HIGH FINANCE – A View from America

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Norway's oil rent sell-off

THE PLAN to privatize Norway's oil fund yields important lessons for other countries that might be tempted to go further down that route.

It seems ironic that a subsoil resource that belongs in principle to the people as a whole should be turned into a lever to render Norwegian labour and capital uneconomic. The upshot would be industrial unemployment. Is it worth destroying Norwegian industry and reducing employment in order to pursue the ideological goal of privatizing Norway's natural resource rent?

Selling the North Sea oil would create an even stronger capital inflow into the kroner than the sale of the oil itself. The sales proceeds would increase the exchange rate so sharply as to render Norway's export industries, tourist industry and other services uncompetitive.

This promises to be the largest privatization of natural resources since Russia's oil and gas grab by its oligarchs. New Zealand provides a model scenario for what happens when neoliberal ideologues play with a national economy.

THE NEW prime minister has apparently failed to address two dimensions of Norway's oil privatization.

First, how far will the kroner rise in price as a result of the capital inflow? The smaller a currency is, economically speaking (that is, in terms of its exports, imports and capital flows), the more sharply it responds to fluctuations in foreign demand for (or sales of) its currency.

Oil plays so large a role in Norway's balance of payments that it has pushed up the kroner to levels where a dinner already costs three or four times as much as those of its neighbouring countries. Sale of its public assets to foreigners would have an even stronger effect on the country's exchange rate, because of the much larger magnitudes involved.

In the booming global stock market, the price of a revenue-producing asset is between 15 and 20 times earnings. This means that the inflow of foreign capital into Norway may be more than ten times as strong as the inflow of export revenues from oil exports. Unless this money is recycled, it will push up Norway's exchange rate and price its exports (including its tourist services) out of most markets.

Rather than being set by the "MacDonald's principle" of relative purchasing power parity, the currency's value would be established by the rate at which its oil company's shares exchanged for those of other oil companies around the world. Instead of reflecting the international price of a fast-food meal, the kroner's value would be set by the global price of the Big Seven oil companies such as Exxon, BP, Shell, Texaco and so forth. Norwegian commodity prices would become the "tail" wagged by the "dog" of its stock-market securities.

THE second problem concerns what Norway will do with its receipts for the oil asset sell-off.

Adding the sales receipts to its international reserves will take the form of investing them in U.S. Treasury bills – the new global money, now that gold is being demonetized. In effect, Norway will join China and Japan in using its export proceeds and capital inflows to buy U.S. Treasury bonds from American investors. Its oil revenues thus will finance the U.S. federal budget deficit, rather than be invested to create Norwegian capital to replace the depletion of its oil.

Is this equitable? Has the Norwegian government made these balance-of-payments effects sufficiently clear to the electorate that they understand what is about to happen?

On balance, American investors will sell their Treasury-bond holdings and buy stocks in Norway's North Sea oil assets. At present, Treasury bonds pay a bit over 6% interest. Norway's North Sea oil assets are to be priced to yield a higher total rate of return (earnings + capital gains). The result will be a free transfer of revenue from the Norwegian people (for whom the North Sea oil is supposed to represent a public resource) to U.S., European and other foreign private investors.

This subsidy of the U.S. Government is a curious consequence for a neo-liberal Labour ideology. If Norwegians believe that private enterprise is inherently more efficient than public enterprise, then why shouldn't it use the proceeds to buy some enterprise more productive than oil and gas? If it cannot identify such an enterprise to purchase, then perhaps it should hold onto its oil revenues.

A THIRD problem with privatizing the oil is the most serious of all. Privatization will remove the oil-rent revenue from the government budget. Without it, the government will have to raise revenue by taxing Norwegian labour and capital. So while the kroner's rising exchange rate is pricing them out of world markets, the tax shift to labour and capital will further burden their cost position. The government ability to tax land and natural resources will be relinquished, and it will be boxed into burdening its labour force.

Rising unemployment will then further reduce tax revenue. This will increase the tax burden on that portion of labour and capital that remain employed, creating a vicious circle.

Two thousand years ago, Pliny the Elder wrote that the two greatest curses of civilization were the discovery of silver and gold. This statement may have been rhetorical hyperbole, but perhaps one should now add oil and gas to the list of natural wealth that ends up economically polarizing and impoverishing populations in regions rich in subsoil resources.