# Macroeconomic Challenges

## English summary

The global and geopolitical framework is changing. China is having a greater influence on the world economy while the degree of protectionism is increasing in the Western world. Climate change and environmental challenges lead to increased macroeconomic risk, which in turn may call for major changes in production and consumption as well as coordination of economic policies across national borders.

Unemployment is high in many countries and has remained high since the financial crisis. At the same time, demographic changes in the form of aging lead to a smaller workforce and raise costs for pensions and care, while immigration entails major changes in the labour market. Technological changes may lead to substantial potential benefits in the form of improved efficiency and increased productivity, but may be accompanied by increased financial vulnerability. Moreover, technological advances may change the interaction between the real economy and the financial market as we know it today. This will present new challenges for the design and coordination of economic policy.

Rising economic inequality poses challenges associated with lower aggregate demand, reduced social mobility, and the risk of deteriorating living standards for vulnerable groups, which in turn result in societal polarisation and segregation. In addition, increased inequality in itself entails a loss of welfare, as resources to a greater extent are channelled to people with an assumed small marginal benefit from them.

Norway has long been in an economically favourable position due to its widespread petroleum activities, and this has affected the business structure in the rest of the economy. Through the establishment of the Government Pension Fund Global (SPU), Norway has had the financial leeway to maintain a large public sector and welfare state. As petroleum activities are gradually phased out, the Norwegian economy is facing a necessary restructuring of the business sector. The public sector also faces significant challenges and a need for substantial restructuring. The Nordic model is characterised by economic stability, a large welfare state and low economic inequality. Going forward, the welfare state may become more difficult to sustain, which in turn can affect economic development and the scope and direction of economic policy.

The room to manoeuvre in a small, open economy is limited. Although Norway can benefit greatly from globalisation and international trade, protectionist policies in many countries today represent a major challenge. The Norwegian economy is strongly influenced by international economic business cycles and framework conditions, and the scope for economic policy must be adapted to the competitive conditions in international markets. One example of this is the financial crisis and the negative impacts emanating from other countries. With limited latitude in monetary policy (key policy rates close to zero), fiscal policy has become more important. It has become more difficult to coordinate monetary and fiscal policy, also across national borders.

Changes in the climate also affect the Norwegian economy. There is considerable uncertainty regarding the various ramifications of climate change, climate policy and climate-related technological development. Economic policy must increasingly take into account climate-related risk factors and their importance for the Norwegian economy to enable private and public companies to manage climate risk in the best possible way.

The purpose of this programme is to encourage research that leads to high-quality, international publications on topics that address macroeconomic challenges. The programme will create space for research that uses applied theoretical and empirical analysis to provide relevant knowledge for business, the public sector and, not least, economic policy. The programme will have an international focus, with applications that are relevant to a small, open economy such as Norway’s.

Some of the challenges that are pointed out require the development of a better knowledge base by means of enhanced modern macroeconomic research. Access to new and diverse types of data sources and more powerful analysis tools enable macroeconomic research that, until recently, was not feasible. For other purposes it will be appropriate to utilise microdata to analyse macroeconomic questions. Activities under the programme will therefore include promoting utilisation of Norway’s comparative advantage in having good access to data that can bridge the gap between microeconomic understanding of the actions of stakeholders and a macroeconomic overall perspective.

The primary objective of the programme is to fund research of high scientific quality that addresses key macroeconomic challenges, and develops relevant knowledge about the design and implementation of economic policy.

The priority areas are (i) business cycles, wealth and economic policy; (ii) sustainable welfare state in a global economy; and (iii) growth, productivity and restructuring.

**The Research Council of Norway**

**11.9.2019**