

# The Norwegian Economy

## Lecture in Norwegian Life and Society

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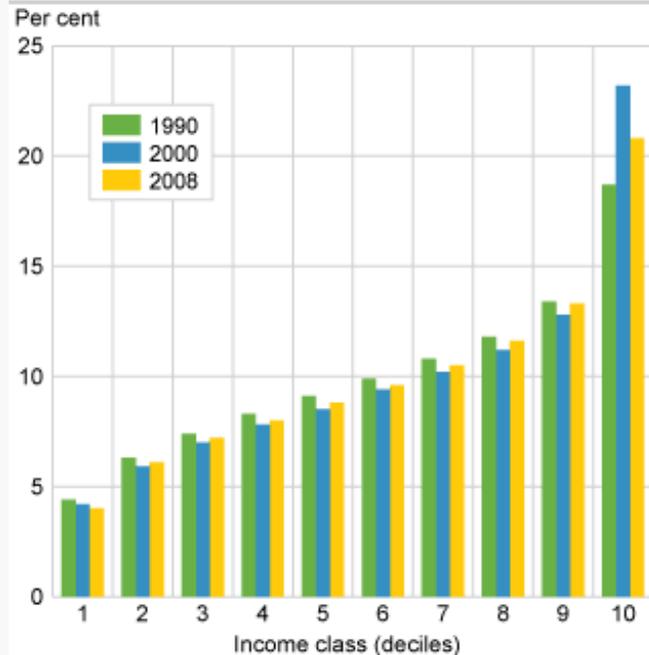
# Outline of today's lecture

- a. Where do we stand to day?
- b. How did we get there?
- c. Some important aspects of the Norwegian economy
- d. Questions/supplementary topics
- e. Group discussion

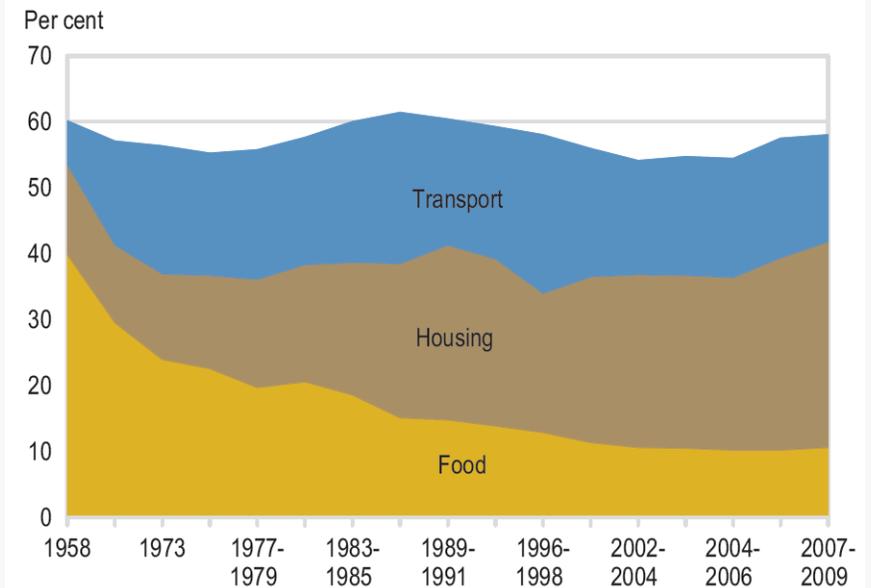
# Characteristics of the Norwegian Economy

- Wealthy, when measured by GDP, but also by UN's happiness indicator
- Low unemployment rate, in spite of high unemployment benefits or high labour participation
- Wages are high and the wealth relatively is equally distributed

