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The Norwegian Petroleum Fund as Institutionalized Self-Restraint

Camilla Bakken Øvald, Bent Sofus Tranøy, and Ketil Raknes

Introduction: A Policy Success

The Norwegian Government Pension Fund Global (popularly known as the Petroleum Fund) is the largest sovereign wealth fund in the world, with a total value of nearly US$1000 billion (see Figure 13.1). The Norwegian state's ability to invest substantial amounts abroad combined with relatively moderate fiscal spending compares favourably with other countries where governance structures have been exposed to large resource-driven income streams. This macro-economic regime is a shining beacon in an otherwise dark sea of misery tainted by the 'resource curse' (Sachs and Warner 1995; Holden 2013). In this chapter, we seek to elucidate the story behind this success by zooming in on the actors, institutions, and the learning process that were crucial to the establishment and evolution of the fund.

In the OECD economic survey of Norway in 2018, the output growth and the well-being of the population, even with sinking oil prices, is described as 'a testimony to policies that insulate the country from volatile petroleum markets' (OECD 2018: 4). The fund is crucial in funding the Norwegian welfare state; in 2018 transfers from the fund accounted for 18 per cent of the government spending. The size of the fund and the continued high ranking of Norway in reports such as the UN Human Development Report and the World Happiness Report, means that the fund can be deemed a political success. At the macro-level other economic variables tell the same story; the unemployment rate in Norway has been considerably lower compared with other European countries during the last decades (Report to the Storting No. 29 2016–17).

At the time the fund was formally established in 1990, Norway already had a generous, universalistic welfare state and a several decade-long history of successful export performance. In terms of programmatic assessment, the value proposition motivating the creation of the fund was to successfully safeguard and stimulate the economy and finance the welfare state simultaneously, without one getting in the way of the other. The policy was based on a theory of change which says that government spending can contribute to equitably distributed,

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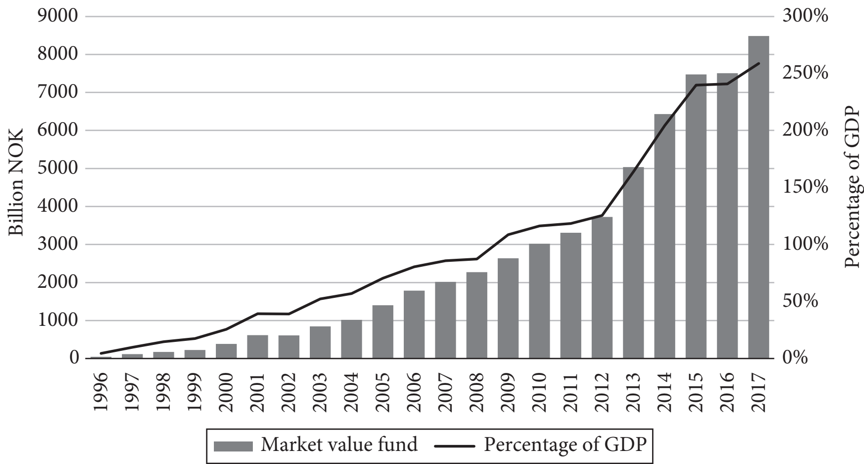

Figure 13.1 The market value of the Government Pension Fund Global, 1996–2017

beneficial social outcomes up to a certain point, but that total spending must be tightly controlled to avoid overheating and undesirable structural change. The policy instrument was a law creating a fund with a mandate to safeguard and build wealth for future generations. Furthermore, at a later stage a rule-based economic policy was added so as to gradually integrate an acceptable amount of petroleum revenues into the domestic economy.

Our study suggests that in the fund's first decade, programmatic success was achieved at the expense of democratic procedural considerations. The deliberative process whereby the institutional core of the fund was established was robust and judicious in the sense that outstanding technical expertise and experience were mobilized. On the other hand, the fund was not distinguished by its social appropriateness or inclusiveness. To the contrary, the decision-making processes were highly closed. Pivotal decisions were all made by a political and technocratic elite comprising key actors from the two main parties and a few mandarins from the Ministry of Finance. Other stakeholders were effectively excluded. Everything was done behind closed doors and there was no broad-based deliberation with regard to the fund's policy goals and institutional arrangements. This policy style prevailed at both critical junctures in 1990 and 1997 when the fund was established and the institutional arrangements were made.

After 1997, when the fund started to grow, public debate around its goals and investment strategies intensified. This forced the policy elites to make adjustments with a view to securing the fund's legitimacy and public support. Pressure on the fledgling fund became especially notable when populist opposition parties from both sides of the political spectrum began to argue for increased public spending. In addition ethical and environmental concerns gained increasing public support.

In response to these pressures, the first adjustment was to construct a fiscal rule which states that transfers from the fund to the central government budget shall, over time, follow the expected real return on the fund, thus enabling but at the same time defining limits to short-term public spending from the fund's resources. Another key adjustment was to include ethical guidelines in the fund's investment strategy.

The gradual inclusion of the concerns of previously sceptical stakeholders and the associated adjustments to the policy regime have successfully cemented the political and public legitimacy of the fund. Today, the fund enjoys elite as well as popular support—the coalition supporting the fund is both broad and deep. For almost twenty years all governments (from both sides of the left–right divide) have stuck to the fiscal rule. The two political parties that used to advocate populist views on spending and ethical concerns respectively, the Progressive Party and the Socialist Left Party, have both held the position of Minister of Finance during the last decade and both have faithfully managed the established economic policy regime without any attempts at implementing significant changes, indicating that association with the fiscal rule enhances rather than diminishes the political capital of voices that were highly critical when in opposition. None of the major corporatist players have ever voiced any opposition to the fund, and popular support for the regime is reflected in opinion data on attitudes to spending of 'oil money', with a clear majority now agreeing that the government should not spend more petroleum revenues than it currently does (see Figure 13.2).

