

Public policy, resource rent and ethics: The case of the Norwegian petroleum industry

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Public policy, resource rent and ethics: The case of the Norwegian petroleum industry

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Abstract

The present paper seeks to explain how ethics and values in public policy can be result of different historical contingencies. Specifically, it explains the accomplishment of petroleum resource management in Norway. The main argument is that the success of this policy is an understanding of the ethics behind harvesting the resource rent of this non-renewable natural resource.

To support the argument, the paper firstly describes a model of Recardian resource rent. Secondly, it investigates the set of values that were in place before the petroleum production started in the 1970s, as described in the influential white paper, “*The role of petroleum activities in the Norwegian Society,*” published in 1974. In the white paper, the government discussed the future opportunities, challenges, and responsibilities associated with the oil industry and how this would transform society. An important part of the white paper revealed the main ethical vision of the government, i.e., to build a “qualitatively better society” for the benefit of the people. Thirdly, the paper traces the historical roots of these values.

Keywords: resource rent, ethics, economic history, petroleum, oil, governance, public policy.

JEL codes: L52, N14, N50, Q32, Q38, Q58

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1. Introduction

“Norwegians have always looked to *the state* to help manage their abundant natural resources – minerals, fjords, forests, waterfalls – and to look after isolated and thinly spread communities.”
(The Economist, 2013, pp. 13–14)

Norway has, for more than 50 years, produced oil and gas. In 2017, petroleum extraction constituted 14 percent of the gross domestic product, 17 percent of the state’s income, nineteen percent of total investments and 40 percent of the total export value (Oljedirektoratet, 2018). Norway exports huge quantities of crude oil and is the world’s third largest exporter of natural gas, supplying approximately 25 percent of the demand for gas in the EU. Contrary to many other natural resource abundant countries, it has avoided the resource curse because of its strong institutions. Overall, the Norwegian management of the revenues from these resources have been accomplishments benefiting the entire nation. This paper contributes to our understanding of this success from an ethical and resource rent perspective.

During the first half of the 1970s, one seemed to have a reasonable understanding of how the petroleum resources could be used to benefit the society. The foundation, stems from the understanding of petroleum as a non-renewable natural resource one could harvest resource rent from. Thus, they should be handled in a beneficiary and ethical way. These views were presented in an influential white paper, “*The role of petroleum activities in the Norwegian society*” (Finansdepartementet, 1974). The paper laid the foundation for the public debate on how the petroleum revenues should be used and what effect the petroleum activities would have on society. Many topics requiring ethical considerations were presented, including sustainability issues. The most fundamental being the concept of “building a qualitatively better society.”

Both politicians and government officials were afraid of what this new wealth would do to the society. This reserved attitude can be illustrated by the following quote: “Everything I said was met with ‘Oh, you think so? Mmm. Maybe. Let’s wait and see’,” al-Kasim recalls. “This characteristic saved Norway from the curse of oil: the fact that they are completely incapable of getting carried away by the oil dream. They were skeptical – plain horse sense basically. They didn’t want to move until it was absolutely proven that it was the right time to act” (Sandbu, 2009).

The institutional setting in Norway in the 1960s was very different from most oil countries, especially developing countries. “Oil companies, especially eager to exploit resources outside of the OPEC’s dominion, did not encounter a poor country, a weak state, undeveloped social forces, or a predatory, authoritarian ruler. Instead, Norway was already a wealthy, equitable, and democratic country (Karl, 1997, p. 216).

The present paper shows that a handful of government officials, who first started to discuss and design the petroleum policy during the 1960s, represented a continuation of public values with historical roots. It also claims that because they faced a new natural resource that could have a substantial effect on society, they were forced to act prudently. To better *understand* the “civil servant state” and the *zeitgeist* of the 1960s, the paper addresses critical historical events that shaped these values: the long tradition of managing natural resources, the Concession laws, and the origin of state ownership. The latter being a significant factor in the country’s public policy since the 19th century.

However, substantial state ownership raises a dilemma. On one hand, the state has ownership in firms seeking profits, while on the other hand, the state is also a regulator that is

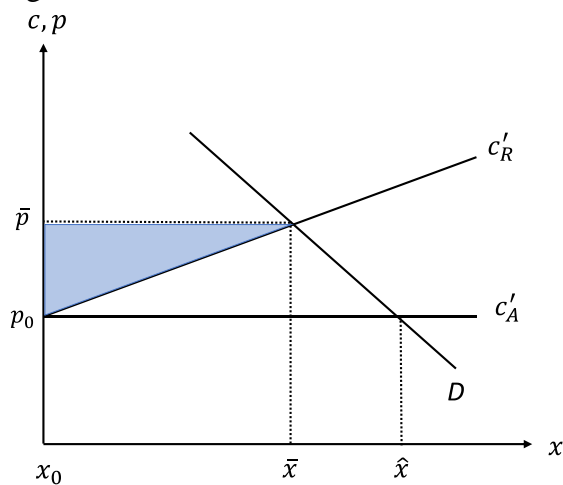
pursuing broader social goals than just profit-seeking. “The dilemma of the Norwegian state is this dual role as a commercial player and a political regulator, and *nowhere is this dilemma more acute than in the petroleum industry*” (Østerud, 2005, p. 708). In addition, one should address the spirit of cooperation within politics and the high level of trust in the Nordic countries.

