although the latter was seriously considered for a time. Rural transport gradually improved as the road network spread and travel became easier and faster. Of particular importance were the bridges over the big rivers which had been major obstacles to travel. The roads paved the way for carriages as a means of transport and automobiles from the 1920s onwards. Yet the number of cars in 1924 was only 311 and by 1930 1434.<sup>1</sup> The road works themselves provided quite a number of people in the rural community with money incomes, so rare in the countryside, during spring and early summer before labour demand in agriculture reached its peak. Another result of the road works, and especially the big bridge constructions from 1890 onwards, was the accumulation of experience in big engineering projects.

The increase in expenditure on land transport in the early 1890s roughly coincided with the founding of the State Engineer Office and the introduction of a national road plan. It was an ambitious plan based in the main on economic considerations where priority was given to the "transport roads" which would carry the bulk of the traffic in goods and people. The adoption of national road plans early on drawn up by cost conscious management seems to indicate that priorities in road and bridge constructions were shaped on the whole by economic rather than political considerations. Spending on transport soared in the next decades and 1.6 million kr. was spent up to the war. The roads were certainly not of the same quality as in most other countries, but they marked a significant improvement and gradually became suitable for carriages, in contrast to roads built earlier, which were not passable for carriages except in the nearest vicinity of towns.

Despite better roads the use of carriages spread

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<sup>1</sup> Tölfræðihandbók 1984, p.149.

slowly. Not only had people to get used to this new mode of transport, but it required both private investment in vehicles and the building of a road network from scratch. Nevertheless, demand for roads rose and they became vital for expanding trade and the rise of the creameries after the turn of this century. Smaller carts seem to have been most popular, but bigger vehicles such as the post coaches taken into use in the year 1900 spread rapidly in the course of the next years as the road network expanded.<sup>2</sup> Satisfying demand for roads and bridges also paid political dividends as when MP's managed to ensure their voters a stretch of road in the constituency. With considerable sums of money being spent on land transport there was always some room for politicking. As automobiles grew in number during the 1920s demand for roads was boosted and a kind of road boom took place in the last five years before 1930.

One of the most important contributions of the improved road system in the long run was to link the rural economy more firmly with towns and allow a more varied and cheaper agricultural produce to enter the urban areas. The expansion of land transport was therefore a precondition for a national market, which farmers evidently had not been much concerned with earlier on due to the small size of urban areas and low incomes of the working class. But urbanization was well under way after 1890 and by the turn of the century about 14,000 people or 18% of the population were living in localities with over 300 inhabitants; by 1930 the respective figures were 60,000 and 55%. Fast rising real wages of the working class during the inter-war period were the other major factor in the growing demand for agricultural produce.<sup>3</sup>

On the supply side two major changes had to take place in order for the rural areas to take advantage of the

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<sup>2</sup> Magnús Grímsson, 'Um vegagerð og hestvagnaferðir á Suðvesturlandi' Landnám Ingólfss II (1985), pp.96-100.

<sup>3</sup> Magnús S. Magnússon, Iceland in Transition, p.126.

potential home market. One was to improve productivity and shift production towards dairy farming, the other to establish good land transport. The low consumption of milk in Reykjavík and other towns well into the inter-war period clearly signalled a need for adjustment in agriculture to take advantage of the potential market. Insufficient supply of agricultural products at affordable prices to the urban working classes turned them increasingly to imported foodstuffs (margarine, corn, sugar, coffee and even potatoes) or to grow their own vegetables and rear their own milking cattle. Strange as it may seem, the agricultural society in Reykjavík had the greatest number of recorded "daysworks" devoted to agricultural improvements in the country up to the mid-thirties as already mentioned. Improved transport helped bring about the shift to dairy production from the home market so that milk, butter and lamb gradually became more readily available and more affordable to the working population in urban areas. Active home market development policy can, however, hardly be said to have begun until the advent of the dairy industry in the late 1920s.

Sea transport, in contrast to investment in roads and bridges, was given a low priority in fiscal policy for the most part of the period and only after 1904 did this order of priorities start to change. Spending on lighthouses greatly increased from 1907 onwards, harbours from 1912 and coastal sailing from 1914, but government involvement in shipping during and after the war made the biggest impact. The modest political support for this kind of investment corresponded to the different weight given to industries in fiscal policy in general. Top priority was given to agriculture and infrastructure directly related to it while the fisheries and their infrastructure enjoyed much less support. But there is another explanation for the modest expenditure on harbours and navigation facilities. As the economy was hardly developed at all in this respect at the start of Iceland's financial autonomy in 1874 initial investment required for projects of this kind was great.

Capital for harbour facilities was particularly lumpy, a fact that took the town council in Reykjavík more than half a century to realize.<sup>4</sup> Considerable financial resources as well as political will were therefore needed to undertake these projects.

Lighthouses were particularly beneficial to overseas shipping and foreign fishing vessels. Earlier on Icelandic fishermen were more concerned with harbour and other smaller navigation lights, but they were quick to realize the importance of lighthouses as the use of decked vessels spread. They greatly increased the safety of seafarers and lengthened the yearly sea traffic time, but overseas shipping was almost non-existent during the severest months of winter. It is an interesting fact that lighthouse dues exceeded expenditure on lighthouses well into the first decade of this century.<sup>5</sup> They had been introduced with the erection of the first lighthouse in 1878, and as no other lighthouses were built until 1898, they piled up in the Treasury to be used for general purposes. Despite demands from the Danish side and the fishing sector, little change occurred until the dues were raised in 1907-1908, and together with cheaper light generators, this facilitated the spread of lighthouses. An attempt to legislate a national construction programme for lighthouses parallel to that of bridges from 1919 was made in the early 1920s to no avail.

Good harbours were of the utmost importance for both the fisheries and commerce, yet very little was spent on them until after the turn of the century. Since there was no investment programme enacted before 1930, allocation was subject to political pressure from the constituencies. As a

<sup>4</sup> Three times between 1857 and 1896 the Reykjavík council had Danish engineers design a master-plan of a new harbour, all rejected mainly on grounds of high costs. It was not until 1911 that the council finally agreed to invest in major harbour facilities. See Zimsen, Knud, Ur bæ i borg (Reykjavík, 1952), pp.143-208.

<sup>5</sup> Krabbe, Thorvald, Island og dets tekniske udvikling, p.149.

rule, spending proposals were made by individual MP's or a group of MP's for harbour facilities in their constituencies without any previous technical or economic feasibility research. In a resolution passed in the Althing in 1915 the government was requested to undertake a feasibility research on harbour facilities in major fishing stations around the country and offer cost estimates. This research was done 1918-1921, but no programme was formulated or enacted on the basis of it.<sup>4</sup>

As it happened though, the bulk of central government spending on harbours up to 1930 was allocated to two major projects, which were without doubt of national economic importance. One of them was the Reykjavík harbour which was long overdue when work started in 1913. The town had endured poor facilities for a long time which severely strained its growth. Considering Reykjavík's size and importance in the national economy, especially its prominent place in the fisheries and trade, it is interesting that no docks, berths or slipways existed before the turn of the century. Only small piers were available for fishermen and merchants, either the "town pier" or piers owned by the bigger merchants, often in return for charge. Decked vessels had difficulties in berthing and only after extension of one of the piers in 1895 was the first steamship, a small 50 tons freighter, able to berth.<sup>5</sup> Bigger fishing vessels and cargo ships still had to be loaded and unloaded piece by piece at anchorage by boats and barges, causing great delay and requiring much labour and boats.<sup>6</sup> In 1907 the biggest fishing company in the country decided to set up a fishing station in the island of Viðey, just off Reykjavík coast, primarily because of poor harbour facilities in Reykjavík. The decision proved, however, to be of great disadvantage to

<sup>4</sup> Finnbogi R. Þorvaldsson, 'Hafnargerðir', pp.42-3.

<sup>5</sup> Zimsen, Knud, Úr bæ i borg, p.161.

<sup>6</sup> Zimsen, Knud, Úr bæ i borg, p.178-9, 207. - Gils Guðmundsson, Skútuöldin V, pp.39-45.

the company in the long run. When the new harbour in Reykjavík was taken into use during the war the town established itself as the centre of the trawling industry as well as the country's centre of trade.

The second biggest harbour project was in Vestmanna Islands off the south coast, situated near one of the best fishing grounds in Icelandic waters. The new harbour was built during the twenties and thirties and greatly stimulated the growth of the settlement in the Vestmanna Islands, becoming the second largest fishing port in the country after Reykjavík.<sup>7</sup>

Government involvement in shipping before 1914 was basically confined to subsidization of private companies providing coastal shipping services. These subsidies amounted to 4.5 million kr. for the whole period up to 1930, whereof nearly 3 million kr. were spent 1914-1930. It is difficult to say how shipping would have developed without state aid, but its advance would have no doubt been much slower. A large part of the subsidies can be seen as a vital ingredient of public regional policy aimed at supporting the numerous settlements along the long coast, which were too small to attract private companies. The routes thus provided were immensely beneficial to these settlements, and in some cases were the lifeline with the wider world.

The subsidized shipping was, however, not confined to the smaller ports, although they proved to be the most uneconomical part of the "package" of scheduled lines agreed between the government and the shipping companies. The Althing was also in a sense a representative for the general customer of the services, trying to bargain collectively with the shipping companies for cheaper and better service for quite an important part of the national shipping. In its numerous negotiations the government tried on behalf of the Althing not only to obtain more favourable fares and increase the destinations in the country itself, but also to

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<sup>7</sup> Sigfús Jónsson, The Development, Appendix V.

extend the links with Britain and later Germany for the benefit of foreign trade.

Coastal sailing was becoming an ever more important means of transport during the last decades of the century. Better sea transport no doubt increased competition in trade in the smaller ports and facilitated also labour migrations, traditionally quite common due to the seasonal variations in demand for employment. Instead of travelling by foot or on horseback, workers used increasingly the scheduled routes, especially with the spread of herring fishing during summer in the North and East after 1900. The dominant shipping line in Iceland, DFDS, did not face serious competition for most of the pre-war period, but when it did, the terms of agreement became more favourable for customers. Herein lies the value of the abortive attempt of the Althing 1896-7 to run a public service, which was the first time DFDS faced competition. The short-lived public shipping service offered lower freight rates and, more importantly, forced the DFDS to offer better terms for its customers, secured in a new agreement in 1897 which lasted many years.<sup>10</sup> This happened again when the Thore shipping company, starting its operations after the turn of this century, made successful bids for part of the scheduled lines in 1910.<sup>11</sup>

As the result of the great government involvement in shipping during the war coastal sailing became a direct public charge - at a considerable cost. The total sum of money poured into the state shipping service was 7.9 million kr. between 1917 and 1930, divided between capital costs of 4.8 million kr. and 3.1. million kr. operational expenditure, the latter mainly absorbed by the loss making coastal services. This public enterprise was initiated under extremely adverse circumstances with prices rocketing and shipping in general precarious. Sterling, the ship used exclusively for coastal sailing, made a loss of 1.4 million

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<sup>10</sup> Þorleifur Óskarsson, 'Siglingar til Íslands', p.104.

<sup>11</sup> Ibid, p.58-60. - Guðni Jónsson, Eimskipafélag, 29-31.

kr. from 1917 until it was stranded in 1922. The second, Borg, broke even, while the third, engaged entirely in overseas operations, returned big profits.<sup>12</sup> The operation of Esja, bought in 1923 for coastal service, had to be subsidized from the start with a sum of 1.3 million kr. up to the end 1930, excluding management costs of roughly 270,000 kr, paid to the Icelandic Steamship Company. By 1930 government had assumed the full responsibility of providing national coastal service with the financial burden it entailed as it was clear that no private company was ready to run it on its own account.

The telegraph and telephone services set up after the turn of the century had significant and immediate impact on the economy. The poor communications with other countries had been a great handicap for trade and commerce, which as a result were given a great boost. One of the concrete economic effects of the telegraph was that it greatly contributed to the transfer of wholesale trade from Denmark to Iceland and was thus an important stepping stone towards economic independence from Denmark.<sup>13</sup> Domestic industries were also affected directly and indirectly by the telegraph, especially the fisheries, where rapid changes in the fish catch and supplies to the fishing industry required speedy information. Herring fishing has often been mentioned in this context because of the highly changeable and migratory nature of the herring stock.<sup>14</sup>

The operation of the telegraph and telephone services also proved to be a financial success in itself. Data on the operation of the submarine cable owned by Det Store Nordiske is not available, but it turned out to be far more

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<sup>12</sup> Guðmundur Jónsson, 'Upphaf ríksiafskipta', p.89.

<sup>13</sup> Helgi Skúli Kjartansson, 'Reykjavík sem verzlunarmiðstöð 1875-1945', Reykjavík miðstöð þjóðlifs, Safn til sögu Reykjavíkur (Reykjavík, 1978), pp.176-8.

<sup>14</sup> See for instance Kristján Albertsson, Hannes Hafstein. Ævisaga II (Reykjavík, 1963), pp.15-16.

Table 33 THE FINANCE OF THE STATE TELEGRAPH AND TELEPHONE SERVICE, 1905-1930

thousand krónur  
at current prices

year	revenue	expenditure	net income	expend. Treasury outside Budget	financed investm.	other investm.
1905					11	
1906	19	281	-262		244	292
1907	46	195	-149		110	5
1908	67	322	-255		269	43
1909	92	170	-78		87	23
1910	107	164	-57		73	10
1911	124	191	-67		52	4
1912	146	316	-170		124	12
1913	171	206	-35	102	111	7
1914	218	169	49	224	224	7
1915	291	153	138	124	144	4
1916	379	269	110	84	143	10
1917	496	313	183	127	163	2
1918	641	535	106	102	138	
1919	844	649	195		526	
1920	1098	1204	-106	300	558	15
1921	1051	1157	-106		157	4
1922	1111	1194	-83		377	3
1923	1053	1117	-64		144	
1924	1417	898	519		44	7
1925	1455	1352	103		180	8
1926	1398	1316	82		211	20
1927	1506	1396	110		386	19
1928	1656	1524	132		319	14
1929	1787	1621	166		376	33
1930	1860	3138	-1278		900	22
total	19033	19850	-817	1063	6069	564

Sources: LR 1906-1930. - Skýrslur um nokkrar framkvæmdir, p. 58. - Albt. 1911 A, 1066.

Notes: Revenue, based on Skýrslur, varies only slightly from figures given in LR. - Expenditure, based on LR, comprises both capital and operational expenditure, but a breakdown can be worked out from the last two columns, which if added up give total investment. - Data on Treasury financed investment is taken from Skýrslur except for the period 1905-1911, which is from Albt. 1911 A, 1066; the aggregates in the two series, however, are identical. -Part of the expenditure was kept outside the Budget and financed by 1.1 m.kr. government loans taken in 1913, 1916 and 1917 according to a law no.35/1913. This spending is not counted as public expenditure in the thesis but is included in the Treasury investment outlays in the table. - The last column shows local authorities' outlays except in 1906, which is Det Store Nordiske contribution and is kept out of the STTS accounts.

profitable than the company had expected. As for the land facilities the STTS started to return profits on its operations already in 1914 despite hefty expansion and huge capital injection during the first years. But in the turbulent early 1920s the company ran into difficulties and made heavy losses until the corner was turned in 1924 and right up to the 1930 when huge new investment was made.

There was a constant wrangle in the Althing over the money allocation to the STTS in the early years as MPs tried to ensure their constituencies "their" share in this new glorious technology. Allocation motivated by political considerations was however restrained by two factors. The head of the STTS exerted strong influence on investment priorities backed by a national plan enacted in 1913, which entailed a priority order based principally on population size and the economic importance of regions.<sup>15</sup> Secondly, the principle of cost-sharing between central and local governments from the very beginning encouraged local authorities to show restraint in their demands and presumably more efficient use of resources. Except for the national grid between Reykjavík, Ísafjörður and Seyðisfjörður, the districts were required to pay one third of the cost of the lines, a rule that was repealed in the law of 1913 with a much less contribution demanded of the local authorities.<sup>16</sup> From now on a fixed amount was to be paid by the districts for a certain number of lines but central government was to carry the overall financial responsibility of the service.

Turning now to public support to agriculture we see in the following figures that government spending amounted to 13.8 million kr. from 1874 to 1930. This includes the 1.389

<sup>15</sup> Stjt. 1913 A, pp.46-48.

<sup>16</sup> Alþt. 1907 B, p.118-19. On the whole this cost share formula was adhered to, although the cost-share in individual cases could greatly vary, cf. Alþt. 1911 A, p.1067. - Stjt. 1913 A, pp.46-48.

kr. debt incurred by irrigation projects which was taken over by government. The breakdown of the total sum is as follows:

education	1.577	million kr.
research and development	3.126	-
irrigation	2.440	-
grants to farm improvements	2.471	-
other cultivation programmes	0.834	-
veterinary services	0.837	-
other expenditure	2.563	-
	-----	
	13.848	million kr.

By giving agriculture this financial support, very modest at first but rising to significant amounts towards the end of the period, the state played a crucial role in modernizing this biggest sector of the economy. Education, research and development accounted for one third of the total expenditure on agriculture over the whole period. Their beneficial effects were to introduce modern technology to farmers, provide them with skills which enhanced their farming, and help adapting the accumulating knowledge in agronomy to Icelandic circumstances. The state provided almost all these basic inputs to agriculture as there was hardly any research or formal education that was not funded out of the public purse.

Secondly, public spending on farm improvements rose sharply towards the end of the period, accounting for 5.7 million kr. or more than 40% of total spending on agriculture. How successful these major efforts were in terms of agricultural production and productivity is difficult to say as there are no studies available on their overall results; only individual aspects have been treated in the historical literature. Here we consider the two biggest programmes initiated during the 1920s which together represent over 70% of expenditure on cultivation, i.e. the irrigation projects and the grant system provided in the Cultivation Act of 1923.

The economic outcome of the irrigation projects initiated during the second and third decades of this century have been more studied by contemporaries and

historians than any other public agricultural programmes up to 1930 and even beyond.<sup>17</sup> The three biggest projects entailed almost 17,000 ha of mainly marshlands involving 205 farms. It is impossible to measure with any precision the effects of the irrigation on hay production in the areas involved, but evidence indicates a moderate increase in hay crops as a result and quite a substantial one where the irrigation work was carried thoroughly out and protected from grazing livestock.

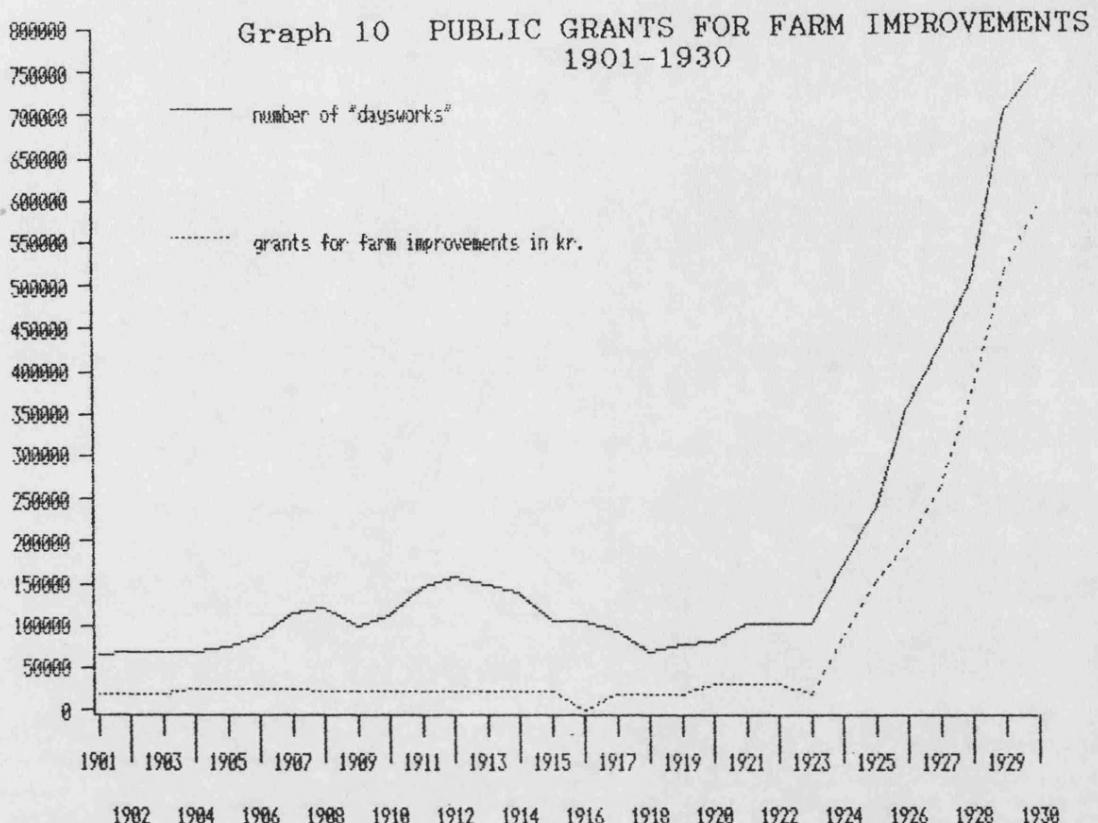
The annual crop of meadow hay in the Skeið area increased from 1183 tons on average in the period 1901-1924 to 1585 tons 1925-1934 or by no less than a third after the irrigation was taken into use. As a result, the farmers in the area were able to increase their livestock, particularly milking cattle. In the Flói area (where the Flói and Miklavatnsmýri projects were carried out) the results were not so good. Annual average meadow hay-crops increased from 6378 tons 1900-1929 to 6946 tons 1930-1934 or just by 9%.<sup>18</sup> It is worth noting, however, that this increase in output was obtained with less manpower than before the irrigation projects were started.

This increase in hay production, however, was much less than predicted in the feasibility studies on which the rationale of the projects rested. There were many reasons for this. One was inadequate soil and water analysis which undoubtedly led to the overestimation of the increase in yields which these projects were meant to bring about. Secondly, the irrigation system had primarily short-term benefits in that the nutritional ingredients in the soil deteriorated over time. Thirdly, parts of the irrigation works were inadequately designed and never worked as they

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<sup>17</sup> See in particular Helgi Skúli Kjartansson 'Aveiturnar miklu', pp. 330-60, on the Flói and Skeið irrigation projects and the sources referred to there. The following discussion owes much to this study on the economic outcome of the irrigation works.

<sup>18</sup> Sigurður Sigurðsson, Búnaðarhagir, p.143.



Sources: Sigurður Sigurðsson, *Búnaðarhagir*, pp.187-8.

Notes: Public grants include grants to agricultural societies and grants according to the Cultivation Act of 1923. The sums refer to actual grants received by farmers.

were intended to. But most important was the fact that farmers did not take the irrigation network fully into use so that the increased output fell far short of the predicted targets. Of the nearly 11,500 ha. in the Flóði irrigation area only 6,600 ha. were in use by 1939.<sup>19</sup> The reason was that farmers were turning to more advanced hay production on tended hayfields at that time, using artificial fertilizers, harvesting machines and tractors, which greatly increased output and productivity. Hay production by irrigation was becoming an obsolete technique already at the time when the decisions were taken to undertake the irrigation projects.

<sup>19</sup> Erlingur Brynjólfsson, 'Aveiturnar í Flóðann og Skeiðin' (unpublished B.A. thesis in history, University of Iceland, 1981), p.58.

The second major effort to boost agricultural production was the farm support scheme in the Cultivation Act of 1923. Evidently, the fast increasing sums spent on grants to farmers from 1924 onwards indicate an acceleration in farm improvements since they were linked to the quantity of farm improvements. Graph 10 shows the total amount of "daysworks" recorded in the public statistics 1901-1930 and the value of government grants to farm improvements. The graph demonstrates how the grant system dramatically encouraged farm improvements.

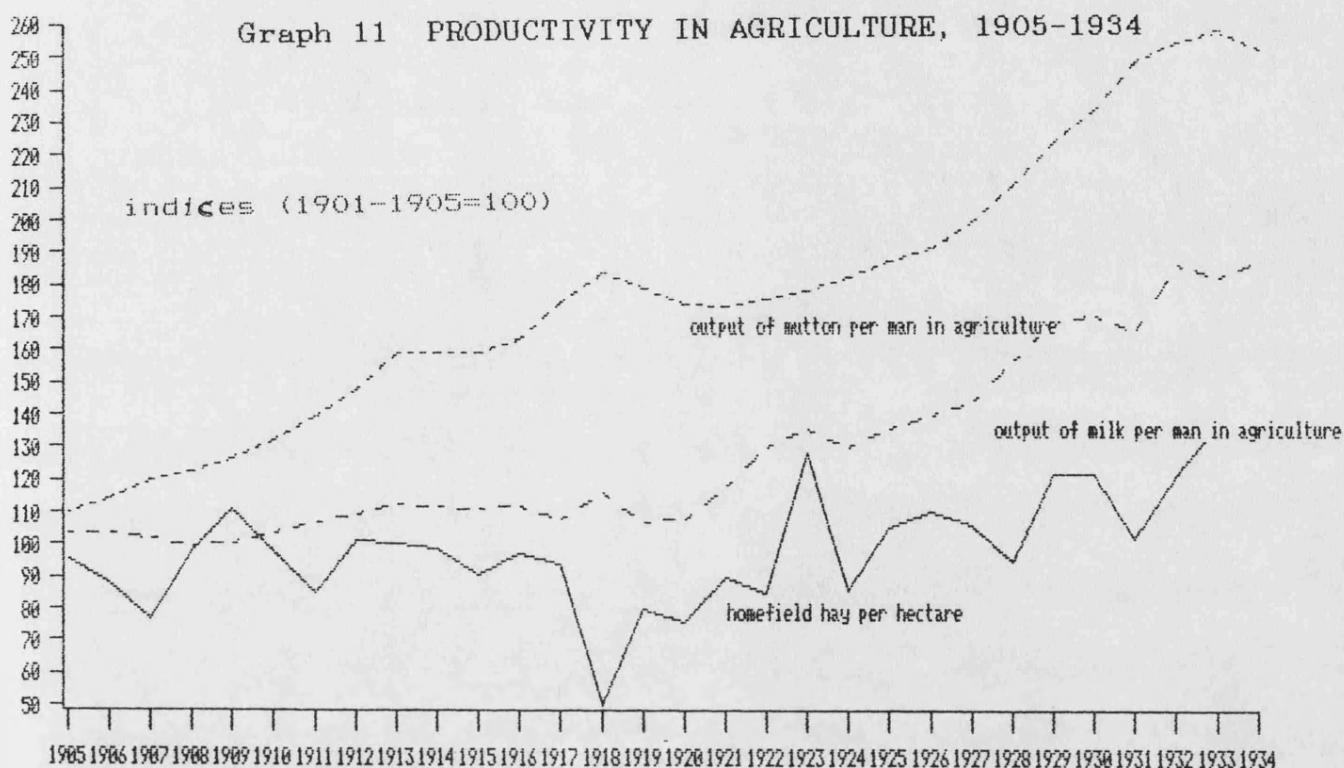
A more concrete evidence of the impact of the new system is the increase in hay production which was on average 17% larger 1925-1934 than in the ten preceding years. One of the primary targets of the farm improvement schemes was to increase hay production, and this figure indicates considerable success, although the output of harvested hay was, of course, determined by other factors as well.

Hay production is directly linked to output of milk and to lesser extent mutton, the two most important agricultural products apart from wool. Output shows an annual growth of 3% for milk and 2.7% for mutton 1924-1934 as compared to a 0.6% growth rate for both products 1914-1924.<sup>20</sup> The aim of the government schemes was not only to increase agricultural output but to promote a more efficient hay production by shifting it from the extensive meadows and marshlands to the tended homefields, which gave higher yields. This proved successful as ever bigger part of the hay was harvested on the homefields and the increased hay-crops in turn allowed farmers to extend their livestock at a time of declining farming population. The result was higher productivity in farming as graph 11 demonstrates in regards to milk and mutton production per man in agriculture. Farmers were, however, much less successful in increasing

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<sup>20</sup> See sources in graph 11.

Graph 11 PRODUCTIVITY IN AGRICULTURE, 1905-1934



Sources: *Alit og tillögur I*, pp.164-5, 274. - Sigurður Sigurðsson, *Búnaðarhagir*, pp.66, 113, 229-30. - Table 2.

Notes: Output of milk has been slightly reduced for the years 1901-1906. - As data on the economically active population in farming is only available in the decennial censuses a constant growth rate between the census figures is assumed. The figures are unchanged for 1930-1935. - The acreage of hayfields is underrecorded for the first years of the century, which consequently exaggerates the actual yields per hectare.

homefield yields until the late 1920s.<sup>21</sup>

The farm improvements supported by the Cultivation Act were only one factor in raising agricultural yields, even more important was the use of chemical fertilizers, which allowed farmers to break through traditional limitations on output. Imports rose steadily during the 1920s from mere 14

<sup>21</sup> However, the size of tended homefields (*tún*) is in all likelihood underrecorded during the first decade of the century and gives therefore higher yields per hectare than they actually were, cf. *Alit og tillögur I*, p.274-5.

tons in 1920 to 3285 tons in 1930.<sup>22</sup> Government subsidies on fertilizers, beginning in 1929, clearly encouraged more imports and with the BI having a say in the buying decisions, great emphasis was put on the imports of high-yielding fertilizers.<sup>23</sup>

Although the success of public efforts to encourage agricultural production is not in doubt in general, this policy had a serious weakness as an overall long-term strategy for agriculture. Its economic rationale was based on the unrealistic assumption that the bulk of the increased output would be marketed overseas. The irrigation projects and the farms support programmes were a part of grand development schemes in agriculture drawn up after the turn of the century, but first given muscle in public policy after the war. Agriculture was alleged to have a great growth potential provided that intensive cultivation of good farmland was taken up instead of one-sided sheep raising based on the use of extensive grassland. Cultivation was a more efficient way of farming, it was claimed, and would allow farmers to increase their dairy cattle to produce milk for the growing urban areas, but the greatest growth potential was always considered to be in exports of butter and cheese and even meat. The creameries set up after the turn of this century exported their butter with some success, but they were economically weak and most of them ceased operation after the war.

