THE INTEGRATION OF THE NORWEGIAN OIL ECONOMY INTO THE WORLD ECONOMY

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ABSTRACT

Norway is a small nation state on the northernmost coastline of Western Europe, integrated in the Western world economy. For centuries Norway's integration in the world economy had been based on exports of raw materials such as fish and timber, as well as shipping services. In the early 20th century, furnace-based metals (made possible by cheap hydropower) were added to this export basket. Just as the world economy entered an increasingly unstable phase in 1970s, another natural resource was discovered in Norway: petroleum – that is, oil and natural gas from the North Sea. This chapter analyses the challenges and possibilities inherent in the Norwegian strategy of developing an oil economy in a world economic situation influenced by new and stronger forms of international integration through the four decades between 1970 and 2010.

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THE STUDY OF A SMALL, NORDIC OIL ECONOMY

Fig. 1 sketches the main components of our analysis. The impact of eight processes of international integration on the Nordic nation state is filtered through either a social cleavage structure or an economic structure, or through both. In the Norwegian oil economy, as an example, the oil price directly influences economic conditions, but it also brings important topics (e.g. concerning the country's petroleum fund) on to the political agenda. Another example is the EU single market. Its influence is felt both ways: structural trading patterns are influenced, but also the social structure is affected by EU directives written into Norway's law books. In the figure, two timelines indicate political and economic developments respectively. The political sequence has elections at four-year intervals, the economic sequence has business cycles. In between these two timelines, we insert two core elements for the analysis of economic policies: First, three complexes of market-organizing institutions, and second, the expert thought collective,

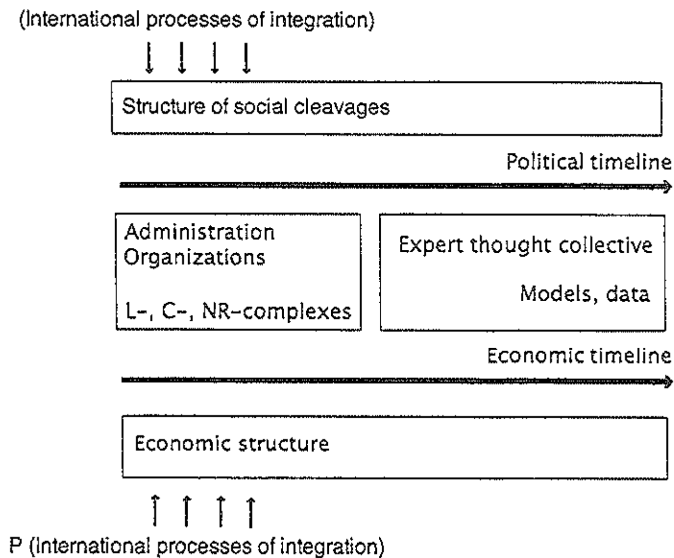

Fig. 1. International Processes of Integration, Timelines, Mediating Institutional Complexes and Expert Networks. *Note*: For the notion of thought collectives, see Fleck (1980/1935), Mirowski (2009).

mainly consisting of economists. Developments along the timelines are embedded in two contexts: the processes of international integration are the international context, the class and economic structures are the national context. Within these two contexts we analyse economic policymaking as a process that links political and economic processes with the *complexes* and *expert knowledge* as crucial mediating factors.

Three Complexes of Market-Organizing Institutions

According to Karl Polanyi (1944), the liberal project in European history can be defined as an attempt to turn labour, money and natural resources into commodities. He considers this a utopian project and analyses how it failed. Labour could not be turned into a commodity through attempts to get workers to work at starvation level wages. As a countermovement, workers organize, gain the right to unionize and bargain for fair wages. Capital flows have been compared to the blood circulation that enables society to invest in productive equipment. But the liberal strategies of free capital flows under a gold standard, central bank autonomy and absence of political management of money failed miserably to prevent the 1929 financial crash. Finally, natural resources yield a ground/resource rent that should accrue to social collectives, not to private rent seekers.

By the late interwar period, various kinds of managed, mixed economies had been established: they relied on organized labour, strict regulations of the credit system by the state and tight control of raw materials resources. As political regimes they had different colours: fascist varieties (Germany), modified liberal cases (Britain, the United States under New Deal) and social democratic ones (Scandinavia). We shall now specify the market-organizing institutions that regulate economic activities, despite that many of the activities are privately owned. We distinguish three complexes of such market-organizing institutions, clustering around the three production factors: natural resources (NR), labour (L) and capital (C).

The notion of these three complexes can be seen as a political-economic specification of the 'corporatist pluralism' analysed by Rokkan (1966). Class struggle in the Golden Age of Norwegian social democracy was a struggle around incomes policy concessions and welfare state gains (L-complex), state interventionist management of credit markets (C-complex, with private banks cooperating) and policies towards the primary sectors that implied a negotiated distribution of the resource rent, organized via the NR-complex. This corporatism mostly implied tripartite relations between the state, the

business community and civil society organizations representing main social groups.

We regard the Norwegian state in all its modern phases (a liberal-conservative state until 1884, a 'progressive liberal' state (named after the party *Venstre*), and the social democratic state since 1935) as a *developmental state* (Evans, 1995; Senghaas, 1985; see also Gran, 1994). As such, it was involved in a process of catching up economically and of modernizing in socio-cultural terms. Since parliamentarism (1884), male (1898) and female (1913) suffrage, this took place in a political context of parliamentary democracy, with parties emerging with reference to tensions emerging from the criss-crossing of social cleavages evolving in the process of economic and political development (Rokkan, 1966).

These political processes influenced the formation of institutions that organized the markets for L, C and NR. Internationally, the period since the interwar period is often characterized as managerial capitalism. In Norway, as we shall see, the managing directors had to coexist with and accept regulation by a tight network of social democrat politicians, Weberian bureaucrats, Veblenian engineers and devoted social engineers in the form of economists trained in a new breed of mathematical and statistical techniques.

We start with the *NR-complex*. Norway's integration into the world economy has relied upon 'national endowments' consisting of specific raw materials. The resource rent is an additional return that accrues even at free competition, since these resources are only available in limited quantities. Market-regulating institutions (associations of farmers, fishermen, the cooperative movement) within Norwegian agriculture, fisheries and energy production distributed the resource rent between the state and various interest groups in civil society: farmers, fishermen and manufacturing industries. These institutions developed in the interplay between the evolving Norwegian export economy and social and political mobilization by fishermen, farmers and landowners, from the Norwegian Venstre-state (1880s and onwards), and continued (revised/updated within consensual processes) in the period of Labour dominance (1935–1965). As the complex stabilized, a number of legal-institutional features were accepted as legitimate, for example a system of concessions that regulate the exploration of natural resources by firms. With the discovery of new resources – such as oil (entirely new) and fish farming (a synthesis of fisheries and agriculture) – institutional arrangements were organized with reference to these earlier experiences, in a process of interaction between the state and civil society/economic interests.

In the Norwegian oil economy from the 1970s and onwards, a number of special ties have been established around the petroleum resources: Statoil, foreign oil companies, certain smaller oil companies (Hydro, Saga) and the supplier industries in the manufacturing sector. We define this as the *oil block*. State units involved are the Ministry of Oil and Energy, and the corresponding directorate.[1] The revision of this institutional complex and the relationship between oil incomes and fiscal policies is part of our analysis below.

As for the *L-complex*, we must trace the institutions that regulate the use and reward of *labour power* (labour market organizations, work environment regulations, the welfare state). In 1899, the trade union confederation, LO, united labour unions in all sectors. The corresponding Employers' Association (NAF) was founded in 1900 (and restructured in 1985/1986 as NHO, *Næringslivets hovedorganisasjon*). The L-complex developed around these two pillars, related to wage determination and labour rights. The compromise between labour and capital was systematically formulated in the Main Agreement of 1935, a constitution for the country's labour relations, limiting strikes to periods of negotiation, coordinating the timing of negotiations and specifying a framework for centralized bargaining. As of 2010, LO is still the major organization on the labour side, but there are others, related to professions, welfare state employment, etc.

The L-complex includes corporatist intermediation, in which the state is involved, but also routines of negotiations between the relevant parties. In the latter institutions, the state is kept out, but the relationship is not one of price determination in markets with lots of small units, since negotiations are organized between centralized organizations with due consideration of their respective power resources.[2] Negotiations rely on trust between the labour market parties, informed by economics expert knowledge. A main component of the system at large is a set of historically inherited norms of equal treatment (Høgsnes, 1999). This 'price control' with respect to wage earners is of major importance to macroeconomic management. As for state involvement there is a system of mediatory institutions (one aspect of which is to maintain these egalitarian norms): at the expert level, the 'Technical calculations committee' (*Det tekniske beregningsutvalget for inntektsoppgjørene*) includes experts, administrators and representatives of the labour market parties. Agreement is reached round the experts' calculations (on the basis of varieties of the Scandinavian inflation model) of the '*wage corridor*' as limiting the scope for wage increases. In the 1960s, this model provided a rationale for incomes policy coordination to keep down inflation in an open economy with fixed exchange rates. Coordinated wage bargaining prevented

wage–wage spirals that would spur inflation and jeopardize competitiveness (Cappelen, Fagerberg, & Mjøset, 1992). With reference to such expert knowledge, the parties negotiate at a central or decentralized level. If negotiations break down, the 'National mediator' (*Riksmeklingsmannen*) acts as an arbitrator between the parties. If a conflict erupts into a strike or lockout, there is the final institution of a wage committee (*lønnsnemd*). The parties may voluntarily agree to establish such a committee, but if they do not, the parliament may decide to set it up, forcing the parties to accept it some days or weeks into the conflict. Such a forced committee (*tvungen voldgift*) consists of seven members, and the four members appointed by the state are in a majority. There is broad consensus surrounding this module of the L-complex. It is, in that sense, depoliticized.

Price formation for primary producers in agriculture and in the fisheries takes place in a parallel system, marked by similar norms of equality and redistribution. This system is by now unique to Norway, but earlier parallels were seen in Switzerland and in other Nordic countries. In this case, the L-complex overlaps with the NR-complex.

The welfare state is part of the L-complex. The provision of a social safety net by the state makes childhood, aging and periods of withdrawal from employment (due to illness) independent of the parents'/citizens' history in the labour market. Thanks to this security net, citizens can maintain their standard of living independently of a wage relation (Mjøset, 2001). The welfare state takes the role earlier (in pre-industrial, agricultural society) played by the enlarged family. Even other policy fields, such as housing policy and educational policies (both of which are important to the skill level and the reproduction of labour power) may be included in the L-complex. Finally, immigration is an inflow of labour power. In the post-war period until the 1970s, such flows were mainly Nordic ones, but in the 1970s, there was a surge in long-distance immigration from the Far East into Europe, spreading into the Nordic area. Since this first wave, a new 'module' of organizations/institutions/units managing immigration has been added to the Norwegian L-complex, and the notions of 'refugee/asylum policies' and 'integration policies' have been added to the political vocabulary.

Third, the *C-complex* concerns capital as a production factor. Institutions and/or laws regulate the access to capital (state banks, the policy of low interest rates, rationing systems in order to give priority to selected investment purposes). Like Polanyi (1944), we emphasize the role of money and finance. Like other central banks, Norges Bank (we shall use this term in the following) is 'the banks' bank', administering the infrastructure

needed for the maintenance of a national monetary/financial system (coinage, 'lender of last resort'). However, since social democracy came into government in the aftermath of the 1920s banking crisis and the 1930s economic depression, Norges Bank should be considered a branch of the state.

What has come to be called the 'iron triangle' of Norwegian economic policies consisted of the tight networks between the University of Oslo Economics department, Statistics Norway and the Ministry of Finance, with the latter as the primus inter pares. Norges Bank had little autonomy vis-à-vis the latter.

By 1950, the social democrats had dropped the socialist idea of nationalizing banks. Both volume and price were managed. The state worked with a credit budget (a module of the national budget) and quantitative regulations (reserve requirements, etc). Also the bond market was managed in this way. Firms had to apply to borrow abroad. There was a corporatist relationship between the relevant state units and the large firms. The developmental state had specific priorities: get the country a competitive export industry and supply the masses with decent housing and infrastructure. The latter also involved many investments in the local government sector.

In order to finance the state banks the government ran budget surpluses and thus over time became a large creditor in the economy. The policy of low interest rates was not a unique Norwegian phenomenon. For instance, the British Radcliffe Committee (1959) influenced the white paper by the Committee on credit policies in 1963 (published 1964; Andersen, 2010, p. 234). The Norwegian solution was also related to the fact that the tax system with high marginal tax rates prevented the interest rate from being an adequate tool in the allocation of capital between sectors. Until 1965, the crucial link was a cooperative committee (*Samarbeidsnemda*), replaced in 1965 by a law on money and credit. The banks took part in the administration of the credit rationing system. State banks played a significant role in financing investment in the economy. Corporatist networks were crucial in the form of sectoral cooperation and formal/informal price agreements. The banks had to buy treasury bonds.

Credit market regulations were typical of many of the early post-war European varieties of capitalism. Many states tried to conserve a fragmented structure, preventing the evolution of huge financial firms that might undermine competition. Norway's version of what Knutsen (2007, p. 567) dubs 'strategic capitalism' implied that the state induced banks and insurance companies to run a price cartel. The Norwegian developmental

state was strong enough to retain control. Only in 1983, the exemption of these institutions from competition legislation was lifted.

Complementarities and the International Context

The clustering of institutional modifications of market mechanisms around the L-, C- and NR-factors indicate that Norway's institutional development was a consequence of the country's own distinct historical transformation. As Senghaas (1985) showed, very few cases of economic development in 19th and 20th century Europe took place within a fully liberalized, free trade framework. Most states pursued developmental strategies. Norwegian economic policies in the first three post-war decades 1945–1975 were conducted within a framework of L-/C-/NR-complementarities, and departed significantly from the standard American textbook version of Keynesianism (Cappelen, Fagerberg, & Mjøset, 1984). The C-complex implied a permanently low interest rate, secured by quantitative regulations in financial markets. This allowed a budget surplus (absence of countercyclical deficit spending), catering for investments (NR-complex as currency earner, especially the furnace industry based on cheap water power), upgrading of infrastructure, broad modernization of living conditions (L-complex). Incomes policies secured some income equalization and wage developments that were compatible with international integration in post-war embedded liberalism (the Bretton Woods system) (Ruggie, 1982).

The Bretton Woods monetary regime is but one of the international institutions of importance to Norway's integration in the post-war world economy. Although there is no space here to analyse other equally important processes, Table 1 lists them, with some short descriptive labels, distinguishing the early post-war situation from that of the 1970s/1980s and the 1990s/2000s. In the text below, the abbreviations P1–P8 refers to this table. We have also added Fig. 2, giving the fluctuations of the oil price, since this variable is of crucial importance to the fate of the Norwegian economy from 1970 and onwards.

The notion of complementarities is our key to an analytic and qualitative understanding of models such as the 'Norwegian model'.[3] Studying the Norwegian model of economic policymaking since the early 1970s, we systematically study changes and continuities in each of the three complexes. Our research questions range from the very specific to the more general. The most specific problem relates to routines of macroeconomic management, and the role they play in sustaining the complementarities between these

three complexes. Thus, we reconstruct (in a qualitative way) the *model of macroeconomic policymaking* 1970–2010. We understand it as a set of routines, analyse how the model has changed and ask whether there are any striking continuities and/or breaks. As our conclusion spells out, we trace a change from the early post-war constellation (sketched above) to a revised Norwegian model.

Norway is analysed as a case of a small country with a tradition of economic policymaking influenced by the meeting of the new engineering-oriented school of economists (some times associated with the Keynesian revolution) and the social democratic tradition of labour reformism (Bergh & Hanisch, 1984; Bjerkholt, 2000; Munthe, 1995). But in our period, since the 1970s, Norway becomes a case of an oil-producing country. It is crucial to note how specific an oil producer the country is: Norway is a *rich,* reasonably *developed* country – not a *poor* country, not one which is nearly devoid of an industrial base in its early oil age, such as Saudi Arabia or Venezuela. Norway is also a *small* country, with an *open* economy, and its post-war process of industrialization was matched – as we have seen – by the development of a democratic political system, a welfare state and incomes policies of the Nordic type. There are no close cases to compare with. Oil-rich third world countries such as Venezuela, Saudi Arabia and Algeria were not industrialized countries when oil was discovered. They had not been through a reasonably successful experience as developmental states; they were peripheral, bordering on predatory states. Some of them had grown rich from oil, but the riches were unevenly distributed.

Norway also differed from other rich Western oil-producing countries, such as the United States, with its relatively closed economy and marginal welfare state (liberal type). Countries such as the Netherlands, Denmark and England also discovered and explored oil or gas, but in relatively smaller quantities, so that the impact on the national economy was much smaller than in Norway. The Norwegian combination requires a qualitative analysis with an emphasis on its specificity: Nordic and recently rich in terms of natural resources. This was a unique experience in economic history: a small economy, with a 30-year experience as a social democratic developmental state, discovers a main new source of resource rent at the very moment its developmental state features may become less relevant.

Economists have, ever since the early 1970s, warned that Norway could be struck by *Dutch disease*. These arguments emerge from models, models with only weak and indirect reference to the actual Dutch developments following the discovery of gas fields in the early 1960s. As a matter of fact, these Groningen discoveries led oil companies to catch an interest in Danish

Table 1. Eight Processes of International Integration.

Processes	Aspect of the Global Political Economy	Norway (1945–1970)	The Post 1970 Period	
			Early changes (1970s, 1980s)	Later changes (1990s, 2000s)
P1	Main source of energy oil/gas	Importer	Norway becomes one of the world's main oil producers/exporters	
			Construction phase, deficits, large variations in the oil price	Mature oil economy, deficit, petroleum fund, slightly more stable oil price (except in 2008)
P2	Security alliance	NATO-member, that is Atlantic alliance with the United States	The new Cold War	End of the Cold War (1989/1991). Redefinition of NATO. War on Terror. Out-of-area operations.
P3	Trade liberalization	Gradual liberalization through various trade agreements (GATT, EFTA)	Continuing liberalization (GATT/WTO), trade treaties with EU	The EEA agreement 1994. Enlargement 2004. Emerging economies
P4	European integration	Norway follows Britain: EFTA membership from 1959. Scepticism against the EU until the early 1960s	Norway applies, but rejects in referendum 1972. Connections to the two EU-integration offensives (early 1970s, and mid-1980s on).	New referendum, rejection in 1994. EU controversy less impact on politics (EEA). To 2005: Minority governments with 'suicide clause'.
P5	Techno-economic paradigm (Perez, 2002)	'Fordism': economic growth model based on mass production and consumption	Development of 'information society' an economic growth model based on information and communication technologies (computers, PCs, internet), flexible specialization and frequent requalification in business, growth in services. Increasing importance of identity-based consumption.	
			'Pioneer phase'	'Diffusion phase' (1987–)
P6	Monetary system	Bretton Woods system, 1959–1970: fixed exchange rates and capital controls	Period of floating exchange rates, transition to fixed exchange rates, with deregulation of capital controls (first at domestic level, then externally)	Formation of EMU (the EU economic and monetary union). Fixed exchange rate 1990s. Floating rate 2000s. Inflation pressure disappears.
P7	International environmental regime under UN	No UN international regime has direct consequences for Norway's political-economic development	Mobilization on environmental protection remains limited to the national level.	From 1987, Norway periodically becomes a leader in UN attempts to build international environmental regimes (global warming). Increasing impact of professionalized social movements
P8	International human rights/ refugee regime under the UN	Only small flows into Norway, no political impact.	Increasing flows, more multicultural. Immigration emerges as politically controversial.	
			Ban on immigration 1975, 1981.	Refugees/asylum seekers rely on UN human rights regime. New national institutions (UDI 1988, UNE 2001). Coordination of immigration policies with EU single market (Schen-gen, Dublin agreements).

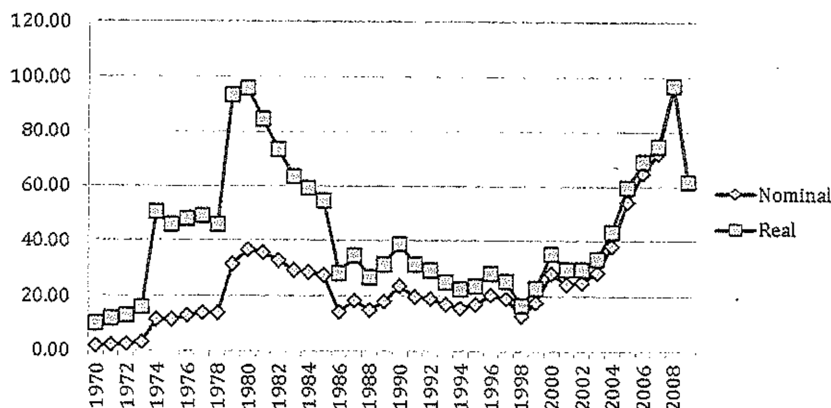

Fig. 2. Historical Crude Oil Prices (U.S. Domestic). *Source*: BP. Retrieved from http://www.bp.com/sectiongenericarticle.do?categoryId=9023773&contentId=7044469 (Base year 2010).

and Norwegian waters north of these fields. The mechanism implied is that use of oil incomes without fiscal policy discipline would lead to a vicious circle of deindustrialization. Exploitation of too much oil too quickly would make the oil sector too dominant, strangling Norwegian non-oil-industries, and Norwegians would be spoiled by easy money, spread by the state to answer all kinds of popular demands (Skånland, 1981; see the overview of the diagnosis in Lie & Venneslan, 2010, Chap. 10). Norway would converge with Kuwait or other countries affected by the resource curse: huge natural wealth and low economic growth. The economy would become dominated by a leisure class of Norwegian citizens, the oil sector being the only industrial activity, run by foreign engineers while the rest of the productive economy was taken care of by foreign workers producing, building and providing other services for this leisure class. Varieties of such 'expert judgments' have bolstered the influence of economists in the Norwegian oil economy. Despite the fact that such models have influenced the policy advice produced by Norwegian economists, they cannot replace a qualitative analysis.

Our more general research problem is about the complementarities between the three complexes of market-organizing institutions that define the Norwegian model of socio-economic development. Have the changes in economic policymaking been able to safeguard the main goals of equality, transformation of the economy (avoiding resource curse and Dutch disease) to upgrade the standard of living and live up to the egalitarian ideals that emerged both from social democracy and earlier Norwegian statist liberalism?

The Norwegian Business Cycle: An Overview

Before oil production started in 1971, the Norwegian economy usually followed the same cyclical movement as the rest of the OCED area. A small open economy with a large share of exports in GDP the Norwegian economy was exposed to significant impulses from the world market. In addition, instances of internally generated cycles and even policy failures added to the external shocks, but generally stabilization policies in Norway were quite successful. Had we extended our indicator of business cycle movements (GDP gap) in Fig. 4 backwards, we would have found fluctuations in the 1960s and 1950s as small as those of the 1970s (Wettergreen, 1978). Then there is a break, fluctuations in the 1980s and onwards are much larger. 1958 was a major crisis year, but generally, the 1950s and 1960s saw no overheating periods as dramatic as in the mid-1980s or late 1990s.

Inflation was close to the OECD average, economic growth was also in line with the OECD, unemployment was low and cyclical deviations from trend growth moderate. The latter was due to economic policies, but also to specific features of the export sectors, they were generally energy and capital intensive with relatively few employees so that shocks from the export sector to the domestic economy were dampened while profitability was very cyclical.