2. Resource Rent model

The extraction of oil and gas gives a profit on the use of non-renewable resources, stemming from the resources themselves. This profit is called resource rent, in line with Ricardo’s definition of land rent, which is the profit one receives from the soil by utilizing it. The resource rent is understood as an extra profit given by the natural resources. Hence, one may define resource rent equal to the value of capital services rendered by natural resources, or their share in the gross operating surplus. Its value is given by the value of extraction.

The Ricardian resource rent is explained in Figure 1. Long-term marginal costs, i.e., the supply curve for a normal product is considered to be constant, and thus, given by c'_A . When for a natural resource one assumes that one has to use increasing marginal long-term costs in order to increase production. Hence, the supply curve for a natural resource is given by c'_R . If one increases demand according to the demand curve, D , in a normal product market, the production volume increases from x_0 to \hat{x} , when prices remain stable at p_0 . In a natural resource market, however, the new equilibrium will be at price level \bar{p} and at production volume \bar{x} . The resource rent will be equivalent to the blue triangle in figure 1.

Figure 1. Ricardian Resource rent.



It is common to define the assets of natural resources as the net present value of expected future use of the resources, i.e., future resource rent. In order to calculate the value of the resource assets one needs the volume of production, product prices and costs. The production of oil and gas as non-renewable resources is in fact a way to consume the resource assets.

If one defines the resource asset, W , at the departure, 0, as W_0^* as the net present value of future resource rent with an optimal extraction of the resources, u_0^*, \dots, u_∞^* . With discretionary time one will then have an optimal asset expressed as:

$$W_0^* = pu_0^* + (1 + \theta)^{-1}W_1^* \quad (1)$$

where θ is the discount rate. If one assumes that the real extraction of the natural resource is different from the optimal, i.e., $u_0 \neq u_0^*$, the resource asset will change from W_1^* to W_1' at time 1. Hence, the real asset at time 0, W_0' , will now be:

$$W_0' = pu_0 + (1 + \theta)^{-1}W_1' \quad (2)$$

Thus, the loss in resource asset due to non-optimal extraction of it can be found by deducting equation (2) from equation (1):

$$(W_0^* - W_0') = [pu_0^* + (1 + \theta)^{-1}W_1^*] - [pu_0 + (1 + \theta)^{-1}W_1'] \quad (3)$$

This gives the following equation of resource asset loss due to non-optimal resource rent extraction:

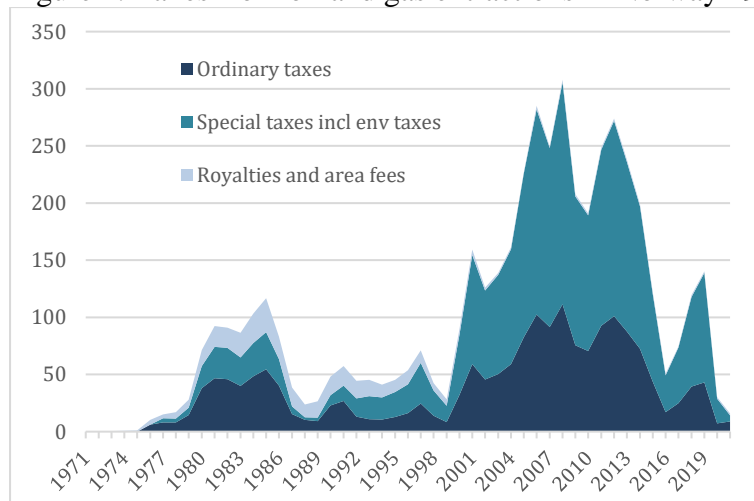
$$W_0^* - W_0' = p(u_0^* - u_0) + (1 + \theta)^{-1}(W_1^* - W_1') \quad (4)$$

The definition implies that $W_0^* - W_0' > 0$.

This means that it is of great importance for the government to utilize the resource rent, and thus, the resource asset in a way that seems as optimal as possible for their electorate. Thus, in an institutional democracy, it will be important to monitor the resource assets and extract resources, thereby optimizing the resource rent in a way that seems ethical for their population.

Presently oil and gas production on the Norwegian continental is billed with 22 percent in ordinary taxes and 56 percent in resource rent tax, 78 percent in total. The historical development is shown in figure 2, where special taxes and royalties and fees can be considered resource rent taxation. Due to COVID-19 the companies have paid and are paying significantly less tax in 2020 and 2021 respectively.

Figure 2. Taxes from oil and gas extractions in Norway 1971-2021, billion NOK 2021 values.



Source, <https://www.norskipetroleum.no/okonomi/petroleumsskatt/>
2021: Preliminary estimations.

3. Building a “qualitatively better society”

In the late 1960s senior civil servants took the first steps in discussing and designing the policy the state should follow with respect to its petroleum policy. Approaching the 1970s, the government seemed to have a good understanding of how the petroleum resources could be used to benefit the entire society.

3.1. The “uninteresting question”

In the early 1960s, Norway was not ready for the petroleum age by any standard. Very few believed that there would be any petroleum in the North Sea, and the theme was considered uninteresting. However, when the Phillips Petroleum Company approached the Norwegian authorities in 1962, requesting for a concession for the entire North Sea, the Foreign Office approved. They were uncertain regarding the answer and the negotiations with Denmark and UK about the borders dividing the North Sea had not yet been resolved. Additionally, they did not possess any specific knowledge about the particular industry.

