THE TRUE COST OF AUSTERITY AND INEQUALITY

Norway Case Study

Introduction

Norway appears to be emerging relatively unscathed from the financial crisis. This is in marked contrast to its European neighbours who continue to pursue austerity drives in a bid to rein in spiralling deficits. With a strong welfare state, low unemployment and falling poverty, Norway is looking forward to a healthy growth forecast for 2013. But high levels of household debt and a very high cost of living suggest that Norway is not entirely immune from economic problems.

Economy

This Scandinavian nation, on the fringes of Europe, is not an EU member, but has close ties to EU states. Unlike many European countries, the Norwegian economy is expected to grow by a healthy 2.6 per cent in 2013, compared to the EU, which will likely contract by 0.1 per cent.[1] Norway's budget surplus fell back to 10.6 per cent of GDP in 2009 from a high of 18.8 per cent in 2008. But since then, Norway has recorded annual increases in its surplus, rising to 13.9 per cent in 2012.[2] At the same time, Norway's debt-to-GDP ratio has fallen from a high of 55.4 per cent in 2006 to just 29 per cent in 2011, with only Luxembourg, Estonia and Bulgaria recording lower debt ratios across the entire EU.[3]

Inequality

Since the mid-1980s, Norway has, like many European countries, seen an increase in pre-tax income inequality. Over the 18 years from 1986 to 2004, market income inequality – inequality before redistribution through taxes and social transfers – rose nearly nine percentage points to a Gini index rating of 0.45.[4] However, Norway has shown a remarkable ability to reduce the effects of market income inequality through redistribution; over the same period, net income inequality – inequality after taxes and transfers – rose just five points to 0.27.

The low rate of increase in net income inequality suggests that Norway has succeeded in distributing income more evenly than other developed countries.[5] Net income inequality fell two percentage points between 2008 and 2011, from 0.25 to 0.23, the lowest in Europe.[6]

While many countries have experienced median-wage stagnation despite strong growth, Norway saw sustained real wage growth in the years leading up to the 2008 global recession.[7]

It should, however, be noted that Norway does have a high level of wealth inequality. Households in the highest ten per cent for net wealth own roughly 53 per cent of total net wealth. The richest one per cent controls 21 per cent and the top 0.1 per cent own ten per cent of total net wealth.[8]

Unemployment

Unsurprisingly, Norway's high employment rate has remained above 79.5 per cent since 2006.[9] Part-time employment is comparatively prevalent, consistently above 28 per cent of total employment since 2003. Its long-term unemployment rate has remained under one per cent for the past 12 years, compared to a EU27 average of 4.6 per cent.[10] Youth unemployment is also distinctly low at just 8.6 per cent in 2012, compared to a EU27 average of 22.8 per cent.

Unemployment fell from an eight-year high of 4.5 per cent in 2005 to a remarkably low 2.5 per cent in 2007 and 2008. Despite rising just over one percentage point to 3.6 per cent in the two years to 2010, the unemployment rate returned to its pre-crisis downward trend of just 3.2 per cent in 2012. The unemployment rate has generally remained slightly higher among men than women.[11]

Poverty

Levels of poverty in Norway have actually fallen during the financial crisis from a high of 16.9 per cent in 2006 – already much lower than many EU countries – to just 14.6 per cent in 2011, compared to an EU27 average of 24.2 per cent.[12] Another measure of poverty, the rate of being 'at risk of material deprivation', which highlights an inability to afford basic goods or meet unexpected expenses, peaked at just 7.8 per cent in 2005 and fell during the financial crisis to 5.3 per cent in 2011, compared to an EU27 average of 18.2 per cent.[13]

Norway's in-work poverty rate has remained comparatively low, between 5.6 and 6.1 per cent since 2006. This compares very favourably to the EU27 average, which has remained above 8.4 per cent since 2005.[14] Finland has the lowest rate in the EU at just 3.8 per cent.

Household debt

The black mark on Norway's economic record has been the long-term presence of high household debt. Norway's gross debt-to-income ratio of households has risen annually from 141 per cent in 2004 to 180 per cent in 2011. Only Denmark (at 267 per cent), Ireland (at 205 per cent) and the Netherlands (at 250 per cent) have higher levels of household debt.[15] This leaves Norway particularly exposed to external pressures, such as oil price increases, which could cause a sudden increase in unemployment and leave people with unmanageable levels of debt.[16]

Avoiding austerity

Norway's oil and gas industry has undoubtedly been a significant driver in its economy, returning more than €48bn in revenue and comprising a fifth of the economy.[17] Comparatively heavy state ownership in strategic areas of the economy has also allowed Norway to be much less reliant on the markets to reduce inequality.

