



Norwegian Ministry
of Finance

Chapter 1

Meld. St. 14 (2020–2021) Report to the Storting (white paper)

Long-term Perspectives on the Norwegian Economy 2021



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*Recommendations of the Ministry of Finance of 12 February 2021,
approved by the Council of State on the same day.
(Government Solberg)*

1 A new reality requires a long-term perspective and the right priorities

1.1 The Government's strategy for sustainable economic development

1.1.1 Poised for sustainability

Norway will face both new and known challenges in coming years. There will be fewer economically active persons behind each retired person in the decades to come. Government expenditure will increase, without a matching increase in revenues. At the same time, the green shift will be implemented. Preserving and safeguarding the sustainability of the welfare society – in social, climate and economic terms – are therefore key priorities to ensure that Norway remains a great place to live.

Norway is well poised to address the challenges and bring about the necessary restructuring. Public finances are extremely robust. Norway has successfully converted a major natural resource – in the form of oil and gas – into one of the world's largest sovereign wealth funds. This represents a considerable responsibility, but also offers opportunities available to few other countries. By international standards, Norway has high employment, low unemployment and a high education level. Opportunities for living a life of one's choosing are more equally distributed than in most other countries, while inequality is low, and less prone to be passed down through the generations. Besides, the Norwegian population enjoys a high degree of liberty and a high level of mutual trust. Public welfare schemes provide security, thereby strengthening our capacity to restructure the economy. The high income level in Norway permits a high standard of living and a high level of welfare.

In order to address the challenges ahead, the Government will pursue a policy to create more private sector jobs, increase employment and improve resource use. Key priorities will be education, integration, inclusion, innovation, and efficiency improvement. All in all, this will lay the foundations for the Government's development of Norway into a more sustainable welfare society.

Preparing society for the future is about holding on to what works well, while at the same time making gradual modifications to change society for the better. To change in order to preserve is a key principle. The alternative to change may otherwise be decay. Development and innovation have delivered progress and made Norway a modern welfare society. Moving forward, the focus must be on ensuring that change is well-founded, financially sustainable and in conformity with the Paris Agreement and the Sustainable Development Goals.

Norway's robust position is the result of prudent choices. Tax reforms, the EEA Agreement, the fiscal rule on petroleum revenue spending, broad access to education, the pension reform and long-term investments are notably recent examples, but the strong development performance has a long pedigree; see Box 1.1. This largely reflects the creation of robust institutions and prudent management of available resources and opportunities.

That people exhibit mutual trust, show compassion, volunteer, and involve themselves in various ways are all of major importance to society, as well as to individual lives and opportunities. Norwegian society is characterised by both high interpersonal trust and a high level of trust in government institutions. The handling of the coronavirus pandemic illustrates the importance of trust, and international experience reminds us that trust should not be taken for granted. Trust is a prerequisite for a well-functioning society and needs to be preserved.

Continued social sustainability requires renewed commitment to a society characterised by low inequality, interpersonal trust, and scope for private initiative. Exclusion deprives people of opportunities for living good lives. Having a job is an antidote to exclusion, inequality, and poverty. Quality schooling and knowledge are key to enable everyone to participate and have more opportunities. Building stronger communities also requires improved integration and inclusion of immigrants, as well as the creation of an open, safe and inclusive society in which people can live free and independent lives with a good standard of living and a high quality of life. The objective is a society that affords opportunities for all.

Box 1.1 The roots of modern welfare society

Norwegian welfare society has deep roots. In the early 19th century, Norway was a medium-income country by European standards, with an outward-looking economy. It was a leading shipping nation, with timber and fish as its key exports. The foundations for Norwegian prosperity were put in place early, through the establishment of key institutions. Power, property and knowledge have been distributed relatively equally across the Norwegian population.

Already in 1024 did Norway see the enactment of the first part of the Gulathing Code of Law; the so-called Christian Law, which marked a transition from a society based on the rule of power to a society based on the rule of law. Bondservants were to be bought free and slavery was eventually abolished, people became entitled to rest on Sundays and public holidays, and children could no longer be put out to die. Polygamy was prohibited, and marriage would eventually require the consent of the woman. Another institutional milestone involved property rights. More farmers owned their own farm in Norway than in other countries, and tenant farmers had a fairly high level of independence by European standards. Norwegian farmers thus enjoyed more liberty than farmers in other countries. A third key institutional development was that large groups of the population; both boys and girls, learned to read and write after the Reformation in the 16th century. This was initiated through increasingly strict religious instruction requirements, and subsequently evolved through compulsory confirmation preparations and national schools for commoners; the precursor to elementary schools.

When the industrial revolution got going for real in Norway just after the middle of the 19th century, Scandinavia was ready for development, with a literate population, strong universities, political stability, liberty, equality, property rights and hard work. Basic social institutions like these are of decisive importance to a country's prosperity development.¹

¹ Acemoglu, D. & J. A. Robinson (2012). *Why Nations Fail: The Origins of Power, Prosperity and Poverty*. New York: Crown Publishers.

The Norwegian and Nordic model was thereafter developed through the creation of a welfare state, with equal opportunities and a good standard of living for all attained via a comprehensive public education system and health service as key features. The period from World War I onwards, in particular, saw the gradual development of institutions for the sick, the old, the infirm, the children and others in need through collaboration between local government, central government and non-governmental organisations (the so-called welfare triangle). The institutions were often run through collaboration between non-governmental organisations or parishioners and the public sector. Non-governmental organisations were development pioneers. The public sector assumed more responsibility for the funding over time, and public sector responsibilities were also increased through legislative developments.²

Development of the welfare state accelerated further after World War II, with the establishment of the national insurance scheme in 1967 as an important milestone. The expansion of kindergartens and social care institutions was stepped up when women became increasingly involved in paid work, especially from the 1970s. This has left Norway with both a large labour force and a higher degree of gender equality. Labour is the largest national wealth component and thus Norway's most important productive resource.

A wealth of natural resources; initially hydropower and subsequently the discovery of oil and gas deposits on the Norwegian continental shelf, has undoubtedly increased the level of prosperity in Norway. However, natural resources offer no guarantee of prosperity. Other countries have indeed seen resource revenues impede economic growth, rather than boosting it. Norway has managed to put the resources to good use as the result of having well-functioning institutions, an effective tax system and a robust fiscal policy framework. In subsequent decades, the EEA Agreement and freer global trade have benefited Norway and added to its economic growth.

[End of box]

1.1.2 The long-term challenges

Norway is now facing demanding challenges such as *changing international conditions, climate change, demographic change, changes in the labour market* and *changing economic circumstances*.

A change in international relations towards more rivalry and less cooperation between countries is cause for concern in a time when it is more important than ever for the world to stand united in solving joint challenges. Recent decades have demonstrated that international trade and cooperation can lift the standard of living internationally and defuse tensions between countries. More issues require a joint approach in an internationalised and digitalised world, and shared challenges make it clear that we are all in the same boat. We all stand to lose if the belief in a joint effort withers away.

Global society is facing the momentous shared challenge of reducing greenhouse gas emissions. The Government has introduced important measures and ramped up the level of climate policy ambition. In parallel, it is necessary to prepare for the consequences of a changing climate, with increased risk in many regards. The transition to a greener society and the prevention of climate risk

² Seip, A. L. (1994). *Veiene til Velferdsstaten: Norsk Sosialpolitikk 1920-1975* ["Pathways to the Welfare State: Norwegian Social Policy 1920-1975"]. Oslo: Gyldendal.