The offer from Phillips was not accepted, and they were not granted a sole concession. Instead, the lawyers in the Foreign Office researched Norwegian law and history and studied how natural resources had been managed as common resources. As a result, on June 21st, 1963 the state issued a law (The law on exploration and use of subsea natural resources) in which article five stated, “The (property) right to subsea natural resources belongs to the state”. This simple article unquestionably stated that it was the state who legally had the property rights to the potential petroleum resources in the North Sea. At the same time, the article not only established the state as *the* primary stakeholder but also paved the way for the state to take an active role in the oil business.

How should we understand this argument? Part of the answer lies in the postwar *zeitgeist*. Their values represented a continuation of historical lines. One presumed that *if* there were any petroleum resources, the extraction will include resource rent, and the value of this *should* benefit the people. Postwar Norway was “characterized by developing the welfare state, and it is in this light we must understand how they were thinking. Even though there was no single discovered drop of oil on the Norwegian Continental Shelf, they prepared a policy where the future oil resource could be used as a tool to develop Norway further” (Skredderberget, 2015, p. 32). In short, the state should be in control, and the property rights to the petroleum resources should not be sold to private companies. The resource rent should benefit the people. However, this did not exclude using private companies in exploration and production, but the state should take part and exercise control of all steps in the supply chain.

3.2. The 10 oil commandments

After the discovery of the Ekofisk oil field in 1969, it became clear that the country would become an oil nation. However, the government seemed to be reluctant to accept this and proceeded with caution. The discovery also forced the politicians to take the formerly “uninteresting question” seriously and discuss the challenges and opportunities ahead. In 1970 and 1971, white papers discussing the petroleum questions were issued (Industridepartementet, 1970, 1971).

On the basis of these, the Standing Committee on Industry issued a Recommendation to the Parliament, including ten commandments laying out the principles for the Norwegian petroleum policy (Industrikomité, 1971). The committee’s recommendation builds upon the following two fundamental principles: (1) the state is the owner of the petroleum resources and (2) “these natural resources should be used in such a way that they benefit the entire Norwegian society” (Industrikomité, 1971, p. 632).

Table 1. The ten oil commandments to ensure efficient utilization of resource rent from Norwegian petroleum reserves.

1. National supervision and control must be ensured for all operations on the Norwegian Continental Shelf (NCS).
2. Petroleum discoveries must be exploited in a way that makes Norway as independent as possible of others for its supplies of crude oil.
3. A new industry will be developed on the basis of petroleum.
4. The development of an oil industry must take necessary account of the existing industrial activities and the protection of nature and the environment.
5. Flaring of exploitable gas on the NCS must not be accepted except during brief periods of testing.
6. Petroleum from the NCS must, as a rule, be landed in Norway, except in those cases where socio-political considerations dictate a different solution.
7. The state must become involved at all appropriate levels and contribute to a coordination of Norwegian interests in Norway's petroleum industry as well as the creation of an integrated oil community that sets its sights both nationally and internationally.
8. A state oil company will be established that can look after the government's commercial interests and pursue appropriate collaboration with domestic and foreign oil interests.
9. A pattern of activities must be selected north of the 62nd parallel that reflects the special sociopolitical conditions prevailing in that part of the country.
10. Large Norwegian petroleum discoveries could present new tasks for Norway's foreign policy.

Source: <http://www.npd.no/en/Publications/Norwegian-Continental-Shelf/No2-2010/10-commanding-achievements/>

The most important point in the commandments, is the role of the state. The state should be in control of the petroleum resources and be active in all parts of the industry, including the establishment of a state-owned oil company, Statoil. This implied that the state adopted roles both as landlord and entrepreneur (Austvik, 2012). Secondly, the petroleum resources should be used to develop a new industry, when protecting the environment at the same time (commandment no 4). The discussion regarding the potential danger to the environment was at the initial phase short and restricted to the part of transporting the oil from the sea to land. Thirdly, exploration in the North Sea had so far been restricted to areas south of the 62. parallel.

However, the white papers address the question regarding whether oil exploration should be allowed north of the 62. parallel, on condition that these areas had to be developed in a unique manner, protecting the vulnerable arctic environment and the relationship with the Soviet Union (commandments no 9 and 10). It is evident from the white papers that there was increasing political pressure to allow exploration north of the 62. parallel, in order to create jobs in the northern parts of the country (Bjørklund, 2008, 2009). In 1979, the Norwegian parliament granted exploration concessions for selected fields north of the 62. parallel.

3.3. White paper “The role of petroleum activities in the Norwegian society”

The most important white paper was published in 1974 with the title “*The role of petroleum activities in the Norwegian society*” (Finansdepartementet, 1974). The white paper was of immense importance, presenting a starting point for the public debate in the years to come: “The Government is aiming to lay a foundation for a broad debate about the petroleum policy in all parts of the Norwegian people” (p.5*). It provided an overview to several dimensions of how these activities could affect both Norway and its relation to other countries: (1) Democracy and control; (2) International perspectives; (3) The use of the resources; (4) Equality and work environment; and (5) Settlements of people and the local community.

3.3.1. The fundamental question is ethical

The most fundamental question in the white paper was: how should the country spend the oil money? The government's answer was to build "a qualitatively better society". "The economic opportunities must be used to create greater equality in the living standard ... to prevent social problems, and to develop a more environmental and resource-friendly production" (p. 6*). In other words, an environmentally friendly welfare state should be further developed, and all use of petroleum revenues should "be part of a planned transformation of the Norwegian society" (p. 6*). Even gender equality was brought into the petroleum policy (Hunnes & Grytten, 2012). While the white paper acknowledges that the nation was to become very wealthy, the government urged caution and to be slow in extracting the petroleum resources. By using time carefully, one could delay and spread the revenues over time to avoid a massive demand shock to the domestic economy, and at the same time transforming the society in a controlled manner.

