NORGES BANK

On managing wealth

A collection of articles based on presentations at a seminar arranged by Norges Bank and the Norwegian Academy of Science and Letters
8 November 2011

NORGES BANKS SKRIFTSERIE / OCCASIONAL PAPERS NO. 45

Norges Banks skriftserie / Occasional Papers can be ordered by e-mail:
servicesenter@norges-bank.no
or from Norges Bank, Subscription Service
P.O.Box 1179 Sentrum
N-0107 Oslo

Previously issued in this series:
(Prior to 2002 this series also included doctoral dissertations written by staff members of Norges Bank.
These works are now published in a separate series: "Doctoral Dissertations in Economics".)

Nr. 1 Leif Eide: Det norske penge- og kredittsystem, Oslo 1973, utgått, erstattet med nr. 23
No. 1 Leif Eide: The Norwegian Monetary and Credit System, Oslo 1973, replaced by No. 23/24
Nr. 2 En vurdering av renteutviklingen og rentestrukturen i Norge, Oslo 1974
No. 3 Arne Jon Isachsen: The Demand for Money in Norway, Oslo 1976
No. 4 Peter Karl Kresl: The Concession Process and Foreign Capital in Norway, Oslo 1976
Nr. 5 Leif Eide og Einar Forsbak: Norsk rentepolitikk, Oslo 1977
No. 6 A credit model in Norway, Oslo 1978
Nr. 7 Struktur- og styringsproblemer på kredittmarkedet, Oslo 1979
Nr. 8 Per Christiansen: Om valutalovens formål, Oslo 1980
Nr. 9 Leif Eide og Knut Holli: Det norske penge- og kredittsystem, Oslo 1980, utgått, erstattet med nr. 23
No. 9 The Norwegian Monetary and Credit System, Oslo 1980, replaced by No. 23/24
Nr. 10 J. Mønnesland og G. Grønvik: Trekk ved kinesisk økonomi, Oslo 1982
No. 11 Arne Jon Isachsen: A Wage and Price Model, Oslo 1983
Nr. 12 Erling Børresen: Norges gullpolitikk etter 1945, Oslo 1983
No. 13 Hermod Skånland: The Central Bank and Political Authorities in Some Industrial Countries, Oslo 1984
Nr. 14 Norges Banks uttalelse NOU 1983:39 «Lov om Norges Bank og Pengevesenet», Oslo 1984, med vedlegg
Nr. 15 Det norske penge- og kredittsystem, Oslo 1985, utgått, erstattet med nr. 23
No. 15 The Norwegian Monetary and Credit System, Oslo 1985, replaced by No. 23/24
Nr. 16 Norsk valutapolitikk, Oslo 1986, utgått, erstattet med nr. 23
No. 16 Norwegian Foreign Exchange Policy, Oslo 1987, replaced by No. 23/24
Nr. 17 Norske kredittmarkeder. Norsk penge- og kredittpolitikk, Oslo 1989, utgått, erstattet med nr. 23
No. 17 Norwegian Credit Markets. Norwegian Monetary and Credit Policy, Oslo 1989, replaced by No. 23/24
No. 18 Ragnar Nymoen: Empirical Modelling of Wage-Price Inflation and Employment using Norwegian Quarterly Data, Oslo 1991 (Doct.d.)
Nr. 19 Hermod Skånland, Karl Otto Pöhl og Preben Munthe: Norges Bank 175 år. Tre foredrag om sentralbankens plass og oppgaver, Oslo 1991
No. 20 Bent Vale: Four Essays on Asymmetric Information in Credit Markets, Oslo 1992 (Doct.d.)
No. 21 Birger Vikøren: Interest Rate Differential, Exchange Rate Expectations and Capital Mobility: Norwegian Evidence, Oslo 1994 (Doct.d.)
Nr. 22 Gunnvald Grønvik: Bankregulering og bankatferd 1975–1991, Oslo 1994 (Doct.d.)
Nr. 23 Norske finansmarkeder, norsk penge- og valutapolitikk, Oslo 1995. Erstattet av nr. 34
No. 24 Norwegian Monetary Policy and Financial Markets, Oslo 1995. Replaced by no. 34
No. 25 Ingunn M. Lønning: Controlling Inflation by use of the Interest Rate: The Critical Roles of Fiscal Policy and Government Debt, Oslo 1997 (Doct.d.)
No. 26 ØMU og pengepolitikken i Norden, Oslo 1998
No. 27 Tom Bernhardsen: Interest Rate Differentials, Capital Mobility and Devaluation Expectations: Evidence from European Countries, Oslo 1998 (Doct.d.)
No. 28 Sentralbanken i forandringens tegn. Festskrift til Kjell Storvik, Oslo 1999
No. 29 Øistein Røisland: Rules and Institutional Arrangements for Monetary Policy, Oslo 2000 (Doct.d.)
Nr. 30 Viking Mestad: Frå fot til feste – norsk valutarett og valutapolitikk 1873–2001, Oslo 2002
Nr. 31 Øyvind Eitrheim og Kristin Gulbrandsen (red.): Hvilke faktorer kan forklare utviklingen i valutakursen? Oslo 2003
No. 32 Øyvind Eitrheim and Kristin Gulbrandsen (eds.): Explaining movements in the Norwegian exchange rate, Oslo 2003
No. 33 Thorvald G. Moe, Jon A. Solheim and Bent Vale (eds.): The Norwegian Banking Crisis, Oslo 2004
Nr. 34 Norske finansmarkeder – pengepolitikk og finansiell stabilitet, Oslo 2004
No. 35 Øyvind Eitrheim, Jan T. Klovland and Jan F. Qvigstad (eds.): Historical Monetary Statistics for Norway 1819–2003, Oslo 2004
Nr. 36 Hermod Skånland: Doktriner og økonomisk styring. Et tilbakeblikk, Oslo 2004
Nr. 37 Øyvind Eitrheim og Jan F. Qvigstad (red.): Tilbakeblikk på norsk pengehistorie. Konferanse 7. juni 2005 på Bogstad gård. Oslo 2005
Nr. 38 Øyvind Eitrheim, Jan T. Klovland and Jan F. Qvigstad (eds.): Historical Monetary Statistics for Norway – Part II, Oslo 2007
No. 39 On keeping promises, Oslo 2009
No. 40 Wilson T. Banda, Jon A. Solheim and Mary G. Zephirin (eds.): Central Bank Modernization, Oslo 2010
No. 41 On transparency, Oslo 2010
No. 42 Sigbjørn Atle Berg, Øyvind Eitrheim, Jan F. Qvigstad and Marius Ryel (eds.): What is a useful central bank?, Oslo 2011
No. 43 On making good decisions, Oslo 2011
Nr. 44 Harald Haare og Jon A. Solheim: Utviklingen av det norske betalingssystemet i perioden 1945–2010, med særlig vekt på Norges Banks rolle, Oslo 2011

NORGES BANK OCCASIONAL PAPERS No. 45

On managing wealth

A collection of articles based on presentations at a seminar arranged by Norges Bank and the Norwegian Academy of Science and Letters on 8 November 2011.

The articles were published in Nytt Norsk Tidsskrift 1 2012 (in Norwegian). Only minor revisions have been made in the English translation.

Oslo 2012

On managing wealth A collection of articles based on presentations and plenary debate at the fourth seminar arranged by Norges Bank and the Norwegian Academy of Science and Letters on 8 November 2011. The articles were published in Nytt Norsk Tidsskrift 1 2012 (in Norwegian). Only minor revisions have been made in the English translation.

CONTENTS

Introduction

From 2008 onwards Norges Bank and the Norwegian Academy of Science and Letters have arranged a series of annual seminars on selected topics of general interest for a wide audience. The topic for the seminar in 2008 was *"On keeping promises"*, the topic in 2009 was *"On transparency"* and the topic for the third seminar in 2010 was "*On making good decisions*". Proceedings from these seminars have been published in Nytt Norsk Tidsskrift (in Norwegian). The articles have also been translated into English and published in Norges Bank Occasional Papers, see link to http://www.norges-bank.no/en/about/published/speeches/the-norwegian-academy-of-science-and-letters/ .

The fourth seminar in this series was arranged on 8 November 2011 and this time the topic was *"On managing wealth"*. Deputy Governor Jan F. Qvigstad, Norges Bank, gave a speech about the topic and there were two invited commentaries reflecting views from an economic historian (Einar Lie, University of Oslo), and a law professor (Eivind Smith, University of Oslo) respectively. All three articles were published in Nytt Norsk Tidsskrift 1 2012. The articles have been translated into English by Helle Snellingen and Norman Robert Spencer.

Norges Bank is grateful to the editor of Nytt Norsk Tidsskrift for permission to produce an English translation of the articles. We have also included a lightly edited transcript of the plenary debate at the seminar which offers a broad range of views and perspectives on managing wealth.

It is our hope that this booklet will provide food for thought and stimulate the readers to reflect on this important topic Norges Bank is also happy to announce that we are en route in our preparations for the next seminar in this series. The topic for the 2012 seminar will be "*On learning from history*".

Oslo, February 2012

Øyvind Eitrheim

On managing wealth

Jan F. Qvigstad*

Introduction

From Norges Bank we can see the corner of the two streets Tollbugaten and Kirkegaten. This is where the Collett building was situated until 1939 when it was dismantled and moved to the Norwegian Museum of Cultural History at Bygdøy. By then, the Collett family had not occupied the building for years and their wealth was long gone.

Around the end of the 18th century, John Collett made a large fortune in the timber industry. He also ran the great Ullevål farm and by the time of his death in 1810 he was managing one of the country's largest wealth portfolios. Collett was also known to spend extravagant amounts on lavish parties. The Napoleonic Wars and the English blockade took a heavy toll on the family business. After his death, Collett's heirs insisted on maintaining an extravagant lifestyle as if the income was still intact. Their wealth rapidly withered away and in 1829 the coffers were empty. The farm was taken over by the state.[1]

The time it took Collett to make a fortune is about the same as it took Norway to build up its oil-based financial wealth. Nearly 40 years after Phillips Petroleum discovered commercially viable oil reserves in the Ekofisk field[2], we have an oil-based sovereign wealth fund worth more than NOK 3 trillion. Few other countries are sitting on such huge financial reserves. But our wealth primarily comes from other sources than the oil fund, now called the Govern-

---

* Contact information: Norges Bank, P.O. Box 1179 Sentrum, 0107 Oslo. E-mail: jan.qvigstad@norges-bank.no. I would like to thank Amund Holmsen, Marie Norum Lerbak and Øystein Sjølie for their valuable assistance in preparing this lecture. I would also like to thank Helle Snellingen for her contribution to the translation of the Norwegian text into English.

[1] Alf Collet (1915): *Familien Collett og Christianialiv i gamle dage* (The Collett family and life in Christiania in olden days), Cappelen, Kristiania.

[2] See *Facts 2011 – The Norwegian petroleum sector*, Ministry of Petroleum and Energy: http://www.npd.no/en/Publications/Facts/Facts-2011/

ment Pension Fund Global. The value of our current and future labour resources is more than ten times as great as the value of our oil and the oil fund combined.[3] The oil fund would be depleted in three years if government tax revenues were to disappear entirely.

Our economic future depends above all on our capacity to produce goods and services that others value. But the visible oil revenues may give the impression that we have a huge treasure trove at our disposal. Sound wealth management is therefore first and foremost a question of maintaining and developing the value of our productive resources, particularly our labour resources.

A nation that comes into a large fortune must make a number of choices and trade-offs. They can be considered from a legal, ethical or financial standpoint. In my speech today, I will discuss in particular what sound management entails from an economic viewpoint. I will also touch upon how we practice oil wealth management in Norges Bank.

Intergenerational saving

The first question that must be answered is: Who owns the oil wealth? Does it belong to the present generation of Norwegians? Does it also belong to future generations?[4]

Even though I will be speaking from an economic vantage point, I will borrow a point made by the philosopher Henrik Syse. He asks whether we have the *right* in the course of a single generation to expend resources that it has taken nature millions of years to produce.

---

[3] Report to the Storting on Long-Term Perspectives for the Norwegian Economy, Section 4.5: http://www.regjeringen.no/en/dep/fin/press-center/press-releases/2009/long-term-perspectives-for-the-norwegian.html?id=542381

[4] The intergenerational perspective was not mentioned in the first public document to contain a broad discussion of the role of oil in Norwegian society, Report no. 25 to the Storting of 1974. The focus was on how the government would spend the revenues from the oil sector to create a “qualitatively better society” – immediately. The oil deposits were not discussed as they are today as wealth to be invested. See Report no. 25 to the Storting (1973-74): “Petroleums-virksomhetens plass i det norske samfunn” [The role of petroleum activity in Norwegian society], Ministry of Finance.

But there are also counter arguments. The next generations are likely to be wealthier than us in any case. Should we save for them?

