

ANALYSIS

Norway

Cruise control

While long praised for avoiding the resource curse, there are fears that the country's reliance on oil wealth is threatening its growth prospects.

By Richard Milne

On a wintry Thursday afternoon, just before 3pm, a family car laden with ski gear pulls into a Statoil petrol station just west of Oslo's city centre. Paal, his wife and two children are off to their winter hut for a long weekend, returning on Monday. "This is our third trip this winter – it's great to get a bit of extra time off," he says.

Paal is not the only one getting away on a Thursday instead of a Friday. Norway's statistics office says many people have started to call Friday *friday* – "free day" in Norwegian. The state railway company says commuter trains serving the capital are less full on Fridays, and the main toll road operator says traffic is noticeably quieter on Fridays and on Mondays.

The trend is worrying the country's policy makers and business executives. Norwegians work the third fewest hours in the developed world, according to the OECD. The hourly wage in manufacturing is the highest in the world, 40 per cent above Germany's and about double that of the US, Japan, Italy or UK, according to the US Bureau of Labor Statistics.

The culprit? The same factor that has propelled Norway to become one of the world's richest nations in a matter of decades: oil. The country's experience provides salutary lessons for resource-rich nations, not least Scotland as it prepares for a referendum on independence this September.

Norway has won plaudits for how it has handled its oil riches, setting up what has become the world's largest sovereign wealth fund and spending only a small proportion of that each year. It has been held up as the prime example of how a country can escape the oil curse or Dutch disease – when resource wealth kills off other productive parts of the economy.

'My biggest fear is for my children. I see little desire to work among the young. Kids think they have it made'

But both in and outside the Nordic country there are growing concerns that it is slowly succumbing to a more subtle form of Dutch disease in which its rich and contented population works less, takes more sick leave and



Lund and her member companies. "What we call the two-track economy is a reality. There is such a concentration of investments in the oil sector and an investment drop in the rest."

She worries about a loss of competi-

rich. Our moral genotype has therefore changed and the collective drive for a more equitable distribution of wealth has been replaced by the quest for individual financial gain," he wrote in *Aftenposten*, the country's

Putting their feet up: there are growing concerns that Norway's successful sovereign wealth fund is creating a complacent nation

Photoshot

young people working as cattle herders in the rural south were known to warm their feet in cowpats because they could not afford boots when the winter set in. Now there is no chance of that with even the lowest-paid

iveness, with manufacturing wages having soared by 150 per cent since 1997 against just 50 per cent in the US and Germany. Ms Skogen Lund adds that wages are 60-70 per cent higher than the weighted average of Norway's trading partners, meaning "that for every hour worked here we need to be 60 per cent more productive".

The good news for Norway is that it is the most productive industrialised country in the world, with GDP per hour worked a third ahead of the US. It also enjoys extremely high labour participation rates for women, above the OECD average. The former Labour-led government was given to declaring that the large number of women in the workforce was worth more to the country than oil. "Much more important than oil and gas is that Norwegians are going to work every morning," Jens Stoltenberg, the former prime minister, said in a speech on "Avoiding the oil curse" at Harvard University last year.

The bad news is that Norway's GDP per capita has stalled for the past five years, as Oystein Olsen, Norway's central bank governor, pointed out last February. "Growth is being supported by immigration and employment growth, and not by increased productivity," he added. Head into any restaurant or corner shop in Oslo and you see his point - many of the workers are Swedish, attracted to Norway by the higher wages. "The Swedes have become the Turks of Norway," says a leading Swedish industrialist, only half-joking.

But it is not only in pure economic terms that doubts are being cast. There is a feeling in some quarters that oil is changing the very soul of Norwegians. In an opinion article entitled "My country's DNA has changed", Jan Kjaerstad, an author, bemoans the evolution in his nation. "In days gone by, the idea was to take a little from the rich and to give it to the poor. Now everyone wants to be

Equally, the restraint exercised in using only 4 per cent of the fund's assets each year in the budget has been lauded, even if 4 per cent today gives almost 10 times the return that it did a decade ago. "In the totality of things we have handled our oil wealth very well compared with other countries," says Ms Skogen Lund.

Still, there are warning signs both in the short and long term. Despite the efforts to insulate the Norwegian economy from its oil wealth, economists think it is more and more dependent on petroleum. "The business cycles we see are synchronised with oil. We have shown just how dependent the Norwegian economy is on oil," says Hilde Bjornland, a professor at BI Norwegian business school and an expert on oil's impact on the economy.