Share of total income by income classes (deciles)<sup>1</sup>

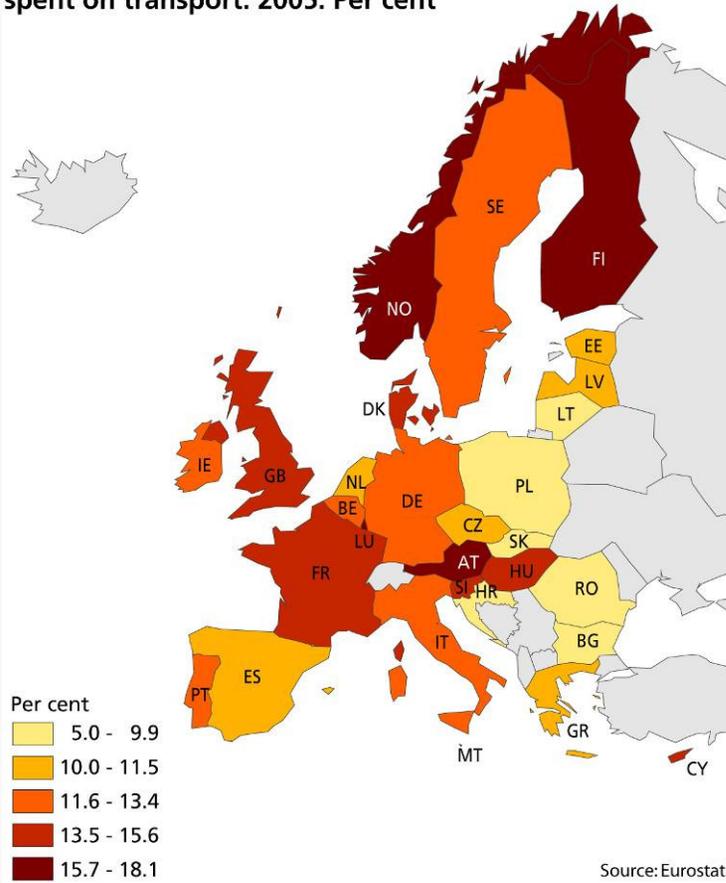


Proportion of household expenditure on food, housing and transport



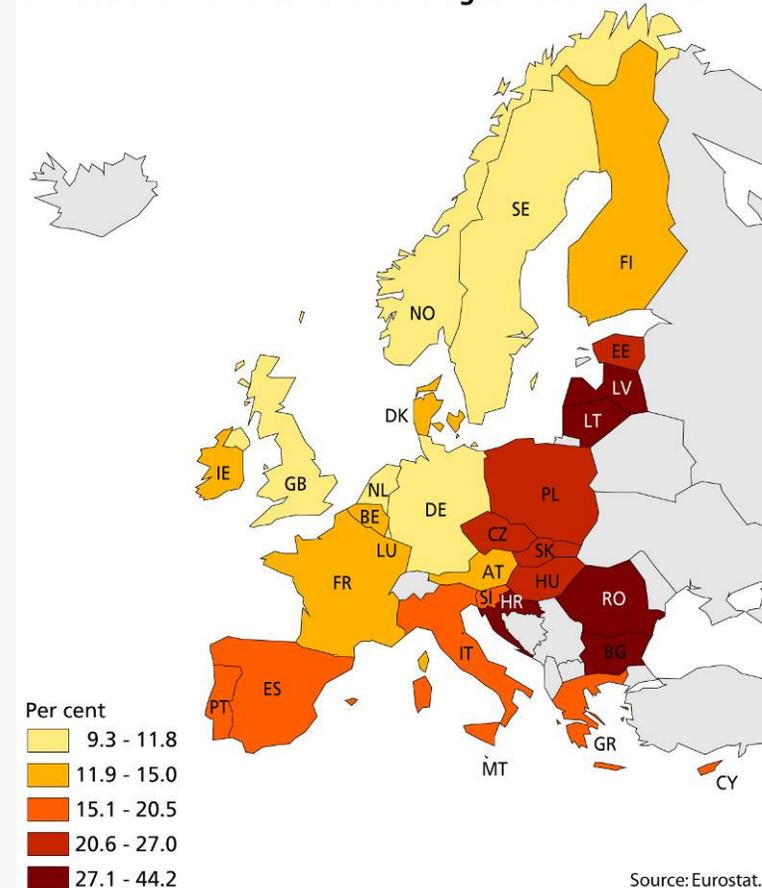
# Household Expenditures

Proportion of household consumption expenditure spent on transport. 2005. Per cent



Why? Long distances, high taxes

Proportion of household consumption expenditure spent on food and non-alcoholic beverages. 2005. Per cent



Why? High income, preferences/culture

# Success Factors for the Rapid Economic Growth

- Resource endowment
- Collaboration, trust and equality
- Knowledge and technology
- Coordinated market economy
- The lucky element

→ This are important factors for explaining the high productivity and wage growth

For an in-depth study

Economist (Feb 2nd 2013): “ The rich cousin – Oil makes Norway different from the rest of the region, but only up to a point”

<http://www.economist.com/news/special-report/21570842-oil-makes-norway-different-rest-region-only-up-point-rich>

Dølvik, Jon Erik (2007): “The Nordic regimes of labour market governance: From crisis to success-story?”, Fafo-paper 07

Larsen, Erling Røed (2001): “The Norwegian Economy 1900 – 2000: From Rags to Riches”, Economic Survey 4, 22-37