Saving for the future can also be supported with vicarious arguments by those who are worried about their own upcoming pension payments. Today's pension obligations are under-funded but can be more easily met if oil revenues are saved. Is this the '68 generation' that first went on a spending spree and is now arguing in favour of saving to secure their own pensions?[5]

Moreover, all we have to do is read today's press to understand that it is not a matter of course that economic growth will maintain its current pace. It is not a given that our children will be that wealthy.

For those with roots in agriculture, it is second-nature to leave the farm in at least as good shape as when it was taken over. A policy of high and rising spending, which would crowd out internationally exposed industries and lead to unsustainable public expenditure levels, would be a heavy legacy to leave behind. The next generations would have to increase taxes substantially because of our consumption. If we, as a nation, set money aside instead, our wealth will grow and contribute to improving prosperity for our children.

Spending and saving are mutually exclusive actions. The definition of *saving* is quite simply to *abstain from spending*. But with Norway's huge oil revenues and the return on the portion saved we can increase spending while accumulating considerable savings. But spending must be adapted to the return on the portion saved.

Sound and long-term management of oil wealth also requires separating saving decisions from spending decisions. The fiscal rule sets an important *cap*.[6] The rule states that petroleum revenues are to be saved, while the government may spend the return on the oil fund. Once the cap has been set,

[5] In 1985, Professor Steinar Strøm wrote that it was an understandable human reaction to celebrate Norway's new oil wealth with a spending spree. At the same time, Strøm pointed out that as oil revenues became substantial, money could be set aside in a fund abroad. Steinar Strøm (1985): "Oljemilliardene – Pengegalopp til sorg eller glede?" [Norway's oil billions – curse or blessing?], *Sosialøkonomen*, 1, p. 246.

[6] Report no. 29 to the Storting (2000–2001): "Guidelines for economic policy", Ministry of Finance.

expenditures across worthy public programmes must be made according to priorities – not by lifting the cap. If the ability to prioritise fails us and the cap is lifted, the long-term margin of manoeuvre will be reduced fairly quickly. Less will be left to our children.

As long as the North Sea generates revenues, the value of the fund will rise, laying the basis for a sustainable rise in petroleum revenue spending.[7]

Institutional challenges

Oil converted into money entails institutional challenges. A crucial question that arose when we discovered oil was whether we had the discipline to refrain from spending all the money at once. In 1983, the Committee on the Future of Petroleum Activity was chaired by former central bank governor Hermod Skånland. He was of the view that it would not be possible to set aside a share of the oil revenues in a fund:

"*In the light of the prevailing attitudes among both politicians and the wider population, it is difficult to imagine that hundreds of billions will be invested in foreign assets while there are domestic needs that have not been met* (...)."[8]

For Skånland the solution was simple. If the political system did not manage to set aside the revenues, the oil taps had to be opened very slowly. Wealth management could be carried out by portioning exploration sites in the North Sea. Oil that had not been discovered would burn a hole in the pockets of politicians to a lesser extent than money flowing into the state coffers.

Skånland's scepticism was well founded. Future oil revenues were used as an argument for allowing the central government to run a budget deficit. Moreover, it would transpire that the actual pace of oil extraction – and oil-

---

[7] In 1977 the Canadian economist John Hartwick described the principles for the management of a natural resource in order to produce permanent income. See John M. Hartwick (1977): "Intergenerational Equity and the Investment of Rents from Exhaustible Resources", *American Economic Review*, 67, December, pp. 972–974.

[8] NOU (Official Norwegian Report) 1983:27 "Petroleumsvirksomhetens framtid" [The future of petroleum activity], p. 90.

revenue spending – increased much faster than the committee had recommended.

In the first 25 years, Skånland's prediction was right on the mark. All the oil revenues were spent. But in the past 15 years, petroleum revenues have risen at such a fast pace that a portion has been set aside. If we look at the period of oil revenues in its entirety, close to half of the oil-based revenues have been spent.[9]

In 1994, the economists Bye, Cappelen, Eika, Gjelsvik and Øystein Olsen of Statistics Norway estimated that government petroleum revenue spending came to about 10 per cent of overall public expenditure at that time. Tax income from the petroleum sector and petroleum sales revenue – current petroleum revenues – were spent over the government budget. The economists at Statistics Norway expressed concern regarding Norway's oil dependence.[10]

These economists can now rest assured knowing that around 10 per cent of public expenditure is still financed by oil money, but with one important difference from 1994: The source of these revenues is now the return earned on the oil fund – not current petroleum revenues. We have thus succeeded in replacing oil revenues with a permanent flow of income. We can draw on a perpetual source rather than from a well that is being depleted.

It may be that the oil fund has exceeded a critical value so that the ambition of a perpetual fund will be achieved. But history remains to be written. The story of John Collett might also have been written with a different pen when his wealth was at its peak.

Within a few years, as much as 15–20 per cent of the welfare state could be financed by the return on the oil fund. But if we squander the capital in the fund, we will either have to match the shortfall with tax increases or make

---

[9] See Ministry of Finance calculations (Norwegian only): http://www.regjeringen.no/nb/dep/fin/tema/norsk_okonomi/bruk-av-oljepenger-/hvor-mye-oljepenger-har-vi-brukt-sa-lang.html?id=450461

[10] Torstein Bye, Ådne Cappelen, Torbjørn Eika, Eystein Gjelsvik and Øystein Olsen (1994): "Noen konsekvenser av petroleumsvirksomheten for norsk økonomi" [Some of the consequences of petroleum activity for the Norwegian economy], Statistics Norway *Rapporter* 94/1, p.36 (Norwegian only).

substantial cuts in government welfare. The gains – not only the costs – of building up an oil fund have thus been made visible. This also attracts its defenders.

Large fortunes nevertheless give rise to concerns. As a minimum requirement, the management of oil wealth must not impair the productivity of labour and real capital. This may seem to be a modest goal, but is not a trivial one.

People of my generation may remember the German Gunter Sachs, one of the heirs to the Opel fortune. He was known for saying that he had not worked a day in his life.[11] Sachs could live off his fortune and his spending was not confined to only useful things. For example, he lavished thousands of red roses on Brigitte Bardot, strewn over her home from a helicopter. There is no shortage of examples of individuals who have spent large portions of their wealth on an opulent lifestyle. But nations do not have the possibility of living off wealth alone. A nation thrives on each other's labour, as Finance Minister Erik Brofoss stated in his address on the state of the economy to the Storting (Norwegian parliament) in 1946.

The economists Jeffrey Sachs and Andrew Warner[12] have shown that countries with abundant natural resources have generally experienced weaker growth than otherwise comparable countries. Perhaps this is not so strange. Sudden wealth in one sector of the economy also results in higher wages and cost levels in other sectors. Such visible wealth can also weaken and crowd out internationally exposed business. Economists refer to this phenomenon as the "Dutch disease" after the Netherlands pursued an expansionary economic policy based on huge revenues from gas sales in the 1960s. When gas production declined, a period of harsh economic restructuring followed. The sheltered sector had to be reduced and the internationally exposed sector increased. There were too few left in the business sector to bear the welfare state.

---

[11] See for example the obituary "Gunter Sachs", in *The Telegraph*, 9 May 2011: http://www.telegraph.co.uk/news/obituaries/8503379/Gunter-Sachs.html

[12] Jeffrey Sachs and Andrew Warner (1995): "Natural Resource Abundance and Economic Growth", NBER Working Paper 5398.

The resource curse also increases rent-seeking at the expense of value creation, as the economist Trygve Haavelmo noted. Many countries that have experienced a windfall of wealth have been victims of this curse.

The state of Alaska has chosen its own institutional solution to avoid rent-seeking among special-interest groups. Once the real value of Alaska's oil fund, the Alaska Permanent Fund, is secured, dividends are distributed to the owners. Each resident receives an annual cheque that can be spent as desired[13], providing a strong incentive to protect the capital in the fund.[14]

The choice of building up a sovereign wealth fund must also be seen in connection with the state's substantial pension obligations under Norway's National Insurance Scheme. For the Norwegian state it would not have made sense to choose a solution like the Alaska fund without also addressing the issue of pension obligations.

So far our system has worked well, but the success of the system depends on broad-based support for government spending programmes and the framework for saving oil revenues – the cap.

If the system fails and our wealth is spent on welfare schemes to the detriment of future labour income, our petroleum wealth may quickly become a bane. For example, if we were to slack off – intoxicated by the vast new oil fields Avaldsnes and Aldous Major in the North Sea – and reduce our work effort by extending our lunch break by five minutes every day, the sum of our future labour income will be reduced by as much as the value of our latest oil discovery.

Investments in Norway

How should oil revenues be saved?

An apt comparison is a family that wins a million kroner in the lottery. The family has to decide how to manage the newly found wealth.

---

[13] See for example the Alaska Permanent Fund website: http://www.apfc.org/home/Content/dividend/dividend.cfm

[14] This would be comparable to using the return on the fund as tax relief.

- One option is of course to give it away or share the wealth.
- The family must then decide how much to spend and how much to save.
- The money can be spent on a long holiday or purchases for the home.
- If the family instead chooses to save the money, it will be faced with new choices.
    - Should the money be invested in a family-owned business?
    - In a neighbour's business?
    - Or should it be deposited in a bank or lent through another channel?

Even before discovering oil, the state had long been a substantial direct owner of Norwegian companies. The value of state investment in Norwegian companies is more than NOK 600 billion.[15] The state owns more shares in Norway than in the US where the oil fund has its largest investments.[16]

But will substantial investment in one's own business – or one's own nation – guarantee growth and prosperity?

Many OPEC countries received enormous income after the oil price shocks in the 1970s. They later not only experienced low growth, but negative growth.[17] Professor Ragnar Torvik writes that one of the main reasons behind the decline was that such a large portion of the additional income was invested

[15] Report no. 13 to the Storting (2010–2011) Aktivt eierskap – norsk statlig eierskap i en global økonomi [Active ownership – Norwegian state ownership in a global economy], Ministry of Trade and Industry (in Norwegian only): http://www.regjeringen.no/pages/16193771/PDFS/STM201020110013000DDDPDFS.pdf) and the annual reports of the Government Pension Fund Norway and the Government Pension Fund Global.

[16] For fund holdings, see the NBIM website: http://www.nbim.no/en/Investments/holdings-/

[17] National income in OPEC countries *decreased* on average by 1.3 per cent annually in the period between 1965 and 1998 while OPEC oil production increased.

domestically. Politicians invested in projects that may have brought political gains – but resulted in economic loss.[18]

We can also draw on Norway's historical experience. In the post-war period, the Norwegian economy was to be reconstructed through a large-scale investment programme.

Over several decades, the investment share of GDP[19] was close to 30 per cent, markedly higher[20] than in other western economies. But the Norwegian economy still expanded at a slower pace than nearby countries. A more efficient use of capital could have boosted consumption without negatively affecting economic growth.

The high investment level entailed human costs in that consumption of important goods were rationed. A visible cost was limited imports of fruit. As I recall, the selection of fruit and vegetables at that time would have made the recommended "5 a day" serving of fruit and vegetables far more difficult to follow than today.

In recent years, 15–20 per cent of GDP has been invested in the mainland economy, or about the same percentage as our neighbouring countries. But we are always faced with demands for more investment, which is perhaps not that surprising. All of us have probably been stuck in a traffic jam and felt irritation over poor road conditions. It is easy to agree that investment in knowledge is sensible and of benefit for the future. But funding these investments by lifting the cap on petroleum revenue spending is a certain recipe for lean times. Many of us have perhaps driven along lightly trafficked roads of a strikingly high standard. Norway is already among the countries that invests most in education, without achieving particularly impressive results.[21] Norwegian

[18] See "Globalisering, olje og pensjonsfondet" [Globalisation, oil and the pension fund] by Ragnar Torvik, available on the Ministry of Foreign Affairs website (Norwegian only): http://www.regjeringen.no/nb/dep/ud/kampanjer/refleks/innspill/oekonomi.html?id=491448

[19] See national accounts data from Statistics Norway: http://www.ssb.no/histstat/aarbok/ht-0901-355.html and historical data on the Norges Bank website http://www.norges-bank.no/en/price-stability/historical-monetary-statistics/

[20] See, for example, World Bank data on www.databank.worldbank.org

[21] For the results of the Pisa survey, see: http://www.pisa.no/english/index.html

companies that want to invest in profitable projects have access to a well functioning capital market, both at home and abroad.

An absolute precondition for ensuring the sound management of our oil wealth is that investments in areas such as roads, education, cultural centres, hospitals and sports centres are prioritised within the NOK 1 trillion allocated through the central government budget each year.[22]

In order to maximise the return on the substantial financial wealth owned by the government today, the oil fund must be invested abroad. But this gives rise to new trade-offs between risk, return and ethical considerations.

Moderate risk

First, let me look at the trade-off between risk and return. How should we invest our wealth without taking on excessive risk? When the oil fund is invested in other countries that are not as commodity-dependent as Norway, our overall national wealth will become more robust to oil price fluctuations.