As in the other OECD countries, the effects of the first oil price shock in 1973 were negative. But at the time, the Norwegian economy was also influenced by another cycle, namely the oil cycle. The oil sector was gradually inserted into the Norwegian economy, moderating the way in which the economy was affected by external and internal shocks. Consider unemployment rates in Norway (Fig. 4) compared to the OECD area (Fig. 3). In OECD, unemployment increased in the oil-shock recession 1974–1975. In Norway, the OECD recession only generated a small increase in unemployment. A similar difference in impact of the second oil price shock (see Fig. 2) is clearly seen in the unemployment series 1980–1984. Then, from 1986 onwards there is a huge difference in the development in unemployment in Norway compared to the OECD, where there was actually a decline. Again, the positive supply shock of lower oil prices in the

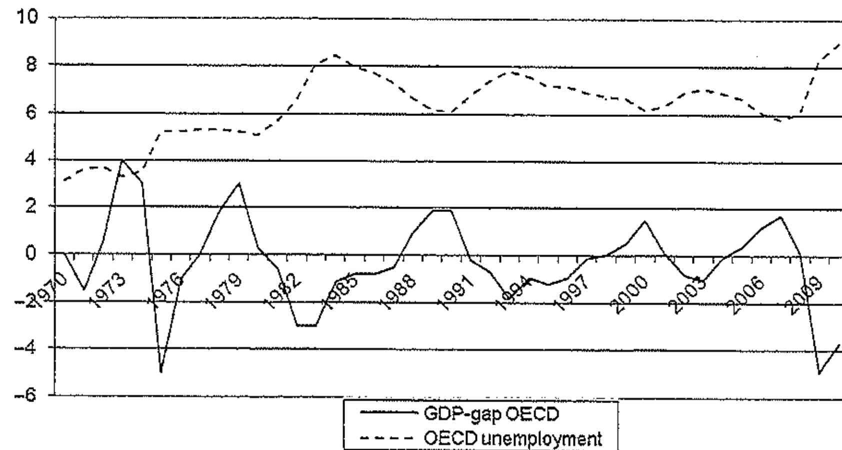

Fig. 3. GDP Gap and (Standardized) Unemployment Rates (OECD, Per Cent). *Source*: Statistics Norway.

winter of 1985/1986 helped the OECD, while Norway experienced increasing problems. In the early 1990s, a domestic banking crisis – as we shall see – added to the Norwegian problems. However, from the early 1990s the cyclical changes in unemployment became quite similar although Norway has had a lower unemployment rate than the OECD. Recently, that difference has become very large.

Oil-related activities consist of exploration, drilling and landing of oil and natural gas. Since the 1970s, a substantial part of the Norwegian economy has gradually been linked to the oil sector mostly by backward linkages, but also to some degree by forward linkages. We can distinguish between long-term and short-term aspects of the Norwegian oil economy. The long-term question is whether Dutch disease could be avoided. Would oil impair structural policies to develop an industrial base for the post-oil age? Would oil lead to deindustrialization or would there be significant manufacturing industry linkages from oil? The shorter term aspect is the question of the impact of the oil sector on the Norwegian business cycle.

As the oil-related segment of the Norwegian economy expanded, Norwegian policy makers found themselves with a potential new tool of structural economic policy, let us call it *oil exploration policies*. In the early 1970s, a specifically Norwegian model of oil sector management was established (Al-Kasim, 2006; Andersen & Austvik, 2001). There was a

variety of ways in which the state could exert its influence: Concessions to explore new oilfields would determine the pace of oil exploration in the North Sea. The then fully state owned company, Statoil, gained a number of specific privileges in this connection. From the first decisions on exploitation of the North Sea oil resources, Norwegian governments imagined that if they stimulated the development of a Norwegian supplier industry, the oil investments would also create jobs, especially in engineering-based manufacturing. Just like fiscal policies, appropriate doses of strategically timed oil exploration policies might counteract unemployment and low capacity utilization (in the oil-related parts of the economy) during downturns. However, it was not easy to manage these doses in ways that were functional to fiscal policies, a fact that posed potential problems for economic policies.

Oil exploration policies have been linked to general macroeconomic policies. As of 2009, applications for the 20th round of concessions were submitted. A firm that receives a concession is granted the right to test drilling. If it turns out that exploitable resources can be found, the firm applies for a permission to produce oil/gas. If this is granted, the firm invests through a construction period and later starts production. But the time horizon is uncertain, often '10 years have passed from the granting of a permission to the start of actual production of oil'. A 1997/1998 white paper by the Department of Oil and Energy further states that 'the objective of oil exploration is to ascertain profitable resources, and at the same time to help sustain a stable and smooth level of activity in the sector. In a long-term perspective, from roughly seven years (after the granting of a concession) and onwards, the policy of concessions is the instrument that most efficiently regulates the level of activity. If the level of activity is too high with respect to investments and production, the pace at which concessions are granted may be scaled down. This may imply longer intervals between each round of concessions and the granting of less permissions to exploit in each round. In the short run, the policy of concessions has little impact on the level of activity' (St. meld nr. 46 (1997–1998), part 8.4). However, research shows that in practise it has been difficult use regulation of oil activities as a tool in stabilization policies. Since the mid-1980s and until quite recently activities in the oil sector have destabilized the economy. In particular, oil investments have increased and reached high levels during booms and have been low during recessions, so they have been destabilizing (Johansen & Eika, 2000).

In sum, the development of an oil sector in the Norwegian economy spelled greater challenges for stabilization policy in Norway. The successful

stabilization line of the 1950s and 1960s was actually sustained through the 1970s. As we shall discuss in more detail, problems developed during the 1980s and into the early 1990s, in connection with the complete restructuring of the C-complex. Before we turn to our reconstruction of economic policies 1970–2010, we shall define our main indicators.

Business cycles are determined by international factors interacting with specific Norwegian factors. We employ a standard indicator: *the GDP gap*. The GDP gap can be drawn as positive and negative deviations from the trend. One business cycle lasts about 10 years. We distinguish one cycle per 'decade' (cf. Table 2), that is between the points (cf. Fig. 4, solid line) where the GDP gap dips below the trend (1981, 1989, 2001, 2008). The upturn and the downturn last about five years each. Note that this indicator says nothing about the pace of growth. Fig. 4 has the fluctuations of the GDP gap, while Table 3 has the actual growth rates. Also note that this indicator includes the effects of economic policy decisions.

Roughly indicating the context of economic policies, we define the depression period (when the GDP gap is negative) as a *stabilization* phase

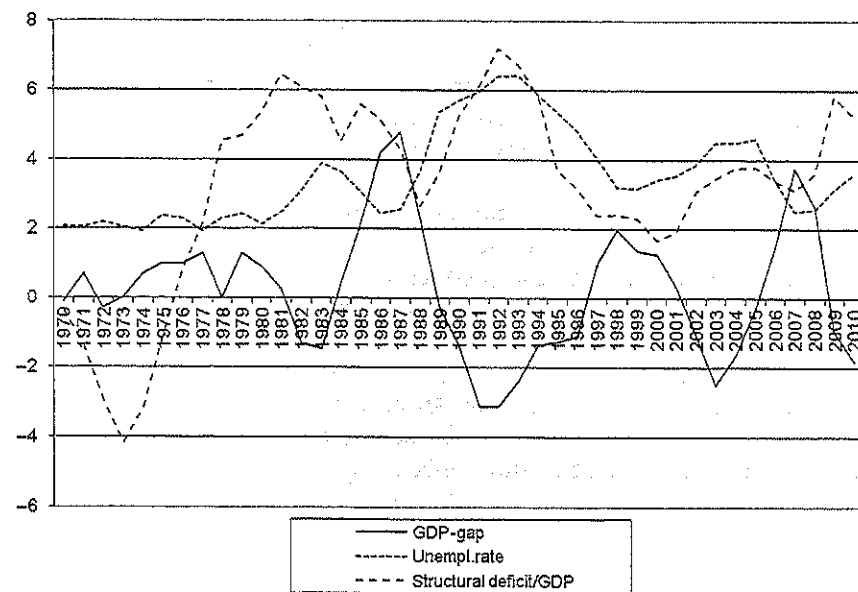

Fig. 4. Norway's Mainland Economy 1970–2010: GDP gap, Unemployment Rate, Structural Oil-Corrected Deficit. *Source*: Statistics Norway.

Table 2. Norwegian Business Cycles 1970–2010, GDP Gap.

Cyclical Phase			1970s	1980s	1990s	2000s
I	Recession	Downturn	1972	1981–1982	1989–1991	2002–2003
I	Recession	Upturn	1973	1983–1984[b]	1992–1996[e]	2003–2005[g]
II	Boom	Upturn	1974-6	1985–1986[c]	1997–1998[f]	2006–2007
III	Boom	Downturn	1977-80[a]	1987–1988[d]	1999–2001	2008–2009

Terminology: I – stabilization phase; II – overheating; III – austerity. Note that the 1970s periodization is quite approximate, see the remarks in the section on the 1970s.
Source: GDP gap in Fig. 4; Statistics Norway.
[a]Below trend mid-1981.
[b]Above trend mid-1984.
[c]Peak early 1986.
[d]Below trend, second half of 1988.
[e]Above trend first half of 1997.
[f]Peak mid-1998.
[g]Above trend mid-2005.

Table 3. Macroeconomic Developments during 1970–2010.

	1971–1980	1981–1990	1991–2000	2001–2010
GDP growth	4.7	2.5	3.7	1.8
Growth mainland/GDP	3.6 (3.5)	1.6 (1.8)	3.3 (3.0)	2.7 (3.0)
National income	3.9	0.8	5.0	3.9
Unemployed (AKU)	2.1	3.6	4.9	3.6
Terms of trade	−0.6	−2.5	2.8	2.7
Hours worked	0.2	0.05	0.9	0.8
GNP per cap in PPP/OECD	0.935	1.10	1.09	1.47

Average growth rates (per cent). *Note:* GDP numbers in brackets are growth rates adjusted for the GDP gap in 1980, 1990, 2000 and 2010, respectively. This is a more structural indicator that better captures the basic growth trend of each decade.
Source: Statistics Norway.

(I-phase). The boom period of the business cycle is divided into two phases: the *overheating* phase (II-phase, GDP gap increasingly positive, growth moves towards a peak relation to the trend) and the *austerity* phase (III-phase; GDP gap diminishes towards the trend), cf. Table 3.

A key concern for economic policy makers is to maintain a 'freedom of action' (latitude) that allows them to stabilize the economy at as full employment as possible. The latter is important for the legitimacy of the

governing parties. In a small open economy, latitude with respect to the world market implies that a sustainable balance on current account must be attained. If policies take care to always respect this external constraint, expansive policies can be pursued in the periods where this is relevant to secure full employment.

If we understand Keynesian economic policy – or just 'stabilization policy' – as adequate fiscal countercyclical policies over the business cycle, Norwegian economic policies (see Fig. 4) have become more Keynesian since the mid-1980s. In the early stabilization phase, such stimulus is increased, with the aim of increasing economic activity and reducing unemployment. When the upturn starts, however, policy makers should beware of the forces (e.g. oil investments or asset bubbles) that may eventually lead to overheating. The expert thought collective (Fig. 1) – 'the iron triangle' – that gives advice to policy makers on current trends plays an important role here. If advice is not well founded, if policies have unanticipated consequences or if decision makers are driven by other concerns to take wrong decisions, policy may have procyclical effects. They may make overheating (II-phase) worse *or* make austerity harsher than necessary.

In order to specify the national context of economic policies further, two other indicators are included. The structural budget deficit (Fig. 4) is a measure of the *discretionary* element of fiscal policies. Budget balance figures are adjusted to omit spending and taxes that emerges automatically as a consequence of cyclical movements (for instance duties on cars, tax-incomes, spending on unemployment benefits), yielding a budget balance that is more independent of the cyclical movements than the actual deficit. An increasing structural deficit indicates that decision makers are deliberately stimulating the economy through state spending. Contractive policies indicates that they are deliberately trying to cool down the economy, that is cutting down on state spending flowing into the economy. Crudely stated, fiscal policy is Keynesian if it is countercyclical, non-Keynesian if it is procyclical.

In Fig. 4 we see the last years of the old model: In 1972–1974, there was a structural budget surplus. Since 1975, we can distinguish between phases of expanding and contracting deficit, that is phases of *expansive* and *contractive* fiscal policies. While the 1970s are quite particular, we see that since the 1980s, and particularly since the 1990s, fiscal policies are clearly countercyclical.

Our third indicator is unemployment. High unemployment indicates how serious the social consequences of the economic downturn are. Low unemployment indicates pressure in the economy. Unemployment moves in synch with the structural deficit. When unemployment declines, and the

positive GDP gap peaks, fiscal policies counteract overheating if the structural deficit is at its most negative in the same period. Fig. 4 shows that this was above all the case in the 1990s.

THE 1970S: STABLE GROWTH BUT UNSUSTAINABLE DEFICITS

The external conditions in the world economy proved much more difficult during the 1970s than what policy makers were used to from the 1960s Golden Age (Mjøset, 1986): as for immediate macroeconomic management, the direct impact of P1 (oil price), P3 (low-cost competition form the 'newly industrialized countries' of South-East Asia), P6 (monetary instability: competitive devaluations after the breakdown of the Bretton Woods system and the closing of the gold window), were the most important international factors. This instability was a main element behind the EUs first offensive of integration (P4), which besides including England, Denmark and Ireland also implied a plan for economic and monetary union.

The Political Context

Just as the Norwegian oil age started, Labour came back into power. Thanks to OPEC's use of their bargaining power after the Middle East wars, the oil price soared. The Norwegian state was able to appropriate most of the ground rent through taxation and its state oil company. The position of the Norwegian social democrats was different from other Western governing parties, the oil shock was an advantage, it made clear what enormous oil riches Norway would benefit from.

One major task facing the new government was the organization of a state oil company – Statoil. This state company was granted a number of privileges: most importantly, it was granted the right to collect – on behalf of the state – parts of the oil rent accruing to the Norwegian nation as taxes (for the origins of the quite offensive oil tax regime, see Lie & Venneslan, 2010, p. 176ff). Furthermore, it was given a majority position in all oil concessions granted to the various bidders (Bould & Hanisch, 2001). With such a position, Statoil in the medium term (1980s/90s) became the hub in an extensive network of activities that were de facto industrial policies. Shipyards became increasingly specialized in deliveries to the oil sector.

Norway developed a fleet of specialized supply ships, and has also developed a number of other high-tech activities delivering tailor-made solutions for subsea exploration and production. Many service activities are also linked to the oil sector, based on specialized engineering, computing and management skills. Such a policy of nationalization was in line with earlier industrial policy strategies: the model of oil sector management (cf Andersen & Austvik, 2001) was yet another market-organizing institution, comparable to arrangements in other areas of the Norwegian NR-complex (fisheries, agriculture, energy).

The question of Norwegian EU membership (P4) – in the following just labelled 'the EU question' – came up in connection with both integration offensives (early 70s and early 90s). Like most other Norwegian parties (except the Agrarian party and the far left parties), Labour was divided on the EU question. The Labour government conducted the negotiations on the terms of Norwegian EU membership. The dominant fraction of the Labour party stood as one of the losers when a slight majority rejected membership in the September 1972 referendum. In the 1973 general election, Labour lost 12 seats, but the socialist majority was retained, as the left socialists returned to parliament with 16 members. The no-vote in the first Norwegian EU referendum in 1972 reverberated through national politics in the mid-1970s. The minority Labour government was eager to regain the support of grass-roots voters – many of which were workers and farmers – that had voted against EU membership. This made it even more important to pursue a state interventionist line that would produce benefits for these groups. In particular, work environment and economic democracy reforms indicated that the party had been radicalized. Not even the C-complex was left unchallenged: There was a brief effort to make banks 'social institutions', leading to a major controversy on bank democratization. Although these efforts came to nothing (Knutsen, 2007, pp. 403, 568, 580, 636), the general strategy worked in the 1977 general election. The left socialists experienced a disaster election, shrinking to only two members in parliament. The balance between social democrats and left socialists went back to normal, and Labour continued in government. This can be considered a political business cycle on the left.

Stabilization Policies

We noted above that since the 1980s, there is a certain common pattern to the relation between the three variables in Fig. 4. But that pattern is absent

in the 1970s, which seems a transitional period. It had elements of the 1960s 'Golden age': growth was still high (Table 3) and the small GDP gap that appear, is mostly above the trend.

The only drama is the movement of the fiscal policy indicator (Fig. 4), which moves from the 4 per cent surplus in 1973 to a record 5 per cent structural deficit by the end of the 1970s. The rising surplus 1970–1973 indicates the old regulatory policy towards the C-complex: high state savings, granted to priority projects via credit rationing, particularly through state banks. Government stimulus was provided via the state banks, especially the bank for housing (increasing activities in the housing sector) and other investment projects by local government.

The turn to large structural deficits, from 0 to 5 per cent of GDP, marks the end of the policy of chronic budget surpluses. It follows about a year after the explosion of the oil price in 1974 (Fig. 2). The deficit was mainly financed by borrowing abroad, not through bond issues in the domestic market. Security was in oil, as huge oil incomes were expected. The state also granted fiscal packages that supported incomes policies. The discretionary element in the emerging budget deficit implied very ambitious stabilization policies, supporting local governments, maintenance of infrastructure and the building trades.

Although 1972–1973 is listed as a stabilization phase in Table 2, this term is not precise for the early 1970s. The period 1974–1976 emerges as an overheating phase. That period is often called the phase of 'countercyclical policy'. If Keynesianism is interpreted more broadly than just countercyclical fiscal policy, the whole decade was Keynesian in the sense that the overall focus was on smoothing out the cyclical swings. There was low unemployment, smooth growth of labour productivity, and the cycles in the real economy were minimized. The contrast to later decades is striking (Fig. 4). Policies in the 1970s were marked by very high stabilization ambitions. Fiscal policies were so expansive that no real recession was created. In a situation where the business cycle is virtually eliminated, it makes less sense to discuss pro- and countercyclical phases.[4]

Oil exploration and (somewhat later) oil production increased dramatically from the mid-1970s. Labour's expansive fiscal policies supported non-oil-related activities, counteracting unemployment and served to regain votes. Comprehensive incomes policies in various forms affected fiscal policies, agricultural policies and wage negotiations. This gave generous gains for unionized workers and farmers, real wages rose about 7 per cent each year 1974–1976 (Mjøset, 1986, p. 340).

The use of price controls and regulations managed to keep inflation in line with or even lower than in the OECD area. It was thus not only fiscal policies as such, but also larger doses of regulatory routines typical of the earlier decades, that had such expansive effects: state-dominated credit- and housing-markets and state-assistance in incomes policies.

The tight labour market made employers enthusiastic about hiring immigrants. For historical reasons that we will not detail here, immigration (P8) from third world countries picked up in the late 1960s. Given the strong role of the unions in its L-complex, a 'comprehensive ban on immigration' was launched in 1975. This had no impact on macroeconomic management, but would in the longer term lead to changes in the Norwegian parliamentary system that we shall discuss later.

As for the phase labelled 'austerity' (III) in Table 2, the structural deficit rose continuously, and one may regard that as counter- and procyclical depending on the small movements of the GDP gap. That phase *was* an austerity phase, but it was *not* due to fiscal policy, which is the only policy field covered in Fig. 4.

The warning signals were seen already in the mid-1970s. External conditions deteriorated after the oil shock: The OECD business cycle went into recession in 1976–1977 (Fig. 3). Policy makers and their expert advisors feared repercussions for Norway. Furthermore, unit labour costs showed a worrying trend (Mjøset, 1986, p. 341). By 1977, election year, the signs were even clearer. The government had cashed in on the oil revenues in advance, but it turned out that the oil price now stabilized at a slightly lower level (Fig. 2), while North Sea oil exploration was more complicated and expensive than expected. Oil exports did not reach the projected volume, and the value was lower that anticipated. Norway ended up with a large current account deficit. Its debt at 47 per cent of GDP in 1977 was a Western European record at the time.

Labour managed to stay in office in the September 1977 election, with the narrowest margin possible. Once the votes had been counted, the new Labour government pulled the breaks of austerity. At that time, the worry was that borrowing in foreign capital markets would be difficult with current account deficits approaching 10 per cent of GDP. Support from IMF might be needed. This led to a reversal of policies with austerity measures introduced in credit policy and incomes policy, while the structural budget deficit continued to rise until 1981 (Fig. 4). Industrial policies steered away from costly rescue operations, pursuing a more market-oriented line from 1980 to 1981. The main decisions were taken already in 1977.

The policy of low, administered interest rate created problems for demand management in the 1970s period of high inflation. The Labour finance minister, Per Kleppe (Kleppe, 2003, p. 242) agreed with experts who already in 1973 suggested a change to avoid negative real interest rates. But there was no political majority in favour of that. The Association of Norwegian bankers (*Bankforeningen*) had been lobbying for higher interest rates over many years (Knutsen, 2007). The interest rate was deregulated in late 1977 (Kleppe, 2003, p. 280, p. 289), but the decision was reversed in late 1979 (see below). By then, the government had also established a committee of experts to analyse the regulation of the interest rate. The report (NOU, 1980, p. 4), published in 1980, used business school experts rather than the old Oslo network, and came out in favour of deregulation. Other aspects of the policies during the 1970s austerity phase anticipated the liberal turn since late 1981. For instance, currency regulations were liberalized: from 1978, banks could borrow abroad if they had a futures contract to sell a similar amount of currency ('zero position rule') (Knutsen, 2007, p. 572).

There was considerable wage push in a situation of strong inflationary pressure, given the international situation after breakdown of Bretton Woods monetary system. As for international integration through the monetary system, the attempt to hang on to Western European cooperation on relatively fixed exchange rates (another continued routine) failed as cooperation broke down and ended in devaluations. The Norwegian currency (NOK) was strengthened during the so-called snake-cooperation, a kind of managed floating. Norway left the snake in 1977, defined a currency basket and devalued by 10 per cent in 1977–1979. Consumer price inflation had peaked at nearly 12 per cent in 1975, dipped below 5 per cent in the one year of 1979, but went to 11 in 1980 and above 13 in 1981 (Mjøset, 1986, p. 348).

The government decided on direct action in the labour market. The regained legitimacy of the Labour government was crucial in gaining acceptance for such austere incomes policies in the L-complex. From September 1978 and all through 1979, the Labour government intervened in the wage settlements through a full-wage freeze and a freeze on domestic prices. The routines of credit rationing also were continued. The C-complex was affected by tighter financial conditions (credit rationing) and regulations in the cooperative housing markets in the larger cities, a sector disturbed by inflation. Although the main routines of these complexes were the same as in the earlier post-war Golden Age, they were implemented in much stronger doses than what had usually been the case. In earlier incomes policies, there had never been something like wage/price stop. In the late

1970s, the state banks' share of total credit supply peaked at 60 per cent, up from just below 40 in the first half of the 1970s, and around 27 in the 1960s (Fagerberg, Cappelen, Mjøset, & Skarstein, 1990, Fig. 1, p. 67). By the mid-80s, it was down below 10 per cent!

The wage/price freeze was a heavy toll on the unions. Most wage earners experienced lower real wages. During and after the wage law, real wages declined to −0.2 in 1978, −1.9 in 1979, −1.4 in 1980 and −3.1 in 1981 (Mjøset, 1986, p. 340). This policy was only possible given that Labour was trusted, but it was conducted at the risk of a loss of confidence from some parts of its working class constituency. The tighter regulation of money markets also made the government unpopular, not just among wealthy people, but also among Labour voters. Bottlenecks in the state-directed finance- and housing-markets led to the emergence of unregulated grey markets. In sum, the austerity phase frustrated many voters, but unemployment was not really among the problems they encountered. Norway was rescued in 1978–1979 by an OECD upturn (Mjøset, 1986, p. 328). Unemployment did not rise significantly above the 2 per cent level until 1981. With the second oil shock (see below), soaring oil prices quickly cancelled the current account deficit.

In the fall of 1979, LO pressure led to a reshuffling of government. Per Kleppe, the leading politician-economist and finance minister for Labour since 1973, was moved to a new ministry for planning and coordination (Kleppe, 2003, p. 296ff), while the former LO chief economist, Ulf Sand, became finance minister. He administered a return to the policy of regulated interest rates, but is above all remembered for the 1981 budget, involving a large reduction of income tax rates financed by a reduction in subsidies that contributed to higher inflation.

Anticipating huge oil incomes, all Norway's economic policies became highly expansive in the 1970s. Full employment was maintained, but the external balance deteriorated dramatically. The government was forced through a turning operation with unpleasant economic and political repercussions. The main problem was that the external deficit became unsustainable, and foreign debt became too high.