The problem of inadequate markets does not seem to have been seriously considered. Exporting dairy products proved to be a totally unrealistic assessment of foreign markets and the competitiveness of Icelandic agriculture, yet on this strategy hinged most of the development schemes in agriculture during the first decades of the century; a miscalculation that farmers and policy makers did not fully come to terms with until the Great Depression of the 1930s.

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<sup>22</sup> Sigurður Sigurðsson, Búnaðarhagir, p.116.

<sup>23</sup> Skýrslur um nokkrar framkvæmdir, pp.165-7.

All the profitability assessments of the farm support programmes were based on the premises that dairy farming would emerge as an export industry, but the major growth area turned out to be the home market, however small and weak it was. In this respect public support to hay production and cattle farming made sense as a development policy. Together with improved transport these investments made milk production more abundant and efficient and dairy products became as a result cheaper and more readily available for the urban population.

These investments were, however, to lead to overproduction of milk already in the early 1930s after a number of dairies had started their operations with firm public backing. The government response to the almost chaotic milk market was to set up the Milk Marketing Board in 1935 which took control of milk marketing nationally and new regulations virtually eliminated competition among producers. These events indicate a serious lack of co-ordination and realistic assessment of demand by the government whose crucial support to the nascent dairy industry made it largely responsible for its development.

Considering public support to agriculture in the context of general industrial policy it could be argued that from the point of view of economic growth a better use of public money would have been made by advancing the fishing sector and the infrastructure required for its development. The fisheries were rapidly expanding at the end of the nineteenth century and making greater contribution to the national income than any other industry. Of the two main industries, the fisheries were yielding higher returns than agriculture and the discrepancy in profitability was by all accounts increasing throughout the period due not least to the rapid technological advance in the fisheries after 1900. Trawling fishing became the most capital intensive industry in the country with turnover previously unknown. One of the first trawlers cost 153,000 kr. in 1907 and after only three

years of fishing it had paid its initial capital costs.<sup>24</sup>

It is therefore true in one sense that higher returns on public investment could have been made by giving the fisheries priority in fiscal policy. They could have done with much more public support than they received for there were obvious and serious bottlenecks which public assistance could have remedied. Infrastructural investments such as harbour facilities and lighthouses rank high in this context, but of similar nature were shipyards, slipways and repair facilities, which were remarkably slow to develop compared with the growth of the fisheries.

Still, to give unqualified public support to the already dominant sector of the economy, which secured no less than 85% of the export earnings in the 1920s (saltfish alone with 60%) would have further accelerated the monocultural tendencies in the Icelandic economy. The essence of the Icelandic industrialization was the revolution of the fishing sector which based its earnings overwhelmingly on exporting salted fish.<sup>25</sup> The agricultural sector experienced similar, although, less intensified, export-led growth with mutton and raw wool as the most marketable goods. Lacking most resources and almost entirely a modern manufacture base, the economy was geared towards the production of few staple goods for foreign markets to such a degree that higher export concentration was hardly, if at all, to be found in Europe; it was,

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<sup>24</sup> Heimir Þorleifsson, Saga íslenzkrar togaraútgáfðar, pp.70, 80 and 125.

<sup>25</sup> Salted fish, however, was not a homogeneous product, but comprised a number of products, varying with type of fish and cure and each having its own clientele in foreign markets. On the other hand, the wider market was confined almost exclusively to the poor agricultural countries of southern Europe, Spain, Portugal and Italy.

A good overview of the Icelandic fisheries in the international context is given in Sigfús Jónsson, 'International Saltfish Markets and the Icelandic Economy ca.1900-1940' Scandinavian Economic History Review XXXIV (1986), pp.20-40, and his 'Alþjóðlegir saltfiskmarkaðir og saltfiskútflutningur Íslendinga 1920-1932', in Heimir Þorleifsson (ed.) Landshágrir (Reykjavík, 1986), pp.233-71.

however, a common characteristic of underdeveloped economies all over the world.

The path of Iceland's economic development was even narrower for the emphasis on increasing output in export industries without simultaneously forming linkages with non-exporting activities and the infrastructure. Export promotion policy did nothing to halt - and even contributed to - the tendency of the nation to become less and less self-sufficient not only in food and clothing but in all its needs as a wider range of consumer goods became available and the need for various capital goods grew stronger. Knitted fabrics, homespun cloth and simple tools were replaced by imported clothes, implements and machinery. Townspeople's diet consisted more and more of imported cereals, sugar and margarine instead of the traditional home-produced fish, mutton, butter and yoghurt (skyr). Most capital goods for agriculture (machinery, fence material, artificial fertilizers as well as salt and feeding stuff) and the fisheries (all ships and great number of the boats, most of the fishing gear, oil, coal and salt) were imported.

These trends in the economy had their disadvantages. The large overseas trade needed for this type of economy was costly, small as the nation was, and the principal markets a long distance away. Imported goods tended therefore to be expensive and enormous amount of capital tied in trade and transport. Furthermore, exported goods were basically non-manufactured raw materials and food stuffs with lower value added than the circumstances allowed. More serious was the vulnerability of the economy in general to changes in demand and supply of fish, both of which tended to fluctuate wildly and create long-term economic instability. The reliance of a single commodity had the most devastating effect during the Depression when the saltfish market in Southern-Europe almost collapsed.

Thus, economic policy aimed at the advance of a homogeneous fishing sector was not likely to promote a balanced growth, a more stable and broadly based economy. There were a number of measures which could have acted

against the "pressure towards peripheralization", some of which were adopted in public policy as we have already discussed. Going further along this path would have entailed the advance of the economic infrastructure on a broader front, a more vigorous home market development policy and attempts to diversify the production for foreign markets. Economic strategies of that sort were given considerable prominence in the 1930s, but until then public policy was in the main orientated towards intensifying and advancing existing economic activities.

### **PART THREE**

#### **THE BUILDING OF THE FINANCIAL INFRASTRUCTURE**

### 13. THE CREATION OF ICELANDIC CURRENCY AND CENTRAL BANKING

#### 13.1. Money supply in a barter economy

The creation of a financial infrastructure comprising a currency, a central bank and a commercial banking system was one of the most fundamental tasks that Icelanders were faced with on their journey to a modern capitalist economy. The advent of modern banking in Iceland is the subject of this part of the thesis and in particular the ways in which the state contributed to the creation of an institutional framework of this activity. We will not concern ourselves with a detailed description of the structure and function of the banking system, but focus on its operations where government had direct bearing or was itself in control of money institutions.<sup>1</sup>

At the beginning of the period under investigation no proper banking institutions existed in Iceland except a handful of tiny savings banks. There was no institution to carry out central bank functions and a commercial bank was first established in 1885. The undeveloped financial infrastructure was a manifestation of an economic backwardness which was a great handicap for the country's development. Currency exchange, for example, could not be handled in the country causing great inconvenience for the relatively big foreign trade, which as a result was tied even more closely to Danish merchant capital. The first attempt to enter the British market for live sheep was made in 1866 when a Scottish merchant agreed to buy Icelandic sheep for 130,000 kr. As there was no institution to handle foreign exchange transactions in Iceland the seller, Þorlákur Johnson, had to take pounds sterling from Scotland to Denmark, exchange them for Danish rigsdals, return to Scotland and then board a ship heading for Iceland to

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<sup>1</sup> Icelandic banking history is still very patchy, in particular when it comes to more general questions about banking and economic development. Many important issues touched on here can only be given a tentative treatment.

collect the sheep.<sup>2</sup>

As the issuing of money came under Danish jurisdiction no special arrangements were made to provide the Icelandic economy specifically with currency during most of the nineteenth century. The Danish National Bank notes had been the legal tender since 1850 and as Danish currency laws applied to Iceland the currency was changed from silver to gold and the króna replaced the old rígsdal by law in 1875 as had been done in Denmark two years earlier.

Despite an undeveloped money economy and a high degree of self-sufficiency ready money seemed to have been in short supply in Iceland from very early on and complaints about currency shortage became ever more frequent during the second half of the century. Iceland's monetary history still waits to be written so only two observations will be made on this particular point. First, there was no institution in Iceland responsible for providing the economy with an elastic money supply during the whole of the nineteenth century, and this lack became more serious towards the end of the century as the economy expanded and became more monetized. In fact, the notion that there was or should be an Icelandic money supply separate from that of the "mother-country" was hardly expressed until the last three decades of the century.

Another and even more important factor in the liquidity conditions of the economy was the financial arrangements in both domestic and foreign trade. They seem to have constituted a serious leakage of money from the national economy to Danish merchant houses and financial institutions. Trade was carried out in several dozens of trading ports where merchants and traders supplied the

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<sup>2</sup> Páll Eggert Ólason, Jón Sigurðsson V (Reykjavík, 1933), p.281. Unfortunately, though, the ship ran aground off the coast of Scotland and never made the trip to Iceland. The second ship got to Iceland but managed to collect only part of the sheep arranged to be exported.

farmers and fishermen with foreign goods, salt, fishing gear, lumber as well as consumer goods in return for domestic produce. But since this produce was only available in their respective seasons the merchants were obliged to give long credits and the customer accounts were as a rule only settled once a year. The customer knew first then how he had fared in his trading with the merchant, because the price of his produce and the goods he had bought was not fully determined by the merchant until then.<sup>3</sup> The vast majority of people was constantly in debt to their merchant and consequently more or less in his power. The direct trade between the three main trading groups in society, farmers, fishermen and townspeople (consumers) was also overwhelmingly barter trade as indicated by the fact that no business in Reykjavík traded exclusively in domestic goods in 1870.<sup>4</sup>

This truck system applied equally to the labour market where payment in kind was the rule. Agricultural labourers were normally paid in livestock, wool, tallow or butter, whereas non-agricultural workers, employed mainly by fishing farmers, merchants and fishery businesses, which also were engaged in trade, took their wages in goods from the employer's shop or in fish products which they then sold to the merchant.<sup>5</sup>

Even taxes were more often than not paid in kind or they were debited to accounts in the trading companies who saw to it that taxes were paid to the tax collectors and repaid by the customer in goods. The form of tax payment varied of course between areas. In the tax reform commission's report in 1877 it is stated that taxes in the south and west are most frequently paid in goods or money

<sup>3</sup> See for example Sighvatur Bjarnason, 'Verslunarliðið í Reykjavík um 1870', Landnám Ingólfss I (1983), pp.151-2.

<sup>4</sup> Ibid, pp.144, 151-2.

<sup>5</sup> Jón Guðnason, 'Greiðsla verkkaups í peningum. Þáttur í sjálfstæðisbaráttu íslensks verkalyðs', Saga XXIII (1985), pp.7-57.

but rarely through the merchants' accounts, whereas in the north and east the last mentioned is the most common form of payment, followed by money payments, but very little is paid in kind.<sup>6</sup> Money as a medium of exchange was therefore primarily used in transactions between merchants and government. With the new tax system enacted in 1879 people were obliged to pay more of their taxes in money as in the case of the income and house taxes, but the land and mobile assets tax could be paid in kind or through the merchant's account.<sup>7</sup>

Although customers' debts could be a heavy burden on the merchant as when fish did not strike on the coast, the truck system also served his interests by tying the customers to his business and inevitably enabling him to restrict competition with other merchants. But with expanding trade and the ensuing merchant competition there seems to have been a tendency among merchants already around the middle of the century to pay generously for the domestic produce in order to keep customers and secure payments of outstanding debt.<sup>8</sup> The trade-associations formed by farmers at that time to bargain collectively with merchants over agricultural prices contributed no doubt to the increased competition and the awkward price development. The first association with a formal structure was founded in 1844, followed by many others in the course of the next three decades.<sup>9</sup>

<sup>6</sup> Alitsskjal, p.7.

<sup>7</sup> Stjt. 1877 A, pp.88-107.

<sup>8</sup> See for example Indriði Einarsson, 'Peningaleysið', Skuld II (31 July 1878), col.232-4 - Bergsteinn Jónsson, 'Aðdragandi bankastofnunar í Reykjavík', Reykjavík miðstöð þjóðlifs, Safn til sögu Reykjavíkur (Reykjavík, 1978), p.104. - Gunnar Karlsson, Frelsisbaráttu, pp.261-2. - Sveinbjörn Blöndal, Sauðasalan, pp.34-8. - Reports from Her Majesty's Consuls on the Manufactures, Commerce, &c., of Their Consular Districts, No.42: Denmark, Iceland [1883], pp.2139-40.

<sup>9</sup> Gunnar Karlsson, Frelsisbaráttu, pp.245-63.

The competition went so far as to force merchants to frequently give more than the market value for Icelandic goods, especially agricultural produce such as wool, but in order to cover the loss, the numerous bad debts and interest on long-outstanding debts, imported goods were sold at very high rates. And since their profits depended primarily on selling foreign goods, merchants were more reluctant than ever to pay for Icelandic products in cash and either refused to offer cash-payments or paid less for the produce if cash was demanded.

The effects of these practices on the economy have not been closely investigated, but there are numerous indications that they were detrimental to trade and even the economic development in general. Apart from the disadvantages of barter in general as a form of trade in comparison with monetary transactions the Icelandic trade system constituted a leakage in the money supply, thus severly straining the liquidity conditions of the economy and hampering trade. Pétur Pétursson, bishop of Iceland and a well known money lender himself, remarked in 1868 that "all money in the country goes into commerce and thence abroad. Merchants have deposited more than 100,000 kr. this year causing so much shortage of money, that people cannot even buy the Bible."<sup>10</sup> An artificial price system was in operation comprising two sets of prices, one for barter and another for cash payments leading to considerable price distortions which were particularly unfavourable to those earning wages and salaries and had no produce to sell. The truck system tied customers to the merchants who were able to command prices and reduce the risk of competition not only between merchants residing in Iceland but also from foreign merchants such as the British who found themselves unable to pay in cash the artificially high price which the

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<sup>10</sup> Lúðvík Kristjánsson, Ur heimsborg i grjótaborg II, p.146.

Icelandic or Danish merchants paid for exports.<sup>11</sup> Moreover the detrimental effects on savings were evident as it encouraged debt accumulation. Thrifty and prudent customers were frequently denied drawing on their accounts although having a balance, thus making it impossible for them to deposit their savings profitably.<sup>12</sup>

Although prevailing throughout the century this peculiar price system is believed to have improved moderately around 1880 according to some sources.<sup>13</sup> One reason for this may have been that the farmers' trade-associations were on the wane, being replaced in some areas by proper trade businesses and co-operatives, but more decisive impact had the sale of live sheep and horses to Britain starting around 1870. These were the first foreign trade transactions primarily carried out with cash - in fact, mostly in gold - and brought relatively big sums of money into the rural economy. It has been estimated that 6.1 m.kr. in cash flowed in for the sheep exports during its heydays between 1876 and 1896 or about 293,000 kr a year.<sup>14</sup> Norwegian whaling stations starting to operate in the 1870s also paved the way for monetization of the economy by paying workers by cash.<sup>15</sup>

We do not know how much money was circulating in the economy, but in a rare estimate of the national wealth in

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<sup>11</sup> Reports from Her Majesty's Consuls, No.42: Denmark, Iceland, pp.2139-40.

<sup>12</sup> Sighvatur Bjarnason, Verslunarlifið, p.152.- Gunnar Karlsson, Frelsisbaráttu, p.275.

However, with increased merchant competition towards the end of the century some merchants started to pay 4-5% interest on customers' deposits, cf. Ásgeir Jakobsson, Bildudalskóngurinn. Athfnasaga Péturs J. Thorsteinssonar (Hafnarfirði, 1990), p.197.

<sup>13</sup> Reports from Her Majesty's Consuls, No.42: Denmark, Iceland, p.2140.

<sup>14</sup> Sveinbjörn Blöndal, Sauðasalan, p.39.

<sup>15</sup> Jón Guðnason, 'Greiðsla verkkaups', p.29

1880, Indriði Einarsson, the Crown Treasurer's deputy, put the value of gold and silver money circulating at 1 m.kr.<sup>14</sup> However, no mention is made of bank notes used to considerable extent, in particular Danish notes but also Swedish, Norwegian and English ones. Nor do we have much information about the net direction of money flows in and out of the country, although an increase in money transactions can be discerned as a result of an added influx of money from abroad during the last three decades of the century. The Danish government injected cash by way of Treasury contributions to the Icelandic Treasury, which nearly doubled with the implementation of the Status Act in 1871. The contribution amounted to about 100,000 kr. a year at first, but was gradually reduced to 60,000 kr. in 1901 and remained constant until it was abolished by the Union Act of 1918.

This influx of money, however, did not meet the growing demand for currency. Expanding trade, the forging of foreign trade links outside the domination of Danish merchant houses, the introduction of obligatory cash-payments for some taxes in 1879 and emigration to America all increased the demand for ready money. The contractive fiscal policy of the 1870s and the early 1880s added to the currency problem as budget surpluses accrued in the Reserve Fund with only part of them being ploughed back into the economy. The liquidity conditions were still further aggravated by the lack of banking institutions which would smooth financial transactions and increase the money supply.

### 13.2. The advent of central banking

The liquidity strain and shortage of loan capital were generally perceived as two sides of the same coin in the contemporary writing on monetary matters. To most commentators the solution was to establish a bank of some sort which would have to be given currency to operate with.

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<sup>14</sup> Indriði Einarsson, 'Um seðilbanka á Íslandi' *Ísafold VII* (26 May 1880), p.54.

Public measures to set up a bank with note-issuing right were contemplated already before the middle of the century, but the issue came first to the forefront in the public debate in the late 1870s.<sup>17</sup> Views were split on whether to establish a mortgage bank (hypotekbank) to meet farmers need for long-term credit or full-fledged commercial bank empowered to issue money.

A government bill tabled in the Althing in 1881 proposed a commercial bank, but after years of wrangling a compromise was struck between the two conflicting views in the final Act issued in 1885. It stipulated the founding of the National Bank of Iceland (Landsbanki Íslands), a state owned bank which was to operate as a commercial bank with limited note issue right. It was provided with 500,000 kr. in the form of irredeemable notes issued and guaranteed by the Icelandic Treasury. The money was formally a loan with no repayments during the first five years after which the bank paid 1% interest annually to the Treasury. The bank was granted other privileges such as exemption from income tax, business rates and the legal maximum interest rates on mortgage loans.

The National Bank and other channels of money already mentioned improved liquidity to some extent and advanced the cash economy which in turn helped reduce the price distortions in the barter trade. Where real competition in trade existed farmers were even paid some of their produce in ready money. Another sign of increased money circulation was that merchants started to offer customers 10-15% and even as much as 25-30% lower price on goods if paid in cash (cash price) than if paid in kind or through customer account's (account price).<sup>18</sup>

Merchants themselves held tight to their money in

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<sup>17</sup> Indriði Einarsson, 'Peningaleysið', col.229.

<sup>18</sup> Jón Guðnason, 'Greiðsla verkkaups', p.31. - Helgi Skúli Kjartansson, 'Louis Zöllner. Erlendur fjárfestandi á Íslandi 1886-1912', in Heimir Þorleifsson (ed.), Landshagir, p.19. - Asgeir Jakobsson, Bildudalskóngurinn, pp.195-6.

trading with their customers. One device spreading in the 1880s and 1890s was to issue receipts or money tokens in place of money, normally used to settle smaller transactions. These receipts were similar to bank notes, printed with fixed values on them, one merchant even issued coins for his customers. The five known cases of such merchant notes indicate a substantial issue, probably between 30,000-40,000 kr., but at least four other merchants are known to have been using such notes.<sup>19</sup> The merchant note issue was banned by law in 1901 (except bakeries' notes) as they were neither regarded to stand close legal scrutiny nor constitute fair trade practices.<sup>20</sup>

During the rapid economic expansion of the 1890s the credit shortage became so serious that lending of the National Bank, faced with an acute shortage of working capital, was almost brought to a halt in 1899. The shortage was partly caused by the contraction of the money supply as a result of the closure of the British market for live sheep, but the bank's liquidity conditions were also strained by its heavy engagement in mortgage lending. When a special mortgage department in the National Bank was being prepared in 1899, obliging the bank to redeem bonds issued by the department, it was considered necessary to increase the bank's money stock.<sup>21</sup> A law passed that year authorized the Treasury to add a further 250,000 kr. to the National Bank's existing money stock of 500,000 kr., granted as a

<sup>19</sup> The merchant houses included in this estimate are Ólafur Ólafsson (Stokkseyri), Guðmundur Ísliefsson (Eyrarbakka), Fischerverslun, H. Th. A. Thomsen and J.P.T. Bryde (Reykjavík). Other known cases are Arni Sveinsson (Isafirði), J.R.B. Lefolii (Eyrarbakka), Sturla Jónsson (Reykjavík) and Pétur J. Thorsteinsson (Bíldudal), the last one issuing coins.

Anton Holt at the Central Bank Library has kindly provided me with information on this merchant note issue. See also Ásgeir Jakobsson, Bíldudalskóngurinn, pp.194-207.

<sup>20</sup> Stjt. 1901 A, pp.198-9.

<sup>21</sup> Alpt. 1899 A, pp.281-284. - Landsbanki Íslands 75 ára, pp.11-12.

loan with 1% interest.<sup>22</sup> Nevertheless, the extended money issue and measures taken to increase the bank's credit facilities fell far short of meeting the rapidly growing demand for credit and this failure prompted politicians to take radical steps in the money issuing arrangements of the country in the following years.

A request from foreign investors to found a new bank with money issuing rights was presented to the Althing in 1899 and after a bitter and exhaustive public debate a law was passed in 1902, enacting the foundation of the Bank of Iceland (Icelandbanki).<sup>23</sup> Norwegian and Danish investors were behind this joint-stock bank, Centralbanken in Norway, Privatbanken and the Rubin & Bing discount house in Denmark controlling most of the nearly 3 m.kr. worth of stock, but only a fraction was raised in Iceland. The bank was granted a monopoly of note issuing for 30 years beyond the National Bank notes whereas the notes of Denmark's National Bank ceased to be legal tender in Iceland, although still circulating for some time.<sup>24</sup> The upper limits of the notes issued by the bank were set at 2.5 m.kr. and were redeemable in gold on demand. At least 3/8 of notes in circulation had to be covered by gold and the rest by other liquid assets.

The bank was furthermore granted tax exemption, but was to pay the Treasury 10% of profits remaining after 4% been paid in dividends. The board of directors consisted of three representatives of shareholders, three members selected by the Althing and the Minister for Iceland as the chairman.

The Bank of Iceland started its operations in 1904 and

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<sup>22</sup> Stjt. 1900 A, pp.10-12. The Treasury also helped the bank, although in a small way, by depositing 100,000 kr. on current account with only 1% interest 1895-1904 at the request of the government.

<sup>23</sup> Magnús Jónsson, 'Agrip af sögu bankanna á Islandi', Alit milliþinganefndar um bankamál 1925. Alit meirihlutans, Fylgiskjal II (Reykjavík, 1926), pp.21-7.

marked a turning point in Iceland's banking history. The decision to give foreign capital - and Danish capital on top of everything else - a central place in Iceland's banking at the zenith of the Icelandic nationalist movement may seem at first sight a historical paradox. Subservience to foreign capital was not to be expected in this highly nationalist country, but with strong and accelerating demand for capital which was rapidly drying up domestic sources of credit all other concerns were swept away.<sup>24</sup>

The only alternative to the new bank put forward at the time was to greatly strengthen the National Bank and assign it full-fledged note-issuing powers which would put central banking under direct national control. This option was more in line with dominant political preferences, but would not, it was argued, meet the needs of the business community since the National Bank's currency would have to be so substantially increased, that a metallic reserve was needed to back it.<sup>25</sup> This reserve would have to be financed through massive public borrowing abroad, since government carried the financial responsibility for the bank. This was

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<sup>24</sup> It is not all too clear where the initiative to found the bank came from. Sumarliði Íslieifsson says it is highly probable that the idea originated in Icelandic business circles and not among the Danish investors, see his "Íslensk eða dönsk peningabúð?" *Saga Islandsbanka 1914-1930*, in Heimir Þorleifsson (ed.) *Landshagir*, p.139.

On the other hand Danish banking was rapidly expanding at that time and several banks were founded abroad with Danish capital: one in the Faroe Islands and another in the island of St. Thomas in the West Indies in 1904, Banque des Pays du Nord in Paris and British Bank of Northern Commerce in London 1911-1912, cf. *Finanstidende* XV (1929-1930), p.375.

<sup>25</sup> In an influential consultative report by the Danish National Bank Iceland's currency needs were estimated at 2-2.5 m.kr. The report argues that money supply exceeding 1 m.kr. would require metallic backing and convertibility which the existing arrangements of the Icelandic National Bank note issue did not provide. A joint stock bank with money-issuing rights would therefore be the most feasible arrangement to fulfill the economy's currency needs, cf. *Alþt 1901 C*, p.202-4.

a path which the Althing was extremely reluctant to take, understandably when it is borne in mind that public borrowing had not even begun at that time.

To grant the National Bank the note-issuing right, then, meant basically that foreign loan capital would have been resorted to instead of foreign risk capital to solve Iceland's currency and credit problems. For the above reasons a foreign private bank was chosen and such was its proponents' enthusiasm that they proposed the closure of the National Bank in the earlier stages of the debate and its assets be taken over by the new bank. This was, however, at a stage where the state was expected to participate and have a minority stake in the new bank. The plans to close the National Bank did not get through the parliament nor did the government buy shares in the new bank as it was authorized in the law. The Governor's decision not to involve the state in the new bank was in accordance with the Althing's will which argued that the authorization had been based on the premises that the National Bank would close and the new bank become the only bank operating in the country. The cost of these measures for the Treasury had also a significant deterrent influence on the Althing's decision.<sup>24</sup>

The undercurrent shaping the bank affair was the economy's rapidly growing need for capital and the Althing was ready to go to great length in this matter, even to open the way for massive capital influx to satiate that demand. This objective is spelled out in the Act itself: "The aim of the Bank of Iceland is to contribute to Iceland's advance in commerce, agriculture, fisheries and manufacture and improve the country's monetary conditions ..." Although the last words are open to interpretation, the bank's task of serving the capital needs of the economy is stressed.

Stable currency was not mentioned in the law as one of

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<sup>24</sup> Ólafur Björnsson, Saga Islandsbanka HF og Útvegsbanka Íslands 1904-1980 (Reykjavík, 1981), p.20.- Klemens Tryggvason, Gylfi Þ. Gíslason og Ólafur Björnsson, Alþingi og fjárhagsmálín 1845-1944, Saga Alþingis V (Reykjavík, 1953), p.12.

the bank's aims and does not seem to have concerned politicians at that time. Perhaps they found the detailed attention paid in the law to the note-issuing arrangements adequate insurance for a sensible management of the note issue. The close economic relationship and the union with Denmark may also have obscured the possibility that the exchange rate of the Icelandic currency could diverge from the Danish krone and go on its independent course.<sup>27</sup> The important decision was taken, although given only brief treatment in the Act, to allow the bank to operate as any other commercial bank, handling most ordinary banking affairs for the general public, even accepting small amounts of deposit on interest. Iceland's monetary system was so rudimentary that it was impossible for the bank to confine its financial transactions solely to the Treasury and other banks in a system which consisted of one commercial bank and two dozens of tiny savings banks. The critical question was rather, how far the bank should be allowed to go in accepting deposits and engage in lending. As it turned out, few limitations were imposed on the bank in this respect because, after all, the purpose of the bank was to provide business with much needed credit.

The bank was therefore entrusted with two potentially conflicting functions, on the one hand the central banking role of providing a stable currency and an elastic money supply, on the other hand the role of a commercial bank accepting deposits and extending credit to make profits. These two functions came into conflict during the First World War. As elsewhere, the Bank of Iceland was suspended from its obligation to convert into gold in return for handing its gold reserves over to the government at the beginning of the

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<sup>27</sup> Nefndarálit, Alit millibinganefndar um bankamál 1925. Alit meirihlutans (Reykjavík, 1926), p.15.

war.<sup>28</sup> The bank had already in 1914 asked for an increase of money issue as money in circulation was approaching the permitted upper limits. An increase of 500,000 kr. was granted in November 1914 on the conditions that it covered one half of the additional issue by metallic reserve and paid the Treasury 2% interest on the other half. This authorization was renewed and extended on similar conditions during the war, despite several attempts in the Althing to restrict the bank's note issue. The upper limits were raised by 2 m.kr. in 1915 and a year later abolished altogether as the bank was allowed to issue money "as the business needs require".<sup>29</sup> Eventually, the principal restriction on the money issue was also thrown away as the bank was authorized in 1920 to increase notes up to 12 m.kr. without a respective increase in the metallic reserve.<sup>30</sup>

Money in circulation increased dramatically during the war, from 2.2 m.kr. in 1914, to 5.2 m.kr. in 1916, 7.2 m.kr. in 1918 and peaking in 1919 at 11.1 m.kr.<sup>31</sup> This enormous increase in the money supply coupled with lax lending policy of the banks was a major cause of the hyperinflation during the war with consumer prices rising by 243% 1914-1918, i.e. at a much higher rate than in most European countries and certainly higher than in Iceland's main trading countries.

Although the Bank of Iceland failed in its role as a central bank the ultimate responsibility for monetary policy lay with the Althing and the government. But their priority was fixed on ample money supply rather than the effects of

<sup>28</sup> Guðmundur Jónsson, 'Upphaf ríkisafskipta', pp.153-9.  
- Sumarliði Ísleifsson, '"Íslensk eða dönsk peningabúð?", pp.142-4.

<sup>29</sup> Guðmundur Jónsson, 'Upphaf ríkisafskipta', p.156.

<sup>30</sup> Landsbanki Íslands 75 ára, p.26.

