

constructing  
a democratic  
developmental  
state in  
south africa

potentials  
and challenges

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## 6 Foiling the Resource Curse: wealth, equality, oil and the Norwegian state

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Readers of this volume are fully aware that the key to an effective developmental state is state capacity, or the ability to formulate and implement developmental policies. Following Evans (1995) and Edgheji (2007), among others, this sort of capacity can be secured by a state that is both sufficiently embedded to exploit synergistic relations with civil society, and relatively autonomous from society's most powerful interests.

Creating states with both these characteristics is particularly difficult in areas blessed (or sometimes cursed) with natural resource abundance. There are two reasons for this. Most obviously, those interests that control the resource are often able to exert inordinate influence on, or even capture, the state. As Edmund Burke once reflected, 'the revenue of the state is the state' ([1790] 1969: 351, emphasis added). In addition, however, states have a tendency to become addicted to the revenues that are generated from these abundant resources. The resulting economies are too often marred by imbalances, inefficiencies and inequalities.

This chapter examines the nature of Norway's state capacity as it is applied to the petroleum sector. My aim is to provide a historical account that is useful for policymakers in South Africa. To do this, my focus is twofold. First, I examine the nature of those institutions that the Norwegian authorities use to manage their natural resources. I then turn to examine the institutions used to manage the vast revenues that these resources generate. This approach largely builds on the existing literature, by highlighting the role played by a capable and professional state apparatus. However, my argument complements that literature in at least two ways.

First of all, the Norwegian example showcases the importance of external constraints and institutional change. As master over a small and open economy, the Norwegian state has always needed to engineer changes that would allow the economy to adjust to exogenous shocks. Yet the power of the state to manage and influence the resource (and the revenues generated by that resource) changes over time in the face of changing international contexts and changing balances of power (e.g. between the state and the commercial interests that control the resource, or between different class and/or sectoral interests within the state).

In addition, the Norwegian example highlights the role that institutional overlap can play in providing states with another means to secure the characteristics we associate with state capacity. By relying on institutions that represent important interests, organised along both class and sectoral lines, no particular interest is allowed to

dominate. This institutional weave is embraced by all the players because it has proven an effective tool for facilitating rapid adjustments to changing international conditions. As we shall see, it has also proven useful for managing the challenges associated with resource abundance.

In this account, the Norwegian state shows itself to be an independent actor capable of managing new-found petroleum resources (as opposed to being managed by those resources). Over time, however – and with the growth of powerful domestic commercial interests – this capacity to manage these resources has begun to dwindle. More impressive, perhaps, is the capacity of the Norwegian authorities to manage the vast revenues generated from these resources in a way that has mostly immunised the country against Dutch Disease.<sup>1</sup> In short, Norway provides an interesting example of how resource-dependent states can develop institutions that provide 'embedded autonomy' (Evans 1995).

### Resource management

The Norwegian economy has always relied heavily on nature. Each of its previous bouts of economic growth has drawn on an abundant natural resource: first it was timber and fish, then it was hydroelectric power, and now it is oil and gas (Moses 2005). For this reason, Norway's management of its offshore resources draws on a much longer tradition of natural resource management.

In particular, the Norwegians have developed a management system that combines effective and professional management with democratic control. This tricky blend of objectives is secured by steeping political decisions in institutional frameworks that encourage participants to think beyond their own parochial interests. The result is a management regime that prioritises the national over the particular, and the long-term horizon over the short.

To understand the nature of that management regime, we can break it up into two component parts: its political motivation (democracy and control); and the actual instruments through which management is secured. In this chapter, these diverse instruments are described in terms of political and policy issues, resource and safety management, and commercial interests.

### Democracy and control

At the outset of Norway's petroleum adventure, the state played a remarkably minor and passive role. Given the enormous capital investments involved, and the even greater risks, the Norwegian authorities were reluctant to play an active role during the early, exploratory phase. Indeed, the Norwegian authorities initially seemed to bend over backwards for the oil companies: Norway's first licensing system provided companies with more flexibility (i.e. bigger blocks during the exploration phase), lower fees and royalties, and more lenient relinquishment requirements, compared to a concomitant British system (Nelsen 1992).

The resulting (initial) management regime was a jolting (if happy) surprise to the international oil industry. This was evident in an interview with a foreign oil man in the country's leading newspaper of record, the *Aftenposten*, in 1965:

Those of us coming from abroad thought of Norway as a small country, with little relevant legislation or practical experience. Worse, the country was governed by a socialist government and had a reputation for being bureaucratic, heavily-taxed and offering few possibilities for commercial expansion. But what did we find? A country that was able to assemble, in record time, the most progressive and modern petroleum legislation; a country that met us with an uncommon openness and honesty – one that was willing to explain to us why things needed to be done in a particular way, or that was willing to take another look at the tax problem; and a country that managed to distribute its North Sea concessions in a uniquely short period of time and in a remarkably thorough way.<sup>2</sup>

Once oil was found off the Norwegian coast in 1969, however, the situation (and Norway's bargaining position) changed rather significantly. Norway's political authorities began to take note of the political and social consequences of these discoveries and began to design a management regime that drew on three particularly Norwegian characteristics: a tradition of strict concession laws, which required enterprises to apply for concessions from the state before developing natural resources;<sup>3</sup> a tradition of state interventionism and planning, associated with the influence of a dominant Labour Party;<sup>4</sup> and the lack of any established commercial interests that might influence the nascent management regime.<sup>5</sup>