Economists at Nordea, the region's biggest bank, expect growth in Norway to slow this year compared with last year, in contrast with other Nordic countries. By next year Nordea forecasts that Norway will have the slowest-growing economy in the region with a rate of just 1.2 per cent. At the same time, Norway's housing market is coming under pressure after a period of almost uninterrupted price growth for the past two decades.

These may be blips but there are several longer-term issues. One is the plight of Norway's non-oil industries. Prof Bjornland, in a paper entitled "Boom or gloom?", writes that there is no sign of Dutch disease but there is a very distinct two-speed economy. That is a big concern for Ms Skogen

lives. "Things are going so well in Norway that we are moving industry and jobs abroad and we don't care because we have things so good - but we are fooling ourselves," says Ketil Solvik-Olsen, transport minister and deputy leader of the populist Progress party. "That is where Dutch disease comes in: it's how we spend the oil wealth."

Norway is certainly not in crisis. Its gross domestic product per capita is second only to that of Luxembourg, according to the International Monetary Fund. It has an unemployment rate of 3.5 per cent, lower than any EU member state. And its budget surplus - including use of money from the oil fund - is more than 10 per cent.

Its model of separating oil revenues from general government spending and putting most of that money into its \$810bn oil fund for the benefit of future generations is widely praised. Scotland's nationalists are only the latest of those seeking to emulate its approach.

Equally, the restraint exercised in using only 4 per cent of the fund's assets each year in the budget has been lauded, even if 4 per cent today gives almost 10 times the return that it did a decade ago. "In the totality of things we have handled our oil wealth very well compared with other countries," says Ms Skogen Lund.

Still, there are warning signs both in the short and long term. Despite the efforts to insulate the Norwegian economy from its oil wealth, economists think it is more and more dependent on petroleum. "The business cycles we see are synchronised with oil. We have shown just how dependent the Norwegian economy is on oil," says Hilde Bjornland, a professor at BI Norwegian business school and an expert on oil's impact on the economy.

Economists at Nordea, the region's biggest bank, expect growth in Norway to slow this year compared with last year, in contrast with other Nordic countries. By next year Nordea forecasts that Norway will have the slowest-growing economy in the region with a rate of just 1.2 per cent. At the same time, Norway's housing market is coming under pressure after a period of almost uninterrupted price growth for the past two decades.

These may be blips but there are several longer-term issues. One is the plight of Norway's non-oil industries. Prof Bjornland, in a paper entitled "Boom or gloom?", writes that there is no sign of Dutch disease but there is a very distinct two-speed economy. That is a big concern for Ms Skogen

lives. "Things are going so well in Norway that we are moving industry and jobs abroad and we don't care because we have things so good - but we are fooling ourselves," says Ketil Solvik-Olsen, transport minister and deputy leader of the populist Progress party. "That is where Dutch disease comes in: it's how we spend the oil wealth."

Norway is certainly not in crisis. Its gross domestic product per capita is second only to that of Luxembourg, according to the International Monetary Fund. It has an unemployment rate of 3.5 per cent, lower than any EU member state. And its budget surplus - including use of money from the oil fund - is more than 10 per cent.

largest daily newspaper. The myth endures that Norway as a whole was poor before oil. In fact, its GDP per capita was among the highest in both Europe and the world in 1960. But some regions had experienced high levels of poverty in the past. During the 1940s and 1950s, some

Norway's oil economy

Unit labour cost

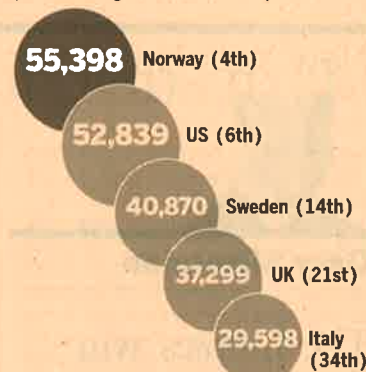
Indices rebased



GDP per capita

At PPP \$, 2013

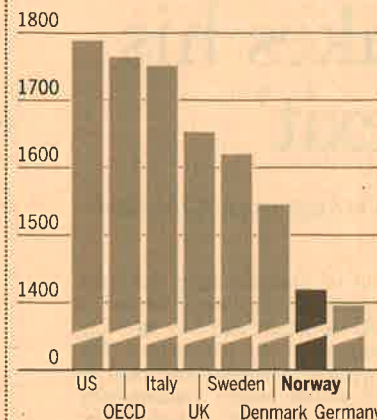
(world ranking shown in brackets)



Sources: Thomson Reuters Datastream; OECD; IMF

Time on the job

Average annual hours per worker, 2012



GDP per hour worked

As % of US (2012)



