

Kristofer Lehmkuhl Lecture 2016

NORWEGIAN ECONOMY
IN A VOLATILE WORLD

By

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“The Norwegian economy in a more volatile world”

Ladies and gentlemen,

Thank you very much for inviting me here to the Norwegian School of Economics – NHH – to give this year’s Lehmkuhl lecture. And thank you for this opportunity to make an extra trip to Bergen!

First of all, I would like to congratulate you on your 80th anniversary. And on the 100th anniversary since Kristofer Diedrich Lehmkuhl founded and became the first chairman of the “foundation for the establishment of NHH in Bergen”. Lehmkuhl has given his name to this lecture and is often referred to as the founding father of NHH. It should be no surprise that it took a citizen of Bergen and Conservative politician to found Norway’s first proper school of economics and management.

Since it first opened in 1936, NHH has prepared thousands of students to take on management challenges in a rapidly changing world. Today, in 2016, NHH is popular place to study, with high academic standards, and an international profile in terms of both study programmes and research activities. I gather, for example, that more than half of all NHH students take part in exchanges abroad during the course of their studies at NHH. Many international students also come to study at NHH each year.

So the subject of this lecture – the Norwegian economy in a volatile world – couldn’t be more fitting.

Norway is a small country with an open economy. Everything that affects our economic and political partners affects us too. I would like to start by pointing to three global trends that are significant for us in Norway.

The first is a new sense of global unease. During the course of the three years that I have been prime minister, a number of developments have created anxiety and uncertainty:

- Russia's aggression in Ukraine and its annexation of Crimea
- A sharp drop in oil prices, which has had major economic consequences
- 65 million people – more than three times the population of Scandinavia – forced to flee their homes. 2015 was the year that the refugee crisis hit Europe.
- Senseless, brutal acts of terrorism in several European countries
- The referendum in the UK and the majority vote for Brexit
- The attempted military coup in Turkey.

In addition, there is great uncertainty about economic developments in China and other emerging economies. All of this affects Norway and the Norwegian economy. As an open economy, we have reaped the benefits of globalisation, but at the same time we have become more vulnerable to the many great uncertainties in the world around us.

To me, it is clear that the answer is closer international cooperation and more joint solutions. Unfortunately, we are seeing signs that nationalism and isolationism are on the rise – both in Europe and in the US.

I am worried that we will see more protectionism and more countries trying to go it alone. If we reach the stage where it is no longer possible to solve problems and crises through common efforts, we could see greater political unrest and weaker economic growth.

In order to avoid this, Europe's leaders must face up to the unease and lack of confidence that many people feel today. As politicians, we cannot claim with any credibility that we are doing a good job, if we fail to address the problems that affect ordinary people in their everyday lives. This will be our greatest challenge in the time ahead.

The second trend I would like to highlight is climate change. In much of Norway, we have had a record warm September. Even in Bergen, people have enjoyed an Indian summer. Many

people probably have no objection to that. But the trend in Norway is towards stormier and wetter weather.

In other parts of the world, the challenges are much more serious. Some countries are even at risk of being wiped off the map. In others, drought, extreme weather and flooding are creating ever increasing problems and causing ever greater suffering for the population.

We need to act, and we need to act fast. The challenges caused by climate change are global and need global solutions. Fortunately, there is growing recognition of these challenges, and of what we must do to address them. The green shift has started, and we all have a responsibility for ensuring that it is a success.

The Paris Agreement gives grounds for optimism. It sets a clear course for global climate efforts in the time ahead. Earlier this month, the world's two largest economies – the US and China – committed themselves to fulfilling the Agreement's objectives. This is a strong signal of support to the global climate efforts.

The Paris Agreement gives another clear signal – that green solutions must offer good returns on investment. I am convinced that the transition to a low-carbon society will pick up speed, but this will not happen if green solutions threaten to put investors in the red.

The third trend I would like to draw attention to is the increasing importance of new technology in our daily lives – both at work and at home. We are on the threshold of a new technology revolution, which will link robots, intelligent ICT systems, our physical environment and people together in completely new ways. What will this mean for us as employees and citizens? It will mean that the way we do our work and the way we interact in other areas of society will change fundamentally.