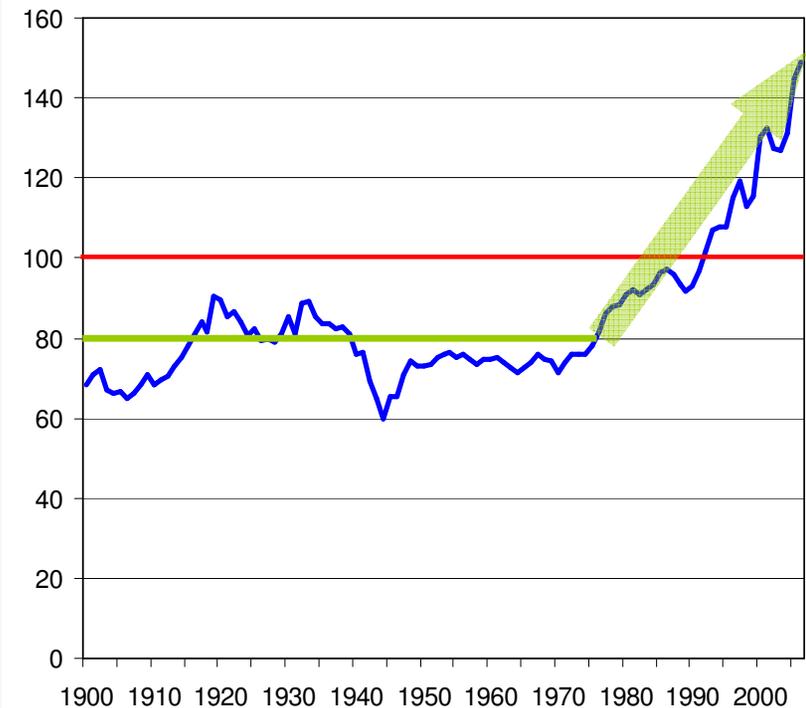
<http://www.ssb.no/english/subjects/08/05/10/es/200104/roedlarsen.pdf>

SSB (2011): Minifacts about Norway ([http://www.ssb.no/english/subjects/00/norge\\_en/en](http://www.ssb.no/english/subjects/00/norge_en/en))

# Resources

- Climate and geography
  - Mountains, rivers and Gulf stream
  - Electricity
  - The fjords and fertile soil – fish, timber and livestock
- Oil
  - Increasing oil prices in the sixties and seventies made it possible to exploit oil from the North Sea.
- Terms of trade
  - "China-effect" → improved terms of trade.
  - Cheap import goods and expensive export products

**GDP pr capita – PPP adjusted  
– Norway versus Sweden (=100)**

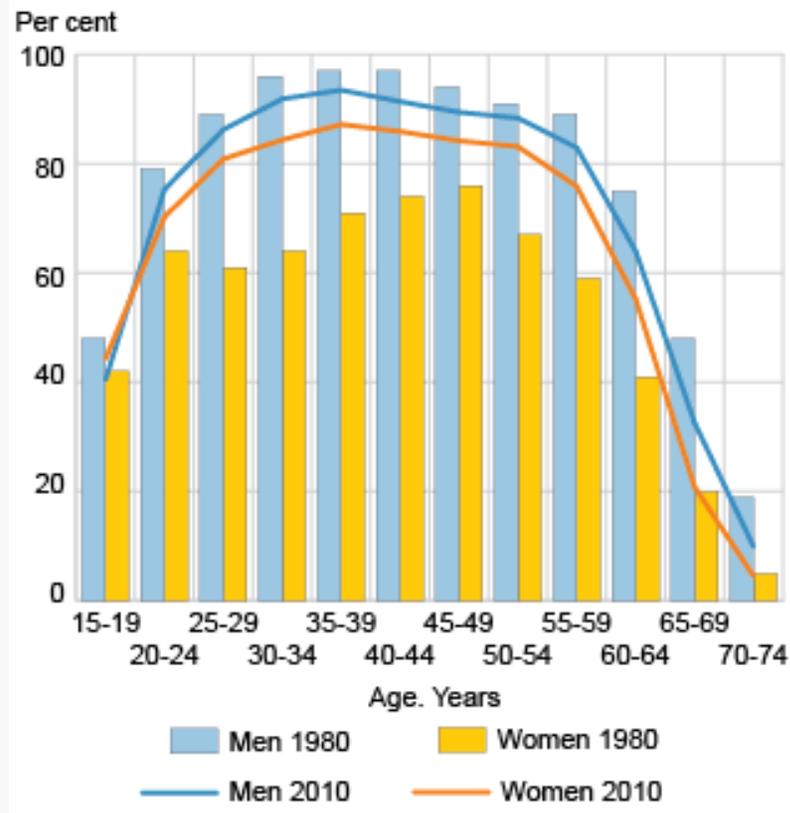


# Collaboration, Trust and Equality

- Success by working together
  - Centralized wage bargaining (LO – NHO)
  - Differences are small
    - ◆ Relative high wages for those without/with lower education
    - ◆ Relative low wages for executive's
  - Sharing profits
  - Max Weber: “Protestant work ethic” – it's expected that individuals will do its duty
  - Why are we so productive?
    - ◆ Culture for hard work
    - ◆ Everybody contributes
    - ◆ High education (like Netherlands, New Zealand ...)

