

Creating a new role for an old central bank: The Bank of Norway 1945-1954

by

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Department of Innovation and Economic Organization
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1 Introduction

In its election manifesto of 1945, the Norwegian Labor Party declared that “the monetary policy of the Bank of Norway, the credit policy of the banks, and the foreign exchange policy should be subordinated the Ministry of Finance”.¹ This declaration reflected a general ambition to increase public control over the economy, an ambition that Norwegian politicians shared with the majority of post-WWII policy-makers all over the world. Previous liberalist ideals of promoting growth and prosperity through non-interventionist policies and free-market solutions were widely replaced by ideas of active state intervention in order to secure not only economic growth and stability but also a socially just distribution of wealth. Supporters of these new ideals argued that government intervention could contribute to better and fairer results than those achieved by market mechanisms only, not just because market mechanisms *per se* produced slow and unreliable results but also because the introduction of labor unions and the rise of big business in manufacturing industries and finance had led to the centralization of power and made markets less flexible and ‘neutral’.

Ideas of more active and interventionist governments had spread gradually since the late 19th century, and were also manifested in formal institutional changes. Starting out with the introduction of legislation to protect industrial workers from ill treatment, Western governments had tried out various types of regulations in order to overcome the negative side effects of free-market arrangements. These attempts were encouraged by experiences during World War I, which gave the first comprehensive examples of how economic activity could be successfully directed by the state. Even so, at that point of time centralized planning and control were still commonly seen as exceptions from normal economic and political conditions. Thus, it was not until the world economies were hit by crisis during the interwar years that ideas of government planning and control achieved a major breakthrough in Western countries. Massive unemployment, debt crises, and bank failures contributed to a general distrust in the ability of uncontrolled markets to create growth and prosperity. During World War II, it was once more proven that state planning and control could be efficient, and by the end of the war there was therefore relatively broad support in most countries for increased

¹ The Norwegian Labor Party (DNA), election manifesto of 1945, section “Finanser, handel, lønninger”.

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government intervention in order to pursue goals set up by the national political authorities.

In Norway, the chief advocate of such ideas was the Labor Party. Already during World War II, Labor politicians – in close cooperation with a new generation of economists – had planned guidelines for the post-war economic policy. And even if there were some internal disagreements within the party regarding the nature and degree of the government intervention, the key message was that market regulations should be considered not only as a wartime necessity but also as essential in a long-term perspective. So by the end of the war, Labor was ready to promote active state planning and regulation in order to obtain superior goals of stable and rapid economic growth, full employment, and the socially and geographically just distribution of welfare. This political message was well received by the Norwegian public and in the 1945 general election, Labor won a parliamentary majority. It thereby had an excellent starting point for transforming its ambitions into actual politics.

New ideas and norms for governing the economy, combined with new instruments for planning and control, changed the institutional framework within which all economic actors, whether individuals, firms, financial institutions, or public agencies, performed their tasks. One of those actors, which will be the center of attention in this dissertation, was the central bank, the Bank of Norway (BoN). Since its foundation in 1816, the BoN had gradually achieved a strong, politically independent position in Norwegian society. In accordance with traditional liberalist ideals, by the turn of the 20th century, the central bank had been in charge of formulating and executing monetary policy, an obligation it had, to a large extent, performed regardless of political opinions. However, vital preconditions for this independence had collapsed during the interwar period with the fall of the gold standard, an international system of foreign exchange (predominant between 1870 and 1914), which had assigned central banks the important tasks of gold redemption and stabilizing exchange rates through active use of the discount rate. When the gold standard finally collapsed in 1931 after a turbulent process of trying to reestablish the system during the 1920s, the future tasks and position of central banks in general were uncertain. And once new ideas of political planning and control gained a firm foothold in Norway after World War II, ideas that presupposed centralized coordination of the monetary policy with other policy areas, it seemed obvious that the BoN no

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longer could operate as a freestanding agency. Consequently, the role of the Bank had to change.

My main research interest in this dissertation is to analyze how the role of the Norwegian central bank changed after World War II.² How did the Bank respond to the changes in its political and economic environment? Did it adapt passively or did it offer any resistance? And what kind of role did the BoN find within the new post-WWII political context? Was it reduced to a mere executive of the orders from the Ministry of Finance, as Labor had declared in 1945, or did it maintain any of its former autonomy and authority?

By analyzing how the role of the BoN changed, I will also add an explanatory dimension and discuss why these changes took place. The question of why covers the reasons for the changes that undermined the former independent position of the central bank in the first place, as well as the underlying causes of the new role that the central bank achieved within the post-WWII regime. Both these types of changes will be discussed by highlighting institutional factors, such as alterations of economic organization as well as political and cultural elements, and behavioral factors, that is the behavior of the Bank given such institutional changes.

The political and economic development in Norway after World War II reflected international trends in the sense that increased government intervention and market controls, combined with institutional changes in the international exchange of goods and capital, in general led to increased political control over central banks. However, as the sociologist Susan Stockdale has pointed out, although such geopolitical and economic transformations may explain the general direction of changes in central bank independence (CBI), they cannot explain the variation in particular forms of independence adopted by central banks in different countries.³ Thus, in order to understand how and why a specific central bank, such as the BoN, ended

² Here, the concept of *role* means the function of central banks in the economic policy, including its tasks, policy measures and its position regarding the political authorities and the financial system.

³ S. Stockdale, *Money Production and Boundary Construction: Explaining Shifts in Central Bank Independence*, Dr. Philos. thesis in sociology, Los Angeles: University of California – Los Angeles (UCLA), 2003, p. 1.

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up in a specific role – constituted by its concrete tasks, degree of authority and autonomy from the political authorities as well as the financial markets – it is necessary to carry out in-depth empirical studies of historical policy-making processes in which this central bank takes part.

Existing research traditions

Two types of central bank literature are of particular interest for this dissertation: one regards the particular historical case of the BoN, while the other treats general aspects of central banking with emphasis on the question of political independence. Here, I will discuss the two types separately in order to position my own research as regards contents as well as scientific approach. At a general methodological level, my main argument is that in order to understand and explain the role of central banks it is necessary to analyze the particular institutional and historical context of each central bank rather than to regard central banks as standardized, a-historical units that act in the same way regardless of time and space. And in the special case of the BoN during the post-WWII period, I challenge the conventional view that the central bank was reduced to an agency of little importance and influence.

The historical case of the Norwegian central bank

The existing literature on the role of the BoN during the post-WWII period is relatively limited. A common feature of this literature, however, is the assumption that after 1945 the Bank lost all its former power and independence. Throughout the post-WWII period until the 1980s, there were few public confrontations between the BoN and the political authorities, a characteristic that was strikingly different from the pre-1930 period when the central bank regularly confronted the government in order to pursue established monetary targets. In international central bank literature, such a lack of public confrontation is usually interpreted as an indication of the powerlessness of central banks.⁴ This observation, combined with the declared ambitions of the Labor Party to subordinate the central bank to the Ministry of Finance, has led most scholars to conclude that the power and independence of the BoN after 1945 was next to none.

⁴ See for example J.T. Woolley, *The Federal Reserve and the Politics of Monetary Policy*, Cambridge: Cambridge University Press, 1984; G. Toniolo (ed.), *Central Banks' Independence in Historical Perspective*, Berlin: Walter de Gruyter, 1988; A. Cukierman, *Central Bank Strategy, Credibility, and Independence: Theory and Evidence*, Cambridge, Mass: MIT Press, 1992.

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There are two official accounts of the historical development of the BoN, which were published by its officials in connection with the Bank's 150th and 175th anniversaries. Both these publications give only brief descriptions of the tasks and functions of the central bank during the post-WWII period and shed little light on the role of the BoN in practical policy-making. This appears a deliberate choice, since most of these publications were authored by the Bank's own officials, who sometimes had first-hand information on these processes but nevertheless omitted all detailed information on what was going on behind the scenes. Moreover, in the 150th commemorative publication, the BoN engaged Gunnar Jahn, the governor from 1946 to 1954, to write the volume on the period before 1940, when he had limited first-hand knowledge of internal procedures and debates, whereas the volume that covered Jahn's governance was written by an economist from outside the Bank, Preben Munthe. Hence, these publications hardly touch upon the challenges and processes underlying the development of a new role for the BoN in the changing post-WWII context.⁵

A more detailed, professional discussion of the changes in central bank policies during the first post-WWII decades is given by the historian Egil Borlaug. Taking the loss of independence and power as a stated fact, Borlaug discusses why these behavioral alterations did not induce any legislative changes. He thereby brings focus to an important characteristic of the post-WWII monetary regime: the declared ambitions of the Labor Party to deprive the BoN of its former independence were never manifested in new legislation. The old Central Bank Act of 1892, which in a liberalist tradition granted the BoN extensive operational autonomy, was kept virtually unchanged until 1985. This highlights an important point, which we will return to later: there can be considerable discrepancy between a central bank's formal or legislative independence and its actual position.

Borlaug explains this discrepancy in the Norwegian case mainly as a practical solution to a technical problem associated with the so-called gold clause case, which we will discuss in more detail in chapter 5. According to Borlaug, the Norwegian government maintained the old liberalist legislation in order to spare the State a possibly costly fiscal burden related to claims from French bond owners, which could have been triggered by introduction

⁵ G. Jahn, A. Eriksen and P. Munthe, *Norges Bank gjennom 150 år*, Oslo: the Bank of Norway, 1966; P. Bang and J.P. Holter, *Norges Bank 175 år*, Oslo: Aschehoug - the Bank of Norway, 1991.

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of a new Central Bank Act.⁶ In itself, this seems like a quite reasonable explanation, and Borlaug demonstrates that the gold clause case caused considerable concern among civil servants in the Ministry of Finance. Even so, given the former strong position of the BoN it would also be interesting to pay more attention than Borlaug has done to the new political and economic context of the post-WWII period and examine to what extent the lack of new central bank legislation also can be explained by more fundamental elements regarding the role of the central bank.

In his legal dissertation, Helge Syrstad has studied the independence of the BoN from an economic, political, and legal perspective. Syrstad is primarily concerned with the contemporary position of the central bank, but also draws long historical lines from the initial start of central banking in the 17th century until the present, in order to understand to what extent and why the BoN today operates independently of the political authorities. In this historical analysis, which is based on secondary sources, the period 1945 to the mid-1980s appears as a time of strict political control over the central bank. It thereby falls into line with the conventional view of this period. Syrstad's main contribution, however, is related to his comprehensive account of the constitutional framework and formal relationship between the political authorities and the central bank as well as his discussions of the bank's tasks and organization, which gives interesting insights into the matter of CBI.⁷

The historian Francis Sejersted has also been interested in the question of independence, and in an implicit way he has discussed the role of the BoN after 1945. Without carrying out any specific studies of the post-WWII period, Sejersted combines primary studies of the BoN during the 19th century and the interwar period with his personal reflections on the role of the Bank today, and confirms the impression that from World War II until the mid-1980s the BoN was under strong political control. Sejersted's prime interest, however, does not lie in this era of political control but in the preceding and succeeding periods of CBI. He argues that CBI can be an effective instrument to obtain economic stability because, unlike politicians, a central bank can more easily withstand pressures that might lead to

⁶ E. Borlaug, *Styringa av Norges Bank. Om endring i teori, praksis og lovgjevning, 1945-1960*, post-graduate thesis [hoveddøppgave] in history, Oslo: University of Oslo, 1994. See also chapter 5.7.

⁷ H. Syrstad, *Sentralbankens uavhengighet*, Bergen: Fagbokforlaget, 2003.

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inflationary policies. Delegation of power can thereby (somewhat paradoxically) lead to better fulfillment of the politicians' stated goals. Sejersted argues, however, that the efficiency of this instrument depends on the degree of legitimacy and trust attached to the central bank. Thus, the key to whether CBI will work is the definite institutional setting and historical experiences in each particular case.⁸

Sejersted's emphasis on legitimacy and trust in the central bank as necessary preconditions for the efficiency of the independence model generates the question of whether these are also crucial elements for understanding the changing role of the BoN after World War II. Can the degree of such legitimacy and trust explain how and why its role changed? Sejersted pinpoints another important perspective by underlining the importance of specific institutional and historical contexts for understanding the role of central banks. As I will elaborate below, I share this view, and this is why I assert that more thorough historical examinations of the changes that took place after World War II are needed before any conclusions can be drawn regarding the status of the BoN. Compared with earlier and later periods, the post-WWII role of the BoN undoubtedly had a different character, as there were fewer public confrontations between the central bank and political authorities and the content of the monetary policy changed. However, this does not necessarily imply that the central bank lost all independence, power or influence. It can alternatively indicate a change of form in the relations between the central bank and political authorities, a change that implied a new role for the central bank without necessarily depriving it of all authority and autonomy.

A different indirect approach to the role of the BoN during the post-WWII period has been taken by the historian Einar Lie, who in his comprehensive study of the Ministry of Finance from 1945 to 1965, has analyzed how the Labor Party, supported by a new generation of young economists trained by later Nobel Prize winner Ragnar Frisch, transformed the Ministry of Finance

⁸ F. Sejersted, *Ideal, teori og virkelighet. Nicolai Rygg og paripolitikken i 1920-årene*, Oslo: Cappelen, 1973; F. Sejersted, "Norges Banks autonomi. En historisk randkommentar", *Sosialøkonomien*, no. 3, 1984, pp. 5-6; F. Sejersted, "On the socalled 'authonomy' or 'independence' of central banks. Reflections on the Norwegian case of minimal formal autonomy", *TMV working paper*, no. 75, Center for Technology and Culture (TMV): Oslo, 1994; Francis Sejersted, "Norges Bank mellom avhengighet og uavhengighet", in F. Sejersted, *Norsk idyll?*, Oslo: Pax, 2000, pp. 131-144.

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into a “Super-Ministry”, with an overarching responsibility for economic policy. Lie suggests that rather than passively adapting to a subordinate role, the BoN actively promoted its own opinions during the first post-WWII decade, often in opposition to the political authorities. However, according to Lie, the central bank had little influence on policy formulation and implementation and fought a losing battle against the Ministry of Finance, a defeat he links to a perception that the Bank’s governor Gunnar Jahn represented an old regime of economists who in vain tried to block increased state intervention and market controls.⁹

Lie’s study provides important contributions to our understanding of how Labor developed a new economic policy after World War II, not least his analyses of the ideas and ambitions of Ragnar Frisch and his students. Nevertheless, by consequently taking on the perspective of the Ministry of Finance, Lie tends to view many policy-making processes as games controlled by the Ministry and he sometimes misses out on other agencies, including the BoN, which also contributed to Labor’s policy formulation and implementation. It is thus interesting to examine how some of these processes appeared from the central bank’s point of view and to discuss whether the Ministry of Finance had less control than Lie proposed. Furthermore, the assumption of a clear duality between ‘old’ and ‘new’ economic theory regimes suggests a static situation in which the economists had defined their views once and for all. However, considering the extreme war-related challenges of this period and the changing institutional conditions, there is reason to propose an alternative, more dynamic approach and ask whether these economists instead developed their views over time. Did perhaps practical problem-solving count just as much as economic theory in the search for new policy solutions? If so, what consequences did such a dynamic process have for the creation of a new role for the central bank?

The most recent contribution to the study of Norwegian economic and political development has been carried out by the economic historian Sverre

⁹ E. Lie, *Ambisjon og tradisjon. Finansdepartementet 1945-1965*, Oslo: Universitetsforlaget, 1995.

For a discussion of the concept of "Super-Ministry" [*overdepartemensmodellen*], see T. Bergh, “Arbeiderpartiet og statens styrende hånd”, in T. Nordby (ed.) *Arbeiderpartiet og planstyret 1945-1965*, Oslo: Universitetsforlaget, 1993.

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Knutsen, who in his comprehensive study of the Norwegian financial markets in the 20th century interprets the first post-WWII decade in the conventional way as a transitional period from an old to a new political regime. Knutsen gives a detailed account of how the Norwegian financial markets were transformed as part of Labor's "strategic capitalism" during the period 1950-1980. Regarding the role of the central bank, Knutsen demonstrates how the BoN took part in these policy-making processes, but since his main purpose is to understand long-term general changes in the financial system, he does not pay explicit attention to the changing role of the Bank. Besides this analysis of the post-WWII period, Knutsen's perhaps main contribution is his reevaluation of the causes of the economic crises in the interwar period, as we will discuss more thoroughly in chapter 1, where he rejects the traditional emphasis on monetary policy as the main cause and instead focuses on the boom during World War I as an underlying explanation for the following calamities.¹⁰

The above account suggests that in order to establish and explain the nature of the new role of the BoN during the post-WWII period, it is necessary to carry out fresh in-depth examinations of how and why the central bank took part in Labor's policy-making. This is additionally born out by the fact that much of the existing literature omits the influence of the international context on the role of the central bank. By the time of Liberation, the lack of a complete and fully working international currency system made access to foreign exchange a critical economic problem. This, combined with the fact that the handling of foreign exchange was traditionally a key task of the central bank, calls for new examinations of how foreign exchange matters influenced the participation of the BoN in policy formulation and implementation.

I will limit my study to the period 1945-1954, first because this coincides with the term of office of governor Gunnar Jahn, a liberal politician and economist who was known for openly opposing the new majority administration of the Labor Party. As mentioned above, this has led historians to believe that the BoN was completely marginalized. Most scholars have thus concentrated their studies on the post-1954 period, when Labor strategist Erik Brofoss succeeded Jahn as governor. From the

¹⁰ S. Knutsen, *Staten og kapitalen i det 20. århundre – Regulering, kriser og endring i det norske finanssystemet 1900-2005*, Dr. Philos. thesis in history, no. 287, Oslo: University of Oslo, 2007.

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perspective of the central bank, the first post-war decade therefore appears as an understudied period. Moreover, this decade was a time of change and transformation both internationally and in Norwegian politics, from war to peacetime economies, and new institutions and policy measures had to be developed and implemented. This created challenges, for example in terms of international currency problems and domestic inflationary pressures, but it also represented exceptional opportunities for designing and undertaking new tasks and responsibilities. While both the international institutional framework and Labor's economic policy from the mid-1950s onwards had, more or less, found their form, the first post-WWII decade represented a relatively open situation where the scale, scope and nature of the future economic policy was yet to be decided. A key question in our context thus becomes, to what extent did the BoN also find a new role already during this period?

A second limitation in my study concerns the tasks of the central bank. As my main research interest is the role of the BoN in policy formulation and implementation, the Bank's technical tasks, such as issuing and distributing coins and bills, will in general not be subject to analysis. The only exception is occasions when these technical tasks became a matter of politics, such as during World War II, when the occupying regime financed their activities by printing money in the BoN. This had a fundamental impact on Norwegian economy after the war and, as we will see, also on the tasks and legitimacy of the central bank.

Central bank literature and the matter of independence

During the last couple of decades, there has been a renewed interest in the role of central banks among scholars as well as politicians. Changes in economic policy and deregulation of financial markets in many Western countries during the 1980s fueled a debate on the division of authority and tasks between central banks and political authorities, a debate that was reinforced by the creation of the European Central Bank in 1992, and by the more fundamental political and economic changes in Eastern Europe and Russia after the fall of the Berlin Wall in 1989. As part of these processes of change, a vast literature on the role of central banks sprung up. The purpose and methodology of this literature varies considerably, but a substantial part of it aims at taking part in policy-making processes in which a key issue has been to decide just how independent central banks should be. Through theoretical reflections and empirical examinations, scholars from disciplines such as economics, political science, sociology and history have from their various angles discussed why and to what extent central banks should be allowed to operate as independent agents in charge of monetary policy without regard to the immediate interests and opinions of the political authorities.

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Critics of independent central banks have argued that monetary policy has too profound an impact on the economy to be left in the hands of a few central bank economists. Instead it should be under democratic control, the political authorities having a right to intervene if they deem it necessary. Some critics also have argued along the lines of post-WWII economists and politicians, who regarded monetary policy as an integrated part of the economic policy that should be subject to systematic coordination with other policy areas.¹¹ Today, however, such opinions are rarely heard, and there is widespread international support for a policy model promoting strong, politically independent central banks. Many countries, including Norway, have introduced, or are in the process of introducing, this model, which is promoted as a universal ideal that can and should be implemented everywhere. The independence model is meant to restrain political authorities from pursuing a monetary policy that may give short-term political benefits but will have harmful consequences in the long run. By delegating power to the central bank, politicians reduce their ability to yield to temptations (for instance of indulging in over-expansionary policies in order to win an election), which may produce negative long-term effects (inflation). In this respect, CBI reflects concerns that monetary policy is too important to be left to the vagaries of partisan politics or government meddling.

In our context, the normative question of how independent central banks should be today is of less interest. My main concern is to analyze changes in the role of a central bank that took place in another time period and under different economic, political, and institutional circumstances. Nevertheless, the literature provides important perspectives, not least by illuminating different possible approaches to the study of central banks. Regarding purpose as well as methodology, this literature can very roughly be divided into two parts. One group of scholars – of what can be labeled a static-generalizing tradition (as opposed to a dynamic-institutional tradition, which will be presented below) – tends to regard central banks as rational actors that behave in the same way regardless of time and space. They assume that central banks generally are more conservative and predictable than politicians in terms of both budget politics and initiating new policy solutions, thereby also supposing that central banks always keep low

¹¹ For an overview of the debate on democratic control, see Ø. Berre, *Ideen om en uavhengig sentralbank. En kritisk analyse*, post-graduate thesis in political science, Oslo: University of Oslo, 1996; Syrstad 2003, pp. 47-54.

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inflation as their superior policy goal. Methodologically, these scholars usually combine mainstream neo-classical economic theory or game theory perspectives with quantitative empirical studies in order to measure the degree of CBI, discuss theoretical topics such the relationship between independence and levels of inflation, and try to predict how central banks will behave in various situations. The main research interest of these scholars is usually to generate general theories, and they often, without any contextual reservations, support CBI as a preferred policy solution.¹²

A second group of scholars, whom I label the dynamic-institutional tradition, takes a different approach. Rather than viewing central banks from a static, generalizing perspective, these scholars bring focus to the variations and time- and space-specific dimensions of central bank behavior. By studying central banks in various historical and geographical settings and over longer time periods, the dynamic-institutional scholars have demonstrated that the role of central banks, including their degree of independence, has varied considerably. While some central banks at certain times have been almost completely independent, others have been supervised continuously by the political authorities, or the authorities have intervened in special cases. Plurality of objectives and tasks has also been common, and central banks have been known not simply to defend price stability, but also for example to act as creditors to the public or to promote structural changes in the banking sector. From a historical perspective, therefore, the static-generalizing research tradition's assumption of stability in the role and preferences of central banks appears as too simplistic. According to the dynamic-institutional tradition, in which I include my own study of the

¹² Works that may be included in the static-generalizing research tradition are: Cukierman 1992; A. Alesina, "Politics and business cycles in industrial democracies", *Economic Policy*, no. 8, 1989, pp. 57-98; K. Banaian, L. Laney, and T. Willett, "Central bank independence: An international comparison", *Economic Review*, Federal Reserve Bank of Dallas, (March) 1983, pp. 1-13; S.C.W. Eijffinger and E. Schaling, *Central Bank Independence: Criteria and Indices*, research memorandum no. 548, Tilburg University, Department of Economics, 1992; P. Kenen, *Comparative Analysis of the Central Banks of the World*, Bicentennial Symposium of Banque de France, Paris: Banque de France, 2000, pp. 223-228; H. Berger, J. de Haan and S.C.W. Eijffinger, "Central bank independence: An update of theory and evidence", *CESifo Working Paper* no. 255 (February), 2000; M. Arnone, B.J. Laurens, J.F. Segalotto and M. Sommer, "Central Bank Autonomy: Lessons from Global Trends", *IMF Working Paper* No. 07/88, International Monetary Fund, 2007.

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Norwegian central bank, these variations can be explained by different historical experiences and different institutional settings. Thus, in order to understand and explain how central banks behave, it is necessary to analyze their role in specific processes of policy formulation and implementation over time.¹³

From one perspective, the two above research traditions can be seen as complementary in the sense that to a certain degree they have different purposes and methodological approaches. Whereas the static-generalizing tradition usually aims at the generation of general theories and policy advice, scholars of the historical-dynamic tradition – with a few important exceptions – are more concerned with understanding and explaining specific historical events, cases, and changes. The application of quantitative methods and general behavioral assumptions makes the static-generalizing tradition well suited to comprehensive comparative studies, since it enables the relatively easy comparison of a large number of units. Hence, such studies can provide theoretical and empirical evidence, which can support

¹³ Works that exemplify the historic-dynamic tradition are: Toniolo 1988; C. Goodhart, *The Evolution of Central Banks*, Cambridge, Mass.: The MIT Press, 1988; G.A. Epstein and J.B. Schor, “The divorce of the Banca d’Italia and the Italian Treasury: a case study of central bank independence”, in P. Lange and M. Regini (eds.), *State, market, and social regulation. New perspectives on Italy*, Cambridge: Cambridge University Press, 1989, pp. 147-164; J.B. Goodman, “The Politics of Central Bank Independence”, *Comparative Politics*, vol. 23 (April), 1991, pp. 329-349; H. Berger and J. de Haan, “A state within the state? An event study on the Bundesbank (1948-1973)”, *Scottish Journal of Political Economy*, vol. 46, no. 1 (February), 1991; S. Bell, “The limits of Rational Choice: New Institutionalism in the Test Bed of Central Banking Politics in Australia”, *Political Studies*, vol. 50, 2002, pp. 477-496; Stockdale 2003; S. Bell, *Australia’s money mandarins. The Reserve Bank and the politics of money*, Cambridge: Cambridge University Press, 2004.

G. Nardozzi has made a similar distinction between two research traditions on central banking, which he labels American (\approx static-generalizing) and European (\approx dynamic-institutional). While these labels gave an accurate description of the literature until the late 1980s, more recent contributions clutter up the picture. For example, works that easily can be included in Nardozzi’s ‘European’ tradition include the Australian scholar Stephen Bell (2002) and the American scholar Susan E. Stockdale (2003). Thus, rather than focusing on the authors’ geographical origin, I have chosen to develop a typology that describes the content of the different approaches. See G. Nardozzi, ‘A Central Bank Between the Government and the Credit System: The Bank of Italy after World War II’, in Toniolo 1988.

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generalizing theories as well as widely applicable policy advice. On the other hand, the lack of institutional and historical context makes this approach less fruitful for analyzing the role of specific central banks. For this purpose, the methodological approach of the dynamic-institutional tradition, based on in-depth qualitative examinations of decision-making processes, might be more fruitful because it allows more complex and multi-layered analyses.

Theories on changing central banks

Despite the fact that the two above research traditions are partly complementary, in other respects they can also be viewed as competing, especially as regards the generation of general theories. Even if most scholars of the dynamic-institutional tradition primarily analyze particular historical cases, some also aim at the generation of more abstract general theories.¹⁴ Unlike the static-generalizing tradition, however, the general theories of the dynamic-institutional tradition attach great importance to the historical and institutional context of central banks in order to understand their development and behavior. Thus, rather than trying to decontextualize, simplify and fix central bank behavior, these general theories incorporate social and institutional complexity as well as dynamic perspectives in order to understand how and why the behavior of central banks change.

In our context, one of the most interesting theoretical perspectives within the dynamic-institutional tradition has been developed by the sociologist Susan E. Stockdale, who has explained the nature and timing of shifts in CBI by

¹⁴ An instructive distinction regarding the generation of theory has been made by Francis Sejersted, who claims that there is a fundamental difference between historical theories developed within the discipline of history and the generalizing theories of the social sciences. The purpose of historical theories is to comprehend an individual reality through totalization, that is, synthesizing and explaining analyses of specific events. According to Sejersted, this represents an opposite to generalizing theories. Whereas generalizing means to disintegrate a historical situation in order to isolate certain selected mechanisms that are assumed to occur in other cases, totalizing means to provide integrating, unified accounts of specified historical phenomena. (See F. Sejersted, "Litt av en historie. Om forholdet mellom samfunnsvitere og historikere", in F. Sejersted, *Demokratisk kapitalisme*, Oslo: Universitetsforlaget, 1993, p. 350). It is particularly in the field of generalizing that the dynamic-institutional and the static-generalizing research traditions are competing, since the latter scholars are rarely interested in the generation of historical theories or the interpretation of specific historical events.

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comparing four twentieth-century legislative events in the USA and Great Britain: the 1935 Banking Act (US), the 1946 Bank of England Act (GB), the 1980 Monetary Control Act (US), and the 1998 Bank of England Act (GB). While the two earliest of these events represent shifts towards less CBI regarding monetary policy, the two later events were shifts toward greater independence. Stockdale interprets central banks as organizations that exist in the boundary between state, society, and economy. As boundary organizations, they mediate the relationship between these realms by managing the tension not only between the public and private sectors, but also between domestic and international concerns.¹⁵

The concept of boundary organizations, which was originally derived from principal-agent theory, has been promoted most effectively by the political scientist David H. Guston, who argues that the success of a boundary organization is determined by principals on either side of the boundary, both of whom rely on the boundary organization to provide them with necessary resources. Applied to central banks, this would mean that their chances of success in terms of political influence and autonomy depends on their ability to act as intermediaries and provide necessary resources to principals of, for example, the political authorities on the one hand, and the financial institutions on the other. As pointed out by Stockdale, changes in the role of central banks can thereby be explained not only by exogenous factors, such as changes in political and economic conditions, but also by factors endogenous to central banks themselves, such as ideological and mental elements, which central bank officials can influence through networking and active participation in policy-making processes. Hence, according to this perspective, the degree of CBI is a direct consequence of boundary construction, reconstruction, and maintenance activities of central bank officials.¹⁶

¹⁵ S. E. Stockdale, “Mediating the boundaries between state and society: Explaining shifts in central bank independence”, *Political Power and Social Theory*, vol. 13, 1999, pp. 3-35.

