Norwegian election dominated by debates over oil fund

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On October 13, Norway's re-elected coalition government led by Prime Minister Jens Stoltenberg announced its 2010 budget amid claims that the country had weathered the global economic downturn. Whilst entering a brief recession earlier this year, Norway's first in two decades, the latest figures indicate a slight increase in second and third quarter growth.

The coalition of the Labour, Socialist Left and Centre parties revealed plans to expand government funding for various infrastructure projects by spending 148.5 billion kroner ($27 billion) of Norway's oil fund next year. The government states that this will boost GDP by 0.5 percent.

The proposals mean that for the second year in a row, the government will have breached the rules regulating the use of money from the oil fund for government expenditure. The government has spent over 5 percent of the fund this year. In 2010 this will rise to 6.2 percent, an increase of 10.9 percent from this year.

The budget announcement came in the wake of an election campaign in which debates over the oil fund played a central role. Labour, led by Stoltenberg, campaigned on the basis of its willingness to increase public spending in order to avert a worsening recession. The oil fund was presented as a guarantor of Norway's social services, with Stoltenberg asserting after his election victory that his party's increased spending demonstrated that, "Labour wants to fight for the welfare state and to spend money on joint solutions."

An examination of the role played by the oil fund within Norway and abroad demonstrates that such claims are without foundation.

The oil fund, or Government Pension Fund (GPF), was set up at the beginning of the 1990s. It invests the profits from the oil and gas sector on the international financial markets. The latest estimates suggest it is worth $400 billion.

The initial aim of the fund was to finance pension and other spending commitments when North Sea oil supplies run out and gas stocks drop. But it has become a major player on international financial markets, currently owning around 1 percent of global shares, and over 1.6 percent of all equities in Europe.

In 2007 the fund assumed greater risk through an increase in its investments in equity markets, when it was decided to increase the percentage of equities in its portfolio from 40 to 60 percent. At present, the fund provides a 4 percent return on average per year, which is used to boost government spending. The extra 2.2 percent to be used next year amounts to 44.6 billion kroner.

The GPF has been promoted as an open, transparent and socially conscious alternative to other sovereign wealth funds (SWFs). The GPF is currently the second largest SWF in the world, behind that of the United Arab Emirates. The Norwegian approach has been contrasted with that of countries such as Russia and the Gulf States, with its transparency held up as a guarantor against investments being driven by political motives. So-called "ethical guidelines" have been drafted, which prohibit the fund from investing in firms that breach human rights law or fail to support environmental causes.

Such claims of political neutrality are at odds with the role played by the GPF since its formation. Early on, it became clear that the fund could be used to benefit Norwegian firms abroad. In 1997, guidelines were passed by the government stipulating that investments would only be made in markets where Norwegian firms had interests. A government press release declared, "The fund will be invested in countries with which Norway has extensive political and economic ties and in which a considerable number of Norwegian companies invest."

The expansion of the pension fund's investments has fuelled calls in Oslo for increased political influence on the international stage. An expression of this came last month, when foreign minister Jonas Gahr Stoere claimed that there should be Nordic representation at the G20—noting that Norway lacked a voice since it is not an EU member.

The GPF is often presented as a means of assuring national economic stability in the face of global economic turmoil. In reality, Norway's oil wealth is ever more closely bound to the fortunes of the global capitalist market. The pension fund suffered severe losses of €75 billion in 2008 when financial markets crashed across the globe. In terms of international currency, the fund posted a return of -23.3 percent in 2008, the worst in its history. In its annual report it declared, "After a number of good years, last year's performance has put us right back where we started."

It has since managed to make back much of its losses through investments in cheap stocks. However, this was only after over $150 billion was invested by the fund in equity markets taking advantage of the sharp rise since the beginning of 2009. This very process of expansion, with 40 percent of its equities having been purchased in the past year, is increasing the fund's vulnerability to a future financial crisis.

Another area of potential concern is in the fund's fixed investments, particularly government bonds. While it is in the process of increasing its investments in equities to 60 percent of its portfolio, the GPF still holds considerable stakes in bonds. The long-term decline of the dollar, which has accelerated in recent months, threatens to undermine the value of these investments.

Domestically, the claim that the GPF ensures the continuation of the welfare state is misleading. Aside from the central purpose of the fund in providing greater influence for the Norwegian bourgeoisie on the international stage, it also acts to limit government spending at home. Under fiscal guidelines passed in 2001, Norway's non-oil budget deficit should not exceed 4 percent of the GPF's value. Since 4 percent is considered to be the long-term rate of return for the fund, an assumption based upon the expansion of the global capitalist market, this ensures that only the GPF's returns are spent by the government and its real capital is preserved.

As the IMF declared in 2007, "The GPF functions as a fiscal policy tool, which, together with the fiscal guideline, serves to limit government spending. The fund's capital consists of revenues from petroleum activities. The fund's expenditure is a transfer to the fiscal budget to finance the non-oil budget deficit."

Any additional government spending beyond this level, such as the increased spending over the past two years, is permitted only in exceptional circumstances. While Stoltenberg and his ruling Labour party wished to present their willingness to use GPF funds as a firm commitment to defending the welfare state, no such guarantee is offered. As Foreign Minister Stoere told Reuters of the incoming government's policy, "It will not be a policy of continuous stimulus. We will have to go back to more balanced expenditures, which has been Norway's trademark."

Even with the spending levels of the past several years, there has been under-funding of public services. Long waiting lists have been reported at hospitals, and overcrowding in the public care system for the elderly has fuelled discontent.

In the recent elections, calls from the far-right Progress party to lift the expenditure limit of 4 percent from the GPF and use the additional money to fund infrastructure projects and tax cuts won it some ground. Progress overtook the Conservatives as the largest opposition party, winning just over 20 percent of the vote.

These proposals were merely a cover for an openly right-wing agenda that, as well as tax cuts, included a privatisation drive, deregulation, and a clampdown on immigration. Party leader Siv Jensen placed herself in the tradition of former British Prime Minister Margaret Thatcher.

The right wing lost ground during the election campaign. Progress had been running at around 30 percent in the polls earlier this year. Stoltenberg's coalition pointed to their handling of the economic crisis, as well as countering the proposal for tax cuts by noting that this would reduce government revenues at a time when stimulus spending was necessary to ensure economic growth.

Hopes that increased spending of its oil wealth will allow a return to economic expansion ignore the fact that Norway's prosperity is closely bound to the vicissitudes of the capitalist market. Although most of the oil fund's massive losses of 2008 have been recovered during the course of this year, this must be seen in the context of the rapid and unsustainable rise of stock markets in recent months even as the broader economy stagnates. Norway will be in no position to shield itself from future economic and financial turmoil.