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Norway's Full-Employment Oil Economy – Flexible Adjustment or Paralysing Rigidities?[1]

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Two stories may be told about Norwegian macroeconomic management since 1973. The first one is the *flexible-adjustment story*: Norway defended full employment using oil revenues to manage structural change, to keep manpower in the primary sectors and create new employment opportunities in the welfare state. The second is the *paralysing-rigidities story*: Norway used oil revenues to shelter its manufacturing industries and low-productivity agriculture from competition, and to expand the welfare state which created numerous crowding out mechanisms. The first section below reviews some strong statements of these stories, while the following two sections review contemporary debates on the notions of flexibility and rigidity, relating also to the question of Norway's 'democratic corporatism'. The final two sections attempt to take a more detached look at the events about which the two stories are told. Five phases are distinguished, and the two 'consumption booms' (1973–77 and 1984–86) and the following austerity phases (1977–81, 1986–) are compared.

The Two Stories

Norwegians get the view from abroad in terms of credit ratings given by financial-evaluation firms (Standard & Poor, Moody), regular exhortations from the OECD, and an occasional 'world ranking' of economic policy successes or failures, conducted by some business magazines like *Veckans Affärer*. Norwegian social scientists have discussed corporatism, but mainly interpreted it to imply increasing ungovernability (Olsen 1978). Apart from a few isolated voices (Lafferty 1986) there has been little awareness of the fact that a number of contributions to recent comparative political economy regard Norway as an ideal case.

Several authors have pointed to Norway's ability to retain full employment throughout the period of world economic turmoil from 1973–74. The unemployment rate has been among the lowest in the OECD area (cf. Fig. 9 below). Labour-force statistics show that employment grew by nearly 13 percent through the troubled years 1973–85. The change in the female participation rate (35.1 percent) was particularly impressive. Norway stands out as even more successful than Sweden, which had only medium employ-

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While Swedish industrial production faltered through this period, Norway experienced a rapid expansion. This difference is explained by the Norwegian oil-and-gas adventure of the late 1970s and early 1980s. The industrial production of mainland Norway stagnated. Some of the North Sea oil income was deliberately used to subsidise ailing firms, counteracting the crisis of mainland manufacturing employment, which fell by only 6 percent between 1973 and 1985. Furthermore, oil revenues financed a rapid expansion of government employment (up 40 percent since 1973).

Rowthorn & Glyn (1987, 37) point out the contrast to Thatcher's Britain, where much of the oil income was absorbed by escalating payments of unemployment benefits, since the government 'positively encouraged private firms to lay off workers, whilst at the same time reducing government employment'. What Britain lacks is 'democratic corporatism', where 'encompassing' organizations – which take overall macroeconomic responsibility – bolster a 'durable compromise'. In Norway, such a compromise secured 'an extraordinary example of social solidarity', with a 44 percent growth of industrial production between 1977 and 1985, but with no increase of real wages for most employed workers. The oil and gas revenues were used to 'achieve general social objectives': repaying the foreign debt, raising incomes in the agricultural sector (stemming the outflow of population from the countryside), expanding employment (especially for women) in public services, and maintaining employment in decentralized manufacturing industry. If other OECD countries had displayed such a solidarity, 'unemployment would no longer be a significant problem for most of them' (Rowthorn & Glyn 1987, 41).

The 'flexible-adjustment story' focuses on deep-seated corporatism and on 'the legacy of state structures' (Skocpol 1986). The emphasis is on the interplay between large social organizations and bureaucracy. Such analyses tend to leave out both the Parliament with its party system and structural specificities of the economy. While the story above is very much a view from abroad, a number of intellectual cadres in the Norwegian elites are seemingly captured by a feeling of decay. Their story is that of 'paralysing rigidities'.

In 1973, an assistant director of the Bank of Norway, Hermod Skånland, proposed a far-reaching systematization of incomes-policy collaboration, but the large organizations would not accept such a formalized 'corporatist' scheme. This failure to systematize and strengthen Norwegian corporatism made Skånland present pessimistic prophecies about Norway's future. He compared King Olav's Norway with King Phillip II's Spain. Both countries received 'wealth with little effort on their own': Spain plundered Latin America for gold and other precious metals, Norway suddenly had oil blowing out from oil-wells in the North sea. In the case of Spain, the long-term effect was a catastrophic deterioration in the domestic economy. Using the oil revenues as they flowed into the Treasury would cause a similar decline in the case of Norway. The best scenario would be if the Norwegians had avoided the use of oil revenues altogether, investing them abroad instead (Skånland 1981, 47ff.).

These parallels were quite inaccurate (Mjøset 1986a). Skånland, like many powerful figures before him, invented history to make a point about the contemporary situation. He argued that the three basic goals of Norwegian economic policies have been full employment, an egalitarian distribution of income and the right to free negotiations. He saw the use of oil revenues in the inflationary setting of the 1970s, as a consequence of the illusion that all three objectives could be satisfied simultaneously. This would spur inflation, increase costs and cause a further deterioration in industrial competitiveness. Skånland implied that corporatism in Norway had been too weak, and proposed to do away with the right to free negotiations in order to maintain the two other goals.

Perhaps social science – at least in its popularized versions – can never avoid story-telling- But as an alternative to more or less sophisticated parallels to the distant past, we shall try to put the problems of the 1970s and 1980s into a historical perspective by relating the notion of flexibility to the rigidities developed during the preceding 'Golden Age' of the 1950s and 1960s.

New Flexibilities

Flexibility is one of those general slogans that can seemingly be given whatever content an author wishes. However, one group of interpretations must be doubted on fundamental grounds: these definitions equate flexibility with the perfectly competitive market mechanism of neoclassical economics. This theory is devoid of any notion of institutions. If such a theory is directly applied to real-world problems, the conclusion is bound to be that all institutions are non-flexible, inert forces. The view taken here is contrary to this: the free market is not capable of stabilizing itself. Institutions stabilize expectations, so although some of them may develop into inert forces, they are just as much needed to create a framework for flexibility. The world of the free market, devoid of institutions, is not flexible, but static. Flexibility is never achieved without institutions.

The two stories above may be told as stories of flexibility. According to Rowthorn & Glyn, Norway's corporatist consensus policies give the country flexibility in the sense that the full employment goal can be realized even in a very troubled economic situation. But according to the sceptical view, such 'macro-flexibility' may impede microeconomic flexibility. Often, this judgement alludes to microeconomic efficiency in the neoclassical sense, but this line of reasoning is closed to us. Instead, we propose to analyse rigidity and flexibility as properties of the existing institutional framework related to contemporary processes of institutional and technological change. Thus, in our discussion of flexibility, we shall apply a typology of the main institutions involved in the political economy of a modern Western country.[2] We discuss flexibility in relation to technological change and the relation between firms, in relation to the wage nexus, in relation to finance and finally in relation to the sphere of political institutions.

As for technological change, the Golden Age was marked by the 'mass-production paradigm' (Freeman & Perez 1984, 1988; Freeman 1987), based on technologies and methods of work organization first developed in the US automobile industry. Since the 1970s, however, many other countries besides the USA (and Japan in particular) rank as sources of new technologies. A global restructuring race is going on between all developed states. They struggle to promote industrial activities employing the most recent core technologies. These technologies are the 'core' of a new techno-economic paradigm, which means that they generate a large number of new products and production processes, they are applicable in most sectors of the economy and they promise to overcome the obstacles created by the earlier 'Fordist' model of economic growth (Perez 1983).

The Golden-Age technological paradigm depended on crude oil as a cheap input and a system of highways and air-traffic routes boosting communications. Since the 1970s, the contours of a new paradigm have become visible: in the era of microelectronics, chips (semiconductors) are the cheap inputs, and telecommunications networks constitute the 'nervous system' of the new 'information society'.

Flexibility is often associated with this new paradigm: chips replace complex mechanical systems, repairs become easier as one only needs to replace modules, and automated capital equipment is reprogrammable. (For a full survey, see Van Tulder & Junne 1988.) According to Piore & Sabel (1984), the crisis of the 1970s broke the spell of the mass-production system. This 'second industrial divide' promises a future of decentralized and flexible specialization. Rather than huge, inert assemblies of special machinery capable of producing large series of one product, the factory uses reprogrammable robots, CAD/CAM and feedbacks (through telecommunications) of market information, producing smaller series, adjusting very rapidly to market signals.

Both small and large states take part in the restructuring race. Katzenstein has argued that small, West European states have developed a particular system of 'democratic corporatism' which enables them to adapt flexibly to the imperatives of openness and international competition. His analysis relates mainly to industrial policies, and is thus relevant to the analysis of relations between firms. But as noted elsewhere (Mjøset 1986a), his approach does not differentiate between periods. It may be that the flexibility of small, high-income states was limited to the stable 'Golden Age' of the 1950s and 1960s. (This is one way to interpret the pessimistic story reported above.) During that time, all European firms benefited from a 'follower strategy', imitating products and innovations which had already proven successful, thus spending less on research and development (R&D) than the pioneer (US) firms. Since the 1970s, such a strategy has become more risky. Production technology is no longer standardized and stable. International competition is fiercer, growth of demand is sluggish and the dangers of tariff protection are ever-present. Thus, companies cannot wait too long to apply new technologies. These developments shorten the life-cycle of products considerably. When the life cycle was longer, a follower could be sure to offer a cheaper similar product somewhat later, but with shorter life-cycles, the technology gap may develop cumulatively: when the imitated product is there, the leader has already developed a new one.[3]

As for the wage nexus, an increasing share of the labour force became wage earners throughout the Golden Age. Their income was determined by collective agreements, which also implied bargaining over working time and working conditions. Wages became indexed to productivity. As economic problems multiplied in the 1970s and 1980s, these institutional arrangements were increasingly accused of hampering flexibility. As noted above, a main theme in the pessimistic view was the abolition of free bargaining in recent debates, flexibility of the wage relation has been associated with work-group organization, more flexible wage contracts and the reduction of social and fiscal payments added to wage costs by the interventionist state (Boyer 1988, 223ff.).