¹⁶ Stockdale 1999; D.H. Guston, *Between Politics and Science. Assuring the Integrity and Productivity of Research*, Cambridge: Cambridge University Press, 2000; D.H. Guston, “Boundary Organizations in Environmental Policy and Science: An introduction”, in *Science, Technology & Human Values*, vol. 26, no. 4, 2001, pp. 399-408. On principal-agent theory, see J.W. Pratt and R.J. Zeckhauser (eds.), *Principals and Agents: The Structure of Business*, Boston, Mass.: Harvard Business School Press, 1985.

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The theory on boundary organizations brings light to two mutually dependent levels of analysis that are necessary to explain changes in the role of a central bank: the individual level with central bank officials and other principal actors who take part in policy-making, and the organizational level with its focus on the position of the central bank as an organization in this policy-making environment. Both levels will be important in this examination of the Norwegian central bank. I will discuss how personal networks and relations between key individuals influenced the changing role of the BoN and also examine to what extent the central bank held a mediating position between politicians and financial institutions, between domestic and international concerns. Can this position as a boundary organization – or the lack of such a position – explain how and why the BoN developed a new role during this period?

Another fruitful theoretical contribution within the dynamic-institutional research tradition is provided by the political scientist Stephen Bell, who adds a third level of analysis to the study of changing central banks, namely the institutional environment surrounding these banks. In his examinations of Australia's recommitment to CBI in the 1990s, Bell emphasizes the importance of the international context to domestic policy-making processes. Based on an inductive, historically grounded political economy approach, Bell introduces a model of 'embedded statism' that places such domestic processes, in which politicians and central bankers act in relatively closed 'state-directed' monetary policy network, in a wider, international context. Bell argues that standard theories of political science based on closed-economy models are insufficient in order to explain Australia's recommitment to CBI since they exclude the fundamental structural changes and globalization of international financial markets that embedded this domestic process. Whereas political scientists traditionally have tended to view changes in the role of central banks as a result of domestic pressure group politicization over monetary policy, political business cycles and government-central bank conflict only, Bell argues that these domestic processes are decisively influenced by the international institutional, political and economic context in which they take place.¹⁷

¹⁷ S. Bell, "Open-economy Central Banking: Explaining Australia's Recommitment to Central Bank Independence", *Australian Journal of Political Science*, vol. 367, no. 3, 2001, pp. 459-480; Bell 2002.

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In accordance with the approach of the dynamic-institutional tradition, Bell limits his model of state embeddedness to a specific historical setting: the globalized economy of the 1980s and 1990s. However, perhaps his theoretical perspectives also can be applied to the pre-globalization period after World War II. During the first postwar decade, a new institutional framework for the exchange of goods and capital had to be developed to replace the former gold standard system. As a small, traditionally open economy, Norway totally depended on taking part in this process, which was characterized by much uncertainty as well as economic and political unrest. Based on Bell's model of embedded statism, the question in our context is thus to what extent and in what way did this international process affect the development of a new role for the BoN.

In his most recent academic contribution, Bell has focused on another important dimension in the study of central banks, namely the balancing of theory versus practice. Commenting on the contemporary literature on CBI, Bell argues that although this model has been underpinned theoretically, there is a critical shortage of empirical studies on how CBI has worked in practice. Based on his own empirical studies, Bell questions the theoretical presumptions that monetary policies and independent central banks are characterized by rule compliance and transparency (such as inflation targeting and publications of inflation forecasts) rather than discretion and political consultations in policy-making. Bell argues that the very nature of central banking, as part of a political system, encourages various forms of non-transparency, and he rejects the idea that central banks are insulated from particular interests and thus 'depoliticized'.¹⁸

Bell's call for empirical studies of today's central banking agrees well with Stockdale's emphasis on the need for such examinations in order to determine the changing role of central banks also in a historical perspective. Moreover, Bell and Stockdale share a common theoretical view of central banks as institutionally embedded, yet capable of maneuvering purposefully within this institutional framework. As Bell has described it:

¹⁸ Bell 2004; M. Beeson and S. Bell, "Independent Central Banks and the Democratic Deficit: The Reserve Bank of Australia and the Politics of Ambiguity", unpublished paper available online at: <http://eprint.uq.edu.au/archive/00001701>, Brisbane; University of Queensland, 2004.

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The role of institutional arrangements is context specific and variable. Neither governments nor central banks are necessarily passive in the face of institutional arrangements and their strategy in this respect will depend on their own motives and on the wider context.¹⁹

In order to understand how and why the role of the BoN changed after World War II, such general, yet historically rooted theories on changing central banks are useful, among other things, for empirically examining, identifying and explaining social relations and behavioral characteristics. In the following section of this chapter, I will elaborate on my approach to theory and its application in general.

Theoretical considerations

Basically, I have an eclectic approach to theory in the sense that I apply various theories or parts of theories, which can shed new light on the different aspects of my particular historical study. Along with many historians, and in contrast to natural sciences and many social scientific disciplines, my approach to theory is not driven primarily by an ambition to develop new theory. Instead, theory is a source of new research questions, concepts, and explanatory models, which can add to the understanding of historical events. In the words of the historian Rolf Thorstendahl, these different approaches to theory reflect different scientific purposes of natural and social scientists, on the one hand, and most historians, on the other:

Science lives by theories and in science ‘news’ means new theories, which are accepted as the valid ones. Historical scholarship lives rather by a combination of factual findings and reflections on the validity of evidence for the understanding of the past. Theories enter this understanding as the instruments for creating historical news rather than as part of an objective of theory-making.²⁰

Despite these limited theoretical ambitions, theory is an important part of any scientific study. All scholars use theory throughout the research process, from the generation of research questions, via the selection of empirical

¹⁹ Bell 2001, p. 468.

²⁰ R. Thorstendahl, “Thirty-Five Years of Theories in History”, *Scandinavian Journal of History*, vol. 25, no. 1-2, 2000, pp. 1-26 (quote: p. 2).

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evidence, to the interpretation and presentation of their findings. Whereas some disciplines apply theory explicitly by requiring that scholars state their theoretical standing in detail, historians traditionally have used theory more implicitly by for instance interpreting actors as rational or utility maximizing without actually pronouncing any specific framework of behavioral theory. A classic argument for the first approach is that explicit theoretical accounts make underlying assumptions more visible and easier to evaluate, while scholars of the latter tradition argue that a strict and complete theoretical framework will impose “tyrannical” guidelines on research and restrict the analytical perspectives of researchers.²¹ A compromise between these two extremes, which is preferred by many historians today including myself, is to select certain key concepts and build loose theoretical frameworks, which can contribute to systematizing a course of events and clarifying causal mechanisms without being too deterministic.

Even though I prefer an eclectic approach to theory, most of the theoretical perspectives I apply are rooted in institutional theory, a theoretical category of wide scope. Institutional theory includes variants of different behavioral assumptions and epistemological approaches, such as economic institutional theory, which regards individuals as rational actors who use cost-benefit logic when they relate to their institutional setting, and sociological institutional theory, which usually emphasizes how the structural surroundings determine individual actions by the internalization of values and establishment of routines. A common feature, however, is the perception that institutions constrain and regularize individual behavior, as expressed by the economic historian Douglass C. North:

[Institutions] establish the cooperative and competitive relationships which constitute a society and more specifically an economic order (...). It is the institutional framework which constrains peoples' choice sets.²²

²¹ See the classic debate in Norwegian historiography between the historian Jens A. Seip and the sociologist Gudmund Hernes: J.A. Seip, “Modellenes tyranni”, in *Problemer og metode i historieforskningen*, Oslo: Gyldendal, 1975/1983, pp. 199-227; G. Hernes, “Modellenes maskerade”, *Historisk Tidsskrift*, vol. 56, no. 1, 1977, pp. 80-90.

²² D.C. North, *Structure and Change in Economic History*, New York: W.W. Norton, 1981, p. 201.

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According to North, institutions control human behavior much in the same way that rules of a game control the players. He uses the metaphor of a soccer game, and argues that the institutional rules that influence human action can be compared to the three types of rules that structure this game. There are formal rules, which lay down the number of players, the size of the pitch, and how to carry out the game; informal rules, which constitute the culture and norms that create notions such as fair play and team spirit; and meta-rules, which determine how to change the rules. By using the metaphor of a game, North acknowledges that individuals are not free to do entirely what they want, but at the same time he presents the rules as relatively explicit and understandable. As a representative of the economic branch of institutional theory, he also emphasizes the ability of individuals to reflect consciously upon their institutional framework and choose whether or not they should obey the formal and informal rules. In this respect, North's approach diverges from other branches of institutional theory, more oriented towards sociology, which tend to see institutions as internalized norms and values that individuals follow routinely. Some sociologists, associated with a so-called cognitive branch of institutional theory, go even further and regard institutions as symbols, words, signs, gestures that shape the meanings actors attribute to objects and activities, and help them make sense of what is happening. In the terminology of North's soccer game metaphor, this far more abstract approach to institutional theory entails that the game not only involves rules and enforcement mechanisms, but also consists of socially constructed players.²³

From an eclectic's point of view, the various behavioral theories and epistemological traditions of institutional theory do not necessarily represent a problem. On the contrary, they can make an excellent starting point for discussing different interpretations of human interaction and for giving balanced assessments of historical events. People are multi-dimensional, and human interaction is a complex matter. Thus, rather than constructing general theories by reducing the number of dimensions shaping human behavior, as many social scientists would do, I aim at accentuating and understanding this complexity by applying different theoretical perspectives. As a historian, I believe that human behavior cannot be generalized but depends on the historical and geographical setting in which it takes place.

²³ For a concise overview of the various branches of new institutional theory, see R. Scott, *Institutions and Organizations*, 2nd ed., Thousand Oaks, Calif.: Sage Publications, 2001, chapter 3.

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Human behavior is not *either* rational and profit maximizing *or* totally determined by external forces; it is usually a combination of these extremes. People might be partly trying to increase their personal power or wealth, but at the same time be influenced by their institutional setting, a setting upon which they can reflect only partly, since it is, to some extent, internalized. In other words, people are complex, and if scholars operate with too rigid and simplified behavioral assumptions, they might miss out on important aspects of their object of study.

Institutional theory generally emphasizes the stabilizing effects of rules, norms and values on social development as well as individual behavior. However, from the 1920s to the mid-1950s, the political, economic and cultural environment underwent considerable changes, which means that the period in question here was one of institutional change rather than stability. Old rules, norms and values met new ones, and there were no clear breaks between two consistent institutional regimes. Rather than being surrounded by a fixed, unambiguous institutional framework, individuals and organizations faced inconsistent and changing expectations, as well as new challenges and opportunities.

A theoretical concept that aims to explain such institutional changes is ‘institutional entrepreneurship’, a term that has attracted considerable attention in recent years. This concept combines perspectives from literature on institutions, which emphasize the stabilizing effect of rules, norms, and cognitive perceptions, and entrepreneurship, which accentuate how institutions are themselves shaped by creative entrepreneurial forces that bring about change. It thereby brings light to the dual perspective that often emerges in historical examinations that organizational and social processes are usually characterized by both continuity and change. This theoretical approach tends to view actors as institutionally embedded, but by developing strategies of change and entering into negotiations with other organizations or individuals, they can also bring about institutional change that again constitutes a new, stabilizing institutional framework. By emphasizing the strategic elements and forces behind institutional change, this approach tends to present this as the result of strategic and skillful action by entrepreneurs who “narrate and theorize change in ways that give other social groups

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reason to cooperate".²⁴ However, as we will see below, such strategic and conscious explanations constitute only one of several possible perspectives underlying individual behavior. In order to understand the mechanisms underlying institutional change, it might thus be necessary also to apply other theoretical perspectives.

In conclusion, as a student of social matters and human interaction, I choose to apply a wide set of tools – theories as well as key concepts – in order to interpret the particular events at hand. In the following, I will discuss some key concepts that can add to our understanding of how and why the BoN developed as it did during the post-WWII period.

Key concepts I: Roles

A key concept emphasized by the normative branch of institutional theory is the notion of roles. Defined as “patterns, as configurations of goals, attitudes, and behaviors that are characteristic of people in particular situations”, the concept of roles draws attention to an often-occurring standardization of human action.²⁵ Roles can be generated from formal positions – for example the position of central bank governor – in which an actor is expected to behave in a particular way, or they can take shape over time from informal interaction that creates expectations of a certain behavior. An important aspect of this concept is that a role not only imposes constraints on social behavior: by being associated with certain rights and privileges, it also empowers and enables social action.

According to the underlying behavioral assumptions of economic institutional theory as defined by Douglass North, we have seen that the key question for an individual in a social setting would be: *What are my interests in this situation and how do I fulfill them – by manipulating or adapting to the institutional framework?* In contrast to this ‘cost-benefit’ logic, the normative branch of institutional theory argues that rational action is grounded in social contexts that specify appropriate means to particular ends.

²⁴ R. Garud, C. Hardy, and S. Maguire, "Institutional Entrepreneurship as Embedded Agency: An Introduction to the Special Issue", *Organization Studies*, vol. 28, no. 7, 2007, pp. 957-969 (quote: p. 962). This special issue gives an up-to-date introduction to the term institutional entrepreneurship and its application in various fields of research.

²⁵ Quoted from Scott 2001, p. 39.

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This generates a different key question for individuals: *Given my role in this situation, what is expected of me?* According to the normative branch of institutional theory, values and normative frameworks structure the actors' choices by, on the one hand, defining what are preferred or desirable goals and, on the other hand, specifying the suitable way to pursue these goals. However, even if the values and normative institutions are often internalized, this does not imply that human behavior is unreasoned or automatic. Since institutional rules have to be adapted to every particular situation, actors must select and interpret the appropriate rules. And in this process of selection and interpretation, the normative branch of institutional theory assumes that actors will attach more importance to environmental expectations than to their personal preferences.

The concept of roles can add important perspectives to our understanding of how and why the individuals who participated in developing a new role for the BoN acted as they did. Rather than interpreting policy initiatives or confrontations as mere reflections of quests for power and influence, the concept of roles draws our attention towards the institutional context of these events and suggests that they alternatively – or partly – were attempts to meet environmental expectations. During the period of interest here, the expectations regarding the central bank and its governor were shifting from anticipations of political independence towards notions of the central bank as part of a politically controlled bureaucracy and the governor as a loyal civil servant. A question is thus how did the BoN respond to these changes and to what extent did the governor and his officials take new expectations of political loyalty into account. By applying the concept of roles as an alternative dimension to the notion of power-seeking strategists, we can thereby more easily explore and explain complexities in individual and organizational behavior.

Key concepts II: Organizations vs. institutions

In everyday language, the two concepts of organizations and institutions are often used as synonyms. Large firms or organizations are referred to as institutions without any further reflection. Institutional theory, by contrast, provides a clear conceptual distinction between the two: institutions are defined as the formal and informal rules that regularize behavior, while organizations are viewed as a specific type of participant within this institutional framework. In the case of central banks, this conceptual distinction can add to our understanding of their nature since they can be viewed as both organizations and institutions.

On the one hand, central banks are organizations that have to relate to a surrounding institutional context. In interaction with the political authorities, the financial markets and the general public, central banks have to take a

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wide set of rules, norms and values into account in order to perform their tasks effectively. And when this institutional framework changes, as it did from the inter-war period onwards, central banks might have to change their behavior in order to survive. Hence, studying how the BoN operated as an organization becomes an important element in explaining the development of a new role after World War II.

On the other hand, central banks constitute part of the institutional framework in which they operate. By virtue of its long history, its economic expertise and its traditionally key role in conducting monetary policy, the BoN had traditionally been an important generator of economic institutions such as legislation, directives, and informal rules as well as more abstract values and norms. During the post-WWII period, the position and tasks of the BoN changed, and an important question is to what extent did the central bank continue to serve as part of, and further develop, the institutional framework that regulated economic behavior in general and the working of the financial markets in particular.

Key concepts III: Central bank independence

While I have generated the two above concepts directly from institutional theory in order to achieve a better understanding of the behavior of individuals and organizations in my empirical study, the final key concept – central bank independence (CBI) – needs some further elaboration and development. As mentioned earlier, during the post-WWII period there was a recognized discrepancy between the legislative status and the actual position of the BoN. Despite political ambitions to control the central bank, the liberalist central bank law of 1892, which granted the BoN extensive operational autonomy, remained virtually unchanged until the mid-1980s. This discrepancy indicates that the concept of CBI is ambiguous and has to be discussed more thoroughly.

Lexically the concept of independence is defined as the power to act, speak or think without externally imposed restraints. Based on this definition, a central bank would be politically independent only if it could act in whatever way it preferred. For central banks this will never be the case, since they are created as part of a political and economic system. Most scholars agree that whether a central bank has an independent or politically controlled position, the political authorities usually decide policy objectives and define a framework within which it has to operate. However, when it comes to the importance and nature of this framework the opinions diverge. Some scholars stress the element of conflict between the political authorities and the central bank when trying to define the concept of independence:

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A central bank is independent if it can set policy instruments without prior approval from other actors and if, for some minimal period (...), the instrument settings clearly differ from those preferred by other actors.²⁶ [My underlining]

By this definition, independence to a large extent reflects the ability of central banks to resist political pressure. Thus, it is closely associated with the behavioral assumptions of the static-generalizing tradition of central bank literature that depicts central banks as more conservative and predictable than political authorities. This definition makes no acknowledgement of the fact that the socio-economic context surrounding central banks has changed over time and between countries, and that in some periods central banks have been viewed as an integrated party of policy-making processes rather than a corrective of ‘lavish’ politicians. A definition that to a larger extent emphasizes how central banks are part of political systems is:

Autonomy is the scope allowed to the central bank to formulate monetary policy as it thinks best (...) in the light of the Government’s policy and the socio-economic situation.²⁷ [My underlining]

This definition explicitly states that the degree of independence is result of political decisions. It can more easily be applied to various cultural, economic and political settings, and therefore corresponds better with the

²⁶ Woolley 1984, p. 13.

²⁷ Nardozzi 1988, p. 192.

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historical approach of my dissertation.²⁸ This definition also acknowledges the fact that even independent central banks have to take the preferences of politicians into account, since ultimately it is the political authorities that can grant central banks independence and can thereby also abolish it. As Francis Sejersted has pointed out:

It is only on the surface that the CBs [central banks] can act independently. In a broader perspective the CBs must act as an integrated part of a political system which is designed to serve the common good and which has defined reasonable stability as desirable. The CBs can only confront the government in conflict as long as there is a deeper consensus on the policy pursued.²⁹

Most scholars who study the matter of independence quickly realize that there often are discrepancies between a central bank's legal status and its actual role. Usually, central bank legislation only gives a rough indication of the actual role, and in some cases – as in post-WWII Norway – it can be directly misleading. Thus, scholars often establish a dual conceptual distinction between the formal, legal or *de jure* status of central banks, on the one hand, and their actual, behavioral or *de facto* position, on the other.³⁰ According to this approach, the conventional view on the BoN during the post-WWII period would be that its *de jure* position was one of political

²⁸ The definition also draws attention to a possible conceptual distinction between *independence* (which is most frequently used) and *autonomy*. The two concepts are often used alternately, but one possible interpretation is that the concept of independence emphasizes the lack of institutional constraints (lexically defined as “existing alone”), whereas the concept of autonomy entails operational freedom (defined as the “power or right to govern oneself”). Throughout this dissertation, both concepts will be applied but, in accordance with the present discussion, their meaning will be associated with operational freedom, since I have argued that central banks always will be part of political systems and do not exist alone. For a discussion of this conceptual distinction and the concept of autonomy, see T. Lybek, “Central Bank Autonomy, Accountability, and Governance: Conceptual Framework”, presentation at the LEG 2004 Seminar at the International Monetary Fund, August 18, 2004

[<http://www.imf.org/external/np/leg/sem/2004/cdmfl/eng/lybek.pdf>].

²⁹ F. Sejersted 1994, p. 11.

³⁰ In the international literature, various concepts have been used to establish this distinction. I have picked the concepts of *de jure* and *de facto* independence from Kenen 2000.

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independence, while its *de facto* role was characterized by total political control.

Based on my suggestion that the BoN obtained a more influential role than usually assumed, I find it necessary to introduce an additional conceptual distinction: the *declared* position of central banks. The concept of declared independence captures the publicly announced ambitions of the political authorities regarding the central bank, whether they wish to control it or to grant it independence. In our case, the declared position of the BoN was one of total political control and organizational subordination to the Ministry of Finance. Then it remains to be seen throughout this study whether this declared position equaled the central bank's *de facto* role.

Methodological approach

Although theoretical frameworks and concepts can add to our understanding of the changing roles of central banks, I realized early on in my study that in order to survey and explain the specific nature of the changes that took place in Norway after World War II, it was necessary to carry out in-depth empirical examinations of how, to what extent, and why the BoN took part in policy formulation and implementation. Empirical spot tests drew a complex, and partly confusing, picture that suggested that the central bank, on the one hand, participated more actively in the development of Labor's economic policy than usually assumed but, on the other hand, was subject to fundamental intervention from the political authorities. Hence, in order to understand how and why the BoN found a new role, and thereby explain this apparent paradox between active participation and extensive political control, I had to study in detail policy-making processes in which the central bank took part or tried to take part. Moreover, as I argued above, even though embedded in institutional frameworks and international and national contexts that restrain their freedom of action, central banks are actors themselves and have a possibility of forming their role in interaction with their surroundings, an assumption that also calls for examinations of how the central bank operated in practice.

Based on these considerations, my methodological approach has been to examine the relations and interaction between the BoN and selected agencies that were important in policy-making processes that traditionally had included the central bank. With reference to the theoretical notion of central banks as intermediaries between public and private sectors, between the

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political authorities and the financial markets, these agencies should include representatives of, on the one hand, the political authorities, which were in charge of designing and implementing a new economic policy more in tune with new ideals of economic planning and controls and, on the other hand, the financial institutions, which were subject to these regulations.³¹

Perhaps the most important representative of the political authorities in our context was the Ministry of Finance [*Finansdepartementet*], as Labor in 1945 had explicitly made this agency responsible for coordinating the monetary policy, including the operations of the BoN, the credit policy of the banks, and the foreign exchange policy with its broader economic policy. However, even though the establishment of the Ministry of Finance as a ‘Super-Ministry’ was a declared ambition, the formal responsibility for some of these policy areas was assigned to other agencies, such as the Ministry of Commerce [*Handelsdepartementet*], which was in charge of important parts of the foreign exchange policy. It is therefore necessary also to examine the relations and interaction between the BoN and this Ministry in order to detect whether the position of the Ministry of Finance became as dominant as originally intended or whether the Ministry of Commerce also influenced the position of the central bank.

While the Ministries of Finance and Commerce appear as the most important representatives of the political authorities, the financial institutions were represented by their national organizations, the Norwegian Bankers’ Association [*Bankforeningen*], which in 1945 served the approximately 100 joint-stock banks, and the Central Association for Norwegian Savings Banks [*Sparebankforeningen*], which organized more than 600 savings banks.³² These two banking associations played an important part in the communication between the political authorities and the individual banks, as the decentralized structure of the Norwegian banking sector, with a large number of units spread around a wide geographical area, made direct contact with each bank a time-consuming and difficult task. Influencing the banks through their national associations thereby appeared as one possible way to control the volume and allocation of credit. The BoN had, in addition to its regular communication with individual banks, traditionally used the banking

³¹ By the concept of ‘political authorities’, here I mean the *Stortinget* (the national assembly), the government, and the different Ministries serving the government.

³² *Historisk statistikk* 1978, Central Bureau of Statistics: Oslo, 1978, tables 261 and 262.

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associations to exchange information with the banking sector, information that the central bank could use not only as part of conducting policy but also to establish an influential position regarding the political authorities. Hence, developing constructive interaction with the banking associations could potentially be an important element in creating a new role. Examining these relations thereby becomes an important approach in my study.

The relations between the political authorities, the banking associations and the central bank were developed not only at an organizational level, through the formal communication of their official views and arguments. They also evolved through interaction between individuals – such as the central bank governor, the finance minister and the head of the Bankers' Association, who participated in informal and formal discussions regarding policy formulation and implementation. This type of individual interaction can uncover unexpected positions and alliances that can help to explain how the central bank found a new role. Examining such individual interaction 'behind the scenes' in addition to the more formal procedures will thus form a crucial part of this study. It is important to note, however, that such emphasis on individual action does not imply a disregard for either the surrounding economic and political events or the international and national institutional context. Quite the contrary: as I have argued above, this context constitutes a setting that not only influenced the participants in general, but also often had direct consequences for the influence and autonomy of the central bank.

Research questions and dissertation outline

Based on the above account, the main research question of this dissertation can be summarized as follows:

- How did the BoN find a new role during the period 1945-1954 – and why?

Throughout this introductory chapter, I have presented some supplementary problems for discussion that elaborate important aspects of this question:

- To what extend did the BoN participate in the formulation and implementation of Labor's economic policy after World War II, and how did this influence the development of its new role?
- How significant was the international context for this development? Is the theoretical notion of 'embedded statism' relevant for understanding the changing role of the Norwegian central bank?

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- To what extent did the BoN serve as a boundary organization between politicians and financial markets, between domestic and international concerns, as suggested by theory? And – if so – how did this position as mediator influence the development of its new role?
- How do the concepts of legitimacy and trust relate to this process?
- What was the relation between the *de jure*, the *declared*, and the *de facto* position of the BoN during this period? And why was the old Central Bank Act of 1892 not replaced by new legislation?
- Can the concept of *roles*, as generated from the normative branch of institutional theory, add to our understanding of the policy-making processes after World War II, including the process of finding a new role for the central bank?

The above discussion has also generated a question of more general interest for students of Norwegian economic policy in the 20th century:

- Is the concept of a static dichotomy between ‘old’ and ‘new’ economic theory regimes adequate for understanding the policy-making process after 1945? Or was this process characterized more by dynamic development and perhaps convergence between different views? How important was reasoning based on economic theory, compared to practical problem solving, for the development of Labor’s new economic policy?

These questions will be discussed throughout the remaining dissertation, which is organized in five empirically based chapters and one concluding section at the end. The five empirical chapters constitute an in-depth examination of the BoN in the formulation and implementation of Labor’s economic policy during the first post-war decade. This analysis is presented chronologically, where chapter 1 establishes the position of the central bank by 1945. Based on a historical overview of its traditional tasks, authority and autonomy, chapter 1 discusses the consequences of the economic crises of the interwar period as well as World War II for the legitimacy, authority and operations of the central bank. It also examines whether the BoN at this point in time held a position as a boundary organization. The chapter also debates why the majority Labor government chose to appoint Gunnar Jahn, a prominent political opponent and economist of traditional orientation, as the new central bank governor, instead of a party member or a sympathizer of centralized planning and market controls.

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Chapters 2 and 3 examine the role of the BoN during the recovery years (1945-50), when the economic policy still was characterized by direct controls and primarily aimed at reconstructing the economy from wartime devastation. Chapter 2 (1945-48) discusses the position of the central bank in maintaining these domestic regulations, before turning attention towards the foreign exchange policy to analyze how and why events in the international capital markets triggered the domestic process of finding a new role for the BoN. This chapter continues the analysis of the central bank as a boundary organization by examining one side of this position: the relations with the political authorities, represented by the two Ministries of Finance and Commerce.

Chapter 3 handles the second half of the recovery period (1948-50), which was a turbulent period both internationally and in Norway, as it became increasingly difficult to maintain an economic policy based on direct regulations. The chapter continues the analysis of the complex interaction between the BoN and the political authorities. Through analyses of various policy processes, it identifies four important dimensions of concern for the development of a new role for the central bank, namely ownership, organization, financial status, and its constitutional position. The chapter also suggests that the Labor government was torn between ideological considerations and practical problem solving and debates how this affected its initiatives towards the central bank.

The years 1950-51, which will be analyzed in chapter 4, represented a new window of opportunity for the BoN, as the economy was on the verge of transformation from extraordinary to ‘normal’ times. Due to the new international obligations to liberalize and the domestic problems with maintaining the direct regulations, the extraordinary measures of the recovery period had to be replaced by new policy instruments, a situation that created an opening to reintroduce the central bank to domestic policy-making. The chapter discusses how the BoN responded to this opportunity, and why during these years of transition it managed to establish what would become a lasting position in the formulation and implementation of Labor’s new credit policy. The final empirical chapter, chapter 5, concerns the last years of Gunnar Jahn’s governance (1950-54), and debates to what extent this new position in the credit policy, combined with the changes that had taken place since the war, contributed to the institutionalization of a new and redefined role for the central bank that would have lasting implications.