At the core of the new Norwegian management strategy was a focus on democracy and control. These democratic objectives were made explicit in an industrial committee report to parliament in June 1971, in which the government was told to (among other things): secure government control over all petroleum activities; encourage the establishment and support of a domestic oil industry; and create a state oil company that could manage Norway's economic interests. This list of demands came to be known as the 10 Oil Commandments (covered in the following quotation from a parliamentary report of the time):

- National management and control for all activities on the Norwegian continental shelf.
- Aim for Norway to be as self-sufficient as possible in securing its oil supply.
- Establish new business activities in the petroleum sector.
- The development of the oil industry must be in accordance with already established industrial and environmental practices.
- In principle, gas flaring is prohibited.
- In principle, petroleum from the Norwegian Continental Shelf should be 'landed' in Norway.
- The state should be involved at all levels to ensure Norwegian interests and to promote the establishment of a Norwegian industrial oil cluster.
- A state oil company should be established to take care of the state's commercial interests.

- Extra care should be taken to protect the special conditions in the northern regions.
- The Norwegian petroleum discoveries will undoubtedly create new challenges for Norwegian foreign policy. (Norwegian Parliamentary Report 1970–71)

Two years later, in another parliamentary report, the Ministry of Finance again emphasised the need to maintain national control over the resource. In a chapter titled 'Democracy and Control', the report notes (among other things) that:

Democratically elected institutions must have full control of all important aspects of petroleum policy: exploitation, rate of extraction, safety measures and localisation. It is important to have public direction and control of the exploitation of resources ...

Norwegian authorities have the full right of disposal over oil and natural gas resources, and it is their responsibility to ensure that these resources are used with due care, both with regard to Norwegian interests and in an international context ...

First and foremost the scope of the operations on the Continental Shelf must be controlled by regulating exploration activity ... In order to regulate the level of production it is necessary to develop regulatory measures, so that the extraction operation itself is brought under control after a find has been made ...

[and]

In order to ensure the democratically elected institutions an increasing control of the restructuring which will follow in the wake of the petroleum operations and the utilization of revenues derived therefrom, it may be considered feasible to use part of the government revenue to buy up ownership interests in Norwegian industry. The increased foreign exchange earnings may make it possible to buy up some foreign ownership interests. (Royal Norwegian Ministry of Finance 1973–74: 9–11)

Thus, as the oil industry was just beginning to see the potential lying beneath the Norwegian Continental Shelf, the state was positioning itself to manage this resource in a way that could maximise the nation's economic gain from the resource; contribute to Norway's social and economic development; develop and maintain strong environmental and safety standards; and develop the resource in a slow, careful and deliberate manner. These became the core political objectives of the new management regime that developed in the mid-1970s.

While the political objectives were relatively clear and easy to articulate, it was not at all evident how they might be secured in practice. In 1970, a government committee was established to draft the organisation of the nation's future petroleum administration.<sup>6</sup> This committee concluded that the state had responsibility for three important functions: a centralised control function (i.e. a political or policy task); an administrative function (for inspecting and surveying); and a business

function. These three functions provide the organisational framework for the rest of this section, as each function is housed in a particular institution. Thus, the Ministry of Petroleum and Energy (MPE) is responsible for the political function, the Norwegian Petroleum Directorate (NPD) is responsible for the administrative function, and Statoil was created to oversee the state's business function.

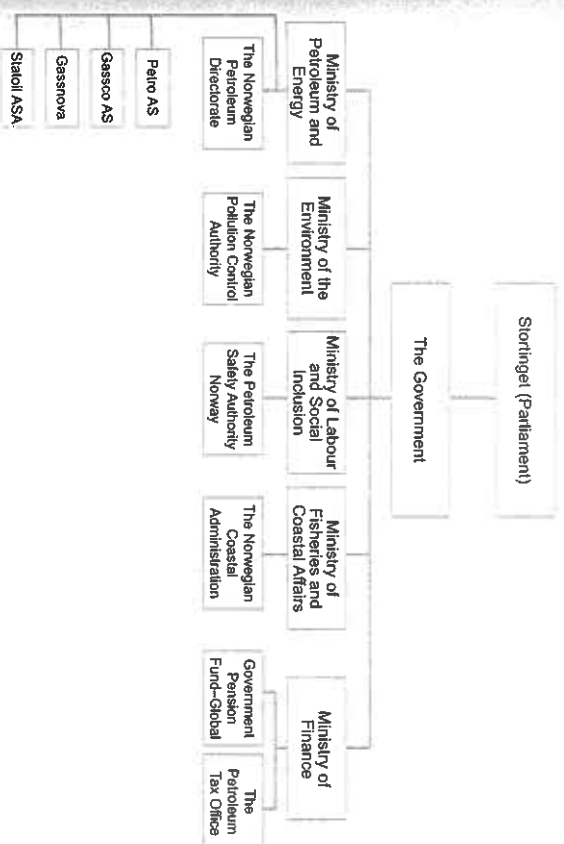
### Political and policy issues

At the very outset, the management of Norway's new resource lacked a permanent institutional home. There are at least two reasons for this. The first is the nature of the original dialogue between the Norwegian authorities and international oil concerns (i.e. legal clarification about ownership issues on the Norwegian Continental Shelf). In addition, the Ministry of Industry was still reeling from an earlier disaster involving a state-owned firm in King's Bay (Svalbard). For these reasons, the political foundation for the Norwegian management regime was first laid in the legal department of the Norwegian Ministry of Foreign Affairs, while the Ministry of Industry was responsible for the first round of production licences (in 1965).