In sum, the fund matches the definition of a policy success outlined in this book. First, it has contributed to creating widely valued social outcomes, while the theorized ends–means relationships underpinning the policy are still valid,

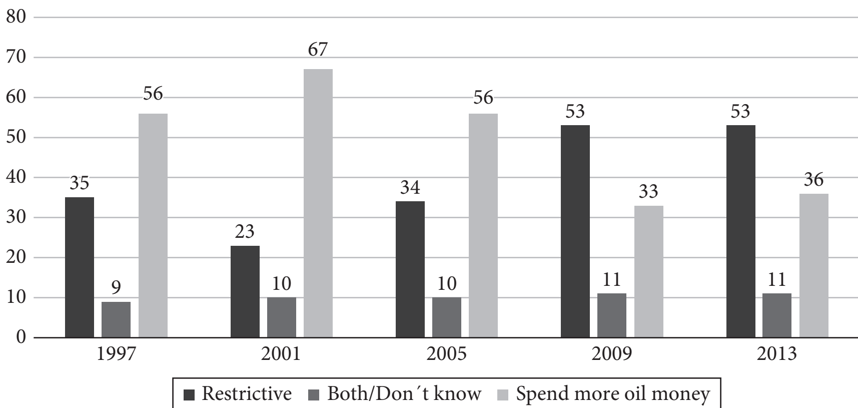

Figure 13.2 Norwegian voters' attitudes towards the usage of 'oil money' (1997–2013) (in per cent)

suggesting that the fund has been a lasting programmatic success, lending legitimacy to the institutional set-up. Second, over time the fund has come to enjoy broad political support and has been a success for a considerable period even in the face of changing circumstances. In fact, it could be argued that overall goal attainment in terms of equitably shared beneficial social outcomes is greater than was initially expected.

The history of the Petroleum Fund is to a large extent a history of unexpected growth that led to new political challenges. The Norwegian experience is partly a result of institutional factors such as democratic stability, a non-corrupt bureaucracy, and a long-standing belief that natural resources belong to the people as such and should benefit the whole population (Mehlum et al. 2006; Holden 2013). However, such structural variables only tell part of the story. When natural gas revenue started to pour into the Dutch economy in the 1960s, the Netherlands was a comparable stable democracy with an effective state bureaucracy and yet that country did not manage to integrate gas revenues in a way that supported balanced economic growth and public value, causing what has later been labelled the 'Dutch disease', one version of the 'resource curse' that can befall resource-rich countries (Corden and Neary 1982).

Furthermore, Norway was not a particularly shining example of good macroeconomic management in the two decades that preceded the establishment of the fund in 1990. In the late 1970s, and again in the mid-1980s, the spending of both real and expected oil revenue caused severe problems in the Norwegian economy (Tranøy 2000; Lie and Venneslan 2010). And yet somehow the Norwegians turned the situation around. In this chapter we examine how that could happen. The fund can be seen as the 'end result' of a continuous political debate and a process of social learning that began when substantial oil revenues first appeared on the horizon in the early 1970s. We trace the gradually more path-dependent process whereby the regime evolved and hardened into the solid structure we judge it to be today.

The fund was established in 1990 when the Government Petroleum Fund Act (Recommendation to the Odelsting No. 32 1989–90) was passed by a unanimous Storting. At this point in time it was a mere theoretical construct, the fund had no deposits, but expectations of increased petroleum revenues required a political decision on how to organize and manage the fund. In 1997, the government decided to delegate its daily management to Norges Bank and invest part of the portfolio in the stock market (Stoltenberg 2016).

In this chapter we focus on the decisions from 1990 and onwards which cover the choice and design of the fund, its implementation, and, finally, the adjustments and maintenance of the fund (see the timeline in Figure 13.3). The institutional core of the fund has not changed substantially since 1997 even as the institutional structure gradually became more elaborate as new considerations were built into

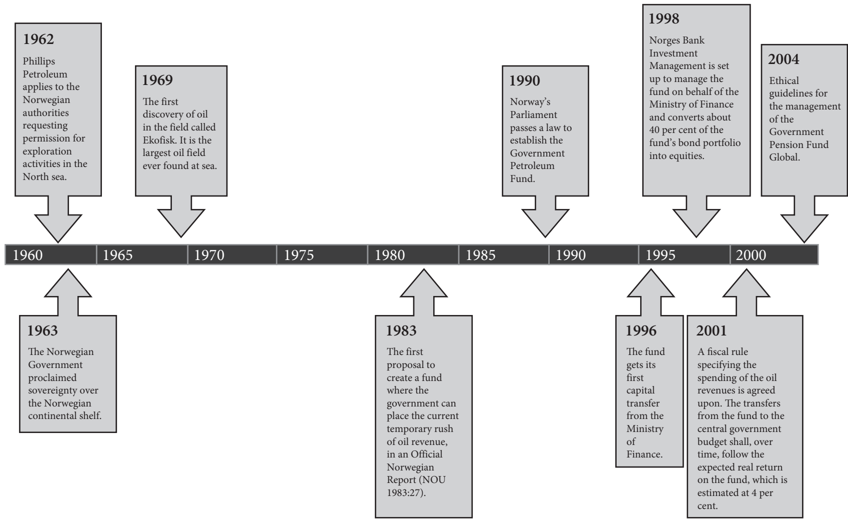

Figure 13.3 Timeline of the establishment of the Government Petroleum Fund

it. These two considerations are important in evaluating the process and political success of the fund, and in the maintenance of the policy.[1]