Diversifying wealth does not of course insulate us from upturns and downturns. In autumn 2008, stock markets plummeted worldwide. There was nowhere to hide and the value of the fund fell by close to 25 per cent. But the oil remaining under the North Sea lost even more of its value when oil prices fell from USD 150 to USD 40 in the course of a half year.

On the other hand, oil prices may show a more favourable tendency than equity prices. The slide in equity prices over the past quarter has not been accompanied by weaker oil prices.

Norges Bank has been delegated the responsibility for managing the Government Pension Fund Global and hence has an independent responsibility for limiting and managing risk. We have therefore reduced the fund's holdings of southern European government bonds in recent months. We have also reduced counterparty exposures to European banks.

[22] http://www.statsbudsjettet.no/Statsbudsjettet-2012/English/

Maximising returns

As a long-term investor, Norges Bank seeks not only to minimise the risk of losing wealth, but to maximise the return on the fund's capital within the risk limits set by the fund's owner. But how can we manage our wealth to promote capital growth?

Many have probably wondered as does the poet Jan Erik Vold when he writes:

"You put
as the advert says
20 000 kroner into a high-interest savings account
in one of our largest banks. After six years
you can go back to the bank and take out
35 532 kroner. The question is: From whom have they taken
15 532 Norwegian kroner?"[23]

Vold has called this:

"*Capitalism's fundamental mystique – how a krone, by lying idle for a period of time, gives birth to a 10-øre coin*".

The poem is of course a few years old – both 10-øre coins and an interest rate of 10 per cent (the rate in the poem) belong to the past.

A krone that yields a return does not lie idle, however. It represents resources used to build production capacity. The 10 øre is value added generated when capital is put to work.

When our oil revenues are invested as financial assets abroad, we are buying a share of future global value added, which can subsequently be brought home and put to good use here.

As an investor, the oil fund in principle faces two alternatives: Should the fund be an owner by investing in equities, or provide loans to companies and

---

[23] The poem "Kapitalismens grunnleggende mystikk" [Capitalism's fundamental mystique] is from Jan Erik Vold (1989): *Elg*, Gyldendal Norsk Forlag.

governments by investing in bonds? The return in both cases essentially depends on developments in global trade and industry, on the world's economic future. Even our loans to governments depend on the success or failure of businesses since governments rely on tax revenues.

When we provide loans – by buying bonds – the borrower is obliged to pay us interest at fixed intervals and repay the principal at maturity. If the payment obligations are met by the borrower, the amount borrowed is recovered. In the event of a bankruptcy, bondholders are given higher priority than shareholders.

Holding shares therefore carries higher risk. Shareholders are last in line when a company's earnings are distributed. On the other hand, if the company thrives, potential gains are unlimited. This is why equity prices fluctuate relatively widely. We reduce the risk associated with equity exposures by spreading our ownership. We own equities in more than 8000 companies.

To compensate for the higher risk, shareholders demand a higher expected rate of return. Over the past 110 years, returns have been on average 4 percentage points higher for shareholders than for bondholders every year.[24]

If returns on equities are higher than on bonds, perhaps as much of the fund as possible should be invested in equities.[25] Bond prices tend to fluctuate less than equity prices and tend to rise when equity prices fall. A good mix of equities and bonds can improve the relationship between risk and return.

The Ministry of Finance has assessed the trade-off between risk and return and decided, with the approval of the Storting, that 60 per cent of the oil fund should be allocated to equities. The choice of equity allocation determines to a large extent the fund's return and risk, and is therefore one of the most important decisions concerning fund management. Almost 40 per cent is

---

[24] See Credit Suisse *Global Investment Returns Yearbook* 2011: https://infocus.credit-suisse.com/app/_customtags/download_tracker.cfm?dom=infocus.credit-suisse.com&doc=/data/_product_documents/_shop/300847/credit_suisse_global_investment_yearbook_2011.pdf&ts=20110326172226

[25] Private investors, with shorter investment horizons, should have lower allocations to equities.

invested in bonds, including government and corporate bonds, and a small portion is invested in real estate.[26]

Government bonds in particular were long regarded as safe investments. This was also the thinking behind Statens Reservefond (Government Reserve Fund), established in 1904 to provide for investment in "*first-class*" foreign securities, primarily French, German and UK government bonds. High inflation in the wake of World War I reduced the real value of the fund by half, and the fund was discontinued in 1925.[27] Some would argue that investment in government bonds provides "risk-free returns". In the context of current developments in the euro area, it might be more accurate to refer to this form of investment as "return-free risk", to quote Yngve Slyngstad, the CEO of Norges Bank Investment Management.

A third form of investment is the oil fund's direct purchases of real estate, so far in London and Paris. We buy large stakes – usually between 25 and 75 per cent – in large real estate projects.[28] As a long-term investor, we hope to reap returns in this market as well.

A large investor with a long-term perspective

When we buy interests in a company both ethical and economic considerations come into play. There are companies in which we do not invest. Companies that produce weapons in violation of fundamental humanitarian principles and companies that produce tobacco are excluded. Corruption or contributing to severe environmental damage may also lead to exclusion. About 50 companies are excluded.[29] There is often the dilemma of whether we should withdraw

---

[26] For more about the Government Pension Fund Global's investment strategy, see the NBIM website: http://www.nbim.no/en/Investments/ /

[27] Aanund Hylland (2005): "Statens reservefond 1904-25. Et forsøk på å binde politisk handlefrihet? [The government reserve fund 1904-25. An attempt to bind the political room for manoeuvre?]", Norges Bank *Penger og Kreditt*, no. 3, p. 182 (Norwegian only).

[28] For more on the fund's real estate investments, see the NBIM website: http://www.nbim.no/en/Investments/asset-mix/Real-estate/

[29] The Ministry of Finance decides which companies to exclude. For more on exclusion from the Government Pension Fund Global, see website: http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/responsible-investments/negative-screening-and-exclusion.html?id=447009

entirely from a company or enter into dialogue. If we withdraw, we lose a channel of influence.

We now own shares in more than 8 000 companies worldwide. As shareholders, we are entitled to vote when important decisions are made about companies in which we have an ownership stake. Should we actively seek to influence developments or should we remain passive observers? Many large funds choose the latter. It requires time and effort to consider the issues to be addressed at company AGMs, and not least: We may be confronted with uncomfortable questions.

The fund now owns around 1 per cent of the world's listed companies. This is both a lot and a little. For less than 0.1 per cent of the global population to own 1 per cent of global equities is *a lot*. But 1 per cent may seem *too little* to exert ownership influence.

Nonetheless, we have chosen to exercise our voting rights. In many companies, ownership is spread across many shareholders, in which case even a 1 per cent interest is a large stake. The fund also has larger holdings – up to 10 per cent – in a number of companies, which gives us the opportunity to steer companies in what we consider to be the right direction.

Voting is governed by a few main principles.[30] As a minority shareholder, equal treatment of shareholders and board accountability are two key elements of our long-term management.

In addition, as the fund is invested in a wide range of companies with a long investment horizon, our concerns must go beyond the purely business-related. A manufacturing enterprise that emits pollutants and harms neighbouring enterprises may not be of concern to the enterprise itself. But it is of concern to us because we own shares in the enterprises affected by the pollution. Water management and climate change are two of our strategic focus areas.

In addition to voting, we engage in dialogue with management teams in a number of companies. We must remember that when we point a finger at a

---

[30] For more on ownership strategies, see the NBIM website:
http://www.nbim.no/en/Investments/ownership-strategies/

company, we are also pointing a finger at the laws, regulations and practices of the countries where the company legally operates. We make demands, yet we are at the same time a guest in our neighbour's house.

Excessive activism in other countries may defeat its own purpose. Scepticism towards foreign investors, and in particular towards large sovereign funds, is not an unfamiliar phenomenon. We could risk being perceived as a political fund rather than a financial investor. We have therefore chosen ethical guidelines and corporate governance principles that are based on OECD and UN principles.[31]

Our experience is that the fund *is* perceived as a welcome financial investor – not as a political player. Former South African central bank governor Tito Mboweni told me he preferred investments by the oil fund to development assistance. "*Assistance means you feel sorry for us*," he said to me, "*investment means you believe in us*."[32]

Conclusion

The larger the visible wealth is, the greater becomes the risk that sound management principles are relegated to the background. Both John Collett and Gunter Sachs had considerable wealth, and spent it generously all their lives. At the same time, both were interested in developing more permanent values through research. Sachs established an institute where advanced mathematical methods were applied to study the relationship between the position of the stars and the fates of human beings.[33] Collett was more down-to-earth. He studied new methods of crop cultivation and was a keen supporter of the

[31] For more about the UN guidelines, see "Global Compact": http://www.unglobalcompact.org/. For more on the OECD guidelines, see: http://www.oecd.org/topic/0,3699,en_2649_37439_1_1_1_1_37439,00.html

[32] South Africa received NOK 149.5 million in development assistance from Norway in 2010. See Norad website http://www.norad.no/en/tools-and-publications/norwegian-aid-statistics

[33] See for example the obituary "Gunter Sachs", in *The Telegraph*, 9 May 2011: http://www.telegraph.co.uk/news/obituaries/8503379/Gunter-Sachs.html

cultivation of potatoes here in South-Eastern Norway.[34] As a contributor to sustainable growth, we would have to say that Collett was closer to the mark than Sachs.

Norway's proximity to valuable natural resources has created substantial opportunities. New technology and new oil finds are still increasing the value of our oil wealth.

Two North Sea fields where oil and gas were recently discovered, Galtvort (Hogwarts) and Gygrid (Hagrid), have been given names from the Norwegian version of Harry Potter. One of the books features the lucky potion *Felix Felicis*. This magical potion is difficult to make. The consequences can be catastrophic if the ingredients are mixed incorrectly. But if mixed correctly, the drinker will succeed in all that he undertakes. The potion also has some highly detrimental side-effects. If taken in excess, it may cause giddiness, recklessness and dangerous overconfidence.[35]

The economic policy choices made by the authorities and Norges Bank as manager of the Government Pension Fund Global must have legitimacy and credibility. Without long-term thinking, the management of our wealth will not be a success story. So far, it would seem that we have managed to mix and drink an adequate dose of *Felix Felicis*, but we must not let down our guard.

Thank you for your attention.

---

[34] Sigurd Høst (1936): *Norges historie : med viktigere avsnitt av Danmarks og Sveriges historie. For middelskoler og ungdomsskole* [History of Norway], in Norwegian only, Gyldendal Norsk forlag, Oslo.

[35] J. K. Rowling (2006): *Harry Potter and the half-blood prince*, London: Bloomsbury.

Wealth in Norwegian

Einar Lie

Readers of Gustave Flaubert's novel, *L'Éducation sentimentale* (*Sentimental Education* in English), which relates the life of the young man Frédéric Moreau, have reacted with empathy and indignation. The novel's ambiguous reception is due to both its portrayal of the upheavals of mid-19th century France and the protagonist's numerous fleeting romantic liaisons. Even when in the midst of pitched battles in the streets of Paris during the revolution of 1848, his thoughts and actions are dominated by unattainable and attainable women.[1]

Nevertheless, read with the eye of an economic historian, the novel deals mostly with finances and managing wealth. The young Moreau dreams of becoming wealthy. One day his dream comes true: a rich uncle in Le Havre dies, leaving him a tidy sum. The fortune is in real estate, which prudently managed could yield a sound and substantial return over time. However, Moreau's dream was never to *manage* money, merely to *spend* it. In the course of the eighteen years of the novel's story line, most of his legacy is frittered away.

Moreover, Moreau's love life and financial life, as it were, are united in his relationship with Louise Roque, a childhood sweetheart, who loves him unconditionally. He looks upon her as a possible, though hardly attractive, fall-back option, which falls by the wayside when she finally marries another. By then her father has amassed a considerable fortune. While his investments are long-term and carefully considered, he never passes up a chance to earn an extra, marginal profit.

Frédéric Moreau's money management style has very little in common with current principles for saving Norway's oil wealth. The difference is one that aptly illustrates some of the most peculiarly Norwegian and ingrained aspects

[1] I have benefited greatly from Gro Bjørnerud Mo's excellent introduction to the Norwegian translation (*En ung manns historie*), for my economic reading as well. I would also like to thank Eivind Thomassen for his comments on the draft of my original presentation.

of our conception of saving. As many in the audience are aware, Norway has over many years built up a massive sovereign wealth fund. In addition, there is a very broad consensus that our approach is essentially the correct one.

Admittedly, a number of economists and pressure groups and one political party, the Progress Party, believe that Norway should spend more money now, on sensible, socially beneficial projects. Occasionally, certain organisations, whose members' livelihoods depend on Norway not spending too much too quickly, have expressed the view that oil revenue spending in the Norwegian economy is a little too high. But I will start with the premise that Norway applies a "fiscal rule" that has governed current oil revenue spending, that there is a solid political consensus favouring this policy, that Norwegians broadly agree on the necessity of substantial saving for future generations and that both the willingness to save and the approach to saving have received wide and positive attention among international observers.