THE 1980s: POLITICAL AND ECONOMIC RUPTURE

Throughout the 1980s and 1990s, whenever the highly controversial EU question (P4) was on the political agenda, at least one of the centre parties was strengthened. But during 1980–1988, the EU question was not on the agenda. In that situation, support for the Conservative party (Høyre) rose. It mobilized skilfully by criticizing the unanticipated consequences of radicalized Labour's attempt to cope with the sequence of inflation and overheating in the mid-1970s and austerity during the late 1970s. Under the leadership of Kåre Willoch, the party became the dominant non-socialist party following the 1981 election. Political columnists predicted the emergence of a two-party system. The Conservatives formed a minority government 1981–1983, and a majority government together with two of the centre parties in the coalition government (disagreements on the abortion law were shelved), the Christian party (KrF) and the Agrarian party (Sp) in 1983–1986 (Willoch II).

The Høyre-led 'blue wave' can be seen as an attempt – inspired by an Anglo-American liberalist renaissance (Thatcher elected in 1979, Reagan elected in 1981) – to change the complementarities typical of the Norwegian model by trying to alter important features of the complexes of market-organizing institutions. The four years 1981–1985 was the golden opportunity of the Norwegian right. Høyre had been tempered by the post-war ideas of economic management, but had now absorbed a somewhat more offensively liberal vocabulary. Unlike during the 1965–1971 period, it was from 1983 the dominant party in a non-socialist coalition. The non-socialist parties barely won the 1985 elections, but the composition of the non-socialist majority was significantly altered. A new non-socialist party, a radically liberalist right-wing party with populist ambitions, the Progress party (FrP), entered parliament in a balancing position. Below, we shall show how this halted Høyre's attempt to change the Norwegian model.

In 1981, the Norwegian economy entered into a new phase. The world economy, and thus also Norway's non-oil-related export activities, were in recession in 1982–1983 (Table 2). But the oil-related parts of the Norwegian economy entered into a phase of expansion produced by the oil-price rise of 1979/1980 (Fig. 2), triggered by the Iranian revolution in January 1979 and sustained by further Middle East drama (Iran/Iraq war from September 1980). The oil price remained high for six years, mainly because the OPEC countries succeeded in managing its cartel, keeping the oil price relatively high and stable.

Norway's current account deficit turned into a comfortable surplus when the oil price soared. Due to high tax rates on the oil sector, this also led to budget surpluses again. Public debt that had accumulated from the late 1970s was easily paid back. The mid-1980s oil-based surplus facilitated the Conservative party's policy of tax reduction. With little external pressure,

the recession during the early 1980s was moderate, but still noticeable compared to the cycles of the 1970s (Fig. 4).

Change and Continuity in Market-Organizing Complexes

The new Høyre government was in a position to question several of the market-organizing institutions of the post-war mixed economy. As for the NR-complex, the institutions that related to the oil resource were restructured: Statoil had been founded as a state company, and as a consequence of parliamentary review of its activities, it did not just develop into a parallel to ordinary medium sized oil companies, it had special responsibilities for environmental concerns (pollution, fisheries), the security and rights of workers, and for industrial linkages (Ryggvik, 2009, p. 183). However, the new Conservative government of 1981 held that Statoil had too much autonomous power, and was able to engineer a parliamentary compromise to limit some of Statoils power, since the company expanded quite dramatically in the early 1980s (Ryggvik, 2009, p. 189; St. Meld 73, 1983–1984). The company would no longer manage the state's oil rent incomes, which were from now on channelled into a separate public institution (first called SDØE, since 2001 renamed *Petoro*). Statoil also lost its majority privileges and was put on a more equal footing with the other Norwegian oil companies, Norsk Hydro (with the state as the majority shareholder) and Saga (Bould & Hanisch, 2001). This reform of 1984 relied on a broad parliamentary compromise, and Willoch emphasized the importance of political cooperation in cases of great national importance. It was not a liberalization in any strong sense and the state continued to play an important role in the oil sector and in Norwegian capitalism. A very important consequence was that any parliamentary disagreements on the Norwegian oil sector were shelved, and the oil block was thus left to expand on its own (Ryggvik, 2009, p. 193), which it did, after a brief setback with very low oil prices in the late 1980s.

In other areas, the Willoch government took action with reference to unintended consequences of the 1970s interventionist strategies. Both in national financial markets (*C-complex*) and in markets for cooperative housing in the cities, the institutional framework was changed (*L-complex*) (Mjøset, Cappelen, Fagerberg, & Tranøy, 1994; Tranøy, 2009). We shall see below how the deregulation of the domestic financial sector led to considerable destabilization of the economy.

As noted, some of the economic policy changes had been anticipated during Labour's austerity policies 1977/1978. But Labour had returned to the low interest rate policy, and in the new government, the centre parties were equally committed. Only the more dramatic events of the 1980s overheating would undermine the low interest rate regime.

The L-complex was marked by continuity, but the incorporation of the new oil sector labour force into Norwegian labour relations proved a challenge. As oil exploration projects multiplied following concession rounds in the 1970s, labour relations became explosive on the oil platforms. A wave of (mostly illegal) strikes started in the late 1970s, peaked in 1981 and continued through to 1986. This was the most extensive series of strikes in post-war Norway, in fact reaching interwar levels of intensity (Ryggvik, 2009, p. 164). A liberalist ideological stance might have concluded that workers in such bottleneck positions should simply be paid what they required, and there were cases where oil companies granted very extensive wage increases. But pragmatist voices inside the Willoch government (former mayor of the oil capital Stavanger, Arne Rettedal, in particular) understood the value of the way the L-complex was organized. The foreign oil companies had to meet with the prime minister, who let them know that they would loose their positions in the North Sea if they did not comply with the norms of Norwegian labour relations (Ryggvik & Smith-Solbakken, 1997, p. 271). In such a crucial matter for the Norwegian corporatist structure of wage negotiations, Willoch complied too. Most of the new unions organized outside of LO in the early 1980s, but in the 1990s, there has been some realignment under LO (Ryggvik, 2009, p. 175f). The wage levels of oil workers thus did not develop completely out of line with the wages of the rest of the workforce in (non-oil) sectors competing in world markets. Thus, the leading role of these exposed sectors in the Norwegian wage formation system was retained.[5]

During the overheating phase, the employers experienced something of a setback. In 1986, just as the negative oil shock hit Norway, negotiations started for a new round of wage settlements. While wage earners' claims reflected the state of overheating, 1985–1986, cf. Table 2, employers naturally emphasized the need for moderation with reference to the imperative of austerity. The government was well aware of the problems Labour had gotten into by supporting generous wage settlements in the mid-1970s. They tried to stay passive, but that line reinforced splits between various employer groups (Solli, 1986). The government got into severe problems (Høgsnes, 1999, p. 167) following a lock-out by the employers organization (NAF) – a move that was not very strategic. The government lost legitimacy both among employers and wage earners.

Economic Policies: From Stabilization to Overheating

Facing the international downturn in 1982, politicians in the Willoch government converged with expert macroeconomists and Ministry of Finance planning bureaucrats on the following hypothesis: A policy of lower taxes would lower wage costs in the exposed sector, thus raising competitiveness (unit labour costs). This would create growth, and growth would reverse the rising unemployment (Fig. 4). (See the arguments given in St. meld. nr. 86 (1981–1982), Revised National Budget, 1982, p. 84f, p. 13.) In 1982–1983, fiscal policy was procyclical, as the structural budget deficit was reduced (Fig. 4). These problems were visible in early 1983, and the Christian and Agrarian parties joined the Conservatives (the Willoch II government) to try to balance them.

The Norwegian cycle turned above the trend again by 1984, much earlier than the OECD-cycle (1987, cf. Fig. 3). Through this stabilization phase, ambitions of stabilizing the real economy were lower than before. Especially from 1983 on, economic policies created much larger fluctuations in the domestic economy than earlier. As is clearly seen in Fig. 4, the size of the GDP gap in the mid-1980s is large compared to the very stable pattern of the 1970s. The figure also shows that the unemployment rate rose – in contrast to the 1970s – both in the early 1980s and since 1987, converging with the EU level in the one year of 1990 (Fig. 3).

Above, we outlined the credit rationing system (C-complex) of the early post-war developmental state. The first partial restructuring of this system came in 1983/1984, as the government had deregulated a number of restrictions both in the housing and credit markets (especially the termination of primary reserve requirements in late 1983). With the shift to market organization, it was up to the banks to determine the quantity of credit. Skills and habits in the banks were geared to the old system, where people would not get a loan unless they had shown an ability to save. In the new and deregulated world, the banks would compete, rather than cooperate in a banking cartel. The leading bank managers were socialized into the old system. The context of increasing competition (as promised in the 1980 expert evaluation (NOU, 1980, p. 4) on interest rate policy) led them to underestimate the importance of thorough risk assessment. The simplistic formula was: increased volume will increase profits and earnings. There was a deferred urge to expand, and to win market shares. An enormous expansion of the branch network, with a corresponding rise in private service sector employment, followed. Banks were also eager to evade the various requirements imposed by authorities in order to safeguard

solidity in case of financial instability. There had been little such instability in the old system. It is not surprising that banks were thrown into a turbulent learning process: the old managers lost control, organizational patterns eroded (Knutsen, 2007).

Interest rate regulation was maintained in spite of the deregulated credit volume. Norges Bank claimed that since banks so successfully evaded regulations, overshooting the credit budget, the volume of credit was already de facto deregulated. Since regulations no longer worked, the 1983 interest rate level was 'correct', and one could let the volume of credit loose at that interest rate. This proved wrong: when the volume was deregulated in 1984, a consumption boom of unprecedented proportions followed. The interest rate was still under political control in a situation where no major political actor dared suggest a rise. In addition, there was no significant tax reform, so interest payments remained tax deductible (Tranøy, 2001). In fact, the government reduced personal income taxes, something that was financed by reduced subsidies. The sequence of institutional change was: housing market deregulation, then deregulation of the credit volume, only later upwards adjustment of interest rate and tax reform (Knutsen, 2007, p. 499f). It should have been the other way around. In fact, towards the end of his reign as Labour's finance minister in the late 1970s, Per Kleppe (2003, 290ff) had proposed a tax reform that would have counteracted the most catastrophic consequences of credit liberalization. But Willoch and his party rejected that proposal, and Labour was weakened and lacked the confidence to pull that reform through.

People started to borrow in order to finance consumption: the consequence was a consumption boom in 1985–1986 of hitherto unseen proportions. Credit was unlimited and its price (post-tax real interest rate) was negative. Asset price inflation followed, both in stock and housing markets. The situation was new to the banks, but they certainly also responded to a market situation: why not lend money if the tax system paid the interest rate and inflation took care of repayments? The interest costs on the part of households (particularly high income households) should clearly have been increased. But the Willoch government was unwilling to burden households with such costs.

In addition, fiscal policies remained expansive. Both Willoch (himself an economist) and the leading Finance Ministry experts knew that fiscal spending in 1984–1986 was unsustainable (increasing structural deficit 1984 to 1985, and only a minor reduction in 1986, Fig. 4). But the government did not heed the Finance Ministry advice on interest rate, taxes and budget-matters during the boom. The centre parties would not compromise, even

though Høyre was the largest party of the coalition. Tax cuts based on Høyre's programme of stimulating the exposed sectors now stimulated the boom further, when in 1986, unemployment nearly came down to the 1970s level again. Wages in the exposed sectors did not adjust, this sector turned out not to be important for employment creation. A policy of just stimulating exposed sector competitiveness did not generate employment growth. In fact, for the 1980s as such, growth rates of GDP proved low (Table 3). Tax policy proved to be an inefficient tool of incomes policy management (Bowitz & Cappelen, 2001).

As for incomes policies – with the significant omission of the actions taken against the foreign oil companies – all government parties deliberately went for less coordination, supporting decentralized bargaining. We have already seen that this led to an unnecessary conflict so wage increases were high and contributed to overheating.

One of the few instruments that might cool down the economy was the exchange rate. Since the breakdown of Bretton Woods, such exchange rate policy had been a new instrument available to policy makers. The Willoch government tried to improve competitiveness by small devaluations since the fall of 1982, amounting to 9 per cent total in 1982–1985. Inflation was somewhat reduced, but it remained higher than among the main trading partners. Thus, the policy failed to improve competitiveness.

These processes played themselves out in addition to the basic factors that drove the economy towards overheating: high oil price and massive oil investments. Even industry outside the oil-related segment experienced rising demand for their export products. Combining all these factors, we understand why the boom phase came to be marked by economic imbalances that were unprecedented in post-war Norwegian economic history.

Monetary policies produced a negative post-tax real interest rate in a credit market with quantity deregulation. The government lost most of its credibility in incomes policies. Devaluations did not serve the intended purpose. Norway experienced a credit boom with consumer spending and housing prices increasing rapidly. Speculators made large gains.

These structural changes in the financial sector established a set of conditions for the banking crisis that would reach systemic proportions in the early 1990s. The lending explosion through 1984–1986 included numerous dubious projects (electronics, fish farming, mass media). The lending spree increased the financial vulnerability of non-financial firms and households. The banks also stretched regulations designed to ensure sufficient solidity to survive a recession. The banks' credit risk increased, and so did the system risk that problems would spread.

The situation was new and unusual also for the authorities. None of the 'iron triangle' experts were sufficiently concerned. The Ministry of Finance was frustrated by the game they had to play as banks kept pursuing regulatory evasion. Norges Bank knew about the explosive lending activities by mid-1984, but suggested that this was matched by a reduction of lending in grey markets (Knutsen, 2007, p. 503). In the banking inspection, reports about irresponsible lending and lack of control only circulated at the intermediate level. In 1986, several bodies, including Bankinspeksjonen, were merged into The Financial Supervisory Authority. Even this body admitted in retrospect that they should have issued warnings about weak solidity.

The Willoch centre right coalition struggled in vain to reduce overheating. Its capacity to manage the economy in a crisis quickly eroded. In 1986, the main indicators of Norway's external position again indicated an unsustainable relationship to the world economy.

Political-Parliamentary Structural Changes

While we noted in the 1970s a political business cycle on the left, in the early 1980s, economic destabilization interacted with the transformation of Norwegian non-socialist politics. As soon as the government launched its first package of austerity measures in response to the spring 1986 oil price collapse, Labour was able to establish a parliamentary alliance against it. This ended the Willoch era. Labour here exploited the minority government constellation that had resulted from the 1985 election: the Progress party held a balancing position and voted with Labour on what was really just a minor tax case. This was one of the government's first efforts to gain support for austerity measures. The Willoch II government resigned. At this time FrP was mainly a miniscule ultra-liberal party opposing Labour's taxation-/planning-/welfare state. (The growth of its parliamentary strength is recorded in Fig. 5.) They rejected Høyre, claiming that the party had accepted too much of the corporatist framework Labour had erected within the complexes of market-organizing institutions.

Much earlier, Høyre had fought an outer wing of liberalists (Libertas, cf Sejersted, 1984), accepting the mixed economy, securing an alliance with the centre parties. When Willoch came to power, he took advice from some committed young liberals, but as we have seen, its liberal restructuring did not get far. FrP retained its stance as a much more aggressively liberalist party, rejecting both the tax-state, fiscal policy discipline, and the

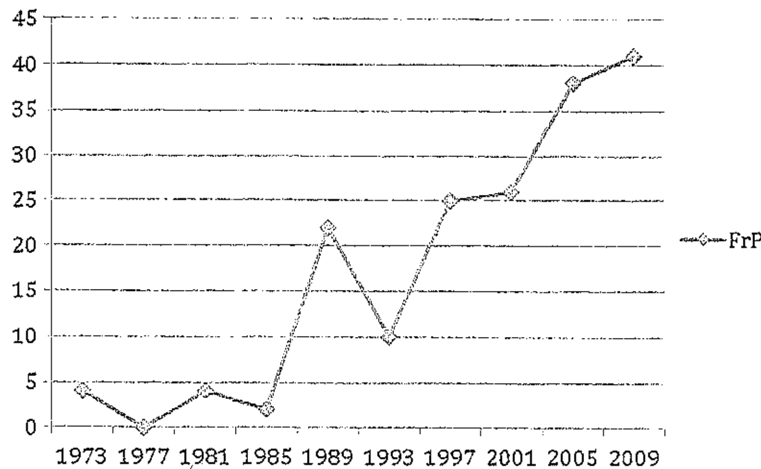

Fig. 5. Progress Party, Parliamentary Seats *Note:* Total number of seats: 155 (1973–1981), 157 (1985), 165 (1989–2001), 169 (2005–2009). *Source*: Bernt Aardals homepage: http://home.online.no/~b-aardal/

institutions of the L-complex. But as it developed, it mainly mobilized on the basis of a new cleavage, namely that between Norwegians and non-Western immigrants (P8). Such populism in many respects broke with liberalist principles. It gave FrP enormous political success even with traditional Labour voters. In 1997, 2005, and 2009 it was the largest non-socialist party in parliament.

The parliamentary structural change implied increasing fragmentation of the non-socialist side, and had important medium-term consequences. Although there was still a non-socialist parliamentary majority, Labour was back in office. Through the 20 years between 1985 and 2005, Labour formed a minority government for 12 years (Mjøset, 2010, Table 2.1). The largest non-socialist party, Høyre, held the prime minister position only for one and a half year (Willoch and Syse) through these 20 years, while the Christian centre party KrF held the position of prime minister for 6.5 years! Despite the non-socialist majority, this structural change eroded the basis of Høyre's attempt to change the complementarities characterizing the Norwegian model. Through the period, the non-socialist governments were clearly weaker than the Labour governments. In such a context, the Norwegian right wing had no chances of continuing what Willoch had started. This does not mean that the original model was left unchanged.

But, as we shall see, Labour was responsible for the main changes. More than one might expect judging from the pure socialist/non-socialist distribution in parliament, Labour came to influence the transformation of the model.

From 1986 to 1997, Labour dominated. All through this period, minority governments ruled. The striking feature of this long period is that Labour could remain in office all but one of these 11 years, despite a non-socialist majority in parliament. As we have explained, FrP held the balancing position in parliament. This did not change at the next general election (1989), but a non-socialist coalition, excluding FrP, had more seats than Labour. However, this Høyre-led Syse government resigned after one year, in 1990, because the EU question (P4) reemerged (Mjøset, 1997).

Under the leadership of Gro Harlem Brundtland, the Labour party was reformed. Its domestic stance became a more moderate one compared to the radical surge of the 1970s. We may link this to what Rokkan (1966) emphasized, namely the persistent struggle between the parties (social democrats, centre parties and conservatives) to appeal to the growing middle class. A most striking new feature in this respect was the attempt to cash in on an international orientation. During the 1980s phase of opposition, the most radical 1970s traits were discarded. The party realized that it had to present a broad appeal to voters whose living standards had risen markedly compared to the earlier post-war golden age of social democracy. The class composition of the voting population had also changed considerably with the growth of the service sector.

Labour's new internationalism was particularly visible in three respects. First, there was a new round of negotiations ahead of a new referendum on Norwegian EU membership (P4) taking place after the end of the Cold War. This will be analysed in our 1990s section, but it was a response to events in the 1980s. EU's efforts at deeper integration in response to changes in the international monetary system (P6) connected to the coming of the frenzy phase (Perez, 2002). This was crucial to the changes in the C-complex. Second, Labour engaged in environmental policies linked to the warning signals about global warming, voiced through the emerging (P7) UN-based environmental regime. Given Norway's position as a main oil exporter, this related to the NR-complex. Third, there were a number of initiatives to tackle the political challenges of immigration policies (P8) in the form of a preventive orientation by engaging Norwegian diplomacy in international conflict-resolution. This related to the control of labour flows into Norway, and thus to the L-complex. This was seen as an enlargement of the foreign policy repertoire from traditional development aid towards a facilitator role in international conflicts.

As a more moderate catch-all party with an international orientation, Labour addressed important new challenges that emerged as processes of internationalization – with varying scope: European (P4), western (P6), global (P7, P8) – affected the C-, NR-, and L-complexes. A major vision in all these areas was that if regulations at the national level had to be relaxed, social democrats could take action and through clever diplomacy stimulate the construction of compensating international institutions, working closely with the EU at the European level, the UN at the global level, and using the security alliance (Nato) to engage the global hegemon, the U.S.

Economic Policies Since 1987: Austerity

In May 1986, the new Labour government had to take on the rather unpleasant task of fighting overheating and exposing the economy to harsh austerity treatment. The financial boom continued into late 1987 before austerity started to bite. After 1988, unemployment reached unprecedented levels (Fig. 4).

When implementing austerity policies, Labour made use of one trump card possessed by none of the other parties: close ties to both social partners. The incomes policy interventions that followed were similar to the wage/price freeze during the late 1970s: The so-called 'wage law' of the spring of 1988 generalized the very moderate settlement in the LO/NHO area for all wage earners. The aim was to improve competitiveness and lower the current account deficit that had appeared since 1986 as oil prices continued to be low (Fig. 2). These incomes policies were on the borderline of democratic legitimacy, but a spirit of national cooperation – *dugnad* – reigned and the interventions were accepted (Cappelen, Fagerberg, & Mjøset, 2000). These late 1980s policies were more successful than earlier incomes policies efforts (Bowitz & Cappelen, 2001).

Various banks began to feel the consequences of the mid-1980s lending spree. Many new firms had been created, and there was an avalanche of bankruptcies: 3,500 in 1988 (Hanisch, Søilen, & Ecklund, 1999, Ch. 12). After several years of negative savings, many households were caught too. The hectic transformation of the Norwegian financial system involved a process of regulatory revisions and disagreement on the measures used to indicate the solidity of banks: what items should be included in the definition of a bank's capital, and how should the various elements of a bank's security be weighted? Banks were able to include subordinated loan capital in total capital in order to satisfy the law's capital coverage

requirements of 6.5 per cent. Without this addition their capital coverage was closer to 4. This allowed them to grow faster, but they were more vulnerable and would need extensive support from the state in case of trouble (Lie & Venneslan, 2010, p. 471).

As for defence of bank solidity, the banks' reserves were the first line. The second line of defence was the insurance funds of both savings and commercial banks. Supervisors noted that a number of banks began to deplete these sources. Bankruptcies increased from 1987, peaking in 1992. A local stock exchange crash in October 1987, a side effect of the international crash, did not make things better. At that point, the warning signals sounded. Supervision showed that the banks owned much more shares than what banking legislation allowed. Control of account books showed increasing losses. Supervision became caught up with fire fighting and assistance to single banks (Knutsen, 2007, p. 481–488). Some banks deferred their losses in various ways. Discarding earlier attempts to retain a decentralized banking structure, two of the largest banks, DnC and Bergen Bank, were allowed to merge in 1989 (Lie & Venneslan, 2010, p. 456). The term 'banking crisis' was first used in May 1989 (by the Supervisory Authority; cf Knutsen, 2007, p. 575), but the problems had not yet reached systemic levels.

Fiscal policies were tightened during 1986–1988 (Fig. 4). Changing the amount of tax deductible interest payments, the government started a change in the tax system that would be finalized and confirmed by the general tax reform agreed upon in the early 1990s and wholly implemented by 1992 (see next section).

Judging the earlier policy of exchange rate devaluation as a failure, the planning bureaucracy suggested a fixed exchange rate. The hard currency option indicated a non-accommodating stance in monetary policy. A more autonomous Norges Bank would determine the interest rate with reference to strict exchange rate norms. Since this was connected to two important processes of international integration, we shall discuss it in detail in the next section. This was the end of the policy of low interest rates, and a major change to high nominal and real interest rates followed. With the significant cuts in marginal tax rates for high incomes, the post-tax real interest rate increased a lot, housing prices started falling and household defaults escalated. With lower oil prices, oil investments started to decline in the late 1980s. Given the restrictive fiscal policy and high interest rates, consumer spending and housing investment fell. Thus, unemployment started to increase rapidly.

As an initial response to the dramatic oil price/dollar-slump (P1/P6) in 1986, the new Labour government – the same week they took office

– conducted one final, large devaluation (May 1986, 12 per cent). This helped improve competitiveness, seen as crucial for an expansion of the non-oil sectors competing in world markets. The policy of low interest rates was terminated. The government announced its commitment to a fixed exchange rate. Through the first four years of hard currency policy, however, the Norwegian economic system was not fully open to international capital flows. As we shall see, Norway followed the EU timetable and terminated the last restrictions on international capital movements in July 1990.