Context and Challenges

In 1962, the US oil company Phillips Petroleum applied for permission to explore the seabed beneath the territorial waters of Norway. Norwegian authorities were caught unawares by this sudden interest in their continental shelf. Norway did, however, have a history of successfully managing natural resources at the intersection of national interests on one side and foreign capital and know-how on the other. The Industrial Licence Act from the early twentieth century determined that hydroelectric power ultimately belonged to the state, and the dominant ideology was that revenue from natural resources should benefit the population at large (Skredderberget 2015).

The political ambition to establish national control of this newly discovered natural resource was made all the more challenging by the fact that Norway possessed neither the capital nor the knowledge or technology to exploit potential oil discoveries. Norwegian authorities needed to design a regime capable of providing economic incentives for the international oil companies to invest in developing expensive deep-sea technology, while at the same time securing national industrial and economic interests. This balancing act was addressed by means of a national petroleum policy approved in parliament in 1971, listing ten basic principles. These included national control, the development of a national

oil industry, a general rule of bringing all petroleum ashore onto Norwegian soil, and the establishment of a state oil company (Recommendation to the Storting No. 294 1970–1).

The tax system for the petroleum sector is based on the notion that the petroleum sector yields extraordinary revenue (i.e. the oil rent). The system has evolved since the 1970s, but the main idea continues to be the same: to retain incentives for the companies to invest in and produce oil, include the participation of Norwegian industry in the process, and ensure that the government receives a sizeable portion of the revenue (Lie and Venneslan 2010). At present the oil companies have a special tax rate of 53 per cent, making the total level of taxation on profits from oil 78 per cent. The other main source of income are the profits from the export of oil and gas owned directly by the state (the State's Direct Financial Interest, SDFI, see Figure 13.4).

The main challenges included not only the production of oil, but equally importantly the question of how to integrate rent-based revenue into an established domestic order with previously established governance, production, and distributional structure. The main pillars of this order were parliamentary democracy, a strong economist-dominated technocracy, a state-dominated but mostly privately-owned export sector based largely on hydroelectric power, corporatist labour market institutions geared towards defending the competitiveness of the export sector, and a generous, universalistic welfare state.

The combination of corporatist labour market institutions and a universalistic welfare state is the core of what has become known as the Nordic model—a mode of organizing the economy and society that has won international recognition for its ability to socialize risk, deliver economic efficiency and comparatively egalitarian

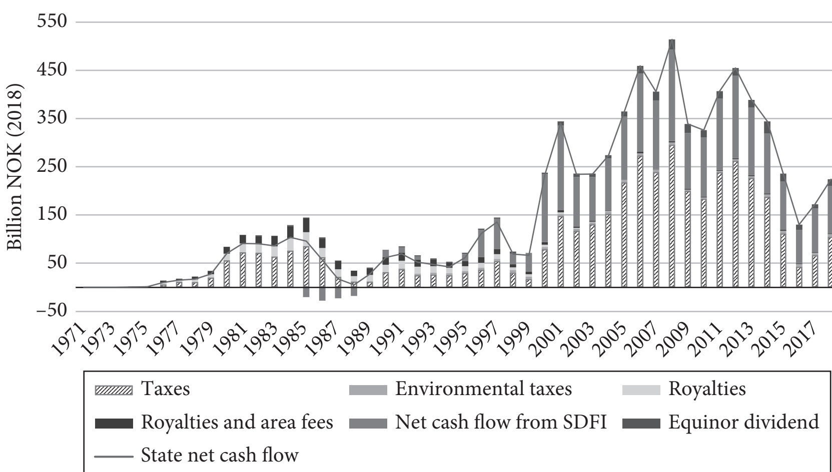

Figure 13.4 The net government cash flow from petroleum activities, 1971–2017

outcomes in a virtuous circle, driven forward by high levels of both intra-personal trust and trust in governing institutions (Rothstein and Stolle 2003).

The economic challenges of large and temporary revenues from petroleum resources were recognized from the very beginning. The idea of investing petroleum revenues abroad was first mentioned in a White Paper in 1974 (Report to the Storting No. 74 1973–4). The ambition was to analyse the dramatic potential consequences of exploiting the significant petroleum-based fortune on the Norwegian economy and society.

The original line of argument was that the people of Norway not only should spend oil wealth on material goods, but that the state should also use it to help build 'a qualitatively better society'. The White Paper foreshadowed themes that would later gain currency in other circles, such as environmental concerns, encouraging more time for people to take care of each other, and other topics traditionally considered 'too soft' for a finance ministry to espouse. The second line of argument concerned how to introduce the proceeds of oil sales into the domestic economy. Put differently, it was about how to build 'a qualitatively better society' without incurring unacceptable costs in the form of an excessive rate of structural change.

The idea of saving abroad was mentioned in the White Paper, but not debated in the Storting. It was picked up again in a report from a government commission in 1983 (Norwegian Official Report 1983: 27). It discussed the possibilities of a buffer fund to avoid the negative effects of high volatility in oil prices. The report presented plans that presaged many specifics of the current fund-based regime, but at the time concluded the notion of a fund was not a realistic option.