To give a brief and condensed explanation of why Norway has chosen to save a large portion of its oil wealth in this way, I think it necessary to proceed along two historical lines, one long and the other shorter. While these lines do not in themselves provide justification for the existence of a sovereign wealth fund and a fiscal rule, they shed light on why the fundamental motivations and standards behind Norway's national savings policy has won such broad recognition and support among the country's population.

Let me briefly recount the arguments, which, with varying emphasis, have been advanced for establishing a sovereign wealth fund for oil revenue and subsequently choosing a relatively conservative rule for drawing on that fund.

The "exposed sector" as a concept and economic interest

One argument is that phasing in oil revenue too quickly will render the Norwegian economy less competitive, while phasing it out too quickly will adversely impact economic welfare and living standards. For that reason, Norway ought to save when revenues are high in the short term, while oil revenue spending should be maintained at high levels even in the event of a sudden drop in the price or production of oil and gas.

This argument would have relevance for many countries that come into a windfall of wealth. Its effect on Norway's political economy is especially pronounced. One reason is Norway's internationally exposed economy, where a deterioration of competitiveness and the more long-term industrial base will have far-reaching consequences. This has been well understood and been made a fundamental part of economic policy parlance and institutional practices. Its institutional form is reflected in particular in the development of the Scandinavian model of inflation in the 1960s. As a part of this work a distinction arose between "sheltered" and "exposed" industries (Aukrust 1987, Cappelen 1983).

These terms quickly became a natural part of Norwegian economic debate and politics. A gradual and extensive process led to a sector classification of the economy, which serves as a basis for wage settlements and theories regarding wage formation mechanisms. These mechanisms are amplified by the high rate of unionisation in the exposed sector, which is crowded out in the event of high domestic spending and which has also had a strong position in the trade union movement and considerable influence within the labour party throughout the 20th century. The result is that a labour movement that would otherwise have been a strong advocate of high wages and expensive social welfare benefits has thought and acted within a context where their own interests would suffer if Norway did not set aside a portion of oil revenues.

Saving in Norwegian

The second argument is that oil represents a national resource which has been in the ground since prehistoric times and that it would not be right for one or two generations to deplete. These riches should be *shared*, also with future generations of Norwegians. This argument is relatively obvious, though its roots and impacts may not be equally self-evident.

Some may recall a discussion that took place a few years ago, which was sidetracked when Christian Vennerød advised the elderly not to go to their graves with large fortunes. Rather than leave behind houses and vacation homes that were free and clear of debt, the elderly should take out large home equity loans in order to live their remaining years as comfortably as possible. Among those who took Vennerød to task was the former prime minister, Kåre

Willoch. The tendency to do this was a sign of moral decay, Willoch argued. On a TV discussion programme, he pointed out that consideration for future generations was one of the "finest attributes of human nature".[2]

I believe there is something typically Norwegian in Willoch's gut reaction. Vennerød is also Norwegian, of course, but with his background as a leftist anarchist who subsequently donned a suit and tie and became the editor of the financial weekly *Dine Penger (Your Money)*, he is not captive to a set of conventions for the way private property and shared resources should be managed.

To understand those among us with more conformist attitudes, I think it is important to remember principles and practices deeply rooted in Norway for preserving and handing down values to posterity. The traditions of agriculture and home ownership, which Jan Fredrik Qvigstad also touched on, firmly anchor the notion that wealth is to be passed on as s family legacy. Norwegian farms were handed down from one generation to the next. The person whose turn it was to manage the farm strove to pass it on to the next generation in the same condition as it was when he himself took possession of it, or preferably, somewhat better.

The continental mentality exemplified by Flaubert's character Moreau is a dream of living off a fortune that enabled the owner to live a life free of labour. We find the Norwegian antithesis in a work ethic of good stewardship, where an onerous responsibility for passing property to the next generation is a recurring theme. We encounter it in the authorship of Arne Garborg, and perhaps especially in the works of Tarjei Vesaas where the young Per Bufast hears from his father early in the novel *The Great Cycle* that he will live on Bufast farm to the end of his days. The story continues with Per's father working himself to death by quarrying stone and through other backbreaking toil to provide for his family and dutifully seeing to it that the farm to which Per is bound is passed down in proper condition.

[2] The Norwegian Broadcasting Corporation (NRK) TV-programme "Standpunkt", 15 March 2005.

We can go even further back in history, to Thomas Robert Malthus's travels in Norway in late 1799. The main thesis of his then recently published treatise on population was that the mass of the population would stabilise at subsistence level. As population growth naturally tends to outstrip increases in the food supply, growth beyond subsistence would be kept in check by starvation and death. In Norway, however, he witnessed what Eilert Sundt would later describe in detail, namely that marrying and starting families were deferred until young adults could take over a farm or earn a living in some other way. This, in a fundamental sense, was a philosophy of business before pleasure, an observation that inspired the somewhat brighter spots in revised editions of his *Essay on the Principle of Population* (Sandmo 2006: 64 ff.).

Of course we find this kind of devotion to one's own in other countries too. Just not to the same degree. Over the centuries, arable land became fragmented into a relatively large number of holdings. There were very few manor-sized farms, with their separate class of farm labourers and a correspondingly large number of smallholders and tenant farmers. The latter group gradually entered the smallholders' ranks over a century's long process. The preponderance of small holdings and the mentality connected with owning and running them were reinforced by the continued existence of the *odelsrett* (allodial) system in Norway, despite persistent campaigns to abolish it during the heyday of classical liberalism in the mid-19th century.[3] *Odelsrett* prevented farms from being sold or subdivided like ordinary property when being handed down between generations, but kept them intact as undivided inheritances.

The current rationale for spending oil revenue makes no mention of older reproductive customs or of Per Bufast. From the time the fiscal rule was introduced until the present, the tradition of *forest stewardship* has been the preferred metaphor. By spending only an estimated normal return on the oil fund, like prudent foresters we do not chop down more than the natural

[3] In 1857 there was a majority in the Storting in favour of repealing Article 107 of the Norwegian constitution, which protected *odelsrett*. However, the article remained, since the sponsors of repeal could not secure the necessary two-thirds majority (cf. Falkanger 1996).

increase, as the Prime Minister Jens Stoltenberg and several finance ministers have constantly repeated.[4]

Currently, forest stewardship has been left to relatively few landowners, guided by principles of private wealth management. And it is easier for an ordinary owner to lay down principles for managing wealth than it is for politicians in a democratic society. The most apt parallel between politically determined principles and modern natural resource management may probably be found where vast common pool resources are managed, such as forests, game reserves and especially fisheries. As in the case of oil wealth, collectively adopted ground rules are necessary to prevent overexploitation or overconsumption of common pool resources by the current generation.

It turns out that the American political scientist Ellinor Ostrom, who received the so-called Nobel Prize in Economics for 2009, has studied management of common pool resources in a way that to my mind is also highly relevant for management of Norway's oil wealth. In her book *Governing the Commons* (1990), she identifies on the basis of a number of case studies principles for stable management of common pool resources, society's jointly held resource bank. It is essential that current managers accept that exploitation and consumption today must not be given greater precedence over exploitation and consumption tomorrow. At the same time, however, trust and shared norms are essential. Ostrom points to management of common fisheries, which usually functions better where resources are exploited by locals. They know that they and their descendants are dependent on this local resource in the long term. However, allowing in trawlers from outside makes fisheries management difficult. This is not only because trawlers from outside have access to other exploitable fisheries. It is also because local fishermen are less willing to manage resources prudently when doing so will also benefit persons who are neither kin nor members of the local community, who do not share their values and standards or with whom they do not feel the same sense of kinship. They

[4] Maria Reinertsen's article in *Morgenbladet*, 22 May 2009. See also Sigbjørn Johnsen's presentation at the Trøndelagskonferansen in January 2010 – a video version is available on the Ministry of Finance website.

have fewer qualms about drawing down on stocks today, rather than deferring exploitation to a later time and for the benefit of future recipients.[5]

The temporality of saving in a sovereign wealth fund

The two lines I have pursued allow me to conclude with slightly pessimistic assessments of the fiscal rule's long-term future. One is related to the shorter line, namely responsibility for the exposed sector. There is reason to believe that this responsibility will recede in importance as the exposed sector shrinks, although the category exposed sector is constantly being enlarged. The willingness to rein in wage growth and spending is nearly certain to change as public sector occupations and sheltered services increase in terms of number of employees and organisational influence.

The other pessimistic assessment relates to concern for our posterity. With regard to the oil fund, this concern is a different one from the one we mean when speaking of wanting to preserve the earth's ability to sustain life for future generations; in *that* discourse, it is coming generations all over the globe that are the objects of our concern. However, the tacit assumption behind saving for the next generation is that the money is meant for future *Norwegians*. This is because we feel a deeper sense of kinship with our own than with outsiders. It is this notion that Ostrom invokes in general and that traditional farming society is a more specific example of, in a condensed and amplified form.

A firmly established individualist mindset, where norms encouraging the elderly to mortgage their homes and live it up during their twilight years are commonplace, represents values that are difficult to square with a more conservative saving strategy for society's shared assets.

More pronounced developments towards a more heterogeneous society in terms of ethnicity, culture and values will tend to have the same outcome. One would not expect much support for such a fund in a truly multicultural society. Inherent in my reasoning is not some dystopian view that a culturally mixed society would necessarily be less suited to showing solidarity. Yet I doubt that

[5] See in particular Ostrom's (1990) summary analysis on p. 205 ff.

the solidarity of the future will share common basic values with traditional Norwegian rural society. One alternative to saving in a sovereign wealth fund might be to give the money to the world's needy today. I am absolutely certain that there are persons in the Congo, Sri Lanka and in the Horn of Africa who are worse off than our children and grandchildren are ever likely to be. But we choose to distribute the money within our national borders and within our culture lengthwise over the dimension of time, rather than share them broadly with the neediest of our time. If we move more in proximity to one another, so that future Norway more closely will resemble the world outside, some of the rationale for saving for our descendants, the national heirs of the Norwegian oil fund, will lose much of its force.

In that case it will not come as naturally to think the way they did on Bufast farm, that wealth and property should be preserved or increased for the next generation and the one after that. And it may come more naturally to think like the perpetual bachelor Frédéric Moreau, who spent his fortune on comforts, risky investments and loans to acquaintances.

References

Aukrust, Odd 1987, “Historien om en idé” [The history of an idea], in Moe, Thorvald et al. (ed.), *Full sysselsetting og økonomisk vekst. Festskrift til Eivind Erichsen* [Full employment and economic growth. Festschrift in honour of Eivind Erichsen]. Oslo: Tano

Cappelen, Ådne 1993, “Økonomene og inntektspolitikken” [The economists and incomes policy], in Trond Nordby (ed.), *Arbeiderpartiet og planstyret* [The Labour Party and economic planning]. Oslo: Universitetsforlaget

Falkanger, Thor 1984, *Odelsretten og åseteretten*. Oslo: Universitetsforlaget

Flaubert, Gustave 2011 [1869], *Frédéric Moreau. En ung manns historie*. Oslo: De norske bokklubbene [Norwegian translation of *L'Éducation sentimentale*]

Lie, Einar 2001, "Langsiktighet eller styringssvikt i den økonomiske politikken?" [Far-sightedness or failure of governance in economic policy?], in B.S. Tranøy and Ø. Østerud (ed.), *Den fragmenterte staten* [The fragmented state]. Gyldendal Akademisk, Oslo 2001

Mo, Gro Bjørnerud 2011, “Innledning” [Introduction] to Flaubert 2011 [1869]

Ostrom, Ellinor 1990, *Governing the Commons*. Cambridge: Cambridge UP

Reinertsen, Maria 2009, “Oljefondets utspring” [Origin of the oil fund], *Morgenbladet,* 22 May 2009

Sandmo, Agnar 2006, *Samfunnsøkonomi – en idéhistorie* [Economics – a history of ideas]. Oslo: Universitetsforlaget

Vesaas, Tarjei 1951, *Det store spelet* [The Great Cycle]. Oslo: Olaf Norli

The straight and narrow path

Reflections on managing wealth

Eivind Smith

"Who" and "what"?

The general issue under discussion here is relevant whether the wealth to be managed is currently large, small or even negative. We know in our own minds that the straight and narrow path may be the right one not only in order to manage or preserve accumulated wealth, but also for building a better future. The crisis currently playing out in many European countries is a case in point.

The wealth that is the focus of my remarks is of a financial nature (including real capital in the form of fixed assets etc.). However, it is important for me to make it clear that there are other forms of wealth, related to beauty and tranquillity, the sound of birdsong or community with other people. "Socio-economic value" can be calculated for most things. But this must not lead us to forget that much of what is important in our lives cannot strictly speaking be given a price in terms of money. We also know that financial and other wealth do not always coexist easily. But this is a topic I will not pursue here.