In 1987–1988, monetary policy was an additional contractive element. Until the spring of 1987, the interest rate differential rose to counteract the depreciation of the NOK. But from then on it was not significantly reduced even though the NOK stabilized around 8 to the Euro (cf Table 4). The inflation differential was similarly high. This cure was a response to the unsuccessful Willoch-era strategy of gaining competitiveness by devaluations. Norwegian authorities, represented by the Norges Bank and the Ministry of Finance, had to gain credibility for its hard currency policy. Export industries suffered. Unemployment rose in the late 1980s at the steepest pace ever recorded in post-war Norwegian history, as shown in Fig. 4, which also shows the scale of the business cycle recession that followed from 1989, to be analysed in our next section.

Given Labour's more moderate and internationalized line, the party was not eager to reverse the changes that the Conservatives had introduced in the organization of markets for collective housing and for finance. A reversal was never suggested by economics experts either. During the late 1980s austerity phase, Labour continued the revision of rules and regulations in the C-complex, allowing new routines to establish themselves and old institutions (private financial institutions) to entirely change their organization and strategies, and to move into new areas (even each others' areas). Although Willoch had started internal deregulation in 1984, it was during the new Labour government that external financial deregulation – the opening of the national financial system to short-term international capital flows – was implemented.

The first period of the hard currency line pegged the NOK to a basket of trading partner currencies. The basket was tailor-made for Norway's exports. The alternative was to fix the NOK to the ECU (where the currencies of the European Monetary System (EMS) member states played a more important role). In a situation where firms were hard pressed (a vast negative GDP gap opened up from 1989, Fig. 4, indicating a deep recession), an ECU-peg would revalue (in 1989) the NOK (effective exchange rate) by

Table 4. Periodization of Relationship between Interest Rate Differential (IRD) and Exchange Rate (NOK per Euro) 1986–2004.

	Exchange Rate Regimes (Longer Periods)	Interest Rate Responding to Exchange Rate	Non-Response: NOK Strengthening – IRD Extensive
1/86 to 1/87 (80-II)	From 12/78: Trade-weighted currency basket	NOK depreciating IRD very high	
1/87 to 4/88 (80-III)	(Same)		NOK appreciating, then fluctuating[a] IRD kept very high (austerity phase)
2/92 to 1/93 (90-I)	10/90 to 12/92: ECU-peg; 12/92 to 5/94: Floating	NOK depreciating[a] IRD brief rise (+)	
2/96 to 1/97 (90-I/90-II)	5/94 to 3/01: Stability vis-à-vis European currencies	NOK appreciating[b] IRD narrowing (+/÷)	
4/97 to 4/98 (90-II)	(same)	NOK depreciating IRD rising (+)	
1/99 to 1/00 (90-III)	(de facto inflation target)	NOK appreciating IRD narrowing (+)	
1/01 to 4/02 (90-III/ 00-I)	3/01 onwards: (officially) inflation target		NOK appreciating[a] IRD rising (austerity phase)

Note: '+' indicates that the IRD (interest rate differential) is positive, that is the interest rate is higher in Norway than abroad.
Source: Based on data from *Statistics Norway* on IRD and the exchange rate (NOK per euro). Exchange rate regimes from Norges Bank (2004).
[a]Indicates periods particularly unpopular with exposed firms in the export sector.
[b]Indicates a too low interest rate given the conditions in that phase of the business cycle.

up to 10 per cent (Lie & Venneslan, 2010, p. 450). The basket peg was retained until October 1990.

The Natural Resource Complex and International Regimes

Support for UN efforts to develop an international regime for global environmental policies (P7) was another pillar of new, internationalized Labour. Prime minister Brundtland led the UN 'World commission on

environment and development' (WCED, 1987), creating awareness of the risk of global warming (the 'greenhouse effect') due to CO_2 emissions. Third world industrializers had to rely on cleaner technologies and consumption patterns than those of their Western forerunners. Also the West of course had to switch to 'sustainable development'. The Commission promoted international institutions to safeguard such development.

This became an important part of Labour's internationalist arguments, but in the Norwegian oil economy – unlike the other Nordic countries – such a policy focus unveiled a major ambivalence between the efforts to support an environmental regime (P7) and Norway's integration in the world oil economy (P1). We noted how the 1984 oil compromise left the oil block, and Statoil in particular, in a more autonomous position vis-à-vis the state than earlier. Its international ambitions were increasing, and so were the ambitions of some of the strongest manufacturing firms in the block (restructured shipyards, producers of subsea installations, etc.). Oil production on the Norwegian continental shelf in itself implied large emissions of CO_2. On the other hand, the number of increasingly professionalized environmental movements ('social movement organizations') was growing. Some of these were traditional grass-roots movements, but others (such as Bellona) aimed to establish themselves as integral parts in the corporatist network between state and civil society/Norwegian firms. Social democracy's original labour/capital-compromise implied acceptance of private capital's growth objective, but now the Labour government was in a cross-pressure between the firms' preference for *growth* and the environmental movement's *protection* interests. This led to problems for the government's efforts to establish a general CO_2 tax on Norwegian production (Kasa, Malvik, & Underdal, 2001).

European trends towards green taxation made Norwegian authorities realize how strong a preference an oil-producing country develops for a stable oil price. If the oil price became too low, green energy taxes would be increased (Andersen & Austvik, 2001). If, on the other hand, the oil price was too high, energy saving measures and technologies might develop to an extent that could threaten Norway's oil incomes. Since this period, Norway actively engaged in informal diplomatic coordination (P1) with OPEC (Claes, 2001). As in many other respects, Norway became a supporter of the U.S. position, which – as both a major consumer and a major producer of oil – clearly was in favour of a stable oil price.

At the Norwegian level, we must link this to the political barriers against extension of Norway's traditional system of hydroelectricity supply. Following a traumatic conflict on the construction of a dam for

hydroelectric power-generation on the Alta–Kautokeino waterways 1979–1981, all governments refrained from planning for new hydro power projects. But the whole extension of mass consumption in Norway had taken place in a context of cheap electricity based on hydro power. Norwegian consumers were accustomed to inexpensive electricity. Above all, an energy-intensive enclave within the Norwegian industrial structure benefitted from very cheap energy. There was a secular rise in the demand for energy. In the mid-1980s, experts discovered that Norway's fossil wealth contained an element that might solve this dilemma of energy production. Power plants driven by natural gas could increase electricity production. No more water power infrastructure would be needed and the natural beauty of Norwegian lakes and waterfalls would remain unaffected. The Brundtland government happily adopted these ideas, believing that emissions would be small and manageable (Haukeland, 2002).

But within a few years, it became clear that such gas plants would be a main part of the problems addressed in the Brundtland report on *Our Common Future,* while the hydro power it was supposed to supplement, implied no CO_2 emissions at all! This was just another version of the growth versus protection dilemma just mentioned: A tension between the UN efforts to build an environmental regime (P7) and two sectors of Norwegian industry, the energy-intensive industrial enclave and the oil block. Labour had always been concerned to support these two sectors, both as part of an industrial policy strategy and as bases of regional electoral support. This tension developed into full conflict in the 1990s (Kasa & Underthun, 2010; Tjernshaugen, 2007), bringing down the Bondevik I centre government in 2000.

THE LONG 1990s: FROM CRISIS TO THE SOLIDARITY ALTERNATIVE

The end of the Cold War (1989–1991) (P2) was not only a major political event, it also affected the economic situation. The OECD countries generally benefited from the fall of the Berlin Wall. Through the 1980s and 1990s, Norway had cycles that were indigenously generated. The Norwegian cycle (Fig. 4) dipped below the trend in the first half of 1989, while the OECD cycle (Fig. 3) only did so two years later. 1990 was the year of the German 'Wende': treaty of monetary, economic and social union in

May, currency unification in July, reunification treaty August/September, de facto unification October 3. This overnight inclusion of a large and much poorer economic area unleashed strongly expansive German fiscal policies and lending. The Western European region was pulled into an upswing in 1990. The Bundesbank responded by a very contractive monetary policy. German interest rates rose strongly in the fall of 1990 and in 1991. This would soon force the Western European economy into a setback. The peculiar upturn around 1990 had led by 1992 into an equally peculiar EU-based downturn. (This is modified in Fig. 3 by the fact that the United States was in an upturn.) At that time the Norwegian cycle was past its 1991 low. OECD overall unemployment increased 1990–1993 (Fig. 3).

Norway faced increased price competition in some of its main export markets, that is, terms of trade developed very unfavourably. The former Eastern block countries – Russia most importantly – were integrated into the Western world economy. These former COMECON countries came to occupy the same role as before World War I, that of a peripheral source of raw materials to the West. Their only additional export item is military equipment. For Norway, such dumping of raw materials implied a negative terms of trade shock, particularly 1990–1991 (cf. Table 2). Russia's social fabric crumbled under Yeltsin 1991–1999. Russian exports increased less and raw materials prices recovered somewhat, spurred by a wave of growth in the world economy. That wave was itself generated by the cheap raw materials, as well as by the spread of ICT technologies.

In the world monetary system (P6), the EU response to the more nationalistic exercise of U.S. monetary hegemony led to a programme of deeper integration. The Delors report of 1989 sketched three phases of monetary unification from 1991 onwards. The 1988–1991 period was focused on the run-up to the Maastrict treaty (signed early 1992), that defined the three-pillar structure of the EU and created the Euro. The EMU project developed since 1992, leading to the creation of the Euro area of 11 countries in 1999, the introduction of the Euro as a real currency, and the ECB as the EU central bank since January 2002.

The end of the long 1990s was marked by the Asian financial crisis in 1997, related to property bubbles, low money market interest rates and deregulation of capital flows. It was followed by a downturn in that region. In the aggregate, these regionally diverging business cycles generated a smoother general business cycle through late 1990s, as compared to the late 1980s (Fig. 4).

Monetary Policies, the Impact of International Regimes and European Integration

External deregulation was a response to changes in the international monetary system (P4). Liberalization of capital movements was coordinated by OECD, but in Norway, it was legitimated primarily with reference to the preparations for EMU as a move to deepen EU integration (P6). Given the exchange rate crisis and the 1986 devaluation, Norway could not immediately introduce fully free capital flows.

Opening the Norwegian system to international capital movements – complete by July 1990 – was a major decision. A main objective in the 'embedded liberalism' (Ruggie, 1982) of the Bretton Woods system (P6) had been to prevent the re-emergence of the financial anarchy of the interwar period. International regulation blocked speculative short-term capital movements from destabilizing – as had been the case in the 1930s – national economies in situations were there were no fundamental reasons in the real economy for such a destabilization. But in the 1980s context, this was not a case of allowing free short-term capital movements in a world full of nationally distinct currencies, as we shall soon see.

The external deregulation of Norway's economy was taken in steps. An abrupt liberalization would have created problems for economic policy management in a period when it was important to fine tune monetary/credit policies in order to achieve demand management. But in 1988–1989, the current account was again in surplus, inflation was in line with that of European countries, and confidence seemed restored. Further deregulation was then introduced (Lie & Venneslan, 2010, p. 448f): firms could borrow in foreign currencies, non-residents could buy Norwegian bonds, and residents could buy foreign securities. The last restrictions were lifted as late as July 1990, leaving capital flows entirely unregulated. In order to convince the players in the financial market that its hard currency commitment could be trusted, the government, represented by Norges Bank, had to demonstrate its willingness to defend the fixed exchange rate in a context of fully deregulated capital movements. For this reason, the interest rate was kept quite high during 1989–1991 (Lie & Venneslan, 2010, p. 448f).

Termination of the basket peg was a response to external events. In the fall of 1990, Sweden and Finland were about to join the European currency coordination, and Britain associated to EMS in September 1990. The importance of EU countries in the basket rose from 42 to 71 per cent. EMS

association had been suggested by bankers already in 1988, and the government now held that this might further bolster trust in NOK and thus keep the interest rate down. Thus, in October 1990 Norway's hard currency line was revised as the NOK was pegged to ECU (the currency unit later renamed Euro).

The seemingly 'domestic' decisions that changed the C-complex were embedded in layers of context. The relation to the EU's role in the world monetary system was noted above. The European monetary system was in a transition phase. We have mentioned above Norway's participation in the EU currency snake. Since December 1978, the exchange rate was determined by a trade-weighted currency basket (see Table 4). Norway's hard currency line and the lifting of capital controls were parts of a broader European process in the mid-1980s.

To see why international deregulation did not imply a return to 1930s-style financial anarchy for Western Europe in this period, a comparison of contexts is necessary. The deregulation in the late 1980s was a case of allowing free capital flows *between currency areas that were in the process of being unified*, that is: their separate currencies were in the process of being *replaced by a common currency* (EU's second integration offensive; P4). That, in contrast, was not the case in the Bretton Woods period (P6), the period through which Europe's various developmental states were reconstructed on a national basis after World War II. Through the 1990s transitions period, the structure of the EU monetary system was *formally* the same as that which the Bretton Woods system had been designed to avoid: a fixed exchange rate system (several currencies) with free short-term capital movements. Such a context is a win–win situation for currency speculation, as it allows 'one way bets'. If a currency is weak, it is the target of speculative attacks by currency traders: speculators win if it is devalued, and they loose very little if the fixed rate survives. Once the EMU was in place (1999/2002), most of the national currencies were replaced by the Euro. Thus, this problem was done away with for most countries, though not for Norway, as we shall see later.

We now turn to the domestic context. Fixed exchange rates was a transitional step towards a regional monetary union, acknowledging the problems that had emerged as states in the 1970s and 1980s had tried to use devaluations as an economic policy tool. In the 1990s context, monetary instruments such as the interest rate and the exchange rate gained new roles. The interest rate was no longer related to any 'developmental state' purpose of securing low financial costs of prioritized investments and basic housing. Norway had mature housing markets in which families might use their flat or house as security to pursue further credit-financed consumption (L-complex). The interest rate also influences cost estimates in connection with investment decisions (C-complex), both for innovators and real estate developers. The exchange rate, on the other hand, is the price of the currency in a liberalized international monetary system, affecting the competitiveness of exporting firms (C-complex), as well as the decisions of consumers (L-complex) to travel abroad and spend their income in that setting.

Both the interest rate and the exchange rate were now partial factors in a complicated balancing act of getting the mix between incomes, fiscal and monetary policies right. Within the economics expert community, Norges Bank economists got a new and more important role. As we shall see, it was not always easy to reach agreement between the various corners of the iron triangle, as it was no longer guaranteed that Norges Bank would play along with Department of Finance preferences.

Central banks all over the rich world now saw it as crucial to choose a target variable that would serve as an 'external anchor' for monetary policies. Two different regimes were tried out. During the hard currency phase, the government defined the exchange rate as the target variable, and Norges Bank was assigned the task of keeping it as fixed as possible. This reduced the risks connected to in- and outflows of capital, leaving inflation as a dependent variable. The alternative regime is *inflation targeting*, where the roles are reversed: inflation is the target variable and the exchange rate is a dependent variable, that is it is left floating.

With international capital flows and the restructuring of Norwegian banking, the number actors in currency markets multiplied. As long as the exchange rate was fixed, there were chances of one-way bets, as noted. Under a floating exchange rate regime, the exchange rate appreciates or depreciates relative to large in- and outflows of capital. Employed by large banks, currency traders serve the banks themselves, as well as large Norwegian exporting firms. As more firms depend on export markets, they make increasing use of recent financial innovations such as hedging against volatility in currency markets, and derivatives in the securities market (Strange, 1986). Currency traders operate in very internationalized networks, but in a small country such as Norway, successful operations require very specific area-knowledge. For such reasons, Norwegian actors (banks and large firms) are the main forces to behind movements of or pressures on the exchange rate.

Table 4 singles out a number of periods during which there were significant movements in the exchange rate, with related movements in the

interest rate set by Norges Bank.What matters in a situation of unrestricted short-term capital movements is the interest rate differential vis-à-vis other major currency areas. Of particular interest are cases where monetary policies (interest rate determination) have made cyclical movements even more pronounced. There are two cases of non-response: even though the currency is appreciating, the interest rate is kept high. There are also cases in which there is a response: the interest rate is changed to counter a currency appreciation or depreciation. Even in some of these cases, some interest groups may feel squeezed. The periods that were most problematic for exporters are noted in the table. The first such period was 1987–1988, the 1980s austerity period. The 1990-II case, however, comes out as a successful policy mix, as we note below.

The impact of European monetary integration can also be traced at the political level. A renewed and offensive approach to the question of EU membership was another element in Labour's more internationalist line. The party elite again favoured full Norwegian membership, arguing that the end of the Cold War (P2) would make a difference, also on voter attitudes. The EU pillar of Labour's new internationalist line in this period was mainly about financial integration. Labour spokespersons (such as the party leader Torbjørn Jagland) implied a vision of an extended and reformed – headed by social democratic governments – EU stabilizing the unruly world economy! This was even generalized to cover the other international arenas singled out by Labour. Redistributive policies at a global scale might enable Western countries to mend both problems of poverty and environmental risks! This became a new line in Norwegian diplomacy: 'value-oriented diplomacy' (Matlary, 2002; Tvedt, 2003), a line which continued even under non-Labour governments as the Christian party also was a strong supporter of this line.

Given its new internationalist orientation, Labour tried once more to approach the EU in connection with the second integration offensive. The plans for a single market and a monetary union not only gave Labour a new set of arguments in favour of changing Norway's pattern of international integration, it also destabilized the non-socialist block so that Labour could return to office in 1990 (as noted in our section above on structural change in the party system since the mid-1980s) and in fact remain there through the 1993 general election. That election was only a year before the 1994 referendum on EU membership, and there was no way in which the Conservatives and the centre parties could agree to cooperate. One might claim that during a stabilization phase (I-phase in Table 2), the government has a chance to survive elections. The Labour government survived through

the 1993 general election. But this was because the EU question split the non-socialist parties. While FrP still held the balancing position, it was the EU question, not FrP, that explains continued Labour control of the government.

Unlike in 1972, an alternative existed in 1994! Norwegian business had already become strongly integrated with the EU economies through the trade treaty that was negotiated after the first no-vote of 1972. The Single European Act (SEA) of 1985 deepened the process of trade integration: technical barriers to trade were dismantled, turning the EU from a customs union into a real common market from 1993 onwards. Norwegian social democrats were active participants in the diplomatic process (1991–1992) that established a European economic area (EEA) of cooperation that linked EFTA countries (such as Norway) to the single market (Mjøset, 1995, p. 284f, p. 288f). The EEA treaty passed parliament in October 1992, and was in function from January 1, 1994, by then including treaties on a double system of courts and surveillance units. It changed the framework for Norway's trade integration (P3), which now largely coincided with European integration (P4). Under the EEA agreement, Norway incorporates into national law all the directives that constitute the single market, accepting extensive review of any potential non-tariff trade barrier in the surveillance/court system. Some might call this globalization, but more precisely, it should be called economic Europeanization. In other areas, such as monetary policies, security policies and foreign policies, Norway retained its national sovereignty.

Despite all the internationalist visions, the pro-EU side lost again in the 1994 referendum. Labour had not forgotten the consequences of the first referendum in 1972. The party line was now that they would not withdraw from office even if the referendum turned out against membership. So Labour remained in government (Skjeie, Langengen, & Rieber-Mohn, 1995), administering Norway's relations to the EU under the EEA-agreement. Even as a non-member, Norway was firmly linked to the EU single market through that agreement. The agreement was accepted by several groups in the centre parties, especially the Christian party. The days of polarized Norwegian controversies on EU membership had ended.

Economic Policies in the Early 1990s – Coping with the Consequences of Financial and Currency Instability

The inflationary effect of the 1986 devaluation petered out in the late 1980s. The inflation differential (with trading partners) came down strongly after

1987, and turned negative in 1989. In this sense, the hard currency policy was a success. During the period 1989–1992, the inflation differential was negative and the interest rate differential was quite low, reaching zero in early 1992.

Germany's nominal interest rate was at about 6.5 in the late 1980s, peaking at 8.7 in 1990 and 8.5 in 1991 as a response to the expensive German reunification, sliding back to 6.5 in 1993. Norway's moderate incomes settlements and a fixed exchange rate should have brought the interest rate down, but the German events pushed interest rate levels up all over Europe. With free capital movements, Norway's interest rate had to follow, despite the fact that the interest rate differential came down. The real interest rate remained at around 3 per cent in 1990 (Lie & Venneslan, 2010, p. 414). We observe that the downturn, the negative GDP gap (Fig. 4), was particularly grave between 1989 and 1993. While monetary policy thus had a stabilizing effect in 1986–1987, its effect as destabilizing in the recession 1989–1992.

This period 1988 to 1992 had the most dramatic rise in unemployment ever in the post-war period. Unemployment between 4 and 6 per cent in 1988–1997 differs from both the earlier and later periods. This was matched by the largest negative GDP gap in the 40-year period! This does not imply that growth was slow. As Table 3 shows, it was higher than in the 1980s. But fluctuations (Fig. 4) were large (thus some years, there was negative growth of the aggregate GDP volume, the first time since 1958; Hanisch et al., 1999, p. 332), so the downturn in 1987–1991 was unprecedented and the recovery from that low was quite strong.

High unemployment spelled serious legitimation problems, especially for a large labour party! In order to prepare for future challenges, the government in October 1991 appointed a committee of social partners, politicians and experts (the main unions, employers' federations, academia, civil servants and politicians) to report on policies in the face of future challenges. This 'Employment commission' (NOU, 1992, p. 26) was headed by former finance minister Per Kleppe.

Through 1992, the ECU-based hard currency line became increasingly complicated and unpopular. In this deepest phase of the recession, several problems coincided: Labour-intensive manufacturing industries not included in the oil block were in a considerable squeeze. While this is typical of the stabilization phase (export activities not related to oil had not yet picked up after the international downturn), the fixed exchange rate and high interest rate added to the frustration. This was also the final stage of the banking crisis,with widespread debt problems in households and

firms going bankrupt. This fed unemployment and demand for credit fell. Norges Bank had to defend the currency, buying up NOK, tightening bank liquidity, thus increasing the real interest rate (Lie & Venneslan, 2010, p. 451). But in December 1992 – in a currency crisis that hit several European countries (Tranøy, 2001) – Norges Bank gave up. The NOK floated until May 1994. The fact that a 'hard currency line' was declared, does not mean that it was possible permanently to defend a fully fixed exchange rate. That 'line' (cf. Table 4) had four different specifications: the basket peg to 10/90; fixed exchange rate against the ECU (October 1990 to December 1992); floating (December 1992 to May 1994); 'stability vis-à-vis European currencies' (May 94 to March 01; Norges Bank, 2004).

The high interest rates (despite the absence of interest rate differential) through 1991–1993 worked against stabilization. In late 1990, the conservative Syse government had tried to avoid too expansive fiscal policies. As for fiscal policy, preparations for the 1992/1993-tax reform played a role: gross taxation was introduced in 1988. The rescue operation that saved the large banks was very costly. When Brundtland (November 1990) took over, Labour had made extensive promises, so the opposition budget became the actual, and very expansive budget (Lie & Venneslan, 2010, p. 448). The coordination of the other policy fields, fiscal and incomes policies, was a success even through the early 1990s. Fiscal policies remained expansive throughout the 1991–1992 crisis period (Fig. 4). With many resources underutilized (high unemployment, in particular), the situation invited such countercyclical measures. A number of public projects had expansionary effects. Many jobs at the local level of the welfare state were secured, while the expansion did not squeeze the exposed, export-oriented manufacturing sector. There was a huge expansion of students in higher education.

By the early 1990s, the C-complex had been entirely transformed. We noted that new status of central bank economists since 1987 became a source of some tension in the iron triangle. By the early 1990s, it was realized that the arsenal of planning models at Statistics Norway were not designed to deal with new features such role of the (real) interest rate as a price signal. New experiences such as asset inflation bubbles and banking crisis (see below) forced the experts to revise the models to account for the influence the liberalized credit market on consumption, investments and the financial situation of firms. Through these years, Statistics Norway became a more independent unit in the iron triangle (Lie & Venneslan, 2010, p. 445).