The white paper emphasized the role of the state in all phases of the petroleum value chain. The focus on the state's role was historical and reflected a renewed nationalism after the 1972-referendum, when Norway declined to become a member of the European Community. The state represented the people: "The people have to elect bodies which must have control of all important aspects of the petroleum policy" (p. 9*). As part of this policy the white paper signaled that the state could use part of the oil revenue to increase its ownership in private companies. Critical in this respect was the establishment of the state oil company Statoil, which should take part in every activity in the supply chain and every concession. It should simultaneously compete in the global oil business *and* be a political tool for the Parliament and the government in ensuring social responsibility and to pursuing profit. The white paper included warnings against spending the petroleum revenues too fast and for consumption only. The argument was avoiding a macroeconomic shock, but ethical questions were also present "for the sake of future generations" (p. 17*). The white paper is the first place where it is explicitly stated that part of the oil revenues could be invested abroad. We can interpret this as being the seed for the Norwegian sovereign fund, i.e., the Norwegian Government Pension Fund – Global (NGPF).

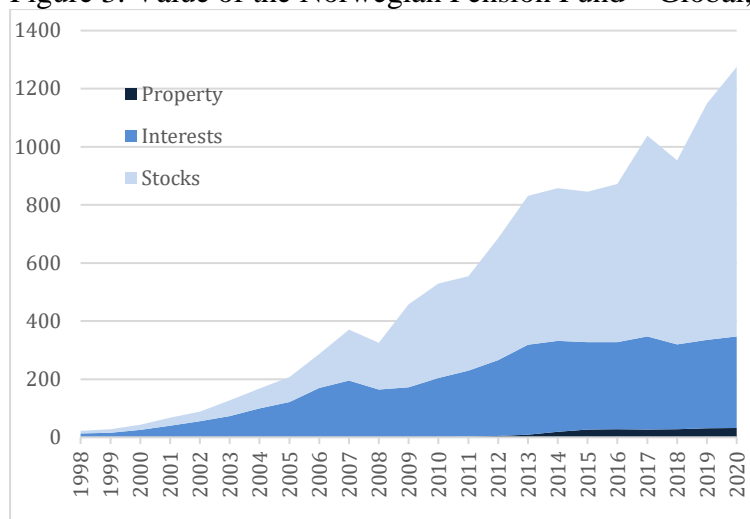
The white paper (p. 10*) also addressed potential future conflicts in interests and values between different (1) countries and Norway; (2) social groups within the society; (3) sectors in the economy; and (4) generations. Hence, it was important to avoid policies where the special interests of one group of stakeholders dominate.

3.3.2. The Oil Fund

To avoid Dutch disease, i.e., high inflation due to a rapid increase in currency income, and to secure the resource rent revenue for the future generations the NGPF was founded in 1990 and came into operation in 1996. The fund is where the surplus revenues of Norwegian petroleum extraction is deposited. Thus, it is commonly referred to as the Oil Fund.

The establishment mirrors the idea that the extraction of oil and gas is consumption of the national asset of a non-renewable resource. Aiming at increasing the value, the money is invested abroad, and one is supposed to use the net returns only, annually expected to three percent of its value. This is a careful measure as the historical returns until 2020 in current terms were 6.3 percent and in real terms, i.e., after inflation and operational costs, 4.4 percent.

Figure 3. Value of the Norwegian Pension Fund – Global, in billion US\$

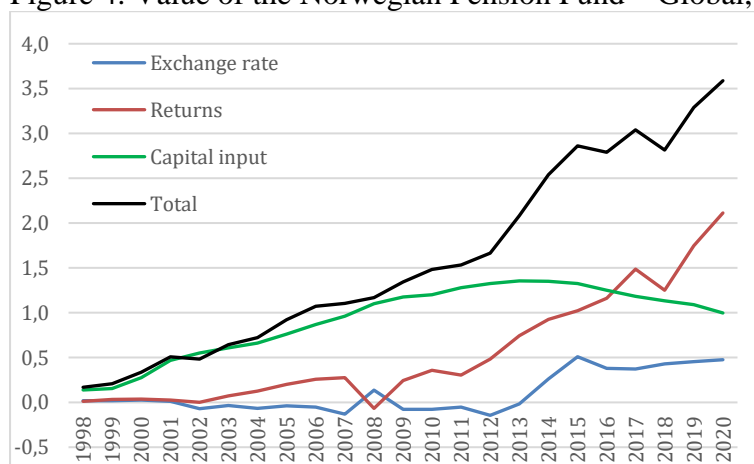


Source, (Norges Bank, 2021)

As seen from figure 3 the growth of the fund has been tremendous, with the highest growth for stocks, which by the end of 2020 accounted for 72.8 percent, followed by interest investments with 24.7 percent and property with 2.5 percent.

In 1998 the fund’s value was 16.9 percent of the GDP of mainland-Norway. By the end of 2020, it was close to 360 percent, as shown in figure 4. Early in 2017 the returns of the capital of the fund for the first time exceeded the capital input. The latter has since 2013 been shrinking compared to GDP. This is indicating that the net revenue from oil and gas extraction is in decline, and that in the future the returns or rent on the investments will be the key provider to the fund. A weaker Norwegian currency during the last years, partly due to less income from petroleum, has contributed significantly to the increasing value of the fund. In 2020 this contribution reached 47.6 percent of mainland GDP, compared to 99.9 percent from capital input and 211.3 percent from returns on investments. The NGPF has truly proven to be successful stewardship of the resource rent in petroleum extraction.