The concluding chapter summarizes my empirical findings regarding how and why the BoN found a new role in new and unfamiliar institutional surroundings during the first post-war decade. It will also bring forth theoretical perspectives and implications for this case study as well as for the role of central banks in general.

1 Changing context and preconditions: The Bank of Norway at the threshold of the post-WWII world

In order to understand how and why the role of the Bank of Norway (BoN) changed after World War II, we need to establish the status of the Bank by 1945. This chapter will trace important characteristics of the Bank's long history, identify key features of its role during the gold standard period and illustrate how the outbreak of World War I and suspension of the gold standard in 1914 marked the beginning of the end of the traditional version of central banking. The economic crises of the 1920s and 1930s generated new ideas of increased state planning and control, and the chapter addresses how and why this influenced the authority and tasks of the BoN. This increased criticism of free-market solutions, combined with positive experiences with market regulations during World War II, implied that by 1945, the Norwegian central bank faced a whole new political and economic setting of increased political control and market regulations. What role was prepared for the BoN and other central banks in this new setting, and how did the central bank respond to the fundamental changes in its surroundings?

To evaluate the above perspectives and questions, this chapter is organized in nine sections, of which the first two analyze how the BoN developed during the 19th century and moved towards becoming a modern central bank. Section 1.1 examines the position and strategies of the central bank in monetary policy formulation and implementation, while section 1.2. debates the matter of central bank independence (CBI) and analyzes the relationship between the BoN and the political authorities on the one hand, and the banking sector on the other. Section 1.3 discusses how events during and after World War I fundamentally threatened the legitimacy of the BoN in terms of questioning its authority as well as autonomy, and section 1.4. evaluates how economic crises and the growing critique of free-market economies after the final breakdown of the gold standard in 1931 created new preconditions and tasks for the central bank. Section 1.5 examines the consequences of World War II for the already battered legitimacy of the BoN. It also demonstrates how the occupation of Norwegian territories created new alliances, which would endure well into the postwar period of reconstruction and form an important basis for the further relations between the political authorities and the central bank.

The point of departure for sections 1.6 and 1.7 is the appointment of a new central bank governor in January 1946, Gunnar Jahn, who was a well-known

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liberal politician and economist of traditional orientation. Section 1.6 tries to explain why the newly elected Labor government chose this political opponent rather than a party member as the new governor, while section 1.7 debates why Jahn, despite serious reservations, accepted this post. Through these explanations, the two sections also sum up important characteristics of the political setting in which the central bank was to find a new role. The changes in the role of the BoN from the 1930s onwards were part of general trends in international central banking towards increased political control. Section 1.8 presents some contemporary theoretical perspectives on how central banks should relate to their new surroundings, and examines to what extent the new governor of the BoN acted in accordance with theories. Section 1.9 draws some summary conclusions on the changing context, preconditions and characteristics of the BoN during its first 130 years of operation.

1.1 Central banking and monetary policy during the 19th century

In an international perspective, the Norwegian central bank has a long history. While most modern central banks were established towards the end of 19th century or later, the Norwegian authorities decided to establish a national bank with the exclusive right to issue bank notes already in 1816, only two years after Norway became an independent kingdom in personal union with Sweden.¹ At this point in time, central banks had little in common with the modern version of the concept, and instead served mainly as ordinary commercial banks. In Norway, there was hardly any financial infrastructure and when the BoN started its operations in 1818, it served as the country's only commercial bank, issuing notes and providing loans to the public.

The BoN was initiated by the State but the owners were mainly private. When the original idea of funding a joint public-private national bank failed, the authorities instructed private individuals to contribute to a statutory fund for the new bank by issuing a mandatory 'silver tax'. Later, there were many tales of people who were forced to give up their savings and family silver in order to establish the first national bank, and from then on, private individuals and organizations played an important part in the ownership of

¹ By 1816, only six countries had established (what gradually would become) central banks: Sweden (1668), England (1694), Spain (1782), France (1800), Finland (1811) and the Netherlands (1814). See P. L. Siklos, *The Changing Face of Central Banking*, Cambridge: Cambridge University Press, 2002, table 1.2.

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the BoN. However, from the very beginning these private owners were passive, in the sense that they did not have any influence either on the conduct of the Bank or the appointment of managers and other representatives. Instead, they merely collected their annual share dividend and thereby in practice appeared more like bondholders.²

The rationale behind this arrangement was that the interests of the private owners were protected by their elected representatives in the Norwegian national assembly, the *Storting*, which according to the Constitution, section 75c, was responsible for superintending the national monetary system.³ Monitoring the operations of the central bank was defined as part of this responsibility. Thus, from early on, the formal reporting line from the BoN to the political authorities went to the Storting rather than the government, a constitutional practice that, as we will see, the Labor government challenged after World War II.⁴

Due to the slow growth of the Norwegian financial system, the development of the BoN from a commercial bank towards a modern central bank gathered headway only from the 1870s onwards. Far into the 20th century, the BoN continued to offer credit to the public, especially in the Northern regions of the country where the banking system was poorly developed, but towards the end of the 19th century, there was a growing acknowledgement of the need for a professional central bank with a unique position in the financial system, as expressed by finance minister Evald Rygh in a parliamentary debate in 1890:

(...) the position of the central bank should be that of a regulator
(...). It should not be a forerunner in the competition with the
private banks. The bank's mission is, besides note issuing, to
secure a reserve capital for the whole commercial life of the
country and in particular for the banking community. In places
where the circumstances are more mature than here, the most

² On history of the silver tax and the establishment of the BoN in 1816, see N. Rygg, *Norges Banks historie. Første del*, Oslo: Norges Bank, 1918, pp. 1-118.

³ Constitution for Kongeriget Norge, signet at Eidsvoll May 17, 1814. Section 75c states that "Det tilkommer Storthinget (...) at føre Opsyn over Rigets Pengevæsen". For a legal discussion of section 75c of the Constitution, see Syrstad 2003, chapter 8.

⁴ See chapter 3.2.

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important role of the central bank is to be, if I may say so; the bank of the banks; the banker of the bankers.⁵

Besides serving as “the bank of the banks”, the main task of the BoN was to formulate and implement the monetary policy. During the 19th century until the breakdown of the gold standard system in 1914, the principal objective of this policy was to maintain the convertibility of the Norwegian currency, the *krone*, from 1842 to silver and from 1874 to gold. These were market-based international monetary systems with free capital flows, in which the national currencies were fixed at specific levels related to silver or gold. The key policy instrument was the central bank’s discount rate, that is the rate of interest banks paid when they rediscounted commercial papers in the central bank. Traditionally, monetary policy during the gold standard has been interpreted as more or less automatic responses to changes in the gold reserves, where the central bank raised the rates by gold outflow and lowered them by gold inflow. Such changes in the discount rate influenced the balance of payments both by stimulating the inflow or outflow of short-term capital and by affecting the domestic demand for consumption and investment goods. In theory, the gold standard was thus a self-regulating system that ensured a stable framework for business activities and consumers alike, all in accordance with the predominant liberalist ideology at the time, which assigned no place for more active government or central bank intervention in the economy.

In practice, the working of the gold standard system probably was more complex than the above account suggests. A single focus on the external value of a currency could have serious consequences for the domestic economy, if for example a raise of the discount rate due to gold outflow coincided with a business cycle contraction or with seasonal variations that caused foreign reserves to be at a low ebb at the same time as domestic demand for money peaked. This systemic tension between international and domestic concerns was acknowledged at the time, and recent research by the economic historian Lars F. Øksendal indicates that the BoN at times exercised considerable discretion in its monetary policy. Øksendal demonstrates how the central bank changed its discount rate not only to influence the external balance but also to accommodate changes in seasonal variations in the demand for money and smooth business cycles at home.

⁵ Quoted in L. F. Øksendal, “Monetary policy under the gold standard – examining the case of Norway, 1873-1914”, essay for doctoral dissertation, forthcoming September 2007, Bergen: NHH, 2007a, p. 61.

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Moreover, in order to shelter the domestic money supply from changes in the balance of payments, the central bank also counterbalanced declining gold reserves in economic downturns by expanding its own domestic lending, and used its relatively large note reserves and holdings of foreign bonds and bills as an operational buffer. This type of monetary sterilization was far from the notion of an “automatic” system, but, according to Øksendal, as long as the central bank did not undermine its credibility by systematically violating the fundamental link between the gold reserves and the number of notes in circulation, there was room for such discretion also during the gold standard.⁶

Øksendal demonstrates that the BoN from surprisingly early on used rather advanced techniques in its monetary operations. He also adds important nuance to the conventional view of the late 19th century as a pure liberalist area and the monetary policy of the time as an automated procedure. However, despite these important modifications, compared to later periods of active state intervention in the economy, the direct involvement of the central bank during the gold standard appears quite moderate.

The introductory chapter presented a theory on boundary organizations, which portrays central banks as agencies operating in the boundary zone between international and domestic concerns and between the public and private spheres, and asked to what extent this theoretical perspective could contribute to our understanding of the role of the Norwegian central bank. During the 19th century, the BoN did develop clear characteristics of a boundary organization. In this section, we have seen that within the framework of the gold standard system, the central bank actively handled tension between domestic and international concerns in the monetary policy. Moreover, in the process of managing the foreign exchange rate, the BoN developed close relations with other central banks, the Bank of England and the other Scandinavian central banks in particular, and thereby obtained information and gained experience in international policy matters and central bank cooperation.⁷ In the following section, which discusses the matter of CBI during the 19th century, we will see that the BoN, to an increasing extent, also fulfilled the second dimension of this theoretical perspective and

⁶ Øksendal 2007a

⁷ See Øksendal 2007a; L. F. Øksendal, "The impact of the Scandinavian Monetary Union on financial market integration", forthcoming in *Financial History Review*, vol. 14, 2007c.

established a boundary position between the political authorities and the private banks.

1.2 Independence and political supervision

The ideal for central bank operations towards the end of the 19th century was one of political independence. In order to prevent the government from financing its activities by printing money, as had happened for example during the Napoleonic Wars, or influencing the monetary policy to please the electorate in the short run, monetary policy formulation and implementation were to be left in the hands of an independent and powerful central bank, which was assumed to be better equipped to secure the long-term monetary interests of the nation. Internationally, this rationale often was confirmed by institutional arrangements, such as assigning the responsibility for monitoring the central bank to the legislative assembly rather than the executive government or establishing by law the *de jure* independence of the central bank. In the case of Norway, the liberalist idea of CBI was a declared ideal during the 19th century. However, to what extent was this manifested in practice? Did the legal framework surrounding the central bank underpin the idea of political independence? And did the organization and operations of the central bank reflect this ideal?

Until the 1870s, the BoN had a weak organizational structure, poorly suited for efficient policy-making and independent action. The governing bodies of the Bank employed by local merchants and civil servants with limited understanding of monetary policy, and who served in a part-time capacity only. Moreover, the central bank had a decentralized structure with a series of branches that enjoyed a strong level of autonomy. The branches had their own boards and the right to set their own interest rates, which obviously undermined the discount rate of the head office as a policy instrument. In addition, the head office was placed in Trondhjem, a provincial city far from the commercial and financial markets in the capital Kristiania. This has usually been interpreted as an act to ensure political independence, since Trondhjem was a distant location also in a political context. However, in practice, this placing helped undermine the authority of the head office, since the branch in Kristiania employed far more resources and often clashed with the head office on policy issues.⁸ Thus, during its first decades of operation,

⁸ This account is based on Øksendal 2007a, pp. 19-20, and Rygg 1918. Rygg also mentions an alternative argument for placing the head office in Trondhjem, namely regional policy reasons: "not all institutions should be situated in the capital" (p.

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the BoN had neither the organizational structure nor the resources to serve as an authoritative central bank.

Around 1890, several institutional reforms helped strengthen the BoN as a professional organization. In 1893, Karl G. Bomhoff was appointed as the first full-time governor. Moreover, a unitary bank rate was introduced for the whole country. These changes substantially reduced the power and autonomy of the branches, a process that was confirmed with the relocation of the head office to Kristiania in 1897. These reforms were based on ideological and political acknowledgements of the need for an autonomous “bank of the banks” as part of the modernization of the financial system. Such acknowledgements represented an informal institutional change, a normative and cultural precondition for *de facto* CBI, which in 1892 was confirmed by broader formal institutional changes. Then the Storting passed a new Central Bank Act, which established the BoN as a *de jure* autonomous entity and granted it a large degree of operational freedom from political intervention. However, the Central Bank Act of 1892 also demonstrates how the BoN was politically embedded. The Act not only established strict technical specifications for the monetary policy that the central bank had to obey, but also granted the political authorities the right to appoint its governing bodies.⁹

In the literature, one classification criteria used for measuring central bank independence is how and for how long the governing bodies are appointed. Political appointment and limited tenures suggest a higher degree of political control, and vice versa.¹⁰ From this perspective, the Central Bank Act of 1892 prepared for political control rather than independence. All members of the governing bodies were political appointees. Three out of five members of the Board of Directors [*Direksjonen*] and all 15 members of the Supervisory Council [*Representantskap*] were nominated by the Storting, while the government appointed the two head members of the Board: the governor and the deputy governor. The fact that the executive branch of the political

257). In Norwegian politics, such regional considerations have a strong standing to this day, and Øksendal supports this interpretation and describes the choice of Trondhjem as “an act of political horse trading” (p. 19).

⁹ The Central Bank Act of April 23, 1892, in *Norges Lover 1685-1979*, Oslo: Det juridiske fakultet, 1980.

¹⁰ See for example A. Alesina, ”Macroeconomics and Politics”, *NBER.. Macroeconomics Annual*, vol. 3, no. 1, pp. 13-52; Cukierman 1992.

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authorities appointed the two assumingly most influential members of the Board reinforces the impression of political control.

The Board of Directors was responsible for the daily management of the central bank, including current policy-making, while the Supervisory Council formally determined the central bank's order of business and provided the official communication with the Storting. According to the 1892 Act, there was a mutual 6-month period of notice for the governor and deputy governor, but they could be removed instantly (with compensation for lost salaries). This gave the political authorities a potentially strong power to intervene. The members of the Supervisory Council, on the other hand, served six-year terms, and thereby outlasted the three-year election periods of the government and Storting. This implied a potential degree of independence, as the Council members did not follow shifts in the parliamentary majority. The governance bodies of the central bank could thus be dominated by the political opposition, as will be demonstrated in chapter 3.¹¹

Based on the above provisions, the Central Bank Act of 1892, despite being inspired by liberal ideals of CBI, appears to have prepared for a certain degree of *de jure* political control. A systematic study of the *de facto* role of these governing boards and their relations with the political authorities during the 19th century exceeds this thesis and should be a subject of future research. However, Øksendal suggests that there were tighter links between the political authorities and the central bank than is usually assumed when he points out that a number of directors in the BoN also served as members of parliament. The involvement of the politicians was also reflected in connection with the annual reports from the central bank to the Storting, which the members of parliament scrutinized and debated thoroughly.¹²

This contact between the BoN and the Storting adds some nuance to the picture of a completely independent central bank during the gold standard. Nevertheless, in practice, the role of the political authorities towards the central bank was characterized more by supervision than by control and intervention. In accordance with liberalist ideals, the division of tasks between the authorities and the central bank implied that the former established a technical and political framework within which the latter could

¹¹ See the Central Bank Act of April 23, 1892, chapter IV.

¹² Øksendal 2007a, p. 19.

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operate freely. Furthermore, the *de jure* political authority to appoint and remove members of the governing bodies apparently had few practical consequences for the conduct of the central bank. The political authorities never executed their right to remove the central bank governor and between 1893 and 1945 there were only two governors, who each served for about a quarter of a century.¹³

These long periods of service had at least two important consequences. Firstly, they resulted in an increasingly strong associative link between the BoN and its governor in the public mind. In a sense, the governor appeared publicly as a personification of the central bank, while his officials were noticed only rarely. Secondly, the long periods of service probably increased the *de facto* influence of the central bank governor, both internally towards the governing bodies and externally towards the political authorities. Governors Bomhoff and Rygg outlasted a series of governments and elected parliaments as well as most members of the Board of Directors and the Supervisory Council. Hence, these two first full-time governors institutionalized a tradition of prominent individuals who left their personal mark on the formulation and implementation of the monetary policy, a tradition that also appeared in central banks elsewhere.¹⁴

The professionalization of the BoN from the end of the 19th century onwards led to increased authority and autonomy in policy formulation and implementation. It also improved the position of the central bank as a boundary organization between the public and private spheres. The *de facto* independent position of the central bank vis a vis the political authorities implied that both the government and the Storting depended completely on the resources of the BoN for monetary policy formulation and implementation. The authority of the central bank vis a vis the growing banking sector also increased.

During the gold standard, the Norwegian banking sector developed in scale and scope into a decentralized unit bank system of numerous small, locally

¹³ Karl G. Bomhoff served as governor during 1893-1920, while his successor Nicolai Rygg held office during 1920-1945.

¹⁴ Examples of prominent central bank governors of the later interwar period are Montagu Norman (the Bank of England), Benjamin Strong (the Federal Reserve Bank of New York), Emile Moreau (the Bank of France), and Hjalmar Schacht (the Reichsbank). See Syrstad 2003, p. 19; Toniolo 1988.

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oriented savings banks and fewer, somewhat larger joint-stock banks. In 1870, there were 252 savings banks with total assets of 91 million NOK [Norwegian *kroner*], while the 8 existing joint-stock banks had total assets of 51 million NOK. By 1913, the number of banks had grown substantially to 519 savings banks and 116 joint-stock banks. The balance between the two groups had shifted, however, as the total assets of the savings banks amounted to 684 million NOK against the 910 million NOK of the joint-stock banks.¹⁵

As the level of activity increased, the banking sector needed loans and professional assistance from the central bank, and gradually the interaction between the two grew, both in terms of information exchange and financial assistance. A breakthrough in this development – and also in the process of transforming the BoN into a modern central bank – occurred with the so-called Kristiania crash of 1899, a collapse in the capital's real estate market that sent several banks into crisis.¹⁶ During this crisis, the BoN for the first time performed as a lender of last resort, a key feature of modern central banking that implies that an agency – usually a central bank – assists banks in crisis by increasing liquidity and providing loans. By helping many of the banks to pull through, the central bank also protects depositors and prevents further damage to the financial system. As a lender of last resort during the Kristiania crash, the BoN thereby manifested its superior position in the financial system, and also helped establish the central bank as a necessary provider of resources to the banking sector.

By the outbreak of World War I, the BoN thus was established in a boundary position between international and domestic concerns, and between public and private spheres in demand for the central bank's expertise and resources. The Bank's governor and his officials experienced a high degree of autonomy and authority in policy formulation and implementation. This position was based on a high degree of trust in the BoN from politicians and bankers as well as the general public. However, this situation was soon about to change.

¹⁵ Knutsen 2007, table 3.1.

¹⁶ See T. J. Hanisch and H. Ryggvik, "Eiendomskrakket i Kristiania", *TMV working paper*, no. 62, Oslo: Centre for Technology and Culture (TMV), 1993.

1.3 War, economic crisis and declining legitimacy

In August 1914, the gold standard system was suspended due to the outbreak of World War I, and the institutional, political and economic setting for central banking changed dramatically. Instead of a market-based monetary policy system with convertibility and free capital flows, the BoN faced an international setting of extensive wartime regulations aiming at controlling the volume and allocation of resources. Fixed exchange rates were replaced by volatile currencies and, for now, convertibility was a thing of the past. The ideal of CBI was also put aside, and the BoN experienced first-hand how the final authority in policy matters ultimately belonged to the political authorities. An example was the fisheries agreement with the British authorities in 1916, which allowed British purchases of Norwegian fish to be financed through the BoN. The agreement had substantial inflationary effects in the domestic economy but was nevertheless concluded without prior consultations with the central bank. Moreover, the discount rate was set aside as a flexible monetary policy instrument and instead kept at a relatively stable and low level, a policy that further fueled inflation.¹⁷ Hence, during the war, monetary policy was no longer a result of independent evaluation by the central bank, but rather appeared as an integrated part of complex political considerations.

This reduced autonomy and authority of the central bank during World War I was caused by an extraordinary situation, which in itself did not create a precedent. However, events during and after World War I did, indirectly, have fundamental consequences for the future role of the BoN. These events caused not only a serious weakening of the idea of CBI, but also undermined the general trust in free market systems.

As a neutral country, Norway experienced high economic growth during and immediately after the war, a growth that escalated into a financial boom characterized by asset price inflation in the stock market and strong credit expansion. The banking sector boomed too, as the number of joint-stock banks increased from 119 in 1914 to 192 in 1920 and the total assets of these banks more than quintupled from 979 to 5461 million NOK.¹⁸ This intense boom came to an abrupt end in 1920, when post-war depression hit the international economy. During the following decade, the Norwegian economy was characterized by deflation, debt crisis, bankruptcies and

¹⁷ Knutsen 2007, p. 135-141.

¹⁸ Knutsen 2007, table 4.1.

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unemployment. The financial system was seriously threatened as a number of banks and insurance companies had to shut down, despite partly successful efforts from the central bank to perform as lender of last resort. Hence, both at the time and in retrospect, the period from 1920 to the early 1930s was associated with unprecedented economic crisis and collapse. This created a deep mistrust in the concept of free markets, in Norway as in other parts of the world.

The causes of the interwar crisis have been subject to intense debate among Norwegian historians. Some have focused on the monetary policy and argued that the attempts to reintroduce the gold standard and restore the value of the Norwegian currency to prewar parity implied raising interest rates and deflation, which in turn resulted in debt crisis, bankruptcies and unemployment.¹⁹ In this explanation, the BoN plays a prominent role since the newly appointed governor Nikolai Rygg became the chief advocate of the par policy when, in 1920, he declared his determination to return the *krone* to par value. Rygg, who had a professional background in law but possessed considerable expertise in economics and statistics as well, saw the reintroduction of the gold standard as a precondition for a functioning economy. Based on liberal ideals, he also emphasized this as a necessary framework to protect individual legal rights.²⁰ In 1920, these ideals still had a strong standing, and the political authorities backed the decision to reintroduce the gold standard. Thus, once more the BoN was granted operational independence. Throughout the 1920s, the central bank pursued a deflationary monetary policy that eventually reestablished the Norwegian *krone* at par value in 1928. However, this reintroduction of the gold standard was short-lived, as in 1931 Great Britain abandoned this international currency standard for good and the whole system broke down.

In the latest contribution to the debate on the interwar crisis, Sverre Knutsen rejects the par policy as the main cause of the crisis. Despite Rygg's

¹⁹ T. J. Hanisch, "Om virkninger av paripolitikken", *Historisk Tidsskrift*, vol. 58, pp. 239-268; T. J. Hanisch, E. Søilen and G. J. Ecklund, *Norsk økonomisk politikk i det 20. århundre*, Kristiansand: Høyskoleforlaget, 1999, chapter 3.

²⁰ F. Sejersted, *Ideal, teori og virkelighet. Nicolai Rygg og paripolitikken i 1920-årene*, Oslo: Cappelen, 1973. In 1910, Nikolai Rygg was appointed professor of political economy and statistics, a position he held until 1913, when he became head of the National Bureau of Statistics (SSB). He succeeded Bomhoff as central bank governor in November 1920, after an initiative from Prime Minister Gunnar Knutsen.

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intentions of pursuing a deflationary monetary policy from 1920 onwards, Knutsen argues, the BoN did not succeed in implementing this in practice until 1924/25 when the crisis, at least in the banking sector, was a stated fact. Knutsen explains the inflation that occurred in 1920-1922 as a reflection of international price developments, whereas the BoN rather countered this tendency by following an expansionary monetary policy as part of its efforts to perform as lender of last resort. Since most bankruptcies in the banking sector occurred before the par policy was properly implemented, Knutsen concludes that this cannot explain the crisis. Instead, Knutsen applies a financial fragility perspective and suggests that the foundation of the crisis was laid down during the proceeding economic boom. Reckless lending and excessive borrowing during the boom increased the financial fragility and systemic risk and more or less inevitably led to crisis once the boom busted.²¹

Knutsen's examinations bring important new perspectives to our understanding of the interwar crisis. His empirical findings suggest that the par policy intensified rather than caused the banking crisis. Regarding the role of the BoN, Knutsen tones down not only the negative consequences of the monetary policy but also an underlying tendency to blame governor Rygg and the central bank for causing the crisis. Instead, Knutsen emphasizes the positive contributions of the BoN in limiting the systemic consequences of the crisis by acting as lender of last resort. However, even if the role of the central bank in retrospect appears more nuanced, in the contemporary setting, the BoN was closely associated with the negative consequences of the crisis. This impression was reinforced by the fact that the political majority explicitly rejected any appeals of intervention in monetary policy by referring to the expertise and independence of the central bank.²²

Moreover, the perceived link between the par policy, the BoN and the crisis was not only a mental construction, but also had a justified basis. Even if the par policy was not the main cause of the banking crisis, it did undoubtedly reinforce the crisis once it was implemented. Many businesses, farmers, municipalities and private individuals, who had increased their loans during and after World War I when interest rates were relatively low, inflation high and credit widely accessible, failed to meet their obligations once the BoN

²¹ Knutsen 2007, chapters 4-6.

²² Sejersted 1973, p. 62.

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raised the discount rate in order to increase the external value of the *krone*. In Norway, unlike many other countries, there was a strong link between the discount rate and the general level of interest rates, and banks were quick to follow once the central bank raised its discount rate.²³ Combined with deflation, this increase in nominal rates led to a substantial raise in the real interest rate, which in turn resulted in payment problems and further crisis.

Hence, whereas during the stable period of the gold standard, the central bank had actively tried to balance international and domestic concerns – in accordance with theories on boundary organizations – it failed to do so in its efforts to reestablish this system during the 1920s. In this latter context, governor Rygg gave priority to the external value of the *krone*, while the short-term domestic consequences of this policy were of secondary importance, or rather seen as a necessary cost for securing domestic economic growth in the long run.

Rygg's priorities agreed well with orthodox economic theory and liberalist ideals, but were to an increasing extent subject to both professional and political criticism. The crisis seriously undermined the trust in free markets and market-based policy instruments and paved the way for new economic theories and political movements that advocated increased state planning and control. Moreover, while in theory the par policy could have increased the credibility of the BoN, which had demonstrated its dedication and ability to reestablish a declared monetary policy goal, in practice it helped undermine the bank's legitimacy as an autonomous organization.

1.4 Managing direct regulations and formal cooperation

The events during and after World War I represented fundamental challenges to the traditional tasks of the central bank as well as to its position towards the political authorities. After the final breakdown of the gold standard, there were no longer free capital movements or convertibility, international trade became based on bilateral agreements, and the domestic monetary policy no longer had a definite target. The main focus of political authorities worldwide during the 1930s was to overcome the economic crisis and reduce the high unemployment rates, whereas the nature of the future economic policy was subject to the heated debate of to what extent should the economy be subject to centralized planning and direct regulations in order to prevent similar systemic crises. All in all, this was a transitional

²³ Rygg 1918, pp. 484-485.

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period during which the world economy gradually recovered while policy formulation and implementation – including the future role of the central bank – were under serious question.

For the BoN, the 1930s thus offered new challenges. Instead of maintaining a free-market system, in which the domestic monetary policy and the foreign exchange policy were intimately connected, the central bank now faced a setting in which the two were handled separately. The discount rate policy could be adapted to domestic considerations, and after the breakdown of the gold standard the discount rate level fell dramatically from a peak of 8 per cent in September 1931 to 3.5 per cent in May 1933, which was the lowest rate since 1895/96. From October 1931 until May 1940, the average discount rate was 4.4 per cent, compared to an average of 5.7 per cent from the summer of 1920 to the end of the gold standard. The frequency of change in the discount rate also dropped dramatically. Calculated as the number of changes per month, the frequency fell from 0.19 during the period June 1920–September 1931 to 0.9 after the breakdown of the gold standard to the outbreak of World War II. This indicates a new practice with less ‘fine-tuning’ of the discount rate in the current monetary policy.²⁴

Whereas the discount policy was implemented to counter domestic depression and stimulate economic activity, the foreign exchange policy became a separate matter based on a completely new rationale: rationing through moral suasion. After the currency crisis in the autumn of 1931, Norway faced potentially serious balance of payments problems, as domestic demand for foreign exchange exceeded the central bank’s reserves and access to fresh credit abroad. Due to the economic crisis, the market-based solution of raising the discount rate was unacceptable, and instead the BoN introduced rationing of foreign exchange in the banks as an emergency measure. These regulations were implemented not by statutory provisions but through formal and voluntary cooperation with the currency banks in a newly established council, the Currency Committee of the Banks [*Bankenes valutakomitee*], which was headed by the central bank governor and had

²⁴ From June 1920–September 1931, the discount rate was changed 24 times, while it was changed 10 times from October 1931 to May 1940. An overview of the discount rate of the BoN during 1850–1986 can be found at the official website of the Bank: www.norges-bank.no. See also: Rygg 1918, p. 484.