Is our aim to manage assets that belong to *us* or to *others*? The anti-heroes in Jan Qvigstad's story – John Collett and Günther Sachs – could in principle dispose of their wealth as they personally saw fit. Managing wealth on behalf of a community raises a completely different range of questions.

Ever since the historical decision was made to distinguish between the property of the sovereign and that of the state, a key issue has been whether the wealth in question is privately or publicly owned. Many kinds of purpose-built communities (companies etc.) can best be characterised as private. But such agreement-based constructions only exist by virtue of the decision of those involved: shareholders can agree to liquidate the company and go their separate ways, taking any remaining assets with them, and charitable institutions can at least be converted to serve a different purpose.

The following reflections will be focused on assets that belong to us all, in the sense that they are owned by the central or local government, directly or through public companies, funds etc. The requirement that management should be in the best interests of the community is of primary concern here. In principle the state is permanent. In a legal perspective at least, it cannot go bankrupt.

What is the aim of management of public assets?

A government that manages or is in the process of building up wealth can use its right of disposal for very different purposes. Views on the practical management of the assets will vary; a use regarded as sensible by one person will be regarded as wasteful by another. Is the pleasure afforded by a two-hour concert featuring the Vienna Philharmonic Orchestra or three hours at the Tusenfryd theme park worth the (essentially) extortionate price?

If we include the whole scale from one extreme to another, one end would represent what many would regard as deliberate waste, while meticulous saving combined with very careful spending would be at the other end. Some will deliberately – or at least in practice? – spend as though the biblical Flood is about to descend (*après nous le deluge*) or spend large sums on a glittering façade (in Sarkozy-French: *bling-bling*). Others take frugality to the extreme, always saving for tomorrow, perhaps at the expense of living for today.

The farming tradition of passing on a farm to the next generation in at least as good order as when it was taken over is somewhere in between. This element is inherent in the common Norwegian word for farmer: Even if you are the owner, you would tend to call yourself a *gårdbruker*, i.e. the one who runs the farm ... for the time being (as opposed to *gårdeier*, one who owns the farm but does not necessarily run it, cf. *absentee landlord*). This illustrates that various combinations of saving and spending are possible (and probably common). The requirement of a long-term perspective can hardly be absolute: even if our wealth may rise a little more slowly as a result, surely we can justify going out for a good meal now and then?

And we can probably agree that the goal itself should be to find a suitable balance between spending and "exclusive" asset management. As a matter of fact, central government behaves accordingly, as a considerable share of our common wealth is actually spent over the annual budgets. But the question of how to balance between utility and pleasure is at the core of real political contention: should we for example build a new opera house or postpone it until nursing homes can provide single rooms for all those who need them?

Whatever the underlying purpose of asset management on behalf of the community is, most of us would agree that the policy pursued must be based on or preserve a long-term perspective. As we all know, this is one of the major challenges related to Norway's oil wealth.

Can legal instruments promote a long-term objective?

Given a long-term objective in the sense that a considerable portion of Norway's financial wealth should *not* be spent or converted into real capital: can this objective be promoted using the instruments of law?

Legal norms can dictate that one action is allowed or even compulsory, another prohibited. In this sense, politics is a matter of self-binding: the story of Odysseus, who has himself bound to the mast in order to be able to enjoy the song of the Sirens without danger, has often been used to illustrate the achievement of a long-term objective by constraining freedom. Is the illustration adequate in our case?

According to an active participant in the public debate in Norway, the answer is no: "Politicians are at liberty to loosen the constraints that bind them" (Colbjørnsen 2011). If this holds true, we are left with having to rely on good intentions and high morals, mixed with a dose of election tactics.

Colbjørnsen's assumption is probably a common one. Is it valid?

Judicialisation?

Legal norms as a constraint on elected authorities' scope of discretion lead us towards more fundamental questions about the relationship between law and democracy. The term "judicialisation" was brought to the forefront of the Norwegian debate by the research-based Report on Power and Democracy in Norway (2003). One of the report's main conclusions (simplified here for the sake of brevity) was that democracy is crumbling under the increasing influence of legal norms and institutions.

However, the term "judicialisation", as it is used in the public debate in Norway and internationally, has no single definition. I would just like to recall a point so fundamental as to seem banal: legal norms are based on political decisions. When institutions of government want something to happen, legally binding decisions will sooner or later have to be taken. In constitutional terms, a generally binding political act may be termed "statute", "law", or "constitution" or otherwise. Thus it is, strictly speaking, within the judicial realm. But is it therefore logical to characterise such political decisions as an erosion of the political domain? Is it not rather the case that they reflect the exercise of political discretion?

Similarly, legal norms – affecting the future – can be changed through new political acts in the same or a more demanding form. Legal norms do not in themselves stand in the way of changing the political course. Quite another matter is it that the political will may not be strong enough to achieve the outcome some would like to come through. But this is nothing extraordinary: as a matter of fact, there is a great deal that cannot be achieved by politics – for moral or other, less honourable reasons.

International commitments, of course, raise specific issues in addition to those suggested above. They will not be included here.

Different types of legal constraints

Since correction is possible, Colbjørnsen is right in the sense that legal constraints *can* be cast off. But the fact that they may nonetheless be binding becomes more easily apparent when we remember that the constraints can vary in type and occur in different combinations.

In simple terms, we may distinguish between three categories. The first – probably the one that springs to mind first for many of us – concerns *substantive* law, i.e. norms meant to lead to a particular outcome. There are for example legal norms stating that mothers are entitled to family allowance for a certain period or that stealing is forbidden.

The second category comprises provisions governing the *form* of the decision-making, i.e. the procedures that must be followed to lay down new provisions or amend existing ones (an Act, for example). As I have already indicated, it may be very important in this context whether a rule is part of international or purely domestic law. But form is also important within Norwegian law for both the strength and democratic nature of the constraint: constitutional provisions are thus more difficult to change than rules adopted through ordinary legislation, thereby entailing a higher degree of constraint.

Third, the discussion must take account of *institutional* law, i.e. rules governing who does what: who, for example, decides that the objective of monetary policy should be stable inflation? Is the key policy rate set by the Government or Norges Bank?

The rule-versus-discretion debate arises in all three categories: someone who must base their decision in a matter on rules in the constitution, parliamentary acts, etc. is less free than someone who, in principle, can make an entirely arbitrary decision. In addition, more extensive course adjustments must be made by adopting new general rules or laws: this kind of constraint can be regarded as inherent in the requirement of generality.

Substantive law

Can the scope for political discretion regarding public budgeting be effectively fenced in by means of legal instruments? Consider the following examples from section 46 of the Local Government Act, where paragraphs 3 and 6 state that

"*The annual budget shall be realistic. It shall be determined on the basis of the income and expenditure that the local authority [...] may expect in the budget year*",

and that

"*The budget shall provide for an operating surplus that is at least adequate to cover interest, repayments and necessary allocations*."

These examples illustrate that such rules are easily conceivable, and they may undoubtedly be effective. On the other hand, however, it is important to recall that the above provisions focus on the relationship between central and local government; local government does not bind *itself*. The provisions must also be interpreted in the light of the various control mechanisms that are in place to ensure judicious housekeeping using the funds at the local government's disposal.

But this does not mean that similar rules focused on the central government are unthinkable. On the contrary, the current tendency is the opposite: in these times of debt crisis, euro area countries are under pressure to change their constitutions by adopting a "golden rule" requiring a balanced budget and limiting the relative size of public borrowing. Not surprisingly, Germany is leading the way. In the English translation (see reference list), Article 115 [concerning "State Credit"] of the *Grundgesetz* reads as follows:

(1) The borrowing of funds and the assumption of pledges, guarantees or other commitments, as a result of which expenditure may be incurred in future fiscal years, requires federal legislative authorization indicating, or permitting computation of, the maximum amounts involved.

(2) Revenue and expenditure are principally to be balanced without revenues from credits. This principle is satisfied if revenues from credits do not exceed 0.35 percent in relation to the nominal gross domestic product. Furthermore, in the case of economic cycles deviating from normality, effects on the budget have to be factored in by symmetrically balancing boom and bust periods. Deviations of actual borrowing from the credit limit outlined by sentences 1 to 3 are to be registered on a control account; debits exceeding the threshold of 1.5 percent in relation to the nominal gross domestic product have to be reduced with the economic cycle. Details, particularly the balancing of revenue and expenditure by financial transactions and the procedure for the calculation of the yearly limit of net borrowing in consideration of the economic cycle on the basis of an economic cycle equalization procedure as well as the control and readjustment of effective borrowing against the credit limit, are regulated by a federal statute. In the case of natural catastrophes or exceptional emergencies outside of state control and with serious negative impact on public finances, these credit limits may be exceeded by a decision of the majority of the members of the House of Representatives [Bundestag]. The decision has to be combined with an amortization plan. The readjustment of

borrowing according to sentence 6 has to be carried out within an adequate space of time.

I will let the text speak for itself and only add two brief remarks: the first is simply, this is obviously not that easy!

No doubt the provisions could be less ambitious or more transparent. But anyone who thinks that the debt problems can be resolved by means of relatively simple provisions like those of the Local Government Act is probably mistaken. In any case, there is reason to oppose an absolute ban on budget deficits. Here too, the goal would have to be a mixture of constraint and adjustment possibilities allowing for the accommodation to changing conditions.

Second, the part of Article 115 in the German constitution relating to the participation of the national parliament illustrates the point that provisions concerning substance, procedure and/or institutions can be combined.

What about the Norwegian "fiscal rule"?

Even though it is in essence less wide-ranging than provisions relating to the management of overall public finances, the above examples can be used as a basis for a few words about our own "fiscal rule".

Contrary to many expectations, the approximately 10-year-old rule, stating that no more than a stipulated (and somewhat unrealistic) real return on the wealth now bearing the legally established title "the Government Pension Fund Global" should be spent over time, has proved to be a considerable success.

The main reason it has proved politically feasible to build up financial wealth of such magnitude at an arm's length from the government budget is probably that government revenues from petroleum activities have gradually become so substantial; there was no accumulation of capital in the initial years of the oil era. But there must also have been a solid portion of political will (accompanied by a good deal of pedagogical efforts). Being able to refer to a rule that enjoys broad political support has also undoubtedly helped; and the Norwegian name of the fiscal rule (*handlingsregel*, which literally means "action rule") carries positive associations – "action" is better than for example "prohibition" or "constraint".

It may then come as a surprise that the fiscal rule has no legally binding status of any kind. Its impact is exclusively the result of political processes – including the influence of a varyingly well informed, though critical, press.

To upgrade the rule to a legally binding, preferably constitutional form, some of the issues raised by the necessity of more detailed wording would have to be resolved first. Here I will simply refer to the brief suggestions already presented. For the main issue lies elsewhere: is there anything to be gained by using legal instruments to bind ourselves – or rather, to bind new generations of decision-makers – to the mast? Haven't recent years shown that binding through purely political instruments, based on good will and morals, has been adequate?

The answer must partly be sought in the arguments relating to generality and procedure referred to above. Constitutionalism's main argument about making important choices while there is still time may provide an appropriate starting-point: no-one knows what the composition of the Storting or the government's policy will be after the elections in 2013, 2017 or 2021 …

Legally speaking, future majorities will be able to change or revoke constitutional constraints inherited from their ancestors. But it may take slightly longer or require broader support than would otherwise have been necessary, and it will require (new) formal decisions and will have to be based on an argument tailored to the general form of the rules. None of this needs to be a disadvantage.

Considering the Norway of today, it may also be useful to recall the balance in the system of legal norms as a whole: a very large portion of the government budget is pre-allocated to fulfil the obligations defined by – exactly – legally binding provisions. At the very end, the constraints to which the budgetary authorities are subject as a result of contracts, legislation conferring rights and so on are based on the constitution. Government expenditures incurred in order to honour these kinds of fetters currently accounts for the major part of the annual budget.

In a situation where legal instruments determine a sizeable share of public expenditure: why should we be afraid of legal constraints related to consumption?

Procedural law

Procedural requirements for the preparing and laying down of legally binding political decisions will vary with the form of enactment selected or required to change previous decision in the form of constitutional or legislative enactments, by domestic or international law and so on. Such norms can

- slow down the pace of the decision-making process, and thereby
- compel us to consider a matter more thoroughly,
- enforce greater transparency, and thereby
- entail stricter requirements for "decency"; not everything that can be said in private or on social networks can be expressed in open debate,
- require justification in keeping with the general nature and effect of the rules over time rather than with the circumstances of a particular case (cf. the above distinction between rules and discretion),
- require broader democratic legitimacy, for example through the requirement to choose between proposals for and adoption of constitutional amendments, and
- require broader support, for example by requiring qualified majorities or the support of more than one political group.

Even though legal norms may be changed by following the right "recipe", the need for changing legally binding norms can make a difference compared with political changes that may be implemented through more or less internal processes without observing specific requirements regarding form.