The Banking Crisis

The late 1992 currency crisis coincided with the end phase of Norway's banking crisis, but the two crises had different roots. The banking crisis was a more protracted and dramatic crisis. The currency crisis was made possible in the new situation of *external* financial deregulation, with currency trading and hedging in a context of EU monetary unification. The banking crisis was the culmination of a process that started as a result of the *internal* deregulation through the 1980s overheating phase. It developed through a non-systemic into a systemic phase 1990–1992, ending in a clean-up and restructuring phase 1993–1994 (Knutsen, 2007, p. 467). It was the first systemic banking crisis in Norway since the 1920s (Knutsen, 2007, p. 491). Despite its nationally specific timing, the banking crisis can be linked to general features of the frenzy phase throughout the Western world economy: 36 out of 181 IMF members experienced systemic banking crises between 1980 and 1995 (Knutsen, 2007, p. 559).

According to the Kindleberger/Minsky sequence model of financial crises there are three stages: manias, panics and crashes (Kindleberger & Aliber, 2005; Perez, 2002). The Norwegian mania was the overheating phase 1985–1986, but the austerity phase 1987–1988 did not really create a panic. Instead, there was a drawn out phase of muddling through, with the crisis following only when the business cycle hit its low point in 1991–1992. Most scholars agree that the responsibility in the mania phase (as analysed above) rested both with the banks (their extremely offensive growth strategy and weak control and risk assessment systems) and with the timing of the Conservative/centre-government decisions on internal deregulation. But through the next two phases ending in the 1991–1992 crash, several domestic and international events affected the process. We have mentioned the turn from austerity to stabilization-oriented, countercyclical policies, tax reform (gross taxation) and the German Bundesbank causing high interest rates all over Europe. There has been some discussion as to whether any of these intervening events should be prioritized as singular *causes* of the crisis.[6] This amounts to a claim that the conditions that emerged during the mania (leveraging of banks) would not have led to the 1991–1992 crisis had it not been for one or more of these intervening factors. However, methodologically, the further one moves towards a 'crucial cause' kind of experimental logic, the further one moves away from a multi-factor reconstruction of actual historical events. Since there is no way in which this sequence of external and internal events can be reproduced experimentally, we shall have to do with the reconstruction.

The context of the turn to panic in 1990–1992 was as follows: fiscal policy had become expansionary in order to stabilize the economy, the banks had become highly leveraged, for reasons discussed earlier. Losses had been underestimated. The main problem was declining solidity due to irresponsible risk-taking. By late 1990, the banks' insurance funds were empty. All the three largest banks (DNB, Kreditkassen, Fokus) were in dire need of support from the state.

The panic did not take the form of a depositors run on the banks. The panic mood only spread in the economic planning bureaucracy. In 1990, the Ministry of Finance diagnosed the banks (Lie & Venneslan, 2010, p. 457). Relief to the weakening banks was considered a balancing act: one would only guarantee savings for households and small firms that could not be expected to analyse their risks systematically. Large, active investors would not be saved, and this would serve as a signal. If the result would be a run on the banks, there were mechanisms to guard liquidity. This was a 'market-conformist line to make actors responsible'. It was decided not to create a 'bad bank'. The problematic items were retained in the banks (Lie & Venneslan, 2010, p. 459). Banks should learn a lesson. The state would grant support in ways that contributed to a restructuring and rationalization of the financial sector following the mid-1980s expansion. There would be no analogy to earlier industrial policy support for weak firms. Banks would only gain support on strict conditions, and they would have to cut costs and lay off staff. The support was organized by a newly created/restructured 'State fund for banking security' (*Statens banksikringsfond*, established in March 1991) (Lie & Venneslan, 2010, p. 460f).

The banking crash followed 1991. During 1987–1993, bank losses accumulated to 76 billion NOK, of which 70 billion were taken before 1992 (Knutsen, 2007, p. 491). In October 1991, the Minister of Finance proposed to parliament that if a bank had clearly lost all its capital, while the bank had not itself declared a write-down, the state could write down the stock value of a bank to zero. The Ministry of Finance convincingly argued that it would create all kinds of complicated problems if the state should simultaneously save the banks and allow shareholders to retain their shares at some low value. Thus, the value of Kreditkassen and Fokus bank shares was 'zeroed' by means of a late December 1991 law (Lie & Venneslan, 2010, p. 465). DnB finally did the same thing internally at a shareholders' assembly 1992. The state had come to own the three largest banks 'by default'. Some irony – and a nice illustration of Polanyi's (1944) analysis of the 'double movement' caused by liberalization – given that the main vision behind the Willoch government's decision to deregulate banking had been to limit the role of the state!

This once-off transformation of Norway's C-complex had a number of consequences: The Norwegian banking system was modernized with the emergence of large, mixed financial corporations and banking alliances. It also became increasingly exposed to foreign influence as foreign banks established branches and some also bought Norwegian banks. As for ownership of Norwegian firms listed on the Oslo Stock Exchange, there was increasing ownership by the state and by foreigners (Knutsen, 2007, p. 560). Due to considerable restructuring and rationalization, employment in the sector first fell after 1992. Later, however, there has been moderate growth.

State expenditure on the bailout operation amounted to 25 billion NOK between 1988 and 1993. What liberal politicians had seen as a long overdue return to the equilibrating forces of 'free' markets, ended up within a decade with state intervention. The appropriation was an advantage to the state and a loss to shareholders, quite the opposite of the rescue operations in the United States and several European countries (e.g. Ireland) following the 2007/2008 financial crash. Taking over the three largest banks was, however, a temporary solution. There was a brief spell of interest in a return to the earlier regulatory regime. In 1992, voices within the Labour party indicated a strategy of long-term state ownership (through *Statens Bankinvesteringsfond*, "The state fund for banking investments", established in November 1991) to keep the banks under national ownership (Knutsen, 2007, p. 581).

But with the new upturn since 1993, the notion of the 'competitive situation' began to influence political debates on structural policies. The state was a passive owner, and state planned credit rationing was not reintroduced. The post-crash reregulation was quite extensive, but in a market-oriented direction (Knutsen, 2007, p. 616). The restructured C-complex did not loose its new-won autonomy, although the state had to clean up the initial mess before the main actors had become accustomed to the new situation. The state gradually sold its new shares back to the private sector, withdrawing from the banking sector without any loss. Financial capital gained the upper hand with respect to structural developments, converging with most other Western European countries, influenced by ICT and financial innovations (Knutsen, 2007, p. 587).[7] However, the institutions of financial supervision were also strengthened, with a basis in experience during the crash.[8]

The Solidarity Alternative

After the business cycle low in 1992, a renewed coherence was established in Norwegian economic policies. We therefore discuss the upturn part

(1992–1996; Table 2) of the 1990s stabilization phase separately. The turbulence in 1986–1992 created a 'state of emergency' that sustained a crisis-consciousness in many circles.

The OECD business cycle was smoother than earlier (Fig. 3), and fluctuations in Norway's GDP gap were also less dramatic than in the 1980s (Fig. 4). External conditions were favourable to stabilization. During the upturn, Norway's unemployment (to ca. 3 per cent in 1998) and the structural budget deficit (to just above 2 per cent in 1998) came down together, indicating a more successful countercyclical policy and a less dramatic overheating/austerity-sequence than during the 1980s. After the disappointing growth of the 1980s, growth rates were back closer to the 1970s, although oil no longer drove up total GDP compared to mainland GDP (Table 3). However, *unemployment* was on average higher than in the 1980s (Fig. 3).

The 1992 tax reform changed income taxation in order to do away with major tax distortions that developed as financial markets were liberalized. It basically restored a situation in which credit had a positive price, mainly because options for deduction of tax payments were scaled down. The reform introduced a dual income tax system that taxes all capital income at a low flat rate (28 per cent). Taxation of capital incomes relates to firms as well as to a subset of all citizens, some wage earners, others not – this relates to the C-complex. Labour income (wage earners in the L-complex) is taxed at higher and progressive rates (maximum 48 per cent). A problem is that a high difference in marginal tax rates has developed between imputed labour and capital income of self-employed and small business owners. These groups have thus engaged in extensive tax planning. There are also various other incentive problems, such as financing of local government, exclusion of some service activities from indirect taxation, as well as valuation of assets for wealth and property tax.

The 'Employment commission' earlier mentioned, suggested the 'Solidarity alternative' (NOU, 1992) as a generalization of the policies already pursued since the negative oil shock of 1986. This comprehensive policy coordination consisted of elements well known from the post-war Norwegian economic policy repertoire. It was launched a year before the government's re-election in 1993. Incomes policies (connecting the main pillars of the L-complex) were given the role of securing the competitiveness of export industry and the current account balance – that is, to manage the external constraint. Fiscal policy of a Keynesian flavour would support employment creation. More spending on education would improve growth in the long term and reduce youth unemployment in the short and medium

run. More conscious control of welfare spending should stimulate labour supply and reduce the financial burden on the welfare state. Monetary policies should focus on the nominal exchange rate so that inflation would be in line with the rest of Europe (P6, C-complex). Most of these policies were well known and had been tried before. But this was the first time they were considered as a package.

Economic management through the upturn part of the 1990s stabilization phase proved quite successful. From a very expansive level in 1992, fiscal policies were made gradually less expansionary. Unemployment came down (to around 3 per cent in 1997/1998), and the GDP gap was significantly reduced (see Fig. 4). The NOK stabilized during 1995–1996 with un-dramatic fluctuations. The oil price increased slightly. The interest rate came down to an intermediate level 1993–1996, and the interest rate differential was mainly negative. The workforce was quite safe both in the service-producing welfare state and in non-oil-related exposed industries. The decline in manufacturing employment was halted, but Norway's manufacturing sector in the 1990s was probably more dependent on oil-related activities than earlier, and in that sense, more vulnerable. Despite the second vote of no to EU membership in 1994, nothing was seen of the deindustrialization that pro-EU voices had warned about before the referendum.

It is fair to say that Labour economic policies 1992–1995 actually matched the challenge of making the stabilization phase last as long as possible. As a macroeconomic regime, the solidarity alternative implied revised complementarities in which the L- and NR-complexes were tuned to the new C-complex. It was a return to the original post-war economic policy model, but with a wholly altered C-complex. The model was revised to ensure complementarities with the deregulation and integration of Norway's economy into international financial markets that was the result of both non-socialist and Labour policies through the 1980s.

As for the L-complex, the revised version of the model retained the tight corporatist pluralism based on negotiation and trust between the labour market parties. A set of state institutions smoothed out possible conflict. There was broad consensus on these institutions. They incarnated a sophisticated mix of depoliticized corporatism (acceptance of expert advice and state contributions) and negotiation between autonomous labour market partners. The main routines were unchanged, some even played a stronger role than before. Incomes policies were similar to the 1970s Kleppe packages, but these were pursued within a longer term view towards the year 2000. Until 1996, the wage settlements had moderate outcomes, and as usual, Labour contributed to the coordination of the social partners. This

moderation showed that the social partners had learned from the problems of crisis-settlement/wage dictates of the 1970s and 1980s. The end result then had been real wage decline. Now there was more moderation, but slight real wage gains. There was a clear link here to Norway's new integration in the international monetary system, which led to much lower inflation. The 1970s peak inflation was nearly 12 per cent, the 1980s peak was nearly 14 per cent, while since 1991, inflation has never been above 4 per cent! The 1970s/1980s average inflation was about 8 per cent, against an average of 2.5 in the 1990s.

Environment/Energy

In 1989, there was consensus in the Norwegian parliament on a 'stabilization objective': Norway would be a pioneer and a paradigm for all other states: by the year 2000 CO_2 emissions would be stabilized at the 1989-level. Norway also actively participated in the negotiations of the 1992 climate convention (Rio agreement) and the 1997 Kyoto protocol – crucial international treaties on reduction of CO_2 emissions, despite the fact that their practical consequences have so far been meagre (Kasa et al., 2001). These moves made Labour quite popular within the environmental movement. But proposals for a general CO_2 tax levied on all Norwegian producers (Kasa et al., 2001) were undermined. A special CO_2 tax on the activities on the Norwegian continental shelf was implemented in 1991. Heavy industries on shore, in particular electro-chemical producers, were able to avoid inclusion in such a tax regime.

It was obvious that Labour had made a U-turn in its environmental policies: the party was unable to loosen its traditional ties to the Norwegian energy-intensive enclave, so its internationalist rhetoric lost much of its credibility. Norway's environmental movement was strongly critical of Labour's arguments. More generally, it became obvious that Norway would not keep the 'stabilization objective'. Had Kyoto been implemented, there would be major problems. Norway has a serious 'cost problem' related to emission cuts, as the country's main domestic source of electricity is hydropower; a carbon neutral source. The Norwegian government emerged as an ardent supporter of international trade in quotas (Kasa et al., 2001). These would enable Norway to use some of its oil surplus to buy emission quotas from other countries. So far, however, this market for quotas has not been properly organized (Lohmann, 2006); authorities tend to include too many quotas, and even fraud has been involved.

Although Denmark in the last decades has produced enough oil to solve its balance of payments problem (privatized arrangement, A. P. Møller), there has been no politicization of either the oil rent or the emissions from off-shore oil production. Thus, Norway is the only Nordic country in which there are considerable new elements involved in the NR-complex (oil, farmed fish). There was also a major change in the early 1990s in the regulation of electricity production. With its new energy law of 1991/1992, Norway was among the pioneers of deregulation in that sector. Local government monopolies on electricity production were dissolved, production was separated from distribution (the grid) and final users could choose which producer to buy electricity from (Midttun, 1995). The grid has been connected to grids in the neighbouring countries. 'Clean' Norwegian surplus power can now be sold elsewhere in the Nordic area, and Norway can import 'dirty' (coal-based) electricity.

We noted above the dilemma between UN environmental goals (P7) and industrial interests in economic growth/electricity production from natural gas. This tension led to conflicts in the 1990s. From the left wing of the social democratic movement it was claimed that the dominant 'right wing' of the Labour party was biased due to strong ties to the oil block (with the consultancy/research institute *Econ* as a main centre of expert advice), and that this also led them to neglect policies of industrial transformation that could prepare Norway for its post-oil age. The Labour government (dominated by its right wing) argued that even though gas-powered electricity production would increase Norwegian CO_2 emissions, Norwegian gas-based power was 'cleaner' than any coal-based power generated among its neighbours on the continent. Given the 1991 energy law and the grid linked to the neighbours' energy production, gas-powered electricity could be exported from Norway, and would reduce world emissions of CO_2.

The environmentalist movement and the centre parties agreed that Norway should rather ensure that its own energy production remained clean. The case of gas-based power plants thus became an issue where policies of energy provision and environmental protection overlapped, and became very important in Norwegian politics.

Immigration and Right-Wing Populist Mobilization

The third element of Labour's internationalism was diplomacy that would – if successful – reduce immigration of refugees/asylum seekers. We earlier noted the immigration surge of the early 1970s, and the temporary

immigration ban in 1975, permanent from 1981. In the 1980s, EU's (P4) single market scheme led the governments of wealthy European countries to embrace a strategy of reducing immigration by tackling the problem at its roots, that is, by conflict-prevention in third world risk zones. This became an important feature of Labour's internationalist line. Development aid, relief aid, conflict solution assistance, support for democratization and human rights mobilization could serve to prevent the kinds of conflicts that produce refugees and asylum seekers (Brochmann & Kjeldstadli, 2008, p. 261). The Oslo accord (Israel/Palestine conflict) of August 1993 was a peak point. Until 1997, the number of asylum seekers arriving in Norway was limited to a couple of hundreds each year (Brochmann & Kjeldstadli, 2008, p. 256, Fig. 12.1). But labour migration had kept up despite the 1975/1981-immigration ban, due to marriage, family reunification and a number of connected loopholes in the legislation.

At the domestic level, 'refugee' and 'integration' policies were new fields, as refugees under the UN charter of human rights (P8) was still a legitimate channel of immigration, and asylum seekers had to get their cases reviewed. Since the late 1980s, the government strengthened the administrative apparatus that controls the flows of labour power into the country. These immigration authorities (UDI, The Norwegian Directorate of Immigration, 1988) can be seen as an additional module of the well-established L-complex.

Such a module combines legislation, administrative units, and *corporatist* relations. The corporatist element requires that some kind of organizations must emerge out of civil society. Immigrants form their own associations. The most important groups (such as Muslims, *Islamic Council Norway*) have organizations that interact with the state. However, the most disadvantaged layer of immigrants, asylum seekers, are not at the outset parts of civil society. They are in a very weak position as clients of the emigration module. They are represented by humanitarian organizations such as NOAS (the asylum seekers' association). We dub this non-standardized corporatism.

The main structural change in the political-parliamentary system in the 1980s was the growth of the FrP. The growth continued since the mid-1990s (Fig. 5). The party is classified as a non-radical subtype of populist right-wing, parties, as distinguished for instance from radical populist right parties such as for example Le Pen's *Front Populaire,* Denmark's Danish People's Party (DFP) or Finland's 'True Finns'. FrP is regarded as a *neoliberal* populist right-wing party since its core ideology couples populism with economic liberalism and not with nativism. This is so despite 'highly

xenophobic campaigns, or its more recent defence of welfare chauvinism' (Mudde, 2007, p. 47). Even if one accepts this typologization, the key to FrP is exactly its precarious balancing between economic liberalism, xenophobia and welfare chauvinism. A peculiarity of most of these parties (shared with FrP) is that they 'overpromise' in electoral campaigns (like any party!), but since most of them have never been in power, there is no track record to judge them by. Since they are '(semi)-permanent opposition parties', there are few constraints on their vote-maximizing strategies, so they 'can get away with highly contradictory points in their programs' (Mudde, 2007, p. 134).

FrP went through a learning process, realizing that they could gain votes with reference to the rising number of non-Western immigrants. As integration policies became a separate policy field, FrP was the party to favour very strict policies, a political opportunity space that none of the other parties were able to exploit (Rydgren, 2005). Disagreements in this nascent policy field concern the question of whether people immigrating from distant, 'non-Western' cultures actually become integrated into civil society activities, *or* whether they develop their own 'counter-civil societies', visible, for example in the deliberate use of emigration chains (based on parental dominance in questions of marriage, leading, for example to cases of forced marriage), and in restraints on the acculturation of girls.

Since FrP competed for labour votes, fractions of the Labour party adjusted their political arguments, and FrP experienced a setback 1991–1993 (see Fig. 5). The party was also internally split. In 1994, a main fraction of 'young liberals' (who saw no borders, not even for labour flows) was excluded. This certainly watered out the party's neoliberal profile – even though the party programme still retains a plea for unrestrained labour immigration. Helped by various media panics, the party gained increasing support from 1995 on. Its progress in winning working class votes required a reconsideration of their earlier tax-revolt profile. FrP became increasingly concerned with the idea that the state should spend a lot of money on its own citizens.

The electoral gains by the Progress Party in the mid-1990s coincide with a change in the spread of immigrants in Norway. In the early 1980s, immigration had mainly been to the urban areas of southern-central Norway. Since then, the share of refugees/asylum seekers increased strongly. While waiting for their cases to be decided, these (potential) immigrants were placed in centres located in local communities. By the end of the 1990s, thus, settled immigrants could be found in most local governments across the country (Brochmann, 2003, p. 368). Larger shares of the electorate

obviously supported the Progress party's line of putting strong obligations on immigrants who wanted to enjoy the benefits of the Norwegian welfare state.

None of the other parties were able or dared to gain political support by entering into the opportunity space created by immigration (refugees and accepted asylum seekers), and particularly by the management of asylum applications through non-standardized corporatism relating especially to asylum seekers. No group in Norwegian civil society would explicitly organize to found organizations *against immigration.* However, FrP's electoral success is evidence that voting for a party that emphasizes strict immigration/asylum/refugee/ integration policies – policies explicitly aiming to minimize the inflow of the most disadvantaged groups – is a substitute for an overt civil society organization against immigration. A vote to FrP was a sufficiently anonymous way to signal support for such a policy line. FrP picked up expressions by a silent mass that would not organize to change matters, but that was willing to support a new party in elections (an institution founded on the right to remain anonymous). Generally one wonders whether it still makes sense to emphasize the liberal/neo-liberal ideology – even though it is written into their party programme – as the definitional characteristic of the FrP given that state spending of oil money and scepticism towards immigration seems to be the main issues they mobilize with reference to.

In the late 1990s, Norway's refugee policies were coordinated with the revision of the EU immigration regime in conjunction with the single market. The 'first country' rule benefited Norway, which is seldom a first destination for immigrants. The southern European countries (Spain, Italy and Greece) were at a disadvantage, with most first arrivals of refugees. Some of these refugees would, however, migrate in the single market, and end up as asylum seekers. A new institution, UNE (*Utlendingsnemda*), was set up in 2001 in order to ensure 'rule of law' and equal treatment in cases of controversial decisions on immigration and asylum. It was organized with a 'grand committee', including representatives of human rights NGOs. It is thus special kind of corporatism, intended to increase the legitimacy of state decisions, insulating politicians. Both UDI and UNE are modules in the L-complex. However, they do not always insulate politicians from critique, and a number of cases have surfaced in the public sphere, probably contributing to political polarization: FrP gains on the far right, SV on the far left.

With increasing flows of asylum seekers, the third world migrates straight into Norway's municipalities. Some of the municipalities become dependent

on 'receiver' institutions and the transfers linked to them. Employees (female ones in particular) are drawn towards the socialist parties, defending the public sector and humanitarian care for suffering people from distant cultures. Various NGOs and national action committees (such as NOAS relating to asylum seekers, SEIF relating to immigrants and refugees, Amnesty relating to human rights, and The Norwegian Refugee Council) thrive in that area of politics. If some of the municipalities are at the same time burdened by many citizens on welfare, political tensions may emerge. These may relate to the use of resources in the welfare state, as some may always try to argue that trade-offs exist, for example between spending on refugees and asylum seekers on the one hand and on 'genuine' Norwegian citizens on the other. One reason why FrP has become a 'homogenizing' factor in Norwegian politics (Bjørklund, 2007) is the spread of receiving (refugee/asylum seeker) institutions across the country. Electoral researchers will have to consider whether this policy deserves to be defined as a new cleavage influencing the party system.

Politics: Various Minority Government Constellations

In the period 1985–1996, there was a non-socialist government (Syse) only for about one year. The 1997 general election was held right in the middle of an economic boom. Thorbjørn Jagland had taken over for Gro Harlem Brundtland in 1996, and the new Labour government was increasingly frustrated over the 'parliamentary governance' by the opposition parties. Fatefully, Labour decided to ask the voters for a 'vote of confidence' ahead of the 1997 election. But they failed to gain the 36.9 per cent (the 1993 result) they asked for. Labour was still the largest party; they had the right to make the first attempt to form a new government. But Labour resigned, unable to master the challenges of minority parliamentarism after having lived with it for so many years!

The centre parties now got the chance of their lifetime. Given the various splits in Norwegian centre/right politics, the Bondevik I government of three small parties gained office, based only on 42 mps (out of 165) and just 26 per cent of the votes (while Labour had 35 per cent and 65 mps). That government inherited the growth/environment dilemma from the environmental policies of the former Labour government. In March 2000, Labour exploited the gas-power plant disagreements to sink the centre government, which refused to grant concessions to gas-powered power plants, due to the huge expected CO_2 emissions (Tjernshaugen, 2007).

The new prime minister, Jens Stoltenberg, was seen as part of the Labour right wing. He was marked by his past positions as energy minister with an extensive network to the Norwegian oil block, in particular Statoil and a network of experts clustering around the consultancy firm *Econ.* His first short-lasting (2000–2001) government managed neither to launch construction of the new energy plants, nor to win the upcoming election. It was rich in initiatives and unsuccessful in raising support. The party got only 24.3 per cent of the votes in the 2001 general election, the lowest support Labour had experienced since 1924.

Still, that government started off a number of long-term reform processes. They established UNE ('Utlendingsnemnda') as an addition to the earlier immigration-related units (P8); they passed the partial privatization of Statoil, organizational reform of the health sector (state-owned regional health firms), the police and the armed forces. Several of these reforms (UNE, health-reform and inflation targeting) paralleled the major change in economic policies, the turn to inflation targeting (already mentioned, further analysed below): they took some of the pressure off politicians, giving administrative units more responsibility for unpopular decisions. They were in a sense in continuity with the EEA agreement, which relieved politicians of responsibility for the many EU directives that were now automatically incorporated into Norwegian legislation. In a similar way, bureaucrats would manage the regionalized health companies, while UNE lawyers (see below) decided on grievances in cases of repatriation of refugees and permits to asylum seekers.