# Equality?

Men and women in the labour force, by age as per cent of the total in each group

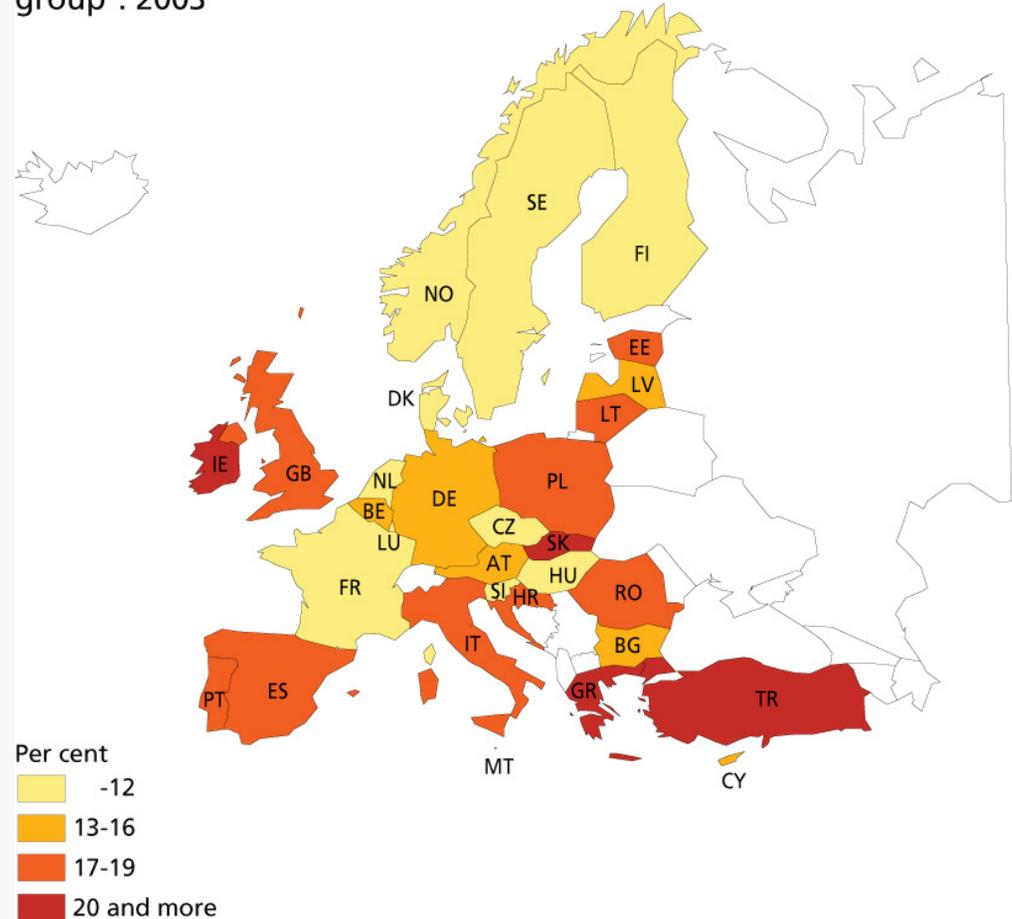


- Equality between gender and individuals
  - Same opportunities independent of gender or family background
  - Family or network not that important in the labour market
  - Female labour increasing
    - ◆ Increasing labour force and improving equality

# Income Differentials?

- Europe has small differences
- But, Scandinavia scores higher on equality than Continental-Europe

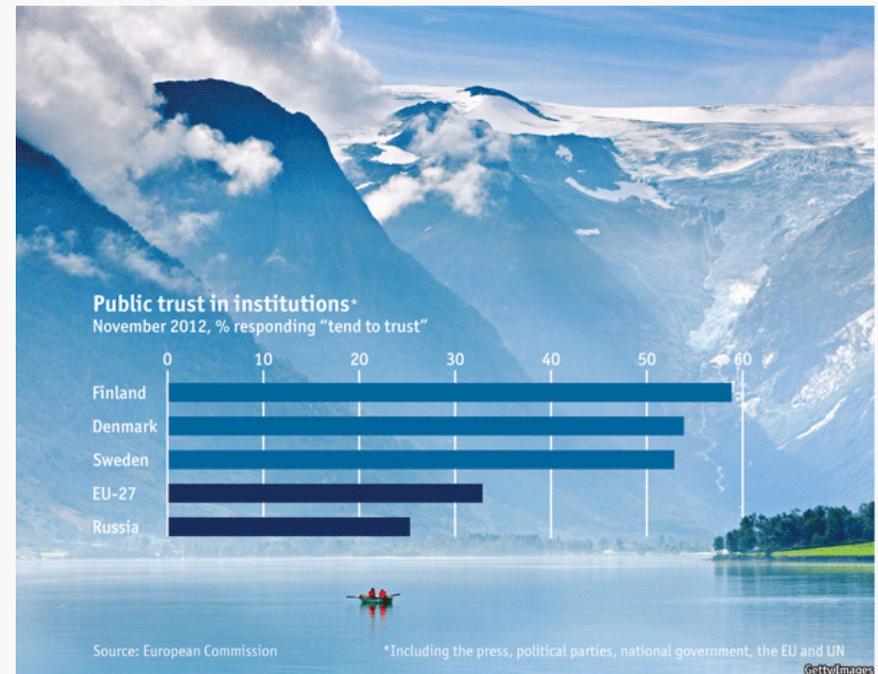
Proportion of the population in the low income group<sup>1</sup>. 2003



