The Norwegian Economy 1920-1980

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PREFACE

When at the 8th International Economic History Congress in Edinburgh professor Lennart Jørberg, of Lund in Sweden, raised the question of my writing a volume on Norway for the present Croom Helm series on the contemporary economic history of Europe, I thought at first that it would be an easy enough task. In 1975 I had published a volume on the economic history of Norway, and an enlarged version in Norwegian was published in 1981. In both the main emphasis was on the developments of the nineteenth century. To the editor of the series, Professor Derek H. Aldcroft, I wrote optimistically that I expected to have the volume ready by the end of 1981. As it turned out, the delivery date could not be honoured.

There were two reasons for this. One was that very little had been done on the economic aspects of the war years, and what had been done was specific, some of it biased, with some outstanding exceptions, including the volume by a British historian Alan Milward, titled *The Fascist Economy in Norway 1940-1945.* The result was that I found I had to read much more than anticipated. The other reason was not so much lack of sources, as the task of making a balanced selection among them. The recent economic past invites any number of topics relevant to the historian. The difficulty was establishing some guide posts that would justify a reasonable selection of themes.

My guide posts have been found in the modern theory of economic growth, which, I take it, involves three elements; namely, a theory of causation, a theory of values, and a theory of means. Thus the reader interested in the details of retail trade will no doubt find himself disappointed, as I believe its causal role to have been slight in the formation of the postwar economy. By the same token, readers looking for economic planning will find a good deal here, and for the opposite reason. Next, as value judgements necessarily are open to objections, I have tried to keep mostly to reporting the facts. When venturing comments, as I have done in the concluding chapter, Chapter 14, the reader will have no difficulty in recognising the change of role. Again, when a country has had a social democratic government for 29 out of 36 years, and those governments have maintained a strong element of economic planning as an instrument for building a welfare state for its voters, it is inevitable that the present volume should reflect more of planning

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experiments than of traditional market allocation theory. The examples will suggest how I have gone about solving the problem of selection in constructing the story.

Special thanks are due to Dr. oecon. Ole Gjølberg who read chapters One to Seven. My debts are great to Mrs Lajla Johannessen and her colleagues, Mrs Laila Kyrkjebø, Mrs Anne Marie Carlson, Mrs Kristin Pedersen and Mrs Karin Berge, who managed to give the manuscript a readable form. To the editor I am grateful for discovering many inconsistencies and errors. Those remaining are the sole responsibility of the author.

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EDITOR'S INTRODUCTION

By comparison with the nineteenth century, the twentieth has been very much more turbulent, both economically and politically. Two world wars and a great depression are sufficient to substantiate this claim without invoking the problems of more recent times. Yet despite these setbacks Europe's economic performance in the present century has been very much better than anything recorded in the historical past, thanks largely to the super-boom conditions following the post-Second World War reconstruction period. Thus in the period 1946-75, or 1950-73, the annual increase in total European GNP *per capita* was 4.8 and 4.5 per cent respectively, as against a compound rate of just under one per cent in the nineteenth century (1800-1913) and the same during the troubled years between 1913-50. As Bairoch points out, within a generation or so European *per capita* income rose slightly more than in the previous 150 years (1947-75 by 250 per cent, 1800-1948 by 225 per cent) and, on rough estimates for the half century before 1800, by about as much as in the preceding two centuries.[1]

The dynamic growth and relative stability of the 1950s and 1960s may however belie the natural order of things as the events of the later 1970s and early 1980s demonstrate. Certainly it would seem unlikely that the European economy, or the world economy for that matter, will see a lasting return to the relatively stable conditions of the nineteenth century. No doubt the experience of the present century can easily lead to an exaggerated idea about the stability of the previous one. Nevertheless, one may justifiably claim that for much of the nineteenth century there was a degree of harmony in the economic development of the major powers and between the metropolitan economies and the periphery which has been noticeably absent since 1914. Indeed, one of the reasons for the apparent success of the gold standard post 1870, despite the aura of stability it allegedly shed, was the absence of serious external disturbances and imbalance in development among the major participating powers. As Triffin writes, 'the residual harmonization of national monetary and credit policies depended far less on *ex post* corrective action, requiring an extreme flexibility, downward as well as upward, of national price and wage levels, than on an *ex ante* avoidance of substantial disparities in cost competitiveness and the monetary policies that would allow them to develop'.[2]