In the realm of money and finance, a number of structural changes have taken place which may all seem to be enhancing flexibility. There was a change from fixed to 'flexible' exchange rates in the early 1970s. Furthermore, short-term capital movements have increased enormously, a feature which would increase the flexibility of banks since the offshore currency markets are inter-bank markets. In these new internationalized money markets, regulation and state intervention is minimized, since currencies are traded outside their country of origin (cf. the term 'Eurodollar-market'). These international developments have spurred financial deregulation at the national level. However, the evaluations of these changes by economists differ. A group of 'financial-instability' theorists claims that these trends have increased uncertainty, thus spurring a wave of financial innovations and short-term capital movements just to hedge against this uncertainty. They also claim that these capital movements significantly restrain the freedom of action of national economic policies (Strange 1986; Scharpf 1987).

The above discussion of techno-economic flexibility, flexibility in the relation between firms, in the wage relation and in the financial sphere, refers to ongoing processes of institutional change. These processes have decisively influenced the West European states. The trend in economic policies has everywhere been towards liberalization and deregulation. But it is clear that the way in which a country adapts to international influences depends on a number of factors which do not stem from international diffusion: these are both geo-economic factors and institutional factors pertaining to the constitutional history and the party system of the country under consideration. As for the latter, even Katzenstein (1985, 37, 133ff.) admits that

> International factors affect political strategies and outcomes only indirectly: they are funneled through domestic structures that are shaped by different histories and embody different political possibilities (. . .) International factors have not determined political strategies and domestic structures. Rather, while external events induced convergence, internal events drive countries to different responses.

To deal with these factors, we must return to specific Norwegian developments.

Norway's Macro-flexibility

We have presented a typology of new flexibilities developing as the post-war Golden Age was troubled by crisis after 1973–74. When Rowthorn & Glyn and Katzenstein find that the macro-flexibility of democratic corporatism is characteristic of the Norwegian situation, however, they refer to a constellation which has its roots in the 1930s and which prevailed during the Golden Age. The conditions for this flexibility has been thoroughly analysed by social scientists: a strong and unified labour movement, a divided right side in parliamentary politics, a class compromise pattern between employers and centralized trade unions (Castles 1978). According to Katzenstein (1985, 80), economic openness reinforces corporatist arrangements:

> an ideology of social partnership, a centralized and concentrated system of economic interest groups, and an uninterrupted process of bargaining among all of the major political actors across different sectors of policy.

For Katzenstein, this constellation secures effective industrial policies. Thus, Norway should, even after 1973, be able to adapt to new technologies and manage the shifting relations between firms. Rowthorn & Glyn focus on the wage relation and claims that the centralized trade-union movement

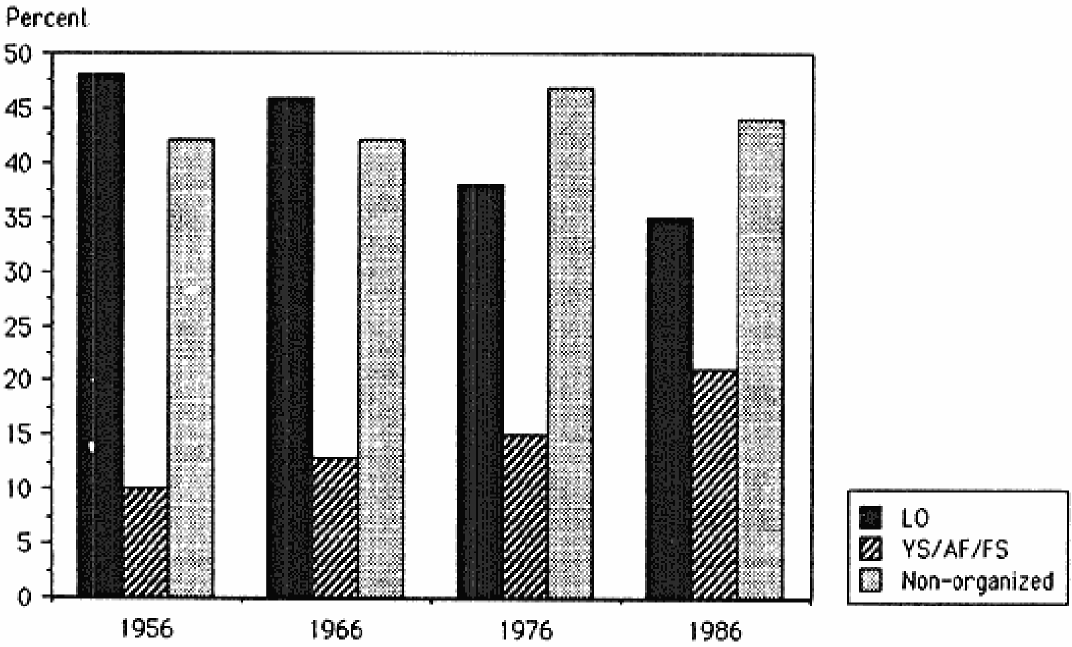

Fig. 1. Labour-Market Organizations. *Note*: Percentages of total number of wage earners. Before 1976, only FS, which are autonomous unions outside the LO. For YS and AF, see text. *Source*: Arvid Fennefoss, *Lønnstaker-organisering*. Oslo: FAFO 1988, Table 2.8.

is able to maintain a bargain in which responsible wage claims are exchanged for full employment. The new flexibility in international finance is not dealt with.

In sum, the claim is that Norway's macro-flexibility should be able to cope with the challenges posed by the new flexibilities. The more pessimistic view, represented by the Director of the Bank of Norway, on the other hand, held that the Norwegian adjustment potential would wither away if more firm state action were not taken in incomes policies. Before we discuss Norwegian economic-policy adjustments during recent decades in the light of these questions, we must investigate whether the above-mentioned conditions for Norwegian macro-flexibility are still intact. In two respects they seem to be weaker than before. First, there is a tendential erosion of LO's dominant position as a wage-earners' organization in Norway. Secondly, changes in the party structure tend to reduce the consensus concerning corporatist arrangements.

Analysis of Norwegian corporatism have mostly focused on the dominant position of LO. But as Fig. 1 shows, the importance of non-LO organizations has increased, particularly through the 1980s. At the same time, the relative importance of unorganized wage earners has increased. Such trends are visible in most countries, but here we are interested in their particular structure and timing in Norway.

The organizational map of Norway looks roughly as follows. Total unionization has been in the range 55–60 percent throughout recent decades. Membership in LO (excluding pensioner members) has been in relative decline since the 1950s (Bain & Price 1980, 158ff.). Unions outside the LO, most of them organizing new middle classes, have grown in importance. In 1976 and 1977 a number of these outsider unions organized in two new central organizations: AF (*Akademikerforbundet* – the central association of academics, comparable to SACO/SR in Sweden), and YS (*Yrkesorganisasjonenes sammenslutning* – the central association of craft organizations, comparable to TCO in Sweden). The latter organization competes for the same low- and medium-wage strata as LO, and emerged as a protest against LO's explicit socialist bias (a paragraph which was then quickly modified in 1981). In addition, free-floating unions of considerable importance remain, like the unions for teachers, health personnel, police and supervisors. These white-collar associations organize about 400,000 wage earners. As of 1986, the distribution of organized wage earners was 62 percent in LO, 12 percent in YS, 11 percent in AF and 15 percent in the remaining unions (FS). The central organizations are important members of 'Regjeringens kontaktutvalg' (The government's contact committee), a forum for information and discussions on incomes-policy solutions.

Turning to the parliamentary system, this system has since the war been characterized by a homogeneous social democratic bloc (since 1949 basically Labour (DNA) alone, and after 1961 also a small socialist party) and a fragmented non-socialist side (The Conservatives (Høyre) and the so-called middle parties: Liberals, Christians and Agrarians). Before 1973, the socialist side was always able to win more than 50 percent of the vote. After 1973, this changed, and there was growing support for the Conservative Party (Høyre), which took up some neoliberal themes. In addition, however, a new neoliberal, tax-revolt party (Progress Party (FRP)) cropped up, and mobilized increasing support, especially in the mid-1980s. The relative weakening of the socialist side and the growth of the two most right-wing parties have been termed a 'blue wave' ('Høyrebølgen', literally a 'Right wave' – we may even say there was a blue wave in the late 1970s and a dark-blue wave in the late 1980s).

In the blue wave, the notion of flexibility has been integrated into a neoliberal discourse. This discourse reiterates the old liberal critique of mercantilism, now against 'neomercantilism' (or corporatism), the 'oligopolization' of civil society by a few large organizations collaborating with a strong, rigid, uncontrollable Kafkaesque bureaucracy. Since this liberalism exists in a 'mature', general-suffrage democracy, it must also be linked to the dominant life-style patterns which developed in Western Europe through the post-war period. This mass consumption life-style was the 'demand side' of the Fordist mass production complex with its productivity-indexed wages. Somewhat allegorically, this neoliberalism may be seen as private consumption criticizing the collective consumption of the welfare state in an era marked by fiscal problems which tended to increase the tax burden (Mjøset 1986b, Ch. 4.2). It opposes the 'abuse' of democratic rights for redistribution purposes. The neoliberal blue wave promises increasing flexibilization with respect to working hours, opening hours, access to international media, etc. It also promises a law-and-order state, tempting for young comformists and even attractive for fearful old citizens in the large cities. In sum, also the ideology of flexibility must be related to the problems of the preceding socioeconomic period.