<sup>1</sup> Below 60 per cent of the median income. EU equivalence scale.  
Source: Eurostat.

# Trust...

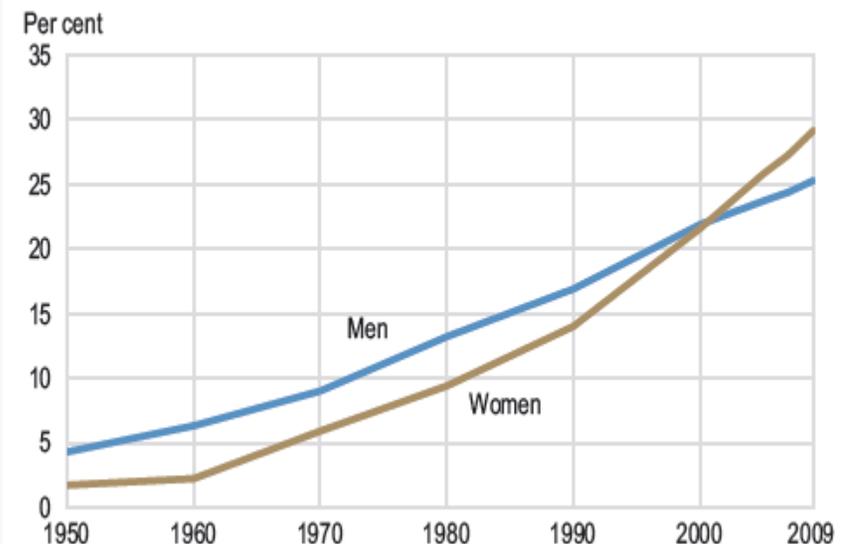
- High degree of trust
  - JD survey asked in an international survey: “...can most people be trusted...”
    - ♦ Norway are rated highest, with Sweden the closest
  - Effects and consequences of having trust to people
    - ♦ You are expected to keep your promises and tell the truth
      - People have trust in salesmen,
    - ♦ Fewer written contracts or law suits
      - No reason to spend time on
      - Verbal agreements have the same legally status as written contracts
    - ♦ A larger part of the public pays taxes when they trust the government to spend it wisely



# Knowledge and Technology

- A public education system
  - Primary school to universities
  - Roughly 50 % of kindergartens are private – but publicly financed
- Scholarships to pupils from poor families and stipends to all students
- Growth in higher education
  - Understanding new technology
  - Implement new machines or production methods faster

Share of men and women with higher education. Per cent



Source: Statistics Norway.  
More information: [http://www.ssb.no/utniv\\_en/](http://www.ssb.no/utniv_en/)

# Politics and its Influence on Growth

- Government intervene in most part of the economy
  - Large bureaucracy
  - Too a less degree publicly financed businesses providing public services
  - Public corporations
    - ◆ Important parts of the economy: Infrastructure, oil and gass, electricity, telecom, transport, banking
    - ◆ New technology: Innovation centres (green tech, export industry, R&D)
    - ◆ Important for the equality: Educational system, health care
- Taxes and subsidies
  - Tax things you dislike (tobacco, pollution etc)
  - Subsidy thing you like (tech, green tech, farming etc)
    - ◆ Taxes correct market distortions/failors and by that increases economic growth and welfare

# The Luckiest Nation on Earth?

- Nice and friendly neighbours
  - Industrial countries, peaceful and similar culture and language
- Rich neighbours
  - Improves the possibilities for trade
- Resource endowment
  - Fisheries, black gold and electricity
- No long standing conflicts or disruptions
  - Did not participate in WW1.
  - Was barely affected by WW2 compared to most European countries

# How is it today?

- Why are most goods and services so expensive?
- Scandinavian Welfare model
- Oil rent and fiscal policy guidelines

# An expensive country: Both prices and wages are high

- Strong currency
  - High interest rate and sovereign wealth fund (solid State)
    - ◆ Cheap imports (ex. clothing and electronic equipment)
    - ◆ High prices on goods produced or processed in Norway (ex. food and services)
- High wages
  - Low incomes are not so low...
    - ◆ Distance between low and high income is small - shop assistants or waiters
    - ◆ Ex. A senior engineer earns more in Shanghai than in Oslo
  - High prices on intermediate goods increases prices on finished goods
- High demand
  - Increases prices
  - Increases interest rates further ...