Whatever the reasons for the absence of serious economic and political conflict, the fact remains that through to 1914 international development and political relations, though subject to strains of a minor nature from time to time, were never exposed to internal and external shocks of the magnitude experienced in the twentieth century. Not surprisingly therefore, the First World War rudely shattered the liberal tranquillity of the later nineteenth and early twentieth centuries. At the time few people realised that it was going to be a lengthy war and, even more important, fewer still had any conception of the enormous impact it would have on economic and social relationships. Moreover, there was a general feeling, readily accepted in establishment circles, that following the period of hostilities it would be possible to resume where one had left off – in short, to recreate the conditions of the prewar era.

For obvious reasons this was clearly an impossible task, though for nearly a decade statesmen strove to get back to what they regarded as 'normalcy', or the natural order of things. In itself this was one of the profound mistakes of the first postwar decade since it should have been clear, even at that time, that the war and postwar clearing-up operations had undermined Europe's former equipoise and sapped her strength to a point where the economic system had become very sensitive to external shocks. The map of Europe had been rewritten under the political settlements following the war and this further weakened the economic viability of the continent and left a dangerous political vacuum in its wake. Moreover, it was not only in the economic sphere that Europe's strength had been reduced; in political and social terms the European continent was seriously weakened and many countries in the early postwar years were in a state of social ferment and upheaval.[3]

Generally speaking, Europe's economic and political fragility was ignored in the 1920s, probably more out of ignorance than intent. In their efforts to resurrect the prewar system statesmen believed they were providing a viable solution to the problems of the day, and the fact that Europe shared in the prosperity of the later 1920s seemed to vindicate their judgement. But the postwar problems – war debts, external imbalances, currency issues, structural distortions and the like – defied solutions along traditional lines. The most notable of these was the attempt to restore a semblance of the gold standard in the belief that it had been responsible for the former stability. The upshot was a set of haphazard and inconsistent currency stabilisation policies which took no account of the changes in relative costs and prices among countries since 1914. Consequently, despite the apparent prosperity of the latter half of the decade, Europe remained in a state of unstable equilibrium, and therefore vulnerable to any external shocks. The collapse of US foreign lending from the middle of 1928 and the subsequent downturn of the American economy a year later exposed the weaknesses of the European economy. The structural supports were too weak to withstand violent shocks and so the edifice disintegrated.

That the years 1929-32/3 experienced one of the worst depressions and financial crises in history is not altogether surprising given the convergence of many unfavourable forces at that point in time. Moreover, the fact that a cyclical downturn occurred against the backdrop of structural disequilibrium only served to exacerbate the problem, while the inherent weakness of certain financial institutions in Europe and the United States led to extreme instability. The intensity of the crisis varied a great deal but few countries, apart from the USSR, were unaffected. The action of governments tended to aggravate rather than ease the situation. Such policies included expenditure cuts, monetary contraction, the abandonment of the gold standard and protective measures designed to insulate domestic economies from external events. In effect these policies, while sometimes affording temporary relief to hard-pressed countries, in the end led to income destruction rather than income creation. When recovery finally set in in the winter of 1932/3 it owed little to policy contributions, though subsequently some western governments did attempt more ambitious programmes of stimulation, while many of the poorer eastern European countries adopted autarchic policies in an effort to push forward industrialisation. Apart from some notable exceptions, Germany and Sweden in particular, recovery from the slump, especially in terms of employment generation, was slow and patchy and even at the peak of the upswing in 1937 many countries were still operating below their resource capacity. A combination of weak real growth forces and structural imbalances in development would no doubt have ensured a continuation of resource under-utilisation had not rearmament and the outbreak of war served to close the gap.

