

Policy Responses to Economic Crises Norway, 2008-

Note: Policy background memos contain information from various sources on the political economy of a particular country and economic and social policy choices before, during, and after an economic crisis. The memos do NOT contain any original information or analyses, but rather summarize material from various sources. The material is at times quite raw – the text is often presented in bullet points and sources are often quoted verbatim. Thus, the background memos should primarily serve as an overview of 1) policy developments in a particular country, and 2) academic research on the subject.

1 Background

Economy

In the years prior to the crisis, Norway had experienced robust economic growth, with mainland GDP annual growth averaging over 4%. The growth was driven by higher productivity growth and higher employment, with a significant proportion supplied by immigration (OECD 2010, 21).

Politics

A social democratic left-of-center coalition, led by Arbeidarpartiet (Labour Party), took office in 2005 and was in power at the onset of the crisis.

2 Crisis

The recession in Norway was short-lived, starting later than in the rest of the OECD countries and ending earlier. The fall in GDP was also considerably smaller than in other OECD countries (OECD 2010, 20).

3 Policy Response and Politics

In the OECD context, automatic stabilizers are fairly large, suggesting that in a recession, fiscal policy will automatically become expansionary (Girouard and André 2005, 22). According to an IMF report, the 2009 fiscal stimulus was effective in mitigating the economic downturn. The size of discretionary fiscal policy is estimated as 3% of mainland GDP, while the effects of automatic stabilizers were estimated at about 2.3% of mainland GDP (IMF 2010, 21).

September 2008

Taxation → “The 2009 budget brought measures to strengthen the distributional profile of the tax system. For instance, the tax base of the net wealth tax was broadened and the 80 % rule that constrains the wealth tax for the very wealthy with low taxable income was abolished. The basic allowance in the net wealth tax was increased. Rates of the inheritance and gift tax were reduced considerably as well as allowances were increased” (European Commission 2009, 242)

January 2009

“In Norway, the center-left coalition government that had been in power since 2005 sent its first stimulus bill to parliament in January 2009 (St. prp. 37, 2008–2009). The Norwegian government prioritized raised government spending over tax cuts, increasing the transfers to municipal governments and the resources devoted to infrastructure investments (St. prp. 37, 2008–2009, 8)” (Lindvall 2012,

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September 2009

Politics → The incumbent left-of-center coalition of Arbeiderpartiet (Labour), Senterpartiet (Centre) and Sosialistisk Venstreparti (Socialist Left) won a close race against the right-of-center parties, maintaining a narrow majority in the Storting. The economy was not a particularly important issue during the campaign, with the media focusing on education, the environment and care for the elderly in the run up to the elections (Allern 2010, 906).

Taxation → “The basic allowance in the net wealth tax was increased considerably, reducing the number of wealth-tax payers by about 120 000” (European Commission 2010, 276).

September 2010 (?)

Old age → Less generous indexation of old-age pensions, with the new index being “wages – 0.75%” rather than “wages” (OECD 2013, 35).

Old age → “Flexible retirement age 62-75 with adjustments of benefit to be effective age of retirement” (OECD 2013, 35).

Autumn 2011

Fiscal → “Due to this favourable financial condition, Norway does not have a consolidation plan. Notwithstanding, the government included some expenditure cuts in the 2012 budget of 0.1% of GDP (NOK 1.7 billion). The largest part of the cuts involved a reversal of some unemployment benefits that were granted during the financial crisis (NOK 240 million)” (OECD 2012, 48)

September 2011

Taxation → The VAT rate on foodstuffs increased from 14% to 15% (European Commission 2012, 1780)

September 2012

Taxation → The basic allowance for personal income was increased from 38% to 40% of gross income (European Commission 2013, 162)

September 2013

Politics → The incumbent left-of-center coalition suffered a large loss in the elections, which meant a new government took office. Two of the biggest right-of-center parties, Høyre (Conservatives) and Fremskrittspartiet (Progress Party), formed a minority government, with the support of Kristelig Folkeparti (Christian Democrats) and Venstre (Liberal Party), although the support of either party is sufficient for a majority in the Storting (Storli 2015).

Spring 2014

Taxation → Budget amendment, passed by newly formed right-of-center coalition, contains a number of tax changes. The corporate income tax was reduced from 28% to 27%, social security contributions were increased by 0.4 percentage points, the inheritance tax was abolished, the wealth tax was greatly reduced, and the basic allowance for personal income was increased to 43% of gross income (European

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Commission 2014, 170–71).

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