Ahead of the 2001 election, the centre alternative was launched again. But the election result was not at all favourable to the centre parties. It was definitely in favour of the right. The candidate for prime minister, Bondevik, decided to go for a broad alternative that included the Conservatives. He was thus allowed to continue as prime minister, although Høyre was the largest party. The Agrarians (Sp) were not willing to join such government, a decision that would have important consequences ahead of the next general election, as we shall see.

Stabilization Policies and Institutional Innovation in the Late 1990s

As early as in the beginning of the 1980s, an expert committee considered the idea of separating oil/gas-related incomes from their use (NOU, 1983, p. 27). The earlier strategy of managing Norwegian oil activity by trying to control the pace of exploration had proved difficult to implement.

Economists suggested the idea of a buffer fund as an alternative. The late 1980s downturn, however, delayed the implementation of such a scheme. Only in 1990, the Norwegian petroleum fund was set up. (In 2006, this fund was relabelled the Government Pension Fund Global (GPFG), we use the old label.) From 1996, this fund accumulated capital, and its total capital (as a percentage of GDP) rose to 15 in 1998 and to 27 in 2000 (St. Meld. 1 (2001/2), 67). The fund was 3 billion USD in 2000, growing to 510 billion USD by 2010, corresponding to 1,04,000 USD per Norwegian citizen and to 105 percent of GDP in 2010.

The fund was clearly a response to the experience of overheating in the 1970s and 1980s. It expresses the mainstream economics consensus: Dutch disease/resource curse problems could be avoided if authorities prevented the enormous windfalls from natural resource rents to 'spoil' domestic competitive firms by giving them easy access to capital. The Norwegian C-complex should provide capital to the country's private businesses on the same terms as in any small, open country without any new natural resources. The oil block is allowed to explore oil and natural gas more or less as fast as it wants, while the fund invests all state revenues and tax incomes form oil and gas in shares and bonds abroad. It is trusted that international financial markets will give stable returns over time, benefiting Norwegians by partly financing pensions – independently of the state's capacity to tax – that will be an increasing burden on the state as the ageing of the population gets more pronounced after 2020. This large sovereign wealth fund is managed by Norges Bank. It adds some high-income jobs in the expanding segment of specialized financial dealers working in Norway. Since management of the fund is partly subcontracted, networks with the dominant Anglo-American financial centres are strengthened.

Despite the relative success of the solidarity alternative, there were still forces pushing towards overheating. Again, the oil cycle was an important factor (P1). Despite an oil price at a rather stable, moderate level, technological improvement made export volumes so large that oil incomes reached unprecedented levels from 1996 and onwards.

Problems emerged as to two other challenges typical of the overheating phase undermined the early 1990s 'state of emergency'. Wage claims challenged incomes policies, and promises of fiscal spending by parties in parliament were particularly strong during the 1997 election year. Politicians wanted to spend more and tax less. Parliamentary discipline regarding fiscal policy eroded. The visible oil surplus tempted opposition parties on both sides of the left/right-spectrum to urge the government to spend more oil money. In particular, FrP, as the only large party in 'semi-permanent

opposition', realised that they could gain massively in support by repeating this claim. The Bondevik I government was not prepared to exercise fiscal discipline. It remained popular, but at the cost of contributing to overheating. When repercussions of the Asian financial crisis (mid-1997) hit the Norwegian economy with plummeting oil prices, the centre government was slow to react and when it did, it did too little, loosing credibility.

Overheating lasted into 1998. The following austerity phase was particularly difficult. The government still went ahead with expensive plans for welfare state reform. Bondevik's Christian party launched new policies towards families with small children. Their so-called 'cash support'-policy granted cash payments as support for families with children below the age of three if these children were not in kindergartens. This decreased labour supply and subsidized non-participation in the labour force at a fiscal cost. Such a policy clearly did not reduce pressures in the booming labour markets at the time.

As for monetary integration, the exchange rate was relatively stable until late 1996, when the NOK strengthened. The hard currency approach linked Norway's interest rate to the EU interest rate. When the EU went into a local downturn in the mid-1990s, the NOK strengthened somewhat through 1996. In Table 4 we single out this as one period (2/96 to 1/97) in which the interest rate responded to the exchange rate. Norges Bank had to lower the interest rate to prevent the NOK from being too strong in 1997, in the period immediately before the Asian crisis. The interest rate differential with the trading partners turned negative in early 1997. Since the business cycle peaked, driven by oil-related activities, this interest rate level was too *low*. Given overheating (Table 2), the interest rate should have been adjusted upwards to cool down demand, but this would have attracted even larger capital flows into Norway, thus strengthening the currency even more. Two economic policy goals proved incompatible: preventing overheating and keeping a fixed exchange rate. Monetary policy again worked procyclically. Norges Bank had to act as if a stable exchange rate had priority over real economic stability! Only in the in the spring, the pressure on the exchange rate loosened up, and only after the Asian crisis (from July 1997), it came down.

With both fiscal and monetary policies unavailable as instruments of stabilization, the solidarity alternative hinged on incomes policies alone! In 1998 it was plain that the social partners could not carry this burden. The government was unable to convince the labour market parties to moderate their claims. The three centre parties in government had only weak links to

social partners such as NHO and LO, so the government could not work efficiently within the corporatist L-complex. Unemployment went down to just above 3 per cent, partly due to a new boom in the oil sector. As a consequence, the wage settlement of 1998 led to a genuine wage explosion, far exceeding the norm according the solidarity alternative (Fennefoss, 2010). This wage growth was not consistent with policy targets.

The experience of the 1997/1998 II-phase led to scepticism regarding the fixed exchange rate objective. Furthermore, policy makers and experts noted that since overheating was closely connected to the role of oil, a long-term strategy for the use of oil incomes was missing. Below, we shall see that this led to a rule for fiscal spending.

Norges Bank had become increasingly unhappy about the hard currency policy and now started arguing more consistently in favour of inflation targeting. Before we continue our account of policymaking in the 1990 II/III-phases, we shall provide a stylized comparison of the solidarity alternative (SA) with the alternative inflation targeting (IT) view promoted by the central bank. The latter was popular in central bank circles at the time. We then briefly survey the debates leading to the government's 2001 inflation targeting instruction. We conclude by showing that in the real life of Norwegian economic policymaking, the SA and IT approaches were not really incompatible. This allows us to give a broader definition of the *solidarity alternative* as a policy formula that covers the whole period since 1992.

In the stylized view, inflation targeting gives the central bank a dominant role in stabilization policies. Some may even consider this an example of a neoliberal 'rule of law' kind of economic policy management. It corresponds to (the unlikely) situation in which the bank entirely dominates all other corners of the 'iron triangle'. When the inflation rate and not the exchange rate is chosen as the 'nominal anchor', the central bank is unwilling to *accommodate* any wage increases or fiscal spending decisions that increases domestic inflation above the target. It is ready to penalize such attempts by raising the interest rate. This is the idea of the non-accommodating central bank. There is a large political economy literature linking the emergence of such a non-accommodating stance to the weakening or dissolution (in some countries) of centralized bargaining (as unions are weakened by the pressure for wage moderation), and the coming of higher levels of unemployment (Iversen, Pontusson, & Soskice, 2000).

Inflation targeting (IT) implied a hierarchy between the various economic policy fields that differs from the *solidarity alternative* (SA). IT attributes responsibility for the control of inflation to monetary policies. This had

earlier been thought of as the responsibility of incomes policies. IT implies that the central bank is relieved from defence of the fixed exchange rate, as the exchange rate is left floating, a function of 'rational' short term capital movements (P6). In SA, the exchange rate was fixed, thus, the central bank would have no other choice than determining the interest rate that cleared the capital market. The interest rate would not be used as a warning signal to the incomes policy partners and/or to fiscal policy makers. In SA, incomes policies helped establish low inflation and competitiveness. In IT, *incomes policies* should help keep unemployment low, instituting a permanent pressure in favour of wage moderation. This gives the central bank a leading role, above the other components of the 'iron triangle', through its obligation to guard the nominal anchor by not accommodating inflationary wage bargains or fiscal spending. The incomes policies parties would have to moderate wages sufficiently so that inflation did not transcend the 2.5 per cent target. In an IT regime, the central bank strives to interact with both incomes and fiscal policies by means of monetary policy signals: the parties of the wage bargaining process, as well as the politicians in the parliament (many of which would be tempted to spend excessively, especially in pre-election periods) should know for sure that both too generous wage settlements and too expansive budgets would lead the central bank to decide on a contractive response – in the form of increasing interest rates.

Fiscal policies should not do countercyclical demand management in order to secure full employment, the unions should rather do this directly in wage negotiations. In IT, *fiscal policies* were no longer primarily a tool for demand management. Instead, its responsibilities was to balance the relationship between the sheltered and exposed sectors of the economy, that is fiscal policies should always be moderate enough to secure that conditions for the export industries were not undermined by cost pressures stemming from a too rapidly expanding sheltered sector (the most important component of which was the public sector, that is, the welfare state). While the SA was based on cooperation between responsible labour market partners, IT presupposes that the main economic interest groups will respond to the interest rate signal, accepting the judgement of the central bank's economic technocrats.

Let us now turn to the actual conduct of economic policies between the January 1997 currency crisis and the government's instruction on inflation targeting in March 2001. With the Asian crisis and a large drop in oil prices, a different dilemma (compared to that of 1996/1997) emerged: The interest rate was kept low as long as to the summer of 1998. The oil price slumped

Unlike the economic policies of the 1970s and the 1980s, the solidarity alternative was able to manage external constraint and to pursue a policy of full employment. We have seen how grave the situation was in 1992: high unemployment, deep recession and a banking crisis. The leading exposed sector unions had to agree to considerable incomes policy concessions in terms of wage moderation. However, once businesses experienced that the external position of the national economy improved, that the external constraint eased, investments started to pick up, and expansive policies for full employment could be pursued. While the exposed sectors are not important for employment creation, they were able to take responsibility for the external balance given sufficient cost competitiveness. Expansive policies then supported employment creation in the rest of the economy. Thus, the SA was a political package supposed to work in the medium term. Problems in the 1997/1998 overheating phase did lead to an adjustment of the monetary policy component of the SA from hard currency to inflation targeting. But this made little difference (as we have indicated) as long as Norges Bank pursued a flexible inflation target. Incomes policies continued to be responsible for the competitiveness of the exposed sector (dealing with the external constraint), while fiscal policies would still function countercyclically to secure full employment in the domestic economy during downturns.

THE 2000s: STABILITY DESPITE FINANCIAL OPENNESS

The elections of 1981, 1989 and 2001 both came during the last year of an austerity phase, or in the first year of the stabilization phase following austerity. Although the specific mechanisms may have varied, the incumbent government was in all these cases hit by declining voter support caused by austere economic policies. All these elections led to a shift from a labour to non-socialist government: Brundtland to Willoch in 1981, Brundtland to Syse in 1989, Stoltenberg to Bondevik II in 2001. The next elections, four years on, can be related to early or late upturn phases (see Table 2): In the 1980s and 1990s, the incumbent governments were reelected (Willoch in 1985, Brundtland in 1993). The latter comparison, however, is less fruitful since the 90-I phase was abnormally long (1992–1997). But on this basis, it still makes sense to ask why the Bondevik II loss in the 2005 election seemingly was 'against the rule' according to the 1980s & 1990s pattern! The reason was a system shift, as the dividing line in parliament had shifted.

The Centre (Agrarian) party (Sp) had chosen to leave the non-socialist government alliance in 2001. In 1990, disagreement in the EU question (P4) led the party to bring down the Syse government. Since that EU topic (thanks to the EEA agreement) had now become sufficiently depoliticized, Sp was now ready to cooperate with Labour. On the left side, Nato membership (P2) was in the post-Cold War world sufficiently non-controversial for SV to accept Labour's invitation to cooperate. The decision to go for a multi-party government was an important change in the history of the Labour party. The non-socialist side was more fragmented than ever, while the socialist side was broadened into what might be called a 'non-bourgeois' alliance, better, a red–green alliance, with green indicating agrarian politics just as much as environmental politics. Unlike all the other Nordic and European countries, Norway has still not abandoned the protectionist agrarian politics of the earlier post-war period. This specific link between the L- and NR-complexes was politically reinforced in a new parliamentary alliance as Sp joined Labour and SV.

The red–green alliance gained a majority in the 2005 general election. For the first time since 1985, there was a multi-party *majority* government in Norway. Stoltenberg's second government was not as exclusively grounded in the Labour right wing as his first. Learning from the problems during the 2001 –election, the Labour party elites revitalized their connections with the trade union movement. The largest trade unions within LO contributed significantly to the electoral victory.

In principle, this restructuring of the parliamentary system led to a full symmetry. Both sides – the socialist and the non-socialist – now had outer positions (far-left and far-right wings) as well as centre party(ies). On the socialist side, Labour (in the middle) was clearly the largest party. On the non-socialist side, the Conservative party occupied the middle position, but FrP, as the right-wing party, was as large or even larger in terms of support in polls and elections. Furthermore, on the right, the three positions were hard to reconcile. The problem of creating a credible non-socialist coalition was one of the reasons why the red–green coalition – by a very small margin – managed to gain renewed support in the 2009 elections.

International Integration: Finance Gains Relative Autonomy from Productive Capital

The abolition of the Glass/Steagall Act, under the Clinton administration in 1999, was the final decision in a long regulation/evasion-sequence in which

the main financial centres (Wall Street, City of London) achieved the kind of delinking from productive capital that is typical of the frenzy phase (Perez, 2002). On the one hand, financial frenzy has the function of spreading the new (ICT) technology (P5), but it does so via mechanisms that lead to escalating financial instability. The dot-com bubble grew since the mid-1990s and burst in 2000. In January 2000, the price/earnings (P/E) ratio at the Oslo stock exchange moved above 40, indicating a dynamic typical of the frenzy phase (Knutsen, 2007, p. 595).

But the 9/11 event (see below) and the War on Terror (P2) led to a prolonged period of cheap money (low interest rate) in the United States. A considerable potential for financial instability developed. In a setting of generalized financialization (securitization), a number of nationally specific boom—bust cycles were created, with the U.S. Wall Street investment banks in the lead. Here the speculation objects were not the products of the new ICT technology, but well-known objects recurring in any era of financial instability: housing, property. Note that there were also major raw materials bubbles, particularly an oil bubble (Fig. 2)! But it was mainly the speculative housing bubbles, based on new and more risky financial instruments, that led to the U.S. subprime crisis of 2007/2008 (Schwartz, 2009).

The 2007 financial crisis spread around the world via asset-backed security markets. A major difference to earlier downturns, however, was that emerging market economies continued to grow substantially. According to Aglietta (2008, p. 70f), the Asian crisis of 1997 was not just a regional financial downturn, but also a major transformation that allowed the emerging market economies to escape from the Washington Consensus (IMF-imposed conditionality requirements). China had been transformed by market-oriented reforms since the 1980s, when overseas Chinese began to set up production to benefit from cheap labour. The investment climate improved by the 1990s and large MNCs became attracted to a growing middle class market of consumers. Finally, China was accepted into WTO in 2001, pushing these trends further. While a number of small Asian states (the NICs) had been able to emerge as relatively successful developmental states since the 1980s (cf Senghaas, 1985 on the parallels between these and the earlier Nordic development experience), a giant developmental state project now proved successful in Asia!

Responding to the Asian crisis, both Asian and some oil-exporting countries overhauled their growth regimes, rejecting IMF guidance, accumulating foreign reserves in huge sovereign wealth funds, attempting to convert this financial power into technological power. Their growth sources are not domestic demand, but exports. China has enjoyed a historical world record of growth, about 11 per cent annually since the 1990s. Integration of India and China in the world economy has nearly doubled the world supply of labour, radically changing the returns on labour and capital. Inflation rates have become highly correlated all over the world. Profits have risen, risk aversion abated and asset prices boomed. China has become a new leading economy, playing an important role vis-à-vis the United States in the contemporary world economy.

But in the West, the financial crisis hit. Wholesale money markets dried up completely in the fall of 2008. The Western club of central banks acted as international lender of last resort, but global coordination was needed to rescue the system. In the Eurozone and in the United States, governments extended blanket guarantees to all new interbank loans, recapitalized the banks with public money, socializing their losses. By the end of the decade, it was obvious that the deleveraging of the financial system would take many years. The case of Greece, Ireland, Portugal and Spain exposes major tensions within EU's monetary union. In this situation, the Asian economies, particularly China, will catch up. Aglietta (2008, p. 72f) holds that China has resources and capacities to counteract the effects of a Western slowdown. Others, however, point to the warning signals indicating increasing Chinese vulnerability to the overheating/financial crash dynamic that created so many problems for smaller Eurozone economies in the late 2000s.

China's growing importance was a steady development, not a shock. China's impact on the world economy is very different from Russia's. China has become the workshop of the world. It exports all kinds of manufactured goods, while importing industrial raw materials and food. Thus, while Norway experienced a negative terms of trade shock as Russian raw materials flooded the world market in the early 1990s, now there is a gradual improvement of terms of trade, low growth of import prices and high growth of export prices. This constellation was welcomed by some scholars as a new phase of capitalism. But this 1990s stability has been undermined by the U.S. wars in the Middle East. The United States can no longer pay for this, thus accumulating debt year by year. U.S. hegemony in the world economy was maybe revitalized in the 1990s, but is now threatened again.

Stabilization Policies

During the last decade – unlike the 1980s and 1990s – Norway has followed the OECD cycles (compare Figs. 3 and 4). Following the dot-com crisis in

the spring of 2000, the GDP gap both in Norway and OECD closed, dipping under the trend line in 2001. However, Norges Bank acted as if Norway was out of synch with the OECD. Based on the idea that the interest rate would drive the exchange rate, the bank raised the signal interest rate to a permanently high level from the fall of 2000. This kept the nominal exchange rate (krone per euro) at roughly the fixed exchange rate level of the early 1990s. But in early 2001, the NOK exchange rate started strengthening. In the spring of 2002, fearing inflation (Cappelen & Eika, 2010, p. 14), Norges Bank increased the interest rate further, thus also pushing up the interest rate differential vis-à-vis the trading partners. Norges Bank here probably downplayed the government mandate (*forskrift*) that also output stability should be taken into account. Through 2002, the interest rate was kept high, while the business cycle (and interest rates abroad) drifted downwards (Cappelen & Eika, 2010, p. 13). Given inflation targeting, the exchange rate was a dependent variable. The NOK appreciated significantly, and export industry competitiveness was squeezed both by the exchange rate (see Table 4) and by wages. This was unfortunate given the downturn. Norway's exports declined in 2002–2003. Oil investments fell through this period 1999–2002.

There was an inflow of capital and an outflow of jobs, as firms moved to establish labour-intensive production in South-East Asia, in the new Baltic states or within the EU. High interest rates reduced consumer demand and construction in housing. Thus, unemployment rose and a significant output gap emerged (Fig. 4). Export firms were furious! If Norges Bank had not reversed its policies in late 2002, the Ministry of Finance would probably have been forced to ask the Parliament to instruct the bank to lower the interest rate. That would have been a humiliation to the bank, which guarded its new-won autonomy. The bank never admitted to this error of judgment. But in retrospect, the bank must take a large share of the responsibility for the rising unemployment, fluctuating around 4.5 per cent by 2003–2005 (Fig. 2, 4). In December 2002, Norges Bank started reducing its main interest rate and within a few months switched from a high to a low interest rate.

From 2003, Norges Bank has been very predictable. There has been a very close relationship between the interest rate margin, NOK/euro-exchange rate and inflation differentials. Monetary policy (determination of the interest rate) has been balanced with reference to other policy fields. Norges Bank has not tried to opt for the privileged position in the 'iron triangle'. It has discreetly modified the inflation target strategy by stretching the time horizon over which the target is to be reached. The inflation target will be

achieved flexibly 'in the medium term'. In this way, the monetary policy rule allows for accommodation of other concerns through this medium term. As a matter of fact, the inflation target has not been met even in the medium term. The actual average inflation 2002–2010 was 1.9 (CPI), adjusted to 1.5 (omitting fees and energy), which is lower than the target. The China price effect, making for very favourable terms of trade, is the key to this result. Furthermore, cheap labour flowing to the rich Norwegian region of the newly extended EU labour market (see next section), kept wages (e.g. in building trades) down.

Given such an external context, non-accommodating implementation of the inflation target would have required that Norges Bank should lower the interest rate so that the economy was inflated in the run-up to the overheating phase. That would not have been a sensible policy. Fiscal and incomes policies could serve their purposes (securing low unemployment and competitiveness) without creating tensions between the labour market parties or between sheltered and exposed sectors. Due to favourable external circumstances, the actual package of economic policies in the first half of the 2000s did not diverge much from the solidarity alternative during the 1990s I-phase. The discussion of principal differences between the two (in terms of what was the responsibility of the various policy instruments) is less interesting, since various goals did not become trade-offs. Incomes policies did not need to be much concerned with inflation, and unemployment did not become a big problem. Fiscal policy could support both the lowering of unemployment *and* the profitability of the exposed sector.

In late 2003, the Norwegian interest rate reached the lowest level in 50 years. Thus, the worry about deflation – earlier heard in the United States and Germany, with particular reference to the Japanese experience of the last decade – also reached Norway. The interest rate differential with the trading partners was brought down to zero in late 2003/early 2004. At the same time, the NOK depreciated. The change in these two variables – the government was quick to claim that they changed as a consequence of its consistent economic policies – had eased the situation for export-oriented non-oil-related firms. In the context of 2003, with the business cycle at a low, monetary policy was successfully countercyclical. It added to a number of other factors: Consumer spending started to increase, public sector demand kept up, and the China price effect persisted. The result was high growth of real incomes. Fiscal policy was expansive from 2001. With high oil prices, profitability in that sector was very high and oil investments increased considerably after 2002. In sum, the 2000s downturn was quite moderate compared to the 90s downturn (see Fig. 4, GDP gap). By 2004 an upturn in

(Fig. 2). As Table 4 indicates, between 4/97 and 4/98, currency markets lost confidence in the NOK. The currency depreciated. The Norwegian interest rate doubled in the summer of 1998, but it proved impossible to return to the fixed exchange rate even with such high interest rates (Cappelen & Eika, 2010, p. 14). The exchange rate crisis showed how difficult it was to retain a fixed nominal exchange rate with free capital flows when instability accumulated in currency markets.

The interest rate was adjusted further upwards in the second half of 1998. A quite significant interest rate differential with the trading partners persisted throughout the period 1999–2003. 1998 was the last year of the overheating phase (90-II) and 1999 the first austerity year (90-III), cf. Table 2. The exchange rate depreciated until the third quarter of 1998. In combination with the rising interest rate differential, this was a relatively successful policy mix, given that the economy had to be cooled down. There was high growth in the late 1990s, and Norwegian investments were high irrespective of non-access to the resource rent that flowed into the petroleum fund. Norway invested more in education, thus extending its knowledge base.

In his first speech (1999) as new director of Norges Bank, Svein Gjedrem, earlier top civil servant/permanent secretary at the Ministry of Finance, claimed that the exchange rate would remain stable as long as Norwegian inflation was in line with that of Norway's main trading partners. This was a revisionist interpretation of the hard-currency line in the government instructions. Inflation was thus seen as the driver of exchange rate movement, trading in short-term capital was seen as a stabilizing factor. Many observers suggest that inflation targeting started already in 1999.

Norges Bank was the main institution that favoured an inflation targeting monetary policy. The labour market parties were sceptical or outright opposed (Cappelen & Eika, 2010, p. 11). Attributing responsibility for full employment to incomes policies might weaken the crucial role of corporatist incomes policies. It was feared that the policy of interest-rate signals would tempt Norges Bank too far in a non-accommodating direction. The social partners preferred the SA solution in which incomes policies are only responsible for the competitiveness of the export sectors. They would also like Norges Bank to prevent the exchange rate from appreciating too much. The leading export sectors particularly feared situations (see Table 4) with a strongly appreciating exchange rate (despite the fact that they could rely on the services of currency traders to hedge against such risks). Among the parties, the Conservatives supported this position. The FrP, in contrast, favoured inflation targeting. They were possibly attracted to the potentially

disruptive effects on collective bargaining, deemphasizing that it would put breaks on public spending too. The Labour party came down in favour of IT. The Stoltenberg I government proposed it. The reform had something of 'new public management' about it, corresponding to the hospital and UNE-reforms (mentioned above): an institution which is detached from direct democratic control is set to make sure that one 'operational goal' is satisfied, and it does so with expert-based bureaucratic devotion. The fact that Sweden and Finland has applied inflation targeting since 1993 may also have been an inspiration. Expert advice was mixed. The Holden I expert committee (NOU, 2000, p. 21) concluded in favour of the SA without discussing monetary policy.