As the 1980s progressed, investments and their corollary, oil and gas extraction income, grew at such a phenomenal rate that the idea of establishing a fund gained currency, at least metaphorically. By 1989, both the Conservative Party and the Labour Party supported the idea in their respective government long-term programmes (Report to the Storting No. 83 1984–5 and Report to the Storting No. 4 1988–9). When the Conservative Party won the 1989 election, establishing a fund became part of the new government's policy platform (Lysebuerklæringen 4 October 1989).

The Design and Choice of a Fund

The overall challenge and objective were easily agreed upon, namely to integrate petroleum revenues in a sustainable manner. The arguments were both structural and cyclical: to maintain a viable export sector independent of the petroleum sector and not to allow the national budgets to become too dependent on volatile oil prices.

The choice of policy instruments was more complicated. When the idea of a Petroleum Fund gained traction in the late 1980s, the Ministry of Finance opposed it ferociously. They feared that a Petroleum Fund might lead to increased domestic spending outside the disciplining boundaries of the national budget (Lie and Venneslan 2010). In the late 1980s, echoing both a banking crisis and falling oil prices, the Norwegian economy experienced its worst crisis since the Second World War. The budget deficit was substantial and the thought of future oil revenues well exceeding what was desperately needed to balance the budget seemed less relevant.

However, when Arne Skauge became Minister of Finance in 1989, he instructed the public service to start working on a proposition to the parliament on the principles for a Petroleum Fund. The Ministry of Finance was not enthused by the idea and advised against it. Faced with this reluctance, Skauge was adamant. He made it clear that 'there will be a Petroleum Fund even if I have to write the mandate myself'.[2] According to Skauge 'the civil service has always been afraid of politicians' ability to invent new ways of spending money'. But there were prudent ways to do so. For Skauge too, the threat of the 'resource-curse' loomed large over the decision to establish a Petroleum Fund: 'I was convinced that the main principles of a Petroleum Fund had to be established before the money started pouring in. Once the money was there, politicians and interest groups from across the entire range would scramble to get money for their pet projects.' In an internal memo, the Director General of the Ministry of Finance, Svein Gjedrem, told his colleagues that the political signals concerning the creation of a Petroleum Fund 'were so strong that there is no way around this' (Lie and Venneslan 2010: 347).

The good news for the Ministry was that it had won the internal arguments regarding the principles on which the Petroleum Fund was to be based. During the 1980s, a fault line appeared between advocates of an ambitious industrial policy and those who prioritized fiscal responsibility. It pitted officials from the Ministry of Finance against their counterparts at the Ministry of Industry, who wanted to utilize a prospective Petroleum Fund to finance major industrial projects (Lie and Venneslan 2010). There was support for the expansionist position among politicians from both the Labour Party and the Conservative Party who voiced ideas on the manner in which the Petroleum Fund could aid large national infrastructure projects and the internationalization of Norwegian industry.

However, by the time the proposition to set up the Fund came up, the Ministry of Finance had assumed full control of the main principles for its establishment. All government net revenues from the petroleum sector should be transferred to the Fund, and the Fund would be integrated in the ordinary government budget. Consequently, the Ministry ensured that the money from the Fund could not be used to finance agendas that were not prioritized in the regular budget. Finally, the Government Petroleum Act made it clear that the wealth could only be invested

abroad. According to Gjedrem, the message to the other ministries was clear: 'This reform will be handled by the Ministry of Finance. Special interests can keep their hands off.'[3]

Skauge was trained as an economist and was well acquainted with the civil service in the Ministry of Finance. He respected its macro-economic expertise and followed its advice when it came to the principles for the Petroleum Fund. The proposition went through the government without any noteworthy amendments. And so, all government net revenues from the petroleum sector were to be transferred to the Fund and any withdrawals from the Fund would be integrated in the ordinary government budget. The Ministry thus ensured that proceeds from the Fund could not be used to finance policy initiatives that had lost out in the regular budgetary process.

The compromise between Labour Party and the Conservative Party on how to handle the petroleum wealth echoes a string of compromises in Norwegian politics between the left and right going back to the compromise between labour and capital in 1935 (Tranøy 2010). Before the proposition was sent to parliament, Skauge contacted his opposition counterpart Sigbjørn Johnsen, co-chairman of the Labour Party's Committee of Finance. Johnsen recalls the conversation as having been cordial: 'I told Arne not to worry and that the Labour Party would support the government on this one. These broad compromises are a central part of our political system.'[4] The proposition sailed through the committee easily and on 22 June 1990, the Government Petroleum Fund Act was unanimously approved by the Storting, the Norwegian parliament.

Even though there had been little public debate and no inclusion of powerful interest groups in the Fund's creation, the debate in the Storting revealed that a broad consensus was quickly forming behind its principles. Eilif Meland, the financial spokesperson of the Socialist Left Party, compared the Fund to the bee wax Odysseus had his sailors put in their ears to escape the Sirens' calls. The Fund should protect politicians from voters' and interest groups' pressure to increase domestic spending on the back of the oil money (although from 1996 onwards, when money had started flowing into the Fund, the Socialist Left Party together with the Progressive Party would lose some of its initial restraint and begin to argue for increased domestic spending of oil money and contributed to populist pressure on the government).