As the potential for developing a fully fledged oil industry became more evident, however, a series of new institutions were created. A Division for Petroleum and Mining was first established in the Ministry of Industry. Eventually, this division grew to be a fully fledged Ministry of Petroleum and Energy (MPE) in 1978. It is the MPE that is mainly responsible for administering the state's political control over the resource, although some areas of authority have been delegated to other ministries, as evident in Figure 6.1.

This new political influence was evident in the second round of licensing (which began in the early 1970s). Here the state strengthened its claims on a number of fronts. The most visible of these was the fact that the duration of licences was shortened, while fees and royalties were raised on several fields. More important, however, was a change in the state's position with respect to influencing future developments. In this new licensing round, the state claimed the right to participate in future offshore licences, secured a special (carried) interest for the state in each licence until commercial discoveries were made,<sup>7</sup> and ensured that it could slow the pace of future development (e.g. by controlling the allocation of licences, the power to set the date of production, and the right to approve production plans).

These new licensing regulations provided the groundwork for subsequent state involvement. With that groundwork in place, the Norwegian state then began to bargain with individual companies to secure additional gains. Thus, every new licence required a minimum level of state participation (50%). On top of that, however, the state employed a 'sliding scale' to secure a larger share for the state, should the field prove to be commercially viable. Eventually, the state – through its various control instruments – came to own as much as 80 per cent of all the operations on the Shelf (Andersen & Austrvik 2000).



Source: NPD (2007: 18)

Finally, subsequent concession rounds began to include non-economic or technical conditions that secured a broader Norwegian contribution and became the core of a new industrial policy. For example, in 1972 the Ministry of Industry established a Goods and Service Office that monitored the contracting and procurement process to ensure that qualified Norwegian firms were on the various tenders lists, and that bids included a sufficiently large Norwegian content (measured in personnel and monetary terms).<sup>8</sup> In addition, the government imposed a number of transfer-of-knowledge requirements, to encourage the development of Norwegian skills and special competences (see Noreng 2004). Together, these political conditions were used to secure the use of Norwegian partners, develop local competences and create jobs in Norway.<sup>9</sup>

The result was a management regime that secured significant political control over the resource. In the early years, this control was transferred to a newly established, fully state-owned company (Statoil), which was responsible for managing the state business interests (see more below). The administration of that resource rested with the NPD.

### Resource and safety management

From the very outset, the Norwegian authorities were concerned about the environmental and safety hazards associated with extracting oil under difficult

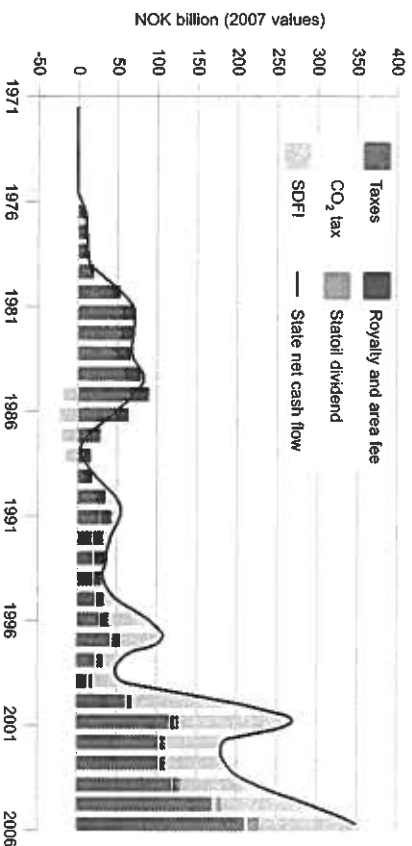
conditions offshore. Indeed, Norway's 1967 law is said to be the world's first attempt to provide detailed safety regulations for oil exploration at sea (Hanisch 1992). While the law itself may impress, the state at first lacked any apparatus to enforce it.

The answer to this problem was the NPD. Established by parliament in 1972, the NPD was to administer Norway's growing oil sector. In 2007 it described its responsibilities in this way:

Norway has established a system whereby oil companies carry out the technical work required to recover the resources, but their activities also require approval by the authorities. The approval of the authorities is required in all stages of the petroleum activities, in connection with exploration drilling, plans for development and operation, and decommissioning plans for fields. In this system, the oil companies create the necessary technical solutions to recover the resources, while the Norwegian authorities ensure that these solutions concur with the goal of maximizing the values of the Norwegian society as a whole. (NPD 2007: 19)

While environmental and safety regulations play an important role in the NPD's early work, this section focuses on how it maximises the sector's economic value.<sup>10</sup> As shown in Figure 6.2, which is taken from the NPD's annual (2007) survey of the sector, most of the government's oil revenues are secured by means of taxing petroleum activity and the State's Direct Financial Interests (SDFI). In addition, the government receives a smaller income from other forms of taxes (such as royalties, a CO<sub>2</sub> tax etc.) and dividends from Statoil. In 2006, these revenues constituted about

Figure 6.2 Net government cash flow from petroleum activities (Norway, 1971–2006)



Source: NPD (2007: 62)

Note: The particular breakdown for 2006 is as follows: Direct taxes = NOK211.9 billion; Royalties and CO<sub>2</sub> tax = NOK4 billion; SDFI = NOK126.7 billion; Statoil dividend = NOK14 billion; Total = NOK356.5 billion.