Thus, by the eve of the Second World War Europe as a whole was in a much weaker state economically than it had been in 1914, with her shares of world income and trade notably reduced. Worse still, she emerged from the second war in 1945 in a more prostrate condition than in 1918, with output levels well down on those of prewar. In terms of the loss of life, physical destruction and decline in living standards Europe's position was also much worse than after the First World War. On the other hand, recovery from wartime destruction was stronger and more secure than in the previous case. In part this can be attributed to the fact that in the reconstruction phase of the later 1940s some of the mistakes and blunders of the earlier experience were avoided. Inflation, for example, was contained more readily between 1939 and 1945 and the violent inflations of the early 1920s were not for the most part perpetuated after the Second World War. With the exception of Berlin, the map of Eurpe was divided much more cleanly and neatly than after 1918. Though it resulted in two ideological power blocks, the East and the West, it did nevertheless dispose of the power vacuum in Central/East Europe which had been a source of friction and contention in the interwar years. Moreover, the fact that each block was dominated or backed by a wealthy and rival super-power meant that support was forthcoming for the satellite countries. The vanquished powers were not, with the exception of East Germany, burdened by unreasonable exactions which had been the cause of so much bitterness and squabbling during the 1920s. Finally, governments no longer hankered after the 'halcyon' prewar days, not surprisingly given the rugged conditions of the 1930s. This time it was to be planning for the future which occupied their attention, and which found expression in the commitment to maintain full employment and all that entailed in terms of growth and stability, together with a conscious desire to build upon the earlier social welfare foundations. In wider perspective, the new initiatives found positive expression in terms of a readiness to co-operate internationally, particularly in trade and monetary matters. The liberal American aid programme for the West in the later 1940s was a concrete manifestation of this new approach.

Thus despite the enormity of the reconstruction task facing Europe at the end of the war, the recovery effort, after some initial difficulties, was both strong and sustained, and by the early 1950s Europe had reached a point where she could look to the future with some confidence. During the next two decades or so virtually every European country, in keeping with the buoyant conditions in the world economy as a whole, expanded very much more rapidly than in the past. This was the super-growth phase during which Europe regained a large part of the relative losses incurred between 1914 and 1945. The eastern block countries forged ahead the most rapidly under their planned regimes, while the western democracies achieved their success under mixed enterprise systems with varying degrees of market freedom. In both cases the state played a far more important role than hitherto, and neither system could be said to be without its problems. The planning mechanism in eastern Europe never functioned as smoothly as originally anticipated by its proponents, and in due course most of the socialist countries were forced to make modifications to their systems of control. Similarly, the semi-market systems of the West did not always produce the right results so that governments were obliged to intervene to an increasing extent. One of the major problems encountered by the demand-managed economies of the West was that of trying to achieve a series of basically incompatible objectives simultaneously – namely full employment, price stability, growth, stability and external equilibrium. Given the limited policy weapons available to governments this proved an impossible task to accomplish in most cases, though West Germany managed to achieve the seemingly impossible for much of the period.