<sup>31</sup> The figures refer to the tops in money circulation each year, see Magnús Jónsson, 'Agrip af sögu bankanna', p.67. - Sumarliði Ísleifsson, '"Dönsk eða íslensk peningabúð?", p.143.

money issuing on the level of prices. The government did not restrain the National Bank's lax lending policy which entailed lowering discount rates from 7% to 6-6½% in 1915, with the Bank of Iceland following suit, fuelling inflation still further. More importantly, opposition to an extended money issue was crushed after the first two years of the war and all proposals to impose stricter conditions were defeated. The government itself financed its expensive projects in 1917-1918 increasingly with borrowed money from the banks, in particular the Bank of Iceland. This financial dependence prompted the prime minister, Jón Magnússon, to admit in the parliament in 1917 that the government could not afford denying the bank the extended issue of money!<sup>32</sup>

### 13.3. New system installed, 1927-1928

There had been latent opposition against the Bank of Iceland from the start, but its handling of the money issue during the war brought it out in the open and fuelled the hostility against it. Bitter and protracted debate ensued over its place in the banking system. Bad losses in 1919 and again during the recession of 1920-21 did not help the reputation of the bank and the attacks became ever more ferocious. It was of small comfort to the bank's management that the National Bank was also in deep trouble and had to be helped by government. A £500,000 government loan was raised in London in 1921, most of which was relent to the two banks, The Bank of Iceland receiving the lion's share, £281,000 (5.9 m.kr.), the National Bank £89,000 (1.9 m.kr.), whereas £130,000 (2.8 m.kr.) were used to balance the state budget.

The political development during the teens and twenties was also adversary to the Bank of Iceland. The party system was being remoulded, the loose alignments that had been firmly rooted in the nationalist struggle against the Danish government were giving way to modern class parties.

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<sup>32</sup> Guðmundur Jónsson, 'Upphaf ríkisafskipta', p.157.

Nationalism was still very much an ingredient of the ideology of the emerging parties, but it was mixed with class-based social and economic objectives. Stripping the Bank of Iceland of its money issuing rights and other privileges was high on the agenda in two of the three main parties emerging between 1916 and 1930, the Progressive Party and the Social Democratic Party, both founded in 1916.

A resolution passed in the Althing in 1917 showed that a majority of MP's already supported a transfer of the money issuing powers from the Bank of Iceland to the National Bank, but a policy change was not enacted until 1921. The money-issuing rights of the Bank of Iceland - now under serious strain and at the mercy of the government - were curtailed and a ceiling set on its money supply at 8 m.kr. Its bank notes were to be phased out from 1922 until its money-issuing powers expired in 1933, and with another law in 1922 the National Bank was authorized to issue money in addition to the Bank of Iceland's notes if demand required.

The legal framework for a new money-issuing arrangement was not finalized until in 1927 and 1928 when the National Bank was handed the central bank function in Iceland.<sup>33</sup> The bank, publicly owned but under an independent governing body, was granted the sole right of issuing money with the limitations set in the Act of 1921. With the hyper-inflation and the depreciation of the króna in the early 1920s in the background the bank's role of promoting a stable currency was clearly spelled out in the law which prescribed strict rules on the issue of money with the aim of restoring gold convertible notes - which of course was never achieved.

One of the most controversial issues surrounding the new note-issuing arrangement was whether to allow the National Bank to continue ordinary banking affairs or to

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<sup>33</sup> The law enacted in 1927 was substantially revised in 1928, cf. Stjt. 1928 A, pp.21-38.

leave the note issue with a wholly independent institution with no other functions. Despite the sad experience of the last ten years the outcome was to allow the bank to engage in most commercial banking activities. The majority in the Althing came to the conclusion, supported by reports from central bank directors from all the other Nordic countries, that the small population size of Iceland and its rudimentary monetary system did not justify the rigorous specialization of banking institutions existing in other countries. The fact that the National Bank was in public ownership and its policies therefore not dictated by the profit motive was also an argument in favour of this arrangement.

A more sensitive point was the extent to which the National Bank should become involved in ordinary banking. Here again the majority in the Althing argued that commercial banking would be an indispensable instrument for the National Bank in carrying out the monetary policy it was entrusted with as a central bank.<sup>34</sup> As a measure of minimizing the potential conflict between different functions the bank was divided into three fully separate departments, the Deposit Department, the Mortgage Department and the Money Issue Department. The bank was provided with initial capital of 5 m.kr. as a direct contribution from the state, of which 4.7 had already been paid by 1930, i.e. 1.7 m.kr. in installments between 1913 and 1930 to build up the bank's capital stock, and 3 m.kr. as capital of the Money Issue Department on which the bank had to pay the Treasury 6% interest a year out of its net operating income. The government financed the 3 m.kr. contribution through foreign borrowing.

This outcome was disappointing for those who had campaigned for a completely independent institution vested only with the central banking function or with very limited range of commercial banking activities. They had argued

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<sup>34</sup> See especially Nefndarálit, Alit milliþinganefndar, pp.13-23.

that the role of a central bank was incompatible with commercial banking as the recent history of the Bank of Iceland had so acutely demonstrated. Such proposals were tabled in the Althing in the mid-1920s, but their proponents were unable to rally the majority in the Althing behind them despite the backing of many prominent politicians. The new arrangement was not, however, an outright defeat for the "orthodox camp" as its views were accommodated in many respects in the legislation as manifested in the emphasis on stable currency, the restrictions on lending to short-term advances and limits on government borrowing.

The Bank of Iceland's operations were brought to an abrupt end in 1930 after a series of ill-fated events. Bad debts had been mounting due to both the appreciation of the króna in 1925 and unfavourable conditions for the fisheries in 1926. One of the bank's biggest customers had gone bankrupt in the second half of 1929 followed by the refusal of the National Bank to re-discount its bills, which it was legally obliged to do under most circumstances. Other adverse events had also weakened the bank such as the recent legislation on the National Bank which was designed to strengthen its competitive position vis-à-vis the Bank of Iceland. After an imminent run on the bank and a failed attempt to win government support for a state guarantee for its obligations the bank had to close down in February 1930. An intense debate ensued over the future of the bank with three options emerging as solutions to the crisis; first, restore the bank with state guarantees and even direct state contribution, second, bring private capital in, and third, make the bank insolvent.

The majority of the Althing, consisting of the Progressive Party and the Social Democrats, opposed the first option on the grounds that this would mean the bank be given a blank cheque which could entangle the state in a

morass of debt.<sup>35</sup> The second option was of little relevance since there were no firm indications that private individuals, Icelandic or foreign, were willing to bring in big sums of capital needed for the rescue operation. The third option was therefore the government's favoured choice, but after further considerations it came to the conclusion that insolvency would damage Iceland's financial reputation abroad. Radical measures were rushed through the parliament stipulating a new bank, The Fisheries Bank of Iceland (Útvegsbanki Íslands), which was to take over the assets and the liabilities of the Bank of Iceland. The new bank was a joint-stock company with the state holding controlling stakes, 4.5 m.kr. of the total 7.5 m.kr. value of shares, its foreign creditors also holding a large stake.<sup>36</sup> Gradually, though, the state or the bank itself bought up the shares of the private holders leaving the state eventually as the sole owner.

The Fisheries Bank started its operations only two months after the closure of the Bank of Iceland. It operated on a commercial basis servicing primarily the fishing sector. Unlike the Bank of Iceland it had no money issuing powers except that it was allowed to keep notes worth 4 m.kr. in circulation during the 1930s inherited from its predecessor.<sup>37</sup>

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<sup>35</sup> Sumarliði Ísleifsson, '"Íslensk eða dönsk peningabúð?", pp.160-2.

<sup>36</sup> Stj. 1930 A, pp.8-20. - Ólafur Björnsson, Saga Islandsbanka, p.100. - The 4.5 m.kr. contribution from the state was on the one hand 3 m.kr. of the English loan of 1921 taken over by the state and 1.5 m.kr. Treasury disbursement financed through borrowing from the Hambro's Bank in London.

<sup>37</sup> Ólafur Björnsson, Saga Islandsbanka p.106.

## 14. THE EMERGENCE OF BANKING INSTITUTIONS

## 14.1. Trade in money under the "old regime"

Widespread poverty and economic backwardness left little room for the accumulation of capital and a growth in savings to any significant extent for most of the nineteenth century. The propensity to save was further hampered by the lack of institutions accepting deposits on interest. Evidence suggests that hoarding was not uncommon, some tenants for example had to save money in order to pay festupeningur, i.e. the purchase of a lifetime lease. But such terms of tenure were rare and only some of the tenants lucky enough to secure a farm for life had to pay the due.<sup>1</sup> Farmers wanting to buy land often hoarded considerable amounts of money and kept their coins of røgsdaler on the bottom of a chest or in their mattresses as farms in private ownership were normally paid in full at the exchange of contracts. Savings could also take the form of valuable household articles, cutlery, silverware etc., although some evidence suggests that this type of savings had declined by the nineteenth century.<sup>2</sup>

Generally speaking, though, the conditions of the economy were not conducive to substantial capital accumulation and the economic surplus rarely saved as money. People even avoided the few notes in circulation during the second quarter of the nineteenth century after the disastrous experience of the Napoleonic Wars when the currency collapsed in the Danish realm.<sup>3</sup> In this basically non-monetary economy the surplus was preserved by storing the produce itself, dried fish and butter, or by increasing the livestock, especially wether, whose value increased with

<sup>1</sup> Þorvaldur Thoroddsen, Lýsing Íslands III, p.37.- Guðmundur Jónsson, 'Sambúð landsdrottna', p.74.

<sup>2</sup> Sæmundur Eyjólfsson, 'Landbúnaðurinn íslenski fyrrum og nú', Búnaðarrit VII (1893), p.34.

<sup>3</sup> Bergsteinn Jónsson, 'Aðdragandi bankastofnunar', p.103.

time and hence kept "on interest".<sup>4</sup> With so few investment opportunities almost the only way for landowners to employ their spare funds was to hire out livestock and boats to tenants and above all invest in the land. Jón Johnsen, a judge and for a short period of time a Governor of Iceland, remarked in 1840:

The so-called monied men in Iceland hoard land more than anywhere else. They do not make use of their money by lending at interest against mortgage or mobile assets, instead, they buy the land themselves as soon as they have saved enough money; yes, hoard it in their homes without receiving interest on it for years until they either have saved enough to buy a farm with cash or they leave this dead money behind when they die. This is how we carry out our trade in money.<sup>5</sup>

Why, then, weren't spare funds employed more for mortgage lending as Jón Johnsen and others advocated. It would have been a secure and easy way of employing one's money productively as well as a help for poorer farmers to buy their leaseholds. But mortgage lending by private individuals seems to have been limited not least because of the 4% maximum interest prescribed by law which yielded less than leasing out the land.<sup>6</sup>

With improved economic conditions and greater incentives created to save money after 1820, it may be assumed that savings increased. Dozens of small private but mainly public funds (municipal funds, poor relief funds, hospital funds, charity funds, school funds etc.) existed in the first decades of the nineteenth century, but they were

<sup>4</sup> See Björn Stefánsson, 'Forsendur og fyrirstaða', p.143. - A summary account of 309 estates at death in the district of Rangárvallasýsla 1831-1840 reveals an interesting composition of farmers assets: less than 2% (1,931 rd.) of the total value was in cash, 27% (29,127 rd.) in land and no less than 71% (75,656 rd.) in mobile capital, presumably livestock and to lesser extent implements, household articles and boats. See Tómas Sæmundsson, 'Um hugvekju hra. Johnsns', p.121.

<sup>5</sup> Jón Johnsen, Hugvekja, p.21.

<sup>6</sup> Tómas Sæmundsson, 'Um hugvekju hra Johnsns', pp.130-1. - Arni Thorsteinsson, 'Um banka og lánsfjelög', pp.69-70.

often poorly managed. Many of them were deposited in the Land Register Fund, jarðabókarsjóður, the forerunner of the Icelandic Treasury, but without yielding any interest. The total recorded value of public funds and poor relief funds thus deposited in the Treasury was 100,000 rigsdaler (200,000 kr.) in 1839, 137,000 rigsdaler (274,000 kr.) in 1848 and 264,000 kr in 1860.<sup>7</sup>

No studies have been done on the size and composition of these savings but a substantial part of them were in the form of government bonds which became popular in the course of the century. The government authorized the Land Register Fund in 1822 to pay 4% interest on government bonds and deposits of public funds, later lowered to 3½% and again to 3% in 1855.<sup>8</sup> According to the accounts of the Crown Treasurer in 1869 government bonds amounted to 261,000 kr., the majority being irredeemable bonds bearing 4% interest.<sup>9</sup> The Reserve Fund, founded in 1871, became the biggest individual buyer of government bonds, holding 410,000 kr. in 1880, which accounts for nearly half of all foreign bonds in the country at the time, if we are to accept an estimate by one government official which puts the total value at 900,000 kr.<sup>10</sup> This leaves holders of other bonds, private and public, with just under 500,000 kr.

Taken together, these different forms of savings constituted big sums of money in an economy with so limited financial resources. But these savings were largely

<sup>7</sup> Jón Johnsen, Hugvekja, p.185. — Jón Sigursøsson, 'Um fjárhag Íslands', p.78. — Arni Thorsteinsson, 'Um banka og lánsfjelög', p.78.

<sup>8</sup> Lovsamling VIII, pp.335-9, 367-70. — Arni Thorsteinsson, 'Um banka og lánsfjelög', p.78.

<sup>9</sup> ÞS Skjalasafn landfógeta XVIII.8. Vaxtareikningar ríkisskuldabréfa 1869-1870.

<sup>10</sup> Indriði Einarsson, 'Um seðilbanka', p.54. Another source states that in 1886, the founding year of the National Bank, Danish government bonds in the country were worth 1.5 m.kr., cf. Jón Krabbe, 'Íslands økonomiske Udvikling', p.346.

illiquid funds without productive use for the domestic economy. This seems to indicate that capital shortage was not so much an obstacle to investment and economic advance of the country as customary saving practices and, more importantly, a lack of institutions acting as intermediaries between savers and investors. Some expressed their dissatisfaction with the way in which these resources were employed, more or less locked up in the Reserve Fund or the government funds in Denmark instead of being brought into play and made productive use of in the economy. One of them was Jón Sigurðsson, a leading person in the nationalist movement, who did not stop at criticising these practices, but urged his countrymen to establish savings banks.<sup>11</sup>

At least up to the 1870s demand for credit does not seem to have been strong. Capital requirements of the backward economy were modest, the main industries needed little fixed capital within the existing technological and social framework and there were few technological innovations which changed the traditional pattern of capital demand during most of the nineteenth century. This was especially true of agriculture where animal farming with extensive use of uncultivated grassland remained the mainstay of farmers and little capital therefore bound in cultivation, implements and even farm houses.

Neither did entry into the fisheries require much capital, rowing boats and gear were not expensive, but when it came to vessels, which cost around 6000 kr. around the middle of the century, the price was beyond the means of most fishermen. The output/investment ratio was quite high although fluctuating greatly due to fluctuations in the fish catch and prices. As late as 1908 a public report estimated that the annual average value of the catch from decked vessels was 33% higher than the capital invested in the ships and the gear, indicating that it took only 9 months to

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<sup>11</sup> Jón Sigurðsson, 'Um fjárhag Íslands og sjóði', Ný félagsrit XXIV (1864), pp.154-5.

earn incomes (presumably gross income) equal to the investment.<sup>12</sup>

Credit was particularly required for "bigger" capital investments such as decked vessels and the purchase of farms for which the small and poor producers tried to obtain mortgages, normally having a long amortisation period and low interest rate, the maximum rate being 4% by law.<sup>13</sup> Private moneylenders seem to have been a significant source of credit, although little is known about the extent and type of credit they offered. One of the most prominent lenders was Pétur Pétursson, principal of the Seminary in Reykjavík and later bishop of Iceland, who had accumulated "a fortune" of 80,000 kr. at his death in 1891, largely from money lending. He charged 4% interests, the same rate as government bonds carried.<sup>14</sup>

To what extent private money lenders were able to meet the demand for long-term credit we do not know. They were presumably reluctant to tie their money for long periods on low interest and preferred advances against personal surety. Some evidence suggests that ties of kinship, confidence in and personal acquaintance with the borrower may have been just as or even more important factors for granting loans as a sound collateral; in many instances were loans to acquaintances free of interest. In such a small society as Iceland it was relatively easy for a lender to obtain information about the prospective borrower, assess his creditworthiness and track him down if repayments were not

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<sup>12</sup> Tillögur um skattamál, p.15. The output/investment ratio was even more favourable in the boat fishery.

<sup>13</sup> Magnús Stephensen and Lárus E. Sveinbjörnsson, Lögfræðisleg formálabók (Reykjavík, 1886), pp.102-4.

<sup>14</sup> Þorvaldur Thoroddsen, Æfisaga Pjeturs Pjeturssonar (Reykjavík, 1908), pp.280-3.

made in due time.<sup>16</sup>

It seems as though private lenders were reluctant to offer credit for fishing vessel purchases because of the risk entailed in the investment.<sup>16</sup> This important point requires a further investigation, but it suggests risk aversion that may have significantly hampered the growth of the vessel fishery. Vessel fishing was considered, and indeed was, a high-risk activity which lenders seem to have avoided, although it was a potentially much more profitable activity than farming. There was a demand for this type of credit as a petition unanimously passed by the Althing in 1861 indicates, calling for government provision of credit for the purchase of fishing vessels. But the government was not forthcoming and rejected the request, recommending instead that Icelanders established savings banks to finance such projects.<sup>17</sup>

Farmers stood a greater chance of raising mortgage loans as land was by far the best security available. But only a small minority of farmers had access to this type of credit since tenants, who accounted for four fifths of farmers around the middle of the century, did normally not possess real property which they could mortgage. The opportunity for tenants to buy their own farms was therefore greatly enhanced when the state started to sell Church and Crown property from 1786 onwards offering long-term credit for two thirds and, after 1880, three quarters of the purchasing price.

Public credit was becoming more available towards the middle of the century as a number of public funds became

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<sup>16</sup> See f. ex. Tómas Sæmundsson, 'Um hugvekju Hra. Johnsen', p.122.

<sup>16</sup> Gils Guðmundsson, Skútuöldin I, p.74.

<sup>17</sup> Alþ. 1861, pp.1797-1806. - Lovsamling XVII, pp.403-4; XVIII, pp.567-76. - Gils Guðmundsson, Skútuöldin III, pp.16-22.

loanable, some probably as early as the 1830s. The most important of these funds was the Land Register Fund, which by 1840 started to grant mainly officials small mortgage loans on favourable terms.<sup>18</sup> Other funds such as the Judiciary Fund and the Medical Fund also granted loans, but these were exclusively mortgage loans which meant that most farmers were ineligible. Loanable funds outside central government control were few and feeble, but credits were occasionally extended from funds such as the Reykjavik Harbour Fund and the Thorkilli Fund.<sup>19</sup>

Most of the above forms of credit were granted for fixed capital investment and were presumably not of great significance before 1870. Credit for operational expenditure was on the other hand extensive as the small and poor producers had to rely on merchant credit for seasonal capital outlay, as already discussed. Advances were principally made towards basic provisions for the farmers' and fishermen's households: implements, fishing gear, salt, lumber, cereals etc. Many poorer tenants also leased boats and livestock from their landlords, some in order to establish themselves, others having no other choice as landlords found it profitable to enforce such leases on them. Dependence on leased livestock shot up during the epidemic sheep scab between 1858 and 1870 forcing tenants to rely more on leased livestock at exorbitant interest.

Merchants themselves also made extensive use of short-term working credits from Danish banks and merchant houses in Copenhagen. The majority of trade companies in Iceland were, in fact, no more than offshoots of bigger merchant houses in Copenhagen and even the more independent merchants had to rely extensively on suppliers credit.<sup>20</sup> The great

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<sup>18</sup> Bergsteinn Jónsson, 'Aðdragandi bankastofnunar', p.102.

<sup>19</sup> Zimsen, Knud, Úr þe i borg, pp.146-7, 150-1.

<sup>20</sup> Þorkell Jóhannesson, 'Brot úr verzlunarsögu I', Lyðir og landshagir I (Reykjavík, 1965), pp.234-35. Merchants and co-operatives were still heavily dependent on foreign credit around the turn of the century, see for

majority of merchants only renewed their stock once or twice a year, purchased more or less on credit. It was estimated in 1880 that about 1 m.kr. or about a third of the capital tied in trade was credit, which was almost entirely raised in Denmark.<sup>21</sup>

#### 14.2. The savings banks

Growing demand for capital can be detected after 1870 with the gradual expansion of the economy and new trade links forged in the wake of the freeing of external trade in 1855. Enterprising men were taking advantage of the more favourable climate so that trade and fishing businesses were slowly but increasingly coming under domestic control. But they were strained by liquidity difficulties and shortage of credit.

As the end of the century draws nearer pressure for economic modernization added to the growing demand for credit. Demand for more capital in the two main industries increased with the surge towards self-ownership of land and keen interest in better implements, horse-drawn machinery, farm improvements to increase hay-crops, and bigger and better equipped ships. The breakthrough of the capitalist economy, however, did not occur until the advent of the capital intensive trawling fishery after 1900 which radically changed the capital requirements of the economy.

The Althing had already in 1853 requested that the Danish National Bank set up a branch in Iceland, but it was rejected by the bank on the grounds that it was not considered commercially viable. The government, however, encouraged individuals to establish savings banks, the first of which was founded in 1858, but they first gained a firm footing after 1870, numbering 5 in 1880, 24 in 1900 and 50

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example Helgi Skúli Kjartansson, 'Louis Zöllner', pp.9-31.

<sup>21</sup> Indriði Einarsson, 'Um seðilbanka', p.54. - The same author stated in his memoirs that he only knew of one trading firm raising credit domestically in 1879, cf. Sjéð og lifað, p.247.

Table 34 BALANCE SHEET OF THE SAVINGS BANKS  
1900 AND 1929

	1900	1929
<b>Assets:</b>		
Securities, total	625	5,835
of which mortgages	355	3,165
-- on sureties	188	2,162
-- other securities	82	508
Bills of exchange		2,619
Other assets	81	1,933
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<b>Total</b>	<b>706</b>	<b>10,387</b>
 <b>Liabilities and capital:</b>		
Deposits	593	8,643
Other liabilities	68	501
Reserves	43	1,243
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<b>Total</b>	<b>704</b>	<b>10,387</b>

Source: Arbók Hagstofu, pp.76-7.

in 1930.<sup>22</sup> The savings banks were the first step towards the institutionalization of private money lending and played a prominent role in the initial stage of banking by offering people with spare funds a secure way of depositing their money at interest. Deposits gradually increased from a mere 240,000 kr. in 1880 to 593,000 kr. in 1900 and by 1930 they amounted to 9 m.kr.<sup>23</sup>

An interesting feature of the savings banks was how quickly they engaged themselves in lending, despite their limited working capital which was overwhelmingly based on private savings. They even started to borrow small sums of money from the National Bank soon after it was founded in 1886 and relend it to customers, particularly in areas where no bank branches were. As the commercial banks, the savings banks were exempted from the legal maximum interest rate on mortgages and that helped activate their capital. Still, total credits were moderate on national level, rising from

<sup>22</sup> Ólafur Björnsson, Þjóðarbúskapur Íslendinga (Reykjavík, 2nd ed., 1964), p.378.

<sup>23</sup> Arbók Hagstofu, p.76-7. - Tölfræðihandbók 1984, p.176.

negligible sums in the early 1870s to 457,000 kr. in 1885, then falling steeply for the rest of the decade, but experiencing strong rise towards the end of the century. By 1900 outstanding loans of the savings banks amounted to 625,000 kr. compared with 982,000 kr. granted by the Reserve Fund and 1,324,000 kr. by the National Bank.<sup>24</sup> The relative share of the savings banks in lending was to decline rapidly with the enormous expansion of the banking system during the first decades of this century due not only to the commercial banks' engagement in short term credit but also their success in attracting private savings amounting to 58.5 m.kr. in 1929 against 8.6 m.kr. of the savings banks.

Closely related to the savings banks was Iceland Savings Fund (Söfnunarsjóður Íslands), founded by a group of individuals in 1886.<sup>25</sup> The owners soon felt it necessary to put the fund on a firmer footing by transferring it into public ownership by law of 1888 and its obligations ensured a Treasury guarantee. Its main purpose was to encourage savings and offer a secure way of keeping them at interest and offer mortgages on similar conditions as savings banks. Its deposits, 247,000 kr. by the turn of the century, had risen to no less than 2,3 m.kr. by 1929 or more than a third of the total deposits in savings banks. Its lending had increased accordingly, outstanding loans were 2.441 m.kr. in 1929 against 244,000 kr. in 1900, confined entirely to mortgages.<sup>26</sup>

#### 14.3. The government as a creditor: lending of the Reserve Fund

The few and feeble savings banks fell far short of meeting the demand for credit. Calls for government measures to provide more credit became ever more pronounced

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<sup>24</sup> Skýrsla um sparísjóði á Íslandi, Stjt. 1898 C, p.323. - Table 35.

<sup>25</sup> Klemens Tryggvason et. al., Alþingi og fjárhagsmálín, pp.43-5.

<sup>26</sup> Arbók Hagstofu, p.75.

during the 1870s. Traditionally, the only funds offering credit, although in a modest way, were in public ownership and it was therefore natural to turn to government for help in providing loan capital. One of the most important government measure in this field during the 1870s was to activate the Reserve Fund, founded in 1871, for lending. In fact, this was just a continuation of the Land Register Fund practices, but the difference lay in much bigger sums of money at the Reserve Fund's disposal.

We have already discussed how, after 1874, the public finances produced substantial surpluses under the stringent fiscal policy carried out until the early 1890s. These public savings were deposited in the Reserve Fund in order to strengthen the nation's financial reserves which were considered vitally important by the governing men of the country. These reserves represented a greater part of institutional savings in the country during the first 15 years of the fund's operations amounting to 965,000 kr. compared with total deposits of 440,000 kr. in savings banks in 1885.

The reserves were a potential source for considerable lending and already in the 1875 session the Althing expressed the view that the Reserve Fund's liquid assets should be lent to public institutions and individuals for the benefit of the national economy. This policy was cautiously endorsed by the government after several years of hesitation.

The fund's lending policy was determined by the Althing and given legality in the Finance Act, in which the allocation of credit as well as the terms for each loan category, even individual loans were spelled out. The Althing thus decided on the allocation of the fund's resources in details. The fund was on the other hand managed by the Governor, whose task was to execute government financial policy. He could influence the fund's operations in various ways, especially the level of lending, as it was his job to assess the Treasury's overall capacity to extend credit through the Reserve Fund.

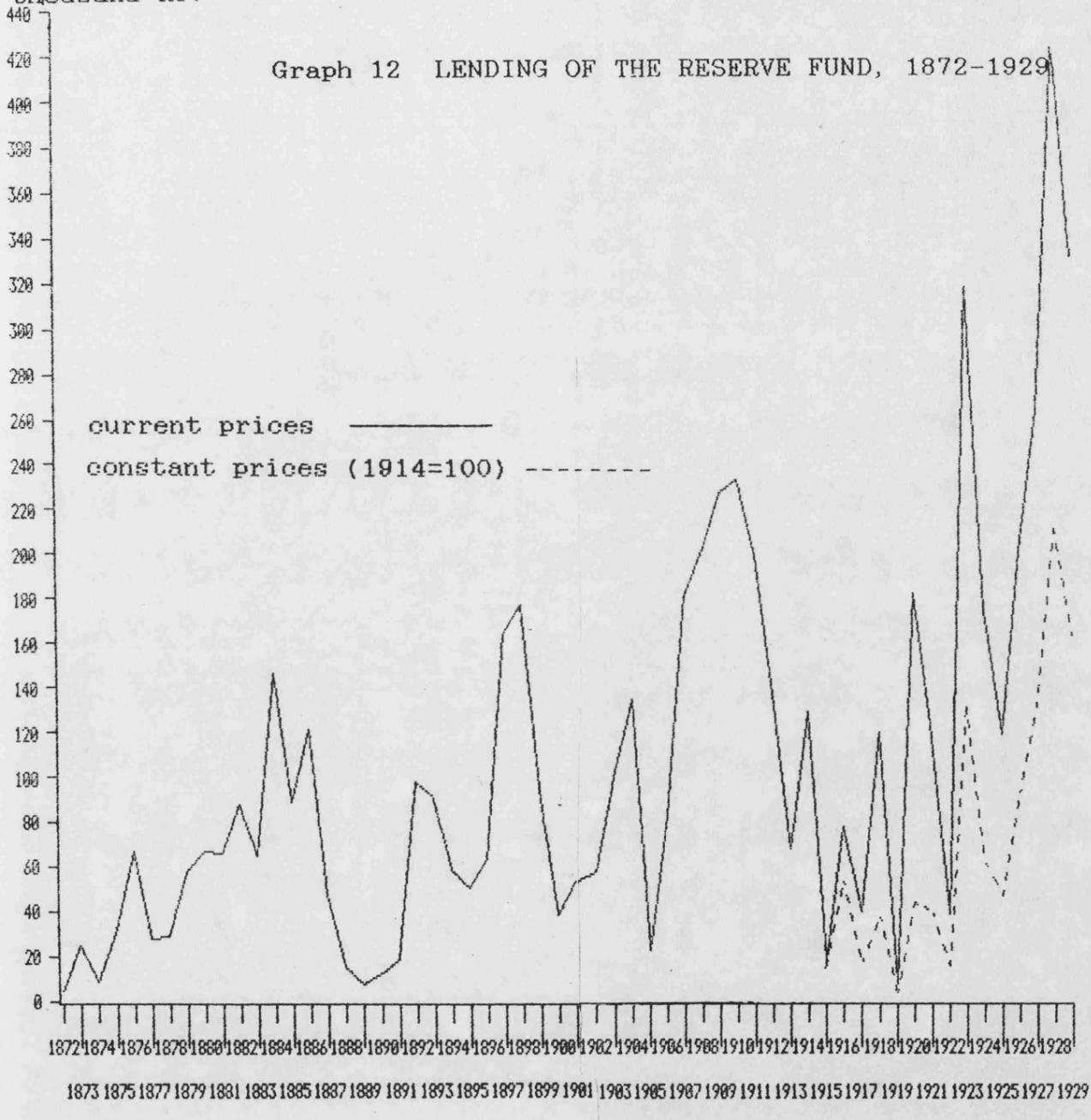
The Reserve Fund's operations have been examined in order to identify the Althing's lending policy as it manifested itself in the allocation of the fund's credit. The general results are discussed on the following pages, but a description of definitions and methods of accounting is given in Appendix D along with the detailed statistical findings. Lending of the fund, plotted in graph 12 for the whole period of its existence, fluctuated greatly from one year to another due mainly to the ebbs and flows in the Treasury. The graph shows lending only in current prices up to the war as price changes were moderate until then.