There have been different interpretations of the blue wave in Norwegian politics. One refers to general modernization, secularization and welfare-state consensus, arguing that the trend is towards two catch-all parties: Labour (DNA) and the Conservatives (Høyre) (Kuhnle et al. 1986). At the other extreme is the attempt by Gjølberg (1981) to prove that the blue wave is just the expression of a permanent element of egoistic materialism on the part of the voters. Drawing a key scheme of Norwegian post-war political business cycles, he finds that the growth of private consumption plus gross housing investments always peaks in years of successful elections for the incumbent party(ies). This 'golden rule' is valid for Labour (DNA) (1949, 1953, 1957, 1961, 1977) and for the non-socialist bloc in 1969. When Labour (DNA) lost in 1965, the growth of the consumption/housing-indicator was 3.8 in 1964, but only 3.5 in 1965 (Gjølberg 1981).

The 1973 election is left out, due to special circumstances connected to the referendum on EC membership, but the 1965 case illustrates the reductionism of Gjølberg's approach. The basic claim is that a large number of voters turned down Labour (DNA) (the incumbent party) because the growth rate of the private consumption/housing-investment indicator changed by 0.3 percent! Gjølberg could add that the level was also quite low (3.5), but in 1957, Labour (DNA) won with the indicator growing at less than 3.5, according to his figures. The substantial point in Gjølberg's discussion is that a government *can* influence the growth of private consumption and housing investments. In the 1950s and 1960s, this was possible through direct intervention in wage settlements, various subsidies, direct rationing, granting of building allowances, rationing of inputs in the building sector and regulation of the credit volume of the State-bank for Housing. On the other hand, however, there are many factors outside of government reach which also influence private consumption: international cycles, wage drift, savings behaviour, etc. But above all, there are classes and groups in society and patterns of income distribution between them. Theoretically, one could easily imagine a growth of private consumption which was skewed towards upper-middle-classes and high-income groups with a low inclination to vote for Labour (DNA).[4] Although too reductionist in its present version, Gjølberg's approach may be turned into a more sophisticated analysis if a more thorough account of Norwegian wage and income settlements is added. Below, we shall sketch such an explanation of the blue wave.

At this point we can return to the question of how the Norwegian macro-flexibility, inherited from the Golden Age, was able to secure adjustments in the 1970s and 1980s, a period marked by a number of new flexibilities. The analysis is based on a periodization of Norwegian economic-policy adjustment since the early 1970s. Above all, it uses recent history to illuminate the question raised in the two stories told at the start of this article: the extent to which incomes policies indicate continued macro-flexibility or not. In particular, we try to analyse the two 'blue waves' in the light of economic-policy adjustments.

Overshooting and Adjustment, 1973–81

Analysing Norwegian economic policies, the 1970s and the 1980s may be regarded as two phases in the adjustment of the Norwegian political economy to increased external pressure. More specifically, we can distinguish the following five periods between 1974 and 1988:

(I) 1974–78: Counter-cyclical, social-democratic expansionary policies.
(II) 1978–81: Counter-cyclical, social-democratic austerity.
(III) 1982–mid-1983: Pro-cyclical, Conservative austerity policies.
(IV) Mid-1983–1985: Pro-cyclical, bourgeois expansionary policies.
(V) 1986 and onwards: Second phase of social-democratic austerity (counter-cyclical 1986–87, pro-cyclical 1988–89).

In a sense, periods I/II and IV/V form pairs. Periods I and IV are periods of over-expansion both of which had to be countered by austerity. Referring to this periodization, we can state our main hypothesis concerning the relation between macroeconomic adjustment (incomes policies in particular) and the two blue waves: During the two austerity periods corporatist 'flexibility' in economic policies has been pushed very far by government and bureaucracy. As a response, the neoliberal ideology of flexibility, as reflected in the monthly polls, seems to get more popular. Each of the periods II and V has its own blue wave.

To trace the general external economic conditions, Fig. 2 presents a stylized picture of cyclical fluctuations in Western European industrial production. This is usually a 3–4-year cycle, but the slump from late 1980

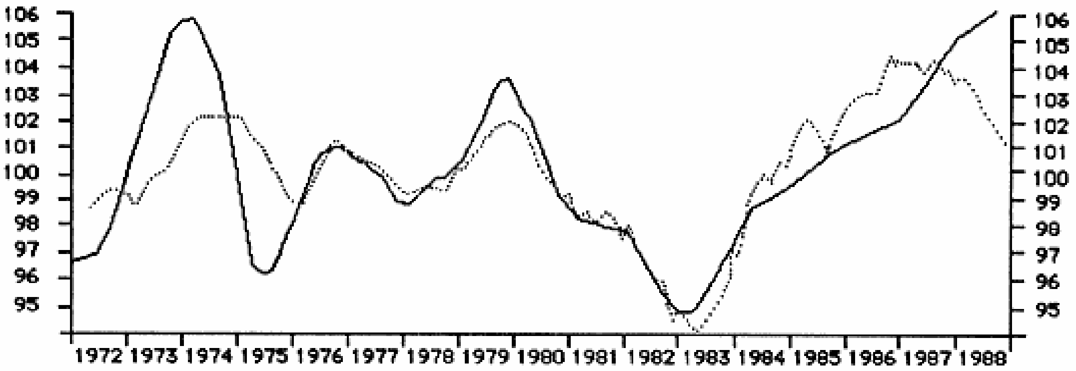

Fig. 2. Industrial Production. Western Europe and Norway. *Note*: Cycles around the trend line. Unbroken line: Western Europe. Dotted line: Norway. 1980 = 100. *Source*: Central Bureau of Statistics.

to early 1985 was particular persistent, due to austerity policies in all countries.[5]

The trend line of these fluctuations displayed much lower growth – and the deviations from the trend were much larger – than what decision-makers were used to from the Golden Age of the 1960s (Mjøset 1986b, 328). This caused a much fiercer struggle for market shares and was at the root of some of the difficulties of Norway's export industries. Other changes in the external environment, however, were much more decisive for the small Norwegian economy (Mjøset 1987, 428–431). As is already clear from the discussion above, this related to the emergence of oil and gas – the petroleum sector – as a new dominant export sector. Fig. 3 synthesizes some salient data on Norway's oil adventure.

The two peaks of the oil-price curve are of course OPEC I in 1974–75 and OPEC II in 1979–80. The coming of flexible exchange rates first worked to the disadvantage of Norway, since the dollar depreciated relative to the Norwegian currency until 1975, then remained about constant and depreciated further until 1980. Appreciation was a main reason why Norway's inflation rate was below the average of 'OECD – Europe' throughout the 1970s (cf. Fig. 4). Then, however, the dollar went from about NOK 5 to NOK 8.50 in 5 years. The third line shows direct and indirect taxes as a percentage of GNP, a ratio hovering between 8 and 10 percent from 1979 until 1985, then declining to about 6 percent in 1986, and further to below 4 percent in 1988.

Studying the growth rates of private consumption, we can trace two 'consumption booms', located in periods I and III. The first one in particular was spurred by negative real interest rates (Fig. 5) and generous incomes-policy settlements. There was even uncertainty in the planning bureaucracy as to what the growth of private consumption would be.[6] In retrospect,

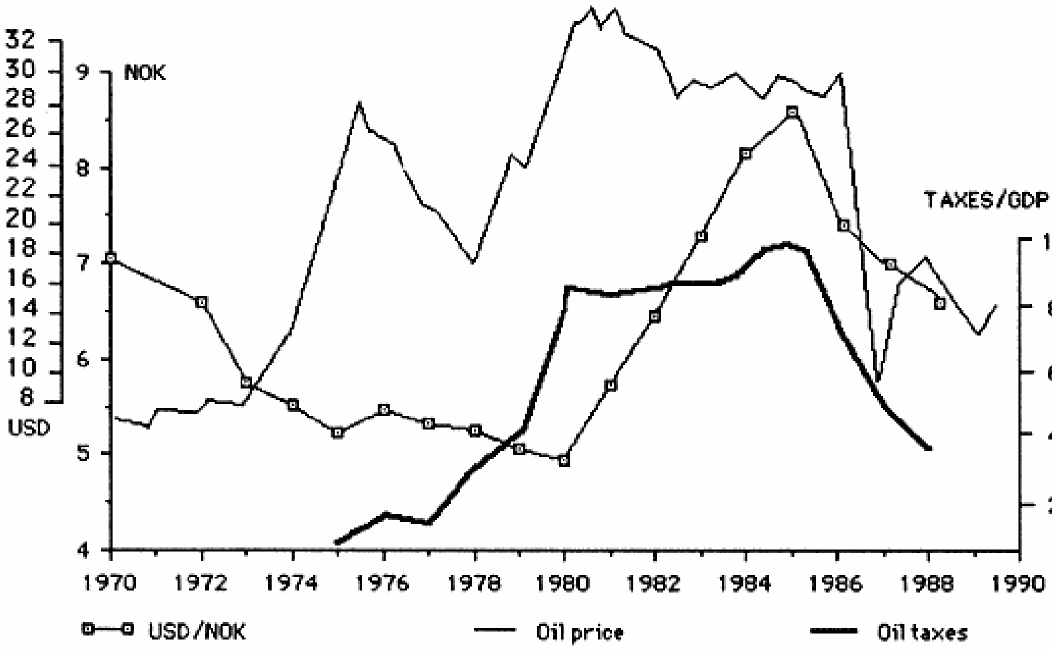

Fig. 3. The Norwegian Oil Adventure. *Note*: Line with points: USD exchange rate in Norwegian Kroner (NOK), yearly averages. Thin line: Oil price, 1982-USD per barrel. This graph is stylized, it roughly indicates the movements through the years, whereas the other two graphs are yearly averages. Thick line: Direct and indirect taxes to government from oil/gas activity. Percent of GDP. *Sources*: OECD, *Economic Outlook* 45, June 1989, Table R 21 (exchange rates); Jostein Aarrestad, *Oljen og norsk økonomi*, Oslo 1984 (oil price until 1982); *Økonomiske Analyser*, Oslo: SSB, 1/1989, 14 (spot price of North Sea oil (Brent Blend), 1983–88); *Økonomiske Analyser*, Oslo: SSB, 2/1988 (oil taxes), updated from *Økonomiske Analyser* 1/1987 and 1/1989.