Although these incompatible objectives proved elusive *in toto*, there was, throughout most of the period to the early 1970s, little cause for serious alarm. It is true that there were minor lapses from full employment; fluctuations still occurred but they were moderate and took the form of growth cycles; some countries experienced periodic balance of payments problems; while prices generally rose continuously though at fairly modest annual rates. But such lapses could readily be accommodated, even with the limited policy choices, within an economic system that was growing rapidly. And there was some consolation from the fact that the planned socialist economies were not immune to some of these problems, especially later in the period. By the later 1960s, despite some warning signs that conditions might be deteriorating, it seemed that Europe had entered a phase of perpetual prosperity not dissimilar to the one the Americans had conceived in the 1920s. Unfortunately, as in the earlier case, this illusion was to be rudely shattered in the first half of the 1970s. The super-growth phase of the postwar period culminated in the somewhat feverish and speculative boom of 1972-3. By the following year the growth trend had been reversed, the old business cycle had reappeared and most countries were experiencing inflation at higher rates than at any time in the past half century. From that time onwards, according to Samuel Brittan, 'everything seems to have gone sour and we have had slower growth, rising unemployment, faster inflation, creeping trade restrictions and all the symptoms of stagflation'.[4] In fact, compared with the relatively placid and successful decades of the 1950s and 1960s, the later 1970s and early 1980s have been extremely turbulent, reminiscent in some respects of the interwar years.

It should of course be stressed that by comparison with the interwar years or even with the nineteenth century, economic growth has been quite respectable since the sharp boom and contraction in the first half of the 1970s. It only appears poor in relation to the rapid growth between 1950 and 1973 and the question arises as to whether this period should be regarded as somewhat abnormal, with the shift to a

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lower growth profile in the 1970s being the inevitable consequence of long-term forces involving some reversal of the special growth-promoting factors of the previous decades. In effect this would imply some weakening of real growth forces in the 1970s which was aggravated by specific factors, for example energy crises and policy variables.

The most disturbing feature of this later period was not simply that growth slowed down but that it became more erratic, with longer recessionary periods involving absolute contractions in output, and that it was accompanied by mounting unemployment and high inflation. Traditional Keynesian demand management policies were unable to cope with these problems and, in an effort to deal with them, particularly inflation, governments resorted to ultradefensive policies and monetary control. These were not very successful either, since the need for social and political compromise in policy-making meant that they were not applied rigorously enough to eradicate inflation, yet at the same time their influence was sufficiently strong to dampen the rate of growth, thereby exacerbating unemployment. In other words, economic management is faced with an awkward policy dilemma in the prevailing situation of high unemployment and rapid inflation. Policy action to deal with either one tends to make the other worse, while the constraint of the political consensus produces an uneasy compromise in an effort to 'minimise macroeconomic misery'.[5] Rostow has neatly summarised the constraints involved in this context: 'Taxes, public expenditure, interest rates, and the supply of money are not determined antiseptically by men free to move economies along a Phillips curve to an optimum trade-off between the rate of unemployment and the rate of inflation. Fiscal and monetary policy are, inevitably, living parts of the democratic political process.'[6]

Whether the current problems of contemporary western capitalism or the difficulties associated with the planning mechanisms of the socialist countries of eastern Europe are amenable to solutions remains to be seen. It is not, for the most part, the purpose of the volumes in this series to speculate about the future. The series is designed to provide clear and balanced surveys of the economic development and problems of individual European countries from the end of the first world war through to the present, against the background of the general economic and political trends of the time. Though most European countries have shared a common experience for much of the period, it is nonetheless true that there has been considerable variation among countries in their rates of development and the manner in which they have sought to regulate and control their economies. The problems encountered have also varied widely, in part reflecting disparities in levels of development. While most European countries had, by the end of the First World War, achieved some industrialisation and made the initial breakthrough into modern economic growth, nevertheless there existed a wide gulf between the richer and poorer nations. At the beginning of the period the most advanced region was north-west Europe, including Scandinavia, and as one moved east and south so the level of *per capita* income relative to the European average declined. In some cases, notably Bulgaria, Yugoslavia and Portugal, income levels were barely half the European average. The gap has narrowed over time but the general pattern remains basically the same. Between 1913 and 1973 most of the poorer countries in the east and south (apart from Spain) raised their real *per capita* income levels relative to the European average, with most of the improvement taking place after 1950. Even so, by 1973 most of them, with the exception of Czechoslovakia, still fell below the European average, ranging from 9-15 per cent in the case of the USSR, Hungary, Greece, Bulgaria and Poland, to as much as 35-45 per cent for Spain, Portugal, Romania and Yugoslavia. Italy and Ireland also recorded *per capita* income levels some way below the European average.[7]