In March 2001, the government instructed Norges Bank to pursue an inflation target of 2.5 per cent. But the guidelines *also* stated that monetary policies should help stabilize the real economy and employment (St. meld. nr. 29, 2000–2001). This indicates that the Labour government did not want the bank to pursue IT in a non-accommodating way. Labour wanted a flexible inflation target where monetary policies should also contribute to short run stabilization of the real economy. If inflation targeting had been dogmatically implemented, the SA might have been rejected. Our conclusion is that the 1990s and the 2000s stabilization phase are two versions of the solidarity alterative, only with a different approach to monetary policies.

In parallel with the explicit declaration of an inflation target, another innovation in the solidarity alternative was introduced. It relates to another consequence of the 1997/1998 experience: the lack of a fiscal policy rule. The definition of this rule, also from March 2001, was a new stage in the long process of learning how to relate oil revenues to fiscal policy. The rule established a reference level for the budget deficit. Over the business cycle the deficit should equal the expected real return (estimated to be 4 per cent) of the petroleum fund (at the beginning of each calendar year). All net tax and state revenues from the petroleum sector is invested in the fund. Thus the rule simply states that all government petroleum revenues are saved and invested abroad and the financial returns are included in the budget. This 'formalization of the level of the underlying budget balance' would create fiscal policy discipline in a situation with high oil incomes. High oil incomes would yield a very high surplus on current state budget (i.e. not corrected for oil incomes) (Cappelen & Eika, 2010, p. 10). This policy rule expresses a broad political consensus in favour of fiscal policy discipline. The Bondevik II government from 2001 adopted it immediately. Only FrP has never accepted it.

the economy was well under way. In this stabilization phase, after 2002, policies were consistently countering the downturn, and there was low external pressure.

The experience of this stabilization phase shows that economic policies cannot be guided entirely by a central bank that imposes one rule, even if this idea is attractive to bureaucrats who entertain 'new public management' visions. Such an abstract ideal does not work in practice. The irony was that a full implementation of the inflation target would have made overheating worse than it turned out to be. Instead pragmatism prevailed.

International Integration

In the following, we briefly summarize important developments in three areas (P7/P1, P4/P8, P2/P8) of international integration that proved important for the political side of political economy in this decade. In the next section, we relate them to the role of the FrP in Norwegian politics.

We shall first discuss the oil block, the basis of the petroleum fund, but also important for the government's complicated balancing of national interests and international commitments in the field of climate policies. We have already seen that the international environmental regime (P7) gave rise to continued controversies on Norway's plans to develop its capacities for gas-powered electricity generation (P1). The government faced some complicated trade-offs with reference to environmental regulations.

The petroleum fund construction isolates the spending of oil incomes from the problem of controlling the pace of oil exploration. But oil exploration had reached its mature phase, and no government could ignore the oil block. The centralization of this block increased even more as Statoil merged with the oil- and gas-division of Hydro (2007).

For some time, Statoil had tried to operate as a fully internationalized oil company. The company pursued projects in conflict-prone areas of Africa (Nigeria), in authoritarian regimes on the Black Sea (Azerbaijan), and in a quite controversial oil sand project in Canada (Ryggvik, 2009, p. 321f). With the slump in the oil price following the financial crisis of 2007/2008, these international projects became increasingly problematic. Thus, Statoil would make its influence felt, arguing and lobbying in order to gain new concession rounds in promising areas at home. In particular, areas in the Vesterålen and Lofoten islands area, traditionally rich fishing grounds, were promising candidates. The deliberations on a possible round of concessions to explore this area brought up old struggles concerning security for marine

resources and concern for traditional conservationist values. The Mexican Golf oil spill through the summer of 2010 became an asset for the conservationist forces. In early 2011, the government decided to postpone the decision. Except further gathering of expert knowledge, nothing happens here until a decision is made after the next general election (2013). This was seen as a much-needed triumph for SV and the environmental movement after a series of concession to the strongest party of the alliance, Labour.

In any case, Norwegian oil and gas need to be processed. Concerning refineries, the growth/conservation dilemma does not emerge with reference to local consequences for Norwegian nature. It emerges with reference to CO_2 emissions that cause global warming. Stoltenberg I promised cleaning of the enormous CO_2 emissions from gas-powered plants within 2009. The prime minister in 2007 announced a Norwegian 'moon landing' project: the development of CCS (carbon capture and storage) technology that separates CO_2 from the exhaust produced by the gas-powered power plant, storing it in subterranean geological formations. At the time of writing (June 2011), the project – with Statoil as a main partner – is delayed, seems to be extremely costly, and a number of alternative, less costly processes are emerging. The worst-case scenario is that the moon landing winds up as an excuse for letting Norway's oil block expand further and unhampered by any efforts to contain its most environmentally destructive consequences (in terms of global warming). But some of the professional environmental movements (such as Bellona) have developed close networks with both the state and leading companies, and continues to promote the moon landing vision.

Next, we consider European integration (P4) and its relation to immigration (P8). As for international integration, the most significant change was the eastwards extension of the EU in 2004 and 2007. There are links here both to P3 (trade) and P5 (monetary system). With the European council summit meeting in Copenhagen, in the fall of 2002, the union started a third offensive, aiming at the widening of the union by 12 new members from Central and Mediterranean Europe. The official widening of EU to encompass 25 countries was celebrated in May 2004.

The decision to widen the EU was celebrated as a closing of Europe's east/west gap, confirming the end of the Cold War. To Norway, being outside of the EU, this situation implied considerable challenges: the EEA agreement had to be renegotiated. The EU in the spring/summer of 2003 requested a large fee in order for Norway to gain access to these new markets. The fisheries (not part of the EEA), furthermore, lost the free access it earlier had into most of the new membership states. But the

fisheries continued to prosper (particularly due to farmed fish) – partly because of the large new eastern markets (Russia/China).

The new members (2004) were Estonia, Latvia, Lithuania, Poland, The Czech Republic, Slovakia, Hungary, Slovenia and Malta. Romania and Bulgaria were added in 2007. Norway passed few transition regulations. That is, the immigration ban was immediately lifted for the new eastern members of the EU. This extension released a flow of low-wage workers to richer parts of Europe. While the immigration ban in 1975–2005 had implied that most immigrants (at least from the non-Western world) were asylum seekers or participated in various varieties of family reunions, these migrant workers represented a new type of immigrants. There was thus a potential pressure on some main elements of the Norwegian L-complex. From the closest one of the new members, Poland, labour migration (seasonal agricultural work) had a longer tradition. Such immigrants are less likely to be permanent, the challenges of cultural integration are lower, but they are probably more of a challenge to the role of the unions in certain sectors of the economy.

Third, we turn to international security (P2). The most immediate international challenge arose from the terrorist attack on New York's Twin Towers on 11 September 2001. The result was a new geopolitical polarization: the United States immediately involved its Atlantic alliance (NATO) in the new *war against terror* between the West and a number of invisible, decentralized cells of Muslim jihadis. For Norway, the consequences came through the NATO-membership. The Bondevik II government kept Norway outside the U.S. 'coalition of the willing' that invaded Iraq in 2003. But via the NATO/UN link, Norway contributed to the ISAF forces whose task it was stabilize the new regime in Afghanistan after the U.S. invasion in 2001. By the end of the decade, it seems that the main result of the attempted regime changes in Afghanistan and Iraq was to transform 'rouge' states into 'failed' states. The involvement in Afghanistan created some strain between the left socialists and the other government coalition partners. In any case, Norway was committed far outside its borders, some contrast to the Cold War period, when Norway's defence was a national one with soldiers guarding its borders and waters.

We shall finally relate these early 21st century geopolitics to immigration from non-EU, third world areas (P8). International conflicts and civil wars as those just mentioned, give rise to flows of refugees, whose status is confirmed by the UN High Commissioner for Refugees (UNHCR) (P8). An asylum seeker is a person that arrives in a new country on his/her own, applying to gain status as a refugee. Refugees seek the right to remain in a

foreign country for a limited period. Through the 2000s, a major share of the refugees and asylum seekers arriving in Norway came from Afghanistan and Iraq, adding to those from earlier conflict zones such as Iran and Somalia. These flows of people from a war-ridden third world create challenges that are fed by moral panics within the domestic political system. A very troublesome linkage is established between these immigration flows from mainly Muslim areas and the geopolitical agenda of concern to Norway's main ally, the United States.

Right-Wing Populist Mobilization

Since 2005, FrP has consolidated its position as one of the three largest parties in Norway. Since 1995, it has fluctuated between 15 and 23 per cent support in elections. The party moved from 25 to 26 mps in the general elections of 1997–2001, and from 13 to 17 mayors (total in Norway: 430) in the local elections 2003 to 2007. In the general elections of 2005 and 2009 the share of votes was 22 and 23 per cent, securing 38 and 41 mps. The party line was increasingly pure right-wing populism, departing from previous more libertarian positions. Its party organization is more developed and efficient than that of any other party, and the activity level of members reminds of the golden days of social democracy in the early post-war period. The party seems to progress on all counts, drawing fundamentalist Christians from the Christian party (KrF), workers from Labour, and market enthusiasts from the Conservatives.

Extension and reform of immigration institutions in 2000 did not smoothen the conflict potential emerging within this issue area. The new structure of immigration institutions (UDI/UNE) has been much covered by the press in connection with a number of single cases that polarize internationalists/humanists against immigration sceptics. FrP thus gained more and more from its legacy of being the first party to put immigration policies on the agenda. The humanitarian NGOs who mobilize on behalf of refugees and asylum seekers thus emerge as the *true political enemies* of the FrP. The non-socialist side is polarized between a group of 'centre' parties, with a humanitarian outlook, and a populist right wing, requiring major restrictions on immigration. The Conservatives are stuck in between. In the campaigns leading up to the 2005 and 2009 elections any suggestion that FrP should be considered as a worthy ally in a non-socialist government coalition was in vain. There are also two other reasons for this. They relate to other issue areas in which FrP is able to gain from its populist stance.

First, the petroleum fund increased a lot in the 2000s. Stabilization policies, on the other hand, are marked by fiscal discipline. As the fund makes visible Norway's great oil surplus, it has become a main factor in a considerable dilemma facing Norwegian economic policies. A populist political party in semi-permanent opposition can easily win voters by promising more extensive use of the oil rent. FrP makes the most of this opportunity. FrP rapidly suggested that there were no macroeconomic constraints on state spending. FrP gains from being the only party that systematically challenges the discipline of the fiscal policy rule and the economics expert culture that that promotes it. The Socialist Left party (SV), at the other political wing, possibly agreed to this, but had to reconsider when joining the government in 2005. FrP is now the only larger Norwegian party that has never participated in a government. FrP therefore represents Western Europe's perhaps most successful specification of welfare chauvinism: a programme of privatized welfare provision in which the 'freedom to chose' of citizens will be possible with lower taxes thanks to the oil rent. The party knows that many of the clients (shut out of the labour market) of the Norwegian welfare state may see immigrant families as competitors that do not really deserve the support they get from the Norwegian state. Its whole package of arguments in favour of really tight immigration and integration policies indicates a vague idea that there is a core citizenry that deserves those welfare state privileges better than others who also live in the country. However, as long as they do not state this explicitly, electoral research may continue to call it neoliberal rather than nativist and radical rightist.

FrP even try to cash in on the China price effect. In a situation marked by a booming supply of cheap labour from Eastern Europe (reducing the danger of inflation), FrP can argue – all the more – that Norway's infrastructure is partly very weak. They particularly target the health system, the electricity network, railroads and roads. Improvements can be made by means of imported labour. Thus, according to FrP, inflationary effects are contained, and there would be no danger of Dutch disease.

Another aspect of immigration relates to entirely legitimate flows from the EU area has added to the repertoire of insecurity-mongering arguments used by FrP. The problem is not militant religiosity or cultural differences but simply dramatic disparities in wealth between southern and northern areas of Europe: criminals touring Norway to rob the wealthy. Such experiences (although not important in any quantitative way) easily become further sources of mobilization for a party that includes uncompromising criminal policies in its programme.

The second issue area is security policies. Norwegian membership in NATO has had broad support from the far right to the centre left of Norwegian policies. FrP has consistently tried to outdo the other Norwegian parties in terms of support for the United States and NATO. But we have seen how the War on Terror (since 2001) made it possible to link security policy arguments (P2) to immigration (P8). The political rhetoric of FrP has long been sceptical of Islamic paternalism as a religious superstructure that legitimates strategies (forced marriage, family reunion) that aim to evade restrictive immigration policies. With the War on terror it also became possible to focus on extremist micro-groups within Islam. The FrP rhetoric tends to generalize such labelling to cover larger groups of Muslims. They gain politically from the fear that non-Western elements (such as refugees and asylum seekers) will represent a risk when they arrive in Norway. They move flexibly between generalizations of two type: either the economically motivated immigrant, or the psychologically frail immigrants that costs the welfare state a lot.

Economic Policies during the Red–Green Government from 2005

Stimulated by the world economic structural change sketched above, the Norwegian natural resource based economy received a number of stimuli. Traditional exports increased markedly and prices on raw materials did also increase much more than prices on manufactures. Consumer inflation was moderate or low while the Norwegian terms of trade improved. This further stimulated the already high GDP growth in the mainland economy.

There was a significant boom from 2005. The centre left government was very loyal to the fiscal policy rule (cf. Fig. 4). Fiscal policies were quite restrictive during 2006–2007, although the rapid increase of the petroleum fund gave room for expansion of the public sector as promised in the election of 2005. The structural oil adjusted budget balance showed a lower deficit than what followed as the long run norm based on the fiscal policy rule. Recent figures (Revised National Budget, 2011; St. meld. nr. 2 (2010–2011), Table 3.6.) confirms that through 2001–2008, fiscal policy corresponded roughly to the rule. Given the nature of the 15 September 2008 crash (Lehmann brothers bankruptcy), even the 2009-figure can be regarded as according to the rule.

Monetary policies faced greater difficulties. On the one hand inflation was low after having been on target in 2002. Only by 2008 did inflation again reach the 2.5 per cent target. One reason for this was low import prices

partly due to cheep Chinese goods that increased its share of world trade. Even if a boom was evident and housing prices soared from 2004, interest rates were low in the Eurozone and elsewhere. Norges Bank was restrained: it was blocked from increasing the interest rate, since it could not risk engineering yet another exchange rate appreciation (similar to that of 2002, see Table 4). If that should happen again, inflation would be even further from the target rate. Not until late 2006 did the interest rate really start to increase, but during 2007 the signs of a financial crisis in the United States emerged and by summer 2008 the situation was completely changed.

The oil sector played a destabilizing role during this boom. As noted, investments increased significantly from 2002 onwards. They continued to increase, albeit at a lower pace, during the overheating phase of 2006 and 2007. When the financial crisis hit all economies in the autumn of 2008, Norwegian oil investments continued to increase. Once this external shift happened, oil investments played a stabilizing role, supporting the economy when industry was hard hit by a large decline in exports.

Cheap migrant labour made supply of labour more elastic and reduced inflationary pressure. A wage growth of 5 per cent during boom years of 2006–2008 was low given the very tight labour market. Activity in construction was particularly high. Without Polish labour wages would have increased a lot more. The relevant LO unions responded by trying to organize as many Polish construction workers as possible.

In the era of financialization, Norway's dominant export product, oil, was itself one of the raw materials that went into a bubble in the years preceding the 2007/2008 crash. That crash – also largely an external shock to the Norwegian economy – blew away the overheating in a couple of quarters. But the Norwegian economy had reached its peak (Fig. 4, GDP gap) in the last quarter of 2007, half a year before the most dramatic crash in March/April 2008. Monetary policies served to cool down the economy throughout 2007 and in 2008 until September. But after the crash, further efforts to cool the economy were abandoned.

When the effect of the global financial crisis hit Norway, both monetary and fiscal policies were changed drastically. Interest rates were cut to low levels and liquidity was channelled to the banking sector. The financial crisis required crisis/rescue packages granted to the banking system, which is something quite different from rule-based monetary policy. Once a really serious crisis breaks loose, both central banks and governments must take action that goes far beyond only the interest rate and aggregate fiscal policies, they must turn to discretionary instruments.

Fiscal policies became expansionary in line with the fiscal policy rule. The latitude provided by the rule allowed the government to implement strongly expansionary fiscal policies during the financial crisis since September 2008. The Norwegian government had large financial reserves in its petroleum fund, so a question of fiscal sustainability of the stimulus was never seriously questioned. In this respect, Norway deviated from most other countries. Labour-intensive activities were particularly targeted in the stimulation packages, so unemployment did not increase very much and in fact much less than most experts thought initially. The unemployment experience of Norway during 2009 and 2010 is quite remarkable compared to the OECD area. By the end of 2010 mainland GDP had recovered to its previous level and a moderate upswing seemed to be taking place.

The 1990s and 2000s were marked by ambitious ideas of founding all economic policies on a non-accommodating monetary policy. But our historical reconstruction shows that in the cases (the three main periods are marked in Table 4) where non-accommodation was attempted, monetary policies failed, that is, they made instability worse. Mostly – and particularly after 2003 – Norges Bank has accommodated other targets. It has not tried to gain full dominance in the 'iron triangle', but has determined the interest rate with a view to challenges in the fields of fiscal and incomes policies.

The lesson from the 2008 financial crisis is that central banks should and in fact do include evaluation of the stability of the financial system as one of its main tasks. A financial crisis requires the use of more instruments than just the interest rate. Such instruments are the purchase of Treasury bonds, purchase of assets from banks in order to inject liquidity into the system, etc. Rather than a rule for all circumstances, the iron triangle experts/decision makers has served as a policymaking network coordinating its policies with reference to periods of stable business cycle fluctuations, but also able to take rapid action in cases of emergencies like the financial crisis. This was already written into the government's 2001 mandate to Norges Bank, and is also reflected in the notion of the Taylor rule for monetary policy.

In 1998, the Norges Bank director (Skånland, 1998, cf. Cappelen, 1998) criticized the Solidarity alternative for putting too much pressure on fiscal and incomes policies. But inflation targeting did not do away with overheating in the Norwegian oil economy. Both fixed exchange rate and inflation targeting have failed programmes for economic policy hegemony of an independent, non-accommodating central bank. Since its attempt in 2002, Norges Bank, as we saw, modified its stance. The actual process of economic policymaking has been a process in which government, social partners and central bank – with some homogenization due to expert

knowledge – 'accommodates' each other. Thus, it seems utopian that some kind of simple rule, or any other clever formula, can stabilize to such an extent that the overheating tendencies in Norway's oil economy are contained. Neither monetary nor fiscal policies are sufficient instruments if the aspiration of stabilizing Norway's oil economy is set too high. It is wrong to believe that in a small open economy such as Norway, one can simply engineer inflation by altering the interest rate (Cappelen & Eika, 2010, p. 13).

As noted, the 2006–2007 overheating was modified since the large flows of labour immigrants implied that the supply side of the economy was more flexible than ever. The overheating phase of 2006–2007 was on the one hand slightly 'less unstable' than the earlier ones, but the tensions that accumulated – on the other hand – were also more easily resolved, given the external shock of the financial crisis.

CONCLUSIONS: DOMESTIC SUCCESS AND INTERNATIONAL CHALLENGES

The following broad generalization follows from our reconstruction of Norwegian economic policymaking over four decades: The Norwegian economy has been exposed to two major challenges since the early 1970s: first, discovery of oil wealth, and second, internal and external financial deregulation. These challenges caused several adjustment problems. The 1970s policy of full employment was incompatible with external constraint. The economic policies of the early 1980s were unable to secure full employment, even in the absence of external constraint. In the late 1980s there was both a very severe external constraint and high unemployment. But starting in the deepest crisis year of 1992, an alternative to both the 1970s and the 1980s strategies was developed. It was actually able to combine relative freedom from external constraint with a policy of full employment. This broad and medium term approach to economic policies sustains complementarities between the main institutional complexes in Norway's present-day political economy.

The initial responses – to oil in the 1970s, and to financial deregulation in the 1980s – destabilized and undermined the earlier post-war Norwegian model of economic policymaking. Economic fluctuations became more marked since the 1980s (Fig. 4). Still, by today, Norway's social partners (unions and employers), macroeconomic experts, the Ministry of Finance

bureaucrats and the politicians, may celebrate some success in avoiding the Dutch disease/resource curse, establishing a new broadly integrated package of economic policies, handling the oil wealth through the petroleum fund and a widely accepted fiscal policy rule, consolidating regulatory controls so that 2007–2008 saw no reprise of the financial turbulence of 1986–1992, and bringing down the considerable unemployment of the 1990s. This result is impressive, although, as we have seen, it has not come about by means of smooth social engineering, but through crises, setbacks and lack of coordination. But all along both experts, politicians and social partners have proven able to learn. They have in practice agreed not to challenge the major compromises and alliances constituting Norway's political economy, despite major external pressures and challenging problems of internal social change.

Overheating seems difficult to avoid in the Norwegian oil economy. With reference to Table 2, we can compare four cases of overheating: 1974–1976, 1985–1986, 1997–1998 and 2006–2007. The period 1974–1976 was based on the ambitiously countercyclical stabilization policies of a left-leaning social democracy in a setting marked by the first major phase of building a whole new oil-exploring and oil-producing sector of the economy. The period 1985–1986 was a bubble economy and a consumption boom, triggered by internal financial deregulation in a setting of peaking oil production at a quite high price level. The period 1997–1998 was driven by procyclical monetary and (partly) fiscal policies in a setting of yet another oil boom as many huge oilfields reached peak production levels, even though the price had come down. The period 2006–2007 was somewhat similar to the latter. Again, fiscal policies became expansive, despite the fact that the fiscal policy rule was respected, the world economy boomed and interest rates had been kept low for a long time as the oil sector expanded.

Successful economic policies stabilize economic development at the national level not by abolishing overheating or downturns, but by moderating such cyclical swings. As we have emphasized they also influence complementarities between the main complexes of market-organizing institutions. We can thus specify our conclusion in terms of our distinction between L-, C- and NR-complexes.

Between 1970 and 2010, the C-complex was entirely transformed. We have seen how the consumption boom of the mid-1980s, the negative oil price shock in 1985/1986, the hard currency line of 1986, the emergence of the interest rate as a policy signal in the late 1980s, and finally the banking crisis, were linked to this once off transformation. We have also seen how fumbling by experts, administrators and politicians in this period led to

incompatible policies that reinforced fluctuations rather than smoothing them.

Also the NR-complex has changed. We have noted the importance of the oil wealth, the inability of politicians to influence the pace of exploration, the construction of the petroleum fund and the visible surplus status of Norway since the mid-1990s. But oil is a rent-yielding natural resource, similar to water power that had influenced the Norwegian economy since the early 20th century. Thus, the institutional patterns created in order to organize the oil block were in line with the developmental state traditions that Labour had inherited from earlier Norwegian state traditions. The major change in this complex came with the oil block's outward turn in the 1990s.

Compared to the other two, the L-complex stands out. There has been no major changes. The 1980s changes in the housing sub-complex were not major ones. Norway's system of collective bargaining, tripartite corporatism and a universalist welfare state has been consolidated through the period. We conclude that economic policies have responded to changes in both the C- and NR-complex. Policy makers learned through the three overheating experiences (II-phases, Table 2) in the 1980s, 1990s and 2000s to coordinate policies in ways that retain the alliances/compromises patterns of the L-complex.

Norway's domestic success is of course not the result of Norwegian decision making only. The solidarity alternative was a response to the grave early 1990s situation of negative terms of trade shock, high unemployment and banking crisis. Its maintenance, however, over the next decades, has been facilitated by favourable external conditions. We will never know whether the solidarity alternative would have been equally easy to maintain without the China-effect on raw materials prices, the Chinese flows of cheap manufactured products and the flows of cheap labour from newly accessed EU countries such as Poland. While Norges Bank in the early 2000s was bent on taking a leading role to fight inflation, external factors cooled down inflation pressure in the world economy, and the new role of the central bank proved compatible with the concerns of other policymaking circles. Such external effects, however, are periodic and may well be reversed. With unfavourable external pressures, the solidarity alternative may be put to a harsher test.