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representatives from the Ministry of Finance and the private joint-stock banks.²⁵

Through this Currency Committee, the BoN not only managed the foreign exchange crisis, but also experienced a new type of contact with the banking sector. Previously, during the gold standard system, these relations had been based primarily on the banks' need for loans and other assistance from the central bank. In the new setting of the 1930s, the BoN established what governor Rygg later characterized as "a very useful cooperation" with the banking sector, a cooperation that was based on the ambitions of the political authorities to achieve a specific policy objective, in this case the rationing of foreign exchange.²⁶ In practice, this cooperation reflected a high degree of moral suasion, defined as an application of pressure, but not force, by an authority to persuade members to adhere to a policy. In later chapters, we will see that this type of moral suasion became an important characteristic of the new credit policy after World War II and also was decisive in the development of a new role for the BoN.²⁷

During the 1930s, the BoN gained experience of maintaining direct regulations of foreign exchange also in a wider sense. In the new international trade system that evolved after the breakdown of the gold standard, an important feature was the bilateral clearing agreements, which replaced the earlier free movements of capital. The core of the clearing agreements was that any payment transactions between two countries with inconvertible currencies had to go through their respective central banks. In order to cope with the growing clearing system, the BoN established a separate clearing office, which in 1935 had 43 officials and later expanded further. The central bank thereby developed experience and expertise in a

²⁵ The representatives of the banks were appointed by their national association, the Norwegian Bankers' Association [*Den norske bankforening*]. For an account of the Norwegian foreign exchange rationing in 1931-32, see H. Koefoed, *Valutarasjoneringen i Norge etter suspensjonen av gullinnløsningen høsten 1931. En oversikt over Valutakomiteens arbeide, gitt på Den Norske Bankforenings årsmøte 1932*, Oslo: Den Norske Bankforening, 1931; Rygg 1918, pp. 465-470; W. Keilhau, *Den norske pengehistorie*, Oslo: Aschehoug, 1952, pp. 202-203; H.W. Nordvik, "Penge- og valutapolitikk, bank og kreditvesen og krisen i norsk økonomi på 1930-tallet", in E. Hovland, E. Lange and S. Ryssdal (eds.), *Det som svarte seg best. Studier i økonomisk historie og politikk*, Oslo: Ad Notam, 1990, pp. 177-191.

²⁶ Rygg 1918, p. 469.

²⁷ See chapters 4 and 5.

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new field, namely maintaining direct foreign exchange regulations. This expertise would become a key to renewed influence once the political and economic context changed further after World War II.²⁸

Even though the institutional setting and the nature of monetary policy changed fundamentally during the 1930s, the role of the BoN in terms of responsibility and influence in policy formulation and implementation apparently remained much the same. It was still governor Rygg and his officials who decided – independently – when and how the discount rates should be adjusted and they were also in charge of maintaining the foreign exchange regulations. However, this was also about to change. The ideal of CBI appeared as an integrated part of a liberalist economic policy based on free markets and limited state intervention. Many took the crises of the 1920s and 1930s as evidence of a failing free-market system, and in order to prevent cyclical fluctuations and unemployment felt it was necessary to introduce comprehensive state planning and regulations, including increased control of the central bank.

Internationally, a whole set of new economic theories and policy advice advocating increased state intervention was developed, most famously presented by John M. Keynes in his *General Theory* of 1936. In Norway, similar ideas were promoted by the later Nobel Prize winner in economics, Ragnar Frisch, who from the early 1930s onwards became a chief advocate for centralized planning and control. Compared to his colleague Keynes, however, Frisch was generally more critical of the capitalist market economy as a fundamental economic institution. Frisch argued that the authorities should use a higher degree of direct controls and centralized coordination of the different parts of the economic policy. He believed monetary policy in the orthodox sense should be abolished and interest rates ought to be kept at a stable low level regardless of supply and demand. This policy of low interest rates – or a cheap money policy – would secure a high level of investments as well as social benefits for the ordinary man. Frisch assumed that low interest rates could be obtained regardless of market conditions, by keeping the central bank's discount rate at a fixed low level and by curbing any excess demand for credit through direct regulations. Here, Frisch's

²⁸ See chapter 2. For a more comprehensive account of the clearing system, see Rygg 1950, pp. 542-44; Gunnar Jahn, "Moderne handelspolitikk og clearing", lecture at *Sosial-økonomisk Samfunn* on December 3, 1936, printed in Jahn 1949, pp. 166-180.

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technique diverged fundamentally from Keynes, who also defended a cheap money policy, but argued that the authorities should pursue this by supplying the financial market with securities of different types and maturities so as to allow it to satisfy its preferences within the interest rated policy decided by the authorities. In other words, where Frisch advocated direct regulation, Keynes recommended manipulation of the market mechanisms.²⁹

Regarding the role of the central bank, Frisch and Keynes disagreed even more fundamentally. Keynes attributed great importance to the existence of central banking institutions, both as underwriters of the stability of the financial system and as instruments of monetary policy. He rejected the idea of direct democratic control by subjecting the central bank to the general direction of the government, and argued that formulation and implementation of the monetary policy should be under the expert control of the central bank. However, it was the government that decided the main lines of policy, such as the aim to pursue a cheap money policy, and Keynes also stressed the need for close cooperation between the central bank and the Treasury. Keynes' views thus end up somewhere between traditional independence and complete political control, where the former aspect is emphasized just as much as the latter.³⁰ This clashes completely with Ragnar Frisch's approach to this matter. Based on the idea of centralized coordination of the economic policy, Frisch rejected any notion of CBI, not only in policy formulation and implementation but also even in terms of organizational and legal autonomy. Instead, Frisch, who was known to sometimes push things to extremes, argued that the BoN rather should be reduced to "a cashier's office" in the Ministry of Finance.³¹

Ragnar Frisch's political economy theories were not merely theoretical considerations: they also had practical consequences. As professor at the

²⁹ For a discussion of changes in Keynes' theories and advice on monetary policy, see D.E. Moggridge and S. Howson, "Keynes on Monetary Policy, 1910-1946", *Oxford Economic Papers*. New Series, vol. 26, no. 2, July 1974, pp. 226-247.

³⁰ J. Bibow, "Keynes on Central Banking and the Structure of Monetary Policy", *History of Political Economy*, vol. 34, no. 4, 2002, pp. 749-787.

³¹ Quoted from P. J. Bjerve, *Økonomisk planlegging og politikk*, Oslo: Samlaget, 1989, p. 119.

For a more comprehensive comparison between Keynes and Frisch, see E. Søilen, *Fra Frischianisme til Keynesianisme? En studie av norsk økonomisk politikk i lys av økonomisk teori 1945-1980*, Dr. Oecon. thesis in economic history, Bergen: Norges Handelshøyskole, 1998.

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University of Oslo, Frisch trained a new generation of economists who soon formed close relations with the growing Labor movement. In 1928, the Norwegian Labor Party entered government for the first time, an intermezzo that only lasted a few weeks, but in 1935, it formed a minority government that marked the beginning of a new political era. Labor was to remain in office for three decades, from 1945 onwards with the backing of a parliamentary majority. This gave the Party increasing freedom to transform its economic policy, and several of Frisch's students became highly involved in this process.

For the BoN, the alliance between Frischian economists and Labor politicians implied even more fundamental challenges than those caused by the institutional and economic problems at the time. When the volume of direct economic regulations increased during the 1930s, governor Rygg and his officials had managed to adapt to the new surroundings and maintain a high degree of operational freedom. The idea of turning the central bank into a subordinated office for monetary transactions in the Ministry of Finance, however, represented a whole new dimension of threat. If carried through, it would not only fundamentally reduce the traditional responsibilities of the central bank, but would also threaten its very survival as an autonomous legal entity. In retrospect, Frisch's proposal regarding the BoN may appear unrealistic, but at the time, based on the lack of trust in the central bank, it represented one possible outcome. In later chapters, we will see that the idea of a fundamental undermining of the authority and autonomy of the central bank was very much alive in influential parts of Labor, even though the initiatives to carry this through had a somewhat more subtle form than Frisch's proposal. Hence, in order to survive, the BoN had to take these prospects seriously.

1.5 World War II: changing alliances and legitimacy problems

By the end of the 1930s, the political state of affairs was characterized by heated debate between sympathizers of increased state planning and controls and more conservative opponents, who argued that such solutions would not only have undesirable economic consequences in terms of inefficient distribution of resources and reduced growth, but also represented a threat to democracy. These debates came to an abrupt (if only temporary) end in April 1940, when Nazi Germany occupied Norway. While Norway as a neutral country had operated on the political outskirts of World War I, this time, it became directly involved. World War II thus created an even more extraordinary situation, in which former opponents joined forces for the liberation of Norway. The resistance movement was organized in domestic groups that linked people of various social, political and economic backgrounds, as well as abroad, since the King and his family, the government, and many leading politicians fled the country and established a

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resistance base in London. A corresponding division took place in the organization of the BoN during World War II, as the central bank was split between a London office, approved by the government in exile, and the Oslo office headed by governor Rygg, which continued its operations. The central bank thereby became directly involved in highly complex political considerations regarding how to handle the occupying regime without compromising itself and the Norwegian economy.

For the BoN, World War II had both direct and indirect consequences. Indirectly, the political setting in which the central bank operated changed. The joint resistance against the Nazi regime created new alliances, and in many ways, the resistance movement functioned as a melting pot in which individuals of every social and political background worked together, despite previous discrepancies. Their mutual experiences and struggles during the war contributed to a unique sense of community and loyalty. It also created conceptions of “us” and “them”, of whom to trust and whom not to trust, which lead to strong personal relations that would last long after the war had ended. This wartime sense of community continued after the Liberation, manifested in a common drive for reconstruction and modernization of the economy. This atmosphere constituted an important part of the context in which the BoN had to maneuver, both during and after the war.

By the Liberation, the role of the BoN during World War II was subject to question. Many asked to what extent had the central bank managed to strike a proper balance between conducting its daily operations and the taboo of collaborating with the enemy. There had been virtually no contact between the Oslo office and the London office during the war, and London had little knowledge of how governor Rygg and his officials in Oslo had dealt with the occupiers. Hence, during the war, the London office had issued letters to foreign central banks and Norwegian legations that declared that the BoN in Oslo had no official authority, an initiative that weakened the legitimacy of Rygg and his staff. Furthermore, it was a stated fact that the occupying regime had opened a separate account in the BoN – later known as the occupational account [*Okkupasjonskontoen*] – from which it withdrew more than 11 billion NOK in order to finance its activities. By the end of the war, over 8 billion NOK was still outstanding from this account and a substantial

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part of this monetary expansion had ended up as increased disposable income of the general public and the private banks.³²

From the perspective of the central bank, this monetary expansion had two important consequences. First, in a postwar situation characterized by pent-up demand and the scarce supply of goods and raw materials, a monetary surplus of this kind represented a serious threat of inflation. This fundamental economic and political problem will be discussed more thoroughly in chapter 2. Second, the huge outstanding sum on the occupational account had serious implications for the legitimacy of the central bank. From a political perspective, the main question was whether this implied that the Oslo office had cooperated in an unacceptable way with the occupying regime. Could the central bank have prevented the German access to the printing press? For the credibility of the BoN as a professional central bank, an additional problem was that the occupational account in fact amounted to nine-tenths of the central bank's total assets. After the war, these means were registered without any formal debtor, since the Norwegian authorities refused to take any formal responsibility for actions of the occupying regime. Technically, the BoN was therefore insolvent. The central bank feared that this would seriously undermine its international credibility and was eager to settle this problem, but as chapter 3 will show, the Labor government was in less of a hurry.³³ All in all, by the Liberation, there was considerable uncertainty regarding the political and economic status of the central bank. This implied that the already battered legitimacy of the BoN was further weakened, both at home and abroad.

Governor Rygg and the Oslo office were later cleared of all accusations of collaboration during the war. The formal investigations of war crimes instead revealed that the BoN, in cooperation with resistance cells in the Banking Inspectorate, had successfully prevented attempts to Nazify the

³² O. Aukrust (ed.), *Norges økonomi etter krigen. The Norwegian Post-War Economy*, Samfunnsøkonomiske studier (SØS) no. 12, Oslo: Central Bureau of Statistics of Norway, 1965 [hereafter: SØS 12], pp. 365-366.

³³ See chapter 3.5.

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Norwegian banking sector.³⁴ Nevertheless, due to the legacy of the interwar crisis and the close association between Rygg and the market-based par policy, the political and public trust in the central bank was at a low ebb. The BoN in 1945 was thus characterized by standstill, and a change of management as well as conduct was imminent.

1.6 Why did Labor appoint Jahn?

On January 7, 1946, the Labor government appointed Gunnar Jahn as new governor of the BoN. Labor had won a parliamentary majority in the previous autumn election and was thus in a unique position to implement its ambitions of centralized planning and market controls. Hence, the choice of Gunnar Jahn appears as a surprise. As former finance minister from the liberal party *Venstre* and economist of more traditional orientation, Jahn was a well-known opponent of both Frisch's economic theories and Labor's governing ambitions. Based on the legacy of Bomhoff and Rygg, the governor of the Norwegian central bank traditionally had a prominent and influential position, so why did Labor still chose Jahn over a party colleague as head of the central bank? This section discusses several possible reasons for this appointment, reasons that also reflect important characteristics of the political setting in which the central bank would develop a new role. The following section 1.7 debates the equally puzzling question why Jahn accepted his new post.

The perhaps most immediate explanation why Labor chose Jahn was their war-related alliances. Unlike Rygg, Jahn had got through the occupation without any serious questions regarding his national loyalty, despite the fact that he worked in direct contact with the occupying regime. From his position as head of the National Bureau of Statistics (SSB) and member of the Board of Directors of the BoN, Jahn had actively contributed to the resistance movement. In the summer of 1941, he became a member of *Kretsen* – a civilian resistance group consisting of leading politicians and

³⁴ A formal investigation of the wartime activities of the BoN, which was carried out in 1947-48, concluded that there was no reason to criticize the “national attitude” of the BoN during the war. See “Innstilling fra Komiteen til granskning av Norges Banks virksomhet i okkupasjonstiden”, box: 447 in the archives of the Ministry of Finance, *Ekspedisjonskontoret*, at the National Archives of Norway [hereafter: FIN-Eks], pp. 58-69.

See also: G. J. Ecklund and S. Knutsen, *Vern mot kriser? Norsk finanstilsyn gjennom 100 år*, Bergen: Fagbokforlaget, 2000, chapter 6.

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civil servants, including Labor's first postwar prime minister, Einar Gerhardsen. Later, Jahn became part of the main assembly of the Home Front [*Hjemmefrontens hovedkomité*], before he was arrested for conspiracy on October 25, 1944. Jahn stayed imprisoned at Grini prison camp until May 5, 1945, along with a series of businessmen, civil servants and politicians, including Gerhardsen, who jointly planned and discussed how Norwegian society should develop once the war was won. When in June 1945 Gerhardsen formed a temporary coalition government, he was eager to include Jahn as finance minister and agreed to several of Jahn's preconditions regarding the organization of policy formulation in order to make him accept this post.³⁵ Thus, in the atmosphere of cooperation and community immediately after the war, Gunnar Jahn appeared as a reliable and experienced representative of the political opposition, whose contributions in the resistance movement were undisputable. Gerhardsen could thereby safely include him in policy administration, at least in the short run.³⁶

³⁵ Jahn was appointed finance minister in the coalition government on June 21, 1945, after having demanded that Labor abolish plans to establish a new Ministry of Economic Affairs [*Økonomidepartement*], independent of the Ministry of Finance, in charge of economic planning and control, and that the director of the Price Directorate, Wilhelm Thagaard, who was an influential advocate of extensive direct market regulations, was subordinated to Jahn as finance minister. Jahn's third precondition concerned the reputation of central bank governor Rygg. Jahn demanded that Rygg should not be dismissed in a humiliating way by being replaced by a temporary governor.

Gunnar Jahn's diaries, the manuscript collection at the National Library of Norway [hereafter: GJD], June 5, 14, 20 and 21, 1945.

³⁶ Before World War II, the peak of Jahn's political career had been his time as finance minister in the liberal Mowinckel government from November 1934 to March 1935. Once German forces occupied Norway, Jahn became a member of the Administration Council [*Administrasjonsrådet*], a caretaker government that administered the occupied areas of Norway before the Norwegian Nazi party headed by Vidkun Quisling took over the government in September 1940. Jahn was appointed to the central bank's Board of Directors in January 1941 after the initiative of governor Rygg and with the support of the finance minister in the Quisling government, Erling Sandberg, against the will of Quisling and the other cabinet ministers.

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The wartime alliances between Jahn and the Labor politicians appear as a necessary, yet not sufficient reason for his appointment as governor. Once Labor had won a parliamentary majority, the party was in principle free to implement an economic policy based on planning and control, a policy that Jahn opposed openly. So, why did Labor still let Jahn head the central bank, which suggested more long-term inclusion in policy-making? A second possible explanation for this was Jahn's professional background as an economist and senior manager in the Civil Service. In several industrial projects at the time, the Labor government strived to recruit "the best and most competent" people to run the new state-owned factories, seemingly regardless of party affiliation and ideological orientation. The aim was, on the one hand, to ensure efficient technical and organizational management of the factories, and, on the other hand, to increase the legitimacy of the new companies in the eyes of the public as well as competitors, possible venture partners, and political authorities abroad.³⁷

In the case of Gunnar Jahn and the BoN, this latter perspective of legitimacy is obviously relevant. As we have seen, the legitimacy and trust in the Norwegian central bank had been seriously undermined during the interwar crisis and World War II, and as a well-known economist with long experience as a general manager of the SSB, Jahn could add credibility to its operations. Moreover, Jahn had a solid international reputation. He had become a well-known figure abroad through participation in academic conferences and several international commissions on statistics and economics. He was also actively engaged in broader political issues, and in retrospect he undoubtedly enjoyed internationally renown for his service as

See Wilhelm Haffner, *Storting og statsrådet 1915-1945*, vol. 1, Oslo, 1949, p. 363. On Jahn's appointment to the central bank's Board of Directors, see governor Rygg's testimony in the public criminal case against Erling Sandberg, appendix 3 to "Erklæring fra sjefsdirektør Rygg og direktør Thorkildsen av 28. februar 1948", FIN-Eks box: 447.

³⁷ This strategy can be linked to the state-owned factories AS Norsk Jernverk (an ironworks established in 1946) and AS Årdal og Sunndal verk (an aluminum plant established in 1947). Although these managers were recruited mainly for their professional skills, most of them also had an additional qualification: they had participated actively in the resistance movement. Thus, mutual trust created during the war probably facilitated the recruitment process.

Quote: "De beste og dyktigste krefter" from A. K. Børresen, *Drømmer av stål. A/S Norsk Jernverk fra 1940-årene til 1970-årene*, Skriftserie fra Historisk institutt, no. 10, Trondheim: University of Trondheim, 1995, p. 101

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chairman of the Nobel Peace Prize Committee. Hence, as governor, Jahn could add credibility to the BoN in international financial circles as well as in the eyes of political authorities abroad.³⁸

However, it was not only the central bank that was in need of increased legitimacy. The same could be said of the new Labor government itself. An illustration of this can be found in internal notes from the Bank of England, which in 1945 evaluated members of the temporary coalition government and the succeeding Labor government in Norway. While the British civil servants described Gunnar Jahn as “a very good man indeed” and “the leading financial figure in Norway”, they had far less to say about Labor’s new political elite. The notes offer a brief description of Einar Gerhardsen as a “former messenger boy” and founder of the Municipal Workers Union, who had spent three years in Nazi concentration camps, while finance minister Erik Brofoss, who would become one of Labor’s leading postwar strategists, was characterized as a little-known civil servant, who “seems to be of the theoretical socialist type with little force and no practical

³⁸ As for Gunnar Jahn’s educational and professional background, he studied law (Cand.Jur. 1907) and economics (Cand.Oecon. 1909) in Norway, before continuing studies in political economy and statistics in Heidelberg, Berlin and Paris. He was simultaneously teaching at the University of Oslo. In 1911, he started work in the SSB as a secretary (1911-1917) becoming departmental manager (1917-1918), and managing director (1920-1945), after a brief intermezzo as managing director of the Directorate of Rationing (1919-1920). His international experience included representing Norway at meetings and conferences on statistical and economical issues. He was also a member of various international committees, including the statistical expert committee of The International Bureau of Labor in Geneva (from 1936), and several expert committees at the League of Nations (the economic committee (1928-30 and 1936-37), the statistical expert committee (1930 onwards) and the committee for distribution of the League’s expenses (1934)), and a honorary member of Institute International de Statistique. Jahn was a member of the Nobel Peace Prize Committee from 1937-1966, and chairman from 1941 onwards. For a more detailed list of Jahn’s assignments before 1945, see Haffner 1949, pp. 361-63; the homepage of the Nobel Institute at www.nobel.se/peace/articles/committee/nclist/bios/jahn.html. For an account of Jahn’s role in the Nobel Peace Prize Committee, see B. Norberg, *Gunnar Jahn: For rettferd og fred. Et innblikk i avgjørelsene til Det Norske Stortings Nobelkomite 1937-1966*, post-graduate thesis [hovedoppgave] in history, University of Oslo, 2001.

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experience”.³⁹ The latter comment turned out to be very far from the truth, but it indicates that in 1945, the new Labor government and the new generation of Norwegian economists had not yet achieved international recognition, at least not in financial circles.

By recruiting Jahn as the new governor, the Labor government could signal to financial markets and political authorities worldwide that it would not take undue advantage of its newly gained power and finance policy initiatives by printing money. Moreover, Jahn could also increase the government’s legitimacy at home. In a postwar situation characterized by consumers impatient to indulge in much-missed goods and services, and a parliamentary majority of Labor politicians eager to fulfill promises of prosperity and social security, a scenario of over-expansionary economic policies was not merely a speculative threat but a highly realistic possibility. Hence, the government had to curb pressure from its own electorate and members of parliament in order to prevent over-expansionary policies. In addition, despite its parliamentary majority, the government, Prime Minister Gerhardsen in particular, also wished to put the non-socialist opposition at rest in order to ensure cooperation across party lines during the reconstruction period. By appointing Jahn, the government could, at least in theory, counter these challenges.

While Jahn’s professional background could add legitimacy to the central bank as well as the government, it is less likely that he was recruited for his technical skills in monetary policy, although he had both expertise and experience in the matter. During the interwar period, Jahn had, among other things, been chairman of the Monetary Committee [*Komit  en til utredning av  konomiske og Pengepolitiske Sp rsm l* or *Den pengetekniske komit *], which was in charge of evaluating the par policy, as well as a member of the Foreign Exchange Commission of 1925 [*Valutakomisjonen av 1925*]. As chairman of the Board of Directors of the Norwegian Industrial Bank [*Industribanken*] from 1936 to 1947, Jahn also knew the more practical sides

³⁹ Note of June 27, 1945, "Norway", and handwritten comment on note of November 1, 1945, "Norwegian Cabinet. November 1945", both by the Overseas & Foreign Office, file: OV26/, the Bank of England Archives, London [hereafter: BoE].

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of banking.⁴⁰ Nevertheless, this competence in money and banking appeared less relevant to the Labor government, first and foremost, because Jahn fundamentally disagreed with Frisch's ideas of conducting a cheap money policy. Hence, his competence was related to traditional monetary policy, which from Labor's point of view was a thing of the past. In later chapters, we will see that the government had no intention of returning to a monetary policy based on flexible discount rates and market-based instruments. Nor was the notion of an independent central bank in charge of monetary policy formulation of much interest. The Labor government aimed at a centralized policy-making process, and to the extent that the central bank would contribute to this, it would do so as a subordinate agency. Thus, the monetary expertise of the new governor was hardly seen as important.

This brings us to a final explanation why Labor appointed Jahn. While the above account has emphasized the positive contributions Labor might have expected from Jahn, an alternative approach is to interpret his appointment as an attempt to remove a bothersome opponent. Jahn himself hints at this explanation in his diaries when he suggests that his colleagues in the Home Front, who urged him to become the new governor, in fact tried to push him to the BoN in order to get rid of him.⁴¹

As head of the SSB, Gunnar Jahn controlled the national collection and production of statistics, a matter in which he also was on professional collision course with the Frischian economists. While the latter saw the production of statistics primarily as an instrument for national accounting and economic and political planning, Jahn defended a traditional approach to the science of statistics, which emphasized the collection and classification of data in order to map social and economic characteristics of a society as a whole, not just of selected sectors.⁴² Thus, by removing Jahn from the SSB,

⁴⁰ Jahn was also a member of several other domestic boards and committees, including the board of appeal for the trust control [*Trustkontrollens ankenemnd*] (1930-1940), chairman of the Export Council [*Rådet for utenrikshandel*] (1939-1940), and chairman of the tax burden committee of 1930 [*Skattetrykkutvalget av 1930*], as well as a member of several arbitration tribunals. He was also member of the board of the National Association for Political Economists [*Statsøkonomisk Forening*] (chairman 1932-37).

⁴¹ GJD May 25, 1945.

⁴² E. Lie and H. Roll-Hansen, *Faktisk talt. Statistikkens historie i Norge*, Oslo: Universitetsforlaget, 2001, pp. 300ff, 319, 351ff.

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Labor could more easily fulfill their economic and political ambitions. When Jahn left for the BoN, he was indeed replaced by Labor sympathizers and Frischian economists, who gradually integrated the SSB into what later has been labeled “the iron triangle”, a tight network of economists in the Ministry of Finance, the SSB, and the Department of Economics at the University of Oslo, who had a fundamental impact on Norwegian economic policy until the 1980s.⁴³ This course of events indicates that the appointment of Jahn as governor, in addition to having positive professional and political explanations, was also partly a ‘negative move’ in the sense that it was part of a process to clear the way for new economic and political initiatives.

1.7 So why did Jahn accept?

From the 1920s onwards, we have seen that Gunnar Jahn had established a prominent position both at home and abroad, a position from which he was free to pursue his professional interest in statistics as well as his involvement in broader political and social issues. Thus, when the request to become the new governor of the BoN was brought up in the summer of 1945, he originally dismissed the idea. In his diaries, he stated that, unlike statistics, central banking and monetary policy were areas “of which I do not have complete control and which I do not know whether I will enjoy”.⁴⁴ He was also well aware of Labor’s ambitions to incorporate monetary policy into broader economic policy and he expected that the BoN would be “completely subordinated to the Ministry of Finance in the future”.⁴⁵ So, by leaving his post as head of the SSB in favor of the central bank, Jahn not only abandoned his main professional interest but seemingly also gave up a fair amount of power. Why did he still finally accept this appointment?

⁴³ From 1946-1948, the managing director of the SSB was Arne Skaug – a Labor member, a former Frisch student, and civil servant of the SSB, who later would become Minister of Trade and Shipping (1955-1962). In 1949, Skaug became State Secretary to the Minister of Foreign Affairs, and the Labor government appointed Petter Jakob Bjerve as head of the SSB, a position he held until 1984. Bjerve, who also was a Labor party member and a former Frisch student, transformed the SSB into a supplier of inputs for macroeconomic planning. See Lie and Roll-Hansen 2001, part 4.

⁴⁴ Quote: “Jeg føler det som om jeg går fra det som jeg kjenner best borti noe som jeg ikke helt har herredømme over og som jeg ikke vet om jeg vil trives med.”, GJD November 30-December 12, 1945.

⁴⁵ Quote: “...jeg har ikke noen særlig interesse av å arbeide i Banken som forresten vil bli helt underordnet Finansdepartementet i framtiden.”, GJD May 25, 1945. See also GJD July 7, 8 and 11, 1945.

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One possible reason is of course that Jahn at the time hoped that Labor's governance would be only a short-lived affair, and that he as governor of the BoN, pending a non-socialist return to power, could help to modify the more extreme ambitions of the Labor party. This explanation agrees well with the conventional view of Labor and Jahn as fundamental opponents and representatives of distinctly different policy regimes. However, an alternative explanation is that Jahn's acceptance was, instead, based on the fact that, despite some fundamental differences, he and Labor also held important points of view in common. These common views can be summarized in four points, which together formed a basis for cooperation and ability to compromise during the first post-WWII decade.

Firstly, along with a large majority of Norwegian politicians, Jahn and the Labor party agreed on the main goals for the postwar economic policy, namely those of full employment, stable economic growth, and social equalization. These goals were first established in the joint political program of the temporary coalition government, *Fellesprogrammet*, which stated that:

The task of our industry and commerce and all economic activity in our country is to create work for everyone and increase production, so that the results can be distributed in a socially just way and create good living conditions for everyone.⁴⁶

Secondly, Jahn accepted that in a short-term perspective it was necessary to continue the wartime direct regulations of prices and resource allocation. In a speech in June 1945, Jahn declared that it would be "worse than a stupidity" to leave the reconstruction of Norwegian economy to the free play of the market and let the spending power of wealthy individuals direct the development.⁴⁷ Also in this respect, there was broad agreement among most Norwegian politicians, who in turn reflected general trends in most Western countries by the end of World War II. Based on ideological and theoretical arguments as well as experiences of depression and war, governments

⁴⁶ "Arbeid for alle. De politiske partiers samarbeidsprogram for gjenreisningen", reproduced in K. E. Eriksen and G. Lundestad (eds.), *Norsk innenrikspolitikk*, in series "Kilder til moderne historie II", Oslo: Universitetsforlaget, 1972, pp. 28-36, quote pp. 30-31 ["Quote: *Oppgaven for vårt næringsliv og all økonomisk virksomhet i landet er å skape arbeid for alle og øket produksjon, så en gjennom rettferdig fordeling av resultatene kan gi alle gode kåر*"].