Figure 4. Value of the Norwegian Pension Fund – Global, ratio to mainland GDP.



Source, (Norges Bank, 2021; Grytten, 2020)

3.3.3. Environmental issues

In previous white papers, the government addressed briefly environmental issues, mostly focusing on direct pollution of oil into the sea and land. In *“The role of petroleum activities in the Norwegian society,”* the discussion became significantly broader. “Economic growth must [...] be given a new meaning [...] so that it contributes to the sensible use of resources and does not destroy the fundamental balance in nature” (p. 15*). There is no clear answer given to what this ‘new content’ should be. However, preventing negative consequences of petroleum activities were given higher priority than before. Furthermore, the government advises a slow or moderate extraction pace, which would make environmental protection more manageable. Norway established the first governmental Ministry of Environment in 1972.

Fisheries have always been an essential part of the Norwegian economy. Hence, there is a particular concern regarding how the petroleum activities will affect the fish resources. Some of the most critical and sensitive fish banks are located north of the 62. parallel. The implicit question was how much risk of damaging the environment is society willing to accept for extracting oil. A complicating factor was that both the US and Russia had strategic military interests in this part of the sea, especially during the Cold War era, 1947–1991.

3.3.4. *Taking international responsibility*

The ethical question about sharing part of the petroleum wealth with developing countries was an important point to address for some of the political parties, particularly for the Christian Democrats (KrF): (1) “It is not acceptable that the main part of the oil revenue is used to increase our domestic standard of living. We have a *moral obligation* to see this in view of the poverty and distress in which a too large proportion of humanity lives under” (Hanisch & Nerheim, 1992, p. 414); (2) “We should acknowledge strong *stewardship* for the oil revenues because it is wealth we manage on behalf of many more than just ourselves” (Finanskomiteen, 1974, p. 19).

From reading the transcript of parliamentary debates, it is clear that politicians across the political spectrum addressed the ethical obligation attached to the new wealth. Indeed, the white paper itself acknowledged this as follows: “we have a special responsibility in a world characterized by fundamental economic and social inequality. We should, therefore, provide the countries that need it the most with part of the increased income” (p. 14*). One of the primary mechanisms to achieve this was to fulfill the objective of using one percent of GDP in foreign aid.

3.3.5. *Yes, we are going to be rich. However, we don’t like it (yet)!*

It is not easy to summarize *“The role of petroleum activities in the Norwegian society”*. It addresses welfare levels, egalitarianism, social problems, different stakeholders, the environment, ethics and values, societal changes, local communities, rural policy, taxation, work life, economy, consumption, investment, foreign policy, and foreign aid. The government wanted a broad discussion involving different parts of society.

Huge personal wealth has hardly been comfortable in the Norwegian mentality. Historically, the country did not have a wealthy nobility as one would find in most of Europe. Instead, the prevailing value was egalitarianism. In this light, it seems natural that there is a general sentiment in the white paper warning against the future wealth and a concern regarding how this will change society. However, Noreng (1984) is very critical of the discussion and the white paper itself and claims that it was more than a policy paper.

“Morally and politically the discussion was typically in line with the old pattern of thought. Change was perceived as evil, although it would bring greater prosperity. [...] In broad

circles, oil money in itself was seen as evil. In part, this expressed a puritan attitude, with an emotional fear of being morally corrupted by quick and easy wealth. [...] This was the reason why the government did not dare to give the Norwegian people greater wealth alone, but only together with a morally sound and politically correct package. This package was called ‘a qualitatively better society’. [...] a program for changing the Norwegian society in a direction inspired by a socialist and populist thought” (Noreng, 1984, pp. 79–80).

The Parliament embraced the goal of building “a qualitatively better society.” The problem was different interpretations of the concept. There was a significant division between the left and the right. The left wanted an extensive and strong state control, while the right wanted to give private companies a larger role and responsibility in the North Sea. One right-wing politician stated the following: “In our opinion, the great weakness of the white paper is that, in some ways, it assumes that everyone agrees that only the state can handle the challenges. One cannot imagine that there are other solutions” (Stortingstidende, 1974, p. 3545). The suggested petroleum policy was a continuation of the “strong-state-policy” established after the war.

Another critical point was how fast one should extract the oil. A high extraction pace could have a very damaging effect on the Norwegian economy and make it more difficult for the state to be in control. The prevailing sentiment among the government was to focus on the long-run and move slowly in developing the petroleum industry. Among Norway’s trading partners, this was not well received because they had experienced a fourfold increase in the oil price during the 1970s. However, Norwegian authorities made it clear that Norway’s interests from now on were to be associated with those of oil exporting countries, including the OPEC countries, and not with the interests of oil importing countries.

The white paper, “*The role of petroleum activities in the Norwegian society*,” laid the foundation for the public debate on how the resource rent in the form of revenues from oil and gas extraction should be used and what effect the petroleum activities would have on society. Did the country achieve its objective of building a qualitatively better society? Hanisch and Nerheim answer “yes” in their book on Norwegian oil history (Hanisch & Nerheim, 1992). They look at social policy during the 1970s, e.g., retirement age, weekly working hours, the law on the working environment, sick leave benefits, and increased labor participation among married women. All of these variables improved. One also finds economic convergence between rural and central areas.