356.5 billion Norwegian Krone (NOK), and we can see that they have been growing significantly in recent years.<sup>11</sup>

Whereas the other three sources of government revenue (taxes, royalties and dividends) will be familiar to the reader, I might elaborate on the SDFI. The SDFI was established on 1 January 1985 to gather and simplify the state's economic holdings in the oil sector. As the government owns all of the resources on and under the Norwegian Continental Shelf, the SDFI collects these interests in a portfolio of the government's directly owned exploration and production licences for petroleum and natural gas.<sup>12</sup> In 2001, a fully state-owned company – Petoro – was created to manage the SDFI on behalf of the government.<sup>13</sup> Petoro functions solely as a manager for the Norwegian government and does not directly own the licences for (nor is it an operator in) any of the fields. In addition, Petoro surveys Statoil's production on behalf of the government.

In short, the management of this resource is affected by a portfolio of licences that is steered with an eye on maximising economic return. While the state continues to use the NPD to regulate the sector (even though many of the safety and environmental regulatory responsibilities have now been shifted to other ministries), its power to control that sector – as the owner of the underlying assets – is remarkably restrained. Indeed, this power was at first delegated to the third and final channel of state influence: Statoil.

### Commercial interests

The last, but not least, of the state's main channels of influence concerns its direct commercial interests in the oil sector. At the outset (1972), all of the state's interests were collected in a single entity: the Norwegian State Oil Company (Statoil). This company was expected to answer directly to the relevant political authorities and act as an independent operator engaged in both the technical exploration for, and the extraction of, petroleum.

Its leading position on the Norwegian Continental Shelf was secured in the second round of concessions by a number of specific conditions or requirements, as described above. As a consequence of these favourable conditions, Statoil came to dominate the commercial activity on the Shelf. After all, Statoil was able to exploit the 'carrying' clause to avoid investing during the risky (and expensive) exploration phase of activity. Indeed, all of the other (private) companies were forced to carry Statoil's costs during this initial phase. It was only after profitable discoveries had been made that Statoil would jump in and participate. As a consequence, Statoil came to manage more than 70 per cent of the value of Norwegian petroleum production (Tammes 1997: 192).

By the early 1980s, however, there was growing concern about the inordinate amount of influence that Statoil was beginning to amass. As the prime minister at the time, Kåre Willoch, later recalled (in his memoirs), 'The aim was to prevent Statoil from growing beyond reasonable limits and exercise disproportionate influence' (Willoch

1990: 289). Willoch's new (1982, Conservative-Centre coalition) government appointed a commission to recommend changes to how the state participated in the petroleum sector. This commission recommended that the future growth of Statoil be reduced, and that the state's direct shares be separated from those controlled by Statoil.<sup>14</sup> This compromise introduced a radical reorganisation of the Norwegian state's economic interests in the petroleum sector (as described above). It is this reorganisation that introduced the SPDI as a separate juridical entity, to inherit the interests that had previously been managed by Statoil.

This was the beginning of a long devolution of formal state influence in the commercial realm. The state's position unravelled even further in the spring of 2001, when the parliament voted to sell 21.5 per cent of the SDPI's assets. Of these assets, 15 per cent were sold to Statoil (while the remainder went to other licence-holders). By securing these additional assets, Statoil became a more attractive investment object, and in June of that year (2001) Statoil was partially privatised (20%) and listed on the New York and Oslo stock exchanges. More recently, in October 2007, Statoil merged with another central actor in the Norwegian energy sector, Norsk Hydro, to create a monolithic new actor, StatoilHydro (now just Statoil). The Norwegian parliament approved the merger plan in June 2007, and the new company has both the size and strength to expand internationally. During the course of 2009, the 'Hydro' part of the name was dropped and the (still merged) company is now simply Statoil.

In short, Statoil has outgrown the Norwegian Continental Shelf and its political masters. Although the Norwegian state owns over 62 per cent of the new company's stock, it seldom uses its influence in an overtly political way.<sup>15</sup>

In concluding this section, I wish to emphasise the changing nature of the regulatory regime over time. Not only did the ambitions of the political authorities change, but so too did the tools that they had at their disposal. While many of the institutions remained in place, their roles changed significantly over time. Nowhere is this more evident than in the role played by Statoil.

Once a fully owned state corporation, enjoying the protection and support of Norway's regulatory regime, Statoil came to outgrow the very regime that had provided protection and nourishment during its nascent development. With privatisation (and despite majority control by the Norwegian state), Statoil has increasingly acted like any other private corporation, as it seeks to exploit international markets and compete with the very players from which it once sought protection. In its practices abroad, Statoil offers a corporate example of Chang's (2002) *Kicking away the Ladder*.

At the most general level it is possible to detect a downward trend in formal state influence, with a corresponding rise in commercial interests, as exemplified by Statoil. While the state still manages to reap significant economic reward from its offshore assets, it is less able (or willing) to control these assets in an overtly political manner.

## Revenue management

The second important task of the developmental state is to manage the country's wealth in a way that benefits the broader (national) interest. This task is particularly difficult in states that enjoy a bounty in natural resources, as a resource boom can deliver a whole host of negative economic conditions, such as an appreciation of the real exchange rate and/or a diversion of capital and labour away from the traditional export sectors and into the new booming resource sector.

I argue that the Norwegian state has avoided the worst of these difficulties by relying on a network of overlapping institutions. These institutions were largely developed during an earlier (pre-oil) era, but their motivation remains constant: as a small open economy, Norway needs to maintain competitiveness and the ability to adapt rapidly to changes that emanate from the international economy.

For the purposes of this chapter, I focus on three particular institutional constellations: fiscal conservatism; external adjustment tools; and the government's petroleum investment fund. Each of these institutional constellations plays an important role in protecting the national economy from Dutch Disease.