Two distinctive periods of vigorous activity can be distinguished, i.e. during the years 1876-1886 and again 1892-1914. The very last years of the fund's operations also saw brisk lending. Substantial budget surpluses and the merging of the Judicial Fund and the Medical Fund swelled the fund's disposable capital during the first 15 years leading to brisk lending, totalling 905,000 kr. between 1871 and 1886. In contrast, the following five years saw lending almost grind to a halt due to the depressed state of the public finances. When budget surpluses started to accumulate again after 1890 a corresponding rise in lending occurred. The fund's highest level of lending was during the period from 1892 up to the war when average annual lending reached 112,000 kr. and the total lending amounted to over two and a half million kr.

The financial strains of the war caused lending to plummet to negligible sums. After the war, however, it picked up again but the continuing budget deficits prevented upsurge in lending in real terms until the state of the public finance had improved radically by the middle of the 1920s. Only in the last three years preceding the takeover of the fund by the Agricultural Bank in 1929 did lending match the pre-war level. From the start of its operations and up to 1929 total credits extended by the fund amounted to 6.1 m.kr.

Public bodies apart, the fund lent almost exclusively

thousand kr.



Source: Table D.4 in Appendix D.

on mortgages and other security. The only exception as individuals were concerned seems to have been loans for woollen mills, but borrowers of these loans were required to obtain guarantees from district councils. Mortgage loans could be granted up to half the value of the mortgaged property. Of the two types of mortgages the more common had

a variable repayment time and 4% or 6% interest, referred to as mortgage loans (1) in table D.1 in Appendix D. The second type, referred to as mortgage loans (2), was only granted to individuals during the 1870s and early 1880s. It was a peculiar type of loan in that borrowers were charged 4% annual interest but no repayment had to be made on capital; the fund could, however, call up the loan with six months notice. This type of loan had become rare by the mid-1880s and was no longer granted by 1889. The reason was probably its illiquidity as it made the credits tied in this way almost totally inactive, quickly draining the fund of liquid capital.<sup>27</sup> But these loans were favoured by the borrowers, who not only raised cheap credit, but were also able to reduce their property (house) tax, since it was only levied on the net value of houses, i.e. after registered mortgage loans had been deducted.<sup>28</sup>

Breakdown of the Reserve Fund's lending, presented in the tables in Appendix D, reveals the lending policy and preferences of the Althing and the government over the sixty years of the fund's operations. As can be seen from table D.2 loans to individuals took up nearly two thirds of total credits in 1880, but they were to drop steadily to only 15% in 1920. Earlier on these loans were mainly raised by farmers for various purposes, but the bulk of the credit was presumably used for investment of one kind or another, land purchases or farm improvements rather than for consumption. The loans were confined to landowners since reliable mortgage was demanded.

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<sup>27</sup> As late as 1905 outstanding loans of this type amounted to 255,000 kr. In order to increase the liquidity of the fund's assets these loans were converted into ordinary mortgages in the following years with the result that by 1915 they had disappeared altogether.

<sup>28</sup> The house tax was levied on houses in urban areas and first collected in 1879, but registered mortgage loans rose dramatically around that time. See *Skýrslur um húseignir og húsaskatt á Íslandi árin 1879-81*, *Stjt.* 1883 C, pp.5-6.

Merchants and trading firms, always short of capital, sometimes borrowed money from the Reserve Fund, but turned increasingly to the commercial banks for working capital when they started to operate. The urban occupations category includes townspeople or unidentified persons with mortgaged property in towns or villages. It contains loans to various small firms, craftsmen, joiner's workshops, but also to individuals for personal use.

Interestingly, civil servants took up a significant share of the loans considering how few in number they were. They turned out to be the biggest individual borrowers and taking up 17% of the total lending in 1880. This indicates, if anything, the officials' easy access to the fund's resources, they were in fact extending cheap credit from a public body to themselves and their friends. Senior officials seem to have fared especially well with Magnús Stephensen, district governor and later Governor of Iceland, as the biggest borrower in 1880 (13,300 kr.), followed by Eggert Gunnarsson fiefholder of Crown land in the North (7200 kr.) and Hallgrímur Sveinsson, later bishop of Iceland (7,100 kr.). It was also fairly common for doctors and magistrates to borrow money from the fund in order to build up or improve their official residences across the country.

As lending to individuals declined steadily public bodies, churches and local governments (commune, town and district councils) became the biggest borrowers. Loans to churches, used for improving farmland belonging to the church or renovate the vicarage, accounted for roughly one tenth of total lending throughout the period, dropping only slightly towards the end.

The share of local governments was just under a quarter of total lending at first, but had risen to nearly half of total lending towards the end of the period. During the first decades loans were primarily raised for non-economic purposes, as can be seen in the breakdown of lending to local governments in table D.3, with over a half of the outstanding loans in 1880 going to the construction of jail houses. Emergency loans for relief efforts worth 81,000 kr.

were raised during the depressed 1880s by district councils in the hardest hit areas.<sup>29</sup>

As draws nearer the end of the century local authorities started to raise loans for various infrastructural and economic projects, road and bridge construction, hospitals, schools, agricultural schools and even cultivation projects under the auspices of commune councils. Thus, of outstanding loans in 1900 land transport investment accounted for 20%, schools and hospitals 33% and cultivation projects 14%. Credit for infrastructural investments became a dominant type of local government borrowing after the turn of the century with water works, harbour facilities, telegraph and telephone installations and electricity supply systems as the principal types of investment. Public buildings also started to tie considerable part of the Reserve Fund's sources, channelled through the State Building Fund, which received 294,000 kr. between 1907 and 1913.<sup>30</sup>

Lastly, lending to private economic projects or programs was taken up during the 1880s to promote certain types of economic activity or projects which were considered feasible for the country's economic development. These loans, normally secured on the investment concerned, accounted for about one fifth of total lending by the turn of the century and nearly two fifths in 1920, indicating a shift from lending individuals largely for personal use to a more targeted lending.

#### Credit granted to state tenants buying their leaseholds

<sup>29</sup> These loans were originally granted on ordinary terms, but were not fully paid back in the end as part of the interest was written off and repayments frequently deferred.

<sup>30</sup> The State Building Fund belongs, strictly speaking, to central government as noted in Appendix D. Its borrowing is for convenience sake included in the local government category as it is the only case of credit granted to a central government agency.

can be regarded as the oldest loan type in this category. The sale of state land had resumed in 1885 after a long interval and buyers were offered 75% of the purchase price on credit. As tables D.4 and D.5 show the total credit extended to these farm buyers amounted to 105,000 kr. up to 1900, after which this lending was transferred to a new fund, the Cultivation Fund, established in 1901.

The authorization of the Althing in 1885 to offer credit from the Reserve Fund to individuals buying decked vessels was one of the few positive economic measures taken by the government during the depressed 1880s.<sup>31</sup> In all, 23 loans worth 53,000 kr. were granted for ship purchases in 1885 and 1886. No such loans were granted after that until 1894 when the Althing authorized again lending from the fund to a number of economic projects. But it was not until the parliament had eased the borrowing requirements in the 1896/1897 Finance Act that these loans were sought after. The maximum amount was 5000 kr., repayable in 8-10 years with the interest rate lowered from 6% in the previous offer to 3½%, dropping further still in 1898 to 3%. Every year from 1896 to 1907 money was lent for decked vessels purchases except the year 1900, the total sum amounting to 250,000 kr. The loans were granted on the condition that the boats were owned by the fishermen themselves as a way to help the small fishermen and encourage owners of rowing boats to change over to motor boats and decked vessels.<sup>32</sup>

The fund stopped granting vessel loans in 1907 as a public investment fund had now been set up, the Fisheries Fund of Iceland, which catered for this type of investment. (see chapter 16.1) By that time the Reserve Fund had granted between 80 and 90 loans worth 303,000 kr. from 1885 to 1907 for ship purchases. A new vessel with fishing gear cost up to 10,000 kr. at the end of the century, but second hand vessels, which were bought in great numbers from

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<sup>31</sup> Alþt. 1885 C, p.377. - Stjt 1885 B, pp.146-8.

<sup>32</sup> Þorkell Jóhannesson, Alþingi og atvinnumálin, p.288.

Denmark and Britain at that time, cost much less, even as little as half of that of new ones.<sup>33</sup> The credit extended by the Reserve Fund for this purpose could therefore finance at least 30 new, fully equipped vessels or as much as 60 second hand vessels. This was a significant contribution to the financing of the decked vessel fishery in light of the fact that in 1907 the total number of smacks in the country was 156.<sup>34</sup>

Several woollen mills started operation during the last two decades of the nineteenth century. These small mills were suited to the traditional family economy and were largely confined to carding and spinning for farmers themselves, but marked nevertheless the beginning of mechanized production. Full-scale textile factories, although small, emerged only after the turn of the century. The Reserve Fund provided these mills with most of their starting capital. It granted a small loan to the first woollen mill in Iceland in the 1880s and in the Finance Act 1894/1895 the Althing authorized lending to encourage more mills to be established, but no money was borrowed until the terms were eased in 1897, the loans now carrying 3½% interest with a repayment period of 25 years. The bulk of this lending took place between 1897 and 1912, but up to 1929 the total lending was 473,000 kr. with well over half of the capital going to the two main factories operating in Iceland during this period, Iðunn (145,000 kr. 1903-1912) and Alafoss (100,000 kr. in 1920).

Between 1896 and 1899, 12 loans worth 28,000 kr. were granted to the construction of ice-houses, producing ice for the fisheries. It was a small sum of money, but these ice-houses were also cheap to build. They were, in fact, the first of their kind in Iceland and were immensely beneficial to the fisheries as the bait and even the fish catch could

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<sup>33</sup> Gils Guðmundsson, Skútuöldin III, p.218.

<sup>34</sup> Sigfús Jónsson, The Development, Appendix IV.

be preserved for much longer. In some areas where the preservation of bait had been a problem the advent of the ice-houses even led to lengthening of the fishing season.<sup>33</sup>

Most of the initial costs of the creameries established after the turn of the century were financed by credit from the Reserve Fund. The fund granted 40 loans worth 77,000 kr. between 1901 and 1910 to all the 39 creameries founded at the time, normally only around 2000 kr. to each, but the initial capital cost was low or 2-5000 kr.<sup>34</sup> Again in 1923 two creameries were granted loans worth 15,000 kr. As in other economic projects receiving credit from the fund at that time the terms were good, 3% interest and 21 years repayment time. Related to this was the fund's lending of 262,000 kr. to co-operative dairies 1927-1929 as a part of government policy to promote the dairy industry in the late 1920s.

Loans were also extended to farmers purchasing fence material in accordance with a law designed to encourage the use of barbed wire. Farmers were offered loans up to three quarters of the cost of fencing their hayfields, amounting to 121,000 kr. 1906-1929. Slaughterhouses received support from the fund, most notably "Slátturfélag Suðurlands" with 45,000 kr. in 1910. In 1928 and 1929 a number of co-operatives were granted a total of 265,000 kr. for building meat freezing plants as the meat production was being

<sup>33</sup> Credit to ice-houses is not recorded in the Reserve Fund's accounts in a separate category after 1899, although loans for that purpose were occasionally granted. Evidence that I have found of such loans are the following: 20,000 kr. to the firm Ísfélag Vestmannaeyinga in Vestmanna Islands in 1910, 10,000 kr. to the firm Ísfélag Gerða in the village of Gerðar in 1925, and 8000 kr. a loan to two individuals in the village of Raufarhöfn in the North, also in 1925. This brings the total lending to ice-houses to 66,000 kr.

<sup>34</sup> þS. Skjöl Búnaðarfélags Íslands no.12, Ræktunarsjóðsskjöl. Lánsstofnanir fyrir landbúnað, (pp.8-9). - Sigurður Sigurðsson, Búnaðarhagir, p.385.

shifted from salted mutton to frozen carcasses.

Lastly, crofters living outside urban areas were offered loans for tilling their plots and improve their houses. The aim was to broaden the crofters' means of living and enhance their economic security and self-sufficiency in line with the adoption of a more positive public policy towards them. Individual loans were quite small, often just a few hundred krónur, and totalled only 91,000 kr 1902-1929, but they were on favourable terms and received by hundreds of crofters.

The Reserve Fund played without doubt an important role as a credit institution, although it became less significant with the rise of modern credit institutions. Its importance lies in the fact that it was the only credit institution worth the name until the National Bank of Iceland started to operate in 1886. The savings banks were still few and small and the volume of credit extended by them very modest. Even after the National Bank started operations, bringing about a substantial increase in the credit supply, the Reserve Fund remained a major source of long-term credit up to the end of the century. By then it had granted credit worth more than 1.8 million kr. which amounts to 12% of the National Bank's lending 1886-1899. With the rapid expansion of the National Bank after 1900, however, this ratio dropped to only 2-3%.<sup>57</sup> Other sources of credit were also emerging such as public investment credit funds, but the turning-point was the founding of the Bank of Iceland in 1904.

Even so the Reserve Fund's influence continued to be felt in particular areas after 1904 as its lending was more and more targeted on specific types of investments. It became on the one hand an important source of credit for municipal programs, most notably economic and social infrastructure investment, on the other hand it was instrumental in promoting infant industries and new technology in agriculture. The shift towards a more active

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<sup>57</sup> Magnús Jónsson, 'Agrip af sögu bankanna', p.17.

fiscal policy adopted by the Althing after 1890 was therefore not only manifested in expenditure policy, but also in the changing lending policy of the Reserve Fund, targeting its lending more and more on growth orientated projects of both local governments and private individuals.

Lending to private economic projects is especially noteworthy in this context. The fund lent money on very favourable terms to numerous innovative projects which the banks were reluctant to help because they were a novelty and entailed a considerable degree of risk. The inertia of banks to finance innovation is a well-known phenomenon in banking, but the lending policy of the Althing worked towards promoting such investment in certain areas, in particular development projects in agriculture. Cases in point are the woollen mills, creameries and dairies, fence material for farmers and meat freezing plants, but also fishery investments such as icehouses and decked vessels. In line with priorities in fiscal policy, though, lending to economic projects tended to lean heavily towards agriculture, but all these projects aimed at modernizing the industries and enhancing their productive power.

#### 14.4. The National Bank

After the Reserve Fund the next significant step in banking and the most important government measure in this field before the turn of the century was the founding of the National Bank of Iceland in 1885. It was to be the only bank operating for twenty years and far the most important credit institution in the country forming together with the small savings banks the core of institutionalized savings.

The National Bank helped to change the pattern of savings and investment in the long run. Farm profits and landlord rent were increasingly deposited in the bank and the savings banks, a much safer, more convenient and even more profitable way of keeping savings at interest than tying them in land, leased-out livestock, the merchants' accounts or idle hoards. The advent of banks was therefore instrumental in channelling landlord profits from excessive

land purchases to new investments. The same applies to spare funds in general, even the savings of the poorer sections of the rural population, who until then invested most of their meager earnings in livestock.

The bank deposits, small though they were, were turned into a more productive use through lending, thus providing the growing economy, together with the limited issue of bank notes and capital created by the bank itself, with a part of much needed credit. The National Bank and other banks that followed encouraged the rise of a domestic class of merchants dependent on banking institutions for their operations, who had until then had to rely on merchant houses and banks in Denmark for operating capital.

But all this was a gradual process and the bank's activities during its first years do not indicate much enthusiasm on behalf of the management to change things. Its policy was remarkably staid, its notes were very slowly brought into circulation and a good deal of its assets was even tied in Danish government bonds. Lending was extremely cautious and confined overwhelmingly to mortgages, still accounting for 84% of outstanding loans at the turn of the century.<sup>58</sup> But with a more favourable economic climate after 1890 and the appointment of a new director in 1894 a more vigorous policy was adopted, which gave the National Bank a prominent role in the national economic development in the years to come. This was most notably felt in commerce and the decked vessel fishery, both of which expanded rapidly at the time with a financial backing from the bank.

The bank operated not only within a general legal framework provided by the Althing but all major changes in its operations required a change in the law, whether setting up a mortgage department, starting a new series of mortgage loans or providing it with additional capital. The government had moreover a potential power to influence the ordinary business of the bank. As a state institution with

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<sup>58</sup> Magnús Jónsson, 'Agrip af sögu bankanna', pp.10 and 15.

a government appointed director and two managers (gæslustjórar) appointed by the Althing, the bank was sensitive to the political situation, it could on the one hand have difficulties in resisting pressure from the government while on the other hand being carefully scrutinized by the opponents of the government of the day who saw the bank as having a potential political leverage. With the restructuring of the National Bank in 1927 the government's control over the bank was exerted through the board of directors, of which the chairman was appointed by the minister responsible for banking affairs and the other four elected by proportional representation in the Althing. The board of directors appointed the bank's three directors. Yet, there are no indications to suggest that government tried to influence the bank in ordinary banking matters such as interest rates and allocation of credit.<sup>39</sup>

#### 14.5. The expansion of the banking system

When comparing the historical roots of banking in Iceland with those of other countries we see that commercial banking in Europe commonly grew out of other businesses such as shipping, the goldsmith's trade, forwarding business, wholesale trade, money exchange and tax collection, activities which as a rule antedated the industrialization of these countries.<sup>40</sup> The movement from merchant to financier banking did not occur in Iceland, although an

<sup>39</sup> This being said, two incidences of government intervention in the operation of the bank are worth mentioning: "the National Bank scandal" in 1909 when the Minister of Iceland expelled both the director and the two managers for alleged irregularities, a decision which was clearly politically motivated; second, in the Finance Act for 1925 the bank was authorized to pay two years amortization and interest of the Skeið irrigation project loan raised from the bank's mortgage lending department, cf. Magnús Jónsson, 'Agrip af sögu bankanna', pp.44-5.

<sup>40</sup> Born, K. E., International Banking in the 19th and 20th Centuries (Leamington Spa, 1984), pp.20-7. - Kindleberger, C. P. A Financial History of Western Europe (London, 1984), esp. chapters 5-8 and 10.

embryonic development can be discerned in the activities of a number of foreign wholesalers or commission merchants. Foremost among them was Louis Zöllner, a Danish businessman residing in Newcastle in England, who had diverse business stakes in Iceland around the turn of this century, among them extensive lending activities with outstanding claims running at 800,000 kr in 1907.<sup>41</sup>

It is, of course, impossible to say how private banking would have fared had a domestic middle class established itself and accumulated some wealth before the economic spurt around the turn of the century, but the likelihood of domestic private banking would certainly have been greater if that had been the case. As it happened, the private initiative was concentrated on the Bank of Iceland - even Louis Zöllner beat his luck on the bank by buying shares worth 200,000 kr. - so there was little breathing space left for these individual money lenders who had earlier found a niche by servicing the most profitable sectors of the economy, foreign trade and the fisheries. Now that the fishing industry was becoming much more capital-intensive a stronger financial backing was needed to cater for its needs than these individual lenders were able to provide.

The banking system grew enormously during the first decades of the century. Due to the small size of the economy, however, it did not become as sophisticated and specialized as those of most other European countries. The two main banks, the National Bank and the Bank of Iceland were engaged in a variety of activities, ranging from money issuing to accepting deposits from the public, lending on mortgages to discounting bills.<sup>42</sup> Another interesting feature of the financial system was that an organized market for bonds, stocks and shares did not emerge. Firms wishing

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<sup>41</sup> Helgi Skúli Kjartansson, 'Louis Zöllner', p.25.

<sup>42</sup> The Bank of Iceland did not become much involved in mortgage lending, although it issued bonds for 1 m.kr. after 1905 for mortgage loans. The National Bank on the other hand operated a rapidly growing mortgage department.

Table 35 VOLUME OF CREDIT IN CREDIT INSTITUTIONS  
1890-1929million krónur  
at current prices

	1890	1900	1910	1920	1929
National Bank	679	1.326	4.283	28.789	44.537
Bank of Iceland			7.718	45.712	33.403
NatBank Mortg. Deptm.		464	5.745	6.471	19.045
Savings Banks	209	625	1.373	7.982	8.454
Iceland Savings Fund		251	408	1.023	2.441
Reserve Fund	629	982	1.273	1.313	1.657
Cultivation Fund			345	740	4.053
Fisheries Loan Fund			119	169	624
Church Land Fund			92	608	840
Contingency Fund					394
Hous. & Settlem. Fund					372
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Total	1.517	3.648	21.356	92.807	115.820
Total at constant prices (1890=100)	1.517	4.009	20.937	19.175	45.598
Index	100	264	1380	1264	3006

Sources: Stjt. 1891 B, p.187. - Skyrslur um sparísjóði á Íslandi, Stjt. 1892 C, p.75. - Stjt. 1901 B, p.107. - Reikningur Íslands Banka [frá 1.janúar - 31.desember 1910], p.5. - Arbók Hagstofu, pp.72-73, 75-77. - Hagtíðindi IX (1924), p.16. - Magnús Jónsson, 'Agrip af sögu bankanna', pp.64, 78-79. - Stjt. 1911 B, p.248, 250, 251. - Stjt. 1921 B, p.321, 341. - Stjt. 1929 B, p.402. - Stjt. 1931 B, p.311, 374, 394. - Tölfræðihandbók 1984, p.165. - Table B.1 in Appendix B. - Table D.1. in Appendix D.

Notes: Bond assets are excluded except those of the Cultivation Fund. - As the published accounts of the Church Land Fund for 1929 are not available the year 1928 is used instead. - The values are deflated with a consumer price index.

to obtain outside funds either increased the share capital or, more commonly, raised loans directly from credit institutions.

The total volume of institutional credit 1890-1930 has been calculated in table 35. It shows a total value of only 1.5 m.kr. in 1890, increasing enormously in the following two decades, particularly with the advent of the Bank of Iceland whose lending accounts for more than a third of total credits in 1910. The table shows a slight decrease in credits in real terms in the 1910s which is accounted for by

the hyperinflation peaking in 1920 by which time the króna had depreciated internally by 75% from 1914.

Over the whole period total credits increased 30-fold at constant prices. The increase in the actual available credit was, however, not nearly as great as the table indicates because no account is taken of merchant credit in Danish trading houses and banks, which gradually declined as Icelandic firms turned their business to the emerging banks in Iceland. Nor is private domestic money lending accounted for in the table, presumably declining with the institutionalization of the money market.

The vast increase in the credit volume was made possible by a number of factors, most notably the rapid rise in savings, the share capital imported with the Bank of Iceland, the growing trade in securities and increased liquidity of funds which accelerated the banks' own credit creation. The National Bank and the Bank of Iceland commanded the bulk of the banking business in Iceland with total assets rising from 2.4 m.kr. in 1900 (then only the National Bank was operating) to 103.7 m.kr. in 1930. Success in attracting savings was of crucial importance for their growth and where branches were established the existing savings banks were normally merged with them. Another reason for their expansion was, of course, the wide range of activities they were engaged in.<sup>43</sup>

Interesting feature of the banks' lending is the phenomenal growth of bills of exchange, the bulk of which granted to commerce and fishing businesses, the far biggest customers of the banks. Calls for political involvement in the credit provision of these sectors were therefore not as strong as of agriculture which made demands for a whole set of public credit provisions, dealt with specifically in the following chapter. Yet, in spite of the huge increase in the credit supply the hunger for capital was difficult to satiate during the boom of the early years of the century.

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<sup>43</sup> Corresponding figures for the saving banks are 0.7 m.kr. and 10.3 m.kr.

The capital-intensive sectors became heavily dependent on credit for both working capital and investment, a feature that was to characterize Icelandic business in the twentieth century.

This dependence of even the small producers on outside capital can be traced back in history to the trade arrangements described earlier, but the scale and scope was now of far bigger proportions. It has been estimated, for example, that the total value of the 29 trawlers bought in Iceland between 1905 and 1917 was 4.4 m.kr. of which about 2.4 m.kr. or 55% were financed by borrowing.<sup>44</sup> The remaining 45% were self-financed, but a substantial part through partnership with foreign investors. Another study estimated total investment in new trawlers in Reykjavík 1920-1931 (excluding all other fixed investment in the trawling industry) between 10 and 15 m.kr., but the recorded value of share capital in the companies concerned amounted to only 7.8 m.kr.<sup>45</sup> The difference, it must be assumed, as well as the operating capital was financed through borrowing mainly from Icelandic banks. These findings do not lend support to the assertion by one historian that self-financing was the principal way of financing the nascent trawling fishery.<sup>46</sup>

The trawling industry was of course the prime example of capital-intensive activity financed largely with credit. Although other industries did not resort to credit to the same degree, they too were dependent on the banks. Even owners of smaller motor boats financed seasonal capital outlays as well as fixed investment by and large with credit

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<sup>44</sup> Heimir Þorleifsson, Saga íslenzkrar togaraútggerðar, p.93.

<sup>45</sup> Bjarni Guðmarsson, 'Togaraútggerð í Reykjavík 1920-1931', in Heimir Þorleifsson (ed.), Landshagir, p.183.

<sup>46</sup> Gísli Gunnarsson, 'Kenningar um útbreiðslu þróðs hagkerfis', in Sumarliði Þorleifsson (ed.), Iónbylting á Íslandi. Umskópun atvinnulífs um 1880 til 1940, Ritsafn Sagnfræðistofnunar 21 (Reykjavík, 1987), pp.20-1.

and the enormous amount of working capital tied in commerce was also financed through borrowing. One of the few data on the sectoral allocation of lending is found in a report on the Bank of Iceland credits in 1920 showing that 60.4% was taken up by commerce (including fish exports), 20.3% by the fisheries, 6.4% by housing, 3% by local authorities, 1.7% by agriculture and the remaining 8.2% by other activities.<sup>47</sup>

From the early years of the century the banks were busy finding ways of meeting the strong demand for credit. Already in 1905 the Bank of Iceland was authorized to issue bonds up to double the value of shares and the reserve in order to finance mortgage lending, but it only managed to sell bonds for a small part of that amount. Two years later the bank was allowed to increase its share capital from 3 to 5 m.kr., but the plan was seriously interrupted by the financial recession of 1907-1908.

Public measures to strengthen the National Bank were primarily directed towards extending its mortgage lending, which is dealt with in the following chapter on agricultural credit. Another form of government assistance was agreed on in the Althing in 1913. Although the bank had accumulated considerable reserves over the years, it had no capital stock of its own. The new law obliged the government to pay the bank 100,000 kr. a year for the next 20 years in order to redeem bonds issued by the bank according to a law of 1907.<sup>48</sup> This contribution was regarded as the state's stake in the bank, on which it was to receive dividends. The bank notes, originally issued by the Treasury, now became part of the Bank's capital. Again in 1919 the bank was further strengthened when granted the privilege of keeping deposits of public funds and agencies as well as all cash funds of the Treasury.<sup>49</sup>

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<sup>47</sup> Magnús Jónsson, 'Agrip af sögu bankanna', p.59.

<sup>48</sup> Stjt. 1913 A, pp.109-110.

<sup>49</sup> Magnús Jónsson, 'Agrip af sögu bankanna', p.34.

The Althing provided the legal framework in which the banking institutions operated and could influence their practices in various ways. Legal maximum on interest rates was one of them, but all restrictions were abolished by law in 1859 as in Denmark four years earlier except on mortgages which continued to carry 4% interest.<sup>50</sup> Usury was legally confined to money lending in accordance with received ideas about money and its uses, but rent margins on "live money", i.e. sheep and cattle, far exceeded that. According to medieval laws still retained in the Statute Book in the nineteenth century 10% interest was charged for the lease of livestock tenants were obliged to lease with the farm, inventarii. In practice, however, the old laws were only roughly complied with and the interest rate, although varying with conditions in agriculture, stayed well above the legal maximum.<sup>51</sup> No fixed rules applied to leased livestock in other instances or other liquid assets.

The interest rate on mortgages was raised to 6% by law in 1890 and remained on that level for the rest of the period.<sup>52</sup> Other loans with no fixed interest rate stated in the agreement between a lender and a borrower carried 4% interest. One of the main privileges of the savings banks and later the commercial banks was the exemption from the legal maximum rate of interest on mortgages so the restriction affected in practice only private money lending. When such exemption was first granted, i.e. in the case of the savings banks in 1874, the Althing opposed it whereas the government, unwilling to give in on this point, kept the

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<sup>50</sup> Magnús Stephensen and Lárus E. Sveinbjörnsson, Lööfræðisleg formálabók, pp.102-4. - Hansen, Svend Aage, Økonomisk vækst i Danmark I, p.101.

<sup>51</sup> Proposals to abolish the limits on mortgage rates were tabled in the Althing in 1879 and again in 1881, but were narrowly defeated in the latter attempt.

<sup>52</sup> Frumværð til landbúnaðarlaaga [meiri hlutinn], pp.84-5.

<sup>53</sup> Stjt. 1890 A, pp.24-25.

exemption clause in the Act itself.<sup>53</sup>

Credit terms offered by the National Bank's mortgage department and other public credit institutions were determined by the Althing. However, although there was always outside pressure to get cheap loans, political manoeuvering with credit terms was limited as they were more or less dictated by the funds employed to finance the different loan schemes and the Althing was not intent on adopting any significant subsidization of credit.<sup>54</sup> Apart from mortgage loans hardly any legal restrictions were imposed on credit terms and the banks were free to set their interest rates.

There are no direct indications that government influenced the National Bank interest rate policy and no direct control was installed. Attempts to this end were though made during the 1920s. A bill tabled by five MP's of the Progressive Party in 1923 proposed that credit institutions under government control should be ordered to offer 1/6 lower interest rates on loans to farming than economic activities in urban areas.<sup>55</sup> The proposers maintained that great injustice was done to agriculture by requiring it to pay the extremely high bank interests caused by the high-risk fishing sector's recurrent bad debts. The bill did not get through the parliament.

A resolution tabled in the Althing in 1927 urged the government to persuade the banks to reduce interest rates in order to alleviate the pressure on the industries hard hit by the recent appreciation of the króna.<sup>56</sup> After

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<sup>53</sup> Klemens Tryggvason et. al., Alþingi og fjárhagsmálin, p.40.

<sup>54</sup> The exception was government purchases of the National Bank bonds in 1909, 1913 and 1926-1927; the interest was to cover repayments of loans raised by the state for this purpose, but the bond yields did not quite do that.