Of course, the new technology revolution will open up huge opportunities for value creation and for improving and simplifying our lives. We will be able to produce more in a shorter space of time. We will be relieved of many dull routine tasks. And we will have the technology to help us deal with many of life's everyday challenges.

I must admit that the idea of a domestic robot that cleans the floors while I do something more enjoyable sounds very appealing.

For Norway, the new technology revolution is good news, on the whole, because our labour market and our population are well equipped to meet the demands of an even more globalised and knowledge-intensive society.

However, it will also mean that, in Norway too, jobs will be automated at a rate we have never seen before. In 20 years' time, one in three Norwegian workers may have been replaced by technology. Globally we are talking about several hundred million jobs that could be automated.

The advantages and the opportunities are obvious, but we also risk millions of people finding themselves outside the labour market, with no livelihood and no job to go to.

I have painted a picture of a world that is less stable and more uncertain than it has been for a long time. But the global trends I have highlighted also offer major opportunities.

- Opportunities to create the jobs that will give us livelihoods in the future.
- Opportunities to improve and safeguard our welfare services.
- Opportunities to make Norway a winner in a more volatile world.

I believe there are three questions that we – as a nation – must have good answers to:

- First, how can a small open economy flourish in a world where isolationism is increasing?
- Second, how can we make the green shift a commercial success? and
- Third, how can we make sure that there are jobs for everyone in the new labour market?

Do we have the answers to these questions? Yes, I think we do.

I believe we can only address the new international unease by cooperating more closely and finding more joint solutions. There is a lot at stake here. We must defend the world order.

International law, including the law of the sea, and the strong institutions that have been established internationally and in Europe contributes to Norway's security and competitiveness. Norway has played a leading role in the efforts to build up these institutions, and we must shoulder our part of the responsibility for defending and strengthening them. We must do this even when it is costly and when populist forces are seeking to undermine them.

I have been asked to co-chair the Sustainable Development Goals Advocates, together with the President of Ghana, John Dramani Mahama. This is an important task. The sustainable development goals are ambitious. They are also crucial for securing our common future. We must eliminate extreme poverty, but we must do so in a way that safeguards the environment and addresses climate change.

The key to success is to get every UN member state to back the UN's processes and to help to ensure that they remain relevant for all members. We can only resolve the huge challenges facing the world through binding cooperation and joint efforts towards common goals. And Norway must be at the forefront of these efforts.

The UK's decision to leave the EU has created uncertainty about the future of European cooperation. This comes at a time when it is more important than ever that European institutions do their job and help to develop solutions to the challenges Europe and the EU member countries are facing:

- They must help to maintain stability and predictability. This means stabilising Europe's unpredictable neighbouring areas and ensuring that Europe is able to deal with the large flows of migrants and refugees crossing its borders.
- They must promote economic growth and job creation. Otherwise we risk a whole generation being left behind, without hope for the future and without livelihoods.
- They must find answers to the challenges that affect the everyday lives of people in Europe.

I can promise that Norway will shoulder its share of the responsibility and take part in international processes to address these challenges.

For a small and open economy like ours, there is no alternative to international trade and binding cooperation. And we all benefit from this.

Norway faces a twofold challenge in the time ahead. Our oil and gas industry still gives us substantial revenues, but in the future, it will no longer be the engine of economic growth that it has been during the past few decades. We need to create new jobs in other productive and profitable industries.

At the same time, Norway must help to ensure that the world achieves the two-degree target, and we intend to be climate neutral by 2050. We will make the transition to a low-carbon economy.

The key to tackling these two challenges is to create green jobs that generate tax revenues and benefit society as a whole. There are more than enough ideas for subsidised jobs. But we cannot live off subsidies. We can't have a green shift that puts us in the red.

This doesn't mean that the state has no role to play in making the transition to a green economy. We need to do our part if we are to exploit the full potential of green technology.