⁴⁷ G. Jahn, "Krigen og Norges økonomi", in *Statsøkonomisk Tidsskrift* no. 1-2, 1945, pp. 1-12, reproduced in Jahn pp. 209-221 (quote: p. 218).

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worldwide prepared for continuing wartime regulations for a limited reconstruction period at the least. Centralized planning and strict direct regulations in Britain and the USA during the war had proved that extensive state intervention in the economy could be both efficient and effective. Hence, in a postwar situation of scarce resources and huge economic and political challenges, the continuation of wartime controls was an obvious short-term solution.

A third element in the basis for postwar cooperation and compromise was a more positive view of state intervention also in a long-term perspective. After World War II, it was not only Labor and the Frischian economists who argued that the state had to play a more active role in the economy. With the exception of a relatively few hard-core liberalists and orthodox economists, most policy-makers agreed that in order to avoid a repetition of the interwar depression and employment crisis, increased state intervention was necessary. Jahn had also become more positively inclined towards state intervention, after he had previously rejected the idea. In the 1930s, Jahn had actively opposed Keynesian and Frischian ideas of counter-cyclical policy initiatives, but after World War II, he seems to have changed his views. According to Petter Jakob Bjerve – Labor member and former Frisch student, who would succeed Jahn as managing director of the SSB – Jahn admitted in retrospect that he regretted not having implemented counter-cyclical policy measures during the 1930s depression when he had the chance as finance minister in the Mowinckel government.⁴⁸

Even though a member of the liberal party *Venstre*, by 1945 Jahn does not appear as a liberalist in the sense that he urged for a return to a free market system without state intervention. He explicitly distanced himself from the most prominent advocates of liberalist views, which in Norway first of all were associated with the magazine *Farmand* and the newspaper *Morgenbladet*. In his diaries Jahn depicts how he tried to convince the editor of *Farmand*, Trygve Hoff, that the current social structures implied that one should not try to reconstruct a liberalist system of free competition in the 1850s sense.⁴⁹ He also describes how he “smilingly” refused an offer to join the Board of the *Morgenbladet* and explained that even though he was critical of some elements in the Labor party, particular the dictatorial tendencies, his general attitude was more in accordance with Labor’s goals

⁴⁸ Bjerve 1989, p. 49.

⁴⁹ GJD May 25, 1945.

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than with the people in the *Morgenbladet*.⁵⁰ This was confirmed when Jahn later commented on Labor's election program, which he felt contained "many very good things" despite being too ambitious and "immature".⁵¹

There is little written evidence to offer any details of these changes in Jahn's economic and political views, but indirectly his actions during and after World War II suggest that even though he criticized the nature of Labor's policy measures – that is, their emphasis on regulation rather than manipulation of market forces – he shared the view that the state should intervene more actively in the economy. The perhaps most convincing indication of this is Jahn's later initiatives to introduce new market-based policy measures designed for consecutive intervention in the financial markets, which will be subject to study in chapter 4. Another indication of Jahn's changing views is his close interaction with some of Frisch's students, such as Eivind Erichsen, Odd Aukrust and Petter Jakob Bjerve, who would all become important contributors to Labor's postwar economic policy. While Jahn had a strained personal and professional relationship with Ragnar Frisch, he actively supported Frisch's students by supplying them with data, serving as a sparring partner in lengthy professional discussions and commenting on drafts of their written studies. Jahn also provided public support and legitimacy for this new generation of economists, for example when he wrote an approving preface for Aukrust and Bjerve's examination of the costs of World War II for Norway.⁵² These acknowledgements reflect not only the views of a generous opponent, but also Jahn's changing view on the role of the state in the economy, a change that promoted a postwar cooperation across party lines.

The fourth and final element in common economic and political basis that Jahn shared with Labor – and probably one that was particularly important for Jahn's decision to accept the post as governor of the BoN – is an

⁵⁰ GJD May 22, 1945.

⁵¹ GJD June 5, 1945.

⁵² Bjerve 1989, pp. 48-53; O. Aukrust and P. Jakob Bjerve, *Hva krigen kostet Norge*, Oslo: Dreyer, 1945, pp. 5-6. In his preface, Jahn declared that he had learnt a lot from the young economists, and that even though he felt that the new economic theories underestimated the element of human response and reactions (that is, they overestimated the efficiency and effect of market controls), Frisch's doctrine had given the two younger economists a firm grip of the postwar problems. Jahn also praised the theoretical contributions of the new generation of economic theorists in general and stated that they had "injected fresh blood to science".

emphasis on solving practical problems. Unlike some of the more extreme advocates of ‘new’ and ‘old’ economic theories, such as Ragnar Frisch on the one hand and liberalists from the *Farmand* and *Morgenbladet* on the other, Jahn emphasized that during the reconstruction period practical problem-solving should outweigh theoretical and ideological principles. Jahn declared that emphasis on systemic differences between the free markets and planned economies had more to do with ideas than reality, and that the most important point during the extraordinary reconstruction period was practical cooperation rather than futile discussions.⁵³ Jahn thereby played down the differences between various economic theories as well as the importance of such theories for practical policy-making. This view allowed Jahn to compromise with his theoretical opponents, a pragmatic approach that also agreed well with the ideas of Einar Gerhardsen and other leading Labor politicians at the time. Jahn thereby could assume the position as governor of the BoN with the relatively positive ambitions of contributing actively to the process of reconstructing the Norwegian economy.

1.8 Post-WWII central banking: adaptation to new conditions

Labor’s ambitions to increase control over the BoN were part of a general trend. After the interwar depression, the trust in independent central banks had been undermined in most countries, and particularly in countries that had pursued a par policy, such as Britain, the USA, the Netherlands, Switzerland and Sweden, political control over the central banks was tightened. This response was later characterized as a ‘deflationary trauma’, as opposed to the ‘inflationary trauma’ of Germany, which experienced hyperinflation during the interwar period caused by politicians indulging in over-expansionary policies. Based on different historical experiences, Germany chose an opposite strategy from the general trend, and established the most independent central bank in the post-WWII period, the *Bundesbank*.⁵⁴ In accordance with traditional ideals of CBI, the Bundesbank was supposed to operate as a counterweight to the political authorities. Most other central banks, however, had to adapt to new terms of conduct.

⁵³ G. Jahn, ”Krigen og Norges økonomi”, in *Statsøkonomisk Tidsskrift* no. 1-2 (1945), pp. 1-12, reproduced in Jahn 1949, pp. 209-221.

⁵⁴ Francis Sejersted, “On the so-called ‘autonomy’ or ‘independence’ of central banks. Reflections on the Norwegian case of minimal formal authority”, *TMV working paper*, no. 75, Oslo: Center for Technology and Culture (TMV), 1994.

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While previous theories on central banking had stressed the need for independence and the ability to resist political pressure, such theories now praised pragmatism and diversity. In the post-WWII world, central banks had to develop a new role within a new economic and political regime based on new policy goals, as suggested by the British economist R.S. Sayers:

The central bank should be quick to adapt itself to changes in the economy, and should be ready to use any device it can find to control the behavior of the financial system in the interest of the “employment policy” adopted by the government.⁵⁵

This adaptation also implied that central banks no longer should focus solely on traditional monetary policy. New policy goals, such as full employment, required new policy measures, and modern central banks should therefore, in cooperation with the government, apply a wide range of techniques and means:

We are gradually learning that while the dictator can use the big stick, and laissez faire can rely on the high price, economic planning in a truly democratic society means pressing into service every conceivable device – persuading, cajoling, inciting people, edging the economy now a little in this direction, now a shade in that. If central banks are to play their full part in this process, our central bankers must not be content to stick to the traditional technique.⁵⁶

According to these new economic and political standards, the road to influence for central banks was to work as an integrated part of a centralized policy-making process, a process designed and controlled by the political authorities. If central bankers refused to adapt to these new guidelines, they risked not being heard or worse. In 1946 the chief of the Foreign Research Division of the Federal Reserve Bank of New York admitted that the possibility of even limited autonomous initiatives for the central bank seemed remote:

⁵⁵ R.S. Sayers, “Central Banking in the Light of Recent British and American Experience”, *Quarterly Journal of Economics*, vol. 63, no. 2 (May), 1949, pp. 198-211 (quote: p. 211).

⁵⁶ Sayers 1949, p. 211.

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All things considered, however, this (...) seems rather a forlorn hope, for the voices of central bankers today are apt to be only part of a large official chorus, or else crying in the wilderness.⁵⁷

Throughout this thesis, we will see that the Norwegian case to a large extent confirms this assumption. Whenever governor Jahn and his officials took policy initiatives that clashed fundamentally with cornerstones of Labor's economic policy, they usually turned out to be "crying" in vain. However, being part of a chorus also offers possibilities of solo parts, in which one's voice is clearly heard but can still harmonize with the surrounding context. This seems to be the way governor Jahn approached his new role.

Both in public and in his private diaries, Jahn accepted that, under the present conditions, the BoN had to be under political control. He repeatedly reassured Erik Brofoss and other politicians that he had no intention of trying to act too independently, and he criticized his predecessor Nicolay Rygg for still regarding the BoN as a private bank that could act according to its own preferences.⁵⁸ Moreover, in his first annual speech as governor, he underlined the necessity of close relations between the political authorities and the central bank, and stated that a central bank had to act in accordance with political directives:

(...) insinuations of an antagonism [between the State and the BoN] are caused by lack of knowledge. It is obvious that a central bank cannot and should not follow a policy that disagrees with decisions made by the *Storting* and the government.⁵⁹

However, this adaptation to political guidelines did not mean that the central bank should be prevented from expressing diverging opinions: in the policy-making chorus, the BoN had to have its own distinct voice. According to Jahn, if a central bank disagreed with the political authorities it was its duty to point this out. Conflict of opinions is always a blessing, he added, but nevertheless, in the extraordinary postwar situation, what was required first

⁵⁷ Henry C. Wallich, "The Changing Significance of the Interest Rate", *The American Economic Review*, vol. 36, no. 5 (Dec.), 1946, p. 766.

⁵⁸ GJD July 8 and December 15, 1945.

⁵⁹ Gunnar Jahn's speech at the meeting of the BoN's Supervisory Council, February 11, 1946, *Norges Banks beretning og regnskap* (the BoN's annual report), 1945, p. 14.

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and foremost was good cooperation.⁶⁰ In this speech, which Jahn gave after all of a month in office, the new governor thereby pointed out what would be the underlying principles for his interaction with the political authorities during the following decade, namely a combination of opposition and compromise.

1.9 Summary: from independence to uncertainty

From its early establishment in 1816 until the end of World War II, the BoN underwent several fundamental changes, from serving mainly as an ordinary commercial bank, towards becoming a modern central bank with a unique position in the financial system, serving as lender of last resort and independently formulating and implementing the monetary policy, through wars and economic crises that seriously undermined the trust in this traditional type of central banking, to a new political and economic context that prescribed increased political control and market regulations. In this chapter, we have discussed this development with focus both on internal aspects such as organization and ownership of the central bank and more external dimensions concerning the relations with the political authorities and the banking sector as well as the surrounding international context. Our examinations have revealed an image of a central bank, which despite being embedded in the political context, managed to develop and maintain a high degree of operational independence. In this final section, we will sum up the most important aspects of this independence and other facets of the central bank's traditional role, which by 1945 appeared as a thing of the past.

During the gold standard, this CBI was in accordance with predominant liberalist ideals, which emphasized limited and predictable state intervention in the economy. By the end of the 19th century, once the Bank was established as a centralized organization with a full-time management, headquarters in the capital, and a single unified discount rate that could be used in a consistent monetary policy, the central bank obtained both the authority and expertise necessary to carry out these ideals in practice. Before 1914, when the gold standard was suspended, this implied an orthodox monetary policy based on flexible interest rates; a policy developed in an international context of free capital flows and fixed exchange rates. This was a market-based system in the sense that demand and supply decided the flows of capital, and to the extent that whenever the authorities intervened, they used mainly changes in the price mechanism, the interest rate, to

⁶⁰ *Norges Banks beretning og regnskap*, 1945, p. 14.

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influence the outcome. Unlike later policy regimes, the gold standard thereby appeared as a self-regulating system, in which the central bank acted as a completely independent agency in charge of maintaining the external value of the *krone*, that is, its convertibility into gold.

In practice, we have seen that both the working of the gold standard system and the position of the central bank towards the political authorities probably was less straightforward. First, new research indicates that monetary policy during the gold standard contained considerable elements of discretion. Rather than keeping a single focus on the external value of the currency, the BoN, without seriously violating the link between the gold reserves and the volume of notes in circulation, actively tried to balance the systemic tension between international and domestic concerns and often changed the discount rate also to smooth seasonal variations and business cycles at home. Second, there also were some discrepancies between the ideal of CBI as declared by the political authorities and the *de jure* position of the BoN as stated in the new Central Bank Act of 1892, since the governing all bodies of the central bank, including the governor, were appointed by the political authorities. Moreover, there was also a greater overlap between the central bank and the authorities than is usually assumed since a number of directors of the BoN also served as members of parliament, the Storting, which according to the Constitution was formally in charge of superintending the central bank as part of the monetary system.

The above points add some important nuances to our understanding of the gold standard system as well as the traditional role of the BoN. Even so, in practice and, particularly when compared with later periods, the gold standard was characterized by predictable and limited state intervention and *de facto* CBI. The political authorities never exercised their right to remove the Bank's governor, and in practice the first two full-time governors established a tradition of long-serving, prominent individuals with a high degree of personal influence over the internal governing bodies of the central bank as well as the political authorities. Thus, although politically embedded, the BoN in practice experienced a high degree of autonomy and authority in policy formulation and implementation, and the political authorities limited their activities to supervision rather than direct control and intervention. In fact, the relations between the BoN and the Storting during the gold standard probably rather reinforced the independent position of the central bank than the opposite, by soothing the numerous passive stockholders as well as adding legitimacy in the eyes of the public in general.

The outbreak of World War I and succeeding economic crises, including the suspension and reintroduction of the gold standard, represented a serious

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blow to the ideal of CBI, in Norway as in most other countries. Although new research indicates that the deflationary monetary policy pursued by governor Rygg and the BoN reinforced rather than caused the economic crises of the 1920s, in the contemporary context, there was a strong associative link between the central bank and the negative consequences of the crisis. This was reinforced by the fact that the political authorities at the time distanced themselves from the par policy by referring to the expertise and declared independence of the central bank. Moreover, the deflation caused by the par policy, once it was implemented, did undoubtedly contribute to the debt crisis, bankruptcies and high unemployment. So even though the BoN limited the systemic crisis by serving as lender of last resort, it later contributed to the depression by consistently giving priority to the external value of the *krone*, regardless of the domestic costs of this policy in the short run. The consequence for the central bank was a serious undermining of its public trust and legitimacy.

The final breakdown of the gold standard in 1931 represented a fundamental change of context for central banking throughout the world. Free capital movements and convertibility were replaced by bilateral agreements and capital controls, and from now on the domestic monetary policy and foreign exchange policy were no longer intimately connected. Hence, the monetary policy was directed towards domestic concerns, and, in Norway, the discount rate fell drastically and was changed less frequently as part of the attempts to overcome the depression. The foreign exchange policy, on the other hand, was characterized by completely new instruments, such as formal cooperation with the banking sector to implement rationing of currency and extensive direct regulations and clearing agreements to control foreign exchange transactions, controls maintained by a growing staff in the central bank. Through these experiences with moral suasion and direct regulations in the 1930s, the BoN gained experience and built up expertise that would later prove crucial in the process of developing a new role after World War II.

The crises of the interwar period generated increasing protests against free markets, orthodox monetary policy, and independent central banks, from politicians as well as economists worldwide. In Norway, the most prominent advocate of this criticism was the Labor Party, in alliance with a new generation of economists trained by Ragnar Frisch. Unlike his more famous colleague John M. Keynes, Frisch rejected the idea of a capitalist market economy and argued in favor of extensive market regulations and centralized planning. While Keynes proposed a cheap money policy in which interest rates were kept at a low stable level by manipulating market liquidity, Frisch recommended direct regulations of interest rates and credit rationing. While Keynes was in favor of politically independent central banks in charge of

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maintaining such a policy, Frisch suggested that the BoN should be reduced to an office for mere accounting transactions in the Ministry of Finance. Even though Frisch in this latter case might have represented an extremist view, there is little doubt that the Norwegian central bank faced a particularly challenging setting, in which politicians and economists joined forces against its traditionally independent role.

Throughout its first 130 years of operation, we have seen that the position of the BoN varied in terms of serving as a boundary organization. During the 19th century, the Bank gradually entered such a position between international and domestic concerns, and between the public and private sectors. The attempts of the Bank during the gold standard to balance the tension between the external value of the *krone* and domestic seasonal variations and business cycles fits into such a theoretical framework. Once this system was suspended, however, and the BoN tried to reintroduce par value of the *krone*, it abandoned this boundary position and gave priority to international concerns, at least in the short run. On the other hand, when the gold standard finally broke down, the Bank could again give priority to domestic concerns and still continue its close relations and frequent transactions with other central banks and thereby also maintain contact with new international concerns.

The BoN also obtained a boundary position in the second dimension of this theory, between the public and private spheres. The ideal of CBI implied that the political authorities relied completely on the expert resources of the BoN in the formulation and implementation of the monetary policy. Even when the gold standard was abandoned and the ideal of CBI was waning, the BoN in practice maintained much of its operational independence. The Bank remained in charge of both the domestic monetary policy and the new foreign exchange policy based on direct controls, and the political authorities still depended on the Bank for information and professional advice. Also the growing banking sector was in demand for the resources of the central bank throughout the 19th and early 20th century, in terms of information exchange as well as financial assistance. In times of crisis, this demand peaked in the central bank's function as lender of last resort. After the breakdown of the gold standard, the nature of the relations between the central bank and the banking sector changed somewhat. While their relations previously had been dictated mainly by the needs of the banking sector, during the formal cooperation and moral suasion of the 1930s, the requirements of the authorities were the driving force. In either case, however, the BoN operated actively in the boundary zone between political authorities and private banks.

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By 1945, the BoN was characterized by standstill and uncertainty regarding both its actions during the war and its future role. Both the ambitious Labor Party and the new generation of Frischian economists dismissed the idea of traditional CBI, and instead portrayed a new type of economic policy based on state planning and control, in which the central bank served as an integrated part. Still the government appointed a well-known political opponent, Gunnar Jahn, as the new governor of the Bank in January 1946. We have suggested several reasons for this, including Jahn's background in the resistance during World War II, the need for added legitimacy for both the BoN and the fresh Labor government, at home as well as abroad, and the possibility that the appointment was rather a 'negative' initiative to remove Jahn from his post as head of the National Bureau of Statistics (SSB) to the presumably less important position as the governor of the subordinated central bank.

Jahn tended to support this latter interpretation, and yet he still accepted his new post. We have explained this by emphasizing a four-point common basis on which Jahn and the Labor government could develop a constructive cooperation: 1) they agreed on the main economic-political goals of full employment, stable economic growth and social equalization; 2) they accepted the absolute need for short-term direct regulations after the war; 3) they also shared a more positive view on long-term state intervention in the economy, although they disagreed on the nature of such market regulation/manipulation; and finally and most important of all 4) Jahn and leading Labor politicians had a common pragmatic approach to policy-making in which solving practical problems had priority over theoretical and ideological principles.

As newly appointed governor, Jahn accepted both publicly and in private that the BoN should be under political control. His statements thereby agreed with the contemporary theories on central banking that prescribed adaptation to new economic and political conditions. Jahn nevertheless insisted that central banks should maintain an autonomous voice in the political debate and was obliged to protest in cases of disagreement. In this way, Jahn identified what would become the two pillars of the BoN's interaction with the political authorities during the following decade: a complex combination of opposition and compromise.

2 From marginalization to cooperation (1945-48)

In mid-August 1946, Gunnar Jahn had a meeting with Erik Brofoss, finance minister and leading economic and political strategist of the Labor government, and noted the following comments in his diary:

All in all, today he [Brofoss] appeared as a man who sought advice regarding both this [the inflationary dangers] and the budget. Rather curious, by the way, considering he has not found the time to speak to me since April.¹

This casual remark reveals what must be considered an all-time low in the power and influence of the Norwegian central bank. The fact that the finance minister, despite facing massive challenges of economic recovery from war damages, did not consult the governor or the central bank for months was a rather dramatic sign of disregard in itself, but even worse considering Jahn had just entered office. When Jahn accepted the governorship, he had been well aware that new economic theories and norms for central banking, combined with Labor's political ambitions, indicated that the BoN would play a subordinate role in the post-WWII economic policy. However, this feeling of being ignored must have been even worse than expected.

In this chapter, we will discuss to what extent this complete marginalization of the BoN continued and became a permanent feature of Labor's new policy regime after World War II, as has usually been assumed by scholars who have examined this period. In his study of the Ministry of Finance, Einar Lie suggests that due to the different political and economic theory convictions of governor Jahn and the Labor Party, the BoN failed to contribute to policy formulation and implementation before the mid-1950s, when Erik Brofoss succeeded Jahn as head of the Bank. Instead, the BoN ended up in futile opposition to the Labor government, while the Ministry of Finance to a large degree coordinated and controlled the policy-making process. Other historians have supported this view, most recently Sverre

¹ GJD August 14-17, 1946.

[Quote: "*Han var i det hele tatt i dag en mann som søkte råd både om dette inflasjonsfarens] og budsjettet, nokså kuriøst forresten når han ikke har hatt tid til å snakke med meg siden april.*"]

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Knutsen, who in his dissertation on the Norwegian financial system during the 20th century characterizes this period as part of Labor's "strategic capitalism", an economic and political scheme that promoted industrial development and economic growth through a cheap money policy and credit controls. In this system, the BoN is portrayed as a subordinate agency that hardly took part in Labor's policy-making during Jahn's governance.²

Based on our previous observations of a common basis for interaction between Gunnar Jahn and the Labor government, as presented in chapter 1, there is reason to question these interpretations regarding the role of the central bank. Although there were obvious professional and political disagreements between governor Jahn and Labor, they found some common ground for cooperation in the fact that they agreed on the main goals of full employment, economic growth and social equalization. They also shared an acceptance of the need for short-term regulation as well as long-term state intervention, even though they disagreed on the nature of this latter policy. And, most importantly, both Jahn and leading Labor politicians had a pragmatic approach to policy-making in which solving practical problems outweighed theoretical and ideological considerations.³ Is it hence possible that the BoN found a way out of the political backwater already during the tenure of governor Jahn? Through its long history, the central bank had developed considerable experience and expertise that could be of use to the new government, and the above quote indicates that finance minister Brofoss, even though initially ignoring the new governor, did eventually ask Jahn for advice. Was this a mere one-off incident or the start of a more systematic interaction? According to contemporary theory, in the post-WWII world central banks had to expand their traditional goals and policy instruments in order to obtain influence. To what extent did the BoN manage to carry out such ideas in practice?

In this chapter, we will discuss the above questions and examine the role of the BoN during the first half of the recovery period, 1945-1948. The chapter is organized in five sections. Section 2.1 discusses the role of the central bank in the domestic economic policy, a policy characterized by extensive direct regulations. Sections 2.2 through 2.4 bring focus to an often-neglected part of the central bank's traditional field of work: the foreign exchange policy. The BoN had considerable expertise in this area, from the market-

² Lie 1995; Knutsen 2007, part III.

³ See chapter 1.7.

based policies of the gold standard period to the market regulations during the 1930s, and once foreign exchange problems again arose after World War II this experience could be of use. Section 2.2 presents the fundamental challenges of the foreign exchange policy at this point and discusses the failing communications between the central bank and the government regarding these problems before the autumn of 1947, when the foreign exchange situation turned into a severe crisis. Section 2.3 analyses this currency crisis, which appears as a turning point in the attempts of governor Jahn and his officials to influence policy formulation and implementation. Section 2.4 examines the renewed authority of the BoN in the foreign exchange policy after this crisis. The concluding section 2.5 sums up the changes in the tasks and authority of the central bank during these first postwar years, and discusses how these changes influenced the process of developing a new role within Labor's new policy regime.

2.1 Marginalization of the BoN in the domestic economic policy

One of the most heated topics in the Norwegian economic debate during the recovery period was how to cope with the extreme monetary surplus created by the occupying regime. By the Liberation, over 8 billion *kroner* (NOK) was still outstanding on the so-called occupational account, and in chapter 1 we discussed how this helped to undermine the legitimacy of the BoN, both at home and abroad.⁴ Here, we will discuss the economic and political dimension of this problem, related to its potential inflationary consequences as well as its consequences for the role of the central bank in domestic policy-making.

A substantial part of the monetary expansion during the war had ended up as increased disposable income in the hands of the general public and the private banks. The general public's stock of notes and demand deposits increased from about 900 million NOK by the end of 1939 to 5.3 billion NOK by the Liberation. During the same period, bank deposits increased from about 2.7 billion to 4.2 billion NOK.⁵ This implied that in 1945, the Norwegian public had plenty of money at its disposal while simultaneously craving for consumer goods that had been unavailable for years, goods that were still hard to get hold of. This pent-up demand for scarce consumer goods combined with the monetary surplus represented a severe inflationary potential that had to be curbed.

⁴ See chapter 1.5.

⁵ SØS 12, pp. 365-366.

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The immediate solution to the inflation problem was to prolong the wartime direct regulations. On Liberation Day in May, 1945, the Labor government – in exile in London made the War Cabinet pass a new provisional law, *Lex Thagaard*, which allowed the authorities not only to control prices but also to prohibit or order the production of goods, control the volume of production, tax commodities, and prevent companies from being started or expanded.⁶ In addition, other provisions passed during the war ensured the comprehensive control of all imports, exports and capital movements to and from Norway, as we will discuss more thoroughly below. Altogether, these statutory provisions in principle gave the authorities power to control all aspects of domestic production, including what, where and how to produce, and at what price, as well as all transactions of goods, services and currency to and from other countries.

From Gunnar Jahn's point of view, *Lex Thagaard* and the other direct controls represented both democratic and economic problems. Although Jahn accepted the need for extraordinary direct regulations during a transitional period in order to cope with the economic imbalances created during the war, in the longer term, he argued that direct regulations were undesirable. From a democratic perspective, such regulations implied undue interference in peoples' lives. From an economic perspective, he believed they would lead to inefficiency, both because people would gradually learn to evade the laws and because an administrative rather than a market-based allocation would lead to a waste of resources. Hence, Jahn argued that the direct regulations should be abolished as soon as possible and replaced by more efficient market-based instruments.

A precondition for deregulation was an improvement of the imbalances in the domestic economy between the abundance of money and the scarcity of capital and labor. As finance minister in the temporary coalition government of 1945, Gunnar Jahn had therefore proposed carrying out a comprehensive monetary reorganization in order to withdraw excess liquidity. Already during the war, economists in the BoN and the National Bureau of Statistics (SSB) had prepared a proposal for a comprehensive monetary reorganization, which finance minister Jahn later used as basis for a

⁶ "Provisorisk anordning av 8. mai 1945 om prisregulering og annen regulering av ervervsmessig virksomhet", appendix 31 in *Undersøkelseskommisjonen av 1945*, vol. III by the Ministry of Finance, Oslo: Aschehoug, 1948.

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parliamentary bill.⁷ However, this initiative failed. When Labor's new majority government entered office in the autumn of 1945, it replaced Jahn's bill with a circumscribed version, which in practice did not have any traceable effect on the liquidity.⁸

Unlike countries such as Belgium, Finland and Denmark, where the authorities carried out drastic monetary reforms immediately after the war, high liquidity continued to mark the Norwegian economy throughout the recovery period. And rather than preparing for liberalization and market-based instruments, the government chose a policy based on the so-called stabilization line [*stabiliseringsslinjen*], a three-fold strategy introduced in the autumn of 1945 to stabilize prices at the present level. The stabilization line combined quantitative direct controls of prices and resource allocation with income policy initiatives to prevent wage rises, and a fixed exchange rate based on consideration of the domestic price level. By setting maximum prices, rationing consumer goods, raw materials, fuel, and building materials, by establishing a detailed licensing system for imports, exports and foreign exchange, by compensating for inflation with price subsidies in exchange for wage moderation and thereby breaking the traditional index-linked wage system, and by fixing the exchange rate at 20 NOK to the

⁷ For a discussion of the different phases of and motivations behind the monetary reorganization, see E. Lie, "Pengesanering og reguleringsøkonomi", *Historisk Tidsskrift*, vol. 73, no. 1, 1994, pp. 54-71. See also: M. Wold, *Kvantitetsteorien eller Keynes – to linjer i spørsmålet om sanering av likviditetsoverskuddet i -45*, post-graduate thesis [*hovedfagsoppgave*] in economics, Oslo: University of Oslo, 1992.

⁸ SØS 12, pp. 297-99.