The Ministry of Finance was defined as the Fund's formal manager, but the intention was to invest any future revenue in bonds like the other currency reserves held in Norges Bank. The choice of the central bank as manager of the Fund provided an intentional arm's-length distance from the owner and, combined with strict guidelines, out of the reach of powerful interest groups. It was also expected that a central bank had the broad range of knowledge and experience required for managing a state-owned fund, says Tore Eriksen, one of the central

bureaucrats in the Ministry of Finance: 'We believed that Norges Bank had the necessary understanding of the social responsibility a state-owned fund holds.'[5]

The mandate was a vote of confidence in Norges Bank but entailed considerable challenges (Norges Bank Investment Management 2008). In functional terms, it required that Norges Bank develop a commercial culture within its broader role and tradition as a central bank. To meet the need, Norges Bank decided to establish a new investment management unit. On 1 January 1998, Norges Bank Investment Management (NBIM) was established as the operational investment manager.

Implementation

Throughout the early 1990s, the Petroleum Fund remained a purely theoretical construct that had no money in its account. The Norwegian economy experienced a deep downturn at the time. The prospects of large petroleum revenues and a budget surplus seemed remote. However, when the economy improved in the mid-1990s, the Ministry of Finance made the first deposit in the Fund's account in Norges Bank in May 1996.

After that predictions of future growth in revenues rose rapidly. So did actual revenues: the size of the Fund reached the NOK 100 billion mark as early as 1997. These revenues were higher than anticipated, and the Ministry of Finance felt compelled to start thinking more seriously about long-term returns. Investing in bonds was a safe strategy with minimal risk, but expected returns were low. There is a trade-off between risk and expected return. The Minister of Finance at the time, Jens Stoltenberg, readily agreed that the Fund's present strategy did not get the balance right. He was convinced that the strategy should include stock market investment, and persuaded the government, the parliamentary group, and the parliament's Standing Committee on Finance and Economic Affairs.

The new investment strategy was presented in May 1997 (Report to the Storting No. 2 1995–6). Norges Bank was given the managerial responsibility, but the mandate came with strict guidelines from the Ministry of Finance stating that between 30 and 50 per cent of the Fund's assets should be invested in equity, with a benchmark set by the Ministry and a strict ceiling on the possibilities to deviate from the return on the benchmark portfolio.

The Conservative Party supported this investment strategy, but the other political parties expressed concerns. The idea of the Norwegian state 'speculating' with state revenue in the international stock markets was an unfamiliar notion to Norwegian politicians (Skredderberget 2015). The Labour government did manage to cement the strategy during its term and in September 1997 it lost the general election. The Christian Democratic Party,

the Centre Party, and the Liberal Party were expected to take over after the election and all of them had misgivings about the proposed investment strategy (Stoltenberg 2016).

Enjoying support from both the Labour Party and the Conservative Party, there was a parliamentary majority for the guidelines and investment strategy. Yet the new minority government remained unconvinced, which frustrated Stoltenberg, soon to be the new Labour Party leader, who had developed a sense of urgency about the issue: 'I felt we needed to hurry, we were losing money every day by not investing in the stock markets.'[6] Still in office as a caretaker minister while the new coalition was being formed, Stoltenberg decided to move forward with the new investment strategy and pushed it through the Storting, against advice from his public servants that the topic should be left to the newly elected government. It was a political coup, but skirted around the edges of constitutional propriety (Stoltenberg 2016).

Maintenance and Adjustments

The mandate of the Fund is to safeguard Norwegian financial wealth for future generations in a secure, efficient, responsible, and transparent way, within the constraints laid down by the Ministry of Finance. In the early years all other concerns were met with fierce rejections. The ethical issues addressed by NGOs and some political parties were ignored. On the other hand, the growing populist lobby to spend more money was less easily ignored.

On 17 March 2000, Jens Stoltenberg took office as Prime Minister. His cabinet ran into serious headwinds almost immediately on the issue of the burgeoning Petroleum Fund. Circumstances conspired against Stoltenberg: oil prices rose steadily through 1999 and 2000, and at the same time the volume of Norwegian oil production peaked. The Fund thus grew at a breath-taking pace. The visibility of such a fortune in public savings changed the terms of the political debate in Norway, fuelling the pressure to increase spending.

The state had a burgeoning kitty, yet refused to touch it. The right-wing populist Progress Party saw an opportunity in this situation. There were urgent needs, and plenty of petroleum revenue, why was the government so reluctant? Every time there was a seriously sick child who had to wait for treatment, or a piece of state-of-the-art potentially life-saving medical equipment lacking in a Norwegian hospital, the Progress Party was on the case. When demanding increased spending on any given objective, the Progress Party made a habit of starting sentences with the phrase: 'In (one of) the richest countries in the world, it is a scandal that we cannot even afford . . . '. This message was picked up by large sections of the electorate. The Progress Party soared in the polls, while the Labour Party suffered.

The Ministry of Finance feared that without stricter guidelines, spending would increase and was working on a plan for a gradual increase of oil money within the national budget. If a 'safety valve' was not installed, the whole 'dam' was at risk of breach. It was the nightmare for every finance official socialized into the virtues of fiscal prudence. Something had to be done. Plans for tightening the guidelines were prepared in great secrecy. Only a handful of bureaucrats in the economics section of the Ministry of Finance were involved, along with Stoltenberg, the Minister of Finance and two state secretaries. Several models for forecasting the oil revenue and calculating the rate at which it should be phased into the economy were discussed.