### Fiscal conservatism

Fiscal conservatism is not usually the first thing that comes to mind when one thinks of socialist (or social democratic) governance. Too frequently the left is accused of pursuing unsustainable economic policies out of a desire to tax and spend, and/or exploiting Keynesian-style, counter-cyclical macroeconomic policies to flatten out the business cycle.

Indeed, as we shall see in the section that follows, the Norwegian state does play an active role in facilitating adjustment by providing a broad welfare net and active retraining schemes. This is the essence of Scandinavian 'flexicurity', the latest popular import in American policy circles (see, for example, Kuttner 2008). Yet small, open economies need to produce this flexicurity without straining the fiscal budget. Indeed, the Norwegian record on this account is astonishingly orthodox.<sup>16</sup>

This sort of fiscal conservatism has an economic, as well as a political, explanation. Economically, it would be difficult for Norway to maintain its external balance or international confidence in its economy (and with it the exchange rate) if it were to run large, or long-lasting, budget deficits. Politically, it has been possible to engineer a high degree of consensus over the need to defer to the external balance. This consensus is a result of the sort of state capacity referred to in the introductory section.

Norway's political power is generated in a number of competing and overlapping institutional venues, each of which relies on a bureaucracy that is expert, professional and autonomous. There are two ways in which we might map out this institutional weave. On the one hand, we might think of it as a tangent to Montesquieu's theory of separation of powers. Yet, rather than power being divided across legislative, executive and judicial branches of government, the focus is on creating independent

sources of influence and support across three distinct (but related) channels: a strong and independent bureaucratic tradition; a tradition of strong committees in parliament and a strong corporatist channel of influence. The first two channels of influence are discussed now; the third is the subject of the section that follows.

The first of these channels is already very familiar to students of the developmental state. Norway enjoys a remarkably professional, inclusive, accountable and transparent civil service; indeed one of Norway's leading political scientists, Johan P. Olsen (1983), has described Norway as 'a typical civil servants' state' (1983: 122). Karl's admiration of the open and participatory nature of Norwegian democracy is exemplary: 'In this exceptionally favourable environment, the prevailing policy style emphasized caution in the face of change, respect for standard operating procedures, segmentation according to issue areas, consensus building and egalitarianism' (Karl 1997: 217).

Perhaps less well known is the way that power is distributed within the Norwegian parliament in 'a matrix-like organisation with the party caucuses and the committees as building blocks' (Olsen 1983: 72).<sup>17</sup> In Norway, the authority of parliamentary power is largely derived from the influence of the opposition and the role of committees. Through parliamentary standing committees, Norwegian politicians are able to generate expertise in a context that relies heavily on expert input from the state's bureaucracy, in a way that separates the politicians from their (narrower) party interests.<sup>18</sup>

The result is a parliament that can deliver autonomous and expert legislation. In Norway, these standing committees

... are, as a point of fact, the only stage at which issues can be scrutinized and worked over in detail; where new information can be brought to bear and where it can have an effect; where alternatives can be considered and their consequences evaluated; where outside groups can be heard and their opinions examined; and where changes in a bill or modifications in proposed appropriations can be made ... So - to exaggerate the point - one could say that not only is the committee the first stage in decision-making in the Parliament; for most practical purposes it is also the last. (Hernes 1971: 68)

This heavy reliance on a professional bureaucracy and parliamentary committees has several important consequences for explaining the success of the Norwegian developmental state. First, it provides expertise to policy-makers that is not heavily shaded by particular and vested interests. Second, it divides up political authority in a way that facilitates autonomy (and makes capture difficult). Third, this way of organising political discussion provides access to alternative interests and an opportunity for these interests to contribute in the formulation of policy. These three features make it easier to build consensus and to generate policies that benefit the interests of the larger community (at the expense, if necessary, of particular - even important - interests).

Perhaps the best example of this can be found in the broad support in parliament for the Norwegian 'budget rule' (*handlingsregel*). This rule provides the government with a rough guide for managing the incomes being generated offshore, without threatening the competitiveness of the underlying national economy. Briefly, the budget rule holds that the Norwegian government should not use more than 4 per cent of the interest generated from the country's oil fortune each year.

(To make sure that the reader understands the remarkable nature of this rule, let me elaborate. Norway is sitting on a large puddle of oil and gas that is generating unimaginably large amounts of money. For fear of Dutch Disease, the parliament (and government) respects a budget rule that limits its access to this money. Each year, only a very small part of these revenues is allowed to enter the government's coffers. While the budget rule makes economic sense, it is also a remarkable political feat. Even though Norway is a very rich country, there is always pressure (often from very influential constituents) to provide more and better roads, teachers, health care, environmental protection, national defence and so on. I, for one, find it astonishing that a democratic state is able to defer important consumption decisions - decisions that have the support of significant political constituencies - out of respect for a budget rule.)

The remainder of the offshore revenues is then deposited in a petroleum investment fund (see below) and is not allowed to enter and influence the domestic economy. Although the budget rule continues to be the subject of much debate, its very existence shows a degree of professionalism, detachment and foresight that is uncommon in most democratic contexts (and would be impossible in states that are captured by special interests). In the spring of 2001, almost every party in parliament agreed to the necessity of abiding by the rule (the exception was the maverick Progress Party).

### External adjustment tools: corporatism plus

Cutting across this autonomous and professional state apparatus is a highly developed corporatist system that was originally designed to facilitate rapid and necessary adjustments to changes in the international economy (Katzenstein 1985).