Internationally, the prudent Norwegian petroleum policy gained recognition. In 1975, *the Economist* included a survey on Norway, and wrote: “Norway’s success so far in capitalizing on its anticipated oil revenues, [...] has owed a great deal to the managerial skills of those responsible for steering the economy” (The Economist, 1975b, p. 7). The success was attributed to “steering the economy” in the tradition of the Norwegian economist Frisch (1895–1873), who won the first Nobel prize in economic science in 1969. In an earlier survey on the North Sea oil, the same magazine stated that “Norway’s oil policy has been characterized by a clarity, consistency and the ability to learn from past mistakes...” Further, the British Government “is now a great admirer of the Norwegian approach” (The Economist, 1975a, pp. 26, 18).

However, the white paper reveals a fundamental dilemma. On one hand, petroleum will give the nation almost unlimited financial opportunities. On the other hand, the revenues may affect the inflation pressure, economy and work mentality. Thus, one argued for moving slowly forward. A member of parliament even asked: “Should Norway be an oil nation or a free nation?” (Stortingstidende, 1974, p. 3609).

4. Historical roots

This section investigates historical roots of the ethical values that shaped the petroleum policy. The discussion is made along two main arguments. Firstly, that there is a close connection between Norway's natural resources, economy, and institutions. In several cases, the institutions have been established as a direct consequence of managing the natural resources. The focus is put at the Concessions laws and state ownership in general. Another important aspect is cooperation between the public and private sectors. To understand this, the paper examines the impact of the troubling interwar years and the labor movement during the 1930s. Secondly, the paper addresses the public's trust in a strong, noncorrupt state.

4.1. Natural resources and institutions

The Norwegian economy has always utilized natural resources for domestic use and exports. Forestry, fisheries, and waterfalls have been especially important. Fisheries and forestry were already regulated before the mid-18th century to prevent exhaustion of the resources. There was a popular understanding of the need to regulate and preserve the renewable natural resources to avoid exhaustion. This dependence between natural resources and the economy has contributed to three institutional characteristics of the domestic business system:

“Firstly, significant local and regional variations in the business system have emerged because people have adapted their economic activities, their local institutions and ways of organizing to the differences in the resource endowment. Secondly, the wide distribution of natural resources combined with topographic limits to strong centralized political and economic governance have promoted relatively autonomous and economically active local communities. *Thirdly, the often-high resource rent and high value of the natural resources have promoted the state to intervene in the economy, through regulations, economic support or ownership.*” (Thue, 2008, p. 395)

In addition to the importance of the natural resources *per se*, a critical point in understanding the governing of these resources is the fact that Norway is a relatively young state, founded in 1814. Between 1380 and 1814, the country was in reality a colony under Denmark and was governed from Copenhagen (the so-called ‘400-year night’). Thereafter, it stayed independent, but in a personnel union under the Swedish king until 1905.

The longing for independence from foreign political control and interference created a fear of giving up sovereignty, territory, and resources. Further, being under foreign political control created a sense of nationalism. Both in 1972 and 1994, Norway voted ‘no’ in referendums to join the European Union.

4.1.1. The Concessions laws

Norway was a late-comer in the industrialization process during the 19th century, but “was not peripheral from a social, political, cultural or educational perspective. It “became both socially and politically a free society, and [...] was deeply imbued by a Puritan Protestant ethic” (Berend, 2013, pp. 241, 242; Grytten & Minde, 2019, pp. 244-256). The waterfalls, which were generating hydroelectric power, became the decisive factor in the industrialization process. They were of interest to domestic and foreign industrial companies in need of access to cheap, electrical power. Much of the extraction of Norwegian natural resources relied heavily on “foreign initiative, skill and capital” (Moses, 2005, p. 36). This was perceived as a growing problem throughout the 19th century as national awareness and nationalism increased.

In 1906, the government issued a law preventing foreign purchase of Norwegian waterfalls. This was soon extended to include forests and mining. Firstly, the government could issue concessions to foreign companies, and later, also to private Norwegian companies. A key point in the Concessions laws was that the concession lasted for 60 to 80 years, after which ownership was handed over to the state at no cost.

The concession laws created a heated political debate. Some argued that this was a significant change in industrial policy moving away from a liberal system, while others welcomed the change that made the country gain better control of the resource rent from the waterfalls. Lange writes that “the debate about the laws and the form they received revealed the existence of highly negative attitudes towards private capitalistic activity in leading political circles” (Lange, 1977, p. 314). Hence, the discussions of the concessions laws between 1906 and 1918 can be interpreted as a struggle between classical liberalism and a more active and regulatory state (Slagstad, 2001; Thue, 2008).

It is essential to understand this event for at least four reasons. Firstly, the concession laws expressed both a national skepticism regarding foreign ownership and domestic private ownership of common resources. Secondly, they created a role for the state in managing natural resources that was in line with the public sentiment at the time. Thirdly, the laws required the use of domestic labor and materials, and foreign firms were encouraged to support the domestic industry. Fourthly, they were used as inspiration when Norway discovered its petroleum resources. Hence, “[i]t is hard to exaggerate the influence that these concession laws had on subsequent developments, [...and after discovering petroleum] these same laws were used to secure a central position for Norwegian firms until they became strong enough to fend off international competitors” (Moses, 2005, p. 37).