A considerable amount of time was spent on how to frame and communicate the new fiscal rule in a manner that ordinary voters could grasp. Stoltenberg was aware that he had to act as 'the salesman' for the new macro-economic regime: 'My task was when we had concluded . . . to go out and get political approval in the party, the parliamentary group, the Norwegian Confederation of Trade Unions (LO) and from the public at large.'[7] The high level of secrecy limited the inclusion of opposition parties and interest groups in this process. However, Stoltenberg chose to consult with LO, which has historically maintained close ties with the Labour Party. The reason for consulting LO was based on LO's gatekeeper role in major political reforms. For Stoltenberg, LO was the only actor outside his inner circle that he could trust.

The plans were presented in a White Paper published on 29 March 2001 (Report to the Storting No. 29 2000–1). The new fiscal rule's assertion that the annual non-oil deficit should, on average over the economic cycle, be limited to 4 per cent of the fund, was approved by a large parliamentary majority. At the time, 4 per cent was presumed to be the long-term real rate of return from the fund. The target came with some discretionary manoeuvring room, though in a symmetrical fashion so that spending could be above 4 per cent in a downturn and below at times of strong demand and a positive output gap (see Figure 13.5).

At the same time, Norges Bank was released from its formal exchange rate target and introduced a symmetrical inflation target of 2.5 per cent in its place. The argument was that this would maximize currency stability, or at least maintain as orderly a relationship as possible with the euro, Norway's most important trading partners' currency. The analysis was that Norway needed an inflation target slightly above that of the European Central Bank to 'create room' for the now planned-for phasing-in of petroleum-related revenues.

This whole manoeuvre came too late to help Stoltenberg in the elections in the autumn of 2001, but it did strengthen the Fund's legitimacy over time. In the electoral survey of 2001, 56 per cent of respondents answered that they wanted increased petroleum revenue spending, while 35 per cent supported contemporaneous spending levels. By 2009, the tables had turned: 53 per cent were satisfied with spending levels, while 33 wished for higher spending levels. Since 2009,

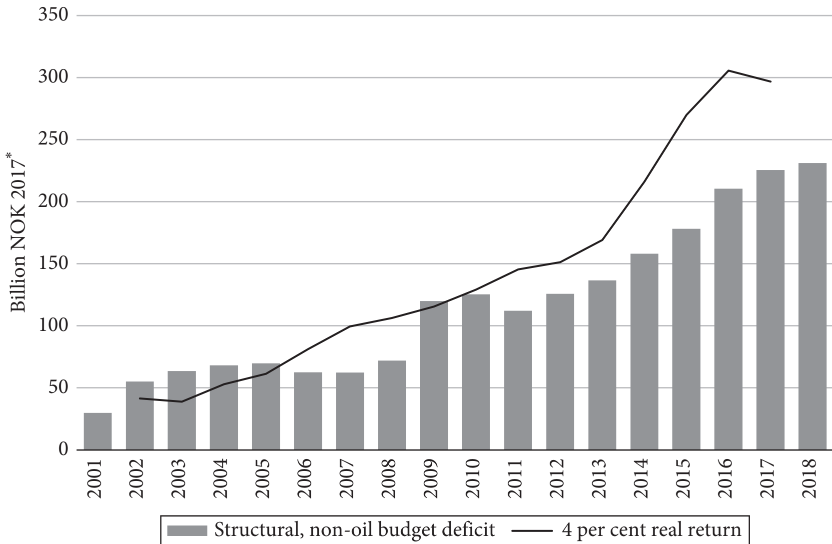

Figure 13.5 Government spending of oil revenue as measured by the structural, non-oil budget deficit, and the expected real return of the Pension Fund in billion 2017 kroner

a majority of the Norwegian population have been satisfied with the level of oil money in the state budget (see Figure 13.2). Thus, the fiscal rule was an important adjustment to secure the Fund's political legitimacy and achieve buy-in, from the Progressive Party in particular. In 2013, Siv Jensen from the Progressive Party became Minister of Finance, and during the preceding election campaign the Progressive Party had already moderated its resistance against the fiscal rule. As Minister of Finance, Jensen maintained the fiscal rule. Like her predecessors, she has continued to praise the Fund and its achievements both in international and national media. Slowly but surely, the Fund and its basic governance principles had become institutionalized.

Yet there was another line of contention: the debate about engaging in 'ethical' or socially responsible investing. It had begun almost as soon as the Petroleum Fund actually obtained money to invest. Initially Norges Bank was prone to ridicule the idea and made it appear as the pipedream of 'irresponsible' civil society and the left-of-Labour party, the Socialist Left Party (SV). Gradually, however, the discourse changed. Two different processes help account for this. One was set in motion by NGO's drawing media's attention to the Fund's investment in companies engaged in politically unattractive or even illegal business, such as the production of landmines or child labour. It repeatedly provided unpleasant media exposure for any Minister of Finance, prompting them to warm up to explore ways to avoid such embarrassments. The other was a gradual shift in

NBIM's peer community, the financial markets, where the idea of ethical investment was gradually gaining a foothold.

In 2004, the Ministry of Finance adopted ethical guidelines for the management of the Petroleum Fund, and established the independent Council on Ethics. The role of the council is to evaluate whether or not the Fund's investment in specified companies is in compliance with its ethical guidelines. It makes detailed assessments of individual cases and works in a thorough manner, inviting to its hearings representatives from companies under review, and placing strict demands on evidence before allowing itself to recommend divestment. The Council on Ethics advises Norges Bank, which decides on the exclusion of companies or to place companies on an observation list.