<sup>55</sup> Alþt. 1923 A, pp.319-20.

<sup>56</sup> Alþt. 1927 A, pp.177-8.

consultations with the two main banks the proposed resolution was rejected by a parliamentary committee on the grounds that it would be impossible under the present financial circumstances to lower interest rates. Lack of credit rendered it necessary to keep high interest on deposits as well as substantial differential between credit and deposits interest since lending was tied to a large extent in high-risk activity. Moreover large part of the bank's operating capital was foreign credit and the real interest margins therefore very small, if any.<sup>57</sup>

Discontent with falling interest rates in international markets while bank rates in Iceland were kept at a high level prompted fresh attempt in 1930 to put political pressure on the banks to lower interest rates. A proposal almost identical to that of 1927 was presented in the Althing and was now passed with no votes against.<sup>58</sup> The parliamentary debate revealed different views on the government's power to interfere with interest rates. On the one hand were those who argued that interest rates be set solely by the banks themselves on "sound financial basis", on the other hand those who believed the banks were maintaining unnecessarily high rate and that it was therefore worth trying for the government to influence the National Bank. The latter view prevailed this time, but the Althing's resolution was to no avail. The National Bank discount rate was not reduced until October 1932 or two and a half years after interest rates started to fall internationally. The bank had ample reasons for this as the Depression did not hit the Icelandic economy badly until 1931 and even after that demand for credit remained strong.

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<sup>57</sup> Alþ. 1927 A, p.226. The high-risk activity referred to by the committee was the fishing sector and the export trade in fish which made huge losses in 1919-1920 and again in 1926-1927.

<sup>58</sup> Alþ. 1930 A, pp.962, 1271; D, pp.55-92.

## 15. AGRICULTURAL CREDIT

### 15.1. The National Bank mortgage department

Expectations among the farming population were rising around the turn of the century as indicated by growing pressures for various farm improvements, renovation of residential housing and the self-ownership of land, all of which required big capital injection into agriculture. At the same time, however, farmers felt increasingly left out as the fisheries, trade and the construction industry in towns and villages soaked up ever bigger part of the scarce credit.

Fundamental structural changes in the economy were also putting agriculture on the defensive which encouraged farmers to go for more intensive farming and labour-saving farming methods. The release of the rural labour force to urban areas was a major part of this process, agriculture's market difficulties was another. The way out of the impasse, as more and more farmers saw it, was to divert the agricultural production from mutton and live sheep exports towards dairy farming on the one hand and lamb carcasses on the other. If this was to take place, agriculture would need far more capital in order for the farmers to adapt their farming to the new situation, extend and improve hayfields, harvest them with modern techniques, build suitable farm buildings, and establish creameries and slaughterhouses. Demands for improved residential housing in rural areas called also for a substantial capital injection.

But where was the capital to come from? Primitive implements and farming practices and the small size of farms made agriculture itself incapable of generating the capital required for the transformation envisaged by the advocates of "modern farming". They saw the government and the Althing as the proper agencies for facilitating access to credit, arguing that lower returns than in other sectors of the economy, the fisheries in particular, put agriculture into disadvantageous competitive position in the credit

market. If agriculture were to loose out in the competition for capital and labour it would spell "national disaster".<sup>1</sup>

In the 1920s another argument was developed and forcefully put forward to justify political intervention to solve agriculture's credit problems. In the face of the huge debt incurred by the fisheries 1919-1921 and again in 1926 which was passed on to the banks to large extent, agriculture's advocates claimed it was wholly unfair to charge agriculture, a relatively secure activity, the same interest rate as the high-risk fisheries which were the chief cause for the extremely high interest rates.<sup>2</sup>

These circumstances made agricultural credit a big political issue right up to 1930. A great number of proposals was put forward in the public debate on this sensitive and difficult issue, usually presupposing direct financial contributions from the state in addition to other forms of public support. The most significant of these will be discussed on the following pages.

Proposals to establish a special agriculture fund with contributions from both government and the National Bank had been put forward already in the 1897 session of the Althing, but did not go through. Instead, the government was asked to prepare the matter for the next session of the Althing and in 1899 a government bill was passed with minor changes.<sup>3</sup> The law enacted that a mortgage department be set up within the National Bank with a separate budget and government collateral worth 200,000 kr. in the Reserve Fund bonds. In addition, the Treasury paid a small sum for the operation costs of the department, which amounted to 12,500 kr. 1903-1905.

The mortgage department was allowed to issue bonds up

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<sup>1</sup> Sigurður Sigurðsson in Alþt. 1916-1917 D, p.313, offers a fine example of this view.

<sup>2</sup> See for example Alþt. 1930 D, p.59.

<sup>3</sup> Stjt. 1900 A, pp.2-9. - Þorkell Jóhannesson, Alþingi og atvinnumálin, pp.55-6.

to sixfold value of the collateral security, i.e. maximum 1.2 m.kr. Individual loans could be up to half of the value of the mortgaged property against first mortgage with 5% interest rate and amortisation period of 40 years for properties in rural areas and 25 years for houses in urban areas. The department sought to meet the need for affordable long-term credit, especially among farmers, while at the same time relieving the National Bank of the mortgage loans burden, which still in 1899 accounted for 45% of its assets.<sup>4</sup> Although helpful, these measures proved too small a step to make any significant impact as the department's funds were soon exhausted.

Already in 1902 and again in 1905 the Althing made some improvements in the legal framework of the department. The borrowing requirements were relaxed and a substantial increase in lending was authorized on the condition that the bank itself provided collateral.<sup>5</sup> Similar measures were repeated in the following years by the Althing, which was more than willing to extend the department's credit facilities without, however, wanting to commit itself to any significant direct contribution. Collateral requirements were relaxed and, more significantly, state collateral was granted in 1911 for a series of mortgage securities started two years earlier; a state guarantee was furthermore offered to a new series in 1913.

A measure of the government's commitment to the department was demonstrated when the Althing decided to raise a 1.5 m.kr. loan in 1909 in Danish banks in order to buy its bonds and in 1913 a further 250,000 kr. were borrowed for that purpose. Not all the sum was eventually used for bond purchases as some 500,000 kr. of it went to repay a mounting floating debt to the Danish Treasury in 1911.<sup>6</sup> The government also bought some of the bank's bonds

<sup>4</sup> Magnús Jónsson, 'Agrip af sögu bankanna', p.15.

<sup>5</sup> Magnús Jónsson, 'Agrip af sögu bankanna', pp.71-2.

<sup>6</sup> bS SSI II, Db.8-857. Skýrsla um verðbréfæign...

Table 36 LENDING OF THE NATIONAL BANK MORTGAGE DEPARTMENT,  
1900-1929

thousand kr.  
at current prices

	urban housing	farms	schools/ hospitals	fishery/ manufact.	local author.	total
1900-04	1461	686	18	13	14	2192
1905-09	2497	800	81	190	495	4063
1910-14	1136	638	55	29	774	2632
1915-19	935	239	28	0	460	1662
1920-24	1504	87	75	35	663	2364
1925-29	12209	1363	360	343	336	14611
	=====	=====	=====	=====	=====	=====
Total	19742	3813	617	610	2742	27524
%	71.7	13.9	2.2	2.2	10.0	100

Source: Veðdeild Landsbanka Íslands 1900 - 20. júlí - 1960  
(Reykjavík, 1960), pp.22-3.

Note: The breakdown is based on the type of mortgaged property.

through the Reserve Fund, valued at 110,000 kr in 1910.<sup>7</sup>

These measures and the reasonably successful issue of bonds - a good deal of them were sold in Denmark earlier on - helped the mortgage department to expand with the result that lending nearly doubled 1905-1909 from the first five years of the century as can be seen in table 36. By 1910 outstanding loans amounted to 5.7 m.kr.<sup>8</sup>

The department was of considerable help to many farmers buying land and building farm houses, but it was far from meeting the farming community's demand for long-term credit. As table 36 clearly indicates the bulk of the mortgages went into urban housing, whether it was because the National Bank only had two branches outside Reykjavík until 1918 or the

<sup>7</sup> See table D.1 in Appendix D.

<sup>8</sup> Magnús Jónsson, 'Agrip af sögu bankanna', pp.73-4, 78-9.

farmers themselves were not ready to borrow on these terms.<sup>9</sup> Of the 6.3 m.kr. credit granted during the first decade nearly 4 m.kr. (63%) were borrowed for urban housing against 1.5 (24%) for farm investments. The share of agriculture in the credit allocation was highest at the beginning of the department's operations but declined steadily well into the 1920s.

The founding of an independent mortgage bank which would take over the National Bank's department was one of the proposals aimed at increasing mortgage lending. It was hoped that a separate bank dealing exclusively in bonds and enjoying firm government backing would stand a greater chance of selling its bonds in foreign markets. Proposals in this direction were made in the Althing in 1911 and again by a government committee in 1912 without leading to definite results.<sup>10</sup>

The bonds issued for the 1913 mortgage series were difficult to sell in the turbulent years to come. It was first in the mid-1920s, as the series was almost exhausted, that calls were made for new funds. The Althing now responded with vigour, authorizing the National Bank by law in 1926 to issue bonds up to 10 m.kr. and open three new series of mortgages with most of the new capital coming from the state through relending. Two laws enacted in 1926 and 1927 authorized the government to raise foreign loans to finance the purchase of new bonds as well as bonds issued by the Cultivation Fund, so-called jarðræktarbréf.<sup>11</sup>

In all, the government borrowed 7.9 m.kr. for this

<sup>9</sup> Of the nearly 1.2 m.kr. borrowed in the first mortgage series 461,000 kr. or 38% were mortgaged in rural areas. The National Bank claimed that no request eligible for loan had been rejected and the distribution between rural and urban areas simply reflected the credit demand, cf. Magnús Jónsson, 'Agrip af sögu bankanna', pp.71 and 74.

<sup>10</sup> Alitsskjöl og frumvörp um fjármál Íslands (Reykjavík, 1912), pp.6-8. - Klemens Tryggvason et.al., Alþingi og fjárhagsmálin, pp.14-15.

<sup>11</sup> Stjt. 1926 A, pp.38-43. - Stjt. 1927 A, p.46.

purpose from Danish financial institutions. Although formally raised by the government, these loans, as the previous ones of this kind from 1909 and 1913, are not regarded as state loans as the interest income from the bonds was to cover repayments. Again in 1928 the mortgage department was authorized to increase its bonds issue by 10 m.kr. of which the government was authorized to buy for 3 m.kr. financed through borrowing, but it chose not to raise further loans for this purpose.<sup>12</sup>

Lending of the department soared as a result of these measures. From October 1926 to the end of 1931 nearly 2200 loans worth 18 m.kr. were granted, after which lending fell steeply.<sup>13</sup> The pattern of previous mortgage lending repeated itself in the late 1920s as most of the credit continued to go into urban housing. According to a parliamentary committee report 95% of the 3 m.kr. lent by the mortgage department in 1926 were granted to urban areas against only 5% to rural areas and the same happened more or less in 1927.<sup>14</sup> This compares well with figures in table 36 showing that only 9.3% of the credit granted between 1925 and 1929 went to farming.

### 15.2. The Cultivation Fund

The founding of the Cultivation Fund (Ræktunarsjóður Íslands) in the year 1900 was one of the measures taken to ease the credit difficulties around the turn of the century. Its aim was to encourage cultivation by providing credit for farm improvements and offer small grants to farmers. The fund was managed by the government, but the BI exerted much influence over the fund's lending policy through its role as a consultative body.

Loans could only be extended against land mortgages at

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<sup>12</sup> Klemens Tryggvason et. al., Alþingi og fjárhagsmál, p.27. - Veðdeild Landsbanka, p.18.

<sup>13</sup> Veðdeild Landsbanka, pp.22-3.

<sup>14</sup> Alþt. 1927 A, p.145.

first, but an amendment in 1902 allowed lending also against guarantees from local governments thus opening the fund to tenant farmers.<sup>15</sup> The interest rate was 3% at first, raised to 4% in 1906, and amortization period was 16 years, but no repayment had to be made during the first four years. Loans could only be granted for farm improvements until a change in the law in 1905 in connection with the general sale of state land made farm and croft purchases outside urban areas also eligible for borrowing.<sup>16</sup>

The fund's initial capital was the proceeds from the sale of state land since it had resumed in 1885, hitherto deposited in the Reserve Fund and used for lending. Further 30,000 kr. in commune council loans were transferred from the Reserve Fund leaving the new fund with initial capital as follows:<sup>17</sup>

commune councils loans for farm improvements	30,000
loans to districts	31,215 -
loans for woollen mills	25,195 -
church and parish loans	2,060 -
cash in hand	56,284 -
	-----
	144,754 kr.

This capital was transferred to the Cultivation Fund in 1901 and formed its operating capital, at first more or less tied in outstanding loans, but gradually becoming liquid. The fund was greatly invigorated with the general sale of state farms starting in 1905. The proceeds became the fund's main source of income together with interest earnings emanating from expanding lending activities. This additional capital and more relaxed borrowing requirements soon made the fund a useful instrument for the farming population.

Table 37 shows the application of the fund until 1 October 1925 before it was thoroughly reorganized. The annual average lending during these 25 years was just under

<sup>15</sup> Stjt. 1902 A, p.138.

<sup>16</sup> Stjt. 1905 A, p.214.

<sup>17</sup> LR 1901, p.58.

Table 37 APPLICATION OF THE CULTIVATION FUND  
1901-1925

1. Lending:	kr.	%
state land purchases	825,036	50.9
private land purchases	53,560	3.3
loans to farmers	728,543	45.0
other purposes	13,080	0.8
	-----	-----
total	1,620,219	100.0
 2. Other outlays:		
grants for farm improvements	70,525	12.7
costs of BI farm machines	164,000	29.5
BI exhibitions and research	32,704	5.9
interest payments to the Treasury	288,747	51.9
	-----	-----
total	555,976	100.0

Sources: BS. Skjöl Búnaðarfélags Íslands. Kassi 12: Ræktunarsjóðsskjöl. - Stjt. 1925 B, pp.215-9.

Notes: The table includes lending until 1 October 1925. - Lending for 1924 and 1925 is arrived at by adding repayments to outstanding loans and subtracting outstanding loans of the previous year. - "Other outlays" cover disbursements from the fund but no administration expenses. - The payment to the Treasury is according to The Sale of State Land Act of 1905, which obliged the fund to pay 3% of the proceeds from the sale of state land to the Treasury, starting from 1908.

65,000 kr. with over 54% of the total credits extended for the purchase of farms, overwhelmingly state farms. The fund was thus instrumental in helping tenants buy their holdings. The second biggest loan category was loans to farmers, the bulk of which was presumably used for farm improvements as the rules required, but this lending is not specified or broken down in the accounts themselves. One authoritative source indicates that about 500,000 kr. or over two thirds of the

sum went to farm improvements.<sup>10</sup> Although this fairly small

<sup>10</sup> BS. Skjöl Búnaðarfélags Íslands no. 12, Ræktunarsjóðsskjöl. BI to the Ministry of Finance 12 November 1924. - This source, on which table 37 is primarily

sum, lent over 24 years, did obviously not make much difference to farming, the Fund nevertheless granted farmers the cheapest credit on offer during the first decades of the century along with the dwindling credit of the Reserve Fund.

The farmers' lobby was gaining political strength during the 1920s, most decisively with the strong position of the BI and the rise of the Progressive Party, firmly rooted in rural areas and committed to the advance of agriculture. But these organized interests were not alone in believing in the great growth potential of agriculture; the middle class groupings, more or less united in the Conservative Party in 1924, and even part of the Social Democratic Party broadly accepted that agriculture needed firm public backing in order to modernize and realize its potential.

The numerous proposals put forward to increase agricultural credit presupposed a financial contribution from the state in one form or another. The poor state of the public finances after the war, however, left little room for increased expenditure or other financial commitments by the state on economic development. Even the two laws passed by the parliament in those years, one enacting a special state mortgage bank in 1921, the other an agriculture department within the National Bank in 1924, came to nothing.<sup>17</sup>

It was first in 1925 that concrete measures were implemented, based on recommendations of a BI appointed committee after a short but intense preparation period. An interesting assessment of the future prospects of agriculture is offered in the committee's papers, revealing the exalted optimism of the farming community which was so

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based on, is the papers of the committee appointed by the BI in 1924 to examine the existing arrangements of agricultural credit and put forward proposals for a new arrangement.

<sup>17</sup> Magnús Jónsson, 'Agrip af sögu bankanna', pp.44, 74-6.

characteristic of that time. Estimating the long-term credit needs of agriculture the committee claimed that the prospects in farming were so bright as to allow a rise in the number of farms by a quarter from just over 6000 to 8000 in the course of the next 50 years:

There are now 24,000 cattle [in the country]; can anyone prove that we are unable to increase that number to half a million or more and feed it better so that productivity will also be increased?

Norwegians have now over one million cattle, although their arable land is no bigger than ours. Their vegetable production is also many times greater than ours and they have, in addition, some grain production.

Norwegians put great efforts into the cultivation of their land and why shouldn't we do the same? Hay production is as yielding here as in Norway and some other countries.<sup>20</sup>

And little later the report elaborates on the same theme:

We exported 200,000 kg of butter at one point in the past. That could possibly be 20-30 million kg. Our butter was considered good and with more advanced production techniques and transport facilities we should be able to produce as good butter as the most advanced nations in this field.

In addition to those 2,000 new farms that the committee expected to be established, most existing farm houses were in need of renovation, both residential houses and out buildings. Assuming that a quarter of the renewal could be financed without outside help, the renovation of the equivalent of 6000 farms had to be financed by loan capital. With the renovation cost on each farm estimated not less than 12,000 kr. the committee put the total credit required at 72 m.kr., of which half was expected to come from the Cultivation Fund or about 36 m.kr.

In order to increase the livestock and raise the standard of living, the committee report continues, improving cultivation has to be given priority over rural

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<sup>20</sup> Þ.S. Skjöl Búnaðarfélags Íslands no.12, Ræktunarsjóðsskjöl. Lánsstofnanir fyrir landbúnað, (pp.10-11). Part of this report have been printed in Thor Jensen, Minningar II, pp.216-221.

housing. It believes that 100,000 ha of hayfields would have to be cultivated over the next 50 years with about 40% or 40 m.kr. financed on credit. The aggregate loan capital needed in agriculture totals therefore 76 m.kr. (36 m.kr. for housing, 40 m.kr for farm improvements) or 1.5 m.kr. a year over a period of 50 years.

The committee proposed that the Cultivation Fund be entrusted with the task of providing this huge amount of credit. The idea was welcomed by the 1925 session of the Althing which passed a law that year based on the committee's recommendations. The fund was accordingly assigned four sources of income:<sup>21</sup>

- a) the proceeds of the sale of state land since 1884 (i.e. the fund's existing capital), rents from existing state land and all interests earnings of the fund,
- b) Treasury contribution of 250,000 kr., i.e. the roughly same amount of money paid by the fund to the Treasury 1908-1923, to be fully paid before 1 June 1930,
- c) part of the reserve fund of the National Bank's mortgage department, worth 141,000 kr. at the end of 1923,
- d) 1 m.kr. Treasury contribution raised by an increase in export duty on fish products.

In addition, the Cultivation Fund was authorized to issue bonds up to sixfold the value of its capital stock secured on its assets and with a state guarantee as a last resort. The bonds proved to be quite popular and constituted the fund's main source of income as presumably up to 2 m.kr worth of them were sold 1925-1930, part of which was bought by the Treasury.<sup>22</sup> According to the LR the export duty, rent from state land and direct Treasury contributions

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<sup>21</sup> Stjt. 1925 A, pp.39-48.

<sup>22</sup> This amount has been calculated on the basis of the fund's records, although they do not clearly state sources of funds. The amount sold each year is arrived thus: bonds in circulation minus bonds redeemed minus bonds circulating in previous year. The accounts are published in the B-section of Stjt.

Table 38 LENDING OF THE CULTIVATION FUND, 1925-1930

thousand krónur	1925	1926	1927	1928	1929	1930	Total	%
cultivation	44	325	366	415	359	461	1970	45.0
buildings	125	451	390	322	257	193	1738	39.7
electr. generators		18	84	63	63	78	306	7.0
fencing et. al.	14	84	71	37	81	78	365	8.3
---	---	---	---	---	---	---	---	---
	183	878	911	837	760	810	4379	100.0
Number of loans	39	281	290	285	254	294	1443	

Source: Arbók 1930, p.74.- Haukur Þorleifsson, 'Búnaðarbanki Íslands', Arbók landbúnaðarins 1950, p.28.

Note: Figures for 1925 show lending only from 1 October to 31 December.

amounted to 1.1 m.kr 1925-1930 covering about a quarter of total lending. The third major source of incomes were earnings generated from the fund's lending operations.

Of the new capital brought into the fund the most interesting from a political point of view was the export duty on fish products agreed in the 1925 session of the Althing. In a way, it represented a pact between the two major industries as the fisheries' interests agreed to give "a helping hand" to promote agricultural development.

All these measures entailed a huge cash injection which enabled the fund to play a central role in the provision of agricultural credit in the decades to come. The fund's lending was confined to farm improvements and farm houses (outhouses as well as residential buildings) with individual loans allowed up to 3/5 of the value of the farm improvements and 1/2 of the value of houses. The amortization period was 5-25 years varying with the type of credit.

A breakdown of lending is presented in table 38 showing the rapid expansion of the Cultivation Fund's activities after 1925. Average annual lending jumped from a mere 65,000 kr. 1901-1925 to almost 840,000 kr. 1926-1930 which meant that lending 1925-1930 almost equalled the total lending for the period 1901-1925. Although significantly

lower than the committee of 1924-5 had envisaged the credit provision of the fund was a great leap forward and represented a large part of investment in agriculture during those years. Cultivation took up the biggest part of lending or 45%, followed by farm buildings which accounted for about 40% and the rest was used to finance electricity generators or small power stations, fencing and other investments.

### 15.3. The Housing and Settlement Fund

The re-organised Cultivation Fund was a big improvement on agricultural finance, but there were various other credit demands unfulfilled. A leading member of the Progressive Party, Jónas Jónsson, presented a bill to the Althing in 1925 proposing a new fund to be set up in order to provide the farming community with credit for residential housing.<sup>23</sup> The explicit aim of the fund was nothing less than to retain "society's centre of gravity in the countryside" by offering farmers credit on reasonable terms for the renovation of residential houses and encourage new settlements. The capital was to be raised by a special tax on high incomes and big property targeted primarily on prosperous fishing firms.

The bill did not go through this time but the idea was kept well alive and given further ammunition when it emerged that the additional funds which the National Bank mortgage department was provided with in 1926 and 1927 had been overwhelmingly channelled to urban housing. When the Progressive Party came to power in 1927 with Jónas Jónsson as a cabinet minister the issue was pushed forward. A government bill was passed in the parliament in 1928 enacting the founding of the Housing and Settlement Fund, (Byggingar og landnámsjóður).<sup>24</sup> Important changes had been made from the original bill of 1925, less emphasis was

<sup>23</sup> Alþt 1925 A, pp.309-13.

<sup>24</sup> Stjt 1928 A, pp.90-5.

put on new rural settlements and instead of raising incomes by taxes on high incomes and property the fund was to receive direct Treasury contribution of 200,000 kr. a year.

The law prescribed an ambitious scheme to provide credit for the renovation and construction of residential houses in rural areas as well as for new settlements and cattle farms in the vicinity of urban areas. The fund started to operate in 1929 and relied almost exclusively on direct Treasury contributions, for it was to receive none of the 5 m.kr. capital the government was authorized to provide it with through borrowing as this part of the financing plan collapsed in the Depression.<sup>25</sup> Lending was nevertheless very brisk during the first two years of the fund's operations, extended credit amounted to 1.1 m.kr. by the end of 1930 compared to only 1.4 m.kr. in the following six years, 1931-1936.<sup>26</sup>

The loans were very cheap carrying no or very low interest with 50 years repayment time. The bulk of the credit was devoted to construction of residential houses covering most of building material costs and two thirds of the labour costs of carpenters. From the beginning of 1929 to April 1931 loans for 167 quality concrete houses were granted from the fund worth 1,225,000 kr.<sup>27</sup> Assuming that the average cost of a concrete residential house was 8500 kr. at the time, the fund's capital covered about 87% of the total cost.<sup>28</sup> The generous lending regulations were soon

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<sup>25</sup> Þorkell Jóhannesson, Alþingi og atvinnumálin, pp. 75-6.

<sup>26</sup> Skýrslur um nokkrar framkvæmdir, p. 211. - Sigurður Sigurðsson, Búnaðarhagir, p. 400.

<sup>27</sup> Skýrslur um nokkrar framkvæmdir, p. 211.

<sup>28</sup> The data on building costs is from the Agricultural Design Office, an advisory and administrative body set up in conjunction with the Fund. It refers to building costs in 1936-1938, which were much the same as around 1930, see Félagsmál á Íslandi. Saga Alþingis IV (Reykjavík, 1942),

tightened up and the residential houses constructed under its auspices made less ambitious. But the fund continued to play a key role in financing rural residential housing, contributing significantly to the transition from turf and stone houses to modern concrete houses.

Originally, credit provision for new settlements in rural areas was to be an important task of the fund, but both in the legislation and in the actual lending policy this task was trimmed down. Of the 2,526 m.kr. credits extended between 1929 to 1936 only 275,000 kr. or less than 10% was devoted to this purpose and none after that.<sup>29</sup>

#### 15.4. The Contingency Fund

Few stones were left unturned in the search for loan capital for the expanding economy, however small they were. The Contingency Fund of Iceland (Bjargráðasjóður Íslands) had been founded by law in 1913 as a reserve fund for local authorities in acute distress. It was financed equally by local authorities and the Treasury and as its capital steadily piled up to form a handsome sum demands for "better use" of the fund's resources mounted. A law was unanimously passed in 1925 authorizing that the fund's capital, then standing at 685,000 kr., be made loanable.<sup>30</sup> Loans could only be granted on strict conditions to local authorities in order to tackle dire financial problems or to establish livestock lending departments. Local bodies overseeing

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p.276.

As the houses constructed under the auspices of the fund in the first years were of much higher quality than average farm buildings at that time they presumably cost more and the ratio financed by loans may therefore have been somewhat lower than estimated here.

The Agricultural Design Office estimated that nearly two thirds of building costs in rural areas 1936-1938 were financed by grants and loans and one third self-financed.

<sup>29</sup> Haukur Þorleifsson, 'Búnaðarbanki', p.30. - Sigurður Sigurðsson, Búnaðahagir, p.400.

<sup>30</sup> Stjt 1925 A, pp.51-2. - Alþt. 1925 A, pp.77-8.

fodder reserves were also eligible for loans.

Lending of the Contingency Fund started in 1926 and by the end of 1929 outstanding loans to local authorities amounted to 394,000 kr., the bulk of which was devoted to livestock lending departments under the auspices of local authorities.<sup>51</sup>

#### 15.5. The Agriculture Bank of Iceland

In spite of the great public efforts and resources devoted to agriculture, there were still many of the opinion that further measures were needed to tackle the credit problem. Provisions for long-term mortgage loans, they claimed, were still not adequate, but it was even more urgent to address the great need for short- and medium-term working capital.<sup>52</sup> These were the reasons for a bill put forward in the 1929 session of the Althing proposing the founding of a state bank catering for all the various needs of agriculture for credit. The bill was passed and The Agriculture Bank of Iceland (Búnaðarbanki Íslands) started its operations the following year.<sup>53</sup>

The law brought sweeping changes to the banking system and enacted that six departments be set up in the bank:

- a) Savings department, accepting deposits from the public and granting short- and medium-term credit, mainly for agricultural operational expenditure.
- b) Mortgage department, assigned a minimum of 1.25 m.kr. by taking over the Church Land Fund and greater part of the Reserve Fund's capital. Its task was chiefly to grant mortgages on rural property to be used in farming.
- c) Livestock loan department, taking over 700,000 kr. of the

<sup>51</sup> Jónas Guðmundsson, 'Bjargráðasjóður Íslands fjörtíu ára', Sveitarstjórnarmál XIII (1953) no.3-4, pp.3-13. The government was also granted 300,000 kr. loan in 1929 which was debited to the Reserve Fund.

<sup>52</sup> Alþt. 1929 A, pp.77-9.

<sup>53</sup> Stj. 1929 A, pp.64-80.

Reserve Fund's capital and receiving Treasury contribution of 300,000 kr. over the next six years to back its bonds issue. The department was to grant credit to farmers for the purchase of livestock and implements.

d) Smallholding department, set up with an annual Treasury contribution of 50,000 kr. in addition to authorization to government to negotiate a loan of up to 2 m.kr.. Its task was to extend credit to smallholders in the vicinity of urban areas.

e) The Cultivation Fund

f) The Housing and Settlement Fund.

As the above list indicates, four existing agricultural credit funds, the Church Land Fund,<sup>34</sup> the Reserve Fund, the Cultivation Fund and the Housing and Settlement Fund, were brought under the new bank. They were, however, kept as separate accounting units and the last two continued to operate as before. The Agriculture Bank started operations in July 1930 with total assets worth 13 m.kr., and net assets of 5 m.kr. according to the bank's balance sheet.<sup>35</sup> The law was not fully implemented, f.ex. the livestock lending department was not established and the smallholding department was founded much later.<sup>36</sup>

The Agriculture Bank was granted Treasury guarantee for all its financial obligations as well as a massive public financial support in form of direct disbursements from the

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<sup>34</sup> The Church Land Fund was founded by the Sale of Church Property Act of 1907 with capital from the proceeds of the sale of church land and the parishes' money reserves. Its lending activities were mainly confined to credits to farmers buying church farms, but according to the law 90% of the purchase price could be taken on credit at 4% interest with a repayment time of 28 years. The fund also lent small amounts for improvements on church land. Its assets were valued at 1.3 m.kr. in 1930, of which 852,000 kr. were tied in outstanding claims.

<sup>35</sup> Stjt. 1931 B, pp.377-9.

<sup>36</sup> Þorkell Jóhannesson, Alþingi og atvinnumálin, p.61.