Scholars have debated why the Labor government refused to carry out a comprehensive monetary reorganization. Preben Munthe has argued that this was mainly due to new theoretical perspectives on the importance of money as an inflationary factor. The Frischian economists rejected the traditional quantitative theory of money that assumes that an increase in the quantity of money will result in inflation without any positive effect on economic growth. Instead, they argued that the main cause of inflation was found on the supply side of the economy, linked to the scarce supply of goods. Einar Lie to some extent agrees with Munthe, but refutes the assumption that it was only the new generation of economists who rejected quantitative theory. He argues that also presumably 'orthodox' economists such as Erling Petersen based their arguments on more modern monetary theory. Lie therefore suggests that the main reason was that Labor, for political reasons, was in no hurry to return to a market economy. Preben Munthe, "Pengesanering og stabilisering", in A.J. Isachsen (ed.), *Ni artikler om penger, kredit og valuta*, Oslo: Universitetsforlaget, 1991, pp. 218-28; Lie 1994, pp. 64-65; Lie 1995, p. 67ff.

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British pound – instead of a proposed 24 NOK rate that would have helped the export industries – the Labor government attempted to control prices and resource allocation, curb a possible price-wage spiral and avoid imported inflation, while simultaneously directing resources to high-priority sectors such as shipbuilding and export industries.⁹

The high liquidity, direct regulations and the declared stabilization line implied that the role of the BoN as participant and advisor in the domestic economic policy would be less prominent. In January 1946, Gunnar Jahn stated in his diaries that he now realized that the new Labor government had no intention of carrying out a comprehensive monetary reorganization and that the direct regulations therefore would be continued on a broad basis.¹⁰ And in his first annual speech as central bank governor a month later, Jahn acknowledged that this would have fundamental consequences for the central bank:

The war, with the abundance of money we have inherited from the Germans, implies that the Bank of Norway will not be able to play a big role in the domestic monetary policy, and it [the central bank] will also be less important as an advisory organ for the Government and the State in the monetary policy. This is something we have to face up to.¹¹

The monetary surplus, combined with extensive direct regulations, prevented the BoN from using its traditionally most important policy instrument: a flexible discount rate. Already by the outbreak of World War II, the discount rate had been frozen at a three per cent level, and in January 1946, the government instructed the BoN to reduce the discount rate even further to an all-time low of 2.5 per cent. At this point of time, the low discount rate reflected the high market liquidity. However, in accordance with the economic theories of Ragnar Frisch, Labor had added to its party program the goal of keeping domestic interest rates “as low as possible” also in the

⁹ For a summary of the historical debate on the stabilization line, as well as its background and content, see Søilen 1998, pp. 3\52-55.

¹⁰ GJD January 18, 1946.

¹¹ Gunnar Jahn’s speech at the meeting of the BoN’s Supervisory Council, February 11, 1946, *Norges Banks beretning og regnskap*, 1945, quote p. 7.

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long run.¹² By the end of World War II, several countries embarked on similar cheap money policies, among them neighboring Sweden and Great Britain, Norway's closest ally during the war. The rationale behind the cheap money policy was that low interest rates, on the one hand, would contribute to a high investment level, which in turn was assumed to induce economic growth and, on the other hand, would be socially beneficial by providing cheap housing for the general public. An additional fiscal reason, which was particularly emphasized in heavily indebted Britain, was that low interest rates would limit the State's interest payments.¹³

Tracing the origins of the Norwegian cheap money policy exceeds the scope of this thesis, but Gunnar Jahn was among those who presumed that it was initially based on a British model, which again was inspired by Keynes' economic theories.¹⁴ However, whereas Britain and most other countries abandoned or eased their cheap money policies around 1950, Norwegian governments – regardless of party affiliation – continued to pursue low and stable interest rates as a policy target until the mid-1980s. The cheap money policy thereby appeared as a cornerstone of Norwegian economic policy, which it gradually became politically unacceptable to oppose. In 1945, this long-term scenario was of course unknown, and Jahn and other opponents of the cheap money policy would still try to convince the government to let it

¹² Det norske Arbeiderparti, "Arbeid til alle. Opgavene i Norge i etterkrigstida", passed by the National Council of the Norwegian Labor Party, May 28-29, 1945, in *Vi vil...Norske partiprogrammer 1884-2001*, CD-Rom published by Norsk Samfunnsvitenskaplig datatjeneste and Institutt for samfunnsforskning, 2001, item 5 [quote: "Renten for innenlandske lån holdes så lav som råd er."].

¹³ For an overview of the British and Swedish cheap money policies, see S. Howson, *British Monetary Policy, 1945-1951*, Oxford: Clarendon press (1993); M. Chick, *Industrial Policy in Britain: Economic Planning, Nationalisation, and the Labour Governments*, Cambridge: Cambridge University Press (1997), pp. 4-5; L. Jonung, "Riksbankens politik 1945-1990", in L. Werin (ed.), *Från räntereglering till inflationsnorm: det finansiella systemet och Riksbankens politik 1945-1990*, Stockholm: SNS Förlag, 1993, pp. 287-419.

¹⁴ See Minute from the annual meeting of the Nordic central banks by A. Eriksen, November 19, 1947, the Bank of Norway Archives, *Statistisk avdeling*, at the National Archives of Norway, Oslo [hereafter: BoN-S] box H-0006, folder no. 3.

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go. However, for the BoN, the immediate consequence of the fixed discount rate was that monetary policy in the traditional sense was impossible.¹⁵

A necessary institutional precondition for the cheap money policy was the new international payment system developed by the end of World War II to replace the previous gold standard regime, the so-called Bretton Woods system.¹⁶ The Bretton Woods system had two characteristics that enabled the domestic control of interest rates. First, it replaced the market-based exchange rates of the former gold standard system with a regime of administratively pegged, “stable but adjustable” exchange rates.¹⁷ Second, it

¹⁵ Jahn accused key Labor politicians of having an irrational obsession with keeping the interest rate at 2.5 per cent regardless of the monetary conditions. He also criticized the Frischian economists for not recognizing the monetary aspects of the problems of inflation and deficits on the currency account with which Norway struggled, but instead focusing solely on the real side of the economy. See Lie 1995, p. 220; minute from the annual meeting of the Nordic central banks by A. Eriksen, November 19, 1947, BoN-S box H-0006, folder no. 3; minute from the annual meeting of the Scandinavian central banks by A. Eriksen, December 12, 1946, BoN-S box H-0001, folder no. 2.

¹⁶ The Bretton Woods system was named after a conference at Bretton Woods, New Hampshire, USA, in July 1944, where the allied nations agreed to establish a new organization for the stabilization of currencies and the promotion of international trade – named the International Monetary Fund (the IMF) – and a new international bank for reconstruction and economic development (the I.B.R.A.D, or the World Bank).

¹⁷ “Articles of Agreement of the International Monetary Fund” (July 22, 1944), Article IV. A full version of the 1944 Articles of Agreement is printed in: J. K. Horsefield, *The International Monetary Fund 1945-1965*, vol. 3, Washington D.C.: the International Monetary Fund, 1969, pp. 185-214. According to Article IV, exchange rates were in principle fixed to a par value expressed in terms of gold or US dollars, but in cases of a long-term, fundamental disequilibrium (which in practice meant an unsustainable payments imbalance), the exchange rate could be altered with the approval of the IMF.

See also: M. D. Bordo and H. James, “The International Monetary Fund: Its Present Role in Historical Perspective”, *NBER working paper* no. 7724, Cambridge, Mass.: National Bureau of Economic Research, 2000; A. Britton, *Monetary Regimes of the Twentieth Century*, Cambridge, UK: Cambridge University Press, 2001.

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permitted the member countries to maintain national capital controls.¹⁸ While a main purpose of the Bretton Woods system was to promote international trade and the liberalization of goods and services, these two provisions allowed member countries to pursue national strategies in monetary policy matters, for example to replace orthodox discount policy with a policy of low interest rates. Hence, the Bretton Woods system constituted a fundamentally new international framework for post-WWII central banking.

According to contemporary theories, the key to influence for central banks in the post-WWII world was to adapt their ways and techniques to the new political and institutional surroundings.¹⁹ The extensive direct controls in the domestic economy offered plenty of new tasks and challenges, and by participating in designing and maintaining these regulations, the BoN in principle could have contributed to Labor's policy-making despite being precluded from using its traditional means. However, in practice, the central bank hardly took part in this new domestic policy regime.

The administration and granting of licenses, control of prices etc. was handled mainly by the Ministry of Finance, the Price Directorate, and the Ministry of Supply and Reconstruction [*Forsynings- og gjenreisningsdepartementet*], while the BoN was not included. Moreover, neither Jahn nor other Bank officials took part in the process of drawing up national budgets, a key policy measure in Labor's post-WWII economic policy. The national budgets had been initiated by Ragnar Frisch in the 1930s, and continued by Frisch's students during and after World War II. In March 1946, finance minister Erik Brofoss, the most eager advocate of these budgets in the Labor government, presented the first preliminary national budget, followed by a more complete version in February 1947.²⁰ These first

¹⁸ "Articles of Agreement of the International Monetary Fund" (July 22, 1944), Article VI, section 3, which stated that a "Member may exercise such controls as are necessary to regulate international capital movements, but no member may exercise these controls in a manner which will restrict payments for current transactions or which will unduly delay transfers of funds in settlement of commitments (...)".

¹⁹ See chapter 1.8.

²⁰ Parliamentary document St.prp. no. 1 (1945-46), extraordinary appendix no. 11. For an interesting account of the process of developing national accounts and budgets as perceived by one of the key participants, the Frisch student and later manager of the National Bureau of Statistics, Petter Jakob Bjerve, see Bjerve 1989, chapters IV and V.

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annual national budgets contained detailed specifications of resource allocation and production volume for each industry and sector, down to the level of bricks and boards, and were designed specifically for ensuring a rapid and efficient reconstruction of the Norwegian economy. Later budgets were less detailed but not necessarily less ambitious, as their status as so-called program budgets implied that estimates for production, consumption, investments etc., were meant not only as tentative predictions but also as specific targets for the economic policy.

From Gunnar Jahn's point of view, the national budgets helped to underpin what he regarded as a failed economic policy. His diaries indicate that although he had nothing in principle against the concept of a national budget, which he described as an "in a way logic" construction, but he felt that in practice the results were poor since the budget allowed the government to calculate with too high investments, too high imports, and too optimistic estimates of the productive capacity.²¹ Jahn therefore displayed little interest in either developing or implementing the national budget. The BoN as an organization did contribute in limited ways to the national budgets by providing the Ministry of Finance with statistical data, and, as we will see below, Jahn was involved in producing alternative foreign exchange estimates. Nevertheless, the Bank was not represented at the most important arena for preparing and designing the national budgets, the National Budget Committee [*Nasjonalbudsjettutvalget*], and all in all, it played only a minor role in Labor's initiatives for economic planning.²²

The above account suggests that a main reason why the BoN ended up in a peripheral position in domestic economic policy during the recovery period was that Jahn and his officials were both unwilling and unable to contribute constructively to Labor's policy formulation and implementation. The extraordinary economic situation and extensive direct regulations, combined with new political preferences and economic theory perspectives, prevented the central bank from implementing a traditional monetary policy, and it also failed to participate in maintaining and developing the direct regulations and national budgets. This latter lack of initiative can partly be explained at an individual level by Jahn's opposition to the cheap money policy and other parts of Labor's economic policy, as suggested by most studies of the central

²¹ GJD December 18, 1946.

²² Parliamentary document St.meld. no. 10 (1947), pp. 8-10. See also: Bjerve 1989, p. 118.

bank during this period. However, from an institutional perspective, even more important was the fact that the central bank had little prior experience in maintaining direct controls outside the area of monetary policy. The BoN did therefore not appear as an obvious candidate for implementing either price controls, rationing systems or economic planning. In another policy area, however, we have seen that the central bank did have long traditions, namely foreign exchange policy. And when external events turned the foreign exchange policy into one of the most critical matters of the recovery period, the BoN could benefit from this knowledge.

2.2 The Bank of Norway and the currency crisis of 1947

In 1947, the world economy was hit by a severe currency crisis: a crisis that not only had well-known major consequences related to the Cold War and the political and economic balance between Western Europe and the USA, but indirectly also influenced the role of the BoN. The currency crisis was part of a more extensive set of problems in European economies. After a period of strong economic growth, European countries were experiencing increasing shortages of raw materials and fuel, low agricultural output, and signs of stagnation in the growth of production, in addition to the payment problems. This evolving economic crisis threatened to disturb not only the recovery of domestic economies but also the development of international economic exchange. In June 1947, the US Secretary of the State George C. Marshall gave his famous speech at Harvard University, where he launched the idea of the European Recovery Program (ERP), an aid program more usually known as the Marshall Plan, designed to help Europe move out of this critical state.

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The importance of Marshall Aid for Europe's economic growth has been subject to intense scholarly debate.²³ A more important aspect in our context, however, is the fact that both the preceding currency crisis of 1947 and the aid program itself were events that together had both indirect and direct influence on the changing role of the BoN. By turning the political center of attention towards the foreign exchange policy, an area where the central bank had both experience and expertise, and by setting preconditions for the aid program that hastened the liberalization of domestic regulations, these two external events created a 'window of opportunity' that enabled the Bank to contribute constructively to the ongoing policy-making process within the new post-WWII policy regime, which in turn became the key to finding a new role.

While the Marshall Plan was designed to help with the economic problems of Europe on a broad basis, including addressing the trade imbalances between Europe and the USA, the perhaps most critical element of the 1947 crisis were the payment problems. In one respect, the payment problems were a long-term challenge related to the fact that most European countries experienced balance of payments problems due to growing deficits on their trade balances. In order to ensure a rapid recovery from war-related losses, many European countries, including Norway, conducted an economic policy

²³ Classic contributions in the vast literature on the Marshall Plan include A. S. Millward, *The reconstruction of Western Europe*, London: Routledge, 1992, in which the author defends a counterfactual hypothesis of European self-support, and M. J. Hogan, *The Marshall Plan. America, Britain, and the reconstruction of Western Europe, 1947-1952*, Cambridge: Cambridge University Press, 1986, which argues that Europe's rapid recovery totally depended on American aid. Literature with a Norwegian perspective on Marshall Aid and the succeeding European Payment Union (EPU) includes H. Pharo, "Bridgebuilding and Reconstruction: Norway faces the Marshall Plan", *Scandinavian Journal of History*, vol. 1, no. 1, 1976, pp. 125-153; H. Pharo, "Marshall-planen sett fra amerikansk side. Norge i komparativt perspektiv", *Historisk Tidsskrift*, vol. 68, no. 2, pp. 184-209; K. R. Pedersen, *The United States and the Marshall Plan, 1947-53*, Ph.D. thesis in history, University of Rochester (1988), Ann Arbor, Mich.: University Microfilms, 1994; E. Lie, *Pride and prejudice: Norway and the European Payment Union 1950-1955*, post-graduate thesis in history, Oslo: University of Oslo, 1997; H. Pharo, *Norge og Marshallplanen*, Atlanterhavskomiteens skriftserie no. 198, Oslo: Den norske atlanterhavskomite, 1997; L. F. Øksendal, *En fast kurs. Norsk betalingspolitikk, 1945-58*, post-graduate thesis [*hovedoppgave*] in history, Trondheim: Norwegian University of Science and Technology (NTNU), 2001.

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in which their imports of goods and raw materials more or less permanently exceeded their exports, a strategy that in the long run might have had severe negative effects on both their international creditworthiness and their solvency.

In 1947, however, the most urgent aspect of the payment problems was related to access to foreign means of payment in itself. The lack of international convertibility and a functioning multilateral payment system meant that many countries experienced exceedingly critical shortages of foreign exchange, US dollars in particular. Due to aggregating economic and financial imbalances between the USA and Europe – with European countries in desperate demand for raw materials and consumer goods and the USA as basically the only country with material and financial resources to spare – the European demand for US goods and dollars exceeded their ability to pay. The dominant position of the USA was manifested by the fact that US dollars were the only fully convertible currency at the time, while British pounds were valid in the sterling area only and remaining currencies could be used only on a bilateral basis.²⁴

In addition to the acute dollar shortage, many countries also experienced a general currency crisis, generated not only by the lack of convertibility but also by the nature of the bilateral trade system. Rather than promoting a balanced exchange, the bilateral system in practice produced a gap between so-called surplus countries, such as Belgium and Switzerland, whose exports generally exceeded their imports, and deficit countries, including Norway, which more or less constantly were indebted to their trading partners. The bilateral agreements contained buffer arrangements, such as short-term plafond credits, which were intended to even out seasonal variations and handle temporary imbalances. In practice, however, the imbalances between surplus and deficit countries continued, and many deficit countries started using plafond credits to finance long-term investments. The surplus countries, on the other hand, threatened to suspend further trade until their debtors met their obligations. Hence, by 1947, many countries faced a situation where they potentially had to execute massive cuts in their imports, which again would have had severe consequences for international economic exchange.

²⁴ The Sterling area consisted mainly of countries then or formerly part of the Commonwealth, excluding Canada.

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While the general payment imbalances between European countries and between Europe and the USA were a well-known problem, not all governments understood the severity and urgency of the currency crisis. The historian Helge Pharo has demonstrated that despite the unraveling currency crises in surrounding countries, including Great Britain, Sweden and Denmark, all of which had to cut imports due to dollar shortages, the Norwegian authorities for a long time did not regard the currency situation as precarious.²⁵ This view has later been supported by Einar Lie, who in his study of the Ministry of Finance finds that the authorities misread the actual status of foreign exchange reserves due to a failure of coordination between the various agencies in charge of maintaining the currency controls. In theory, all imports and exports of foreign exchange were controlled by an extensive set of statutory provisions, which allowed the authorities to regulate transactions involving foreign exchange through a detailed license system.²⁶ In practice, however, there were inadequate reporting procedures between the different agencies involved in the foreign exchange regulations and the Ministry of Finance, which thereby failed to coordinate their operations sufficiently. Hence, the Ministry of Finance did not realize that by August 1947, a large number of the foreign exchange licenses issued earlier that year or in previous years had not yet been carried through, and that the foreign exchange deficit was thereby far larger than the recorded statistics indicated.²⁷

The fact that the Ministry of Finance failed to recognize these problems, however, does not mean it did not have the opportunity to do so. In the following we will see that the BoN warned of the inadequate organization of the foreign exchange regulations well ahead of the crisis, but these warnings were ignored and instead mistaken for an attempt to increase the power of the central bank.

²⁵ Pharo 1978; Pharo 1997.

²⁶ From the summer of 1946 onwards, the legal foundation of the currency control was an enabling act, the Foreign Exchange Regulation Act of July 19, 1946 [*Lov om valutaregulering*], which was based directly on a Royal decree of November 10, 1944 “*Bemyndigelse for Finansdepartementet til å utferdige bestemmelser om valutakontroll*” issued by the London government-in-exile. This Royal decree replaced a provision issued by the caretaker government, *Administrasjonsrådet*, “*Bestemmelser om utenlandske betalingsmidler, fordringer og verdipapirer mv*” of July 17, 1940.

²⁷ Lie 1995, pp. 103-107.

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According to the statutory provisions on foreign exchange regulations during and after World War II, all transactions to and from Norway involving foreign exchange had to be reported to the BoN. The Bank was also to give consent to all such transactions. Hence, the underlying provisions envisaged that the central bank would have a coordinating role both in gathering information and in maintaining regulations. In practice, however, a series of different agencies was involved in maintaining the controls, among them the Ministry of Supply and Reconstruction, which handled applications for imports of goods and raw materials, and the Ministry of Trade, which, in cooperation with the Ministry of Finance, was responsible for ship orders as well as principal matters of import and export controls and statistics.²⁸ Moreover, the Norwegian foreign exchange reserves were split between the Ministry of Finance, the BoN and Nortraship, and during the first postwar years, the division of authority for handling these reserves was unclear.²⁹

Thus, despite the intention that it should play a coordinating role, the BoN had neither the resources or routines nor the actual authority to monitor the activities of the other foreign exchange agencies. Thus the *de facto* position of the central bank in foreign exchange matters did not correspond with its *de jure* position. Even so, the fact that the central bank was unable to survey and control the foreign exchange policy properly meant that its officials experienced first-hand the weaknesses of the post-WWII control system. They were thereby in a position to question the system on a general basis, well before the crisis set in.

²⁸ In foreign exchange issues, the Ministry of Supply was usually represented by the Directorate of Export and Import Controls [*Direktoratet for eksport- og importreguleringer*], the Ministry of Trade by its Shipping Department [*Skipsfartsavdelingen*], and the Ministry of Finance by the Foreign Exchange Department [*Valutaavdelingen*]. See T. Løvold, “Bidrag til Valutarådets historie”, unpublished manuscript available at the BoN Archives, Oslo 1988, p. 12; Gunnar Jahn’s annual speech for 1947 at the meeting of the Supervisory Council of the BoN, February 10, 1947, printed in *Norges Banks beretning og regnskap* (the BoN’s annual report) for 1947.

²⁹ Nortraship (The Norwegian Shipping and Trade Mission) had been established in April 25, 1940, in order to administer the parts of the Norwegian merchant and whaling fleet that were still outside German control. After the Liberation, Nortraship was responsible for carrying through settlements of claims for Norwegian shipowners who had lost vessels during the war.

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When governor Jahn entered office in January 1946, his officials were highly aware that the organization of the foreign exchange policy was far from optimal. At this point, there had been attempts to coordinate the foreign exchange regulations through the Interministerial Currency Committee [*Den interdepartementale valutakomite*], an advisory council with representatives from the Ministry of Finance, the Ministry of Supply and Reconstruction, the Ministry of Foreign Affairs and the BoN. The civil servants from the central bank quickly realized, however, that this Committee did not work as intended. After only a few months, central bank officials complained that the members the Committee did not possess the necessary expertise and that the BoN instead had to seek advice directly from the ministries involved.³⁰ In order to remedy this situation, one of the first tasks Jahn undertook as the new governor was to improve the control and coordination of the foreign exchange policy.

In February 1946, the BoN took two important initiatives to reorganize the foreign exchange policy, and both implied that the central bank would assume a coordinating role more in accordance with the *de jure* position originally outlined in the statutory provisions underlying the foreign exchange regulations. First, in a letter to the Ministry of Finance dated February 2, 1946, the central bank pointed out the lack of coordination of the foreign exchange policy. In order to improve the ability of the authorities to coordinate and implement necessary controls, the letter proposed that the administration of all currency controls as well as the foreign exchange reserves should be entrusted to the BoN. Moreover, the letter also argued that the time had come to establish a permanent and more competent advisory council to replace the inefficient Interministerial Currency

³⁰ The Interministerial Currency Committee had been established as a temporary arrangement in July 1945, after an initiative from the BoN. A Royal decree of November 10, 1944, which proposed the establishment of a similar council, is quoted in full in Parliamentary document Ot. prp. no. 64 (1945-46), “Om utferdigelse av lov om valutaregulering”, pp. 1-2. See also Løvold 1988, pp. 25-26.

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Committee and thereby contribute to improved coordination and exchange of information.³¹

The Ministry of Finance completely dismissed this initiative. In its reply, it did not emphasize the possible inadequacies of the foreign exchange policy, but instead focused on the position of the central bank and argued that transferring the foreign exchange policy to the BoN would give it too much power. The Ministry underlined that besides areas where the currency control was specifically assigned to the BoN, the task of the central bank was merely “to understand the technical implementation of the foreign exchange policy”, not to have a coordinating role. The Ministry concluded that the BoN should thus not try to exceed its area of responsibility in this policy matter.³²

It thereby seems that rather than giving serious consideration to the warnings of the central bank regarding the foreign exchange policy, the Ministry of Finance was more preoccupied with putting the central bank in its new place of political submission. However, this categorical dismissal did not discourage the central bank from taking new initiatives. In a new letter dated only four days later, the BoN informed the Ministry of Finance that it had been in contact with the Norwegian Shipowners’ Association in order to find an arrangement to control freight earnings from the merchant fleet. The central bank recommended that the government should establish a system of voluntary cooperation between the BoN and the shipowners, which could improve the control of and public access to foreign exchange obtained through shipping trade.³³ This system of cooperation should be supported by a new advisory council with representatives of the central bank, the shipowners, and “whichever representatives of the State that the government

³¹ Letter of February 2, 1946, from the BoN to the Ministry of Finance, quoted in Løvold 1988, pp. 8, 13, and 26. Despite repeated inquiries and searches in the archives of the BoN, it has proved impossible to retrieve the original letters and internal notes referred to in Løvold 1988. My analysis is therefore based on this detailed account from Thomas Løvold, who was a long-standing senior civil servant first in the Ministry of Finance, then in the Ministry of Commerce.

³² Letter of February 8, 1946 from the Ministry of Finance to the BoN, quoted in Løvold 1988, p. 13.

³³ According to a provision by the Ministry of Finance of November 17, 1945 – made after an initiative from the BoN – the authorities could instruct citizens to hand over foreign currency to the BoN in exchange for Norwegian *kroner*. This provision was intended to increase the national currency reserves.

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find necessary”. The BoN recommended that this council would discuss and decide cases of principal interest, while the central bank could take care of day-to-day executive work.³⁴

In this second initiative, the BoN once again placed itself in a prime position, but this time it simultaneously underlined that the new council, rather than the central bank, would have final authority. Nevertheless, despite the fact that the government agreed that the control of freight earnings ought to be improved, it still seemed concerned that the position of the central bank would be too influential. The Ministry of Finance therefore agreed to establish a new advisory council, the Shipping Currency Committee [*Skippsvalutakomiteen*], but rather than appointing a representative of the BoN as chairman, as the central bank had suggested, the Ministry decided it should be headed by one of its own officials, namely the deputy secretary of the Ministry’s Foreign Exchange Division, who also was head of the Interministerial Currency Council. Thus, the Ministry of Finance aimed to keep the coordination of the foreign exchange policy within its own organizational boundaries, while reducing the role of the central bank to that of an ordinary council member.³⁵

The two initiatives from the BoN in February 1946 were both based on a general concern that the organization of the foreign exchange policy did not give the authorities sufficient information and control. At this time, however, there was no explicit fear of a currency crisis. Norway still had considerable currency reserves, and even if the government envisaged a sizable balance of payments deficit, there were few direct signs of the critical situation that would occur within a year and a half. Hence, given Jahn’s history as a political and theoretical opponent and the central bank’s legacy of independence, it is not surprising that the government interpreted these initiatives as an attempt to restore some of the central bank’s power. The link between the organization of the foreign exchange policy and the authority of central bank thereby drew attention away from the actual content of the central bank’s warnings: that a currency crisis could occur unless the government improved the coordination and control of this policy area.

³⁴ Letter of February 14, 1946, from the BoN to the Ministry of Finance, quoted in Løvold 1988, p. 34.

³⁵ Letters of February 27 and April 9, 1947, from the Ministry of Finance to the BoN, quoted in Løvold 1988, p. 34.

2.3 From general awareness to full alert

During the following year, the BoN's concern over the currency situation continued. Gunnar Jahn was still worried that the authorities did not have sufficient overview, and in January/February 1947, he stated in his diaries "it is about time that we start to look more seriously at the currency situation". He also repeated the idea of establishing a new division in the BoN that could take "firm control" of the foreign exchange policy, but it does not seem that he took any new initiatives in this respect.³⁶ To some degree, however, Jahn did give several general public warnings. While his first annual speech as BoN governor hardly mentioned the matter of foreign exchange and was concerned mainly with domestic economic policy, Jahn's address for 1946, which he gave in February 1947, had the balance of payments problems as a main topic. Jahn argued that even if Norway at the end of 1946 still had considerable foreign exchange reserves and that there seemed to be no immediate danger of a currency crisis, the balance of payments and foreign exchange situation had to be monitored carefully. Since much of the remaining foreign exchange reserves were illiquid and future access to foreign loans probably would be limited, Jahn advocated an austerity policy at home.³⁷

While the Ministry of Finance refused to accept the advice from the central bank to reform the foreign exchange policy at this stage, finance minister Brofoss did recognize some potential problems related to the balance of payments deficit and the currency shortage. The national budget for 1947, which Brofoss presented at the end of February, underlined that the shortage of foreign means of payment could be a decisive bottleneck not only in the recovery process but also in a long-term perspective. The budget stated that it would not be possible to enhance the future standard of living without far greater access to foreign exchange. In order to improve the balance of payments, the national budget prepared for a rapid reconstruction of the merchant fleet, an expansion of the export industries with particular emphasis on highly processed goods, and an increase in foreign loans. It also declared that exports paid in "hard currency" and imports paid in "soft currency" should have priority in order to ease the pressure on the foreign exchange reserves.

³⁶ GJD January 30 and February 2, 1947.

³⁷ Gunnar Jahn's speech at the meeting of the BoN's Supervisory Council, February 11, 1946, and February 10, 1947, printed in the BoN's annual reports for the respective years.

