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Thriving Norway Provides an Economics Lesson

By [LONDON THOMAS Jr.](#)

OSLO — When capitalism seemed on the verge of collapse last fall, Kristin Halvorsen, Norway's Socialist finance minister and a longtime free market skeptic, did more than cower.

As investors the world over sold in a panic, she bucked the tide, authorizing Norway's \$300 billion [sovereign wealth fund](#) to ramp up its stock buying program by \$60 billion — or about 23 percent of Norway's economic output.

"The timing was not that bad," Ms. Halvorsen said, smiling with satisfaction over the broad worldwide market rally that began in early March.

The global financial crisis has brought low the economies of just about every country on earth. But not Norway.

With a quirky contrariness as deeply etched in the national character as the fjords carved into its rugged landscape, Norway has thrived by going its own way. When others splurged, it saved. When others sought to limit the role of government, Norway strengthened its cradle-to-grave welfare state.

And in the midst of the worst global downturn since the Depression, Norway's economy grew last year by just under 3 percent. The government enjoys a budget surplus of 11 percent and its ledger is entirely free of debt.

By comparison, the United States is expected to chalk up a fiscal deficit this year equal to 12.9 percent of its [gross domestic product](#) and push its total debt to \$11 trillion, or 65 percent of the size of its economy.

Norway is a relatively small country with a largely homogeneous population of 4.6 million and the advantages of being a major oil exporter. It counted \$68 billion in oil revenue last year as prices soared to record levels. Even though prices have sharply declined, the government is not particularly worried. That is because Norway avoided the usual trap that plagues many energy-rich countries.

Instead of spending its riches lavishly, it passed legislation ensuring that oil revenue went straight into its sovereign wealth fund, state money that is used to make investments around the world. Now its sovereign wealth fund is close to being the largest in the world, despite losing 23 percent last year because of investments that declined.

Norway's relative frugality stands in stark contrast to Britain, which spent most of its North Sea oil revenue — and more — during the boom years. Government spending rose to 47 percent of G.D.P., from 42 percent

in 2003. By comparison, public spending in Norway fell to 40 percent from 48 percent of G.D.P.

“The U.S. and the U.K. have no sense of guilt,” said Anders Aslund, an expert on Scandinavia at the Peterson Institute for International Economics in Washington. “But in Norway, there is instead a sense of virtue. If you are given a lot, you have a responsibility.”

Eirik Wekre, an economist who writes thrillers in his spare time, describes Norwegians’ feelings about debt this way: “We cannot spend this money now; it would be stealing from future generations.”

Mr. Wekre, who paid for his house and car with cash, attributes this broad consensus to as the country’s iconoclasm. “The strongest man is he who stands alone in the world,” he said, quoting Norwegian playwright [Henrik Ibsen](#).

Still, even Ibsen might concede that it is easier to stand alone when your nation has benefited from oil reserves that make it the third-largest exporter in the world. The money flowing from that black gold since the early 1970s has prompted even the flintiest of Norwegians to relax and enjoy their good fortune. The country’s G.D.P. per person is \$52,000, behind only Luxembourg among industrial democracies.

As in much of the rest of the world home prices have soared here, tripling this decade. But there has been no real estate crash in Norway because there were few mortgage lending excesses. After a 15 percent correction, prices are again on the rise.

Unlike Dublin or Riyadh, Saudi Arabia, where work has stopped on half-built skyscrapers and stilled cranes dot the skylines, Oslo retains a feeling of modesty reminiscent of a fishing village rather than a Western capital, with the recently opened \$800 million Opera House one of the few signs of opulence.

Norwegian banks, said Arne J. Isachsen, an economist at the Norwegian School of Management, remain largely healthy and prudent in their lending. Banks represent just 2 percent of the economy and tight public oversight over their lending practices have kept Norwegian banks from taking on the risk that brought down their Icelandic counterparts. But they certainly have not closed their doors to borrowers. Mr. Isachsen, like many in Norway, has a second home and an open credit line from his bank, which he recently used to buy a new boat.

Some here worry that while a cabin in the woods and a boat may not approach the excesses seen in New York or London, oil wealth and the state largesse have corrupted Norway’s once-sturdy work ethic.

“This is an oil-for-leisure program,” said Knut Anton Mork, an economist at Handelsbanken in Oslo. A recent study, he pointed out, found that Norwegians work the fewest hours of the citizens of any industrial democracy.

“We have become complacent,” Mr. Mork added. “More and more vacation houses are being built. We have more holidays than most countries and extremely generous benefits and sick leave policies. Some day the dream will end.”

But that day is far off. For now, the air is clear, work is plentiful and the government’s helping hand is omnipresent — even for those on the margins.

Just around the corner from Norway's central bank, for instance, Paul Bruum takes a needle full of amphetamines and jabs it into his muscular arm. His scabs and sores betray many years as a heroin addict. He says that the \$1,500 he gets from the government each month is enough to keep him well-fed and supplied with drugs.

Mr. Bruum, 32, says he has never had a job, and he admits he is no position to find one. "I don't blame anyone," he said. "The Norwegian government has provided for me the best they can."

To Ms. Halvorsen, the finance minister, even the underside of the Norwegian dream looks pretty good compared to the economic nightmares elsewhere.

"As a socialist, I have always said that the market can't regulate itself," she said. "But even I was surprised how strong the failure was."

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