Norway has a distinct tradition of a strong welfare state offering free universal health care, unemployment insurance and child care.[18] Its education system ranks among the top ten in the world and secondary education is dominated by the public sector (taking 93 per cent of students).[19]

Norway places an emphasis upon policies that enhance flexibility and security in the labour market. Norwegian labour market policies have been reshaped over the last few years towards making them increasingly more active, with a shift towards more focused qualifications to help people move into specific jobs, as well as keeping those unemployed in touch with the labour market through job practice schemes. Both employer organizations and trade unions support this approach.[20] Indeed, Norway has had consistently high levels of workplace democracy, with a trade union representation level at 54 per cent, well above that in most other European countries, and second only to Sweden (67 per cent).[21] This is especially important since Norway has no national minimum wage and has the highest cost of living in Europe.

Ultimately, Norway has built an economy on policies that counter increasing levels of market income inequality, making it one of the most equal countries in the world. These policies, its commitment to universal institutions and its strong social security system have been the bedrock of a nation that has weathered the financial crisis impressively compared to its European neighbours.

NOTES

[1] Eurostat, 'Real GDP growth rate – volume' http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tec00115&plugin=0

[2] Eurostat, 'General government deficit/surplus % of GDP' http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tec00127&plugin=0

[3] Eurostat, 'General government gross debt', http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tec00127&plugin=1

[4] OECD (2013) 'Income Distribution and Poverty', http://www.oecd.org/social/inequality.htm

[5] In the UK, when market income inequality rose three percentage points between 1985 and 1999, net income inequality actually rose four percentage points, as the impact of taxes and transfers declined. Source: OECD (2011) 'Divided We Stand: Why Inequality Keeps Rising', Paris: OECD, p.38, http://www.keepeek.com/Digital-Asset-Management/oecd/social-issues-migration-health/the-causes-of-growing-inequalities-in-oecd-countries_9789264119536-en

[6] Eurostat, 'Gini coefficient of equivalised disposable income', http://epp.eurostat.ec.europa.eu/tgm/graph.do?tab=graph&plugin=1&pcode=tessi190&language=en&toolbox=data

[7] J. Plunkett (2011) 'Growth without gain? The faltering living standards of people on low-to-middle incomes', London: Resolution Foundation, p.18, http://www.resolutionfoundation.org/media/media/downloads/Growth_without_gain_-_Web.pdf

[8] J. Epland and M. Ivar Kirkeberg (2012) 'Wealth Distribution in Norway: Evidence from a New Register-Based Data Source', Oslo: Statistics Norway, http://www.ssb.no/a/english/publikasjoner/pdf/rapp_201235_en/rapp_201235_en.pdf

[9] Eurostat, 'Employment rate, by sex', http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsdec420&plugin=1

[10] Eurostat, 'Long-term unemployment rate, by sex', http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsdsc330&plugin=1

[11] Eurostat, 'Unemployment rate, by sex', 'http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsdec450&plugin=1

[12] Eurostat, 'People at risk of poverty or social exclusion', http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=t2020_50&plugin=1

[13] Eurostat, 'Material Deprivation rate by sex', http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tessi080&plugin=0

[14] Eurostat, 'In-work at-risk-of-poverty rate', http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=0&language=en&pcode=tesov110

[15] Eurostat, 'Gross debt-to-income ratio of households', http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tec00104&plugin=0

[16] J. Boyd, 'Norwegian household debt drives Fitch to reassess credit rating', Investment Europe, 29 April 2013, http://www.investmenteurope.net/investment-europe/news/2264777/norwegian-household-debt-drives-fitch-to-reassess-credit-rating

[17] H. Ellyatt, 'How Norway Could Become a Victim of Its Own Success', CNBC, 16 April 2013, http://www.cnbc.com/id/100644707

[18] E. Hsieh. 'What universal child care does for Norway', 16 May 2013, *The Globe and Mail*, http://www.theglobeandmail.com/report-on-business/economy/canada-competes/what-universal-child-care-does-for-norway/article11959366/

[19] J. Shepherd, 'World education rankings: which country does best at reading, maths and science?', *The Guardian*, http://www.guardian.co.uk/news/datablog/2010/dec/07/world-education-rankings-maths-science-reading

[20] K. Nergaard (2009) 'Norway: Flexicurity and industrial relations', Oslo: Fafo, http://www.eurofound.europa.eu/eiro/studies/tn0803038s/no0803039q.htm

[21] OECD and J. Visser, 'Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts, 1960-2010', ICTWSS database, http://stats.oecd.org/Index.aspx?QueryId=20167

This case study was written by Krisnah Poinasamy. Oxfam acknowledges the assistance of Natalia Alonso, Teresa Cavero, Jon Mazliah and Kevin Roussel in its production. It is part of a series of papers and reports written to inform public debate on development and humanitarian policy issues.

For further information on the issues raised in this paper please e-mail eu@oxfaminternational.org

Published by Oxfam GB for Oxfam International under ISBN 978-1-78077-437-4 in September 2013. Oxfam GB, Oxfam House, John Smith Drive, Cowley, Oxford, OX4 2JY, UK.

OXFAM

Oxfam is an international confederation of 17 organizations networked together in 94 countries, as part of a global movement for change, to build a future free from the injustice of poverty. Please write to any of the agencies for further information, or visit www.oxfam.org.