Neither do we know whether the revised complementarities will be sustained for a long time. Little can be said about future terms of trade developments or labour flows within the EU. Instead, we shall widen our perspective in two ways. First, we discuss whether the new model can be

characterized as a neoliberal one. Second, we trace some external consequences of the transition to a new model. Finally, we discuss some political repercussions at the national level.

The Question of Neoliberalism

Some scholars and some political groups would clearly conclude that the changes we have traced is evidence of a neoliberal turn. Some might even add that globalization has caused such a neoliberal turn. We prefer to avoid such generalizations. We have relied on Polanyi (1944), who defined a converging commodification of both labour, money and land as the core of the classical liberal project. From political philosophy, we can add that neoliberalism emerged originally as a result of pessimism concerning whether the 'embedded liberalism' and the planning strategies of the early post-war period would actually be able to contain authoritarian tendencies on the part of the movements that secured full parliamentary democracy in the interwar period. Certainly, the classical theorists of neoliberalism were economists (Hayek, Mises) and their ideas were intimately linked to discussions about economic policies. But their worries proved unfounded. Under U.S. dominance in the Western world, Keynesianism and embedded liberalism successfully restored the area that became the Atlantic core of the early post-war world economy. Neoliberal intellectuals only gained major political influence during the radicalization period since the late 1960s and particularly with the victories of Thatcher and Reagan at the threshold of the 1980s (see above). It is useful to consider neoliberalism as an intellectual liberalist renaissance in a situation where parliamentary democracy (with labour included), stood firmly as an irreversible achievement (Mjøset, 2011).

The early post-war political-economic models – one of which was the Norwegian one – were indeed the results of social mobilization against classical liberalism's attempts to turn labour, money and land into commodities. Polanyi (1944) called this the 'double movement': attempts to realize the liberal programme spurred social mobilization that led to institutions that protect the factors of production (L, C, NR) from being turned into commodities. Thus, neoliberalism as a late 20th-century political offensive faced this dilemma: There was no way in which a liberal political movement in that age could reduce labour, money and land to pure commodities again. But we can distinguish some varieties of capitalism by judging the extent to which politicians in various countries managed to go some way towards that liberal ideal.

Analysing Norway, we have regarded the elements that define the three complexes as the institutionalized results of the mobilization against the programme of classical liberalism. Norway's L-complex, then, is a case of institutions resisting the return to as individualized bargaining as possible. Both Labour and the centre parties have guarded the decommodification of Norwegian labour, and all parties now claim to support the welfare state. We have seen considerable continuity in Norway's L-complex.

Norway's NR-complex is a case of initial continuity with older agro/fish/water-power complexes. However, successful developmental state strategies here generated an oil block that became a vehicle for the international expansion of Norwegian (private and state) capital. The main shift came with the outwards turn of Statoil, and the implementation of the competition directives via the EEA agreement (P4), both in the 1990s. This is certainly internationalization of capital, but given Statoil/Hydro's links to the state, and the geopolitical aspects of the oil business, this can hardly be labelled a neoliberal feature of recent Norwegian economic development. We return to this point below.

Before we turn to the C-complex, let us consider the more liberal varieties of capitalism: In the leading countries of the neoliberal offensive (Britain, United States), the union movement lost a lot of influence compared to the era of embedded liberalism. By being home countries to Wall Street and the City of London, they also had a major share of the responsibility for the financial instabilities that followed regulatory evasion and deregulation in the frenzy period from the late 1980s and onwards. This influence was generalized through the thought collective of expert economists and their main organizations, such as OECD and IMF.

Although Norway is clearly a different variety of capitalism, its C-complex saw a major transformation from credit rationing to unrestrained short-term capital movements. It started during Willoch in the early 1980s, but we have seen that Labour itself was responsible for the brunt of the external deregulation. They were influenced by advice from the outside, both through expert organization such as OECD, and international finance, eager to recycle euro- and petrodollars. The deregulation of financial flows could be considered a return to money as a commodity, a trend that neoliberals could support and try to gain politically from. Must we conclude that Labour here sold out and administered a neoliberal shift in Norway's political economy?

As for domestic developments, we have seen how both private financial institutions, politicians, experts and supervisory authorities failed to prevent the lending spree, consumption boom and banking crisis. The solution to the crisis, however, was a case of double movement: as the attempts to let

the market rule led to bank failures, the state took over the three largest banks. Since then, however, we noted that restructuring has respected the autonomy of the financial sector in the Norwegian mixed economy. There was no return to credit rationing. Norway's C-complex may have been irreversibly changed. Whether this makes Norwegian capitalism more neoliberal, partly hinges on the strength and quality of the supervisory authorities, and these have been restructured and strengthened. We shall discuss this with reference to the fact that Labour's developmental state strategy re-established a mixed economy, something that certainly implied the evolution of a vigorous sector of private businesses.

Financial deregulation represented a complicated dilemma for Labour: They established a mixed economy in the 1950s and 1960s, supporting gradual liberalization of trade. That Norwegian firms became increasingly export-oriented was to be expected. Given the currency instabilities of the 1970s, firms all over the Western world started to request the services of currency traders. Thus, the whole banking sector was increasingly eager to get out of the regulated system. The 1970s attempts to reinforce earlier regulations (state banks) were judged as unsuccessful. As we have seen, when Labour returned to power in 1986, they pursued a new internationalist programme concerning the C-complex. Labour presented the hard currency/free capital movements combination as a preparation for EU monetary union, relying on international strategies to safeguard their political goals.

Earlier post-war regulation was based on the fusion of socialist ideas and Keynesian liberal interventionism: the labour movement saved capitalism by establishing the mixed economy! Within a recently consolidated parliamentary system, these had been gains at the national level, but they belonged to the past. Now it was hard to maintain the compromise with the employers without some measure of deregulation. However, if a Norwegian deregulation was matched by European integration (single market with a monetary union), the egalitarian norms of social democracy might reach dominance at the European level. Despite the military alliance, Norway supported the EU efforts to balance the U.S. in economic terms to counter the currency instabilities of the 1970s and 1980s. However, EU's development still depended on negotiations along various axes between old great powers (Germany, France and United Kingdom). The United Kingdom had participated since 1972, representing, as we saw, a more neoliberal variety of capitalism, particularly since the Conservative party returned to power since 1979. European integration since the 1980s was thus a complicated game between positive and negative integration. The latter was the neoliberal option, the Hayekian alternative promoted by Thatcher: the basic idea is

that markets stabilize themselves, and that all attempts to embed markets in broader institutional frameworks yield all kinds of inefficiencies. We shall return to this with reference to the differences between EU influence on the C- and L-complexes.

Norway's International Integration

Although Norway is a small country, we cannot just regard it only as a receiver of international impulses. Norway's adjustments to external challenges also have outward consequences. Our analysis above specifies Norway's profile of international integration, which also involves initiatives in various international areas. We shall distinguish between private and public forms of such outwards activity. The public forms are mostly dubbed foreign policy or foreign economic policy. As already noted with reference to Labour's mixed economy programme, the private forms amount to strategies by various internationalizing firms.

Given Labour dominance, even the external activities of the Norwegian state was a function of that party's strategies. We have emphasized how Labour made a conscious move to be a more active player in three international arenas: monetary arrangements in connection with the EU's integration offensives, attempts at peace diplomacy to stem the flows of refugees out of third world conflict zones, and promotion of various schemes to reduce CO_2 emissions in order to counteract climate change. Certainly, one cannot expect a small country like Norway to matter much in a world of great powers, but we have to ask whether these internationalist efforts have supported a viable political strategy for Labour at home. The record is mixed. These new internationalist efforts have coexisted with older international commitments, such as membership in the Nato alliance. Because of the considerable statist elements that still mark Norwegian capitalism, some have even been intertwined with the external expansion of private Norwegian ventures.

We can here continue our discussion of the EU monetary union programme. Was it a case of neoliberalism? We noted that social-democratic internationalism here signalled enthusiasm for the strengthening of a EU block against adverse economic effects of U.S. actions in the world monetary system. The EMU was a case of positive integration. It implied some sort of quasi-state building at the European level: a central bank, supervisory authorities and a common monetary policy. In the present aftermath of the financial crisis, we now have a crisis of sovereign debt that

puts great pressure on the EMU. This is not the least a consequence of the idealistic decision of including the weaker southern European economies – then largely Euro-communist/socialist led – into the project of European monetary unification. These southern countries (as well as Ireland) are now paying a high price for this decision. They cannot devalue to lower their labour costs and if they opt out of the Euro, their debts are still in Euro.

The EEA agreement has been a reasonable success for Norway. There was a period of optimism about the visions of enlightened reforms in the world economy around the turn of the millennium: While only Mitterrand was a socialist in power in Europe at the time of Norway's 1994 EU referendum, Blair won in Britain in 1995 and Schroeder was elected in Germany in 1998. There was also faith in the Clinton administration (1993–2001). Since then, however, the vision of social democratic international influence has been shattered, both by the recent debt crisis as well as by general political changes. The right returned to power again, and there were few irreversible consequences of the converging social democratic rule at the millennium turn.

A major dilemma for Norway here is that its successful economic policy adjustment implies the concentration of its oil surplus in a huge sovereign fund (now the world's largest), a fund that adds to the surplus/deficit polarization that haunts the present world economy. In questions of European debt, the Norwegian sovereign fund is as cynical a player as any other private or sovereign fund. If the world monetary system is now in a liberal phase (witness the difficulties of reregulating it even after a deep crisis such as the one in 2008), there is not much Norway's authorities or fund managers can do about it. Norwegian authorities are keen to emphasize the ethical standards respected by the petroleum fund, but the left in Norway find many dark sides here.

Not only is the Norwegian petroleum fund a main actor in international finance, also units in the Norwegian oil and energy block are – as already noted – expanding at an international level. Norwegian firms such as Statoil, Statkraft and others expand internationally by helping regimes of all sorts (not just democratic ones) in ground-rent seeking activities. This is an international expansion of Norwegian large-scale capital, with considerable statist elements surviving. This expansion takes place while Norway supports a half-hearted, incomplete emissions quota system, while emission targets are not met neither globally nor in Norway. This pattern of integration in the world economy has international importance for Norway's role in carbon diplomacy, and domestic implications for the

complicated question (see below) as to whether Norway will be able to survive as a developmental state.

Norway has had a natural resource-based economy throughout its modern history. But it is a novel feature that Norwegian natural resources have become the basis for the expansion of private or semi-private Norwegian economic units. Both water power and oil have now gone international: cables connect Norway to both Nordic and European neighbours. Following the deregulation of the energy sector (another candidate for neoliberal influences), Statkraft have begun to engage in power generation throughout the world.

Although Norwegian timber was a popular export item, until recently, Norwegian firms never followed up at the international level. The paper/pulp company Norske Skog expanded internationally 1992–2005, but then had to scale down its international activities due to problems of debt and oversupply. Norwegian aluminium producers have never been highly internationalized until a Hydro plant in Quatar was built. At the moment, however, Statoil has tried to carve out a position serving the same functions as the U.S. firm Phillips petroleum (and others) served in the pioneer days of Norway's oil explorations. At that time, the Americans wanted as much of the resource rent and as little interference from the Norwegian state as possible. But they lost out to the Norwegian regulators in the medium term. However, other countries may not have the same capacities to ward off Statoil and other international firms who want to do it their way. Thus, the effects of the Norwegian developmental state may block developmental state projects in the present third world! The Norwegian state do pursue other strategies – such as the programme 'Oil for development' – but such programmes lead a difficult life vis-à-vis the actions of Statoil.

The closest historical analogy is possibly the ship-owners. Before oil, they were the most internationalized enclave in Norway's political economy. Both oil and shipping are off-shore activities and they both have links to manufacturing. In fact, present-day oil supply industries are heirs to the earlier shipyards that served Norwegian ship-owners. But the success of Norway's ship-owners was not based on resource rent, rather Norwegian skills were related to transport services. Ship-owners had no relation to grave environmental problems. Their activities were less linked to domestic processes than those of the present oil block.

As for peace diplomacy, any positive effects on world flows of refugees have been counteracted by the out-of-area operation that Norway has joined as a consequence of alliance commitments with the Atlantic great powers.

Unfortunately, Labour's success at the international level is hardly as unconditional as in domestic economic policy adjustment. Projecting social democratic visions on to the European or even global sphere seems utopian! Maintaining leadership in international climate diplomacy is not easy when your domestic economy has large segments living from the production of fossil fuels. Mending complicated conflicts on foreign ground is hard, particularly when Norway is allied with one of the great powers (the United States) that have intervened.

The Domestic Dimension

Because the early post-war Nordic model was closely connected with the social democratic parties in Denmark, Norway and Sweden, analyses of recent developments in economic policies are often connected to questions about the future of the social democratic parties and the labour movement more broadly. We have shown that on the whole, social democrats have dominated Norwegian economic policies, even the last 40 years. The only prolonged period of dominance by the non-populist right side was 1981–1986, ending in asset inflation bubbles and a crash. The centre government of 1997–2000, and the centre/right coalition of 2001–2004 had weak parliamentary support as long as the non-socialist parliamentary side was split by the growing populist right.

In terms of voter support, Labour's internationalist offensive confirmed its new position as the party of the publicly employed middle classes. Still, Labour's success in economic policies has not rested on very solid electoral grounds. This is why we have emphasized the peculiar role of FrP. The party has been capturing votes from Labour by alluding back to the days when Norwegian policies for development were entirely focused on national progress. But at the same time it has *split* the Norwegian non-socialist side, letting Labour continue in office, where they try to reproduce support for their nationally oriented stabilization policies by various initiatives at the international level.

By 2005, it was clear that the strategy of the last 20 years had reached its limits. Labour then succeeded with a clever extension of the government base. It was then absolutely necessary to break into the centre: a renewed compromise with agriculture followed. This was a parallel to 1935, revitalizing the old regulatory institutions of the agricultural segment of the NR-complex; unlike most other countries. Furthermore, Labour elites were able to establish a better relationship to LO compared to the days of

Stoltenberg I's electoral disaster in 2001. But it is an open question whether this alliance will be able to reproduce its parliamentary majority. Its victory in 2009 hinged, as noted, much on the government's efficient handling of the financial crisis. Like the terms of trade advantages, here was another external event that favoured the government. But the next external impact may not be as favourable, and after two periods in power, any government will be in a vulnerable position.

As of the early 2010s, the answer to our broadest research question is that complementarities between the three complexes of market-organizing institutions that define the Norwegian model of socio-economic development have been renewed. The changes in economic policymaking has largely succeeded in safeguarding the main goals of equality, transformation of the economy, living standard upgrading and maintenance of the egalitarian ideals that emerged both from social democracy and earlier Norwegian statist liberalism. There are, however, new challenges ahead.

Through the four decades we have studied, Norway has gone from massive indebtedness in the late 1970s to a surplus position, incarnated in a huge sovereign wealth fund, set up to manage the resource rent. The economists' mantra – 'avoid Dutch disease' – was above all a reminder that the country had reached its modern level of welfare by means of a developmental state strategy. But harvesting financial returns of a large fund may not go easily together with continued efforts in the field of innovation and upgrading of the knowledge economy. What if Norway looses the developmentalist urge, ending as a *developed* state only?

Norway has a large state, with several commitments, responsible for accumulated welfare rights in terms of pensions and provision of welfare state services to young, old and non-working parts of the population. Some measures of 'new public management' efforts have been necessary simply to maintain the legitimacy of such arrangements in the face of tax revolts and parties that favour extensive privatization. Pension-reform has been quite successful, and Norway has capacities to face the 'ageing' wave. Even the Conservative party (learning both form the Swedish sister party as well as from FrP) now supports the welfare state.

The challenge lies elsewhere: Can this state, providing security nets for a population at a level of living that is historically unprecedented, continue to function also as a developmental state? The first two decades of policies towards the oil block, the founding and development of Statoil in particular, is the most impressive recent example of developmentalism. But, as we have seen, this part of the NR-complex has recently changed: there is now a stronger outwards orientation. What does this imply for the transformation

of Norway's modern layer of knowledge-based industries? We here find a major difference vis-à-vis Norway's three large Nordic neighbours. A historical parallel may be mentioned. Norway, Sweden and Finland lived well of their timber exports in the mid-19th century. But once the British navy shifted from wooden sailing vessels to steam-driven ironclad warships in 1861, demand for Nordic timber slumped. Presently, the U.S. army aims to use a minimum of 25 per cent renewable energy by 2025, a goal that parallels the Obama/Biden plan to derive 25 per cent of all U.S. electricity from renewable sources by 2025.[9] They may not make it, but on the other hand, Norway's three neighbours may be better placed if the world-energy-supply moves towards a low-carbon system.

According to Katzenstein's (1985) analysis, small countries are doomed always to adjust to changing external pressures. Thus, a small state must not loose its capacities as a developmental state. But maybe the carbon-bias tilts the evolution of Norway's industrial and skill structure towards the energy regimes of yesterday, while the other large Nordic countries are moving in a low-carbon direction? This challenge is different from the Dutch disease challenge. Norway escaped that disease (resource curse) by developing a number of manufacturing linkages extending from the exploration and processing of oil. But this has left the country with a system of innovation and an industrial culture that is highly oil-dependent. Norway escaped deindustrialization but at the cost of a very vulnerable new industrial specialization. Here is a challenge to future industrial policies. (For this Nordic comparison, see Brenner, 2003; Kasa, 2005.)

Norway's successful oil adventure has influenced the evolution of the industrial structure, but there have even been repercussions on the political structure. As we have indicated, right-wing populist mobilization has been particularly successful in Norway. The FrP started of as a fairly neoliberal movement of tax revolters, but it soon learned that in order to gain votes, it had to find inventive ways of competing with Labour. This learning process indicates a dilemma of present-day neo-liberalism. With reference to Polanyi's (1944) analysis, it seems obvious that presently, in the Nordic area, at least, the production factors cannot turned into pure commodities again. For a political movement aiming to capture votes in a well-consolidated parliamentary democracy, a purely liberal programme is not attractive. Rather, FrP gained votes by gaining credibility for the role of heir to Labour as a nationally oriented party of the working masses. They promise to defend labour as a national labour force, alluding Labour's earlier role in a period nearly devoid of immigration from non-Western cultures. While the populist right-wing party tried to move into Labour's old

role as a party striving for the generalization of domestic welfare, Labour since the mid-1980s have tried to turn certain international arrangements in a social-democratic direction. The success of this internationalist strategy has been mixed, and in the longer term, it is no reliable strategy for victory in national elections, where matters of welfare, health and schooling still count as the most important issues.

Since 1986, FrP has – with the exception of Bondevik II, 2001–2004 – served to disable the Conservative party from participating in government. Half-ways into the present red/green government's term, the possibility of a Conservative/FrP parliamentary majority cannot be excluded. But will the Conservatives accept FrP as partners? There is no space for a discussion of this here. But it is relevant to point to our conclusion regarding the L-complex: this complex has not changed much over the last 40 years, compared to the other two. If a blue–blue coalition arises from the 2013 election, the choice of policies towards the collective actors of the L-complex will be crucial. The perhaps most important international integration factor affecting the L-complex is the extended EU labour market. This is a case of negative integration (Anderson, 2010): a freer labour market was always the Thatcherite vision of a countermove against the positive integration of consolidating supra-national EU institutions. Norwegian employers may recruit labour at low costs in the poor areas of EU, and these flows may make matters much worse for the position of the unions in the L-complex. If such negative integration is supported by a blue–blue government, we may have to study greater turmoil in Norway's L-complex in the years to come.

NOTES

1. It is significant that there is a notion of a Norwegian model regarding the oil segment of the NR-complex, cf. Al-Kasim, 2006.
2. There is a huge literature on this topic, starting from Calmfors and Driffill (1988), cf. Barth, Moene, and Wallerstein (2003) and Wallerstein (2008, Part IV).
3. A model of socio-economic development is defined by the full set of institutions constituting the L-/C-/NR-complexes, involving specific complementarities. Our more detailed studies of economic policies imply the notion of models of macroeconomic policy making. Both these notions of models may be distinguished from the notion of welfare state models in the social policy/political science literature (we regard the welfare state arrangements only as one main module of the L-complex). Most recent definitions of the Norwegian or 'Scandinavian' model refers to the L-complex, emphasizing collective bargaining and the welfare state (see Barth et al., 2003). This approach has been extended by studies in the resource-curse tradition, thus combining the study of the L- and NR-complexes. Note that there is no notion of any Norwegian or Nordic model with reference to the C-complex! But there are a number of studies (see Iversen et al., 2000) that study the interaction between the L-complex (collective bargaining) and the C-complex (central bank autonomy). We briefly return to this literature below.
4. The quality of the key statistics provided by Statistics Norway at that time was below average (Lie & Roll-Hansen, 2001, p. 403). Actually, this boiled down to an undetected programming error! As a result, the Ministry of Finance pursued more expansionary policies than strictly necessary.
5. Barth et al. (2003, p. 18) emphasizes a turning point in the interwar period: workers in the building trade found themselves in a bottleneck position when there was some state support to stimulate the economy. In contrast, workers in the iron/metal sector were in a very weak bargaining position due to the world crisis. When construction trade unions tried to strike, LO intervened in 1928 (a similar event occurred in 1933 in Sweden). This could be seen as a formative experience for the Scandinavian models of wage formation in small, open economies: the sheltered sectors submit to the wage level of the exposed sector. The case of Norwegian oil workers is a more recent case of equal significance.
6. Most particularly, there is Willoch's blaming of the too high real interest rate, further explored by Hanisch et al., 1999, who claim that one needs a 'closer' cause than the 1985–1986 deregulation decisions and the banks' excessive risk-taking.
7. The integration of the Norwegian financial sector into international financial networks continued. Since this is not a main topic in our analysis of the 2000s, we just note a couple of trends in this note. The volume of pension savings has increased (Knutsen, 2007, p. 595). Such funds are placed in the Norwegian stock market by insurance companies. The new fad of corporate governance is linked to this increasing impact of the stock market (Knutsen, 2007, 596ff, 605). The amount of equity in firms has increased, the indicator follows a U-shaped curve, high in 1930s, a low in 1975, increasing thereafter (Knutsen, 2007, p. 600). A private equity market has emerged. Groups of investors exert active ownership, providing venture capital and engaging in various venture activities. As for the bond market, the state continues to be the main actor, but also credit firms and private banks have increased their shares. The emergence of an efficient bond market is a condition for Norges Bank's conduct of market-based monetary policy.
8. Regulatory bodies were thrown into crisis management in the early 1990s. They have since developed skills of early warning and prevention. EU financial market policy has removed barriers against transactions and investments across borders. From 2005 Norway applies IFRS, International Financial Report Standards (developed in response to scandals such as Enron and Parmalat), converging with EU. Securities legislation has been changed three times since 1985, indicating how fast authorities have been forced to change the rules of the game. This whole development has been dubbed a 'neoliberal shift', with increasing insecurity in financial markets (Knutsen, 2007, p. 610f). Like most other countries with developed financial systems, Norway relies on the Basel Accords (I and II; 26 and 500 pages respectively!) as the basis of a risk-sensitive system of regulation and supervision. Learning from US regulations in the 1990s, the system is supposed to define adequate reserves in case of financial instability. It has three pillars: minimum responsible

capital, risk-based supervision, and disclosure requirements. It relates to an extended set of risks. For instance, the first pillar provides an explicit requirement for operational risk. Each financial institution is supposed to have processes and strategies to ensure adequate capital with reference to its own risk profile and the system for risk-management. Supervisory authorities must control and verify that internal mechanisms satisfy the Basel requirements. But even Basel II is not watertight against regulatory arbitrage, the case that capital-requirements are reduced while risk remains. Concerning securities markets, they are now supervised by specialized sections within the Financial Supervision Authority (*Finanstilsynets transaksjons- og institusjonstilsyn*).

9. Source: http://uk.intimes.com/articles/20110623/global-military-clean-energy-use-rising.htm (accessed June 27, 2011). Jon Bingen has reminded us of these and similar programs.

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