# The Scandinavian Welfare Model

- Social security net
  - Public disability insurance
  - Social security benefits
  - High unemployment benefits
    - ♦ If you fulfil some criteria's you get 60 percent of your wage, if you get unemployed (in 2 years)
  - Increases employment (labour participation)
- Birth leave
  - Woman's can choose between 47 weeks full paid or 57 weeks with 80 percent pay
  - Also birth leave for men (12 weeks).
  - Increases women's labour participation

## Taxes – high, but fair?

Composition of household income						
	1986	1990	1994	1998	2002	2006
NOK						
<b>Total income</b>	<b>207 700</b>	<b>255 800</b>	<b>282 700</b>	<b>357 500</b>	<b>444 800</b>	<b>527 700</b>
Wages and salaries	161 800	191 000	202 800	262 200	316 800	388 500
Property income	10 900	15 600	15 100	19 200	33 500	24 900
Transfers received	35 000	49 200	64 800	76 100	94 500	114 300
Per cent						
<b>Total income</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Wages and salaries	77.9	74.7	71.7	73.3	71.2	73.6
Property income	5.2	6.1	5.3	5.4	7.5	4.7
Transfers received	16.9	19.2	22.9	21.3	21.2	21.7

- High taxes but also high transfers
- This leaves out health care, kindergartens, schools, nursing homes etc.

# Norwegian Tax System (2012)

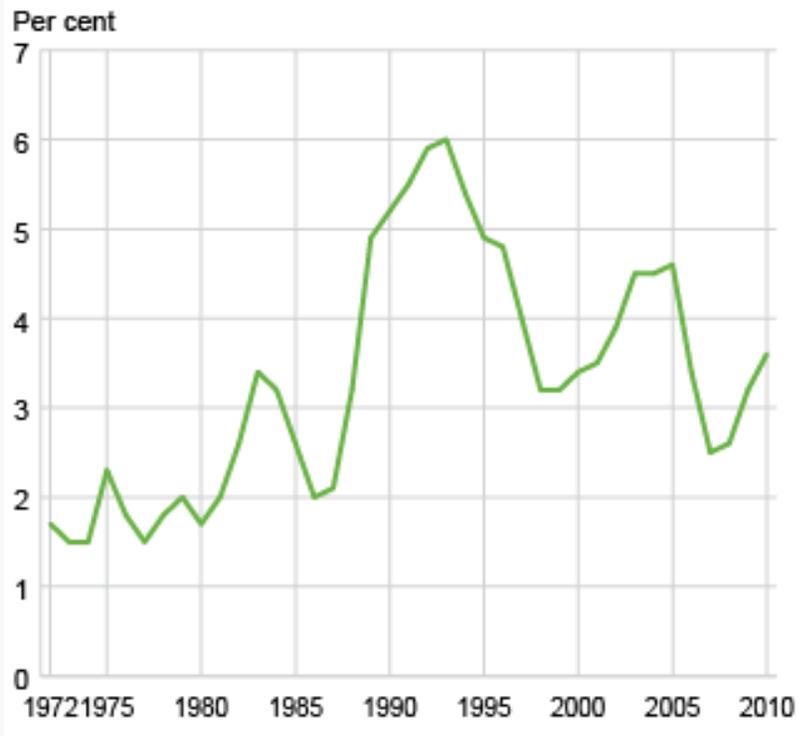
- Payroll tax (2011)
  - In 2011 the average monthly wage was 37.800 kroner (\$6.800; €5.100)
  - Taxrates
    - 36 %
    - Personal deduction (untill 78 150 kroner)
  - Average tax rate app. 31 %
  - But marginal tax rate is increasing till 48 % (to high pursuant to OECD)
    - ◆ Surtax, step 1: 9 % above 490.000 NOK
    - ◆ Surtax, step 2: 12 % above 796.400 NOK
- Wealth tax
  - 1,1 % (if net wealth above 750.000 NOK)
- Property tax
- Mortgage interest deduction (28 % of the interest paid are withdrawn before payroll tax are estimated)
- Indirect taxes
  - VAT. is 25 % on most goods and services
  - High taxes on all aspects of using a vehicle

# Incentives to Work

- Most benefits related to salary
  - Both disability insurance and retirement pensions increases dramatically if you have been working
  - Only those who have been working can receive birth leave (men and women)
- Introduction of early retirement pension has reduced the numbers receiving disability insurance
  - Because only those you are working can receive early retirement pension
- High retirement age – 67 year
- Higher than most countries (ex. Iceland)