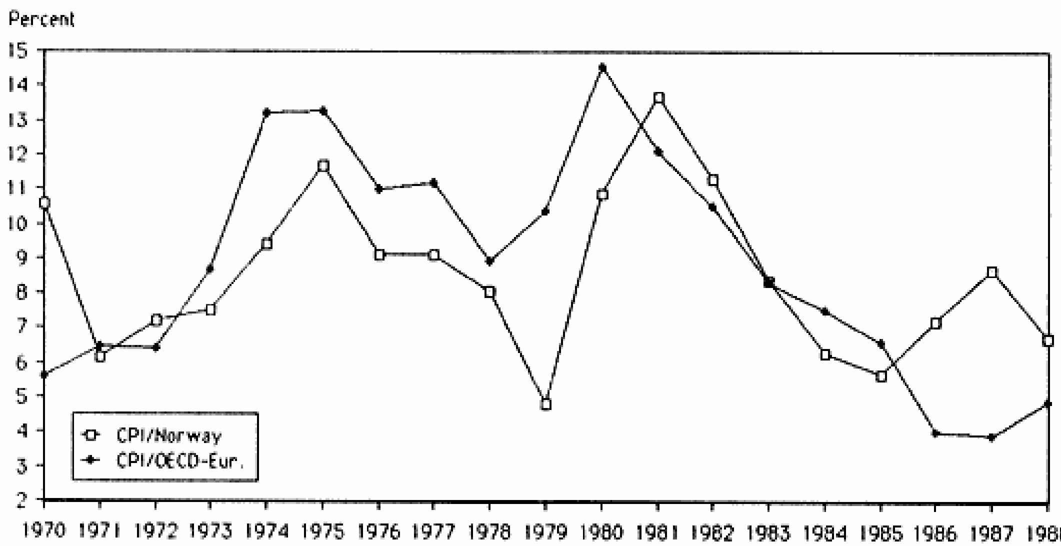

Fig. 4. Inflation. Consumer Price Index. *Source*: OECD, *Economic Outlook*.

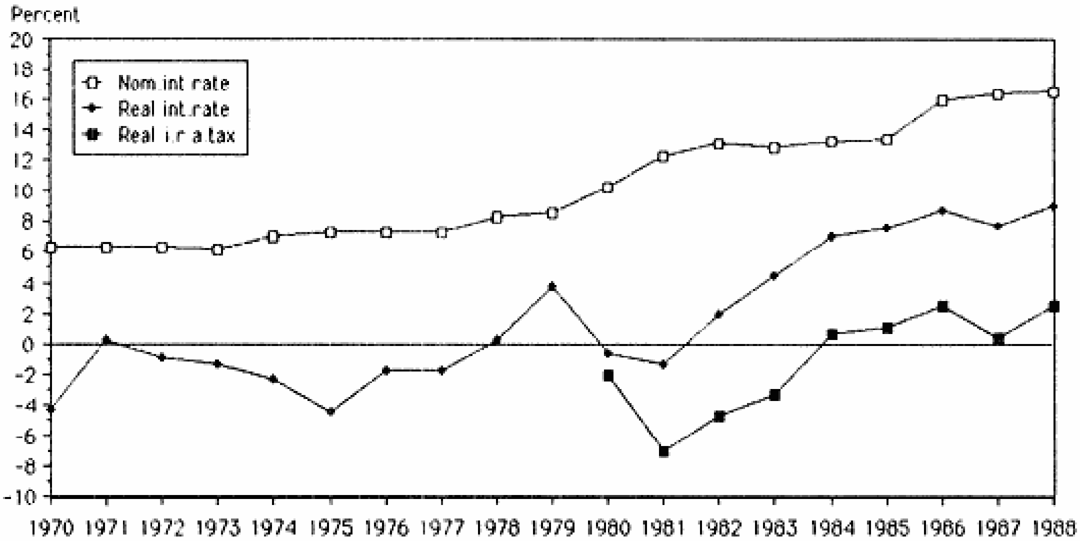

Fig. 5. Interest Rates. *Source*: OECD, *Historical Statistics* 1961–1983; IMF, *Financial Statistics*. Figures for the post-tax real interest rate are calculated from average marginal tax which applies to interest payments, *Penger og kreditt* 1/1989, 9.

economic policies were over-expansive. In particular, labour markets became very tight (North Sea investments contributed to the hothouse climate) and this spurred inflation and stronger wage drift. At the same time, counter-cyclical measures were implemented, due to the belief that a new upturn, as strong as in the Golden Age, would soon ensue. Local-government employment grew very strongly and inventory accumulation was supported. Unemployment grew above the 2-percent mark in only one year (1975) during the 1970s (Fig. 9). There were even some active labour-market policy measures, but it seems that the other expansive measures were more important in the defence of full employment. In the 1980s, as we shall see, labour-market policies became much more important.

The economic policies of the phase, with very generous incomes policies and huge transfers to farmers, must be understood on the basis of the stride on Norwegian EC membership in the early 1970s (Mjøset 1986b, 203; Fagerberg et al. 1990).

The increased problems of macroeconomic management since the 1970s, only give rise to one adjustment in Gjølberg's (1981) model. In the 1970s, he argues, unemployment again became a matter of concern for the voters and notes that the support for Labour (DNA) increases with the reduction of unemployment. His indicator shows strong growth of private consumption/gross housing investments, as well as strong growth of real wages, leading to Labour (DNA)'s relatively successful election in 1977.

Turning then to the development of the blue wave over the period 1977–81, he simply notes that the support for Labour (DNA) declines as

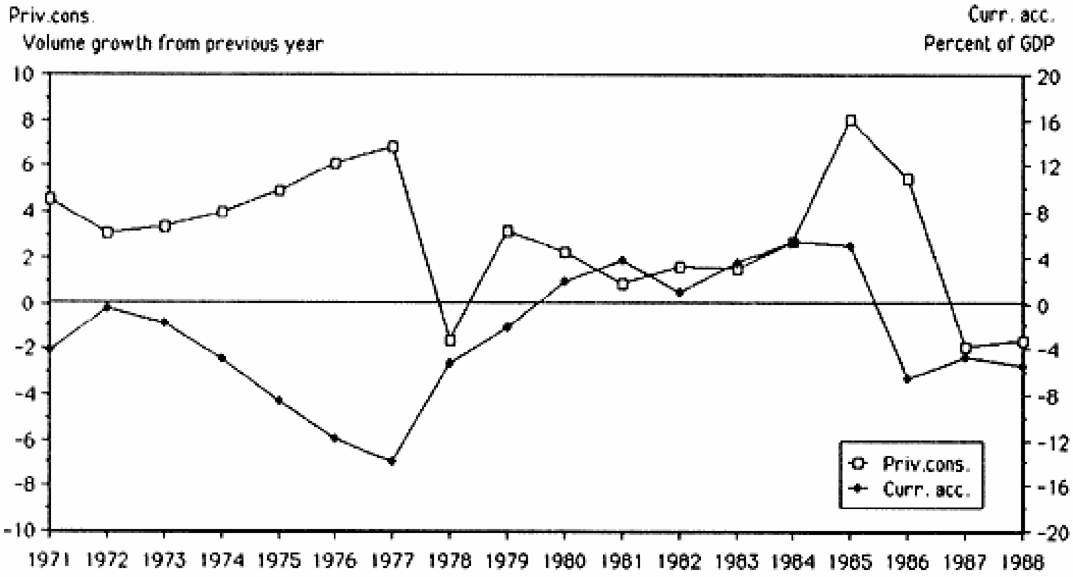

Fig. 6. Growth of Private Consumption and Current-Account Balance. *Source*: Private consumption: Central Bureau of Statistics, *Økonomisk Utsyn*, various years; Current-account balance: OECD, *Economic Outlook* 42, Dec. 1987.

unemployment grows (but unemployment averages were in the range between 1.5 and 2.0 for the whole period 1977–81, while it had been 2.3 in 1975; cf. Fig. 9) and that support for the Conservatives (Høyre) grew as real wage growth went negative (1978: −0.2, 1979: −1.9, 1980: −1.4 and 1981: −3.1). Using monthly data, he finds that between 1974 and 1980, real wage growth explains nearly 90 percent of the variation of Conservative support. Hence, Gjølberg (1981, 231) argues that as an opposition party the Conservative Party (Høyre)

> appeals to people's material interests in a negative sense. If they are not content with the development of real wages, they support the Conservatives (Høyre), most likely with a more or less ideological argument.