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The BoN contributed to this national budget by preparing a survey on currency incomes and expenses in 1946 and 1947, which the Ministry of Finance presented as part of its elaborating comments on the foreign exchange budget. Based on this survey, the Ministry acknowledged that the currency reserves by far were large enough to cover current needs, and that it would probably be necessary to borrow at least 2 billion NOK the following decade. The foreign exchange should therefore be managed with great caution. Apart from these general guidelines and warnings, however, the national budget of 1947 did not reflect much immediate concern for the foreign exchange situation.³⁸

Even though the BoN seemed more worried about the currency problem than the Ministry of Finance, Gunnar Jahn did not further intensify his warnings either to the general public or the government. After his early initiatives to improve coordination and control, Jahn's admonitions in 1946 and the first half of 1947 were relatively moderate. On the one hand, this indicates that the BoN did not realize the extent of the currency problems. The bank's concerns were based mostly on general experiences and considerations than on specific information on the actual state of affairs, and after the crisis became a stated fact, Jahn claimed that he was shocked by the authorities' lack of overview, and admitted that the state of affairs was worse than he had expected.³⁹ On the other hand, Jahn's response also fell in line with what would become a typical approach of the central bank throughout the recovery period, namely to compromise with the government despite underlying disagreements. Thus, once the government had firmly rejected the initiatives of the central bank to reorganize the foreign exchange policy, Jahn lowered his profile and instead gave priority to upgrading his own officials on foreign exchange matters.

Already during the 1930s, the BoN had established a large staff involved in maintaining the direct foreign exchange regulations.⁴⁰ In 1945-46, the bank's Foreign Exchange Division [*Valutaavdelingen*], which was in charge of collecting and processing statistics on foreign exchange, composing and following up the Norwegian clearing agreements, and maintaining regulations regarding foreign travel allowances and issuing licenses for immaterial transactions to and from Norway, employed around 50 officials.

³⁸ Parliamentary document St. meld. no. 10 (1947), pp. 16, 20 and 66-72.

³⁹ GJD October 20, 1947.

⁴⁰ See chapter 1.4.

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This staff worked systematically to improve the reporting systems not only between the BoN and the other ministries involved in foreign exchange policy, but also between the central bank and the authorized foreign exchange banks.⁴¹ Through this work, the BoN managed to gather more precise statistics from the banking sector on the foreign exchange situation. The central bank could thereby produce reliable information on the payment problems, and at a meeting of the National Budget Committee on August 12, 1947, governor Jahn presented estimates that, according to his own account, came as a shock to the government:

My exposition hit like a bombshell. They were very surprised even though I have said this many times before.⁴²

At this meeting, Jahn repudiated figures calculated by professor Trygve Haavelmo – an influential Frischian economist and later winner of the Nobel Prize in economics – who had estimated that the foreign exchange reserves would not be exhausted until the end of 1948. Jahn pointed out that Haavelmo's estimates were calculated in Norwegian *kroner*, and thereby disregarded the shortage of specific foreign currencies as a separate problem. When this condition was added, estimates calculated by the BoN showed that the reserves of US dollars could be exhausted very shortly, at a time when foreign loans were extremely hard to obtain. Hence, Jahn concluded, Norwegian dollar imports could be cut off sooner rather than later.⁴³

While the government had earlier ignored the general warnings from the central bank, the Ministry of Finance was responsive to hard-core statistics and realized that the situation might be more serious than assumed. At a meeting at the Prime Minister's office the following week, Haavelmo had replaced his figures with new and more pessimistic estimates, which

⁴¹ Interview with Øyvind Furuly, a retired civil servant of the Currency Office, the BoN, November 9, 2004.

⁴² GJD August 12, 1947. [”*Min framstilling kom som en bombe. De ble meget overrasket ennu jeg har sagt det mange ganger tidligere.*”] It should be pointed out that this is Jahn's own version of events. From a critical point of view, it is therefore necessary to point out that Jahn might have exaggerated the weaknesses of Haavelmo's figures and the response of the Committee members, as well as his own successful performance. However, it seems clear that compared to earlier trends, from this point onwards the government to a much larger extent approved of the initiatives from the BoN regarding the foreign exchange policy. Thus, in rough terms, there is reason to trust Jahn's account.

⁴³ GJD August 12, 1947.

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confirmed that Norway would have serious foreign exchange problems even after considerable cuts in imports. In accordance with his fundamental approach to the payment problems, Gunnar Jahn had originally argued that import cuts alone would not solve the crisis and that the authorities also had to tighten the domestic economic policy. At this meeting, however, the governor took a more inviting approach and proposed the appointment of a small working committee that could compare the different statistical estimates made by the BoN, Haavelmo, and the Ministry of Trade (on the shipping incomes) and thereby obtain a more solid basis for further initiatives, a suggestion that the Ministry of Finance accepted without hesitation.⁴⁴

In the following weeks, the government's understanding of the foreign exchange situation went from a general awareness to full alert as Ministry of Finance fully realized that Norway faced a severe currency crisis. One day after the above meeting, the British authorities suspended the convertibility of Sterling into US dollars as a response to the rapidly diminishing British foreign reserves, an act that reinforced the currency crisis in other countries that had counted on converting their Sterling reserves.⁴⁵ The suspension of the pound had limited consequences for Norway but nevertheless underlined the severity of the situation, both internationally and at home.

On September 15, 1947, the Norwegian government took drastic action to curb the growing currency crisis and introduced the rationing of foreign exchange. In a public statement, the government declared that recent surveys had revealed a backlog of approximately 1 billion NOK for foreign exchange licenses issued but not yet redeemed. Moreover, import prices had increased far more than estimated in the national budget, and an execution of all issued licenses at new and higher prices would therefore imply a considerable additional expenditure on the foreign exchange budget. In order to improve the control of limited foreign exchange reserves, the government thus suspended prevailing practices that prescribed that the authorities should automatically provide foreign exchange for issued import licenses.

⁴⁴ GJD August 19, 1947. For Jahn's original proposal to tighten the domestic economic policy, see GJD August 12, 1947.

⁴⁵ For a comprehensive account of the British currency crisis of 1947, see J. Fforde, *The Bank of England and Public Policy, 1941-1958*, Cambridge: Cambridge University Press, 1992, pp. 141-164.

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In the system for rationing foreign exchange, the BoN was assigned a new role. The central bank was to give directives to the private banks regarding the amount of foreign exchange available for different payment transactions at any given time; an arrangement that also implied the possible curtailment of already licensed imports. In addition, the BoN was to reregister all licenses in order to sum up which ones would actually be redeemed and coordinate the new license statistics.⁴⁶

Four days after the above declaration, the government followed up with an initiative that would prove even more significant to the central bank. It appointed a new, permanent advisory council – the Foreign Exchange Council [*Valutarådet*] – to assist the Ministry of Finance in the formulation and implementation of the foreign exchange policy. A year and a half earlier, the BoN had proposed the establishment of such a council, but had been met with a flat refusal. After the currency crisis was a stated fact, however, the government not only accepted the idea but also appointed the governor and deputy governor of the central bank as chairman and deputy chairman of the new Council. In accordance with the original proposal from the BoN to involve all ministries concerned, the government also appointed two representatives from the Ministry of Finance, two from the Ministry of Supply and Reconstruction, and one from the Ministry of Trade. All the representatives were high-ranking civil servants, who held key positions in their respective Ministries and were deeply involved in the formulation of Labor's economic policy.⁴⁷

⁴⁶ Public statement of September 15, 1947, by the Gerhardsen government, in the archives of the Ministry of Commerce, *Valutaavdelingen*, at the National Archives of Norway, Oslo [hereafter HD-V], box no. 5, file 1.2 "Valutautvalg. Sammensetning og mandate".

⁴⁷ Royal decree of September 19, 1947, regarding the appointment of a foreign exchange council, HD-V box no. 5, file 1.2. The original members of the Council were, from the BoN: governor Gunnar Jahn (chairman) and director Hugo Heiberg Lund (deputy chairman), from the Ministry of Finance: secretary of the State Gunnar Bøe and director general [*ekspedisjonssjef*] Christian Brinch, from the Ministry of Supply and Reconstruction: director Gunnar Kjølstad, and, from the Ministry of Trade, secretary of the State Arne Drogseth. In addition attended initially director Arne Skaug, Jahn's successor as head of the National Bureau of Statistics. Later one representative from the Ministry of Foreign Affairs was included in the Council, initially director general Ræder.

There were several reasons why the government was suddenly willing to assign such an important position to the BoN in the autumn of 1947. First, the payment problems had escalated to a critical level that threatened to halt the recovery process. This altered economic situation forced the government to reconsider the Bank's prior warnings regarding inadequacies in the foreign exchange policy as well as the role of the Bank in policy formulation. Second, since his first failed initiatives to reform the foreign exchange policy, Gunnar Jahn had worked consistently and quietly to upgrade the competence of the BoN in foreign exchange matters. By the autumn of 1947, there was still considerable room for improvement in the organization and resource base of the Bank's Foreign Exchange Division but it nevertheless appeared as a more qualified organization that could provide the Ministry of Finance with much needed expert advice. Third, from the government's point of view, there was less reason to fear that policy initiatives from the Bank merely reflected ambitions of increased independence. Since assuming office, Gunnar Jahn had demonstrated that diverging opinions did not necessarily equal a lack of loyalty and cooperativeness. Jahn had repeatedly declared in public that the BoN would no longer have a politically independent position, and he had demonstrated a willingness to cooperate and contribute to the recovery process, which somewhat increased the trust of many Labor politicians towards the Bank.

2.4 The foreign exchange policy as a first step to a new role

The first meeting of the Foreign Exchange Council was held on September 22, 1947, only three days after it was established. This haste reflected the urgency of the currency crisis and the high priority the government at this point assigned to the foreign exchange policy. The new council was only one element of a more extensive reform that the government carried out during the autumn and winter of 1947/48 to improve the control of currency transactions as well as the coordination between the foreign exchange policy and other policy areas. By participating actively in this reform process, the BoN had a fresh opportunity to interact constructively with the political authorities and thereby not only contribute to solving one of the most crucial policy problems of the recovery period but also build long-term, mutual trust. For the Bank, the foreign exchange policy thereby became a first step towards finding a new role.

With its mandate and authority yet to be decided, the Foreign Exchange Council immediately took a practical approach to the currency crisis, and already at its first meeting, the Council discussed several specific cases regarding the appropriation of foreign exchange. This was symptomatic for the following weeks and months when the Council spent most of its time discussing critical cases and trying to survey the actual state of affairs in the foreign exchange policy. However, the mandate and authority of the Council

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itself also had to be clarified. After a process that culminated with a formal set of instructions in November 1947, the BoN ended up in position that, judged from postwar experiences up till then, was surprisingly important.

The instructions of November 1947 assigned special authority to the governor of the BoN. As chairman of the Council, the governor was responsible for summoning meetings as often as he found it necessary, at least twice weekly. He would also preside at meetings and in his absence the deputy governor of the BoN would act as stand-in chairman. The Council had a quorum of five members and votes were decided by general majority, but in cases of tied votes, the vote of the chairman decided the matter.⁴⁸ These formal instructions indicated that the governor would have a central role in coordinating the foreign exchange policy. Moreover, even more significant for the changing role of the BoN was the fact that the chairmanship was linked to the secretarial function of the Council. At the first meeting, the Council decided that head clerk of the Bank's Foreign Exchange Office would serve as council secretary, an arrangement that continued on a permanent basis.⁴⁹

The assignment of the post of Council secretary to the BoN was a routine decision, but had wide implications for the Bank as an organization. Rather than being involved in the formulation and implementation of the foreign exchange policy only through the individual engagement of governor Jahn, the secretarial function implied that the Bank became integrated also at an organizational level. In practice, the civil servants of the BoN would not only follow up Council resolutions but also provide underlying records and statistics for most of the meetings. Combined with Jahn's role as Council chairman, the secretarial function thereby integrated the BoN into both the formulation and implementation of the foreign exchange policy.

The Foreign Exchange Council implied that the BoN had suddenly achieved a key position in Labor's policy-making, as the government was prepared to

⁴⁸ "Instruks for Valutarådet", §§1 and 2, appendix to minute of November, 15, 1947 from meeting of the Foreign Exchange Council, books of minutes in the BoN archives, Oslo [hereafter: BoN-V].

⁴⁹ Minute of September 22, 1947, BoN-V.

The Foreign Exchange Office [*Valutakontoret*] was a subdivision of the central bank's Foreign Exchange Division, and the first secretary of the Foreign Exchange Council was head clerk Helge Schirmer.

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include the Council in all crucial parts of the foreign exchange policy. According to the instructions of November 1947, the tasks of the Council included current surveillance of the balance of payments situation, evaluation of the estimates for foreign exchange in the national budgets, contributions to Norwegian positions in international and bilateral negotiations, the formulation and termination of clearing agreements, and generally to “assist the Ministry of Finance, the Ministry of Supply, and the BoN in the implementation of legislation on foreign exchange regulations and import/export controls, and serve as a coordinating and advisory agency for these ministries in the handling of cases related to foreign exchange, supply, and commercial policy”.⁵⁰ Moreover, the government emphasized the undisputed position of the Council as a coordinating agency by closing down the Interministerial Currency Council and instead including a new member from the Ministry of Foreign Affairs in the Foreign Exchange Council, which thereby had representatives from all ministries involved in foreign exchange matters. Indirectly, this also reflected the upgraded role of the central bank as head of the Foreign Exchange Council, since the Interministerial Currency Council had been chaired by the Ministry of Finance.⁵¹

An examination of the minutes of the Council meetings during the first postwar decade suggests that its actual performance by large corresponded with the original mandate.⁵² After a running-in stage in the autumn of 1947, in which the Council met almost daily to cope with the immediate currency crisis, from January 1948 onwards the meetings settled into the twice-weekly

⁵⁰ “Instruks for Valutarådet”, §6, BoN-V September 15, 1947.

[Quote: ”...skal ellers bistå Finansdepartementet, Forsyningsdepartementet og Norges Bank med gjennomføring av lovgivningen om valutaregulering og innførsel og utførsel av varer, og fungere som koordinerende og rådgivende organ for de nevnte departementer ved behandlingen av saker som er av valutamessig, forsyningssmessig og handelspolitisk karakter.”]

⁵¹ Minutes of September 22 and 25, 1947, BoN-V; letter of September 27, 1947 from Chr. Brinch to governor Jahn, HD-V box no. 5, file 1.2. In accordance with recommendations from the Foreign Exchange Council, the government chose to uphold the Shipping Currency Committee as a contact between the authorities and the shipowners as well as an advisory agency subordinate to the Foreign Exchange Council. See minute of October 8, 1947, BoN-V; Løvold 1988, p. 36.

⁵² The following summary is based on a detailed examination of the books of minutes from the Foreign Exchange Council during the period 1947-1954, in BoN-V.

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routine suggested in the mandate, a frequency that encouraged the creation of a dialogue and the exchange of information between the members. The BoN presided at all meetings, either in the person of Jahn or deputy governor Hugo Heiberg-Lund, and usually the chairman started the meeting by quoting the latest statistics from the Bank regarding the foreign exchange reserves and balance of payments situation in order to set the stage for the succeeding discussions. In addition to information exchange and coordination, the Foreign Exchange Council spent most of its time on two types of tasks. The first was to specify guidelines for the rationing of foreign exchange. Applications for foreign exchange were usually handled by the various ministries, but cases of doubt or fundamental difficulty would be submitted to the Council for advice, and this advice usually created a precedent for similar cases later. The second main task was to handle the balance of payments deficit, both in general and on a bilateral basis. Based on statistics coordinated by the BoN, the Council surveyed the foreign exchange reserves and the implementation of the bilateral clearing agreements, and issued warnings when the deficits became intolerable. In accordance with its mandate, the Council was also involved in deciding the contents of the clearing agreements.

Initially, there were some doubts regarding the status of the Council resolutions. The Foreign Exchange Division of the Ministry of Finance complained at an early stage that rather than providing advice, the Council made final decisions without prior consultations with the Ministry, a course that appeared to place the authority of the Council above the political authorities.⁵³ The worries of the bureaucrats in the Ministry of Finance were probably fueled by a resolution from the first Council meeting, which requested the Ministry of Finance to instruct all ministries involved not to give any promise of foreign exchange without prior approval of the Council or alternatively the BoN.⁵⁴ Although this Council resolution appeared more as an emergency response to a critical crisis than an inaugural statement, the Ministry of Finance nevertheless found it necessary to emphasize to the

⁵³ Undated note, journal no. 3245/47, by TL [Thomas Løvold], “Utkast til instruks for Valutarådet. Rådets brev av 20. oktober 1947”, HD-V box 5, file 1.2.

⁵⁴ Minute of September 22, 1947, BoN-V.

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Council that it should conduct its work “in close cooperation with the foreign exchange divisions of the BoN and the Ministry of Finance”.⁵⁵

In practice, the Foreign Exchange Council fulfilled an important task in the new foreign exchange policy by providing precedent interpretations of the currency controls and serving as a coordinating arena between the different agencies of the foreign exchange policy. In accordance with its mandate, the Council also took part in producing estimates for trade and foreign exchange in the national budget, and in some cases, it gave direct advice to the government, for example in connection with the national debate on whether to accept Marshall Aid.⁵⁶ Despite these important tasks, the authority and influence of the Foreign Exchange Council was limited. First, it operated on basis of legislation and guidelines laid down by the political authorities, and, second, according to the remaining sources, it was hardly involved in more comprehensive policy-making processes such as the development of a new Foreign Exchange Regulations Act in 1951.⁵⁷

It seems that both the BoN and the Council accepted these limitations. There are few signs of conflict between the Council and the political authorities or internally between the Council members. The Council meetings usually ended up with unanimous decisions, and in fact, there is only one single example of Jahn using his casting vote as chairman to settle a case.⁵⁸ For the BoN, the Foreign Exchange Council became an arena for constructive interaction with the political authorities. Despite the fact that governor Jahn disagreed with the Labor government on the underlying reasons for the currency crisis and balance of payments problems, he still considered efficient currency controls as a necessary precondition for a successful recovery process. Hence, by focusing on practical problem solving, Jahn and his officials managed to cooperate smoothly with the various ministries.

⁵⁵ Letter of November 22, 1947, quoted by Jahn at the meeting of the Foreign Exchange Council November 25, 1947, BoN-V.

⁵⁶ Minutes of June 8 and 11, 1948, BoN-V.

⁵⁷ The only references to this legislative process in the minutes are orientations from the Ministry of Commerce to the Council, see April 17 and May 15, 1951, BoN-V.

⁵⁸ Minute of October 3, 1950, BoN-V.

The case in question concerned the import budget for 1951, where Jahn and deputy chairman Heiberg-Lund supported a proposal from the Ministry of Commerce to reduce the import volume to 3450 million NOK, while the remaining members wished to keep the volume at the 1950 level of 3660 million NOK.

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Also at a personal level the contact between the Bank and the political authorities improved after the currency crisis, particularly between governor Jahn and finance minister Erik Brofoss. Throughout 1946 and early 1947, Jahn had repeatedly complained that Brofoss was “completely autocratic” and did not consult anyone, least of all the central bank.⁵⁹ Moreover, as we have seen, Brofoss did not speak directly to Jahn between April and August 1946, a clear indication that the finance minister had little interest in the Bank and its governor. After the currency crisis, however, things slowly changed for the better. Brofoss became more attentive and established regular meetings with Jahn, normally on a weekly basis. Here, they discussed not only matters related to foreign exchange but also to economic policy in general, and even though Jahn obviously often disagreed with Labor’s policy solutions, Brofoss maintained this routine.⁶⁰

The reinforced position of the BoN in the foreign exchange policy also implied closer relations with the private banks. While the high liquidity in the domestic economy had caused much of the traditional contact between the central bank and the banking sector to deteriorate after the war, since banks could finance their operations without borrowing from the central bank, through the new foreign exchange policy the BoN could reestablish some of these relations. In the aftermath of the currency crisis, the central bank’s Foreign Exchange Division was in daily contact with the authorized foreign exchange banks to gather statistics as well as implement currency controls. Already before the currency crisis was an acknowledged fact, Gunnar Jahn had used personal meetings with directors of the foreign exchange banks to plead with them to restrict their allocation of foreign exchange,⁶¹ and once rationing was formally introduced, this cooperative approach continued. In retrospect, a former civil servant of the BoN characterized this as a system where the authorized foreign exchange banks served as the extended arm of the authorities towards the public, while the BoN served as intermediate between the political authorities and banks and business life.⁶² The BoN thereby continued the elements of moral suasion that had been introduced into the foreign exchange policy in the 1930s, and

⁵⁹ GJD December 3, 1947. See also August 14-17, 1946, and January 30, 1947.

⁶⁰ Gunnar Jahn refers systematically to these meetings in his diaries.

⁶¹ GJD August 21, 1947.

⁶² Interview with Øyvind Furuly, a retired civil servant of the Foreign Exchange Office, the BoN, November 9, 2004.

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thereby gained useful experience that could later be applied also in the domestic credit policy.⁶³

Despite improved contact with both the political authorities and the private banks, the BoN still operated on the outskirts of the policy-making process. A symptomatic illustration of this is the fact that the most visible organizational element of the foreign exchange reforms – namely the establishment of a new Ministry of Commerce headed by Erik Brofoss – became known to governor Jahn only through the press. The Ministry of Commerce was established as a direct response to the currency crisis, and represented an attempt by Brofoss to develop further the coordination of the foreign exchange policy that had started with the establishment of the Foreign Exchange Council. The new Ministry was constructed by merging several government agencies that were already in regular contact through the Foreign Exchange Council, namely the Department of Trade Policy from the Ministry of Foreign Affairs, the Directorate of Export and Import Controls from the Ministry of Supply and Reconstruction, and the Foreign Exchange Division from the Ministry of Finance. In addition, in an attempt to improve the coordination between the foreign exchange policy and the general economic policy, Brofoss also transferred the Ministry of Finance's Monetary Policy Office [*Pengepolitisk kontor*], which was in charge developing the national budgets, to the new Ministry, where it was renamed the Office for National Budgets [*Kontoret for nasjonalbudsjettet*].⁶⁴

The new Ministry of Commerce was a logical continuation of the centralized coordination and administrative controls long advocated by Frischian economists and Labor politicians. From Jahn's point of view, however, this reorganization reflected the worst aspects of Labor's post-WWII regime, both from a democratic and economic and political perspective. In his diaries, Jahn characterized the new Ministry as a “*Wirtschaftsdepartement*”, designed after an idea from Hitler's Nazi regime and disconnected from democratic standards. Jahn was also critical of this new Ministry from a professional point of view, since he fundamentally believed that the key to solving the foreign exchange problems was to improve the imbalances in the domestic economy, a problem that could be solved only from the Ministry of

⁶³ See chapters 4 and 5.

⁶⁴ GJD October 30, 1947; Parliamentary document St. prp. no. 164 (1947) “Om opprettelse av et nytt departement – Handelsdepartementet”. See also Lie 1995, pp. 102-107.

Finance, which was in charge of the fiscal and monetary policies. Jahn thus tried to convince Brofoss to continue as finance minister.⁶⁵ Brofoss, on the other hand, believed that the foreign exchange problems could be solved through increased coordination and control, and on December 6, 1947, he assumed the post of Minister of Commerce, while his party colleague Olav Meisdalshagen became the new finance minister. In the following chapter 3, we will see that for the BoN, this new constellation would offer both fundamental challenges and new possibilities.

2.5 Summary: towards renewed participation

In this chapter, we have seen that throughout the first half of the recovery period, the BoN took its first steps towards finding a new role in Labor's economic policy. In accordance with conventional views, the Bank was completely marginalized in domestic economic policy. Due to the high liquidity, extensive direct regulations and political ambitions of pursuing a cheap money policy, the Bank could not carry out an orthodox monetary policy based on a flexible discount rate, and it also failed to adapt to the new surroundings and participate in maintaining the direct regulations of prices and allocation of goods or in the development of the key instrument for centralized planning, the national budget. In the foreign exchange policy, on the other hand, governor Jahn and his officials managed to gain renewed influence after external events turned the attention of the government towards the expertise and experience of the Bank.

In the process of developing a new role for the BoN in the post-WWII economic policy, the currency crisis of 1947 appears as a turning point. Before this crisis, the government rejected most policy initiatives from the Bank, not only in domestic economic policy, where governor Jahn and his officials advocated a comprehensive monetary reorganization followed by deregulations, but also in the foreign exchange policy, where the Bank in vain tried to warn the political authorities about the failures of coordination and control. The proposals for domestic economic policy completely contradicted Labor's strategies of economic planning and market controls and their rejection is therefore not surprising. The initiatives in the foreign exchange policy, on the other hand, were directed towards improving the regulatory regime and thus presumably of interest to the government. However, Erik Brofoss and the Ministry of Finance chose to ignore the core advice of these latter proposals, namely that a crisis could occur unless the

⁶⁵ GJD October 30, November 12, 1947.

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administration and coordination of the currency controls were reformed, and instead interpreted them as attempts to strengthen the position of the Bank. In a situation where the future role of the Bank was still unsettled and the Ministry of Finance strived to obtain an overarching responsibility for economic policy, initiatives to assign a coordinating responsibility to the BoN could not be accepted. The Ministry of Finance thereby failed to recognize the economic and political message from the Bank.

Once the extent of the currency crisis was acknowledged, however, the attitude towards governor Jahn and his officials changed. Increasingly, Brofoss seemed to accept the Bank as an expert organization in this matter, and assigned important tasks in the reformed foreign exchange policy to the BoN, most importantly, the position as head and secretariat of the new coordinating Foreign Exchange Council. The BoN managed to obtain this position in the foreign exchange policy, but failed to participate in the domestic policy. This was probably caused by a combination of individual strategy and appearance, on the one hand, and historical and institutional guidance on the other. Most scholars have emphasized the former aspect and explained the marginalization of the BoN in the domestic economic policy by referring to governor Jahn's opposition to Labor's economic policy. Continuing this perspective, the more influential position in the foreign exchange policy can be understood by the fact that Jahn here took a more conciliatory approach by acknowledging and promoting the need for improved controls and coordination in the short run, even though he was fundamentally critical of long-term regulations also in this policy area.

However, just as important as this individual focus is an historical and institutional explanation that emphasizes the long traditions of the Bank in foreign exchange matters, and the lack of such in a domestic policy based on direct regulations. Since the stabilization of the exchange rate during the gold standard period, through the foreign exchange rationing and clearing agreements of the 1930s and the regulation of foreign exchange during World War II, the BoN had played a key role in the formulation and implementation of the foreign exchange policy. Hence, once the currency crisis of 1947 made the government realize that this policy area was out of control, the Bank appeared as an organization with both traditions and expertise, a status that gave it the legitimacy necessary for it to be granted increased authority.

The new position in the foreign exchange policy implied that the BoN improved its relations both with the political authorities and the banking sector. Through the Foreign Exchange Council, governor Jahn and his officials had current interaction with senior civil servants from the Ministry of Finance and other parts of the Central Administration. Through these

working relations, the BoN once again could take part in policy formulation and implementation and could strengthen its reputation as an expert organization. Furthermore, the Bank's links with the government also improved, as the personal contact between Gunnar Jahn and Erik Brofoss went from non-existent to regular interaction, when the finance minister established weekly meetings with the governor. At this time, these relations were rather limited, and Jahn certainly did not belong to Brofoss' inner circle of advisors and confidants. Nevertheless, the Bank was out of the political backwater, and its improved relations with the political authorities contributed to renewed legitimacy and trust.

Through the foreign exchange policy, the BoN also enhanced its relations with important parts of the banking sector. A traditional basis for such contacts, based on the banks' demand for loans from the BoN, had been undermined by the high liquidity after the war, since the banks could fund their activities through deposits. However, the reformed system for the rationing of foreign exchange implied frequent contact with the authorized joint-stock banks to gather statistics and implement currency controls, just as had been the case during similar regulatory conditions in the 1930s.⁶⁶ The BoN interacted with the banking sector at a senior level, through meetings between governor Jahn and leading bankers, and as part of the daily conduct, through interaction between the BoN bureaucracy and lower-level staff from the banks. Hence, the key position of the BoN in the foreign exchange policy also helped to reestablish an intimate contact with the authorized foreign exchange banks, which represented an important part of the banking sector.

According to one former civil servant, the role of the BoN in this system of foreign exchange regulations was to serve as an intermediary between the political authorities, the banks and private business life. This brings us back to the theoretical perspective of boundary organizations. Chapter 1 demonstrated that before World War II, the BoN did achieve a boundary position between the political authorities and the banking sector, which needed the expertise and resources of the Bank. After World War II, this position was lost. While the political authorities earlier had earlier depended completely on the BoN for the formulation and implementation of monetary policy, Labor's new approach to policy-making after World War II initially rendered the Bank superfluous in the domestic regulatory regime. Once the

⁶⁶ See chapter 1.4.

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surplus liquidity also eliminated the banking sector's need for its resources, the BoN ended up in limbo.

After the currency crisis of 1947, the Bank regained some of its former boundary position, since the political authorities once more needed its expertise and experience in foreign exchange policy and the banking sector accepted the BoN as a connecting link to the political authorities. However, the BoN could still operate in only one of the two dimensions in the theory on boundary organizations, the one between public and private sectors, while it was prevented from balancing the second dimension, between international and domestic concerns, as long as it played no part in domestic economic policy. The question now was to what extent governor Jahn and his officials could manage to get access also to this latter policy area.

