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Price Flexibility: 1986–98

We may conclude that monetary policy in Norway has contributed
to amplifying the cyclical movements in the past ten years and has
thereby largely countered the stabilising effects of fiscal policy.
(Norges Bank’s Governor, Kjell Storvik 1997, p. 10)

The Norwegian model has undergone tremendous changes since 1986.
In contrast to earlier periods, the main characteristics of economic
policy in the late 1980s and 1990s is one of micro-efficiencies and
price/wage flexibility, with less government intervention. All three of
the main policy instruments (incomes, fiscal and monetary policy)
have changed in both nature and content. The final result is an
economy which has undergone yet another transformation, and
returned to a full employment equilibrium. The new internal balance,
however, is different from earlier balances: there are new winners and
losers that result from this new policy constellation.

This chapter will describe these changes and comment on the distribu-
tional trade-offs that are associated with the new internal balance.
As the developments it describes are contemporary, this chapter’s per-
spective is somewhat different to previous chapters: its conclusions and
analyses are necessarily more speculative and open-ended. It is simply
too soon to evaluate the overall success or failure of Norway’s response
to this new international regime.

Recent developments have brought about a radical shift in the
nature and content of all three of the main elements in Norwegian
economic policy. First, this period sees a return to centralized incomes
policies and their (accompanying) moderate wage demands. Thus, cen-
tralized union arrangements appear to have brought increased, not
decreased, wage flexibility. Most recent experiences (1996–98) suggest
that the gains from this policy may already have been reaped. Still, there is little doubt that wage restraint has played an important role in Norway’s economic recovery. Second, since 1986 the authorities have pursued a fixed exchange rate regime and liberalized their foreign exchange markets. In an environment of free financial capital mobility, this decision has effectively undermined Norway’s traditional credit policy. Norwegian monetary policy is today aimed at the external account, not at domestic demand. Finally, the government has returned to a more conservative fiscal policy. This decision, like the others, is aimed at satisfying international markets by forcing the costs of macroeconomic transformation onto the pay-slips of ordinary workers (and off the government’s budget).

While this new policy basket has eventually managed to produce low unemployment, the transition from one regime to the other was costly. During this period, Norway experienced its highest unemployment levels since the Great Depression. In 1993, when the domestic recession was at its deepest, the Norwegian unemployment level reached 6 per cent. The number of unemployed would have been much higher had it not been for the vast network of support programs (and educational incentives) that kept people off the unemployment lists and in closer proximity to the labor markets. In this respect, the authorities have been very successful in avoiding the long-term unemployment problems suffered by most other European economies.

While it is undeniable that full employment has returned to Norway, one can question the degree to which elected officials deserve credit for the transformation. Most of the gains, it would appear, were brought about by wage-earner constraint in times of a booming domestic economy. The authorities have managed to restrain inflationary pressure (in common with most of the developed world), but Norwegian policy no longer seems exceptional. In short, as Kjell Storvik’s introductory quote suggests, economic policy in Norway has become confused. It would appear that the Norwegian authorities are facing a classic policy dilemma, with too many policy objectives and too few instruments. Worse, the new policy constellation is not even stable: each of the instruments is being challenged in a variety of ways.

These changes are largely the result of a new international economic environment, although the exact causal paths are impossible to map. Norwegian market liberalization is probably the result of several factors: external pressures, a new ideological hegemony, and the opportunism of politicians. Without doubt, politicians have taken refuge in the fact that they no longer have control over the economy.