Speed read

● **Long weekend** Norway's statistics office says so many people take Friday off that the day is now being called *fridag* - or 'free day' in Norwegian

● **Working smart** Despite working some of the shortest hours, Norway is the most productive industrialised country in the world

● **Home remedy** Norwegians are off work sick for between 6 per cent and 8 per cent of their total working days, the highest rate among OECD members

On the web

For more analysis, comment and news on European economies, including Norway's, visit ft.com/europe

House prices

Frothy market holds no fear for locals

Many countries are concerned about a possible approaching housing bubble. Norway has as good a case for concern as any. House prices have increased over the past two decades apart from a small dip in 2008. Prices rose almost fivefold from 1993 to 2013. Household debt is 200 per cent of disposable income, one of the highest levels in the world.

Warnings from beyond Norway's borders have increased, too. The International Monetary Fund said in September that Norwegian house prices were overvalued by up to 40 per cent, and three winners of the Nobel Prize in economics - Robert Shiller, Vernon Smith and Paul Krugman - have said Norway looks like it is facing a bubble.

Mr Shiller was first and loudest,

saying two years ago that he expected "an unpleasant end to this bubble in Norway". He told CNBC: "My suspicions are Norwegians are infected with a success story for their own country that makes high home price increases seem plausible to them."

Norwegian politicians are extremely defensive of any suggestion of a bubble, perhaps because of the high levels of home ownership across all ages.

After Mr Krugman said in January that Norway had enjoyed "an unbelievable rise in house prices", Erna Solberg, the centre-right prime minister, retorted: "Very often I find that foreign economists, for example those with American eyes, have a different frame of reference when analysing the Norwegian economy."

She added: "Our starting point is that

as long as employment, job creation, and competitiveness are maintained then there is no danger to the housing market and the debts every family has." Mr Krugman was swift in his denunciation: "When politicians say everything is OK, that is a sign of a bubble situation."

In recent months there have been signs of weakness in the market, with prices falling about 5 per cent from the summer to the end of the year. In January prices fell 1 per cent compared with a year previously.

Norway's association of estate agencies described January as better than expected and insisted activity was strong throughout the country. But to those American eyes, it may well look like some of the air has come out of the Norwegian bubble.

worker living in comfort.

Hand in hand with that change in DNA has been a change in the work ethic. The verb *nave* was the word of the year in 2012. It refers to getting benefits from NAV, the labour agency, as in youngsters saying: "I am going to *nave* this summer rather than get a job."

Others point to the high sickness rate. Despite a low unemployment rate of 3.5 per cent and generally good health, fully 5.5 per cent of Norwegians are on sick leave approved by doctors. The OECD says none of the other 33 rich member countries has such a high rate. On average, Norwegians have gone sick for between 6 per cent and 8 per cent of their total working days over the past decade.

"I see signs of [Dutch disease] already. We are getting used to a level of benefits that is too expensive for the day the oil industry dies," says Mr Solvik-Olsen. One of Norway's leading chief executives says: "My biggest fear is for my children. I see relatively little desire to work among the young. Kids think they have it made."

Headlines do little to dispel this. The oil fund's move above Nkr5,000bn was greeted with stories that each of the country's 5m people were theoretical krone millionaires. Despite spending large amounts on education, Norway finished below average in 30th place in the so-called Pisa tests measuring what 15-year-olds know about maths. More than one in five children over the age of 16 drops out of school, double the Nordic average.

"There is a concern when you are in an economic situation like we are," says Prof Bjornland. "Everything works well, unemployment is low, wage increases are high, inflation is low. What you see is that rather than strive to be more productive, to work longer hours and to stay longer in school, we see the other tendency: now it's time to take up more leisure, the dropout rate from high school has increased... So the fact that we don't strive too much is a concern for the Norwegian economy in the long run."

The centre-right government that took office in October seems aware of the issue. On the night of the election victory, Jan Tore Sanner, the deputy leader of the Conservatives, says: "The Norwegian economy is healthy but we are very dependent on a high oil price. So for the Conservative party it is very important to help small and medium-sized companies with tax cuts and spending more money on roads and on research."

But concern persists that some of the more subtle social changes may be hard to reverse without the oil running out or a big shock. "I think we need a crisis for people to realise it's time to change gear," Prof Bjornland says.

Or as Mr Solvik-Olsen, in comments shortly before he became a minister, says: "We are getting used to having a lot of spare time. That worries me. And that is why great nations fail: when you are on top you don't see cause and effect."