The Norwegian political economy is characterised by a high degree of corporatism.<sup>19</sup> In this system, wage bargaining takes place at the national level, either between the main labour market associations (the LO represents labour; the NHO represents capital) or between industry unions and their counterpart employer deputies.<sup>20</sup> The outcomes of these negotiations tend to influence the pay level of most Norwegians, irrespective of whether or not they are members of the unions involved. Because these corporatist institutions represent a majority of workers and employers in Norway, they are constantly aware of (and take into consideration) the social consequences of their negotiated outcomes. In other words, the LO has an incentive to consider how its wage demands will affect national price and international competitiveness levels.

In practice, the partners are brought together in what is called the Contact Committee (Kontaktutvalget), which provides a forum for the government to coordinate their activities. These social partners are then provided with neutral information about the current economic situation in the Norwegian economy (to minimise disagreement between partners) by an autonomous Technical Calculations Committee (Det tekniske beregningsutvalget for inntektsstoppjørene). It is on the basis of this common information that the labour partners (and government) decide on the parameters for wage growth in the following year.

If the labour partners cannot agree on the appropriate wage (and, consequently, investment) levels for the upcoming year, the state often intervenes to provide sweeteners. These sweeteners aim to minimise the inflationary consequences of wage demands (with an eye on maintaining international competitiveness) – so workers often accept social benefits (e.g. tax cuts, increased social benefits etc.) in exchange for wage restraint. Thus, the standard of living of Norwegian workers can be increased in a way that does not undermine their wage competitiveness (internationally). In exchange, the government invites the labour market partners to participate in every stage of the policy-making process: consultation, formulation and implementation. This provides policy-makers with an institutional vantage point for affecting the most important price development in the national economy (i.e. wages).

It is important to point out that these sweeteners play a double role, as they constitute important elements of the Norwegian welfare state. As we saw in the opening section, one of the main objectives of the state is to ensure that the revenues generated from the petroleum sector can be used in a way that benefits the Norwegian society as a whole. This is done, in part, by allowing these revenues to be slowly and carefully injected into the welfare state in a way that distributes the revenues to those who need them most, without threatening the underlying economy.

A final characteristic of the Norwegian corporatist arrangement is a commitment to wage solidarity. This commitment has always been important to the left, but it also has a significant effect on Norwegian productivity levels and investment patterns (and this makes it attractive to employers as well). Briefly, the existence of a narrow wage band forces firms in the least productive sectors to go bankrupt (as they have to pay higher wages than the market would support), while generating larger profits for more productive firms (who are paying wages below what would be the market rate). Bankrupted firms then have an incentive to invest in more productive sectors, while their laid-off workers are provided with government support that helps them retrain and move into these more productive jobs. Because of a broad and supportive welfare net, workers are able to move to more productive jobs without worrying too much about the consequences of falling between two jobs.

While this corporatist framework organises interests along class lines, the Norwegian context provides for yet another channel of influence that effectively cuts across those lines. Because of the necessity of maintaining international competitiveness, the Norwegian labour partners apply a bargaining model (the so-called *Aukrust*

[1970] model) that prioritises the needs of the exposed or tradeables sectors. In short, the need to maintain competitiveness in the exposed sector sets the parameters for what is possible in a given negotiation round. In practice, this means that the internationally exposed manufacturing sector negotiates first, providing a benchmark for subsequent settlements (in the more sheltered sectors).

This institutional framework – which is responsive to both class and sectoral interests, but which is oriented towards maintaining national competitiveness – is extremely useful for fighting off Dutch Disease. In particular, the utility of this approach can be seen in the way that the government used these arrangements as a means to dampen the inflationary wage pressure that was expected after the discovery of oil. In exchange for workers lessening their wage demands, the government promised to reduce payroll-type tax and social security contributions.<sup>21</sup> Later on, when the pressures became too strong, the government adopted an active exchange rate strategy to assist in the adjustments (Moses 1995, 2000).

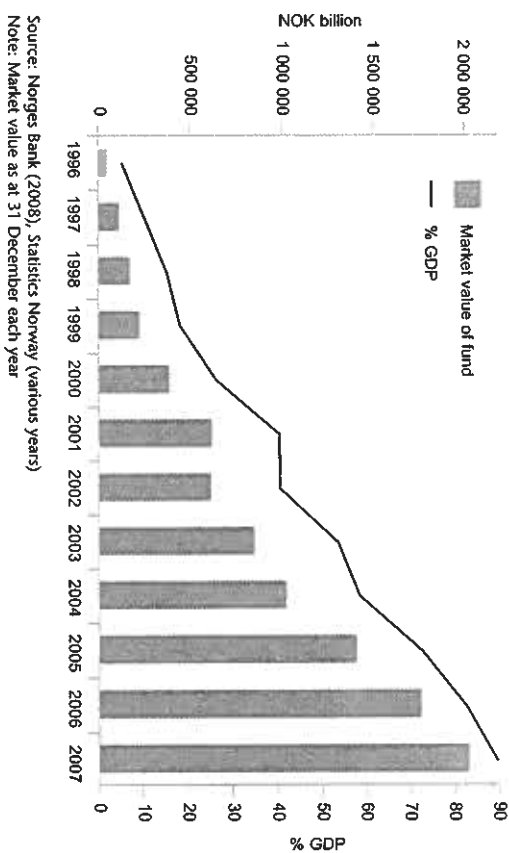
Together, this divided and overlapping institutional context allows the Norwegian state to respond effectively to the challenges of managing its petroleum revenues. This institutional context provides the state with the autonomy it needs to develop rational, consistent and long-term policies for the benefit of the whole population. This same institutional framework invites important, if competing, interests into the process of formulating and implementing policy. Producer organisations, organised along class lines (but made constantly aware of the importance of sectoral differences), provide the government with the information, support and expertise that it needs to steer the Norwegian economy through tricky economic waters.