Treasury as well as loan capital. The law authorized the government to grant a state guarantee up to 3 m.kr. for the savings department, raise a loan of 5.5 m.kr. to relend the bank, divided between the mortgage department (2 m.kr.), the livestock lending department (1.5 m.kr.) and the small-holdings department (2 m.kr.). Already in 1930 the state had relent the bank 3.6 m.kr. as initial capital to enable it to fulfill its legal obligations, thereof was 1.5 m.kr. employed to buy bonds of the mortgage department.<sup>57</sup>

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<sup>57</sup> LR 1930, p. xxix; 1931, p. xxxi.

## 16. OTHER GOVERNMENT CREDIT PROVISIONS

### 16.1. The Fisheries Loan Fund of Iceland

The growing government assistance to agriculture and the founding of the Cultivation Fund around the turn of the century provoked a response from the fisheries. Its proponents pointed out that public money was disproportionately allocated to the main industries and claimed that the fisheries deserved more support; after all, they generated much more income for the Treasury than agriculture and should therefore get their fair share. Strong demand for capital was felt in the fishing sector at that time, not only were the bigger fishing firms taking the first steps towards trawler fishing but the smaller fishermen were changing over to motor boats and vessels.

The idea of the equivalent of the Cultivation Fund for the fisheries was conceived and a law in 1905 enacted the founding of a public credit fund, the Fisheries Loan Fund of Iceland. Although the original proposal was considerably watered down in the Act itself, there was hardly any opposition to the fund voiced in the parliament.<sup>1</sup> It was the only investment credit fund of any significance outside agriculture established by the government during the first three decades of this century.

The Fisheries Loan Fund received 100,000 kr. as initial capital from the Treasury in addition to annual revenue, comprising one third of fines for unlawful fishing and 6,000 kr. annual disbursement from the Treasury. The initial capital was paid in 1906 consisting of 94,000 kr. in outstanding loans for fishing ship purchases transferred from the Reserve Fund and only 6000 kr. in cash, so there was very little liquid money during the first year. The Fund was provided with more income by a law from 1907 levying export duty on herring, of which 10% were to be appropriated to the Fund for the promotion of domestic

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<sup>1</sup> Stjt. 1905 A, pp.346-48.

Table 39 LENDING OF THE FISHERIES LOAN FUND  
1907-1929

year	krónur	year	krónur
1907	4,700	1918	10,000
1908	64,300	1919	
1909	16,100	1920	17,600
1910	16,800	1921	261,501
1911	49,300	1922	18,000
1912	50,500	1923	21,000
1913	49,300	1924	41,999
1914	48,101	1925	44,000
1915	19,899	1926	188,500
1916	30,300	1927	59,600
1917	26,400	1928	61,700
		1929	96,001

Sources: Sveinn Þórðarson, 'Upphaf vélbátaútgerðar á Islandi' (unpublished B.A. thesis in history, University of Iceland 1986), p.100. - Stjt. 1913-1930, section B.

Notes: The fund started operations 30 November 1906 and its first records show lending from that date until 31 December 1907. - Annual lending is arrived at by adding amortizations to outstanding loans and subtracting outstanding loans of the previous year.

herring fishing. This was to become the fund's biggest income so it was largely financed by taxation on the fisheries themselves.

A peculiar provision in the Act required that credit should as a rule be granted for the purchase of foreign ships whereas Icelandic ones were only eligible if they were of the same quality as first rate foreign ships. As one might have expected, this restriction was not to encourage domestic ship building.

The Fisheries Loan Fund, starting in 1906, was the only fund servicing the fishing sector especially and its activities were in a sense a continuation of the Reserve Fund's lending to fishing vessels. Its aim was to promote the fisheries by offering grants and lending money for boat purchases, fishing gear and other investments for the advance of the fisheries. Grants absorbed only a fraction of the fund's resources, at best few thousand kr. a year, allocated to Egir, a magazine specializing in fisheries

affairs, and marine and fishery research grants to individuals. Individual loans varied from 2,000 to 15,000 kr. and could amount to one third of the boats' insurance value.

As table 39 shows the Fisheries Loan Fund's lending was modest in most years up to 1930, normally ranging between 30,000 and 50,000 kr. until 1920 although falling both in actual and real value. Meager income evidently limited its lending, but strangely enough, its modest capital was channelled less and less into lending during its first 20 years of operation. Just over two thirds of its assets were tied in loans in 1910 as table 40 shows and only a fifth by in 1920. The strict borrowing requirements are probably the main explanation for this since borrowers had to have their boats insured with officially authorized insurance companies. Many companies did not have this authorization and a large number of boats were not even insured at all.

The situation prompted the government to take steps to provide the legal framework necessary for the boat fishery's insurance. A number of small insurance companies had been founded during the last decades of the nineteenth century, but did not have the financial weight to bear the risk as vessels grew in size and value. By law in 1909 they jointly formed "Samábyrgð Islands á fiskiskipum", a national reinsurance company with government financial support and guarantee, which was a big improvement in fishing ship insurance.

More fishermen and boat owners now became eligible for loans from the Fisheries Loan Fund and the improved insurance probably contributed to a moderate increase in lending in the course of the next years. But rampant inflation and declining revenue emanating from fines during the war curtailed the fund's incomes severely, only to be further cut after the war. The fund was stripped of its valuable revenue from export duties on herring in 1919 followed a year later by the fines for unlawful fishing, which had been its principal source of income. The Althing, struggling with massive deficits justified these measures by

Table 40 ASSETS OF THE FISHERIES LOAN FUND  
1910, 1920 AND 1930

	1910	1920	1930
securities	114,990	89,066	368,356
Reykjavík harbour loan			202,000
bonds		80,000	1,400
deposits in banks	53,895	256,294	116,128
other assets		68	9,972
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total	168,885	425,428	697,856

Sources: Arbók Hagstofu, p.75. - Stjt. 1931 B, p.158.

referring to the severe financial difficulties of the Treasury. The loss of the revenue was partly compensated by a rise in interest earnings from lending, but its working capital shrunk in real terms as compared to the pre-war period.

The fund's lending fluctuated greatly after the war. After it had been brought to a halt in 1919, it slowly rose in 1920, but in 1921 it climbed to 275,000 kr. What caused this sudden jump was a 250,000 kr. loan granted to Reykjavík council for harbour investments recommended by the Althing's two fisheries committees.<sup>2</sup> In 1922 lending fell below pre-war level in real terms and idle cash started to pile up again.

In a parliamentary discussion on the fund's activities in 1926, the minister for economic affairs remarked that "although no loan request, to my knowledge, has been rejected where sufficient security has been offered, some 200,000 kr. have accrued in the fund."<sup>3</sup> Three town councils, in Reykjavík, Akureyri and Akranes, seized the opportunity and applied for loans for harbour investments

<sup>2</sup> BS SSI III, Opinberir sjóðir 1923-1925. Reikningur yfir tekjur og gjöld Fiskveiðasjóðs Íslands árið 1921. See also a letter from the Althing's committees 19 April 1921 to the Ministry of Transport and Economic Affairs, cf. BS SSI II, db.8-309.

<sup>3</sup> Alþt. 1926 D, p.598.

amounting to virtually all the fund's available capital. A majority of the Althing's fisheries committees did not want to go so far, but recommended much smaller lending.<sup>4</sup> In the end Reykjavík was granted 75,000 kr., Akureyri 35,000 kr. and Akranes 20,000 kr.<sup>5</sup> In addition, a further 15,000 kr. was allocated to harbour investment in the small town of Bolungarvík in the Vestfjords in 1926.<sup>6</sup>

Strictly speaking, lending for harbour investments did not comply with the Fisheries Loan Fund's rules so, not surprisingly, the sanctioning of this lending by the majority in the parliament and the government led to protests in the Althing in 1926.<sup>7</sup> Discontent with the fund's failure to serve its original purpose prompted a number of MP's to put forward proposals in the Althing in the late 1920s, all aimed at providing the fund with additional resources in order to make it more supportive to the boat fishery. Many looked to the reorganization of the Cultivation Fund as an example to follow and in a government bill passed eventually in the Althing in 1930 a close resemblance could be discerned.<sup>8</sup>

The fund was thoroughly reorganized with the new legislation and given new blood. It was assigned the task of extending credit for purchases of fishing boats and ships under 50 tons as well as for new fish processing firms, for which no less than half of the credits was earmarked. A huge capital injection was prescribed in the law, 1 m.kr.

<sup>4</sup> PS. SSI II, db.8-309. Extracts of the minutes of the joint meetings of the Althings' fisheries committees presented to the Ministry of Transport and Economic Affairs 14 April 1926.

<sup>5</sup> As the relevant documents on Akureyri's loan have not been found in the fund's papers the figure is taken from an official publication, cf. Skyrslur um nokkrar framkvæmdir, p.67.

<sup>6</sup> PS SSI II, db.8-309. The Ministry of Transport and Economic Affairs to the Fisheries Fund 29 October 1926.

<sup>7</sup> See f.ex. Alþt 1926 A, pp.576-7; D, pp.594-603.

<sup>8</sup> Stjt. 1930 A, pp.117-120.

was to come from the Treasury over the next 10 years in addition to incomes from higher export duties on all fish products until the Fund's capital has reached 8 m.kr. The fund was also authorized to issue bonds up to 1.5 m.kr. secured on the fund's capital and guaranteed by the Treasury. Individual loans could be as high as 35,000 kr. to 15 years, all carrying 5 % interest, which were favourable terms at that time compared with bank loans.<sup>9</sup> The management of the fund was handed over to the new Fisheries Bank of Iceland, founded in 1930.

Despite the good intentions behind the legislation the fund failed to make the expected impact. The economic situation was rapidly deteriorating when the law came into force prompting the Treasury to abandon its statutory financial commitments to the fund for many years. It was though of great help that the fund was provided with new capital through foreign borrowing when a state guaranteed loan of 1.5 m.kr was raised in 1930 from Landmansbanken in Denmark, but that was soon to dry up.<sup>10</sup>

#### 16.2. State guarantees

Apart from trade credit obtained in Denmark and to lesser extent in Britain, foreign borrowing for investment was rare before the war. Evidently, it took some time for Iceland's small and obscure private firms and public bodies to gain the trust of foreign lenders and enter credit markets unaided. An important and often the only way for Icelandic municipalities and firms to raise foreign loans in the early stages of the country's capitalist development was to turn to government for state guarantees.

Few such guarantees were granted before 1920, the most

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<sup>9</sup> The National Bank discount rate was then 7 %, reduced to 6 % in 1932.

<sup>10</sup> LR 1930, p. xxxi. - 'Fiskveiðasjóður Íslands 50 ára', *Féir* XLVIII (1955), pp.289-292. - Sigfús Kr. Gunnlaugsson 'Þróun lánsfjárstarfsemi í þágu sjávarútvegsins' (unpublished thesis in Business Administration, University of Iceland, 1949), pp.13-14.

notable were obtained by the Reykjavik council borrowing money from abroad for a number of infrastructure projects. State guarantees were thus obtained for 0.4 m.kr. foreign loan raised for water works in 1908, 1.2 m.kr. for the harbour in 1912 and 2 m.kr. for the first hydro-electric plant in Iceland in 1919.<sup>11</sup> The Icelandic Steamship Company was also given a state guarantee for a 600,000 kr. foreign loan when buying its first two ships in 1914 and again for a new ship loan in 1921.<sup>12</sup>

These government financial obligations, normally authorized in the Finance Act, were greatly extended during the 1920s and were overwhelmingly confined to foreign borrowing. The National Bank was offered state guarantee on foreign loans, first authorized in the Supplementary Budget for 1920/1921, then extended by law in 1927 and still further in 1928 obliging the state to guarantee all the bank's financial obligations, but foreign loans not secured on its assets had to be sanctioned by law in each case.<sup>13</sup>

The fishing fleet underwent a major renewal and expansion after the war, financed largely by English loans. With a series of setbacks in the fisheries 1919-1921 fishing businesses found themselves in a dire financial situation and turned to the government for guarantees which were to enable them to renegotiate their foreign loans and defer payments. Extensive state guarantees were given on the foreign loans for ship purchases in the 1922 budget, 200,000 kr. a ship or 2.4 m.kr. in all.<sup>14</sup> A fishing firm in Hafnarfjörður was not as successful in 1924 when the Althing turned down a request for a 500,000 kr. state guarantee on a

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<sup>11</sup> Alit og tillöqur I, pp.48-51.

<sup>12</sup> Guðni Jónsson, Eimskipafélag, p.208.

<sup>13</sup> Stjt. 1928 A, p.21.

<sup>14</sup> Alpt 1921 B, pp.1381-5. - Alpt. 1924 C, p.321. - Alpt. 1928 B, p.961.

trawler purchase loan.<sup>15</sup> The first co-operative fishing firm in the country, founded in the town of Isafjörður in 1927, enjoyed on the other hand the good-will of the government of the Progressive Party and obtained a state guarantee in 1929 for loans worth 320,000 kr. for ship purchases, soon to be followed by other co-operative fishing firms.<sup>16</sup>

Attempts were made to bind the government by law to offer guarantees on or even provide operating credit for the fisheries during the 1920s.<sup>17</sup> The only proposal in that direction to become a law during the period under examination was a temporary measure passed by the Althing in 1930 obliging the government to offer a state guarantee on operating credit up to 1 m.kr. for the fisheries during the current fishing season due to the closure of the Bank of Iceland.

Other sectors of the economy were less successful in obtaining state guarantees. The obvious reason in the case of agriculture was that it enjoyed generous financial support in the state budget for most of the twenties and agricultural credit was entirely obtained from domestic credit institutions, not least public credit funds such as the Reserve Fund, the Cultivation Fund and the Housing and Settlement Fund. Nevertheless, bigger projects linked to agricultural activity received state guarantees in several cases, most significantly agriculture processing firms like the textile factory, "Alafoss", (200,000 kr. in 1922) the dairy, "Mjöll" (40,000 kr in 1925) and a woollen mill (25,000 kr. in 1927).

By the end of 1930 total state guarantees amounted to 11.3 m.kr., divided between the National Bank and the Fisheries Fund (57%), municipalities (30%) and individuals

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<sup>15</sup> Alþt. 1924 A, pp.326-327; C, pp.312-370.

<sup>16</sup> The next two to come were in the towns of Akureyri (150,000 kr. in 1931) and Eskifjörður (90,000 kr. in 1931).

<sup>17</sup> See f.ex. Þorkell Jóhannesson, Alþingi og atvinnumálin, p.360.

(13%).<sup>18</sup> The aggregate figure is very high in itself as well as compared with long-term government debt of 19.3 m.kr. If loans raised by the state in order to buy bank bonds and help the two main banks 1909-1930 are regarded as state guaranteed loans then no less than 27 m.kr. or 55% of all foreign debt outside central government, i.e. banks, the private sector and public bodies, was guaranteed by the state at the end of 1930.<sup>19</sup>

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<sup>18</sup> LR 1930, p. xxxi. This is the first time that a record of state guarantees is published in the Government Accounts, so aggregate figures prior to 1930 are not available.

<sup>19</sup> Alit og tillögur I, p.36. - Table 27.

This is consistent with the definition of government debt in the thesis. The loans were formally raised by government but the debt was to be serviced by the banks or covered by interest income from bonds. The loans are therefore most appropriately defined as loans raised by the banks with state guarantees.

### 17. BANKING AND THE STATE

One of the main conclusions which we are able to draw from the above examination of banking in Iceland in its formative phase is that the government was not only instrumental in creating the institutional setting but was itself heavily engaged in the business of banking.

As elsewhere the money issuing function had to be arranged through the political process and it occupied a central place in economic policy during the period. The liquidity strain earlier on, which was at least partly due to lack of public responsibility for the issuing of money, acted as a barrier to a more sophisticated trade in money and was detrimental to the growth of trade.

There was a growing awareness towards the end of the century of the need for government to assume responsibility for this function. But the whole saga of the Bank of Iceland demonstrates that politicians viewed central banking more as a vehicle for economic growth than stability. The lesson had to be learned the hard way that central banking revolved not only around abundant money supply, the issuing of money "as business required", but that it had also to do with a stable currency and secure economic environment.

The institutional arrangement undoubtedly contributed to the malfunctioning of the money issue. The Bank of Iceland was a private bank set up by mainly foreign capital in order to make profits. The Bank was allowed to engage in all ordinary activities of commercial banks and when the restrictions on the money issue were lifted during the war it was concerned only with "meeting the credit demand" and the easiest and most profitable way for the bank was to print more money. The disastrous effects of the money printing was a decisive factor in the growing political opposition to the bank which in the twenties gained the upper hand in the Althing and led to the decision to transfer the issuing right to the National Bank. In the new central banking arrangement in 1927 more precautions were taken as to the National Bank's money issuing powers.

Nevertheless, the bank was allowed, as the Bank of Iceland before, to operate in commercial banking though a separate department with independent financial status was to handle the money issue. This arrangement, which was to last until a wholly independent institution was established in 1961, Central Bank of Iceland, entailed that the National Bank took over the central banking function as well as commanding the biggest share of commercial banking in the country.

Government involvement in the business of banking can be divided into three phases. In the first phase, roughly between 1840 and 1885, the few existing credit institutions were almost exclusively publicly owned. Considerable budget surpluses in the last decades of the century put the Icelandic government in the rare position of having spare funds which the Althing decided to make loanable to public institutions, individuals and, increasingly, to development projects.

In the second phase, lasting until ca. 1927, the government's role as a credit source diminished relatively as private banking developed. Savings banks emerged in the 1870s and were soon engaged in considerable lending, although their role in the banking system was not as significant as in many other countries. Of greatest importance was the Bank of Iceland which, apart from having the money issuing powers, was the biggest commercial bank between 1904 and 1923.

In spite of the rise of private banking government continued to shape the course of the development in this field. It had established the first bank in the country and provided it with working capital. Its policies during the period were characterized by attempts to help the financial institutions to increase the volume of credit. This often entailed direct or indirect financial contributions by the state, summarized in table 41 (disbursements to public credit funds are not included). Firstly, government provided the National Bank's mortgage department with substantial part of its capital by buying bonds with foreign

Table 41 STATE FINANCIAL AID TO BANKS, 1909-1930

million krónur at current prices	(1) direct contribution	(2) state relending to banks
National Bank, 1909		1.500
National Bank, 1913		0.250
National Bank, 1913-1930	1.700	
Bank of Iceland, 1921		5.927
National Bank, 1921		1.874
National Bank, 1926		3.043
National Bank, 1927		4.869
National Bank, 1928	3.000	
Fisheries Bank, 1930	4.500	
Agriculture Bank, 1930		3.600
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Total	9.200	21.063
Total outstanding government debt due to banks in 1930		23.824

Sources: LR 1908-1932. - Alpt. 1931 C, pp.126-134.

Notes: Column (1) signifies contributions financed by state loans proper or irredeemable disbursements from the Treasury, whereas column (2) signifies state loans relent to banks, which serviced the debt themselves. The latter is not regarded as state debt proper in the thesis, cf. notes to table 27. The distinction between the two loan categories is, however, not always clear because government helped with repayments of some of the relent capital in the case of the loans taken in 1909, 1913 and 1926-1927. - Only the first entry in column (1) is treated as public expenditure in the thesis, the other two were kept out of Government Accounts and financed by public borrowing (3 m.kr. grant to the National Bank and 1.5 m.kr. grant to the Fisheries Bank) or constituted a takeover of liabilities (3 m.kr. to the Fisheries Bank). - Part of the loans raised 1926-7 was used to purchase Cultivation Fund bonds. - Foreign loans are calculated at exchange rates in December each year.

loans, 9.7 m.kr. in all as table 41 indicates (relending to the National Bank in 1909, 1913, 1926 and 1927), thus functioning in effect as a mortgage bank. Secondly, the government set up special investment credit funds, principally for agriculture. These financial commitments were made without the government having to resort to domestic capital to any great extent, thus offering private

firms only limited competition for scarce credit on the domestic market. The bulk of government debt, increasing to substantial sums in 1917, was foreign as seen by the fact that the annual average long-term government debt amounted to 12.7 m.kr. 1926-30 of which 76% was raised abroad.

The beginning of the third phase is marked by the restructuring of the main banking institutions between 1927 and 1930 leading to a new system that remained virtually unchanged for about 30 years. The changes were the culmination of long standing government involvement in banking. The money issuing powers were handed over to the National Bank signalling a stronger political control over the central banking function. Apart from the savings banks, the banking system, i.e. all the investment credit funds and the three commercial banks, had effectively fallen into public ownership by the end of 1930.

This banking structure, which did not start to change until the 1950s, represented a degree of direct state control and ownership in banking that was very rare in Europe. It was the result of a combination of many factors. In the case of the Bank of Iceland economic and political factors were intertwined. The slump in 1926, the appreciation of the króna in 1925 and bad debts were due to both adverse economic conditions and incompetent management. But it is equally true that political motives lay behind the government's decision in 1930 to refuse to back it and, instead, form a state owned bank on its ruins. Neither was private domestic capital sufficient nor new foreign capital forthcoming to restore the bank so this embodiment of private enterprise in Icelandic banking was brought down. In any case, the option of rescuing the bank with huge foreign capital which would hold a controlling stake was politically unacceptable. The founding of the Agriculture Bank was the last link in a long chain of government measures to provide agriculture with credit which ordinary banks were reluctant to offer.

Gerschenkron's "economic backwardness" hypothesis seems to fit well with the development of Icelandic banking.

Confronted with the growing need for capital private businesses and the farming community put pressure on the government to provide credit they were unable to mobilize out of their own wealth. The above analysis strongly indicates that firms and farmers relied increasingly on borrowed money for investment and working capital from banks and public funds for which government went to great lengths to provide capital.

The mobilization of credit by government was done, first, through financial contributions to public credit funds. Secondly, government made direct contributions to the banks during the restructuring of the system between 1928 and 1930 in addition to an annual disbursement to the National Bank which helped expanding its activities. Thirdly, the government engaged itself in massive relending to the banks on the one hand to bolster the National Bank's mortgage lending and on the other on account of the bank crisis 1920-1921. Lastly state guarantees opened the way for private individuals and public bodies to foreign credit markets.

By the end of the period the government had assumed the responsibility for the largest part of the banking system. In this respect Iceland resembles less the German than the Russian archetype in Gerchenkron's typology. However, his explanation for the prominence of the state in the industrialization process in Russia does not apply to Iceland for both the motives and the material requirements for state action differed. The actions of the Icelandic government actions were not driven by ambitious strategic motives of an autocratic ruler, but by successful pressures from groups and classes eager to modernize and expand their means of production.

Nor was the government forced to act in order to overcome the lumpy character of investment, except perhaps in the case of infrastructural investments, which were overwhelmingly undertaken by local and central government. The lumpiness of investment is a relative concept and hinges among other things on the financial resources of the

investors concerned. Although the small Icelandic producers had normally limited resources most of their capital investments were on a modest scale. It was rather the overall lack of financial resources, the extremely low level of development from which Icelanders started their rapid economic advance in addition to the limited possibilities of the private sector to obtain capital abroad which made the government such a prominent agent in Icelandic banking. The pressure for public provision of capital was made more urgent for the fact that once economic modernization gained momentum the progressive farmer and the fishing capitalist were unafraid to rely on borrowed money for their activities. The heavy borrowing facilitated the expansion and the modernization of the economy but backfired in the 1930s when in addition to greatly reduced demand agriculture and even more the fisheries were crippled by huge debts.

## CONCLUSIONS

The central concern of this thesis has been to analyze the extent and the nature of government involvement in the Icelandic economy during a period of radical economic and social change. Some tentative attempts have also been made to assess the influence of government policy on the performance and the course of the economy. The study has focussed on three fields of prominent government involvement: the shaping of the institutional framework of agriculture, publicly provided economic services and the task of creating a modern banking system, all of which greatly influenced the economy. These public actions, however, need to be put in wider context in order to assess the overall scope and nature of the government influence in Iceland's economic development.

We have observed how small and undeveloped the public sector was during the nineteenth century and its limited financial resources made it incapable of significantly contributing to the building of a modern economy. It was not until late in the period under investigation that public expenditure approached levels similar to those of the neighbouring countries. Government rarely participated in commercial or industrial enterprises before the First World War and did not intervene to regulate prices. A markedly liberal foreign trade policy was pursued throughout the period which reflected the country's dependence on international economic relations. With an extremely small and undeveloped domestic market but a fairly specialized foreign trade as the single most important factor of growth Iceland had to adopt free trade policy if she were to make use of her comparative advantages.

Yet, it would be misleading to label the relationship between the state and the economy as one of laissez-faire. Liberal trade policy can largely be explained with reference to the lack of domestic industrial or grain production to be protected from foreign competition. At home not only trade was regulated, but severe restrictions were imposed on the

occupational freedom of the working classes. The fairly passive fiscal policy had more to do with an undeveloped financial structure of the state and age-old peasant housekeeping ideas than a conscious, liberal non-intervention policy. When the economy entered a high growth period in the last decade of the century with a consequent rise in public revenue the old stringent fiscal ideas gave way to a more active, growth orientated policy. This is not to deny the influence of the liberal doctrine on public policy but to acknowledge its limited application.

The most obvious and significant change in fiscal policy at the end of last century was a higher level of expenditure pushed up primarily by increased spending on economic services which evidently led to widening of the scope of government economic influence. Around the turn of the century about two fifths of the budget were taken up by this category and its share was to remain on that level for most of the period up to 1930. This spending involved substantial sums of money in actual terms. Compared to five countries in Northern Europe, Iceland's expenditure on economic services per head was higher than all but Netherlands in 1910 and far the highest in 1930.

Nearly two thirds of this spending was devoted to the economic infrastructure, the post service and the telephone and telegraphic service, roads and bridges, harbours and lighthouses and the state shipping service. These essential parts of the economy were mainly financed out of the public purse and carried out by public agencies. The responsibility for land transport and harbour investments was moreover shifting from local to central government during the period.

The allocation of public money was largely determined by sectoral politics characterized by growing friction between agriculture and the fisheries. The priorities in policy were decisively in favour of the former sector as has been shown both in the preference given to infrastructural investments linked with the rural economy and the relatively high public spending on agriculture itself. About a fifth

of the total expenditure was devoted to agriculture, a far higher proportion than other sectors put together. The main agricultural organization, the BF, was publicly maintained and through it all major research and development programs in the country were financed. Extensive farm support schemes and projects were enacted, especially during the 1920s, incurring massive expenditure.

Other sectors received less support, together not more than 15% of total expenditure on economic services over the whole period. Financial contributions to the leading growth sector of the economy, the fisheries, was curiously low and primarily devoted to infrastructural investments, quality inspection and research and development programmes. However, it is argued in the thesis that, although the fisheries were in great need of firmer support for the building of harbours and other infrastructural investment, the problems agriculture was faced with were on a much bigger scale and greater its need for outside help to adjust to both the rapidly changing domestic scene and shifts in overseas markets.

The varied economic activities financed by public money fall within two main categories, i.e. the provision of the economic infrastructure and financial assistance to infant industries, particularly branches of agriculture like the dairy industry and meat export and even more so programs designed to increase the hay-crops. The scope of government influence was, however, widening and by 1930 public policy was no longer confined to creating better opportunities for private individuals as government showed increasing readiness to intervene or participate more directly in spheres previously left to individuals. A number of state enterprises were established after 1914, most notably the State Trading Company, importing and distributing a large share of imports until it was closed down in 1927, and the State Shipping Service which was to cater for most of the coastal shipping.

Regardless of its influence in other spheres of

economic activity the state is by its nature assigned the task of determining the legal and institutional framework of the economy and thus exert much influence on the economic outcome. If only for this fact it would be wrong to say that Iceland developed passively into the modern age. As other nations she was faced with the crucial task of adapting the archaic social and economic structure to the changing environment brought about by the industrialization in Europe. The state played a crucial part as there was no other agent capable of leading and enforcing the change in the institutional framework of the economy.

In agriculture, two institutional arrangements were particularly identified as barriers to development and more efficient farming, namely insecure and often oppressive tenure practices and strict regulation of the poorer sections of society in order to secure the farming community with labour. Although decisive measures to promote rational, modern farming were embarked upon in the late eighteenth century the strong position of the landowning elite and the prevailing economic ideas prevented a breakthrough similar to that in Denmark. The Danish government was persuaded by Icelandic government officials that the existing tenure practices were not in need of reform, a stance that continued to enjoy support by the majority of the Althing long after Icelanders gained political control of the legislature.

Contemporaries viewed the lack of specialization between agriculture and the fisheries as an indisputable drawback on the economy, but the conclusion drawn from that in ruling circles was not to encourage work specialization and more efficient use of labour, but to contain the fisheries by regulating the labour force. The fisheries should be kept as a well controlled subsidiary occupation of the farming population so as not to distract the scarce labour force from farming.

It was not until the virtual abolition of the labour bondage and the general sale of public land around the turn of this century that the economic policy of the "old regime"

started seriously to disintegrate. Still, a tenant protection policy was not sanctioned by law until the 1930s, remarkably late in comparison with other Nordic countries. A new agricultural policy emerged, relying not on social control of the labour force but aiming at modern farming in a free situation with the positive financial support of government, leaning decisively towards the promotion of the small farmer.

Public measures to change the institutions of agriculture can largely be seen in terms of removal of social and economic barriers to economic development by reducing political or social control of the factors of production. This is most clearly discernible in the case of the labour regulation and the various obligations imposed on tenants. But positive action was also an important part of public efforts to change the institutional framework as demonstrated in measures, late though they were to come about, to establish secure land tenures.

A more powerful example of this was the creation of a modern banking system in which the state did not only lay the groundrules but directly participated. Also in this area were public measures to improve the backward monetary system late to be adopted compared with the neighbouring countries. But when government assumed the responsibility for monetary policy in general and even the promotion of ordinary banking activities after the turn of the century the Althing embarked upon increasingly ambitious and vigorous policy.

The creation and management of a national currency was the fundamental task of government in this field and first with the founding of the Bank of Iceland in 1904 was an institution created to handle the central banking function. A large part of the banking itself was controlled by government. Traditionally, the main sources of institutional credit were a number of public funds and the first proper bank in the country, the National Bank, was in public ownership. In the first decades of this century government was engaged in providing the expanding economy

with credit through both relending of foreign capital, state guarantees of foreign loans and public investment funds, backed by significant direct contributions from the Treasury. With the collapse of the Bank of Iceland in 1930 virtually the whole bank system, apart from the savings banks, came under public control and was to remain so for decades.