Norway has been through many difficult restructuring processes. In the 1800s, we made the transition from an agricultural to an industrial society. The early 1900s saw the development of hydropower and the first major industries, which gave rise to new jobs and revenues. The latter part of the twentieth century brought rapid and far-reaching technological advances that made the oil age possible.

Time and again, we have seen that new challenges result in new technology, new industries and new jobs.

Now the situation is different. We need to make the transition from a highly profitable oil and gas industry to something that may have a more normal level of profits. In the past, we have always moved in the direction of something more profitable.

The *New Climate Economy* report from the Global Commission on the Economy and Climate has shown, however, that making the transition to a green economy can be profitable.

Technological innovation and investments in low-emission alternatives can lead to stronger growth, more jobs and higher profits for companies, and can spur economic development.

I would like to mention three examples of how new technology is being used in combination with Norwegian resources to create growth and a greener society:

- Fosen Vind is to build what will be Europe's largest onshore wind power facility, an investment of NOK 11 billion.
- Hydro's plant at Karmøy is developing more climate-friendly aluminium production, with NOK 1.5 billion in government support channelled through Enova. Parts of the plant's electricity need will be supplied from Fosen Vind.
- Elkem produces the world's most environmentally friendly solar grade silicon, and is currently developing new operations with support from Enova amounting to NOK 72 million.

Just over a month ago, I visited Slovakia. There I had the chance to visit the Norwegian company TOMRA's manufacturing and distribution facility in Senec. TOMRA started out in the 1970s in a garage in Asker, some 20 kilometres west of Oslo, with the development of the first machine for returning empty bottles. It has since grown into a global company offering smart solutions for promoting effective use of the world's resources.

With sensor-based technology, the facility in Slovakia takes 15 minutes to sort enough waste to fill an entire football stadium. Technology developed in Norway by TOMRA has turned

waste into a resource. This is good for the environment and good for business. Proof that the green transition and green technology can be profitable.

I should also mention Norway's electric vehicles policy. There are now over 70 000 electric passenger cars in use in Norway, and nearly 9 000 electric vans. A couple of weeks ago, I was given the opportunity to test drive Norway's first electric lorry by the company ASKO in Oslo. It was a lot of fun, but I must admit I was glad I didn't have to reverse it around a tight corner!

Most of the electric vehicles in Norway have come onto the roads during the past five years, and now account for 3 % of all passenger cars. This means a 70 000 tonne reduction in CO₂ emissions and improves the air quality in our cities. It also shows that targeted policies and good use of market forces produces results.

The new technology revolution is first and foremost an advantage for Norway. The factors that made the oil adventure possible, now give us an excellent starting point for exploiting new opportunities and creating new jobs based on new technology:

- We have a knowledge-based business sector with extensive digital expertise.
- We have highly skilled workers and engineers who are able to apply new technology.
- We have established close cooperation between the trade unions, the private sector and the authorities.
- We are making major investments in research and development.

This summer, we saw a good example of what we can achieve. Kværner announced that it is moving much of the production work for the Johan Sverdrup platform back to Norway for the simple reason that this is cheaper in Norway than in Dubai. Who would have thought?

Automation, the use of robots and better production planning are the reason why. The result is the creation of a lot more jobs at Kværner's plants at Verdal and Stord as well as at subcontractors elsewhere in the country. It also means that Kværner can take on 120 apprentices a year.

New technology can encourage companies to bring highly skilled jobs back to Norway from low-cost countries.

It can improve the competitiveness of the Norwegian business sector.

It can help usher in a new golden age in Norway's industrial development.

But how can we make sure that everyone is able to take part in the new technology revolution? Will there be room for everyone in the new labour market?

My answer to this is that we cannot afford to leave anyone behind.