#### **Government's petroleum investment fund**

The last, but definitely not least, instrument used by the Norwegian state to manage its offshore revenues is the Government's Petroleum Fund, or GPF (now formally referred to as the Government Pension Fund–Global). The GPF was created in 1990 to ensure that any petroleum revenues going into the central government budget were clearly visible, and to provide the (economic) means for Norway to adjust to a post-petroleum future. Over time, however, the GPF has taken on a more important role as a means of keeping Norway's offshore wealth from flooding the onshore economy.

Because of the budget rule described above, very little of the revenues being generated offshore actually make it back into the Norwegian economy. (Eventually, of course, this money will slowly make its way back into the Norwegian economy to fund pensions and to facilitate the transition to a non-petroleum-based economy.) Instead, the money is invested in an enormous fund, which trawls international equity markets in search of the largest return.<sup>22</sup> Over time, a number of economic and political conditions have been placed on the way in which the GPF is managed, but the main objective remains to maximise the economic return.<sup>23</sup> In doing this, the fund is prohibited from acting strategically, as it cannot obtain more than a 10 per cent share of a single company that confers voting rights.<sup>24</sup>

Figure 6.3 The Government Pension Fund–Global (Norway, 1996–2007)



Source: Norges Bank (2008), Statistics Norway (various years)  
 Note: Market value as at 31 December each year

Today, the GPF is said to be the world's second largest sovereign wealth fund, smaller only than the one operated by the Abu Dhabi Investment Authority.<sup>25</sup> At the end of 2007, its market value was estimated to be about NOK2 019 billion, or roughly US\$400 billion. More importantly, the fund is very large relative to the size of the Norwegian economy, as evidenced by Figure 6.3.<sup>26</sup> Its market value is almost 100% of Norway's annual GDP, and this value is expected to increase radically along with the price of oil. This, in itself, will introduce a number of new challenges – challenges that extend far beyond the ambitions of this chapter – as the Norwegian state will come to rely more on the rents from its investments (than from the production and export of goods and services).

## Conclusion

As this chapter has already covered a great deal of territory, I feel obliged to make my concluding remarks very short. The best way to summarise the Norwegian developmental state is with reference to its three essential components. The first of these is most familiar to students of the developmental state. The Norwegian state relies on a strong and autonomous bureaucracy that provides expert input at every level of policy-making. This bureaucracy is the backbone of the three main channels of influence (the MPE, the NPD and Statoil), but it can also be found at each of the other institutional nexuses described above (eg. Contact Committee, Technical Calculations Committee etc.).

The Norwegian example, however, suggests another important motivation for generating state capacity. This is a recognition of the constraints that Norway faces

in the light of its being a small and open economy. Traditionally, Norway has been an international price- and/or policy-taker; its livelihood has depended on its ability to adjust quickly to whatever the world can throw at it (in terms of economic shocks). This recognition provides legitimacy to the autonomous institutions on which Norway depends to develop strategies that facilitate rapid adjustment. By recognising the need to adjust, Norwegian authorities are aware of the danger of relying too heavily on a particular industry, sector or interest. Adaptability is the name of the Norwegian game. This adaptability is reflected in the changing nature of its management regime over time.

Finally, Norway's external dependence has forced it to develop a complex weave of overlapping institutions that allow it to adjust rapidly to changing contexts. This means that the state's policies need to be isolated from important (vested) interests – interests that may be more susceptible to a given shock. At the same time, however, the state apparatus needs to be embedded in society in a way that can provide the state with the information and support it needs to make important (and often very difficult) decisions. Although Norway's corporatist institutional legacy was developed for a more traditional export economy, it has suited the petroleum economy well by providing coordinating tools that allow it to respond to the threats posed by the dreaded Dutch Disease. This sort of institutional balance of power is an important component in the Norwegian strategy; one worthy of more attention from students of the developmental state.

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## Notes

- 1 Briefly, Dutch Disease refers to the deindustrialisation of a nation's economy in response to the discovery of a natural resource. The wealth generated by this discovery appreciates the nation's currency, thereby undermining the competitiveness of that country's (manufactured) tradables sector. The Resource Curse refers to a broader (more political) set of harmful effects. In addition to Dutch Disease, the Resource Curse considers how resource abundance can trigger corruption, distributional conflicts, rent-seeking behaviour and so on. See Røed Larsen (2004) for a discussion of the overlap between these terms and how they apply to the Norwegian context.
- 2 *Aftenposten* (19 August 1965), cited in Ryggvik (1992: 241).
- 3 See, for example, Lange (1977).
- 4 See Moses (2000) on the role of the state in Norway's post-war economic management. Much of the subsequent discussion in the current chapter draws on this earlier work.
- 5 Norwegian history is unique in the European context in that its landscape and climate do not allow for large concentrations of landholdings. As a result, Norway never experienced

