Norway: Proof Socialism Works?

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The Nordic “socialist” countries have received an unusual amount of attention in international news lately. While Sweden, Denmark, and Finland have received attention for a political crisis, formal claim on the North Pole, and complicated relationship with NATO respectively, Norway has grabbed more headlines -- at least in the more internationally-oriented papers. Despite the attention Norway has received as of late, myths still persist about its “Nordic socialist” system. Below is an examination of the positive and negative aspects of Norway’s economy, charts showing the recent performance of their stock market, and commentary about how “socialist” their “Nordic socialist” system really is.
Norway is not a member of the European Union, but is still highly dependent on the EU economies for trade. Except for the United States and Canada, all of Norway’s top 10 trading partners are members of the European Union.

Historically, Norway's economy has centered on the energy sector. When Hitler invaded the neutral Norway in 1940, it was because of their substantial coal deposits. In 2013, 35% of government revenue, 50% of export revenue, and 20% of GDP came from oil and natural gas. Norway is the world's eighth largest exporter of crude oil, and the third largest exporter of natural gas. The recent decline in oil prices coincided with a sudden drop in GDP growth from 4% to 0% in the second quarter of 2014. After OPEC's decision not to cut oil production in November, the Norwegian krone hit a 5-year low against the dollar.

As is the case with most Nordic countries, Norway has somewhat high government spending, a very large public welfare program, and high individual tax rates.
The center-right ruling coalition has made reducing the Norwegian state’s reliance on the energy sector the focal point of their government; they are currently lobbying for the national oil fund to begin investing in national infrastructure and decrease investment in the energy sector.

Despite its large welfare program, government debt is at a relatively low 30% of GDP. For comparison, the entire European Union has a debt-to-GDP ratio of 85%.

Unlike most European countries, Norway’s population has actually increased – from 4.7 million to 5.1 million – in the last 10 years.

GDP per capita is ranked in the top 5 in the world, at $65,000. Unemployment is a negligible 3%. Corporate taxes are low, and business regulations are generally unrestrictive.
Below are charts showing the Earnings, Price, Earnings-to-Price ratio, and Margin of Safety for a “box” of Norwegian stocks. Earnings and Price are representative of the yields and cost of a set of Norwegian equities, which is itself representative of the entire Norwegian stock market. Earnings-to-Price, or EP, is the ratio of yield from an ETF to the Price of the ETF. The Margin of Safety refers to the necessary yield required to compensate for the risk of the Norwegian ETF, according to the calculations of Bowyer Research. What this means is that if the margin of safety is at 0 or higher, the yields from a set of equities are high enough to compensate for the risk.

Earnings: Norway
Our calculations indicate that Norway's margin of safety is close to 0; in other words, the yield from a set of Norwegian stocks is just high enough to compensate for their risk, but no more so. That is to say that Norway is roughly at fair value, in the opinion of Bowyer Research.
From a policy perspective, Norway is generally freer than its European neighbors. In several categories it’s a freer economy than the United States. It is a stable, high income, relatively free, developed, European economy that does not use the Euro. Despite this, Norway is often held up as an example of “socialism working.”

There are major problems with this hypothesis: First, neither Norway nor any other “Nordic socialist” country is actually socialist. Norway is a capitalist state with a relatively free market, but high individual taxes to fund their massive public welfare system. That is not socialism. The Soviet Union was socialist, Norway is not. Any suggestions that Norway’s economic success is a result of socialist economic policies are simply not based in reality.

Second, a great deal of Norway’s wealth is a consequence of its massive natural resources; the benefits of its coal, oil, and natural gas reserves are spread among a very small population. Norway has been able to maintain a GDP-per-capita of $65,000 in no small part because of its coal, oil, and natural gas.
Like the other Northern European welfare states, Norway has inherited a great deal of wealth from previous generations, and it is plagued by almost perpetually low growth. This is one of the great flaws with the Nordic model; it does not make for dynamic, high growth economies.

Given the major drop in oil prices this year, Norway has a difficult time ahead of it. The ruling coalition is faced with the formidable task of reducing the state’s dependence on the energy sector -- and stabilizing the falling Norwegian krone -- while maintaining its extensive welfare system. GDP growth is not expected to return to its pre-Eurozone crisis level of 4% for the foreseeable future.

Additionally, Norway was able to get an early lead against the other European states because it was relatively unscathed during the German occupation of the Second World War. Norway never endured the mass bombing other European states did.