It is however doubtful whether most people scrutinize the month-to-month development of their real wages. Alternatively, we shall assume that many voters may react to ongoing negotiations which will supposedly have a great impact on their personal or household finances. The blue waves of the late 1970s and of the late 1980s must therefore be understood in relation to Labour (DNA)'s attempts to adjust economic policies. In particular, incomes policies seem decisive. Period II (1978–81) was marked by Labour (DNA)'s attempts to revise its economic-policy routines. After the election of September 1977, Labour (DNA) began to accept the criticism directed against its counter-cyclical policies. The revisions pointed towards increasing direct regulations. The first and quickest measure was

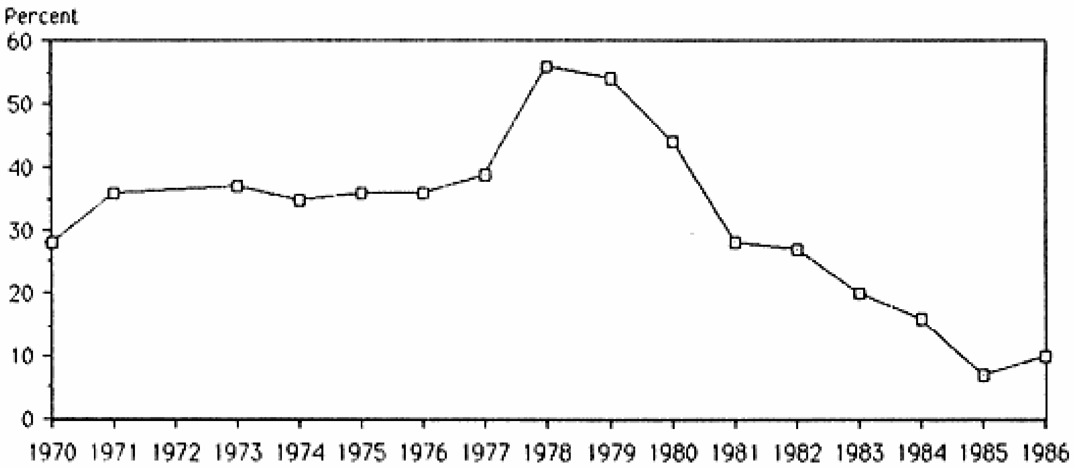

Fig. 7. The Share of State Banks in Total Credits. *Source*: Central Bureau of Statistics, *Historisk Statistikk*, and *Statistisk Årbok*, various years.

to increase the interest rate, as can be seen in Fig. 5. This had a peculiar effect on the credit system, since it increased the liquidity of the state banks, whose share of total credit supply exploded (Fig. 7).

This growing impact of the state banks was not really a conscious policy, but in any case, direct regulations of the credit market increased. A wage- and price-freeze was implemented from 13 September 1978 (lasting until January 1980). During period I, the tripartite 'combined negotiations' in incomes policies had secured rapid wage growth (NOU 1988:21, 102). In addition, there was wage drift at the local level in manufacturing industry (reflecting the link to productivity at the plant level), so the overall result was high real wage gains. As a consequence, there was an unfavourable development of relative wages for wage earners in sectors outside manufacturing industry (especially in the state), where wage drift plays no great role (Høgsnes & Hanisch 1988). The wage/price freeze of 1978–79 restrained both wage drift and centrally bargained wage increases.

Both the wage freeze and new restrictions on independent housing co-operatives implied more direct interventions (Fagerberg et al. 1990). Some of these regulations were attacked both by business interests and by non-socialist politicians. The Norwegian Employers' Association presented harsh criticisms against Labour (DNA)'s defensive industrial policies, although these expenditures were about to be reduced. Members of independent housing co-operatives were frustrated by the price regulations. Business interests and banks attacked intervention in the financial system. The problem of long-term economic stagnation placed the focus on competitiveness of the export industries. The Conservative Party (Høyre) was ready to synthesize all these points, and was quite successful in blaming the problems on Labour (DNA)'s interventionist policies. There was even talk of a radicalization of Labour (DNA) and irresponsible spending of oil incomes in connection with work-environment reforms and similar post-EC-referendum legislation. In other words, the criticism focused on the problems encountered as Labour (DNA) tried to adjust in an era of new external and internal conditions. The changing pattern of party support was not simply a materialist response by citizens now exposed to austerity, it reflected the ideological victory of the Conservative Party (Høyre) in the debates on economic policies.

The effects of the policy changes from periods I to II are visible in the development of the current account (Fig. 6), with an OECD record deficit (in percent of GDP) in 1976 and 1977. The large deficit was not just caused by counter-cyclical policies. Enormous oil investments in the North Sea also played a major role. The deficit was not unexpected, but its size was. Labour (DNA) used the rising oil incomes from 1978 onwards to repay the debt, bringing the current account to a respectable surplus in 1979–81, as Fig. 6 shows.

The Conservative (Høyre) electoral gains (from 17.4 percent and 29 seats in 1973 to 31 percent and 54 seats) in 1981 represent the largest gains made by any party since the ascent of Labour (DNA) in the 1920s. The Conservative Party (Høyre) increased its share of the vote in *all* occupational groups in the 1970s, becoming the second largest working-class party. Whereas only 6 percent of LO members supported the party in 1972, as many as 20 percent did so in 1980 (Kuhnle et al. 1986). The growth in conservative support at the polls was not a gradual process, but took place mainly in two periods (Fig. 8): around the election of 1977 (from about 23 to 27 percent), and around New Year 1979. At one point, in December 1980, the Conservatives (Høyre) challenged Labour (DNA) as the largest Norwegian party in the polls, but was not able to maintain this position. Some important controversies on economic policies are actually concentrated in these two periods.

The first upturn in support for the Conservatives (Høyre) occurred in the second half of 1977, as the general criticism against Labour (DNA) flourished in the election campaign. The next surge of Conservative triumph at the polls brought the party from 28 percent in November 1978 to an all-time high of about 34 percent in March 1979, that is through the first half of the wage freeze (effective from 13 September 1978). Then Conservative support again declined, but grew again as the elections approached in the second half of 1981. Throughout this period, Labour (DNA) had revised its party programme, presenting itself in more 'social-liberal' clothes, supporting, for instance, schemes for deregulation of the financial system. Once again, however, this only benefited the Conservatives (Høyre), who

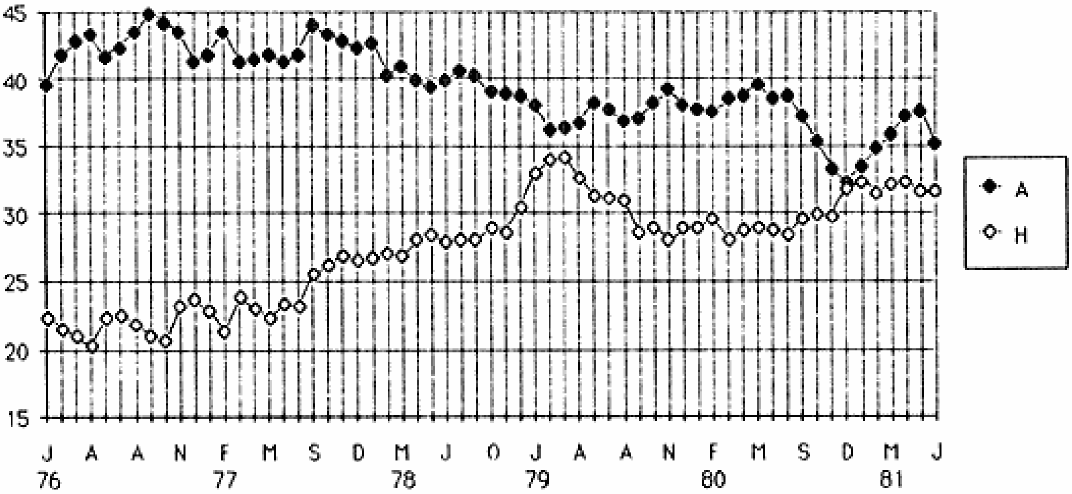

Fig. 8. The Conservatives and Labour. Poll Results 1976–81. *Note*: H – Conservatives; A – Labour. Starting January 1976: Norges Markedsdata; Starting December 1976: Meningsmålings-instituttet; Starting May 1977: Norges Opinions-Institutt. Since December 1976: average of NMD and MMI. Since May 1977: average of all three. *Source*: Knut Heidar, *Norske Politiske Fakta 1884–1982*, Oslo 1983, Table 5.3.

could now emphasize that Labour (DNA) was converging with most Conservative principles.

With Gjølberg's correlation between private-consumption growth and support for the incumbent party in mind, one may ask why Labour (DNA) was not willing to expand the economy more. After all, a new upturn was on its way. Industrial production picked up in Western Europe (Fig. 2), and both the oil price and the dollar exchange rate (Fig. 3) were soaring, as were oil incomes. But Labour (DNA) was obviously possessed with the idea of readjusting within a responsible way.

As Norway went into the troubled 1970s, both governments and bureaucracy were familiar with a set of established routines for economic policies. The experience of the 1970s proved that these routines were no longer as effective as before: counter-cyclical policies caused deficits that were too large, a monetary policy of low interest rates caused negative real interest rates and booming private consumption, attempts to maintain a quasi-fixed exchange rate within the 'snake' caused appreciation and loss of competitiveness, and responsibility in incomes policies resulted in under- and overshooting measured against the 'wage corridor' in the Norwegian version of the Scandinavian inflation model. In their attempts to regain control, Labour (DNA) had to impose direct regulations: state banks dominated credit supply and upwards pressure on prices in the housing market was contained by law.