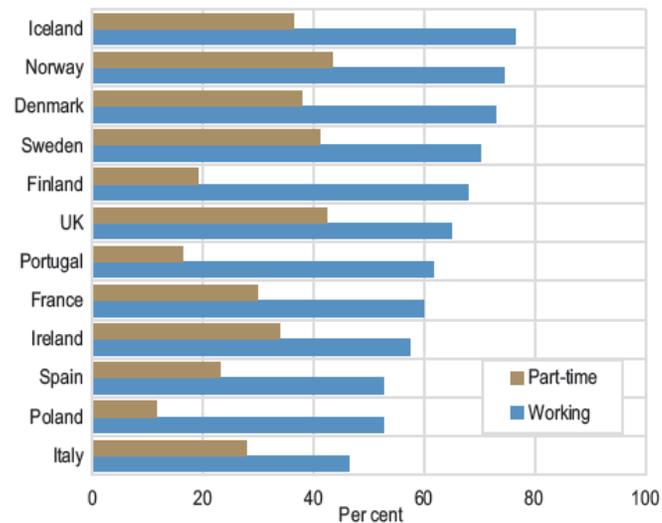
# Are the Incentives Working?

Unemployed (Labour Force Survey) as a percentage of the labour force



- Low unemployment rate (during the last 40 years)
  - Flexible labour force
    - ◆ Immigration
    - ◆ Education
- High labour force participation rate (for both sexes)

Women in the labour force aged 15-64, and proportion of part-time workers. Selected countries, 2009

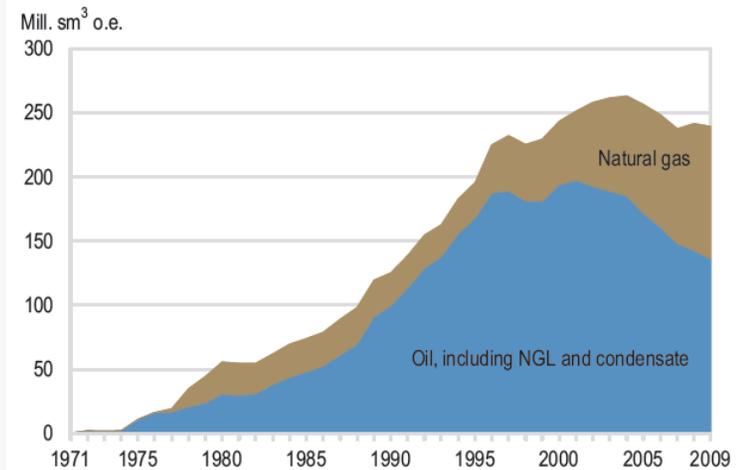


Source: Eurostat.  
 More information: <http://ec.europa.eu/eurostat/>

# The Black Gold – the Oil and Gas Reserves

- Started oil exploration in late the 1960-ties
- Oil production began early in the 1970-ties
- Have managed the natural resource curse
  - Dutch disease
  - Wars and corruption
- Pumping up oil and gas do not increase our wealth
- “Too much too fast” is not good for the economy
- The environment problem
  - Important when deciding whether we should allow production in Lofoten.

Total production of crude oil and natural gas. Million  $\text{sm}^3$  o.e.<sup>1</sup>



<sup>1</sup> $\text{sm}^3$  (standard cubic metre) o.e. (oil equivalent).  
Source: Norwegian Petroleum Directorate.  
More information: [http://www.ssb.no/ogprodre\\_en/](http://www.ssb.no/ogprodre_en/)



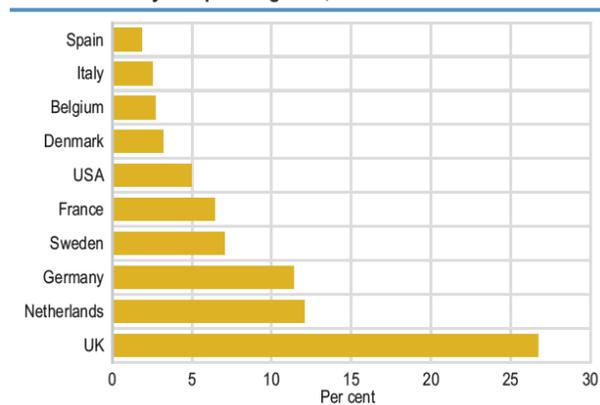
# Fiscal Policy Guidelines – Norway equivalent to the Maastrichts criteria

- Size of investments in petroleum about 6-7 % of GDP Mainland
- Net cash flow from petroleum to the Norwegian government equaled 276 bill kroner in 2010
  - About 14 per cent of GDP-Mainland
  - Invested in the Norwegian Pension Fund
- Fiscal policy guidelines
  - The government can use approximate 4 % of the Funds assets each year
  - Stabilizes the economy
  - Makes us less dependent on the oil rent
  - Saves for future generations
  - An aging population