The third volume in the Contemporary Economic History of Europe Series shifts the focus of attention to Scandinavia. Norway, a cold, dark country with a small population and a relatively large land mass, was one of the poorer countries in Europe at the beginning of the twentieth century. Though not without natural resources, the country has a forbidding geographical structure, and for centuries the population had depended upon agriculture, trade and maritime activities for its livelihood. Industrially Norway was still backward at the turn of the century and in terms of the level of manufacturing *per capita* she was destined to remain so through to the present.[8] Such observations however belie the latent potential of this small northern country. Economic progress had been steady if unspectacular in the latter half of the nineteenth century, and though this inevitably created an economic structure skewed towards her natural advantages, based on primary and maritime activities, it nevertheless demonstrated that vitality and enterprise were not lacking. Thus while Norway by the eve of the First World War may not have been among the leading industrial nations, her *per capita* income was considerably above that of the poorer countries of eastern and southern Europe,[9] and she had already reached the stage of development where, given favourable conditions and indigenous enterprise, the prospects for sustained compound growth were quite promising.

It is important therefore not to underplay Norway's potential at this time since it provided a firm launching pad for her response to the vicissitudes of the twentieth century, a response which, half a century or so later (early 1970s), produced one of the highest *per capita* incomes in Europe.[10] It is scarcely conceivable that such an achievement could have been realised had her economic base not been reasonably sound. Much of Norway's relative gain was in fact secured in the traumatic period between 1913 and 1950, embracing as it did two world wars, a great depression and the attendant problems of reconstruction. Norway did not of course emerge unscathed from these events, but judging by the macre-economic indicators she undoubtedly fared much better than the majority of European countries.

In this volume Professor Hodne demonstrates the way in which Norway adapted to the changes of the first half of the twentieth century, not only by continuing to specialise in areas in which she retained a comparative advantage, but also by embarking on new developments which involved a transformation of her economic structure. This transformation was not achieved without friction and costs but it nevertheless ensured that Norway was prepared to participate and share fully in the supergrowth phase after the Second World War through to the oil and gas bonanza of the 1970s and beyond. However, whether Norway's comparatively better economic performance – in terms of employment, inflation, exports and output growth – in the turbulent conditions of the last decade rests on secure foundations[11] is a point on which Professor Hodne would wish to reserve judgement.

Notes

1 P. Bairoch, 'Europe's Gross National Product: 1800-1975', *The Journal of Economic History*, 5 (Fall 1976), pp. 298-9.

2 R. Triffin, *Our International Monetary System: Yesterday, Today and Tomorrow* (1968, New York), p. 14; see also D. H. Aldcroft, *From Versailles to Wall Street, 1919-1929* (1977), pp. 162-4. Some of the cost of the gold standard system may however have been borne by the countries of the periphery, for example the Latin American.

3 See P.N. Stearns, *European Society in Upheaval* (1967).

4 *Financial Times*, 14 February 1980.

5 J.O.N. Perkins, *The Macroeconomic Mix to Stop Stagflation* (1980).

6 W.W. Rostow, *Getting From Here to There* (1979).

7 See Bairoch, 'Europe's Gross National Product', pp.297, 307.

8 P. Bairoch, 'International Industrialization Levels from 1750 to 1980', *Journal of European Economic History*, 11 (1982), p. 286.

9 See Bairoch, 'Europe's Gross National Product', p. 307.

10 *Ibid.*, p. 307; though compare Maddison's comparative GDP levels per head which suggest a less favourable showing. A. Maddison, *Phases of Capitalist Development* (1982), p. 8.

11 See D.H. Aldcroft, *The European Economy 1914-1980* (1980), pp. 234-7; Maddison, *Phases of Capitalist Development* pp. 44-5, 60, 208.

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