The role of government in creating an institutional framework for the emerging capitalist economy goes on to show how economic development is influenced by government action, regardless of its other economic activities. The scope of government economic influence through high spending on a wide range of economic activities and the heavy involvement in banking in Iceland indicate an unusually high degree of state intervention in the economy.

The most useful explanations of this high degree of government economic involvement are, first, that the state was used as an institutional device to substitute the lacking capital and entrepreneurial efforts when modernization got under way at the end of the last century. Also, government was increasingly seen in the popular perception as a positive agent of economic growth as Iceland progressed towards political self-determination. The two chief components of public policy, political independence and economic growth, were pursued as mutually supportive goals whereby a commitment to the development of the economy was only regarded as possible under a nationally controlled government in the same way that a truly independent country could not survive without a dynamic and advancing economy.

## **APPENDICES**

## APPENDIX A. TERMS OF TRADE INDEX, 1870-1914

Terms of trade are one of the most important economic indicators for the Icelandic economy, yet there are, unfortunately, no indices available prior to 1914. The following exercise offers a rough approximation of trade terms for the period 1870-1914.

Saltfish and wool were the principal export commodities accounting for ca. 50-70% of exports earnings during that period and they are used here as indicators of export prices. Wool prices are taken from the official external trade statistics, more precisely the indices for unprocessed white wool are used. Fish prices are based on information provided by Halldór Bjarnason who is currently working on a book about the history of Iceland's saltfish production. For sake of simplicity the quantities of the two commodities are kept constant throughout the period, presuming an average fish export of 10,000 tons and 750 tons of wool a year, which roughly reflect the average weight of these commodities in the exports.

The price index of imported goods presented in appendix B is used as an index of imports prices and is extended to 1914. It includes rye, sugar and coffee which are given the same weight as in appendix B. The results, shown in table A.1, should only be taken as rough indicators of the development of export and import prices, the index for the latter ones is especially in need of improvement as it covers only a limited range of commodities. Terms of trade data for the period 1914-1930 is also included in the table, based on the Statistical Bureau's calculations, c.f. Tölfræðihandbók 1984, p.123.

The results confirm, firstly, the great fluctuations in the terms of trade due to volatility in import and especially export prices. Secondly, sharing the experience of many other peripheral countries, Iceland's terms of trade show a dramatic improvement in the mid-1890s, which must be taken as one of the key explanations for the rapid economic growth around and after the turn of this century.

Table A.1 ICELANDIC TERMS OF TRADE, 1870-1930

year	export price index	import price index	terms of trade
1870	73	141	52
1871	84	148	57
1872	100	156	64
1873	95	165	58
1874	88	180	49
1875	81	170	48
1876	104	163	64
1877	91	168	54
1878	77	163	47
1879	76	134	57
1880	76	156	49
1881	87	156	56
1882	93	133	70
1883	94	123	77
1884	66	125	53
1885	69	113	61
1886	54	107	50
1887	59	125	47
1888	63	112	56
1889	71	118	60
1890	70	139	50
1891	78	150	52
1892	70	146	48
1893	63	142	45
1894	62	125	50
1895	69	111	62
1896	63	111	57
1897	60	99	61
1898	59	100	59
1899	76	111	68
1900	74	112	66
1901	72	112	64
1902	77	108	72
1903	79	106	74
1904	87	108	81
1905	98	115	85
1906	99	112	89
1907	103	115	90
1908	84	123	69
1909	77	99	77
1910	89	90	99
1911	86	100	86
1912	85	111	77
1913	100	106	94
1914	104	100	104
1915	175	141	124
1916	201	184	109
1917	217	286	76

year	export price index	import price index	terms of trade
1918	247	373	66
1919	333	348	96
1920	258	453	57
1921	203	270	75
1922	198	226	88
1923	176	242	73
1924	249	246	101
1925	226	211	107
1926	164	175	94
1927	132	165	80
1928	182	154	118
1929	164	149	110
1930	143	135	106

## APPENDIX B. COST OF LIVING INDEX, 1870-1899

Indices of the general price level in Iceland are available only from 1899 onwards. An economist, Torfi Ásgeirsson, has recently constructed and calculated a cost of living index for the period 1899-1914 on the basis of the budget of the Leprosarium in Reykjavík and the Statistical Bureau, founded in 1914, has computed average price index for goods and services from that year onwards.<sup>1</sup>

In order to deflate public revenue and expenditure and other economic statistics in the thesis for the whole period under investigation I have compiled a crude cost of living index for the first 30 years of the period, 1870-1899. Lack of data and research prevents as thorough and comprehensive an index as Torfi Ásgeirsson has produced as I have only used seven food items, four domestically produced (fish, mutton, tallow and butter) and three imported goods (sugar, rye and coffee). These foodstuffs make up the larger part of the food consumption in the country and the imported items also represent a substantial part of total imports or between 20-25%. Naturally, such a construction reflects the general price level only to a limited extent and should therefore be taken as a preliminary exercise in price indexing for this period for it really is only a rough indicator of living costs of wage earners in urban areas.

The items have been weighed according to my estimate of an average budget of one person a year during the last three decades of the nineteenth century. Information on food consumption has been gathered from many different

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<sup>1</sup> Torfi Ásgeirsson, 'Verðlagsbreytingar', pp.287-310.-

The price indices published by the Statistical Bureau have been published in the Statistical Abstracts of Iceland, the latest being Landshagir. Statistical Abstracts of Iceland. Statistics of Iceland III,5 (Reykjavík, 1991).

sources, official imports statistics<sup>2</sup> give a clear picture of the consumption of the imported articles, but more guesswork is involved in the estimate of consumption of the domestic produce. Here I rely on various scattered sources.

An economic historian, Magnús S. Magnússon, has kindly allowed me to use his unpublished work, Verðlagsskrár, a compilation of price indices which are used for all the articles in my index except mutton. His data is taken from the official imports statistics on the imported articles and the so-called market-place scales (verðlagsskrár) on the domestic produce. The scales, published annually from 1818 by the central authorities, were collected from each district and were to represent the annual average market prices for common produce. The mutton prices are on the other hand computed on the basis of data in Jón Gauti Pétursson, 'Verzlunarárferði landbúnaðarins á Íslandi um 100 ár', Samvinnan XXIV (1930), p.139.

The items used in the index and their weights are as follows:

1. Fish: 80 kilos, divided between 53 kg of fresh cod and 27 kg. of salted fish.
2. Mutton: 42 kilos.
3. Tallow: 15 kilos
5. Butter: 25 kilos.
5. Sugar: 8 kilos.
6. Rye: 47 kilos.
7. Coffee: 4 kilos.

The results of the exercise are shown in table B.1. The first column shows annual expenditure of one person on the items listed above, the second column the composite index with 1870 as a base year. The table reveals interesting development of prices in Iceland during that time. Prices were on the increase towards the middle of the 1880s but then a deflation set in, although marked short

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<sup>2</sup> Printed in Skýrslur um landshagi V for the years 1870-1872, Stjt. section B for 1873-1875, thereafter in Stjt. section C.

term fluctuations occurred in the late eighties and early nineties. The limited range of the price index may contribute to these significant fluctuations but they no doubt indicate a real movement in the price level.

Table B.1 COST OF LIVING INDEX, 1870-1899

year	total expenditure in kr.	composite index (1870=100)	year	total expenditure in kr.	composite index (1870=100)
1870	74.60	100	1885	82.30	110
1871	76.29	102	1886	79.01	106
1872	79.72	107	1887	75.68	101
1873	81.93	110	1888	72.90	98
1874	85.48	115	1889	74.34	100
1875	83.03	111	1890	78.60	105
1876	81.65	109	1891	80.77	108
1877	87.03	117	1892	81.22	109
1878	85.87	115	1893	74.18	99
1879	79.07	106	1894	71.12	95
1880	82.70	111	1895	68.52	92
1881	82.48	111	1896	70.75	95
1882	82.51	111	1897	68.18	91
1883	84.41	113	1898	68.06	91
1884	88.43	118	1899	69.64	93

Appendix C. PUBLIC EXPENDITURE ON ECONOMIC SERVICES,  
1876-1930: METHODS, DEFINITIONS AND STATISTICAL FINDINGS

The data on public expenditure on economic services has been compiled from the Government Accounts except otherwise stated.<sup>3</sup> These public accounts are, however, inconsistent in their accounting methods and often include items that were not regarded as expenditure proper in later systematic national accounting. In order to produce a more consistent series I have applied definitions of expenditure used in Gisli Blöndal's work and other related studies.<sup>4</sup>

As regards expenditure on economic services specifically the greatest discrepancy between these modern accounting methods and the Icelandic Government Accounts concerns public enterprises; the Accounts count gross expenditure whereas only net expenditure is counted in the reclassified computations, i.e. expenditure in excess of revenue made by respective enterprise. Moreover, the Accounts frequently count loans to public bodies in the expenditure side of the budget in the early years of the period.

Other important definitions and reclassification of expenditure in the Government Accounts are as follows:

a) expenditure on the Government Trading Company (Landsverslun), operating between 1914 and 1927, is not included as all outlays were treated as loans which the

<sup>3</sup> LR. The Government Accounts were not printed for the first fiscal period, 1876-1877, only the Auditors Report, which is the principal source for these years, cf. Athugagreinir yfirskoðunarmanna við reikningana fyrir árin 1876-1877, með hliðsjón af reikningum fyrir tímabilið frá 1.ágúst 1874 til 31.desember 1875, without publication or date.

<sup>4</sup> Blöndal, G., 'The Development'. Blöndal's study, as his mentors, J. Wiseman's and A. T Peacock's, is based on the pioneering work of the Central Statistical Office in Britain in reclassifying expenditure according to modern national accounting, see National Income Statistics. Sources and Methods, Central Statistical Office (London, 1956).

company eventually repaid the Treasury. Nor is expenditure on coal subsidies 1918 included, because the cost, 818,000 kr., was born by the Government Trading Company.

b) net expenditure of the Post Office, Telephone and Telegraph Services, the State Shipping Services, Gutenberg Printing Press and the State Electrical Appliances Company are on the other hand included because of their financial dependence on government during the period under investigation.

c) in accordance with Act no.35/1913 certain expenditure items regarding the telegraphic service have been excluded in the Government Accounts and these procedures are followed here as well.

d) financial assistance to the National Bank in 1928 (3 m.kr.) and the Fisheries Bank in 1930 (4.5 m.kr.) were kept out of the Government Accounts and financed by public borrowing. It is therefore not regarded here as public expenditure.

All the above accounting procedures are in line with Gisli Blöndal's method as far as one can tell from his description. There are, however, minor differences between our methods:

a) grants and scholarships for vocational studies are included in the economic services category and not in social services as in Blöndal's study.

b) Blöndal includes all so-called miscellaneous expenditure (óviss útgjöld) in the administration category, whereas I have transferred certain items clearly belonging to economic services in that category if they are of any significance. This applies to spending on the Tjörnes charcoal mine in 1918, 35,054 kr., costs arising from the prevention of sheep scab 1917-1924 and the purchase of herring and fodder for 95,261 kr. in 1920.

There may moreover be some discrepancies in classifying and counting individual spending items and programmes, especially during and immediately after the war when the Accounts are often inconsistent and incomplete. A case in point are the expenses of the State Shipping Service.

A detailed description is given in the following pages of the classification of economic services employed in the study as well as all the major expenditure items they contain. The classification is by no means unambiguous. A problem arises for example when the Government Accounts are not disaggregated to the same extent as my classification scheme in which cases other sources than the LR have been consulted or estimates have been made. The big spending categories are, of course, more broken down than others and therefore are all industries except agriculture and the fisheries contained in a single category at the end.

The classification scheme is followed by, first, two tables on government expenditure by function from Gisli Blöndal's study, pp.273-5, then by my statistical findings on the economic services spending.

## CLASSIFICATION OF PUBLIC EXPENDITURE ON ECONOMIC SERVICES

### I. INFRASTRUCTURE

a) Post service and telecommunication: net expenditure of the telegraph, telephone and post service.

b) Land transport: roads, bridges, public works related to road construction 1917-1919, geodetic surveys.

c) Sea transport: subsidies on coastal and overseas shipping, public shipping service 1895-7 and 1917-1930, purchase of coal for "Botnia" 1918, harbours and lighthouses, oceanographic surveys.

d) Other services: the Meteorological Bureau, water works, electricity supply utilities, subsidies on aviation, town planning, research on water power resources, initial capital expenditure on the state owned Gutenberg Printing Press (Rikisprentsmiðjan Gutenberg) and the State Wireless Monopoly, (Viðtækjaverslun rikisins).

## II. AGRICULTURE

a) Education and training: agricultural colleges, scholarships in agricultural studies, 50% of "grants for agricultural improvements" 1876-1887.<sup>a</sup>

b) Hayfields and vegetable cultivation: 50% of "grants for agricultural improvements" 1876-1887<sup>a</sup>, agricultural societies 1888 onwards, grants to vegetable cultivation, grants according to section 2 of the Cultivation Act of 1925<sup>b</sup>, 44,8% of outlays to The Cultivation Fund (Ræktunarsjóður) 1925-1930<sup>c</sup>, fodder experiments.

c) Research and development: the Agriculture Association (BI)<sup>d</sup>, advice on dairy production, fodder research, marketing and market research.

d) Other expenditure: tree planting, prevention of soil

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<sup>a</sup> Until 1888 there was only a lump sum of money labelled "grants for agricultural improvements" ("styrkur til eflingar búnaði"), which the Governor allocated to agricultural societies and agricultural schools according to certain rules. The evidence indicates that the two recipient bodies got roughly the same amount over the whole period up to 1888 although the shares could vary from one year to another. From 1888 onwards there is a differentiation in the LR between the two bodies.

<sup>b</sup> See footnote 5.

<sup>c</sup> A breakdown of the grants is not possible, but most of the money was devoted to cultivation.

<sup>d</sup> Information on detailed breakdown of lending is not available for that period specifically. According to Sigurður Sigurðsson, Búnaðarhagir, p.399, lending for cultivation, fertilizer stores and fence material purchases amounted to 44,8% of the fund's total lending during the period 1925-1936. Here we assume the same ratio for the period 1925-1930, the rest, 55,2%, is included in agriculture's "other expenditure" category.

<sup>e</sup> Most of the BI resources were allocated to research and development. The organization also ran an extensive advice and educational service to the farming community and this part of its operations should properly be classified with education. For lack of breakdown of this expenditure all of it is put into the R & D category.

erosion, veterinary services and control of pests, subsidies on butter and cheese exports, inspection of horses for exports, quality inspection of wool and meat, freshwater fishing (salmon and trout), losses on sale of salted mutton 1917 and frozen meat 1925, 55,2% of outlays to The Cultivation Fund 1925-1930<sup>10</sup>, The Housing and Settlement Fund (Byggingar- og landnámsjóður).

### III. FISHERIES

- a) Education and training: grants for running courses in navigation, the Nautical School, the Engineering School.
- b) Research and development: The Fisheries Association<sup>11</sup>, marine research.
- c) Other expenditure: the Fisheries Loan Fund, fish quality inspection, grants to ship insurance companies, loan relief to the Fisheries Association in 1918, subsidies on coal 1920.

### IV. OTHER INDUSTRY AND TRADE

- a) Manufacture: education and training, advice on construction, research, charcoal research and mining, grants to textile production, the State Workshop (Landsmiðjan).
- b) Commerce: education, general marketing and market research.
- c) Banking: grants to the National Bank.

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<sup>10</sup> See footnote 8.

<sup>11</sup> The Association also provided advisory and educational services by publishing the magazine Eqir, and running various courses in navigation and engineering. Strictly speaking, part of its expenditure should therefore be put in the education category, but for want of information on the breakdown all its expenditure is contained here.

Table C.1 GOVERNMENT EXPENDITURE BY FUNCTION, 1870-1930

at current prices

thousand krónur

year	admini- stration	national debt	law and order	social services	economic services	total
1876	49		21	114	19	203
1877	77		23	119	17	236
1878	51		49	163	57	320
1879	78		83	175	41	377
1880	35		77	157	70	339
1881	92		80	166	49	387
1882	46		79	165	68	358
1883	74		79	168	71	392
1884	42		87	173	78	380
1885	78		85	185	78	426
1886	63		83	205	90	441
1887	80		90	205	77	452
1888	45		87	200	63	395
1889	81		87	198	73	439
1890	46		87	208	111	452
1891	84		84	206	92	466
1892	44		85	223	111	463
1893	85		88	215	90	478
1894	67		87	227	201	582
1895	84		86	217	169	556
1896	49		91	238	268	646
1897	88		85	236	267	676
1898	49		91	309	294	743
1899	88		87	285	243	703
1900	53		88	314	286	741
1901	93		88	337	258	776
1902	76		87	334	308	805
1903	98		90	326	330	844
1904	98		89	395	495	1077
1905	119		88	383	427	1017
1906	86		90	440	655	1271
1907	387		88	455	618	1548
1908	109		85	509	768	1471
1909	147	19	91	515	582	1354
1910	94	20	93	599	696	1502
1911	167	20	94	691	555	1527
1912	142	57	92	666	766	1723
1913	182	103	93	656	668	1702
1914	194	103	92	777	1004	2170
1915	265	98	95	783	869	2110
1916	252	114	96	905	968	2335
1917	1358	361	121	1463	4746	8050
1918	1110	727	220	1519	1650	5226
1919	1477	1255	350	1639	1425	6146
1920	1224	983	559	4984	4241	11991
1921	1375	1307	588	3627	2577	9474
1922	1039	1007	520	3210	3590	9366

year	admini- stration	national debt	law and order	social services	economic services	total
1923	1121	1097	471	2782	2651	8122
1924	1234	1256	446	2780	1569	7284
1925	1630	1020	555	3104	1879	8188
1926	1295	716	563	3758	3343	9675
1927	1374	719	528	3998	3597	10216
1928	1385	706	637	4011	3666	10405
1929	1887	997	777	4054	4690	12405
1930	2938	1061	815	5292	8439	18545
	=====	=====	=====	=====	=====	=====
total	24584	13746	10570	60063	61013	169976

Table C.2 GOVERNMENT EXPENDITURE BY FUNCTION, 1876-1930  
at current prices

percentages

year	admini- stration	national debt	law and order	social services	economic services	total
1876	24.1		10.3	56.2	9.4	100
1877	32.6		9.7	50.4	7.2	100
1878	15.9		15.3	50.9	17.8	100
1879	20.7		22.0	46.4	10.9	100
1880	10.3		22.7	46.3	20.6	100
1881	23.8		20.7	42.9	12.7	100
1882	12.8		22.1	46.1	19.0	100
1883	18.9		20.2	42.9	18.1	100
1884	11.1		22.9	45.5	20.5	100
1885	18.3		20.0	43.4	18.3	100
1886	14.3		18.8	46.5	20.4	100
1887	17.7		19.9	45.4	17.0	100
1888	11.4		22.0	50.6	15.9	100
1889	18.5		19.8	45.1	16.6	100
1890	10.2		19.2	46.0	24.6	100
1891	18.0		18.0	44.2	19.7	100
1892	9.5		18.4	48.2	24.0	100
1893	17.8		18.4	45.0	18.8	100
1894	11.5		14.9	39.0	34.5	100
1895	15.1		15.5	39.0	30.4	100
1896	7.6		14.1	36.8	41.5	100
1897	13.0		12.6	34.9	39.5	100
1898	6.6		12.2	41.6	39.6	100
1899	12.5		12.4	40.5	34.6	100
1900	7.2		11.9	42.4	38.6	100
1901	12.0		11.3	43.4	33.2	100
1902	9.4		10.8	41.5	38.3	100
1903	11.6		10.7	38.6	39.1	100
1904	9.1		8.3	36.7	46.0	100

year	admini- stration	national debt	law and order	social services	economic services	total
1905	11.7		8.7	37.7	42.0	100
1906	6.8		7.1	34.6	51.5	100
1907	25.0		5.7	29.4	39.9	100
1908	7.4		5.8	34.6	52.2	100
1909	10.9	1.4	6.7	38.0	43.0	100
1910	6.3	1.3	6.2	39.9	46.3	100
1911	10.9	1.3	6.2	45.3	36.3	100
1912	8.2	3.3	5.3	38.7	44.5	100
1913	10.7	6.1	5.5	38.5	39.2	100
1914	8.9	4.7	4.2	35.8	46.3	100
1915	12.6	4.6	4.5	37.1	41.2	100
1916	10.8	4.9	4.1	38.8	41.5	100
1917	16.9	4.5	1.5	18.2	59.0	100
1918	21.2	13.9	4.2	29.1	31.6	100
1919	24.0	20.4	5.7	26.7	23.2	100
1920	10.2	8.2	4.7	41.6	35.4	100
1921	14.5	13.8	6.2	38.3	27.2	100
1922	11.1	10.8	5.6	34.3	38.3	100
1923	13.8	13.5	5.8	34.3	32.6	100
1924	16.9	17.2	6.1	38.2	21.5	100
1925	19.9	12.5	6.8	37.9	22.9	100
1926	13.4	7.4	5.8	38.8	34.6	100
1927	13.4	7.0	5.2	39.1	35.2	100
1928	13.3	6.8	6.1	38.5	35.2	100
1929	15.2	8.0	6.3	32.7	37.8	100
1930	15.8	5.7	4.4	28.5	45.5	100

Table C.3 EXPENDITURE ON ECONOMIC SERVICES, 1876-1930  
- principal categories -

krónur at  
current prices

year	infra- structure	agri- culture	fisheries	other industries	total
1876	16915	2140			19055
1877	14766	3400			18166
1878	51621	5500	250	400	57771
1879	36868	5000			41868
1880	59686	11500	300		71486
1881	38824	10500	200	200	49724
1882	51252	16050	500		67802
1883	52098	19130	100	300	71628
1884	54126	23608	300	250	78284
1885	54287	22538	100		76925
1886	64255	23633	1200	3350	92438
1887	54310	19717	1000	1000	76027
1888	43979	17510	1250		62739

year	infra-structure	agri-culture	fisheries	other industries	total
1889	55655	17560	800		74015
1890	91755	18240	1100		111095
1891	70410	18000	3940		92350
1892	78798	23400	6795	1350	110343
1893	66818	23190	2780	750	93538
1894	173174	25750	1559	2300	202783
1895	142640	25584	3016	500	171740
1896	230791	31583	9067	1700	273141
1897	228268	28700	3983	1000	261951
1898	230798	32500	32885	2000	298183
1899	204021	35850	6154	3200	249225
1900	234897	46200	7731	3600	292428
1901	198222	55944	5925	5146	265237
1902	204853	93003	7670	3391	308917
1903	190129	130382	7657	9900	338068
1904	281534	183202	8364	26907	500007
1905	244048	166586	7798	9590	428022
1906	441394	186255	24329	12250	664228
1907	448760	155221	16222	13350	633553
1908	588972	128142	29400	19400	765914
1909	397074	137494	27036	17615	579219
1910	410520	229191	37414	24637	701762
1911	331034	153439	44856	26375	555704
1912	523714	147264	47654	42503	761135
1913	405044	129735	49488	26182	610449
1914	630066	161788	81876	125780	999510
1915	538781	122668	74994	128335	864778
1916	654694	120241	78139	128042	981116
1917	4218643	156839	83904	281341	4740727
1918	1274937	168925	75232	213010	1732104
1919	962489	258373	103494	129439	1453795
1920	2524050	559621	1653398	163461	4900530
1921	1567719	497009	177752	202985	2445465
1922	2192649	532992	179278	208929	3113848
1923	1885950	470322	148436	174638	2679346
1924	980871	369111	162112	152658	1664752
1925	1205715	637635	172091	161995	2177436
1926	2158598	885724	199870	174983	3419175
1927	2296568	868337	180362	169999	3515266
1928	2223281	1002687	187628	210062	3623658
1929	2803482	1553763	174713	210983	4742941
1930	5359453	1690612	1616068	238034	8904167
total	40544256	12459288	5748170	3333820	62085534

Table C.4 EXPENDITURE ON ECONOMIC SERVICES. 1876-1930  
 - principal categories -

percentages

year	infra- structure	agri- culture	fisheries	other industries	total
1876	88.8	11.2	0.0	0.0	100
1877	81.3	18.7	0.0	0.0	100
1878	89.4	9.5	0.4	0.7	100
1879	88.1	11.9	0.0	0.0	100
1880	83.5	16.1	0.4	0.0	100
1881	78.1	21.1	0.4	0.4	100
1882	75.6	23.7	0.7	0.0	100
1883	72.7	26.7	0.1	0.4	100
1884	69.1	30.2	0.4	0.3	100
1885	70.6	29.3	0.1	0.0	100
1886	69.5	25.6	1.3	3.6	100
1887	71.4	25.9	1.3	1.3	100
1888	70.1	27.9	2.0	0.0	100
1889	75.2	23.7	1.1	0.0	100
1890	82.6	16.4	1.0	0.0	100
1891	76.2	19.5	4.3	0.0	100
1892	71.4	21.2	6.2	1.2	100
1893	71.4	24.8	3.0	0.8	100
1894	85.4	12.7	0.8	1.1	100
1895	83.1	14.9	1.8	0.3	100
1896	84.5	11.6	3.3	0.6	100
1897	87.1	11.0	1.5	0.4	100
1898	77.4	10.9	11.0	0.7	100
1899	81.9	14.4	2.5	1.3	100
1900	80.3	15.8	2.6	1.2	100
1901	74.7	21.1	2.2	1.9	100
1902	66.3	30.1	2.5	1.1	100
1903	56.2	38.6	2.3	2.9	100
1904	56.3	36.6	1.7	5.4	100
1905	57.0	38.9	1.8	2.2	100
1906	66.5	28.0	3.7	1.8	100
1907	70.8	24.5	2.6	2.1	100
1908	76.9	16.7	3.8	2.5	100
1909	68.6	23.7	4.7	3.0	100
1910	58.5	32.7	5.3	3.5	100
1911	59.6	27.6	8.1	4.7	100
1912	68.8	19.3	6.3	5.6	100
1913	66.4	21.3	8.1	4.3	100
1914	63.0	16.2	8.2	12.6	100
1915	62.3	14.2	8.7	14.8	100
1916	66.7	12.3	8.0	13.1	100
1917	89.0	3.3	1.8	5.9	100
1918	73.6	9.8	4.3	12.3	100
1919	66.2	17.8	7.1	8.9	100
1920	51.5	11.4	33.7	3.3	100
1921	64.1	20.3	7.3	8.3	100
1922	70.4	17.1	5.8	6.7	100
1923	70.4	17.6	5.5	6.5	100

year	infra- structure	agri- culture	fisheries	other industries	total
1924	58.9	22.2	9.7	9.2	100
1925	55.4	29.3	7.9	7.4	100
1926	63.1	25.9	5.8	5.1	100
1927	65.3	24.7	5.1	4.8	100
1928	61.4	27.7	5.2	5.8	100
1929	59.1	32.8	3.7	4.4	100
1930	60.2	19.0	18.1	2.7	100

Table C.5 PUBLIC EXPENDITURE ON INFRASTRUCTURE  
1876-1930

year	krónur at current prices				total
	post/ telecomm.	land transp.	sea transp.	other services	
1876	2606	2891	11418		16915
1877	2606	12160			14766
1878	7089	15340	29192		51621
1879	6880	15057	14931		36868
1880	7184	20000	32502		59686
1881	6967	19402	12455		38824
1882	6196	15781	29275		51252
1883	7027	24191	20880		52098
1884	11451	21296	21379		54126
1885	13447	19729	21111		54287
1886	14897	26690	22668		64255
1887	15778	17850	20682		54310
1888	16779	14856	12344		43979
1889	17269	26801	11585		55655
1890	6802	60365	24588		91755
1891	16767	29721	23922		70410
1892	28140	44270	6388		78798
1893	24098	36565	6155		66818
1894	21969	128174	23031		173174
1895	19252	89593	33795		142640
1896	18699	113261	98831		230791
1897	24728	88261	115279		228268
1898	59589	94943	76266		230798
1899	28611	100704	74706		204021
1900	30800	134019	70078		234897
1901	29213	93233	75776		198222
1902		122350	82503		204853
1903		109455	80674		190129
1904	3044	171236	107254		281534
1905	3521	128860	111667		244048
1906	273678	102814	64902		441394
1907	150524	144889	153347		448760
1908	261092	172425	152805	2650	588972
1909	91689	179214	123371	2800	397074

year	post/ telecomm.	land transp.	sea transp.	other services	total
1910	82359	173843	149136	5182	410520
1911	74667	118666	132055	5646	331034
1912	155713	189234	173496	5271	523714
1913	22531	162551	218135	5327	408544
1914	80667	185393	358806	5200	630066
1915	43720	177631	312119	5311	538781
1916	15774	160916	472804	5200	654694
1917	59303	241309	3912831	5200	4218643
1918	17898	586467	663902	6670	1274937
1919	11806	350180	604102	4800	970888
1920	352071	1269341	890876	50870	2563158
1921	37344	516862	848880	165032	1568118
1922	184287	579615	1410814	117356	2292072
1923	137780	545170	1106822	96778	1886550
1924		367864	598665	46359	1012888
1925		484860	672069	48786	1205715
1926		791746	1298324	68528	2158598
1927		1109229	1115235	72105	2296569
1928		1205894	953206	64181	2223281
1929		1603198	1072159	142125	2817482
1930	188539	2416411	1634134	213868	4452952
	=====	=====	=====	=====	=====
total	2692851	15632776	20364330	1145245	39835202