In addition, this line of thought is in close keeping with the principle passed down with the constitutional state: *rule by law, not by men*. What makes political governance on a case-to-case basis democratically superior to governance by means of such generally formulated, presumably well thought-through decisions in a general form that we call legal norms?

Institutional law

In both Norway and other developed countries, a large number of legal norms concerning *who* may or should decide *what* are built into the political system. The following are some examples from Norway:

- a substantial and probably increasing number of administrative bodies with some degree of independence from the main administrative hierarchy, including many court-like, supervisory or auditing institutions and – of course – the central bank.
- the budgetary procedure of the Storting, which is occasionally claimed to give all power to the Government, leaving the Storting to move minor items within pre-defined limits; paradoxically enough, these rules are laid down in the parliamentary rules of procedure, adopted by a simple majority and therefore *not* binding on the Storting if it should wish to make an exception to the rules or to change the system. (The Swedish system on which it is modelled, is adopted in a more binding form.)
- the requirement that certain decisions regarding the central bank shall be immediately communicated to the Storting.
- procedures for advance monitoring, for example in the form of open consultations seeking the views and advice of relevant professional bodies and interest groups and – by extension –
- rules on public access to administrative documents, freedom of expression, transparency ...

In a comparative perspective, even the idea emerges that a system for monitoring by courts is far from inconceivable. But for the common Norwegian, the idea is undeniably foreign; in the case of public finance, it will also pose a few – to us – slightly unfamiliar technical challenges.

There are already a number of norms of institutional law in the area of public finance. They are largely about ensuring greater diversity and diversification of power. From a constitutional point of view, a legally binding form is often necessary for such rules to have full effect. Why shouldn't we continue to think along these lines?

Ability and will

So far, we have ascertained that many kinds of legal instrument are actually available in the struggle for making political objectives come through. There is nothing to indicate that the same starting-point does not apply in the field of asset management on behalf of the community. On the contrary, it could be said that good will is a particularly unreliable guide on the straight and narrow path when temptation is as great as in today's Norway.

There is no "correct" dose of legal or other instruments irrespective of area of society, time or place. But we can derive inspiration from both historical and comparative experience. Exploiting the possibilities presented by the traditions of different scholarly disciplines will give the best results. This generates a need for increased awareness of the necessity of reducing the distance between professions and scholarly disciplines. The fact that political action must often, in the final instance, be carried out by means of legally binding decisions is in itself sufficient to show that fields like "law", "politics" and "economics" are intertwined.

Are we thereby assured of "the good result"? The answer is obviously no: we will never reach full agreement on what is "good" government, in any case both central banks and supervisory bodies can be mistaken, our dependence of the global community is constantly increasing, and – not the least – anything can turn wrong!

Political decisons that last forever is hardly an objective. I therefore conclude by recalling one of Jan Qvigstad's main arguments: democratic legitimacy is built and maintained over time, irrespective of the degree to which it is anchored by legal or other means.

References

Colbjørnsen, Tom (2011). “Selvbindingens dilemmaer” (The dilemmas of self-binding). Newspaper article, in Norwegian only. *Dagens Næringsliv* 27.6.: 3

Makt- og demokratiutredningen (Norwegian Study on Power and Democracy) (2003). “Makt og demokrati. Sluttrapport fra Makt- og demokratiutredningen” (Power and Democracy. Final report from the Norwegian Study on Power and Democracy) *Norwegian Official Reports* 2003:19, in Norwegian only*)*

Grundgesetz – translation from http://www.servat.unibe.ch/icl/gm00000_.html

Local Government Act – Act No. 107 of 25 September 1992 relating to local government authorities

Pension Fund Act – Act no. 123 of 21 December 2005 on the Government Pension Fund

Managing wealth – views and perspectives
Lightly edited transcript of the debate

Steinar Tjomsland, Supreme Court Justice

This year's theme "managing wealth" is in reality a sub-theme of last year's theme, which was "making good decisions". The themes are thus not that different.

Both the lecture's title and content indicate that it is the management of surpluses or wealth that Qvigstad has had in mind. But managing resources that are so modest that they only stretch "from hand to mouth" can also be very demanding and challenging. The building worker who at the beginning of the previous century gave his pay to his wife so he wouldn't spend it on drink, probably reasoned along the same lines as former central bank governor Hermod Skånland when he considered the establishment of the oil fund, even if the worker was unfamiliar with Skånland and Odysseus who tied himself to the mast.

This brings to mind Sunday school in Lund chapel in Kristiansand and the parable of the talents, which I believe can be found in Matthew Chapter 25, verses 14 to 30. One of the servants had received talents while his master was away on a journey, and through various transactions he turned five talents into ten by the time his master returned. Another servant had received two and had four upon the master's return, while a third servant who had only received one talent had buried it in the sand. He received a stern lecture when the master came home: "You should have invested my money with the bankers, and at my coming I would have received what was my own with interest". The moral of this parable is – in addition to the fact that Jesus applied very strict return requirements – that we are all responsible for managing the various types of assets we own.

No matter what tables and forecasts we use, at least in the case of private investors it is impossible to eliminate the uncertainty involved in asset management. The only thing that is certain is that trends change. And they change, at least this is my amateur impression, surprisingly often at unexpected points in time – for the experts as well. A textbook example for me is the following. The very prudent, perhaps even dull, men that about 20 years ago had invested in bank shares experienced – also in the long run – that they were at best left with a deductibility item for future tax assessments.

With respect to the state's wealth, the good decisions, which we discussed last year within the very broad existing legal framework, must be made by our politicians. And this does not only apply to financial wealth, but also to natural resource wealth and the value of human resources. The present arrangement with a joint board for the oil fund and the central bank is not in my mind self-evident, but I would be going off on a tangent if I were to delve into that issue.

Various experts and advisors play a key role as facilitators. But it is the political authorities that must – both formally and in actuality – decide which overarching management framework for risk and ethical considerations should apply. It is the political authorities that govern the country and not researchers or the courts. And the political authorities must not abdicate here – as did the building worker.

Karine Nyborg, University of Oslo

Thank you for the interesting lectures and comments. I would like to raise a question that none of the lecturers has mentioned, even if it is closely related to some of the points made. The most interesting aspect of this question is perhaps not the question itself, but why it is so rarely asked.

The question is: Why should we save oil money and leave them to Norges Bank, to Jan Qvigstad and his colleagues, and run the risk that they put it in their own pockets?

I would promptly add that I am not very concerned about this myself. I am in fact utterly unconcerned about that prospect. But that question would not be considered irrelevant in all countries. What is interesting is exactly that; we do not seem to be concerned about the possibility that Norges Bank executives might steal the money.

Perhaps because it is illegal. Perhaps because Jan Qvigstad seems like a decent fellow. But the law and personal morals are not necessarily sufficient.

Let's say that it would not even occur to Jan to take the money. He wants to manage this wealth in the interest of the public good. But then he discovers that his boss has other plans. And his boss threatens to fire Jan if he tries to stop him.

What can Jan do? He could perhaps turn to the minister of finance. But what if the minister of finance is also involved in the scheme.

He could go to the police. But why in the world would the policeman want to pursue the matter? The policeman has every reason to expect that Jan's boss has already spoken to the judge, who would not be at all interested in prosecuting anyone in this case. Jan would lose his job and would not succeed in involving the police or the courts.

He could perhaps approach his family and ask for moral support. But if the family expects Jan to take his share of the oil wealth, his family might not consider Jan to be a decent fellow at all since he is not willing to share the wealth with them.

The point is that if we seem to have no fears that the managers will put the wealth in their own pockets, it is not only because theft is prohibited by law or because we believe that the managers are decent folk. I think it is also to a large extent because we live in a society where it can broadly be expected that citizens follow the rules. Hence the rules actually function.

When we talk about sound management of abundant wealth, it is obviously important to discuss matters such as fiscal rules, equities versus bonds and so on. But perhaps there are other aspects that are just as important in the long run, notably maintaining these expectations. I don't think there is any reason for them to change rapidly, but as soon as people start expecting something else, that is to say that others will *not* follow the rules, they will quickly have a *reason* to expect something else. And the whole thing could fall apart at the seams.

It can therefore be argued that a sound long-term approach to wealth management depends not least on things such as a critical and alert press corps, transparency and debate.

Jarle Aambø, Elite Sport Director, Norwegian Olympic Committee

Thank you for the opportunity to be here. I am not an economist, lawyer or historian. Yet this *is* a cross-disciplinary seminar on a topic that embraces even more; managing wealth is a subject that matters to many people, also those of us who work in the area of elite sport.

I am a manager, but there is always a coach inside me too. We work every day to realise young people's dreams and their potential for growth and development. The part of Qvigstad's speech that stuck in my mind concerned the large piece of the pie, wealth created by labour resources. The question is how we will succeed in managing human resources and knowledge. The value of our current and future labour resources is more than ten times as great as the value of our oil and the oil fund. Our future will depend on how adept we are in producing and selling goods and services that others value – in competition with others. Our products do not only need to sell. They need to sell better than other countries' because of the intense competition in the global arena. And thus, the topic is related to what we are doing – where we employ concepts such as competition and development – concepts that we know well from elite sport.

How are we actually managing knowledge? Are we investing enough in knowledge and development? How are we managing the knowledge that helped to get the oil up from the ocean and refine it into a marketable product? New knowledge has enabled us to produce more oil from proven fields, and with the aid of new technology, it has turned out that new discoveries could be made, even in areas that had been carefully explored in the past. In short: we can utilise old wells even more efficiently.

I was introduced some time ago to a guy who was the world champion welder. This is exciting. What is at the bottom of that kind of performance? Where does he come from, where was he trained and in what environment and culture did these skills emerge? These are questions that really piqued our curiosity. What can those of us in elite sport learn from this welder? Perhaps great wealth – untapped riches – lies in a transfer of values and in the culture that created these skills.

This is where the challenge before us lies in managing wealth, by investing in knowledge and brainpower, where the return is not measured in kroner or in per cent, but in the higher quality of the future labour force, and it is there we will find the common denominator in what it is to develop wealth.

Camilla Serck-Hanssen, University of Oslo

To manage wealth is to think far ahead. It is to think so far ahead, that it entails taking into consideration those who do not yet exist. The Deputy Governor's speech was, as expected, conceived from an economic vantage point. Nevertheless, a key premise of long-term wealth management was explicitly of a moral nature. Rights to the nation's natural resources cannot depend on *when* an individual is born.

Allow me to play devil's advocate. Is it so obvious that future generations of Norwegians are entitled to the riches we have succeeded in amassing here today? Why should the time of birth be more irrelevant than other random factors, such as *where* a person was born?

In Qvigstad's speech I saw a hint of two different responses to this challenge. One line of thought is that the state is under obligation to ensure that its citizens are guaranteed certain benefits. And when the state, suddenly and without warning, becomes far wealthier than expected, this does not necessarily change the content of the obligation. The state is thus not necessarily obliged to provide more and more generous benefits, but rather to seize the opportunity to ensure that benefits can be provided far into the future. This is in keeping with the abstract nature of the state. But since the identity of the state is not established with naturally determined temporal end points, the way a person's identity is established with the temporal end points of birth and death, the state's obligations to its citizens cannot be constrained by duties to a set of an actual number of existing persons.

The second line of argument Qvigstad hinted at is the caregiver aspect. That is, he draws an analogy between the state and the head of the family, be it John Collett or the farmer. The care that such a head of a family provides for posterity means that we may not only reap and consume, but we must also protect our estate in a long-term manner. Otherwise our children and their children in turn will suffer. Those with children will probably be persuaded by this argument, but only to a certain degree. The truth is, purely psychologically speaking, we are wired to feel concern for what is nearby in time and space, but not so much for what is distant. Which is why we might be able to worry about the future of our children, grandchildren and even our great-grandchildren, even if the latter two generations are yet to be born, but there I also think that it stops for most of us.

And besides, what about those who do not have children, or who do not even want children, why should they forgo greater benefits now for other benefits that go to someone they have no emotional ties to whatsoever?

And why are we supposed to feel obliged to save wealth for those who become citizens without even having been our children? These are points that Einar Lie touched on as well.

Permit me to use Qvigstad's analogy against him. If you know anything about Norwegian rural society, then you also know that a farm with allodial heirs is managed in a completely different, long-term manner from one managed by a tenant farmer. Another weakness of the care argument is that it easily leads to a subjective feeling of what we, our children and grandchildren are entitled to.

Because this argument appeals to our emotions, it easily goes hand in hand with the notion that we are entitled to satisfying most of our desires. And as we know, these desires are seemingly insatiable. Anyone who has looked into a child's bedroom today, with its 18 Barbie dolls and equal number of computer games should realise that the urge to please our children and satisfy their desires is ill-suited as a compass for the children's rights.

So let me recapitulate. The basis of the long-term management of our wealth is probably a moral intuition, at least in part. We who are alive today do not have the right to spend it all. I am not questioning this intuition, and neither is the Deputy Governor. I asked instead an ethical, that is, a more systematic and overarching question about how this moral intuition can be justified.