There are a number of things we have to do:

- We must make sure that our education system gives everyone a good start in life. Education is the most effective tool we have for ensuring opportunities for all.
- We need to make sure that no children fall behind in their crucial first years of school. That is why I have announced that our next education initiative will focus on the first few years of primary school. We have also strengthened the focus on learning in schools through the 'knowledge promotion reform' and a major effort to boost teaching skills.
- We must ensure that enough people have the level of education needed to safeguard our welfare system in the future. In recent years, it has been said that too many people are taking masters' degrees. I disagree. We need more, not fewer, highly qualified and highly skilled people.
- But we must also make more people aware of the high demand for skilled workers. We must show them that vocational training can lead to an exciting and challenging career path.

- We need to see better results in maths and science subjects. A quarter of the pupils leaving lower secondary school in 2015 had only the lowest or second lowest grade in maths. The Government has therefore drawn up a targeted strategy to improve the teaching of maths and science subjects in schools, and to improve preschool activities in these subjects. The Government has also given priority to maths in its major initiative to improve professional development for teachers.
- We need more people who dare to set up on their own. As politicians, we can, and must, create the right conditions for those who want to transform their ideas into business ventures. The Government has increased its allocation to business-oriented innovation by NOK 2.4 billion, and we have drawn up a plan to promote entrepreneurship.
- We must give people access to lifelong learning. The knowledge needed changes. If you don't have the right skills, you are more likely to be left behind. We also know that the proportion of elderly people in the population will increase. A high labour market participation rate is essential if we are to maintain good welfare services.
- And we must ensure that newcomers to our country have the right skills to be able to participate in the Norwegian labour market.

In the future, Norway will be part of a globalised world where capital, knowledge and jobs are moving across national borders at an increasing pace. Our future value creation and welfare depend on our success in building a knowledge society. In terms of production costs, Norway will never be the cheapest country, but we can be the smartest. Knowledge is therefore a key factor for success, and for enabling us to hold our own in the face of international competition.

The Government has presented a long-term plan for research and higher education, which stakes out the course for policy in this area for the period up to 2024.

The Government will increase allocations to research and higher education in six long-term priority areas:

- oceans
- climate change, the environment and clean energy
- public sector renewal and better and more effective welfare services
- enabling technologies
- an innovative and adaptable business sector
- world-class research groups

Cultivating more world-leading research groups is one of the key priority areas.

Norway is lagging behind countries we tend to compare ourselves with when it comes to the quality of research. The Government's ambition is to ensure that more Norwegian institutions are able to compete with the very best institutions in the Nordic region, and that more Norwegian research groups are among the world leaders in their field. Research results must as far as possible be measured on the basis of quality and level of productivity.

Professional study programmes at universities and university colleges must be designed to meet the labour market's need for skills and knowledge. In a global labour market, it is a great advantage that Norwegian students pursue their studies – or part of their studies – abroad, and that foreign students study at Norwegian educational institutions.

It has also been necessary to change the structure of the higher education sector and to concentrate resources on fewer, stronger institutions. The Government's aim is to create a structure for the research and higher education sector that ensures outstanding research and top-quality education. Several universities and university colleges have already agreed to merge, and the Government is allocating a total of NOK 175 million to support these mergers in 2016.

Another important aim is to increase the overall level of investment in research. In the long-term plan, the Government sets out its intention to increase allocations to research and development to 1 % of GDP by 2020. Changes in GDP and short-term initiatives may mean

that this figure will change somewhat from year to year. Nevertheless, our efforts have paid off so far, and we were able to exceed the 1 % target in the budget proposal for 2016.

In the years ahead it will be important to ensure that the plan is fully implemented. In addition, we will encourage private companies to carry out more research. The Government has therefore strengthened the SkatteFUNN tax incentive scheme, which – together with a number of other schemes – will help stimulate increased private investment in research and development.

Norway can be a winner. We have what it takes to succeed, even in today's more volatile world.

We have the knowledge and skills, we have the resources, we have the ideas and we have the manpower.

Many of you here today will play a key role in society and in the business sector in the future:

- By creating new jobs in profitable industries
- By helping to ensure a place for everyone in the labour market
- By helping to finance our welfare system
- By taking part in common efforts to solve global challenges
- By safeguarding Norway for the future.

And in this way, you will help to determine whether we succeed.

Thank you.