Norway – The Accidental Role Model

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Introduction

In the last 35 years, Norway has changed from a rather frugal, mid-income northern European social democracy into one of the world’s most prosperous countries. This is reflected in its purchasing power parity (PPP)-adjusted GDP per capita, where Norway usually ranks first among the ‘real’ states and only lags tax heavens and even more oil rich Qatar, ‘and in the size of its sovereign wealth funds (SWF), which as of December 2009 was valued at just below 2600 billion Norwegian krone (NOK), an equivalent of roughly US$450 billion.¹ Financial strength has not, however, placed Norwegian technocrats in a care-free position. Since the early 1970s when it became clear that Norway’s oil and gas resources would bring hitherto untold riches, transforming resource assets into income has been recognised as a potential force for destruction; that it can also be a blessing has been more of an afterthought.

Norway has a bumper SWF that goes under the name of the Government Pension Fund – Global (GPF-G), formerly called The Petroleum Fund of Norway. Because SWFs are routinely interpreted as expressions of state power in the global political economy, they can be portrayed as a threat to the existing liberal financial order, as discussed in Chapter 1. However, this chapter argues that treating the Norwegian SWF in this light is misleading in terms of both intention and function. Norway’s GPF-G is a strictly portfolio-oriented, relatively transparent institution. It is therefore more accurately appraised as supportive of a market-based financialised world economy as I explain in this chapter.

Instead of analysing this SWF as an instrument of foreign policy, we are better placed by considering the historical trajectory that eventually
led to the establishment of what used to be called ‘The petroleum fund’. This trajectory reveals Norway’s GPF-G as the product of struggle to avoid the ‘natural resource curse’ in the form of ‘Dutch Disease’, that is, a bloated public sector that crowds out the export sector through wage inflation, transfers and appreciation of the real exchange rate. In this sense, the fund is just the latest – and seemingly most successful – means for achieving an end: a means for pursuing a motive that is 20 years older than the fund itself.

Norway’s struggle to contain the pressure wrought by petro-wealth is fundamentally a story of domestic politics: a continuous effort to integrate rent-based revenues into an established domestic order with an older governance, production and distributational structure. The main pillars of this structure were parliamentary (social) democracy, a state-dominated but mostly privately owned export sector based largely on hydro-electric power, corporatist labour market institutions and a generous, universalistic welfare state. In this chapter I argue that the essence of foreign economic policy in small corporatist states, which Peter Katzenstein (1983, 1985) captured with his notion of flexible adjustment, still holds, as my analysis of the Norwegian SWF demonstrates. In an age of financial globalisation, protecting the domestic political economy by establishing a fund is a corollary well suited to pursuing a combination of international competiveness and domestic compensation of those who lose out as a result of structural adjustment.

This privileging of domestic policy and politics generally also holds when considering the motives behind the often highlighted, and sometimes celebrated, ethical standards of the fund. Since the beginning of the twenty-first century, the Norwegian fund has adopted a strategy of implementing ethical standards based on three pillars: active management of ownership rights, negative screening and divestment. This may be a standout feature of the fund as an SWF. Certainly it has some impact on the fund management industry as other private sector funds piggyback the decisions of the GPF-G. Still, the strategy is riddled with inconsistencies and implementation problems, and, predictably, has had little impact at the ultimate level of outcomes: the workings of global corporations. The strategy of establishing ethical standards should thus be seen as primarily a defensive measure – a strategy intended to pacify a domestic constituency while helping to uphold Norwegians’ understanding of their country as fair-minded and peace-brokering.

Discussion in the rest of this chapter proceeds as follows. In the next section I present a ‘Katzensteinian’ conceptual framework, linking the