# Trade

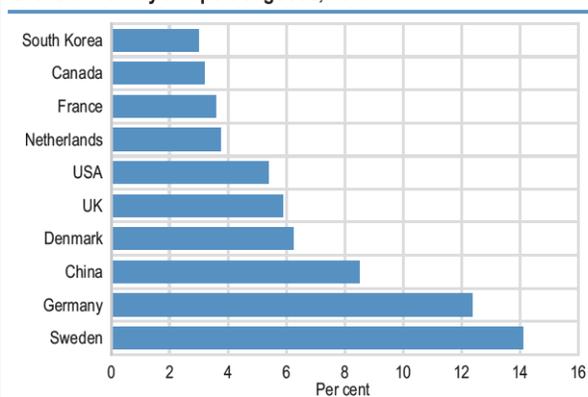
- Sweden, Netherlands, Germany, China and UK are our most important trading partners
- Natural gas and oil are the most important export good together with seafood

Share of Norway's export of goods, 2010\*



Source: Statistics Norway.  
More information: [http://www.ssb.no/muh\\_en/](http://www.ssb.no/muh_en/)

Share of Norway's import of goods, 2010\*

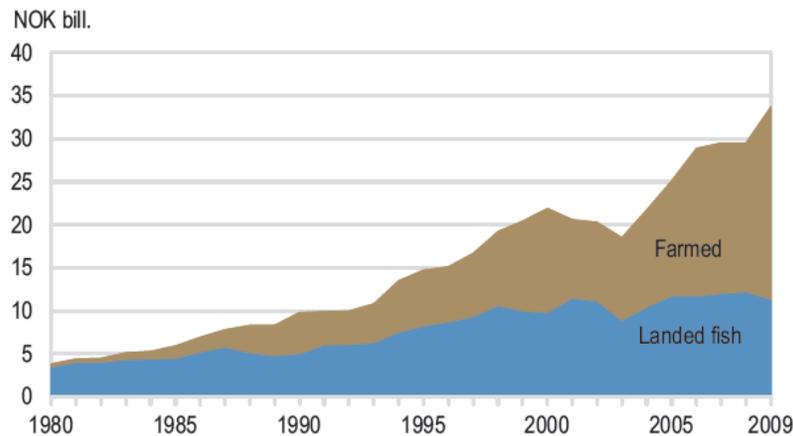


Source: Statistics Norway.  
More information: [http://www.ssb.no/muh\\_en/](http://www.ssb.no/muh_en/)

# Swimming in the Sea

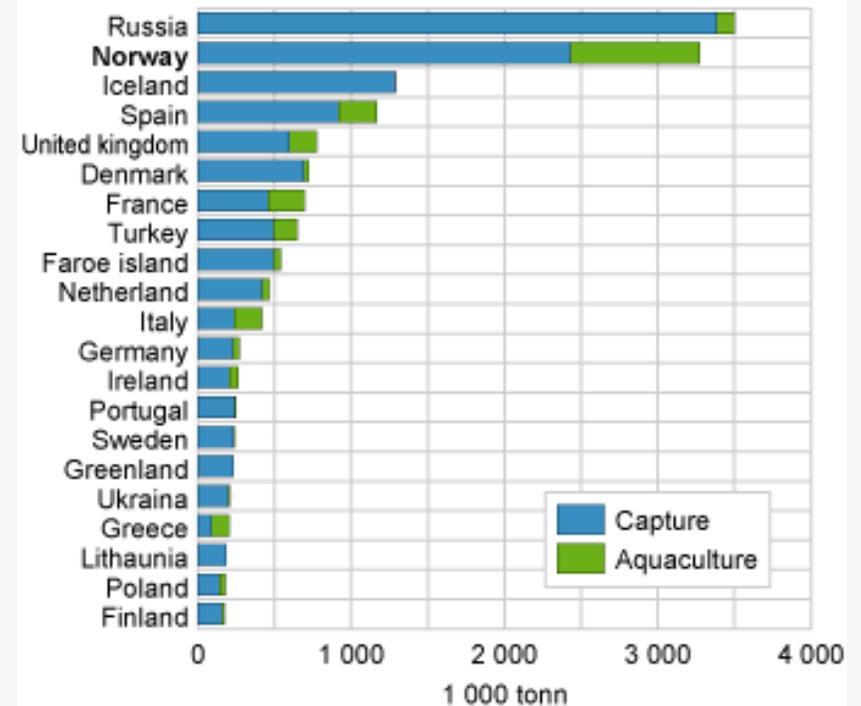
- Fish and aquaculture one of Norway's largest export article
  - Cod from Lofoten
  - Salomon from fish farms

Value of farmed and traditionally landed fish



Source: Statistics Norway.  
 More information: [http://www.ssb.no/fiskeoppdrett\\_en/](http://www.ssb.no/fiskeoppdrett_en/)

Europe's most important fishing nations, by capture and aquaculture. 2008. 1 000 tonnes



Source: Food and agriculture organization (FAO)