We may regard the whole 6-year period as a cycle in which the flexibility of Norwegian democratic corporatism was somewhat misadjusted. First, there was overshooting, then later, measures of direct control had to be implemented. We have shown that this was partly an effect of the surprising turn to a slower growth pace under new international conditions. The Norwegian economic-policy makers misinterpreted the situation. The overshooting phase gained Labour (DNA) a victory, but the direct regulation of the austerity phase helped provoke the blue wave. A comparable sequence followed in the 1980s.

Conservative Economic Policies and Labour Austerity, 1981–89

The 1981 Conservative government continued the austerity, but was eager to do away with regulation. There was wide-ranging deregulation of the financial system and of the housing markets (Fagerberg et al. 1990). This is a major difference between periods I/II and III/IV: the first implied a continued reliance on the economic-policy routines established during the 'Golden Age' period of the 1960s, but under quite different and unfamiliar external and internal conditions, while the latter implied *one way* – politically influenced by neoliberal ideas – of changing these routines.

Compared to the 1973–77 consumption boom, the 1981–85 period shows a more classical 'political business cycle' pattern. There were deliberate restrictive policies through the 1981–83 period, procyclical since the international cycles were pointing downwards (Fig. 2). These policies in 1981–83 made the economic downturn even worse. During the international downturn of 1974–76, oil investments and counter-cyclical policies created solid GDP growth (5.2, 4.2 and 6.8 percent respectively), while in 1981–82, there was barely growth at all (0.9, 0.3 per cent). This weakened confidence in the Conservative government. A new three-party bourgeois coalition government (1983–86) then staged a new consumption boom. GDP grew by 4.6, 5.7 and 5.4 per cent, only falling to 4.4 in 1986. Policies were still procyclical as these years heralded the beginning of a new upturn (Fig. 2).

Whereas in the 1970s, the unemployment rate had only been above 2 percent for one year (1975: 2.25 percent), it was now above 3 percent both in 1983 and 1984. Fig. 9 shows that even the Bourgeois coalition government applied Swedish-type active labour-market policies to keep somewhat less than 2 percent of the labour force in reschooling or other kinds of activities designed to improve their ability to find a new job.

The year 1985 had even higher growth of private consumption than 1976 (Fig. 6). This consumption boom was largely credit-financed, with the banks competing to lend funds, inexperienced within the new environment created by Conservative deregulation of the financial system. Although the high nominal interest-rates moved the real interest rate to a positive position from 1982 and onwards, the post-tax real interest rate – at least as it has been calculated by the Bank of Norway – remained negative until 1984 (Fig. 5). In 1985–86 there was actually dissaving, as the savings rate was −2.8 (1985) and −7.2 (1986) percent of disposable income. Between 1976 and 1977, the savings rate was positive, but fell by 1.3 percent to 4.8 percent (NOU 1988: 21, 73). At that time, however the households' share of total disposable income increased strongly, while in 1985–86 it remained constant. Thus, in 1976–77, the problem was a squeeze on income disposable for accumulation; in 1985–86, the problem was dissaving.

Towards the end of the 1983–86 boom, the external conditions (oil price, dollar exchange-rate) deteriorated significantly (Fig. 3). With a new and more difficult parliamentary situation after the 1985 election it took 6 months of desperate efforts to cope with the new crisis before non-socialist splits paved the way (in May 1986) for a new Labour (DNA) government. In June 1987, the three large non-socialist parties – after 6 months of wavering negotiations – finally gave up their attempts to bring down this government. Thus, Labour (DNA) governed as a minority thanks to continuing fragmentation within the non-socialist camp.

In period V, just like in 1977–81, Labour (DNA) had to impose austerity. This time Labour (DNA) was to clean up after the excessive heydays of the bourgeois governments. Whereas in 1977, a cluster of established policy routines was still intact, these had now largely been dismantled. Deregulation of financial markets and a squeeze on the state banks left the Labour (DNA) government with fewer instruments of credit and monetary policies than what they disposed of in the late 1970s, as they adjusted from the excesses of the early 1970s consumption boom. The period 1973–81, taken as a whole, was actually a quite successful case of counter-cyclical policy.

The figures indicate that the situation was much graver than in 1977–81. The external constraints were very harsh: the oil price, the dollar exchange-rate and public oil incomes were all down to very low levels (Fig. 3). Hence, the current-account deficit remained at about 5 percent of GNP in 1986–88 (Fig. 6).[7] Internal conditions were also difficult. The labour market remained quite tight. Inflation in 1986 and 1987 proved much higher than the average among Norway's trading partners (Fig. 4). The Labour (DNA) government ventured upon a dual strategy. First, exchange rate and monetary policies tried to manoeuver in relation to the strong external constraint. Secondly, intervention in incomes settlements became even more direct than in 1977–81.

The political turmoil and change of government in the spring of 1986 ended in a Norwegian devaluation of 12 percent (11 May). The NOK had appreciated throughout period I. In 1977–78, there had been large, 'once and for all' devaluations. Throughout periods III and IV, however, the Norwegian authorities conducted several small devaluations in the hope of increasing competitiveness. Probably, actors in the financial markets had begun to expect further devaluations. As the situation deteriorated (Fig. 3), both non-residents and resident financial actors took action. A pressure against the NOK accumulated. This was the first time that the Norwegian economic-policy decision-makers had to cope with the destabilizing influence of the new financial 'flexibility' mentioned above. Foreign investors withdrew their deposits in Norwegian banks, and sold off shares (which they had recently been allowed to acquire). As for resident actors, Norwegian firms of course bought – as they had always been allowed to – a lot of currency (short-term credit) to pay for future imports.

Somewhat later, after the international stock market crash of October 1987, the Norwegian banking community also got to feel the repercussions of internationalization. Many large banks had extended their international operations (dealing in currencies, stocks, etc.) through the 1980s. The international crash struck in a situation where both large and small banks were striving to recover from the domestic-consumption boom years of 1985 and 1986, when deregulation had pushed banks into competitive lending, with quite uncritical risk assessments. They were inexperienced, they later complained, since in the earlier post-war period Norwegian banks had rather been 'offices for rationing'. In early 1988 Norway's biggest bank (*Den Norsk Creditbank*) admitted a loss of 1.5 billion NOK, about 90 percent of its buffer funds.

Following the devaluation of 1986, the interest rate had to be kept high in order to maintain an interest-rate differential that convinced non-residents that their funds could now rest safely in Norway and residents that they need not take their funds abroad.[8] In the 1975–79 period, the large external deficit (Fig. 6) had been financed by central-government borrowing, with no need for a large interest differential between Norwegian and international capital markets. From 1985 onwards, on the other hand, government seems determined to rely on the private sector to finance the current-account deficit. This requires that the central bank keeps the short-term interest rate above the world average. As long as Norwegian economic policies are recognized as 'responsible', a relatively small interest-rate differential will be accepted by foreigners. If there is fear of a new devaluation, the differential must be increased. Thus, Norwegian monetary policies have become a function of Norwegian exchange-rate policies, and the latter serve only to defend the stability of the exchange rate in order to secure the supply of international credit. This type of external constraint is new in Norwegian post-war history.

The new Labour (DNA) government argued that the interest rate would

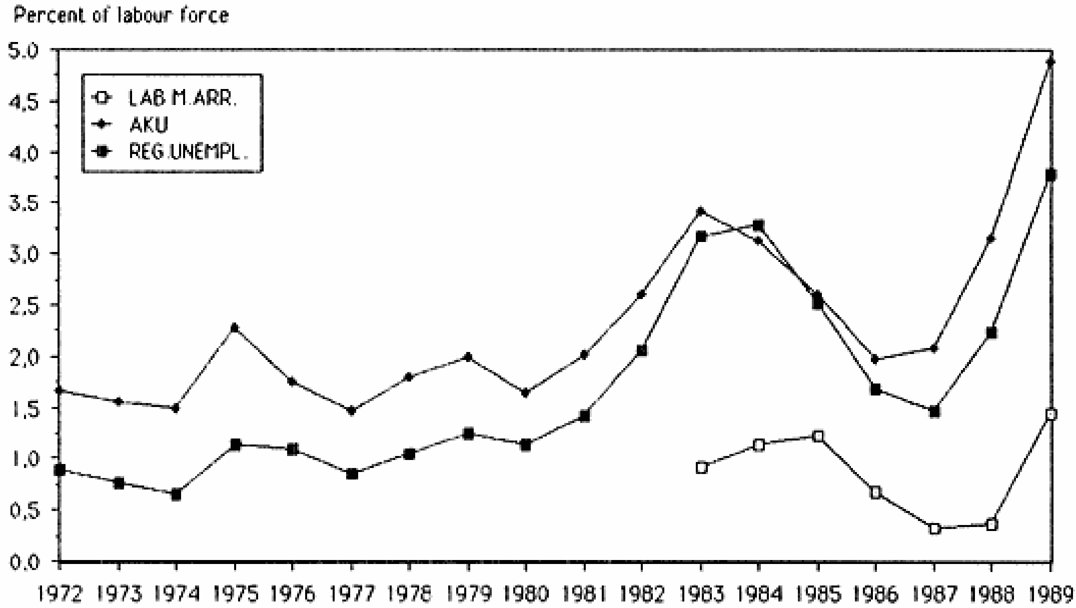

Fig. 9. Unemployment. *Note*: AKU: Non-employed persons seeking work, according to the quarterly Norwegian Labour Force Sample Survey (these series have a break in the first quarter of 1988). – Reg. unemployed: Registered unemployed at the Labour Offices. – Lab.m.arr.: Persons employed by government measures ('active labour market policies'), excluding 'rehabilitation measures'. – 1989: Average of first 6 months. *Source*: Central Bureau of Statistics, *NOS B 703: Labour Market Statistics 1986*, Oslo 1987. Additional data from The Directorate of Labour.

come down as soon as pressure against the Norwegian currency ceased. The fact that this did not happen during 1987 (but as late as in 1989), points to additional domestic reasons for the high interest rate. The government wanted to stabilize the situation after the consumption boom of 1985. It declared an 'emergency' in economic policies and launched a major 'turning operation' (a nicer word for austerity policies). In parliament, the situation was a stalemate one. Unable to get parliamentary backing for a coherent austerity policy, the interest rate is one of the few economic-political instruments that is the sole responsibility of the government and the central bank. The interest rate on central-bank liquidity loans (*dagslån*) was still at 14.7 percent in early 1988, being reduced to 12.6 by the end of the year (*Penger og kreditt* 2/1989, 59). As the banks recovered from years of dramatic losses, they tended to be slow in passing on these reductions to the public.