The ethical guidelines include two negative mechanisms; one is negative screening to prevent inclusion in the investment universe of companies that themselves, or through entities under their control, manufacture weapons whose normal use violates fundamental humanitarian principles. The other is a facility for divestment from companies where owners systematically breach ethical norms: such as gross or systematic violation of human rights, gross violations of individual rights in war or conflict situations, severe environmental degradation, and gross corruption.

The emphasis on responsible investments coincides with a strengthening trend in international fund management; in many cases financial considerations reflect ethical considerations. The argument is that sound financial investment is an ethical obligation on a par with principles of socially responsible investment (SRI), since the present generation has an obligation to future generations to maintain and increase the wealth they will inherit.

The ethical and social strategy of the Fund has been reviewed several times. A programme of positive selection directed towards green investment began in 2010. It has encouraged efforts to review both the climate change strategy and use of financial havens by companies in which the Fund is invested. Thus, the ethical and social strategies have been important for increasing public deliberation around the Fund and gaining legitimacy among NGOs and civil society. There are several examples of NGO-lobbying campaigns that have resulted in changes in the Fund's portfolio, for example the decision to divest from coal companies in 2015.

Assessing the Petroleum Fund

When we investigated the history of the Fund, a somewhat surprising finding was the small number of players present at the table at the main decision points. The decision-making process was much less consensual and inclusive than was to be expected in a democracy with a strong corporatist tradition. The reform does not sit well with the image of a corporatist democracy where organizations 'take

part in political processes and ensure important considerations are taken' (Nordby 1999: 12).

The Labour Party, the Conservative Party, and the Ministry of Finance make up the Petroleum Fund's 'iron triangle', while interest groups and the smaller parties were effectively kept out of the central decision-making processes. The history of the Fund underscores the privileged role of the Ministry of Finance among the Norwegian ministries (Slagstad 1998; Lie and Venneslan 2010). The closed and exclusive process of the reform may, up to a point, be considered an effect of the highly technical nature of the issues at stake.

The closed nature of the reform process secured programmatic success but the exclusion of central stakeholders did, however, create challenges for the political legitimacy of the Fund. The lack of inclusion facilitated both a populist and an ethical backlash against the Fund. However, the construction of the fiscal rule and the Council on Ethics respectively engaged and 'pulled in' critical stakeholders and over time strengthened and grew the bipartisan consensus behind the principles of the Fund. Thus, when studying policy successes, one should be aware of possible trade-offs between programmatic success on the one hand and processual and political success on the other hand.

The elite-driven decision-making in the first phase of the reform was moderated by the more inclusive strategies followed at later stages in the reform. In retrospect, the decision to draw up the guidelines for the Petroleum Fund as early as in 1990 stands out as particularly fortunate. A political debate on how to deploy the oil money was always going to be easier with an empty bank account than with a burgeoning fund. Thus, the Petroleum Act of 1990 created a strong path dependency that guided policy-makers through the later stages. New policy instruments were developed and adjustments were made as new considerations were built into the institutional structure. But the overarching policy goals of growing the economy and the welfare state harmoniously through carefully controlled spending growth have remained the same.

Framing and agenda-setting are often important variables when studying political success (McCombs and Shaw 1972; Entman 1991). Our findings underscore the importance of agenda-setting and framing for successful reform. A reform is far more likely to be sustainable if the policy is understandable and logical to the public, even when the motives behind the reform are highly complex and theoretical. The fiscal rule corresponded well with established frameworks for how Norway should exploit its national resources. When Stoltenberg launched the fiscal rule, he used the metaphor of sustainable forest management to explain the principle of the fiscal rule to the general public.

While Norway had the institutional capability for reform, it required effective political leadership to capitalize on the opportunity and forge a new institutional legacy that constrained the choices of future governments. In 1990, Skauge's decision to forge ahead with the Government Petroleum Fund Act against the

advice of the Ministry of Finance's mandarins was an important act of political leadership. Jens Stoltenberg was the right man at the right moment both as Minister of Finance in 1997 and Prime Minister in 2001. His implementation of the investment strategy in 1997 was a silent coup, while the creation of the fiscal rule in 2001 was the result of a strong alliance with the administrative elites in the Ministry of Finance. In Stoltenberg, the top bureaucrats in the Ministry of Finance had a partner who both understood them and shared their goals. Furthermore, Stoltenberg moved on to become the pre-eminent salesman for the new macro-economic regime for the remainder of his political career, and later considered the crafting of the fiscal rule to be his finest moment in politics (Stoltenberg 2016).

The vision of the Norwegian Petroleum Fund for its investment portfolio is eternity, and twenty-eight years is too soon to draw any definitive conclusions. The Fund is invested in more than 9,000 companies in seventy-two countries (Norges Bank Investment Management 2017). As a universal owner of 1.4 per cent of the global stock market, the Fund is exposed to unexpected changes and potential crises in the world economy. Another risk factor is the oil price, which is extremely volatile and might reduce the profitable investments in the North Sea.

Even without these risk factors, the Fund has its limits. The real test of the fiscal rule will come from 2020 onwards when the Norwegian state finances will come under increasing pressure. As the number of elderly persons in Norway rises, so will the need for health and care services. Even with a large Petroleum Fund it will be impossible to avoid cuts in the national budget or unpopular tax increases in order to finance healthcare for a rapidly ageing population (Report to the Storting No. 29 2016–17).

