

Norway: Traversing peaks and valleys

The Norwegian numbers on the 72 Indicators of the EQx are, like the country itself, a profile of peaks and valleys. A recognizable picture emerges of the Norwegian economy at present, excelling in egalitarian taxation (rank 1 in indicator *Delta capital gains vs income tax* (DKI, iii.8)) and labor participation (rank 5 in the *Labor force participation rate* (LFP, iv.12)), and a society relatively free of violence and social unrest (rank 4 in *Homicide rate* (HOM, iii.8)) is depicted. Conversely, Norway scores at the bottom on *FDI net Inflows as % of GDP* (FDI, iv.10) with another low score on *Dutch disease propensity* (DUT, iii.9). These are unique national characteristics of the Norwegian economy and political system.

Norway's profile is partially explainable through the country's historical dependence on natural resources. Other characteristics are linked to a political governance system loosely referred to as the "Nordic Model". The mixture of characteristics poses some uncomfortable questions to the country's elites about future strategic choices.

Norway has historically been dependent on dominant industries, strongly tied to its natural resources: A once world-dominant merchant fleet was replaced in turns by a hydro-powered electrochemical industry, paper mills, petroleum and offshore technologies. This is mirrored by rank 30 in Pillar 'Firm Dominance' (ii.5). One may call this an "all-in type" of economy where the labor force is consumed by dominant industries, raising labor costs and rendering the country vulnerable to international market disruptions. A few large companies dominate and indicate the identity and characteristics of elites.

The petroleum economy sees labor costs at levels that make Norway an unlikely recipient of foreign investments, along with other signs of Dutch disease. Reflected in EQx too, is the tradi-

tional skepticism against foreign acquisition of natural resources – which kept Norway out of the EU – to protect energy, fisheries and fish farming. Additionally, the world's biggest sovereign fund has made Norway a net exporter of capital, with little need for FDI, potentially preempting some of the Dutch disease's worst effects.

This situation is new, as Norway traditionally lacked private capital concentrations and economic transitions were facilitated by the country's political system. The "Nordic Model" is basically social-democratic in its outlook, consisting of a high acceptance of government regulation, publicly financed healthcare and education and a high level of co-operation between employers and labor unions. As the EQx data shows, this model comes with high-quality institutions (rank 5 in *Institutional quality* (DBI, i.2)), income equality (rank 1 in *Top 10% share of pre-tax national income* (INE, iii.9)), and high levels of work force participation (rank 5 in *Labor force participation rate* (LFP, iv.12)). However, it also tends to come with an inflated public sector (rank 26 in *Tax revenue as % of GDP* (DTR, iii.8)).

At present, the Nordic Model seems to be an advantage in weathering the Covid-19 pandemic. In the long run, however, ranking at the extreme ends on some indicators may indicate some political rigidity in policy choices. In a more diversified economy, Norway may need higher levels of FDI (and venture capital investment), openness to entrepreneurship and a transparent business environment. At the same time political promises to the population must be kept. While until now Norway has been able to traverse peaks and valleys, a more digitized and technology-based world poses challenges to the predominant business models of Norway.

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Visual 32: Norway performance overview by EQx Pillar vs overall distribution

