

# Felix Salmon

## Norway, entrepreneurial paradise

Jan 20, 2011 10:25 EST

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[Max Chafkin](#) has a fantastic story in Inc magazine about how to structure an economy so as to encourage entrepreneurship, full employment, and general happiness and contentment, all while drastically reducing inequality. It's easy, in fact: all you need to do is become Norway.

There's loads of great stuff in this piece, and I'd encourage you to read the whole thing. But a few things stand out.

Chafkin starts with the tale of Wiggo Dalmo, an industrial mechanic with a high-school education who chafed under his bosses, set up his own shop, and is now running a \$44 million company with 150 employees. That's the kind of story which should be common in the US but is in fact rare. But ask yourself: in the US, how much would such a person be paying in taxes? Dalmo paid \$102,970 in personal taxes on his income and wealth last year, which is probably *lower*, not higher, than the CEO of a \$44 million company would pay in taxes in the US.

The reason is that there's much less income inequality in Norway. With a strong social safety net, the downside to starting a company and failing is small. As a result, entrepreneurship isn't a lottery, so much as a lifestyle choice. If you succeed, you'll get to run a large and successful corporation. But you probably won't pay yourself a monster income.

Why not? Well, for one thing, you won't *need* to pay yourself a monster income, since things like healthcare and college education — even through grad school, even outside the country — are covered by the state. Another part of the reason is that income, in Norway, is a matter of public record. And then there's the fact that money which would otherwise be going to the top of the pyramid is instead going to the bottom, where it does much more good:

In a country with low unemployment and generous unemployment benefits, a worker's threat to quit is more credible than it is in the United States, giving workers more leverage over employers. And though Norway makes it easy to lay off workers in cases of economic hardship, firing an employee for cause typically takes months, and employers generally end up paying at least three months' severance. "You have to be a much more democratic manager," says Bjørn Holte, founder and CEO of bMenu, an Oslo-based start-up that makes mobile versions of websites. Holte pays himself \$125,000

a year. His lowest-paid employee makes more than \$60,000. “You can’t just treat them like machines,” he says. “If you do, they’ll be gone.”

Incentives matter, of course. But not all incentives are purely financial. And there are serious problems with the US system where the incentives seem to be structured so that a large number of people are competing to become one of a very small number of monster success stories — multi-millionaire startup founders, or sports stars, or CEOs. Most of us, it turns out, have problems with the idea of playing that kind of lottery. As Chafkin reports:

I also became convinced of this truth, which I have observed in the smartest American and the smartest Norwegian entrepreneurs: It’s not about the money. Entrepreneurs are not hedge fund managers, and they rarely operate like coldly rational economic entities. This theme runs through books like Bo Burlingham’s *Small Giants*, about company owners who choose not to maximize profits and instead seek to make their companies great; and it can be found in the countless stories, many of them told in this magazine, of founders who leave money on the table in favor of things they judge to be more important.

There’s a lot of talk, in the US, about how small businesses are the engine of employment growth — something we clearly desperately need. And it looks like Norway has cracked this nut: it leads the world in the creation of small businesses, and it has just 3.5% unemployment, not to mention essentially zero poverty.

Raising taxes on small businesses in and of itself won’t help the rate of small-business creation — but it’s actually unlikely to hurt it that much, either. (And interestingly, taxes paid by an employer in New York are actually *higher* than those paid in Norway.) What *would* help would be a much stronger social safety net, so that someone who starts a company doesn’t need to fear a life of poverty in the event that she fails. Encouraging small businesses necessarily means encouraging failure — but the cost of failure is very high, in the US. Instead, we spend far too much time worrying about tax rates on the successful.

There is precious little evidence to suggest that our low taxes have done much for entrepreneurs—or even for the economy as a whole. “It’s actually quite hard to say how tax policy affects the economy,” says Joel Slemrod, a University of Michigan professor who served on the Council of Economic Advisers under Ronald Reagan. Slemrod says there is no statistical evidence to prove that low taxes result in economic prosperity. Some of the most prosperous countries—for instance, Denmark, Sweden, Belgium, and, yes, Norway—also have some of the highest taxes. Norway, which in 2009 had the world’s highest per-capita income, avoided the brunt of the financial crisis: From 2006 to 2009, its economy grew nearly 3 percent. The American economy grew less than one-tenth of a percent during the same period. Meanwhile, countries with some of the lowest taxes in Europe, like Ireland, Iceland, and Estonia, have suffered profoundly. The first two nearly went bankrupt; Estonia, the darling of antitax groups like the Cato Institute, currently has an unemployment rate of 16 percent. Its economy shrank 14 percent in 2009.

You can't blame all of Estonia's problems on its low taxes, of course — the currency issue (Norway's kroner is floating, while Estonia just joined the euro) is also huge. And Norway does have all that oil revenue, too. But looking at Estonia's housing bubble and bust, one sees an economy where people are striving to get rich quick, in contrast to Norway's culture of simply trying to be as happy and successful as possible. Which turns out to be extremely successful.