So far, the fiscal rule has allowed politicians to shift an increasing stream of oil money into the budget, but that will have to cease in the coming years (see Figures 13.4 and 13.5). Furthermore, 2016 was the first time in the history of the Fund that the public spending was larger than the oil sector revenue. Consequently, the next twenty years will show whether Norwegian political leaders are able to maintain the institutionalized self-restraint and secure the Petroleum Fund for future generations.

Institutionalizing Self-Restraint in Public Policy: Policy Transfer from Norway?

The Norwegian macro-economic regime, balancing current spending with long-term interests, compares favourably to most other cases of large resource-driven income streams. On the one hand, the Norwegian experience is a result of unique factors. On the other hand, there are potential lessons to be learned. One way of slicing our material with a view to identifying possible lessons is to distinguish between macro-historical factors that are difficult to reproduce or change, and

more micro-level organizational solutions and principles of financial management that are more malleable.

Norway had unique institutional capabilities and traditions compared to many other countries in similarly resource-rich circumstances. According to Rothstein and Uslaner (2005), a long legacy of egalitarian distribution can at the same time facilitate, and be reinforced by, universalistic welfare institutions which in turn help build and solidify interpersonal as well as trust in institutions. In contrast to this, most other countries with large oil revenues such as Nigeria, Russia, Venezuela, and Saudi Arabia have political systems and political traditions that are far from the Norwegian experience. As Rothstein and Uslaner (2005: 71) observe: 'Poor and inegalitarian countries thus find themselves trapped in a situation of continuing inequality, mistrust, and dysfunctional institutions. High levels of inequality contribute to lower levels of trust, which lessen political and societal support for the state to collect resources for launching and implementing universal welfare programs in an uncorrupted and nondiscriminatory way.'

Thus, in a developing country with high levels of inequality, it is much harder—and probably less reasonable—to convince decision-makers not to invest the revenue in domestic projects (Holden 2013), and we might add: projects that will often favour one domestic group over another. Thus, *The Economist* is probably right when it states that others could learn from the structures of the fund 'but would struggle to mimic the Nordic values that underpin them' (*The Economist* 2016).

The Norwegian government receives numerous requests from countries that wish to learn from the Norwegian experience, and the Oil for Development Programme was initiated in 2005. Through this programme, Norway shares its experience in managing oil and gas resources and revenues. Relevant subjects 'downstream' include how the division of labour and chain of governance runs between parliament, the Ministry of Finance, Norges Bank, and NBIM. Similar lessons regarding the organization of the 'upstream' process are also sought-after and taught. The demand for Norwegian lessons are not, however, restricted to oil producers. As the theory of the resource curse assumes, the relevant level of abstraction is probably neither petroleum nor energy, but resources. A case in point is Chile which has established funds to manage revenues from the sale of copper on world markets.

A less ambitious level of lesson-drawing is to move from cases to mechanisms. One mechanism that we see as having contributed greatly to the success of the Fund is related to discounting rates. Behavioural economics have shown that humans tend to discount the future at a much higher rate than is normally assumed by neoclassical economics. This has been taken advantage of by the renowned behavioural economist Richard Thaler with his concept for private pension plans, called 'save more tomorrow' (Thaler and Benartzi 2004). The point is that it is much easier to get employees to agree to set aside more of future

income increases than it is to make them take monies out of their current income. Arne Skauge's move when Norway was 'broke' in 1990 fits this logic perfectly. His own words on this bear repeating: 'the main principles of a Petroleum Fund had to be established before the money started pouring in. Once the money was there, politicians and interest groups from across the entire range would scramble to get money for their pet projects.'[8] Organizing for restraint in boom times was an act of foresight and self-discipline that contemporary policy-makers can continue to look up to.

Additional version of this case

The case study outlined in this chapter is accompanied by a corresponding case study from the Centre for Public Impact's (CPI) Public Impact Observatory—an international repository of public policies assessed for their impact using CPI's Public Impact Fundamentals framework. CPI's framework provides a way for those who work in or with government to assess public policies, to understand why they were successful, so key lessons can be drawn out for future policy work. The case can be easily located in the CPI repository at www.centreforpublicimpact.org/observatory.

Notes

1. Building on the perspective of George and Bennett (2005), we have approached four critical moments/phases in the development of the fund (1990, 1997, 2001, 2004) as distinct case studies using multiple data collection methods. The material consists of qualitative interviews, political memoirs, media coverage, official Norwegian reports, White Papers, records of political decision-making processes, and parliamentary debates. The original data collected for this chapter consisted of semi-structured qualitative interviews (Kvale 1997; Alvesson and Sköldberg 2017) with nine political and administrative leaders who played central decision-making roles at the various decision points. The list of interviewees includes five former Ministers of Finance, one former Prime Minister and Minister of Finance, and two former top bureaucrats in the Ministry of Finance, one of whom later became governor of the Central Bank, while the other had earlier served as economic advisor to the Prime Minister.
2. Source of Skauge quotes: A. Skauge, personal communication, 16 February 2017.
3. S. Gjedrem, personal communication, 27 February 2017.
4. S. Johnsen, personal communication, 14 March 2017.
5. T. Eriksen, personal communication, 28 February 2017.
6. J. Stoltenberg, personal communication, 6 October 2017.
7. J. Stoltenberg, personal communication, 6 October 2017.
8. A. Skauge, personal communication, 16 February 2017.

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