In Qvigstad's presentation I detected two lines of argument, one based on the idea of the state's duty to its citizens and the other appealing more to our duty to care for our children. I believe that the first line of argument is the way to go. It seems to me that Qvigstad believes more strongly in the second. Yet perhaps this disagreement (if that is what it is) need not trouble us, for despite everything, his job as an economist *is* to ensure that our money grows in the long term so that there is something for those who come after us. So let us philosophers and politicians discuss the ethical question of what, in essence, justifies us not giving it all away instead in the form of a vast Christmas present to all of us living here today.

Jens Ulltveit-Moe, UMOE Group

It is, after all, a sign of the times that we are gathered here, the country's best economic brains for managing wealth, not creating it. And it occurs to me, that if we look at the relationship between the wealth of individuals and society's wealth, there are vast differences on the wealth-creation side and considerable similarity on the wealth-management side. To create wealth, freedom is essential to the individual. If we look at wealthy people today, we see that almost none of them have inherited their money, this wealth has been largely created, and considerable fortunes have been made in the past twenty years. If we look at those who create wealth, they continue to do so all their lives, just look at Olav Thon[1]. And not just to reach a suitable level; you just can't stop.

So what happens to those who come after them? It is quite interesting that the ability to create wealth does not appear to be inherited. The ability to consume is easily passed on. And this means that, like members of the Storting, heirs

[1] Norwegian real estate developer. (See http://en.wikipedia.org/wiki/Olav_Thon)

must be tied to the mast. It is very hard to keep a fortune tied up, under control. It used to be that if you had a ne'er-do-well son, a forest would be a fitting inheritance for him. After all, the forest just grows, and it would thus be expected to ensure creation of wealth. But it is not this way anymore. In the 1950s, if you had a small forest, you could extract each year an income equal to an ordinary teacher's salary. I am thinking about my own family. Today the same forest provides only a tenth of that teacher's income. So there is not, if you look over a few decades, an economic constant you can use to preserve a fortune beyond your own lifetime.

Wherever this has happened has one thing in common. And that is that you separate the individual from management. You cannot trust that heirs will be able to manage the wealth. That is, you can be absolutely sure that all the money will be spent. Qvigstad's example of Collett is typical. The Robert Bosch family has been wealthy for 150 years. Robert Bosch was a sensible man indeed. His heirs now number 200. They are all filthy rich, sharing among themselves a couple of million euros every year. And they are rich because Robert Bosch never allowed any heirs at all in company management. If you can keep them apart, it may work.

Otherwise, wealthy people have the privilege of deciding where their money will go. So they can do what Tinius Nagell Erichsen[2] did: take a couple of billion from his heirs, but ensure that *Aftenposten* and Schibsted remain Norwegian and controlled in Norway. No doubt an act that gave him great pleasure. You also have, and we see this much more in the US, people giving to foundations. The point is that you are the one to choose where your contribution to society will go; it will not be taken from you and used for taxes. Look at Bill Gates and Warren Buffett – large, important foundations – and they are giving it away while they are alive. The point is that they get double the enjoyment from their money, it is fun to make it, and it is just as much fun to give it away. And it may even be more fun than if their heirs were to spend it. So I think that the analogy remains rock-solid. Management of Norway's oil wealth must not be entrusted with those who are supposed to spend it. This needs to be put in an institutional framework and operate under

[2] Norwegian publisher, noted for his leadership of the Schibsted media conglomerate. (See http://en.wikipedia.org/wiki/Tinius_Nagell-Erichsen)

strict rules. The only cases of families being able to continue for several generations are when child rearing is extremely strict. Let us hope to be able to see the same degree of strictness in the Storting.

Hanne Skartveit, political editor of the Norwegian daily newspaper VG

In the world's richest country, we should be able to afford dignified care for the elderly, to put an end to hospital queues, to provide hot lunches in schools, and to fund fathers' support groups. It is after all not fair that only new mothers are offered government funded support groups. *In the world's richest country* – this must be the most destructive formulation in Norwegian political rhetoric. Carl I. Hagen[3] used it first, as he has so many effective, popular slogans, and the expression has taken root, for good. People nod when they hear it. Of course, we should be able to afford everything in the world's richest country. And viewed from the outside, we *can* afford everything. But what do we do when money is no longer a limited asset, for people in general or in the public sector? Our politicians have done well, Qvigstad is right about that. The fiscal rule is a small miracle. But I nonetheless detect a wealth-induced indolence among Norwegian politicians. They avoid discussing sensitive issues, such as municipal mergers. They are afraid of challenging special interests or strong voter groups. The residential property tax is a good example. Over the years, I have spoken to many key politicians, from different parties, who have voiced support for a residential property tax. But today, saying so would amount to political suicide and as a result only Svein Gjedrem, the former Governor of Norges Bank, and a few others try to raise the issue.

The healthcare sector is another example. The Lønning I and Lønning II commissions did not offer much in the way of concrete proposals, but one of the things they suggested was restrictions on artificial insemination. But even that has not been followed up in practice by politicians. And determining priorities in healthcare policy is long overdue. But it is sensitive and it is difficult, and politicians see the need for this kind of debate as long as they are in power,

[3] Leader of the Progress Party (Fremskrittspartiet) 1978–2006. (See http://en.wikipedia.org/wiki/Progress_Party_(Norway))

and when they are in opposition, whoever they are, they see that they can score cheap points by defending all those who want more. And those of us in the press don't always make matters easier. Many journalists see critical journalism as a way to call for more money on behalf of weak groups. An example is "Kulturnytt" (a news programme about cultural events) on NRK's morning news radio show. There is apparently no limit to how many cultural festivals or local museums that receive insufficient public sector funding. And we journalists seldom ask who has to move further back in the queue when someone else is moved forward because we write about them. And we seldom ask where the politicians cut funding when they allocate more money to good causes.

In his speech, Qvigstad referred to Trygve Haavelmo's expression *rent-seeking*. I think that is a good word. A few years ago, I was sent along as part of a reporting unit from the newspaper VG to Grue municipality. We decided to turn the cameras around. We decided to focus on how those who complain most spend money themselves. The mayor of Grue was interviewed on the national news and said when the government budget was presented that they would have to close the swimming pools; he stood at the nursing home and told the old people there that there might not be room for them there next year. It was terrible. So I spent three months calculating budgets and working out accounts, and discovered that they had completely fooled us all. Expenses had been overbudgeted and lots of income had been omitted. But as journalists, we examine the figures far too seldom. And we explore structural issues far too seldom.

When public sector rationalisation measures are implemented, why are there for example so few police on duty in the streets at weekends when we need them most? And why are there so many, most in fact, if you read VG in the next few days, on duty at 12 o'clock on Tuesday mornings. Why is that? The press and others should investigate. As a society, I think we reward exciting and visionary politicians. But what about the solid, less colourful politicians? Who see that maintenance is done to prevent things falling into disrepair? They are rarely rewarded for it. Because opening a new arts centre, or a new road, attracts far more attention than repairing things we already have. To manage our wealth, we have to rely on politicians being able to be sensible, even miserly when they have to be. That they are able to take unpopular decisions, to do what's right, not just in the short term but over time. And we must remember how lucky we are. Living in Norway right now is a gift we must cherish. Managing wealth can be difficult. But it is far worse to be penniless. In spite of everything, it is still true that it is easier to be healthy and rich than sick and poor.

Jarle Aarbakke, University of Tromsø

I have noticed that things are going amazingly well in the kingdom of Norway, even during the current times of financial crises and a troubled Europe. We live in a world where relative powers and influence shift rapidly between those of previous hegemons and emerging economies. Norges Bank has offered this opportunity for us to do a little thinking aloud. I salute this invitation since I believe we need a greater variety in the soliciting of thoughts and views on these things than is traditionally sought. In this room there is a painting of the perhaps most talented man in this country's history, Fridtjof Nansen[4]. Every time I visit this building of the Norwegian Academy of Science and Letters, I am inspired by this man – born 150 years ago, but still vibrantly present and influential as a scientist and a humanist. He had an astonishing ability to think thoughts that have proved to be useful and sustainable also in modern times. What would he have thought about the management of Norway's wealth?

First, a highly topical and concrete proposal: The background for this proposal is inspiration taken from San Francisco, Berkeley and Stanford, with three of the world's top ten universities, whose history ranges from Thomas Alva Edison who invented the electric light bulb and held 1070 patents, to Apple, the company that has changed the way we communicate. Norway should, as a country, do the same as many successful companies do, ensure that a fraction of our created value is allocated such that our greatest scientific talents can spend time as post doctors at the world's best universities. And when they

[4] Fridtjof Nansen (1868–1931): Norwegian explorer, scientist, diplomat, humanitarian and Nobel Peace Prize laureate (See http://en.wikipedia.org/wiki/Fridtjof_Nansen). Since the centenary of Nansen's birth, the Academy has held an annual Fridtjof Nansen Memorial Lecture. The Academy also awards annual scientific prizes from the Nansen Foundation, established by Nansen admirers in 1896.

return to Norway, I would argue that with such fresh experiences they would also be strongly competitive applicants for academic positions at Norwegian universities.

My second proposal, which has a significantly longer time perspective, takes its inspiration from developments in the northern areas. Norway should diversify its revenue base in these areas. Today marine and petroleum sectors dominate. Developments in emerging economies of the world require increased access to ore and minerals, which exist in ample supply in the northern areas, partly exclusive, and with great potential for cooperation with Sweden, Finland and Russia. This would require, however, that Norway invests in infrastructure and competence in modern and environmentally sustainable production technology. This would, in my mind, be a very promising long-term investment.

My third proposal has a really long time horizon. How can a small country with 5 million inhabitants contribute to a more peaceful world with less inequality in life conditions? There are some areas in which Norway already contributes more than proportionally relative to its population size. One example – today more than 37 million meals are served globally, on a daily basis, based on Norwegian fish. This constitutes a significant contribution to rich and healthy nourishment from fat and protein. Maybe Norway could also increase its global contribution of humanistic capital? Fridtjof Nansen was a forerunner, with small resources he helped save hundreds of thousands of people from starvation and hardship. What kind of contribution would be in order today? Should we question whether the planet's inhabitants will continue to accept a global distribution of resources based on where they happen to be born, or where they have settled down? Should the international community intensify its ambitions to work out alternative solutions? Is it certain that Norway's contributions from investing in 8000 companies world-wide foster solutions which are sustainable in the long run? Or should we manage our wealth in such a way that it becomes a door opener for the development of a better future? I ask myself what the man, whose name forever will be attached with humanistic values illustrated with the Nansen passport[5], would have thought about the future challenges of managing Norway's wealth.

Halvor Mehlum, University of Oslo

The fiscal rule has been mentioned. And it has been fantastic in a number of ways, not least that it has been adhered to since its introduction in 2001. This is probably because the oil fund has grown so quickly that spending four per cent of the fund is a job in itself. Little could surpass the fund's rate of growth.

But an additional element that has not been mentioned – and Smith talked about the need to bind oneself to the mast etc. – is that an inflation targeting regime, the fantastic inflation targeting regime, was introduced at the same time as the fiscal rule. And inflation targeting is phenomenal, not because controlling inflation is in itself a good idea – this is not today's discussion – but the inflation targeting regime has led to a situation in Norway where a politician who wishes to spend more money than provided for under the fiscal rule will be punished. Journalists were mentioned earlier – journalists are onto them straight away asking questions like "How will it affect interest rates?" Of course, the interest rate will rise, and that's what the discussion is about, it's not just about living in the richest country in the world. Even though interest rates in Norway are extremely low, any suggestion of spending so much that interest rates would rise, by one percentage point, from two to three per cent or whatever it is, triggers a scolding. The disciplinary effect is enormous. In the 2005 parlimentary election campaign for example, Erna Solberg was featured on huge, full-page ads where she said that the Conservative Party promised the lowest possible interest rates. And promising the lowest possible rates is to promise the lowest possible spending over the government budget. That's a fact. So political competition in Norway contains at least an element of moderation as a result of the inflation targeting regime rather than a desire for moderation.

[5] The Nansen passport was designed in 1921 as travel document for refugees. In the following years around 450000 such passports were issued and helped stateless people immigrate to a country that would have them, see http://en.wikipedia.org/wiki/Nansen_passport.

So we can refer to the inflation targeting regime, it was fashionable when it was introduced and still is fashionable. But it won't necessarily last. Because of the crisis in Europe, the ECB may pump out money not only to support purchases of Italian bonds, but also to restart economies and perhaps provide some breathing space for Greece. A little inflation in the rest of Europe might be good for Greece. And if *that* is the situation, the inflation targeting regime might suddenly crumble to nothing. And what would be left of the disciplinary factor then? The outcome is highly uncertain.