4.1.2. *State ownership*

A critical factor in Norway during the 20th century was the active role of the state in developing the society, facilitating, and investing in industrial development, especially in investing in infrastructure. The industrialization and modernization of the Norwegian society were directed by the state and were led by a group of senior public servants. “The idea that the state should actively use its resources to facilitate economic activity was established and maintained for generations” (Lie, Myklebust, & Norvik, 2014, p. 46). This idea was strengthened after the Second World War, when Norway, like most West-European countries, gained belief in government planning and governance.

“If democracy was to work, if it was to recover its appeal, it would have to be *planned*,” writes Judt (2010, p. 67). This was not as detailed planning as in the Soviet Union. Instead, the state took part in “social and economic affairs. Beyond this, there were great variations, usually a consequence of distinctive national political traditions” (Judt, 2010, p. 69). Historians claim that Norway was perhaps *the* country where the trust and belief in state intervention were strongest among the Western countries.

The discovery of petroleum gave the state new opportunities for taking an active part in business.

The banking crisis at the beginning of the 1990s gave opportunities for the state to enter commercial banking. Today, the state “is a predominant actor in the Norwegian industrial sector”, with “direct ownership of the oil resources on the Norwegian continental shelf.” (Lie, 2016, p. 904). Lie explains the extent of state ownership, drawing on three major arguments: “a high level of trust in the state as a protector of common interests, a persistent lack of robust private investors, and a strong inclination to avoid a powerful foreign influence in the domestic economy” (Lie, 2016, p. 905).

Lie builds this argument on the work of Sejersted, who shows that, during the 19th century, Norway, unlike its neighboring countries, did not develop a strong elite (Sejersted, 1993, p. 171). “The Norwegian Sonderweg is characterized by the weakness of big business and the corresponding strength of the democratic petite bourgeoisie” (Sejersted, 2011, p. 11). This “petite bourgeoisie” did not have the capacity to rise large sums of capital. Thus, the state provided capital and take an active part in the industrial development. Its role was pragmatic; the objective was to use the state’s resources to solve specific problems in the society (Lie, 2016, p. 912).

4.1.3. *The labor movement*

From the 1920s, the labor movement gained a solid position in Norwegian politics. Between 1935 and 1981, the Labor Party was in Cabinet except for one month in 1963 and in the years 1965–71 and 1972–73. The party even had the majority in the Parliament until the 1960s. The terms ‘the Labor Party State’ and ‘the One-Party State’ are used to describe the position. The years between the 1930s and the 1970s were formative for what we today consider the Nordic model, which is an economic system with a mix of socialist thinking and market economy, governed by a welfare state. Even if the Labor Party was in front molding the welfare state, it should be noted that (1) this was part of an international movement, and (2) there was support for introducing welfare benefits across the political spectrum (Gulbrandsen & Engelstad, 2005; Østerud, 2005; Gulbrandsen, 2007).

Norwegian politics has a strong focus on cooperating. In 1935 there was an agreement between the Labor Party and the Farmer’s Party on how to deal with the consequences of the Great Depression. This led to the establishment of cooperation between the two largest social classes in the society (Gustafsson, 2007, Skirbekk, 2010). The social democrats accepted that there would be no revolution and “recognized the legality of Parliamentarianism” (Ihlen & von Weltzien Hoivik, 2015, p. 114).

Secondly, the unions and the employers’ association signed a Basic Agreement in 1935 on how to handle labor conflicts, standards on working hours, paid vacation and protection against unwarranted redundancies. The agreement “may be seen as results of compromises between contradictory interests and normative and ideological positions. It reflects that no parties had achieved a full breakthrough for their principal points of view” (Heiret, 2012, p. 50).

In addition to these two events, came the “disasters of the interwar decades – the missed opportunities of the 1918, the great depression [...], the waste of unemployment, the inequalities and inefficiencies of laissez-faire capitalism [...], the brazen indifference of an arrogant ruling elite and the incompetence of an inadequate political class” (Judt, 2010, p. 67). Together, these events put pressure on liberalism. “The society was perceived as a unity in which people most deeply constituted a community, but where diverse groups existed with their own interests, and these groups were entitled to make claims and organize themselves” (Kjeldstadli, 2005, p. 277). The government had to ensure “that the whole was overriding the single parts and that ‘third parties’ should not suffer because of conflicts” (Kjeldstadli, 2005, p. 277). Kjeldstadli continues, “social welfare policy should protect the weakest and redistribute resources. Through the labor and industrial policies, one wanted to control the conflicts between the groups in the society.”

The “disasters of the interwar decades” created an opportunity for the unions and the Labor Party to gain political control and govern the country in a socialist direction. The state should make plans for developing the country, including economic development. The idea was for the state to plan and guide the development, when both the state and the private sector had to *cooperate* to reach the goals. “Both the early efforts to cope with the [interwar]

crises and the [WWII] itself strengthened social and national solidarity and the quest for cooperation” (Thue, 2008, p. 441). This understanding of the benefits of cooperation between (a) different political and social groups and (b) the state and private sector became part of the public sentiment.

4.2. In the state we trust

The Norwegian state has direct ownership in 75 companies, of which eight are listed on the Oslo Stock Exchange (Equinor [Statoil], Telenor, Norsk Hydro, DNB, Yara International, Entra, Kongsberg Gruppen and SAS).¹ The value of the state’s ownership in these eight companies was close to 29 percent of the total market value of the Oslo Stock Exchange in 2017.² Public expenditures have in recent years been close to five percent of the GDP,³ and approximately 30 percent of the workforce is employed by the government.⁴ Because of the large welfare state, taxes on revenues are high. In 2016, the tax revenue as a percentage of GDP was 38 percent. In comparison, the tax revenues were 46 percent in Denmark, 44 in Sweden, and 26 in the USA, while the OECD average was 34 percent.⁵

While the state in Norway has a prominent role in societal life, people’s trust in other people and the state is strong. Tables 2 and 3 present numbers taken from the Legatum Prosperity Index and the World Value Survey.