The high real interest rates probably restricted both investments and the private consumption of the households. The government tried to compensate by a scheme that would provide credit at a somewhat lower interest rate to young newcomers in the housing market.

As for incomes policies, the dismal experience of tripartite solutions caused the governments to take a non-interventionist stance in periods III–IV, as the wage/price freeze was lifted. But the incomes policy settlements of the 1980–86 period (NOU 1988:24, 199, 201; NOU 1988:21, 102) generated the same pattern of wage growth as during period I, except that wage drift was even larger than before, compared to centrally negotiated wage increases (Høgsnes & Hanisch 1988). The incomes-policy settlement of 1986 was a dividing line, sharing some of the responsibility for the fall of the Willoch government in April 1986 (Solli 1986).

The year 1987 was declared as a year of 'emergency incomes policy'. Prime Minister Brundtland declared in February that there should be no general wage increase. Central negotiations decided on a zero-sum wage increase, but local bargaining again favoured private-sector wage earners with strong unions, while employers in the state sector lagged further behind (Høgsnes & Hanisch 1988). Already in October 1987 the national budget presupposed no more than a 5 percent wage increase for 1988.

The next stage of Norwegian incomes policies had to be a wage law. The 'Law regulating incomes and profits' (*Lov om inntekts- og utbytteregulering*) was passed by Parliament in March/April 1988. The basis of this law was an extremely rapid agreement between LO and NAF. In less than 4 days, they arrived at an across-the-board wage increase of 1 NOK per hour, and a general 5 percent ceiling on further increases. Furthermore, the agreement banned local wage negotiations, thus eliminating the problems emerging from wage drift, cutting the wage-growth/productivity link. The centralized structure of LO made it possible for the organization to enforce such an agreement. The NAF also imposed the agreement, threatening its members with fees as high as NOK 3 million, or even expulsion, if the law was not conformed to. The agreement contained some provisions for low-income groups, which were granted somewhat higher increases. LO decided on this strategy on 16 February, on the condition that the government fulfilled some extra requirements. The government made its promises on 24 February, reducing the retirement age to 66 from 1989 and to 65 from 1990 for all wage earners, and granting subsidies to groups exposed to high interest rates.

Then, by mid-March, this agreement was generalized for the remaining 400,000 wage earners except for health personnel and teachers, which were the last groups to conclude an agreement. Protests against this agreement have been voiced from two sides. Within LO, there were heavy protests from unions in traditional manufacturing, well used to productivity-linked wage drift, and with shop stewards whose main task is to secure such wage drift. Secondly, outside the LO, the AF/YS/FS groups have loudly protested against their loss of the right to unrestricted negotiations. The functioning of the wage law is not all that different from the earlier wage and price freeze, since even in the late 1970s, there was no shelter from growing international prices. One difference, however, is that the wage law was passed in connection with a spring wage settlement, while the wage/price freeze came as an extraordinary measure during the autumn of 1978, implying that the 1979 negotiations were simply never held.

During the spring of 1989 it was decided to prolong the income-regulation law for one year until 1 April 1990. The government's conditions were somewhat milder in 1989: it was only required that Norwegian wage costs should grow at a slower pace than in Norway's trading-partner countries. Local negotiations (wage drift) were still banned. The LO/NAF groups were allowed to bargain on their own, but the law generalized their results for all sectors.

At the parliamentary level, consensus on these arrangements even includes the Conservative Party (Høyre). Throughout the post-war era, a fixed procedure applied in cases of non-agreement in wage negotiations: a 'wage committee' (*lønnsnemd*) determined the outcome. This committee has one representative from each of the negotiating parties, but three appointed by the government. The wage law, however, is more of a dictate. First, a settlement between LO and NAF agrees to the government's emergency diagnosis, and the most important consequence is that LO agrees to ban wage drift. At that point the government recurs to legislation, rather than letting the other central organizations negotiate independently. For the latter organizations corporatism under the wage law works from above; it is no longer voluntary, no longer 'democratic'. It is, as some argued, corporatism of a more classic type.

The only political party (right of Labour) which broke the consensus and put forward such a critique was the Progress Party (FRP). As already indicated, period V, like period II, involves not only very restrictive incomes policies, but also a blue wave. But since the Conservatives (Høyre) this time were part of the incomes-policy consensus, the Progress Party (FRP) could cash in on the neoliberal rhetoric. Like the 1977–79 blue wave, the polls display some interesting jumps: June–August 1987, March–April 1988, March–May 1989 (Fig. 10). These jumps must have some connection to the economic-policy themes discussed at these points of time.

In the summer of 1987, the main topic was not incomes policies, but the attempts by the Conservative Party (Høyre) in collaboration with the centre parties to bring down the Labour (DNA) minority government. In the parliamentary debates on the revised national economic plan in June, the Conservative Party (Høyre) tried to compromise to satisfy the particular demands of the Agrarians. The Progress Party (FRP), on the other hand, firmly opposed large agricultural transfers, explicitly defending Labour (DNA)'s restrictive stance on these matters. In this way, it was said, the Progress Party (FRP) gained confidence as a responsible party. The Conservatives (Høyre) found themselves in a much more ambivalent posi-

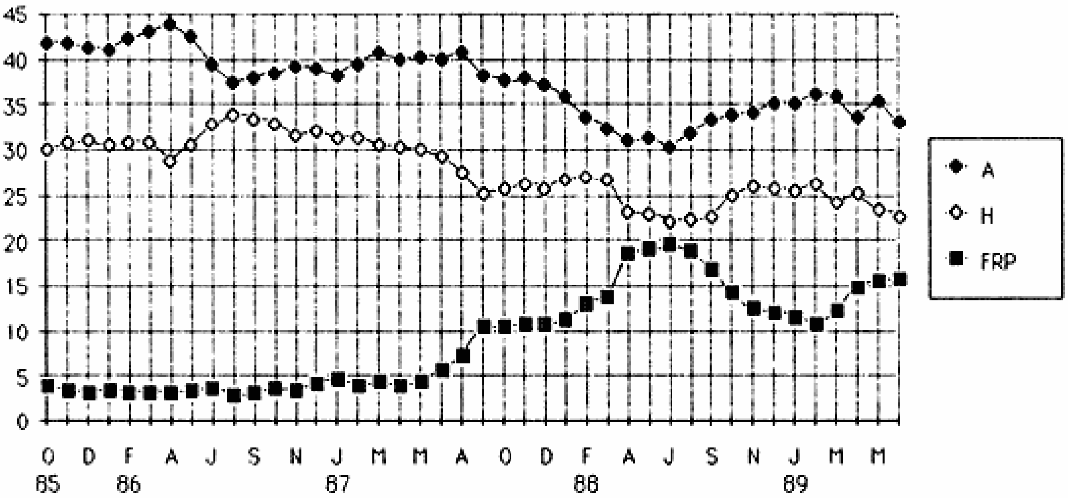

Fig. 10. Poll Results 1985–89. *Note*: A – Labour, H – Conservatives, FRP – Progress Party. Average of four poll institutes, that is, the three referred to in Fig. 8, as well as Scanfact. *Source*: Published in the daily press. Compiled by Bernt Olav Aardal, Institute for Social Research.

tion than 10 years earlier. They faced a challenge not only from the middle parties, but also from the far Right. In order to return to government, the party needed the support of the middle parties, connected to Christian humanism and to the agrarian sector. But any attempt to compromise with the centre would be effectively criticized by the Progress Party (FRP) – which would refer to a more consistent neoliberalism. The question of agricultural transfers was a particularly transparent case, as the party line for a long time had been the reduction of such transfers.

The Progress Party (FRP) made unexpected progress in the 1987 local elections. However, its triumph was not only connected to its neoliberalism, but also to more or less explicit signals of hostility against a growing number of coloured refugees and asylum seekers in Norway. For the surges in popular support in 1988 and 1989, however, the relation to incomes policies seems important. In February 1988, party leader Karl I. Hagen loudly attacked the incomes-policy legislation, denouncing it as 'corporatist' and as 'torture'. The 1989 surge also corresponds in time to the extension of the wage law for another year.