The way things have gone recently, there is no longer any clear link between interest rate changes and fiscal policy. So it was fortunate that inflation targeting was fashionable when the fiscal rule was introduced. But implementing the regime was not a matter of course. And it is interesting, since this conference is hosted by Norges Bank, that when inflation targeting is mentioned, the disciplinary effect on the finance minister is never emphasised. I think this is the most important aspect of the regime, not least when we discuss the management of Norway's oil revenues, as we have done today.

Jørn K. Baltzersen, M. Sc.

I would like to pick up on something Professor Smith said – about rules to constrain spending by politicians and bureaucrats. Having lots of good rules is all well and good, but they serve no purpose unless they are actually enforced – and enforced by a government agency. Ludwig von Mises used the example of gold as money as a kind of constitutional constraint on the government. Since more gold cannot be printed, there is a restriction, a natural restriction on spending. In my opinion, this is a much better restriction than making up a rule that is dependent on being enforced. The gold standard has to be respected, of course, but it is actually an external restriction. And this brings us to the management of wealth, and particularly the oil fund, which is the responsibility of Norges Bank, but also to the management of the wealth held by all of us sitting here – as our wealth is in Norwegian kroner. Economists frequently say that we must avoid a strong currency because the export industry will suffer and that will have an impact on us all. So we have to follow the US dollar, the pound sterling and the euro on their way down when money is printed in Washington and the UK, and when there are problems in the euro zone. As a result of these problems, these currencies naturally depreciate. And are we then supposed to follow them down because we need to avoid a strong currency? The problem with the oil fund is whether we can rely on Norges Bank to protect Norway's oil wealth when all this money printing is going on and with all the problems in Europe. How do we ensure that the oil wealth does not collapse when the government bonds and other investments the oil fund invests in are dragged down when hyperinflation then spreads through the world, probably not too many years into the future? Similarly, how can we rely on Norges Bank to actually safeguard our assets that are invested in Norwegian kroner?

Terje Sjeggestad, Norwegian Immigration Appeals Board

I would like to highlight a point. Our discussion about the management of wealth is, as I hear it this evening and elsewhere, largely a discussion centred on two main issues. First, how much we should spend on ourselves today and how much we should spend on future generations in Norway. Then there is the question of priorities in relation to the money we spend on ourselves today. And with the exception of the previous speaker, these issues have been in focus here this evening.

Especially since we are gathered here in the home of the Academy of Science and Letters, we should at least produce some thoughts that we cannot necessarily expect our politicians, who hope to be re-elected, to think for us and present to the public. So I have brought with me the question my 12-year-old son posed when he asked me what I was going to do today. And I told him that the issue we were going to discuss was "the management of wealth".

He thought for a while, and then he asked: Shouldn't people who are wealthy, like us, and wealthy partly by coincidence, the coincidence of being born in a particular place on this planet, think more deeply about how we should be managing this wealth in the best interests of a larger community? And not just our own community and those who come after us, but think about people out there in the world today and people in the future who will be basing their lives on the conditions people out there are living under today. Because how the world functions today and the capability of our descendants to function in the world they inherit are connected.

I wanted to bring this little message from my son into this venerable gathering, and I hope that someone will be able to include these issues as a theme in our debate, here today or in the public debate, about the management of our, in global terms, enormous wealth.

Closing remarks

Eivind Smith, University of Oslo

Well, I haven't been challenged too much, so I won't be making any angry comment. I was able to find my watch again, that's one advantage of coming up here. Otherwise, just some very brief remarks. About binding oneself to the mast, and whether we should really do it if we are not entirely certain that everyone is as wise as we are, sort of. I strongly disapprove of the idea that Jan Qvigstad should be able to put the 3 trillion in his own pocket of course. That's something else, though I take your point. If we cannot be absolutely certain he won't, then regimes must be put in place. Constitutional thinking at its best, I would say, is based on an idea that we must act, bind ourselves to a certain extent, not too much, but just enough. Tackle new challenges etc in time.

We should regulate management and wealth while we are wealthy, not when we have ended up like Greece, which I hope will never happen, but no-one knows the future, do they, and that's perhaps part of what I stood here and said. We should also be aware that regulation would not be a dramatically new measure. We do it extensively. For the past 130 or so years, the Director General of Public Prosecution has been subject to a regime that is established in law, that states that if the Government should happen to intervene in what he does, it would have to be on the strength of an order adopted by the King in Council. That's all it takes, but as far as I am aware, this has not occurred in that simple form. Because the rule is there, and there is also something about the King in Council being a body – despite the antiquated expression – that is the object of public awareness of a completely different sort than many other things, which is naturally a central element of the discussion. That wasn't what you were talking about, Terje Sjeggestad, but your institution (the Immigration Appeals Board) is an excellent example of how a system might be built up that keeps decisions at a slight distance from politics. This is not to eliminate politics, but to govern in other political ways.

Norges Bank's interest rate regime and the inflation target set by the Government – that target can be changed from 2 ½ per cent to I don't know what, but if that is to happen, the law states that the Storting is to be notified immediately etc., etc., and that in itself is meant to pose a substantial obstacle to doing it. It is not impossible, but it shouldn't be done, and everyone has known that since the norm was laid down. Opportunities abound, including, but not limited to, constitutional constraints, as long as we are aware of what we are doing and introduce them in appropriate doses. The fiscal rule should also, in my opinion, be discussed from this perspective, but it is not easy to find examples of such a discussion, in a sense not this evening either, except for me, but that's the way it is.

Ulltveit Moe is one of several speakers who mentioned legal measures. When many of those wealthy people you talked about want to give away a billion or something, they don't just make lavish donations, do they, not even to the University of Tromsø or Bergen. They establish a foundation. You mentioned one who did it like that, perhaps from ulterior motives to do with inheritance etc., and that's a way of using legal instruments, tying it up in a different way. So this is a common method. We must just try to bring it up to the level we are now talking about, and see if we shouldn't even do it to a greater extent as regards the objective of restricting public expenditure, which is a completely legitimate way of doing it. Not just use legal instruments to support additional requirements, rights legislation and the like, to which there is very little objection, as far as I can see, outside the Ministry of Finance. Objections to incorporating more and more items of expenditure are largely not covered by the media at least. I don't think I have anything more to say at the moment, but it has been fun so far and I would like to extend my thanks again for being given the opportunity to take part.

Einar Lie, University of Oslo

Thank you for many interesting and thought-provoking contributions. I will comment on some of them. It is obviously correct, as Ulltveit-Moe mentioned, that the ability to create wealth is not inherited, only the ability to spend it. And I also think that in a way this clearly delineates our national challenges. For this does not only apply to individuals, but to national demands for income and standard of living.

On to Baltzersen and the gold standard: To a historian, drawing attention to the gold standard is rather amusing. These days there are not many who seize upon the issue, so to speak. But I would point out that there are some problems with the gold standard which were there all the time, and that is that monetary value is fixed – but only to gold. This meant, for example, that when gold was discovered in New South Wales or in the Klondyke, or when the cyanide process appeared, which made gold easier to extract, this increased gold reserves, which in turn made room for growth in money supply and reduction of the value of money. There are ties to gold, and it is obvious that there are limits for the amount of gold one has, but as a way to defend the value of money it is hardly more reliable than a consistent inflation target, for example.

I would like to say to Sjeggestad's son that I basically agree with his views. Aarbakke also mentioned the international dimension. I think it was also included in a couple of other contributions, in Camilla Serck-Hanssen's comments, and actually in the point of my own main line of argument. I believe we *are* connected to the Bufast mentality, where there is a clear kinship line, where we show concern and are responsible for those close to us. We follow the moral intuition that Camilla Serck-Hanssen touched upon, and which I tried to point out is not immutable. If we tear ourselves loose from it, and I believe we are doing so more and more, as we move more in proximity to one another and have other peoples at closer quarters, we will hardly feel greater responsibility for succeeding generations of Norwegians than with other fellow human beings in the world today. For there is no reason to believe that our children and grandchildren will be worse off than other groups in the world today, with whom it will be more and more natural to feel solidarity. I did not bring this up for discussion, but it follows from the line I indicated. Herein lies a challenge to governance as put into practice, but also to the moral foundation.

Finally: I think that Nyborg's contribution concerning why we should trust Norges Bank was thought-provoking and very interesting. The absence of corruption and trust in politicians and civil servants are fundamental institutional characteristics of Norwegian society. The modest level of corruption is very interesting and actually insufficiently studied. Under Danish rule, local officials had such a bad reputation, as they were paid according to the work they did, for example, per sheet of paper when writing out marriage certificates etc. With the handwriting current in the mid-1700s, one could get away with writing as few as two words per page, and the common people reluctantly paid. But with the new nineteenth century and the national civil service, which in its own eyes bore a poor nation on its shoulders, this practice disappeared quickly. This point was not made very much, as I said, but it is part of the norms and infrastructure within which we think, that we need not be afraid of what Jan Fredrik Qvigstad has in his pockets. I suppose there is a lot more I could have seized on, but I will conclude here. Thank you for very interesting reflections.

Jan F. Qvigstad, Norges Bank

As a bridge to the theme of next year's seminar, I would like to cite an example from a book by Einar Lie: *Ambition and tradition – The history of the Ministry of Finance from 1945–1965*. Friedrich Georg Nissen plays an important role in this narrative. Nissen was secretary general of the Ministry of Finance directly after the Second World War. All the economists who worked with him spoke derisively of him. He was after all but a jurist in a blue suit who insisted that the budget must be brought into balance. The economists reacted with scorn – Nissen's assertions were contrary to the new economic science based on Keynesian economics. So what the economists at that time believed to be the truth was not the same truth preached by Georg Nissen. The new truth was that the state should engage in Keynesian demand management by maintaining a deficit if unemployment was too high. Nissen's approach was rejected.

But if European governments had followed Georg Nissen's advice over the past decade, Europe would be in a far better position today. The truth pontificated by Nissen and which ceased being a truth 50 years ago, may have greater validity as a truth again today.

What are the timeless truths in economics? That budgets must balance over time is probably a timeless truth; that inflation is solely a monetary phenomenon is perhaps another. We should reflect on which truths are temporally determined and which are more timeless and permanent in the field of economics.

The same applies perhaps to other fields of academia. An example from medicine is the wide use of lobotomy in treating psychiatric patients in the 1950s, which was later considered to be so atrocious that the Storting decided in 1996 to provide compensation to all surviving lobotomised citizens. The doctors who had performed the lobotomies had not done so with malice. They actually believed the treatment was valid and beneficial. So within the field of medicine there are also truths that are temporally determined and others more timeless. The same applies to the field of law where we can observe that the pendulum swings between public versus private.

I hope that we can engage in an interesting debate next year about the temporality of truths in different fields of academia. That is why I have chosen to talk about "*On learning from history*".

About the authors

Jan F. Qvigstad (born 1949) is since 2008 Deputy Governor of Norges Bank. From 1997 he was Chief Economist of Norges Bank, Executive Director of Norges Bank Monetary Policy and member of the executive management group in Norges Bank. Qvigstad's published works include: *Stabilitet og langsiktighet: Festskrift til Hermod Skånland* [Stability and longtermism: Festschrift for Hermod Skånland] (1994, co-edited with Sigbjørn Atle Berg and Kjell Storvik); *Choosing a Monetary Policy Target* (1997, co-edited with Anne Berit Christiansen); *Perspektiver på pengepolitikken* [Perspectives on monetary policy] (2000, co-edited with Øistein Røisland); *Twenty Years of Inflation Targeting. Lessons learned and future prospects* (co-edited with David Cobham, Øyvind Eitrheim and Stefan Gerlach)

Einar Lie (born 1965) is a Professor of Economic History and Dean of research, Faculty of Humanities, University of Oslo. Among his publications are: *Oil and international expansion. Hydro 1977–2005, Ambisjon og tradisjon. Finansdepartementets historie 1945–1965* [Ambition and tradition. The history of the ministry of finance 1945–1965] and *Over evne. Finansdepartementets historie 1965–1992* [Exceeding limitations. The history of the ministry of finance 1965–1992]

Eivind Smith (born 1949) is a Professor at the Faculty of Law, University of Oslo. Since 1986 (but with interruptions), he has served as a Professor of Public Law at the University of Oslo. He is currently Chairman of the Board at the Institute for Social Research (Oslo), Chairman/Deputy Chairman of the historical-philosophical class of the Norwegian Academy of Science and letters, vice president of the International Association of Constitutional Law and of the European Council's Group of independent experts on the European Charter of Local Self-Government. Smith has also chaired the Governmental Inquiry Commission for the Municipality of Oslo (1990–91), the Governmental Commission for the preparation of new legislation on the educational system of Norway (1993–95), the Independent Parliamentary Inquiry Commission for the Banking Crisis (1997–98) and the Independent Parliamentary Inquiry Commission for the New Oslo Airport (2000–2001).

Norges Banks skriftserie / Occasional Papers No. 45

ISSN 0802-7188 (PRINTED), 1504-0577 (ONLINE)
ISBN 978-82-7553-659-2 (PRINTED), ISBN 978-82-7553-660-8 (ONLINE)