Table 2. Confidence.

Question	Europe	Denmark, Sweden, Finland, Iceland	Norway
Do you think that most people can be trusted? (% yes)	27.44	52.20	74.20
Do you feel safe walking alone at night? (% yes)	69.26	82.58	88.80
Do you have confidence in the national government? (% yes)	39.41	50.15	71.00
Satisfied with freedom of choice? (% yes)	73.74	92.40	94.80
Do you have confidence in the judicial system? (% yes)	48.59	74.90	88.00
Do you have confidence in the military? (% yes)	74.48	81.80	87.00
Do you have confidence in the honesty of elections? (% yes)	53.81	83.85	93.70
Are the businesses and government corrupt? (% yes)	63.54	31.00	29.70
Satisfied with living standards? (% yes)	62.35	87.23	91.80

Source: The Legatum Prosperity Index, www.prosperity.com. Data accessed January 06, 2015.

The survey shows that almost 75 percent of Norwegians think that most people can be trusted. In comparison, the same number was 27 percent for Europe and 39 percent for the

¹ Ministry of Trade, Industry and Fisheries. <https://www.regjeringen.no/no/tema/naringsliv/statlig-eierskap/id1336/> (retrieved 2018/06/21)..

² Ministry of Trade, Industry and Fisheries (<https://www.regjeringen.no/no/tema/naringsliv/statlig-eierskap/id1336/>) and Oslo Stock Exchange (<https://www.oslobors.no/Oslo-Boers/Statistikk/AArsstatistikk>). (Retrieved 2018/06/21). Definitions in brackets are taken from https://www.oslobors.no/ob_eng/Oslo-Boers/Listing/Shares-equity-certificates-and-rights-to-shares/Oslo-Boers-and-Oslo-Axess/Listing-structure-and-liquidity-categories.

³ SSB – Statistics Norway. <https://www.ssb.no/offentlig-sektor/statistikker/offinnut/kvartal> retrieved 2018/06/21).

⁴ SSB – Statistics Norway. <https://www.ssb.no/arbeid-og-lonn/statistikker/regsys> retrieved 2018/06/21).

⁵ OECD Revenue Statistics. <https://stats.oecd.org/index.aspx?DataSetCode=REV> retrieved 2018/06/21).

USA. All the questions in tables 2 and 3 underscore the conclusion that Norwegians have a prominent level of trust and confidence in their fellow citizens. The same applies to important institutions in the society. Almost half of the Norwegians trust the government “Quite a lot” compared to 32 percent in the USA.

An impressive share of 71 percent of the Norwegians respondents answered “yes” on “Do you have confidence in the national government?” In the other Nordic countries 50 percent answered “yes”, while for Europe the number was 39 percent. This confidence also translates into the on corruption in society. Only 30 percent of the respondents in the Nordic countries believe that businesses and governments are corrupt, half the share of Europe.

Table 3. Trust and Confidence.

Question	Norway	USA
Trust: Most people can be trusted (% yes)	73.7	39.1
Trust: Your neighborhood (% trust completely)	47.2	9.7
Trust: People you meet for the first time (% trust completely)	6.4	0.3
Confidence: Justice system (% who answered ‘A great deal’)	22.1	8.4
Confidence: The Government (% who answered ‘Quite a lot’)	49.2	32
Confidence: Parliament (% who answered ‘Quite a lot’)	56.7	18.1
Confidence: Parliament (% who answered ‘Not very much’)	33.8	61.4
Confidence: The Environmental Protection Movement (% who answered ‘Quite a lot’)	63.6	46.1

Source: World Value Survey (wave 5, 2005 -2009), <http://www.worldvaluessurvey.org/wvs.jsp>. Data accessed June 29, 2018.

These conclusions are supported in a more comprehensive study by Delhey and Newton (2005, p. 311). They find the Nordic countries are exceptional with respect to trust. The Nordic countries have high scores on the main variables in their model, which are ethnic homogeneity, Protestant religion, good government, high GDP per capita and income egalitarianism. High scores on these four variables are *associated* with a high level of trust in society.

One should highlight two historical contingencies. The first is the “democratic capitalism Norway embraced during the 20th century, with a large and active state supplemented by a huge volume of small businesses (Sejersted, 1993; Grytten, 2019, pp.244-256), as stated by Slagstad (2001, p. 529): “In ‘democratic capitalism’ a strong state is joined together with strong communalism, which is closely associated with the ‘petite bourgeoisie’ and its strong ideal on equality and democracy” The second factor is the high level of trust.

5. Conclusions

The contribution of this paper is to demonstrate the importance of combining ethical values with the resource rent from the extraction of petroleum in Norway. It is discussing arguments regarding why Norway has been able to manage her petroleum resources to the benefit of the people, which is defined by the ethical goal to build a “qualitatively better society.” The main argument is that the accomplishment of the Norwegian petroleum policy can be attributed to a set of values, built on historical traditions, resulting in “democratic capitalism”, in which the state plays a key role and where the trust between the state and its citizens is strong and persistent.

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