- the concentration of political and economic power that we usually associate with feudalism. Consequently, Norway has always enjoyed relative egalitarianism (albeit, originally, an equality of poverty) and the lack of an indigenous bourgeoisie. See Moses (2005).
- 6 Formally known as the Organisasjonsutvalget for statlige kontinentalsokkelsaker, headed by Knud Endre-Knudsen.
- 7 This is an arrangement whereby the oil companies bear all the risks involved during the exploration stage, but the state begins to participate as a full partner once oil is found.
- 8 This activity was discontinued as required by Norway's 1994 European Economic Agreement with the European Union. Today the Norwegian share of goods and services to the oil industry is about 50 per cent (Noreng 2004).
- 9 For elaboration along these lines, see Noreng (2004, 1980).
- 10 Since 1994, the Petroleum Safety Authority (*Petroleumstilsynet*, or Pstl) has been situated in the Ministry of Labour and Social Inclusion, and has regulatory responsibility for safety, emergency preparedness and the working environment in the petroleum sector. For more information, see [www.pstl.no/mah1-page/category/9.html?lang=en\\_US](http://www.pstl.no/mah1-page/category/9.html?lang=en_US). As seen in Figure 6.1, the authority to regulate the industry's environmental impact is now located in the Ministry of Environment in the Norwegian Pollution Control Authority (*Statens forurensningstilsyn*, or SFT). For more information, see [www.sft.no/aktuelt\\_29292.aspx](http://www.sft.no/aktuelt_29292.aspx).
- 11 At the time of writing (2009) the US\$ is worth about NOK6. Thus, NOK365.5 billion would be the equivalent of US\$60.9 billion.
- 12 Prior to the SDFI, Statoil alone was responsible for the state's ownership holdings in production licences. In 1985 these holdings were split in two, with half going to the SDFI. When Statoil was privatised in 2001, the administration of the SDFI portfolio was transferred to the fully state-owned company, Petoro.
- 13 At the risk of drawing us too far afield, I should mention that the Norwegian government is sole owner of another company, Gassco, which was also established in 2001. Gassco took over the operatorship for all gas transport from the Norwegian Continental Shelf on 1 January 2002. Before that date, gas transport was provided by a number of companies. The creation of Gassco forms part of an extensive reorganisation of the Norwegian oil and gas sector since 2001, as required by the European Union's gas directive. For more on this, see [www.gassco.no](http://www.gassco.no).
- 14 The particular nature of this split in fact benefited Statoil tremendously, as Statoil maintained control over the lucrative Statford field, while the SDFI ended up with a number of undeveloped fields. As the state's new investments had to be financed from the public treasury, and as the price of oil was falling during the period, the state incurred large losses over the following two years. Until 1994, the net cash flow from the SDFI was negative or just barely positive (while Statoil was pumping money out of the Statford field).
- 15 The ownership figure comes from Statoil's home page ([www.statoilhydro.com/en/InvestorCentre/Share/Shareholders/Pages/StateOwnership.aspx](http://www.statoilhydro.com/en/InvestorCentre/Share/Shareholders/Pages/StateOwnership.aspx)). For more on the relative lack of political involvement in Statoil's activities, see Gordon and Stenvoll (2007).
- 16 In the post-war period, Norway has suffered only three recessions of significance (1958, mid-1970s and 1993), and the state's ability to use active counter-cyclical stimuli was restricted by external developments in each case. See Moses (2000).
- 17 For an introduction to the Norwegian parliamentary committee system, see [www.stortinget.no/english/committees.html](http://www.stortinget.no/english/committees.html).
- 18 In the Norwegian context, these types of committees are seen to be extremely important, though their influence may be waning (e.g. see Rommetveit 1998).

- 19 For a good introduction to the subject, as it applies to the Norwegian context (if now somewhat dated), see Dølvik and Steen (1997).
- 20 Landsorganisasjon (LO) is Norway's largest and most influential workers' organisation, representing about 830 000 workers. These workers are affiliated with national unions, which join together to make up the LO. The NHO (Næringslivet Hovedorganisasjon) is a confederation of Norwegian employers with a 2009 membership of about 20 000 companies.
- 21 Between 1975 and 1982, Norway was the only European country to experience a reduction in its GDP share of social security contributions and payroll taxes. While, on average, European OECD countries increased these taxes by 16.4 per cent (of GDP), in Norway they were cut by 7.8 per cent over the same period (Alt 1987: 192).
- 22 Formally, the Ministry of Finance was expected to manage the Fund, but the ministry has delegated the operational management to the country's central bank (Norges Bank).
- 23 Before 1998, the fund was managed according to a strategy used by Norges Bank for its foreign exchange reserves (i.e. the capital was placed in government and government-guaranteed bonds and bills). From January 1998, portions of the fund have also been invested in international equity markets. From 2002, the fund was allowed to invest in non-government guaranteed bonds. Today, the fund invests in non-Norwegian financial instruments (bonds, equities, money market instruments and derivatives) in 42 developed and emerging equity markets. In 2004, a series of ethical guidelines were established and several firms have been excluded from the portfolio. Before 2008, a 5 per cent lid was placed on the fund's investment in any given company.
- 24 For the formal regulations, see [www.regjeringen.no/en/dep/fin/Selected\\_topics/The-Government-Pension-Fund/the-guidelines-for-the-management-of-the-fund?id=434605](http://www.regjeringen.no/en/dep/fin/Selected_topics/The-Government-Pension-Fund/the-guidelines-for-the-management-of-the-fund?id=434605).
- 25 Archer J & Moskwa W, Fund raises Norway's stock bet, *International Herald Tribune* (30 May 2008).
- 26 Obviously, the value is much larger than the government's total expenditures. For a comparative reference value, the central government's total expenditures in 2006 was NOK822 billion.

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