The Labour Party (DNA) tries to be calm about the disturbing facts of declining support. Labour (DNA) hopes that in the long term, its superior abilities to control the economy (via its intimate contacts with the LO) will work in favour of the party. In 1989 they emphasize that the 'turning operation' has been largely successful. The success, however, is hardly complete. The devaluation of May 1986 was decided close to the peak of the business cycle, whereas the relatively successful Swedish one in 1982 was done in the midst of crisis and overcapacity. Capacity utilization was high, and there were not many resources to pull over into exposed sectors. The devaluation spurred domestic inflation (see 1986 and 1987 in Fig. 4). In February 1988 Labour (DNA)'s Minister of Finance still expressed concern for too tight a labour market. But as austerity was maintained, partly with reference to the increasing gap between Norwegian and international inflation, unemployment started to rise. In the summer of 1988 registered unemployment passed the 2 percent mark, in December it was 3.2, and by January 1989 reached a staggering (by Norwegian standards) 4 percent, with an average of 3.8 for the first half of 1989. The unemployment wave of 1983–84 was connected with an international downturn and austere policies, but private consumption showed positive growth rates (Fig. 6). In 1988–89, both fiscal and monetary policies were tight, and private consumption declined. Thus, unemployment stayed high due to the effects of economic policies on private consumption. The Labour (DNA) government was quick to apply active labour-market policies, the measures increased more rapidly than in 1982–84 (Torp 1989). Nearly 1.5 percent of the labour force in such activities in the first half of 1989 is a record and the numbers are expected to increase further.

As Fig. 2 shows, industrial production stagnated in Norway from 1986 to 1987. In this sense, the austerity policies of the latest years may be regarded as procyclical. Western European industrial production has continued to grow rapidly in these years. The capital-intensive Norwegian export sectors (except oil) – that is, for example, aluminium, chemicals, non-ferrous metals – have done very well, but their impact on Norwegian employment is rather low. Thus, Norway had a peculiar downturn, with unemployment and sluggish growth of manufacturing industry, while Western Europe experienced an upturn. If there is an international downturn in the second half of 1989, problems of unemployment may very well be aggravated. Registered unemployment may approach 4.6 percent in January 1990, according to projections made by the Directorate of Labour (DNA) in July 1989. Since an election is coming up in September 1989, it would be preferable for the Labour (DNA) government to switch to expansive policies. The Labour Party (DNA) has staged a peculiar Norwegian slump in a period of expansion in Western Europe, and now a recession phase will follow in that area. Thus, despite the fact that the 'cost competitiveness' of firms in the exposed sector has been significantly increased, they hesitate to invest and create new employment since medium-term prospects on export markets are not very good.

Conclusions

The Labour (DNA) government is proud of its 'turning operation'. Its only worry is the (post-war) record unemployment. The business community has generally been quite enthusiastic about Labour (DNA)'s policy. This even goes for international finance. Early in 1988 Standard and Poor gave Norway its highest ranking of creditworthiness, and pressure against the Norwegian krone have eased. In mid-1989, the interest-rate differential was down to the 2 percent level. According to many businessmen higher unemployment completes the picture of a successful adjustment, as their hope is that more competition for vacant positions will bring wage costs down. Employers support the wage law, and now the market mechanism has been restored. They probably hope that when the wage law is lifted in April 1990, there will be greater room for strategies of flexibilization and decentralization of wage negotiations.

However, the conviction that this will solve the present structural problems is not well founded. According to Boyer (1988, 244), the claim that increased flexibility at the level of the individual company will also benefit the national economy is a fallacy of composition. At the world economic level, wage flexibility may turn into competitive wage-reductions, being quite similar to competitive devaluations or protectionism (Boyer 1988, 250 ff.).

Not even at the micro level is there any solid connection between wage flexibility (improved cost competitiveness) and successful technological adjustment. In a period of structural crisis, uncertainty increases, market signals are not enough to guide the firms' decisions about technology, markets and location. In the present restructuring race, price competitiveness, including wage restraint, may no longer be essential. Competition today depends largely on product and process innovations, and on changing and improving qualifications and skills. Non-price factors like design, public relations, service networks, etc. are increasingly important. Such features depend on particular 'national systems of innovation' (Freeman 1987; Andersen & Lundvall 1988; Lundvall 1988), that is the qualities of the educational system, the linkages between research (pure and applied) and innovation in industry, as well as on national organizations (like the Japanese MITI) which anticipate the direction of long-term technological change and often organize relations between firms.

Thus, the success of industrial policies seems to depend on factors other than those influenced by wage moderation. As for Katzenstein's emphasis on the importance of democratic corporatism for industrial policies, we argued above that such an analysis may be valid only for the typical Golden Age period when imitation was a viable strategy. In addition, the decreasing latitude for domestic influence on the interest rate which follows from the new financial flexibilities most likely create new problems for long-term efforts in industrial and technological policies.

Our analysis has focused on the increasing fragility of Norwegian corporatist flexibility in incomes policies. When 'democratic corporatism' loses its democratic features for large groups, protest parties have fertile ground. No attempt has been made to judge how durable the impact of this protest party will be. It may be that the ups and downs of the Progress Party (FRP) only illustrate the increasing volatility of voter preferences, and that their poll results may not indicate a successful election (although it is widely believed that the party will do very well in the 1989 elections).

In sum, we may have been able to throw some doubt on the dichotomy 'flexible adjustment' versus 'paralysing rigidity'. To those who argue that Norway is an ideal case, the message here is that there may not be any close connection between consensus incomes policies and good performance in the restructuring race. And the same message applies to those who argue that Norwegian economic policies over recent decades have contributed to the paralysis of Norwegian export industries. It is, by the way, striking that both the polar views share the assumption that the lowering of wage growth (relative to 'competitor countries') is something of a panacea.

What makes matters even more complicated, however, is that technological adaptability may not in itself be enough to overcome the present structural crisis. Even industrial policies may be part of a zero-sum game, if there are not institutional changes at the world level. Such changes may be related to supranational institutions, or they may be related to chain reactions between social changes in the countries of the First World. In the first case, one may imagine some kind of solution for the Third World debt crisis, followed by a recovery of international demand. In the second case one may imagine a substantial recovery in the Western world, based on a new growth regime like, for instance, Piore & Sabel's 'flexible specialization'. This recovery may then again spread to the Third World. However, a third scenario is also possible, that of a continuing stalemate.

NOTES

1. This paper was originally presented to the conference on 'Strategies of Flexibilization in Western Europe: Techno-Economic and Socio-Political Restructuring in the 1980s', Roskilde Universitetscenter, Institut for Samfundsøkonomi og Planlægning, 6–10 April 1988. It was revised in July 1989. It reports research from the project entitled 'The Norwegian Model', conducted at the Institute for Social Research in Oslo and financed by the Norwegian Research Council for Science and the Humanities. I am grateful to Ådne Cappelen and Ton Notermans for comments, and to Bernt Olav Aardal for providing the collection of recent poll-data series used in Fig. 10.
2. We are following the French-regulation school within political economy – cf. Mjøset 1985; Boyer 1986. A main idea here is that 'laws' or regularities concerning socio-economic development can only be traced at the 'middle-range' level, that is within specific periods. Thus, rather than approaching notions like flexibility and corporatism in a deductive way, they are here related to the patterns of the preceding period, in our case the post-war Golden Age, 1945–73 (alternative terms are 'Fordism', 'the mass production/mass consumption model', etc.). In this sense, our discussion of flexibility deals with 'new flexibilities'. In this way it also becomes clear that while the use of

certain notions changes according to the fashion among researchers and policy makers – 'flexibility' is the present vogue, while the reference to 'corporatism' is from earlier date – they can be linked to the same socioeconomic developments.

3. Van Tulder & Junne (1988) analyse a number of consequences for the relations between firms.
4. Typically, this point is one of the elements in Gjølberg's explanation of Labour (DNA)'s losses in 1965, the other one being that the party thought that rapid growth of public consumption would satisfy the voters.
5. While the industrial production of OECD as a whole rose above the trend line already in 1984, see SSB, *Økonomiske Analyser* 1/89, 12.
6. Consulting the different issues of *Økonomisk Utsyn*, 1975–79, we find the following numbers for the growth of private consumption:

	Økonomisk Utsyn (1-month lag)	Preliminary test (1-year lag)	Final estimate (2-year lag)
1975	4.1	5.6	5.2
1976	5.6	6.3	6.4
1977	4.8	4.4	6.5

The 1985–86 consumption boom, on the other hand, was predicted by the planners.

7. Net debt as a percentage of GDP had peaked at around 45 percent of GDP in 1978–79. It was down to 15.6 in 1986, 17.3 in 1987 and is estimated at 22.1 percent in 1988: *Penger og kreditt* 1/1989, 6 and *Penger og kreditt* 4/1987. *Stortingsmelding* [Parliamentary Report], no. 4, 1987–88, 111 presents different scenarios: given the most pessimistic assumption about oil prices there will be a 45 percent net debt/GDP ratio by 1995. Extension of present trends gives a permanent 20-percent debt/GDP ratio. Pessimists predict that Norway may develop in 'Danish' direction, with a debt burden so massive that the IMF would have to take action.
8. The interest-rate differential, defined as the difference between the 3-month NOK interest rate and the 3-month basket of Euro-currencies, hovered around 6–7 percent between early 1986 and early 1988, according to *Penger og kreditt* 3/1987, 121, and *Penger og kreditt* 2/1989, 72. In December 1986, the differential was on some days close to 12 percent. In the first quarter of 1989 it was down to below 2 percent.

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certain notions changes according to the fashion among researchers and policy makers – 'flexibility' is the present vogue, while the reference to 'corporatism' is from earlier date – they can be linked to the same socioeconomic developments.

3. Van Tulder & Junne (1988) analyse a number of consequences for the relations between firms.
4. Typically, this point is one of the elements in Gjølberg's explanation of Labour (DNA)'s losses in 1965, the other one being that the party thought that rapid growth of public consumption would satisfy the voters.
5. While the industrial production of OECD as a whole rose above the trend line already in 1984, see SSB, *Økonomiske Analyser* 1/89, 12.
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