Table C.6 PUBLIC EXPENDITURE ON INFRASTRUCTURE  
1876-1930

year	% of economic services				transp./ communic.	as % of ec. serv.
	post/ telecomm.	land transp.	sea transp.	other services		
1876	13.7	15.2	59.9	0.0	88.8	
1877	14.3	66.9	0.0	0.0	81.3	
1878	12.3	26.6	50.5	0.0	89.4	
1879	16.4	36.0	35.7	0.0	88.1	
1880	10.0	28.0	45.5	0.0	83.5	
1881	14.0	39.0	25.0	0.0	78.1	
1882	9.1	23.3	43.2	0.0	75.6	
1883	9.8	33.8	29.2	0.0	72.7	
1884	14.6	27.2	27.3	0.0	69.1	
1885	17.5	25.6	27.4	0.0	70.6	
1886	16.1	28.9	24.5	0.0	69.5	
1887	20.8	23.5	27.2	0.0	71.4	
1888	26.7	23.7	19.7	0.0	70.1	
1889	23.3	36.2	15.7	0.0	75.2	
1890	6.1	54.3	22.1	0.0	82.6	
1891	18.2	32.2	25.9	0.0	76.2	

year	post/ telecomm.	land transp.	sea transp.	other transp.	transp./ communic.	
					as % of ec. serv.	services
1892	25.5	40.1	5.8	0.0	71.4	
1893	25.8	39.1	6.6	0.0	71.4	
1894	10.8	63.2	11.4	0.0	85.4	
1895	11.2	52.2	19.7	0.0	83.1	
1896	6.8	41.5	36.2	0.0	84.5	
1897	9.4	33.7	44.0	0.0	87.1	
1898	20.0	31.8	25.6	0.0	77.4	
1899	11.5	40.4	30.0	0.0	81.9	
1900	10.5	45.8	24.0	0.0	80.3	
1901	11.0	35.2	28.6	0.0	74.7	
1902	0.0	39.6	26.7	0.0	66.3	
1903	0.0	32.4	23.9	0.0	56.2	
1904	0.6	34.2	21.5	0.0	56.3	
1905	0.8	30.1	26.1	0.0	57.0	
1906	41.2	15.5	9.8	0.0	66.5	
1907	23.8	22.9	24.2	0.0	70.8	
1908	34.1	22.5	20.0	0.3	76.9	
1909	15.8	30.9	21.3	0.5	68.6	
1910	11.7	24.8	21.3	0.7	58.5	
1911	13.4	21.4	23.8	1.0	59.6	
1912	20.5	24.9	22.8	0.7	68.8	
1913	3.7	26.5	35.5	0.9	66.5	
1914	8.1	18.5	35.9	0.5	63.0	
1915	5.1	20.5	36.1	0.6	62.3	
1916	1.6	16.4	48.2	0.5	66.7	
1917	1.3	5.1	82.5	0.1	89.0	
1918	1.0	33.9	38.3	0.4	73.6	
1919	0.8	23.9	41.3	0.3	66.4	
1920	7.1	25.7	18.0	1.0	51.9	
1921	1.5	21.1	34.7	6.7	64.1	
1922	5.4	17.0	41.5	3.5	67.4	
1923	5.1	20.3	41.3	3.6	70.4	
1924	0.0	21.7	35.3	2.7	59.7	
1925	0.0	21.9	30.3	2.2	54.4	
1926	0.0	23.2	38.0	2.0	63.1	
1927	0.0	31.6	31.7	2.1	65.3	
1928	0.0	33.3	26.3	1.8	61.4	
1929	0.0	33.7	22.5	3.0	59.2	
1930	2.4	30.2	20.4	2.7	55.7	

Table C.7 PUBLIC EXPENDITURE ON SEA TRANSPORT, 1876-1930

year	grants to private companies	expend. on the SSS	light- houses	harbour investm.	other	total
1876	11418					11418
1877						0
1878	8229		20963			29192
1879	12304		2627			14931
1880	30305		2197			32502
1881	10000		2455			12455
1882	26000		3275			29275
1883	18000		2880			20880
1884	18000		3379			21379
1885	18000		3111			21111
1886	18000		3168	1500		22668
1887	18000		2682			20682
1888	9000		3344			12344
1889	9000		2585			11585
1890	21000		3588			24588
1891	21000		2922			23922
1892			6388			6388
1893	3000		3155			6155
1894	15063		2968	5000		23031
1895	30378		3417			33795
1896	15900	78500	4431			98831
1897	17775	83000	9171		5333	115279
1898	69300		6966			76266
1899	67500		7206			74706
1900	60200		8178		1700	70078
1901	62700		9780		3296	75776
1902	62660		14443	4800	600	82503
1903	63500		10234	6940		80674
1904	90100		13454	3700		107254
1905	103983		7124	560		111667
1906	53300		11602			64902
1907	57800		95547			153347
1908	60240		44486	17000	31079	152805
1909	72300		38071	13000		123371
1910	105800		42336	1000		149136
1911	93100		38955			132055
1912	108150		30346	35000		173496
1913	102150		62985	53000		218135
1914	201427		60866	93000	3513	358806
1915	129180		53956	125200	3783	312119
1916	151539		94958	226307		472804
1917	211134	3553567	121800	26330		3912831
1918	232290	235567	154056	41989		663902
1919	190496	227339	134692	51575		604102
1920	214905	120000	383978	132885		851768
1921	114339	383134	277989	73019		848481
1922	94100	751028	267639	198624		1311391
1923	119500	636830	247047	102845		1106222
1924	138226	156126	167220	105076		566648

year	grants to private companies	expend. on the SSS	light- houses	harbour investm.	other	total
1925	146250	208500	169899	147420		672069
1926	167700	258123	330150	192351	350000	1298324
1927	185450	275307	335000	319477		1115234
1928	191800	249254	246649	265503		953206
1929	203150	140092	326529	336851	51537	1058159
1930	199400	655949	541845	190560	32380	1620134
	=====	=====	=====	=====	=====	=====
Total	4454041	8012316	4444692	2770512	483221	20164782

Notes: SSS stands for the State Shipping Service (Landssjóðsútgerð, from 1929 Skipaútgerð ríkisins). - The "Other" category includes costs of oceanographic surveys and grants towards the purchase of cold-storage freighter in 1926.

Table C.8 PUBLIC EXPENDITURE ON AGRICULTURE  
1876-1930

krónur at  
current prices

year	education	cultivation	R & D	other expend.	total
1876	1070	1070			2140
1877	1200	1200		1000	3400
1878	2500	2500	500		5500
1879	2500	2500			5000
1880	5500	5000		1000	11500
1881	5500	5000			10500
1882	8025	8025			16050
1883	9665	9465			19130
1884	10640	10840		2128	23608
1885	10186	10187		2165	22538
1886	9985	9984		3664	23633
1887	9608	9609		500	19717
1888	7200	10310			17510
1889	7200	10360			17560
1890	10000	8000		240	18240
1891	10000	8000			18000
1892	10000	12000		1400	23400
1893	10000	11790		1400	23190
1894	13000	12000		750	25750
1895	11500	11884		2200	25584
1896	13500	15000		3083	31583
1897	10000	17000		1700	28700
1898	10000	20000		2500	32500
1899	10000	20000	4000	1850	35850
1900	10500	18000	14000	3700	46200

year	education	cultivation	R & D	other expend.	total
1901	10500	28000	11500	5944	55944
1902	10000	19926	23000	40077	93003
1903	10000	20074	17200	83108	130382
1904	15000	24000	32050	112152	183202
1905	10500	24000	33500	98586	166586
1906	11800	24000	45000	105455	186255
1907	43681	24000	47000	40540	155221
1908	17742	23000	51000	36400	128142
1909	18123	22000	51000	46371	137494
1910	113743	25326	54000	36122	229191
1911	43367	22674	54000	33398	153439
1912	31956	22000	54000	39308	147264
1913	25031	22000	54000	28704	129735
1914	43963	31500	54000	32325	161788
1915	22158	22000	54000	24510	122668
1916	14760	20385	56000	29096	120241
1917	25319	40451	56000	35069	156839
1918	33196	28915	64500	42314	168925
1919	38506	106279	60000	53588	258373
1920	80958	56079	216000	206584	559621
1921	64133	78186	230250	124440	497009
1922	61819	121494	208000	141679	532992
1923	44735	190087	161300	74200	470322
1924	68452	65261	156500	78898	369111
1925	59244	218513	176000	183878	637635
1926	42797	331349	200000	311578	885724
1927	90336	378169	200000	199832	868337
1928	157728	443139	205000	196820	1002687
1929	102611	765547	232341	453264	1553763
1930	55761	908139	249988	476724	1690612
total	1577198	4356217	3125629	3400244	12459288

Table C.9 PUBLIC EXPENDITURE ON AGRICULTURE  
1876-1930

year	education	cultivation	R & D	other expend.	agriculture as % of ec. serv.
1876	5.6	5.6	0.0	0.0	11.2
1877	6.6	6.6	0.0	5.5	18.7
1878	4.3	4.3	0.9	0.0	9.5
1879	6.0	6.0	0.0	0.0	11.9
1880	7.7	7.0	0.0	1.4	16.1
1881	11.1	10.1	0.0	0.0	21.1
1882	11.8	11.8	0.0	0.0	23.7
1883	13.5	13.2	0.0	0.0	26.7
1884	13.6	13.8	0.0	2.7	30.2
1885	13.2	13.2	0.0	2.8	29.3

year	education	cultivation	R & D	agriculture	
				other	as % of expend. ec. serv.
1886	10.8	10.8	0.0	4.0	25.6
1887	12.6	12.6	0.0	0.7	25.9
1888	11.5	16.4	0.0	0.0	27.9
1889	9.7	14.0	0.0	0.0	23.7
1890	9.0	7.2	0.0	0.2	16.4
1891	10.8	8.7	0.0	0.0	19.5
1892	9.1	10.9	0.0	1.3	21.2
1893	10.7	12.6	0.0	1.5	24.8
1894	6.4	5.9	0.0	0.4	12.7
1895	6.7	6.9	0.0	1.3	14.9
1896	4.9	5.5	0.0	1.1	11.6
1897	3.8	6.5	0.0	0.6	11.0
1898	3.4	6.7	0.0	0.8	10.9
1899	4.0	8.0	1.6	0.7	14.4
1900	3.6	6.2	4.8	1.3	15.8
1901	4.0	10.6	4.3	2.2	21.1
1902	3.2	6.5	7.4	13.0	30.1
1903	3.0	5.9	5.1	24.6	38.6
1904	3.0	4.8	6.4	22.4	36.6
1905	2.5	5.6	7.8	23.0	38.9
1906	1.8	3.6	6.8	15.9	28.0
1907	6.9	3.8	7.4	6.4	24.5
1908	2.3	3.0	6.7	4.8	16.7
1909	3.1	3.8	8.8	8.0	23.7
1910	16.2	3.6	7.7	5.1	32.7
1911	7.8	4.1	9.7	6.0	27.6
1912	4.2	2.9	7.1	5.2	19.3
1913	4.1	3.6	8.8	4.7	21.1
1914	4.4	3.2	5.4	3.2	16.2
1915	2.6	2.5	6.2	2.8	14.2
1916	1.5	2.1	5.7	3.0	12.3
1917	0.5	0.9	1.2	0.7	3.3
1918	1.9	1.7	3.7	2.4	9.8
1919	2.6	7.3	4.1	3.7	17.7
1920	1.6	1.1	4.4	4.2	11.3
1921	2.6	3.2	9.4	5.1	20.3
1922	1.8	3.6	6.1	4.2	15.7
1923	1.7	7.1	6.0	2.8	17.5
1924	4.0	3.8	9.2	4.6	21.8
1925	2.7	9.9	7.9	8.3	28.8
1926	1.3	9.7	5.8	9.1	25.9
1927	2.6	10.8	5.7	5.7	24.7
1928	4.4	12.2	5.7	5.4	27.7
1929	2.2	16.1	4.9	9.5	32.7
1930	0.7	11.4	3.1	6.0	21.1

Table C.10 PUBLIC EXPENDITURE ON FISHERIES  
1876-1930krónur at  
current prices

year	education	R & D	expendit.	fisheries	
				other	as % of total ec. serv.
1876					
1877					
1878	250			250	0.4
1879					
1880	300			300	0.4
1881	200			200	0.4
1882	500			500	0.7
1883	100			100	0.1
1884	300			300	0.4
1885	100			100	0.1
1886	1200			1200	1.3
1887	1000			1000	1.3
1888	1250			1250	2.0
1889	800			800	1.1
1890	1100			1100	1.0
1891	3940			3940	4.3
1892	2795		4000	6795	6.2
1893	2780			2780	3.0
1894	1559			1559	0.8
1895	3016			3016	1.8
1896	3267	800	5000	9067	3.3
1897	3183	800		3983	1.5
1898	26085	1800	5000	32885	11.0
1899	5354	800		6154	2.5
1900	6931	800		7731	2.6
1901	5125	800		5925	2.2
1902	6370	800	500	7670	2.5
1903	7657			7657	2.3
1904	6164	600	1600	8364	1.7
1905	5598	600	1600	7798	1.8
1906	5713	600	18016	24329	3.7
1907	6422	1800	8000	16222	2.6
1908	5252	2148	22000	29400	3.8
1909	5342	1899	19795	27036	4.7
1910	5264	1196	30954	37414	5.3
1911	6337	600	37919	44856	8.1
1912	7330	3100	37224	47654	6.3
1913	7959	3100	38429	49488	8.1
1914	9186	14600	58090	81876	8.2
1915	8496	13100	53398	74994	8.7
1916	14880	23087	40172	78139	8.0
1917	24647	23490	35767	83904	1.8
1918	17486	43389	14357	75232	4.3
1919	32192	38600	32702	103494	7.1
1920	58519	60600	1534279	1653398	33.5
1921	63802	60600	53350	177752	7.3
1922	51113	61500	66665	179278	5.3

year	education	R & D	expendit.	fisheries	
				other	as % of total ec. serv.
1923	47041	48125	53270	148436	5.5
1924	43962	68840	49310	162112	9.6
1925	46315	64510	61266	172091	7.8
1926	50503	79530	69837	199870	5.8
1927	40528	78480	61354	180362	5.1
1928	44648	80594	62386	187628	5.2
1929	38102	78000	58611	174713	3.7
1930	42343	83000	1490725	1616068	20.2
	=====	=====	=====	=====	
total	780306	942288	4025576	5748170	

Table C.11 PUBLIC EXPENDITURE ON OTHER INDUSTRIES  
1876-1930

year	krónur at current prices			other ind.	
	manu-	commer-	banking	as % of total	as % of ec.serv.
1876					
1877					
1878	400			400	0.7
1879					
1880					
1881	200			200	0.4
1882					
1883	300			300	0.4
1884	250			250	0.3
1885					
1886	2350		1000	3350	3.6
1887			1000	1000	1.3
1888					
1889					
1890					
1891					
1892	1100	250		1350	1.2
1893	500	250		750	0.8
1894	500	1800		2300	1.1
1895	500			500	0.3
1896	1700			1700	0.6
1897	1000			1000	0.4
1898	2000			2000	0.7
1899	3200			3200	1.3
1900	3600			3600	1.2
1901	5146			5146	1.9
1902	3391			3391	1.1

year	manu- facture	commerce	banking	other ind. as % of total ec. serv.	
				total	ec. serv.
1903	4900		5000	9900	2.9
1904	21907		5000	26907	5.4
1905	7090		2500	9590	2.2
1906	10200	2050		12250	1.8
1907	11100	2250		13350	2.1
1908	16400	3000		19400	2.5
1909	9400	8215		17615	3.0
1910	8800	15837		24637	3.5
1911	11375	15000		26375	4.7
1912	18574	14090	9839	42503	5.6
1913	14210	11972		26182	4.3
1914	14920	5860	105000	125780	12.6
1915	14179	9156	105000	128335	14.8
1916	16918	6124	105000	128042	13.1
1917	173181	8160	100000	281341	5.9
1918	98650	9360	105000	213010	12.3
1919	19243	10196	100000	129439	8.9
1920	42561	20900	100000	163461	3.3
1921	46185	56300	100500	202985	8.3
1922	55793	53136	100000	208929	6.1
1923	33627	41011	100000	174638	6.5
1924	30240	22418	100000	152658	9.0
1925	24102	37893	100000	161995	7.3
1926	40094	34889	100000	174983	5.1
1927	32260	29739	108000	169999	4.8
1928	25800	46722	137540	210062	5.8
1929	39274	55709	116000	210983	4.4
1930	92226	37808	108000	238034	3.0
	=====	=====	=====	=====	
total	959346	560095	1814379	3333820	

APPENDIX D. THE RESERVE FUND, 1871-1929

The Reserve Fund's accounts are published with the Government Accounts for each financial year starting from 1878.<sup>12</sup> They continue to appear until the fund ceased to be under the auspices of the government and was taken over by the Agriculture Bank of Iceland in 1929. The only exception from this are the years 1920-1924 when only the aggregate value of assets is recorded, but the lack of data for these years has been compensated by the unpublished accounts of the fund in the Finance Ministry papers kept in the National Archive of Iceland.

The fund's accounts are not printed in the Government Accounts between 1871 and 1875 and are apparently poorly kept. The data for these first years may therefore be somewhat unreliable. The principal sources for these years are the Reserve Fund's catalogue of debtors in 1880 and the parliamentary papers 1879.<sup>13</sup>

Table D.1 shows the fund's assets every five years as they are presented in the published accounts. Unfortunately, the same method of breakdown of loans is not consistently kept throughout and the classification is a mixture of loan types and borrower categories. This leads to some inconsistency in that loans to local governments and even others are contained in mortgage loans (1) and (2), but on the whole these loan types should include loans to individuals which do not fall under any of the other categories.

Mortgage loans (1) were ordinary mortgages on which the borrower paid both amortization and interest every year (so-called "afborgunarlán"), whereas on mortgage loans (2) the

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<sup>12</sup> See footnote 3 in Appendix C.

<sup>13</sup> ÞS. Skjalasafn landfógeta XXI.15: Viðlagasjóður  
1880. - Albt. 1879 I, pp.174-8.

borrower only paid annual interest but no repayment of principal (so-called *hálf árs uppsagnarlán*). The principal remained therefore intact, but the fund had the right to call up the loan with six months notice. This type of credit was terminated in 1888.

The only alterations to the published accounts in table D.1 are as follows: a) credit extended to farmers buying state land has been added to the fund's lending, but this type of lending was presented elsewhere in the Government Accounts until the turn of the century, although the capital involved was regarded as a part of the fund's assets; b) loans for telephone and telegraph installations are a separate category in the original accounts, but are here included in the local governments category since they were almost the sole recipients of these loans.

In order to see the actual allocation of credits a detailed cross-section of outstanding loans in three years, 1880, 1900 and 1920, is presented in table D.2. The printed sources have been supplemented with unpublished material, the most important being the catalogues of debtors. The main task here has been to break down the two biggest loan categories in table D.1 (mortgage loans 1 and 2) and reclassify them according to the recipients of this credit. Lack of information on a significant number of loans to individuals has led to some guesswork, but that should not change the general picture. If the occupation of an individual could not be traced, then the location of the mortgaged property determined whether he was classified as a farmer or a townsman.

Further definitions and re-arrangement in table D.2 include: a) lending to telephone and telegraph installations, the State Building Fund (Byggingarsjóður ríkisins) and schools and hospitals which later became publicly owned (i.e. Flensborgarskólinn and Vifilstabaháli), are included in the "local governments" category; b) the civil servants category contains higher officials, teachers in higher education and deans, but ministers in rural parishes are classified with farmers; c) co-operatives and

slaughterhouses, appearing in 1920, are included in the merchants category.

Table D.3 shows a breakdown of the biggest loan category in table D.2, i.e. loans to local governments. The State Building Fund belongs strictly speaking to central government, but is for convenience sake classified here with local governments since they are the only category representing public recipients.

Annual lending is presented in table D.4 followed by a summary in table D.5, showing total lending in all categories 1871-1929. The same categories are used as in table D.2, except that the sources do not allow comparable breakdown of lending to individuals for each year. One authoritative source indicates that lending is underrecorded in table C.4 during the first years of the fund's operations, but no published accounts exist for the first seven years.<sup>14</sup>

Only the purchasing price of state farms is recorded in the Government Accounts up to 1893 and not the actual amount of credit extended to borrowers. Here the credit is assumed to have been 75% of the purchasing price 1885-1892 in accordance with the existing law, cf. Albt. 1887 C, pp.26-7. Information on this lending for 1893-1898 has been gathered from the catalogues of debtors in 1900. Table D.4 is almost identical to the Government Accounts after 1900 when a more detailed breakdown of lending started to be published.

<sup>14</sup> Arni Thorsteinsson, the Crown's Treasurer, stated in a newspaper article in 1879 that the Reserve Fund had by then lent more than 300,000 kr. or about 40,000 kr. more than table D.4 indicates for the period 1871-1879, cf. 'Um lánsfjelög', p.90. The difference can be due to either underrecording in the present table or the inclusion in Arni Thorsteinsson's figures of credits granted by the Judicial Fund and Medical Fund from 1871 and until they merged with the Reserve Fund in 1873 and 1877.

It is also possible that the data presented here includes some lending of the two last mentioned funds. Our information on the Reserve Fund's lending 1871-1877 is primarily based on the fund's catalogue of debtors in 1880, which lists mortgages extended by the two funds before the merger and still being repaid in 1880.

Table D.1 ASSETS OF THE RESERVE FUND, 1876-1929

	current prices		1876		1880		1885		1890	
	kr.	%	kr.	%	kr.	%	kr.	%	kr.	%
<b>Bond assets:</b>										
Danish government bonds	200000	59.5	409076	53.0	307800	31.9	207800	24.8		
<b>Outstanding loans:</b>										
mortgage loans (1)	109201	32.5	142335	18.4	265859	27.6	282114	33.7		
mortgage loans (2)	18050	5.4	213469	27.7	376146	39.0	331890	39.6		
local governments			1501	0.2	4739	0.5	4252	0.5		
state land purchases	8840	2.6	5190	0.7	7570	0.8	9965	1.2		
churches/church land					2667	0.3	1161	0.1		
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
Net assets	336091	100.0	771571	100.0	964781	100.0	837182	100.0		

Table D.1 ASSETS OF THE RESERVE FUND, 1876-1929  
(continued)

		1915		1920		1925		1929
		kr.	%	kr.	%	kr.	%	kr.
<b>Bond assets:</b>								
Danish government bonds	315000	17.1	315962	17.7	316070	15.4	316070	
National Bank bonds	110000	6.0	110930	6.2	75600	3.7	52000	
<b>Outstanding loans:</b>								
mortgage loans (1)	252725	13.8	229053	12.8	408626	20.0		
local governments	388634	21.2	385006	21.6	551680	26.9		
State Building Fund	294000	16.0	198000	11.1	42000	2.1		
churches/church land	117472	6.4	107586	6.0	160279	7.8		
woollen mills	217786	11.9	291160	16.3	252034	12.3		
creameries/dairies	40439	2.2	12588	0.7	1825	0.1		
crofters	24772	1.3	27036	1.5	32662	1.6		
fence material	76146	4.1	62645	3.5	55148	2.7		
Cash in hand			44573	2.5	152127	7.4		
Debt to the Treasury	=====	=====	=====	=====	=====	=====	=====	-507007
Net assets	1836974	100.0	1784539	100.0	2048051	100.0	2025299	

Sources: Athugagreinir yfirskaðunarmanna [1876-77], p.16. - Alþ. 1879 I, p.175. - LR 1880-1929. - ÞS. SSI III, db.2 nr.18/3-1921. Reikningur yfir tekjur og gjöld Viðlagasjóðs Íslands árið 1920. - ÞS. SSI III, Ymsir sjóðir 1923-1925. Viðlagasjóður 1925. - ÞS. SSI III, Viðlagasjóður 1929.

Table D.2 BREAKDOWN OF LENDING OF THE RESERVE FUND  
1880, 1900 AND 1920

total outstanding loans  
current prices

	1880		1900		1920	
	krónur	%	krónur	%	krónur	%
<b>Public institutions:</b>						
local governments	81503	22.5	268392	27.3	606807	46.2
churches, parishes	45843	12.6	100743	10.3	107586	8.2
<b>Individuals:</b>						
farmers	112876	31.1	157948	16.1	36341	2.8
civil servants	62357	17.2	138000	14.1	42536	3.2
merchants	17900	4.9	48686	5.0	62568	4.8
urban occupations	29050	8.0	56795	5.8	20648	1.6
unclassified	7776	2.1			36492	2.8
<b>Economic projects/progr.:</b>						
decked vessels			86084	8.8		
icehouses			23554	2.4	6667	0.5
woollen mills			45046	4.6	291160	22.2
land purchases	5190	1.4	56284	5.7		
creameries/dairies					12588	1.1
crofters					27036	2.1
fence material					62645	4.8
Total	362495	100.0	981532	100.0	1313074	100.0

Sources: BS. Skjalasafn landfógeta XXI.15: Viðlagasjóður 1880 and 1889; XXI.16: Viðlagasjóður 1900. - BS. SSI III, Ríkisbókhald, Viðlagasjóðin 1 og 2. - BS. SSI III, Db.2 nr.18/3-1921. Reikningur yfir tekjur og gjöld Viðlagasjóðs Íslands árið 1920. - LR 1880, 1900 and 1920.

Table D.3 THE RESERVE FUND LENDING TO LOCAL GOVERNMENTS

1880, 1900 AND 1920

breakdown of outstanding loans  
current prices

	1880		1900		1920	
	kr.	%	kr.	%	kr.	%
land transport	9717	11.9	53695	20.0	4095	0.7
schools/hospitals	9300	11.4	89047	33.2	52365	8.6
cultivation	8772	10.8	38560	14.4	17166	2.8
State Building Fund					198000	32.6
water works/electr. sys.					191448	31.6
harbour facilities					32467	5.4
telecomm. installns					46481	7.7
jail houses	42815	52.5				
other	6175	7.6	35342	13.2	35460	5.8
unclassified	4724	5.8	51748	19.3	29327	4.8
	=====	=====	=====	=====	=====	=====
Total	81503	100.0	268392	100.0	606809	100.0

Sources: See table D.2

Table D.4 LENDING OF THE RESERVE FUND, 1871-1929

kr. at current prices

year	local gverments	churches/ parishes	indi- viduals	land purchase	decked vessels	ice houses	woollen mills	unclassi- fied	Total
1871	1100			8300					9400
1872				5000					5000
1873	14813	1200		8800					24813
1874		700		8100					8800
1875	11000			21050					32050
1876	59760	4740		2299					66799
1877	2787	1200		24054					28041
1878	4000	4100		21150					29250
1879	9572	29700		18700					57972
1880	7000	13400		45600				1028	67028
1881	24300	1000		33666				7291	66257
1882	47500	3500		36650					87650
1883	45250	7300		10950			1800		65300
1884	19956	4656	121213					177	146002
1885	28414	7000	38675	7545	5000			2425	89059
1886	22100	1200	32900	3770	47525		3200	10525	121220
1887	14070		22258	8100			1800	1902	48130
1888	15006	600		113					15719
1889	3200	2200		2775					8175
1890	3768			6488				2600	12856
1891	16032			2288					18320
1892	26000	6950	37300	9450				18400	98100
1893	19400	6600	37760	18144				8930	90834
1894	6000	4650	22250	15050	1000			10450	59400
1895	28000	2400	4500	5894	1000		8000	1261	51055
1896	21400	4025	8800	14019	9950	4000		1323	63517
1897	10800	24935	70450	6950	37600		12000	788	163523
1898	64098	28775	6850	4088	28450	20900	23100		176261
1899	24720	9190	30540		26750	3200	1000		95400
1900	24600	2321	7000					5400	39321
	=====	=====	=====	=====	=====	=====	=====	=====	=====
Total	574646	172342	684815	104673	157275	28100	50900	72498	1845249

Table D.4 LENDING OF THE RESERVE FUND, 1871-1929  
(continued)

year	churches/ parishes	indi- viduals	decked vessels	woollen mills	dairies/ creameries	crofters	meat			Total
							fence material	freezing plants	etc	
1901		13000	23180	6000	4100					54280
1902		2500	22200		16200	3300				58000
1903	9068	15400	35000	35000	3500	1750				103218
1904	7000	29538	7000	28000	28000	2200				134738
1905	300		17700		2000	600				22500
1906		13000	15000	19000	19000	1100	14862			82812
1907		6000	25500	50000	500	700				182700
1908	10920				2000	2800				202669
1909	23589					1200	15484			228173
1910	7500	38077		15000	2000	4800	2452	50500		234443
1911	19601	6000		105000		2900	15275	3000		200676
1912	24250	14400		30000		1200	9250			136900
1913	14250					2800	8694			67744
1914	24600	877		7000		3600	8113			129038
1915	1698					1550	8500			17733
1916	5000	17060		12000		1200	950			78210
1917		35000				3000				39675
1918	2600	14500				3800				119900
1919		5000				3200				8200
1920		28000		100000		400				183400
1921	35000	82000				1200				118200
1922	17606	10000				800				38406
1923	13357	85000			15000	4700				320917
1924	9160	81142		15000		2800				175102
1925	14500	42500				5800	7000			118800
1926	2000	3000				2400	7700			202544
1927	17000	85232			30000	12700	7800			265732
1928	7700	23000			93200	9800	5900	133100		429000
1929	500	32043			139000	8750	9500	132000		333793
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
	267199	682269	145580	422000	354500	91050	121480	318600		4287503

Table D.5 TOTAL LENDING OF THE RESERVE FUND, 1871-1929

	krónur	%
local governments	2459471	40.1
churches/parishes	439541	7.2
individuals	1367084	22.3
land purchases	104673	1.7
decked vessels	302855	4.9
ice houses	28100	0.5
woollen mills	472900	7.7
creameries/dairies	354500	5.8
crofters	91050	1.5
fence material	121480	2.0
meat freezing plants	318600	5.2
unclassified	72498	1.2
	-----	-----
	6132752	100.0

Sources for tables C.4 and C.5: Um fjárhag Íslands frá 1. apríl 1871 til 31. marz 1872, Skýrslur um landshagi V, p.545. - Athugagreinir yfirskoðunarmanna [1876-77], p.316. - LR 1878-1929. - Alþt. 1879 I, pp.175-6. - þS. Skjalasafn landfógeta XXI.15: Viðlagasjóður 1880 and 1889; XXI.16: Viðlagasjóður 1900. - þS. SSI III, Ríkisbókhald nr.6: Ríkissjóðsreikningar 1920-1922; Viðlagasjóðin 1 og 2. - þS. SSI III, Ymsir sjóðir 1923-1925. Viðlagasjóður 1923-1925. - þS. SSI III, Viðlagasjóður 1926-1929.

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