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The currency crisis of 1947 triggered renewed demand for the expertise of the BoN in the foreign exchange policy, and chapter 2 demonstrated how participating in solving these problems helped to reintegrate the central bank into policy formulation and implementation. However, the tasks, authority and autonomy of the central bank were by no means settled. During the second half of the recovery period, which will be covered in this chapter, governor Jahn and his staff faced a new political constellation in which Olav Meisdalshagen replaced Erik Brofoss as finance minister. Would the budding working relationship between governor Jahn and Brofoss continue to evolve when the latter moved to the Ministry of Commerce, and how would the new finance minister relate to the central bank? By taking a closer look at the political context in which the BoN operated, this chapter will discuss how different considerations and strategies within the ruling Labor party as well as within the political opposition influenced the further development of the central bank.

The basis of this political analysis will be the initiatives to nationalize the BoN in the late 1940s, a nationalization process that also brings focus to other factors that possibly affected the changing role of the central bank, such as ownership and governance structure. Did a change of ownership have any practical consequences for the central bank? And what was the role of the governing bodies? We have seen that the governor of the BoN traditionally held a prominent position in the conduct of the Bank, but to what extent did the Board of Governors and the Supervisory Council also influence the process of finding a new role? An additional dimension in explaining this process is the international context, and earlier we have seen that the currency crisis and the anticipated Marshall Aid program helped to integrate the central bank into policy formulation and implementation. Did this tendency continue? How did the international context influence the Norwegian development, and how did the BoN relate to its international setting?

This chapter will discuss the above questions in seven sections, where the first four relate to the process of nationalizing the BoN. Section 3.1 analyzes two initial proposals from the government to acquire ownership of the central bank and debates how the foreign exchange policy again influenced the domestic state of affairs, while section 3.2 discusses a third and final initiative for nationalization, which took this matter into the realm of high politics. Section 3.3 takes a closer look at the political confrontations over the proposed nationalization, which concerned not only the ownership and

authority of the central bank but also the constitutional division of power between the government and the Storting. Section 3.4 discusses the role of the governing bodies of the BoN, both internally towards governor Jahn and externally towards the political authorities. Section 3.5 focuses on the occupational account and asks to what extent settling this legacy from the war could provide a key to a new role for the central bank. Section 3.6 analyzes the role of the BoN in a new dramatic turn of events in foreign exchange policy, concerning a possible devaluation, and emphasizes the function of the central bank's international and domestic networks. The concluding section 3.7 summarizes the main development in the role of the Bank during the second half of the recovery period.

3.1 Foreign exchange problems postpone nationalization

Throughout the long history of the BoN, private ownership had been a basic element, first as a precondition for its establishment and later as a direct link between the central bank and the general public. Stocks in the central bank appeared as a low-risk investment, and by 1945, the State still controlled only 17 per cent of the 35 million NOK capital stock of the BoN, while commercial and savings banks owned 31 per cent, insurance companies 9 per cent, and other private owners controlled 42 per cent (of which only 1 per cent was in foreign hands).¹ In Norway, the private owners never had any operational influence over the central bank and instead confined themselves to collecting an annual dividend. Nevertheless, in the new setting of increased political planning and control, private ownership of the central bank appeared as an anomaly associated with earlier, liberalist times. This had been acknowledged in several other countries, and since the 1930s, the nationalization of central banks appeared as an international trend. By the end of the recovery period, the authorities in countries like Denmark (1936), Italy (1936), Canada (1938), France (1945), Great Britain (1946), India

¹ Parliamentary document Ot. prp. no. 65 (1949) "1. Lov om statens overtakelse av aksjene i Norges Bank. 2: Lov om endring i lov om Norges Bank av 23. april 1892", p. 1. The stocks controlled by the State were split between direct ownership (4.2 million NOK) and indirect control through public funds (1.8 million NOK).

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(1948) and the Netherlands (1948) had acquired ownership of their central banks.²

Hence, after World War II, based on this international trend as well as on domestic concerns, the nationalization of the BoN appeared imminent. However, in Norway, the nationalization process became less straightforward than one might expect given the passivity of the private owners combined with the high ambitions and parliamentary majority of the Labor party. Instead of being carried out swiftly and uncontroversially, as a mere confirmation of existing practices, the nationalization process was drawn out and triggered conflicts not only between the political parties but also between different wings of the Labor party. These controversies reflected underlying disagreements regarding priorities in economic policy as well as the autonomy and authority of the BoN.

From Labor's point of view, redemption of the privately owned stocks in the BoN was an obvious follow-up to the ambition to increase political control over the central bank. The fact that the State owned less than a fifth of the stocks was a reminder, at least in symbolic terms, of previous central bank independence. Hence, immediately after winning the election in 1945, the new Labor government started preparing for the acquisition of the privately owned stocks. During the following years, the government three times presented proposals to nationalize the BoN, first in the spring of 1947, then in 1948, and finally in the 1949. These three proposals reflected an ongoing tension in Labor's policy-making during the recovery period between ideological considerations and practical problem solving.

Compared to the scale and scope of the 1949 initiative, the first two proposals for nationalization were relatively uncontroversial. The government aimed at a 'soft' form of nationalization, by acquiring ownership of the central bank without letting the prior stockholders suffer any financial loss, a strategy that agreed with the general approach of the Labor government to state ownership. While countries like Great Britain and France nationalized already established, privately owned companies and

² B. H. Beckhart, *Banking Systems*, New York: Columbia University Press, 1954; S. Arntzen, *Norges Banks rettslige stilling i forhold til regjering og Storting*, Oslo: Den Norske Bankforening and Forsikringsbankenes Felleskontor, 1958; J. B. Goodman, *Monetary Sovereignty. The Politics of Central Banking in Western Europe*, New York: Cornell University Press, 1992; Fforde 1992, chapter 1.

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industries after World War II, the main trend in Norway was to maintain existing ownership structures and instead establish new state-owned companies in key industries to compensate for the lack of private initiatives.³ Immediately after the war, some fractions of the Labor Party still wanted a more active, intervening socialization policy, but in practice the government was careful to challenge private ownership through direct acquisition. The initiative to nationalize the central bank followed this moderate path, and the government was prepared to offer the private owners “a completely fair settlement” guaranteeing full compensation for the value of their stocks.⁴

The nationalization proposals of 1947 and 1948 were never presented publicly. After being subject to internal debate in the Central Administration, they were postponed, in accordance with the advice of the BoN. The central bank argued strongly in favor of postponement, not because it rejected nationalization in itself, but because it believed the timing of these initiatives could cause serious damage to the reconstruction process. Commenting on the first proposal from the Ministry of Finance in May 1947, the central bank’s Board of Directors underlined that nationalization would not imply any changes in the de facto position or constitution of the central bank since the BoN as an independent, private organization had already been abolished and the control had been transferred to the State by the Storting. Thus, in reality, a shift would be a matter of form rather than substance.

³ Regarding Labor’s underlying motives and strategies towards state ownership, see the debate between T. Grønlie, *Statsdrift. Staten som industrieier i Norge 1945-63*, [Oslo]: Tano, 1989; E. Lange, “Førsteopponentinnlegg til Tore Grønlies ‘Statsdrift’”, *Historisk Tidsskrift*, no. 3, 1991, pp. 406-422; S. A. Christensen, “Statlig eierskap og nasjonal kontroll”, in S. A. Christensen, H. Espeli, E. Larsen and K. Sogner, *Kapitalistisk demokrati? Norsk næringslivshistorie gjennom 100 år*, Oslo: Fagbokforlaget, 2003.

⁴ Letter of February 25, 1947, from the Legal Division [*Lovavdelingen*] of the Ministry of Justice to the Ministry of Finance (quote); letter of April 8, 1948, from the BoN’s Board of Directors to the Ministry of Finance; letter of March 13, 1948, from the Legal Division in the Ministry of Justice to the Ministry of Finance, all: archives of the Ministry of Finance, *Finanskontoret C*, at the National Archives of Norway, Oslo [hereafter: FIN-fin], box 449, file: “*Statens overtakelse av aksjene i Norges Bank 1947-1949*”.

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Symbolically, however, a formal nationalization might have considerable negative effects – for the legitimacy of the central bank as well as for the Norwegian economy. According to the Board, “not insignificant circles” at home and abroad might perceive the nationalization of the BoN as a change of fact, a perception that could contribute to a growing lack of confidence in the Norwegian *krone*. Moreover, the redemption of the stocks could have unfortunate consequences for the domestic economy by increasing the amount of money available and thereby further fuel inflation. The Board therefore recommended that the matter of nationalization should be postponed until the authorities had conquered inflation, an advice that the government accepted.⁵

In the spring of 1948, when the currency crisis was a stated fact, the BoN used similar arguments to postpone the nationalization, but this time emphasized also the potential negative effects on Norway’s international creditworthiness. There were internal disagreements in the central bank’s governing bodies regarding this advice, as we will discuss more thoroughly in section 3.4 below, but a majority of the Board of Directors, which included governor Jahn, once again advocated in favor of deferring nationalization. The Board majority argued that in their experience, “from all the times we have been in contact with foreign circles”, that nationalization would damage Norway’s access to foreign credit. According to the majority resolution, the matter of nationalization, along with the still unsolved problem of the occupational account (which will be discussed in section 3.5), played a major part in the discussions abroad regarding Norway’s economic position and creditworthiness. Hence, the BoN strongly advised the government against redeeming the privately owned stocks in the present situation.⁶

⁵ Recommendation of May 5, 1947, from the BoN’s Board of Directors to the Supervisory Council, quoted in Ot.ppr. no. 65 (1949), p. 1. Normally, the Board of Directors discussed matters concerning the management and conduct of the Bank at their daily board meetings from which formal minutes are preserved. The minutes from the spring of 1947, however, do not report any discussions regarding nationalization. Hence, it seems that initially this matter was handled off the record in the central bank. See the Bank of Norway Archives, *Direksjonen I* at the National Archives of Norway, Oslo [hereafter: BoN-DirI], book of minutes A0074.

⁶ Letter of April 8, 1948, the BoN’s Board of Directors to the Ministry of Finance, FIN-fin, box 449, file: “Statens overtakelse...”.

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At the time of this second nationalization initiative, the BoN played an active role in the foreign exchange policy. Even though the currency crisis had become somewhat less acute, there was still a critical shortage of US dollars. Hence, the BoN and the Ministry of Commerce shared a common concern over the foreign exchange situation, and governor Jahn and his staff searched for ways to ease the balance of payments problems. As chairman of the Foreign Exchange Council, Jahn encouraged the government to draw on Norway's credit rights in the International Monetary Fund (IMF), and this was accepted as a short-term strategy. Thus, during the spring of 1948, Jahn negotiated on behalf of the government with the IMF and the World Bank in Washington on these matters. The BoN also contributed to ongoing talks regarding financial support through the Marshall Plan.⁷

Eventually these efforts bore fruit as Norway did obtain two loans from the IMF and, more importantly, later received sufficient Marshall Aid to solve the dollar problems.⁸ At the time of the second nationalization proposal, however, the Norwegian authorities were not aware of the scope and nature of the Marshall Plan or to what extent this program would limit the possibilities of obtaining loans through the IMF and the World Bank. The redemption of the privately owned stocks in the BoN would very likely be perceived as controversial by these two organizations as well as by the US authorities. Hence, the government accepted the arguments of the Ministry

⁷ See minutes from the meetings of the Foreign Exchange Council on January 3, April 6, May 14, June 11, 1948, HD-V; letter of May 1, 1948, from Gunnar Jahn to Erik Brofoss, the Brofoss Archive at the Labor Movement Archives and Library, Oslo [hereafter: EB], series Dc, box 41, file 11; note of January 31, 1949, the archives of the International Monetary Fund, Washington D.C. [hereafter: IMF] C/Norway/320 Economic Conditions 1948-49; GJD September 6, 1948.

⁸ During the period 1947-1970, Norway borrowed only twice from the IMF. In 1948, Norway drew US\$5 million from the country's quota, and in 1949, it was granted an exceptional, additional drawing of BF 200,000, or US\$4.6 million, in order to solve an acute payment problem with Belgium. See the IMF's annual reports 1947-1970, in particular: the International Monetary Fund, *Annual Report 1948*. Washington D.C.: The International Monetary Fund, 1948; The International Monetary Fund, *Annual Report 1949*. Washington D.C.: The International Monetary Fund, 1949.

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of Commerce and the BoN and once more postponed the nationalization process.⁹

The third proposal to nationalize the BoN was launched in the spring of 1949, when both the foreign exchange problems and the monetary imbalances in the domestic economy had eased. This time, however, the Ministry of Finance added a new item to the proposal, concerning the traditionally close ties between the central bank and the Storting, which changed the issue of nationalization from being a mere formality into a highly controversial matter both in the general political debate and in the process of developing a new role for the central bank.

3.2 Meisdalshagen initiates increased governmental control

The third proposal to nationalize the BoN was prepared by the new finance minister Olav Meisdalshagen. Governor Jahn had initially met the appointment of Meisdalshagen with an air of expectation. Meisdalshagen was an experienced politician who had studied law, but had no formal education in economics. Hence, from a professional point of view and compared to Erik Brofoss, he was ill-prepared for the post as finance minister, which probably is why Meisdalshagen himself was both reluctant and worried about accepting his new post.¹⁰ To Jahn, however, this did not necessarily represent a disadvantage. Quite the contrary, in his diary Jahn argued that it was “of importance to have a man of common sense in the Ministry of Finance”, even though the new finance minister was “fairly illiterate in this field”.¹¹ This suggests that Jahn believed that Meisdalshagen would be more amendable to his advice than the Frischian economist Erik Brofoss, who had plenty of both theoretical and practical confidence and was difficult to influence. Even when Jahn observed that Meisdalshagen continued to pursue the policy of low interest rates, he believed that this

⁹ For an illustration of how the authorities regarded the uncertain foreign exchange situation and their efforts to obtain foreign loans during the spring and summer of 1948, see minutes from the Foreign Exchange Council in 1948: January 3, February 10 and 24, March 12 and 19, April 5 and 23, May 14, and June 8, all HD-V minute books 1/3-28/5-1948 and 1/6-28/12-1948.

¹⁰ See N. O. Berheim, *Olav Meisdalshagen*, Oslo: Tiden, 1982, pp. 110-112.

¹¹ GJD January 26, 1948. [Quote: ”*Det er av betydning å få en mann med common sense i Finansdepartementet, selv om han er en nokså stor analfabet når det gjelder disse tingene.*”]

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would change once the new finance minister became “more steady in the saddle”.¹²

The nationalization issue made Jahn realize that his assumptions had been wrong. As it turned out, Meisdalshagen was actually harder to convince than Brofoss. Rather than contributing to a fruitful dialogue based on ‘common sense’, Meisdalshagen’s non-economic background in fact complicated the development of a common understanding with Jahn regarding the main economic challenges of the recovery period. After a few months, Jahn had lost his initial optimism and instead expressed frustration over Meisdalshagen’s lack of competence. Jahn claimed Meisdalshagen’s only concern was domestic politics and votes, and he paid no interest to Jahn’s arguments either regarding the cheap money policy or regarding the negative effects of a nationalization on the availability of credit from the USA. Instead, the finance minister worried that borrowing abroad would make Norway seem dependent on the USA and other foreign countries.¹³

In a situation with a dollar shortage and general balance of payments problems, Meisdalshagen’s skepticism towards foreign loans reveals a fundamentally different approach to economic policy than his party colleague Brofoss, a difference that also reflected underlying conflicts within the Labor Party. Based on economic theory considerations as well as recent experiences with the currency crisis, Brofoss saw access to foreign capital as a crucial element in the reconstruction and modernization of the Norwegian economy. Meisdalshagen, on the other hand, based his views more on ideological and domestic political concerns and emphasized in particular regional and agricultural interests. Growing up on a small farm in the rural areas of Eastern Norway, Meisdalshagen had long-standing ties to the organization of petty farmers [*Småbrukarlaget*], and represented a line within Labor opposed to the industrialization strategy advocated by Brofoss, who promoted agricultural reorganization, large-scale industry and export-led growth. From Meisdalshagen’s point of view, most of the domestic small-scale agricultural sector and regional settlement pattern had to be preserved, and the Norwegian economy should be modernized in a less radical fashion. Access to foreign loans thereby appeared as less of a necessity and more of a threat to national sovereignty. This skepticism about foreign capital also reflected a more general concern that led Meisdalshagen

¹² GJD February 19, 1948.

¹³ GJD April 7, 1948.

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to become a pronounced opponent of Norwegian membership of the defense alliance NATO.¹⁴

According to Meisdalshagen, increased political control of the BoN was not only a pragmatic policy instrument but also an act of great ideological and symbolic value. With his rural background, Meisdalshagen had experienced first-hand the debt crisis in the agricultural sector and probably shared the widespread assumption that there were close links between the crisis and the par policy conducted by the independent central bank. Hence, the nationalization of the BoN would at least symbolically improve the political control and should thus be carried out as soon as possible. In 1948, the severity of the foreign exchange problems and the ongoing negotiations with the IMF and the Marshall Aid program made Meisdalshagen back down, but only a few months later, in the spring of 1949, the Ministry of Finance brought the matter back onto the agenda. This time, to Jahn's great surprise and dismay, Meisdalshagen added a second proposal to the parliamentary bill, an addition that prepared for further governmental control over the central bank.

This third proposal to nationalize the BoN was presented publicly as a bill before the Storting. The bill contained two parts. One concerned the redemption of privately owned stocks and was mainly a copy of the government's previous proposals to buy the stocks at 180 per cent of face value, which was slightly above the estimated market value. The second part was a brand new proposal to change the formal reporting line between the BoN and the political authorities. According to section 36 in the Central Bank Act of 1892, the BoN was to submit an annual report and accounts to the Storting. This was part of a long-standing tradition that established the central bank as the bank of the national assembly.¹⁵ In the new parliamentary bill, the government proposed to break this traditional link and instead instruct the central bank to send its reports directly to the Ministry of Finance, which then would forward them to the Storting after having added comments and evaluations from the government.¹⁶

¹⁴ E. Lange, *Samling om felles mål. 1935-1970*, Aschehoug's History of Norway, vol. 11, Oslo: Aschehoug, 1998, pp. 150-152, 154-159.

¹⁵ See chapter 1.2.

¹⁶ Ot. prp. no. 65 (1949).

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This additional proposal came as a big surprise to governor Jahn. While he had previously regarded the nationalization of the central bank as a formality, he interpreted this new proposal as an attack not only on the authority of the BoN, but also on its organizational autonomy:

I understand very well what the background is. The background is that the government wants to turn the Bank of Norway into a directorate under the Ministry of Finance.¹⁷

To governor Jahn, Meisdalshagen's proposal to change the reporting line of the central bank thereby appeared as a variant of Frisch's old idea to turn the central bank into a cashier's office in the Ministry of Finance.¹⁸ Moreover, in the preparations of this new bill, Meisdalshagen had demonstrated a renewed disregard for the opinions of the central bank. While the matter of nationalization had previously been the subject of several rounds of comments from the BoN, Meisdalshagen neglected to inform Jahn about the new addition until only one day before the government presented the bill to the Storting. The new reporting line was a last-minute addition that was first discussed in the Ministry of Finance in early March 1949.¹⁹ However, by the time governor Jahn was informed, the Ministry had been working on the new proposal for weeks and the central bank could thereby have been informed had the finance minister wanted to do so. Instead, as in the case of the establishment of the Ministry of Commerce in 1947, the BoN was kept totally in the dark, but this time the disregard appeared even worse since the initiative concerned the central bank directly.

The Ministry of Finance not only neglected to involve the BoN in the preparation of the new proposal. Ignoring normal procedures, Meisdalshagen also intended to prevent the central bank from commenting on the proposal

¹⁷ GJD March 30, 1949. [Quote: "Jeg forstår godt hva som er bakgrunnen. Bakgrunnen er den at Regjeringen ønsker å gjøre Norges Bank til et direktorat under Finansdepartementet."]

¹⁸ See chapter 1.4.

¹⁹ In the archives of the Ministry of Finance, the proposal to change the reporting line is first mentioned in a PM of March 3, 1949, handwritten by G.F. Nissen, while there is no mention of this in a draft for the redemption of the privately owned stocks dated February 17, 1949. Both: FIN-fin box 449, file "Statens overtakelse...".

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altogether.²⁰ Governor Jahn, however, was not willing to accept such disregard. After hearing of the new proposal, he insisted that it was formally submitted to the BoN for comments, and two days after presenting the parliamentary bill, the Ministry of Finance complied with this demand and submitted the bill to the BoN for comments.²¹

When the central bank's Board of Directors discussed Meisdalshagen's new initiative, the only Board member to support the parliamentary bill was Labor's representative Alfred Madsen, who agreed to an immediate nationalization and also supported the proposed change to the reporting line of the central bank. The remaining four Board members advised against both parts of the bill. Despite the eased economic situation, they continued to argue that the timing of the nationalization was wrong and recommended further postponement. When it came to changing the reporting line, they had more fundamental objections. The majority of the Board found that this new addition not only involved far-reaching constitutional matters, which concerned primarily the authority of the Storting, but that it also could have serious consequences for the standing of the central bank. Following the earlier advocacy of Jahn, the Board majority emphasized that a central bank should be submissive and loyal to directions from the political authorities, but this did not imply that it should surrender as an autonomous organization:

The Bank of Norway has always been, and will always be,
conducting a monetary policy in accordance with guidelines drawn
up by the Storting and the Government, but the Bank of Norway
cannot be regarded as a monetary policy office belonging to a
particular ministry.²²

²⁰ Jahn claims this in his diary (GJD March 30, 1949), and Meisdalshagen seems to confirm this in a letter of April 2, 1949, to the BoN's Board of Directors, see FIN-fin, box 449, file "Statens overtakelse...".

²¹ Letter of April 2, 1949, from finance minister Meisdalshagen to the BoN's Board of Directors, FIN-fin, box 449, file "Statens overtakelse...".

²² Letter of April 12, 1949 from the BoN's Board of Directors to the Supervisory Council, FIN-fin, box 449, file: "Statens overtakelse...". [Quote: "*Norges Bank har alltid fort og vil alltid måtte føre en pengepolitikk som er i samsvar med de linjer som blir trukket opp av Storting og Regjering, men Norges Bank kan ikke betraktes som et pengepolitiske kontor under et bestemt departement.*"]

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The Board thereby drew a direct parallel with Frisch's earlier idea and argued that such an organizational submission could be the unfortunate outcome if the BoN reported to the Ministry of Finance rather than to the Storting.

The Supervisory Council, which was the superior governing body of the central bank, also evaluated Meisdalshagen's new parliamentary bill, after being summoned for an extraordinary meeting by governor Jahn. Like the Board of Governors, the Supervisory Council delivered a split resolution, as will be discussed more thoroughly below, but a narrow majority supported Jahn and the majority of the Board of Governors in their rejection of the bill. The Council majority elaborated on why the proposal to change the reporting line of the central bank should be turned down by arguing that the BoN in "all of its organizational structure" was the bank of the national assembly. According to section 32 in the Central Bank Act of 1892 ('the disqualification section'), a member of the government could not serve as a representative, director or manager in the central bank, a disqualification that entailed that the BoN belonged to the State's legislative and budgetary powers, not to the executive government. Like the Board of Directors, the Council majority repeated that this did not imply any kind of antagonism between the central bank and the government. Nevertheless, they argued, "during today's complex economic circumstances, it is of importance to have an autonomous institution, whose purpose is to constitute a well-organized monetary system, and which represents the necessary expert knowledge".²³

From the central bank's point of view, the new parliamentary bill on nationalization and changing the reporting line represented a fundamental challenge to its organizational autonomy and general authority. Moreover, governor Jahn seemed genuinely concerned that these proposals could harm the recovery process by aggravating the domestic monetary imbalance and undermining access to foreign exchange and capital. In this respect, Jahn had

²³ Letter of April 22, 1949, from the Supervisory Council to the Board of Directors, printed appendix to Innst.O.XI (1949) and referred in letter of April 22, 1949, from the Board of Director to the Ministry of Finance, FIN-fin, box 449, file: "Statens overtakelse...". [Quote: "... nettopp under nåtidens innviklede økonomiske forhold er det av betydning å ha en selvstendig institusjon hvis arbeid er konsentrert om å få gjennomført et ordnet pengevesen, og som representerer den fornødne økonomiske sakkunnskap."]

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an ally within the government: the Minister of Commerce Brofoss. According to Jahn, Brofoss confidentially told him that he completely disagreed with finance minister Meisdalshagen regarding not only the parliamentary bill on the nationalization and the reporting line, but also on a new bill on the occupational account, which the Ministry of Finance presented almost simultaneously (see section 3.5). However, Brofoss claimed he stood alone on this in the government, and since this was an election year, he could not dissent. He had therefore chosen to be absent from the government conferences at which these bills were discussed.²⁴

There are no surviving sources that elaborate on Brofoss' views in these matters, but minutes from the government conferences confirm that Brofoss did not participate in the final discussions of the nationalization bill.²⁵ This discord within the government reflected the fact that rather than appearing as a monolithic unity, the Labor Party consisted of different interest groups with different backgrounds and mental structures and, to some extent, diverging views on the development of post-WWII Norway. Somewhat simplified, we can regard the new leaders of the Ministry of Commerce and Ministry of Finance as personifications of two partly contradicting trends within Labor, which influenced both Norwegian policy-making and the role of the BoN in this period. On the one hand, Erik Brofoss advocated a practical and pragmatic approach to policy formulation as well as the central bank. Brofoss' main focus was to reconstruct the Norwegian economy through the systematic use of market controls and centralized planning. His main strategy was to modernize and develop the manufacturing industry, export industries in particular, a strategy that gave lower priority to the agricultural sector and implied a certain centralization of the population in rural areas. In order to make the economy run smoothly and, not least, to get access to foreign exchange and capital, Brofoss took a pragmatic approach to political matters such as formal ownership, whether in the manufacturing industry or the central bank. Hence, rather than linking policy initiatives to specific policy measures, his approach was to evaluate to what extent the measures fulfilled the economic and political goals, and, if not, to have them reconsidered or replaced. As an economist, even though of a tradition less

²⁴ GJD April 22 and May 7, 1949.

²⁵ Minutes from government conference of March 29, 1949. This matter was first discussed at a meeting March 15, 1949, where Brofoss was present; see: the archives of the Prime Minister's Office, *Regjeringskonferanser-referater*, at the National Archives of Norway, Oslo [hereafter: STAT-regj], minute book no. 6 (1949-50).

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optimistic about market controls, Gunnar Jahn clearly associated with these views.

Olav Meisdalshagen, on the other hand, did not share this pragmatic approach. Based on strong ideological conviction and opposing views on industrialization and regional matters, Meisdalshagen had different priorities regarding the modernization process and strategies, as illustrated above, and also had a less pragmatic view on the role of the BoN. Thus, to him and his associates in the Labor party, state ownership and political control of the central bank probably went beyond the matter of policy formulation and coordination. It had a symbolic value in itself.

Meisdalshagen held a strong position in Labor's parliamentary group and represented a line opposed to important parts of the government's economic policy. By appointing him as finance minister, Prime Minister Gerhardsen had tried to neutralize a potential critic and simultaneously increase the legitimacy of the government's policy in the eyes of the parliamentary group. Moreover, by placing Meisdalshagen in charge of fiscal and monetary policy and also exposing him to the world of international finance far from Meisdalshagen's home ground, Gerhardsen might have intended to alter Meisdalshagen's understanding of the economic and political challenges of the recovery period.

Thus, from Gerhardsen's perspective as head of a relatively fragmented party, appointing Meisdalshagen may have been a wise political move. From both Brofoss' and Jahn's point of view, however, Meisdalshagen represented a challenge. Even though Brofoss had taken the coordinating national budget office with him to the Ministry of Commerce, Meisdalshagen still formally controlled the most important domestic policy measures. And as it turned out, Meisdalshagen continued to speak his mind and influence policy formulation. This became obvious in the spring of 1949, when the government chose to carry through the nationalization of the central bank and changes to its reporting line against the advice of both Jahn and Brofoss. From one angle, this can be seen as a defeat for Jahn and the BoN, since the government ignored their advice and proposed measures that could, at least formally, undermine the autonomy of the central bank. However, we will see that this internal discord in the government and the mutual understanding between Jahn and Brofoss in a longer-term perspective enabled more active participation for the BoN in the policy-making process.

3.3 Political confrontation and constitutional debate

The parliamentary debate on the nationalization of the BoN brings two interesting perspectives to our analysis. First, it clarifies the different political views at the time regarding the future role of the central bank.

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Second, it illustrates how Meisdalshagen's proposal to change the reporting line of the central bank linked the BoN directly to one of the most heated general debates in modern Norwegian history, concerning the constitutional division of power between the government and the Storting. This debate has been a much-disputed topic among Norwegian historians, who have concentrated their studies to the so-called price and rationalization acts, two comprehensive enabling acts on the regulation of prices and production that Labor first proposed and later modified in 1952/53.²⁶ However, the less controversial debate on the reporting line of the central bank, which took place already in June 1949, served as a predecessor to this later political battle, as the arguments and intensity of the two debates correspond consistently. The controversy also had implications for role of the central bank.²⁷

The constitutional debate on the relative power of the government and the Storting was rooted in different views on the role of the state in the economy. On the one hand, Labor politicians, backed by the new generation of Frischian economists, advocated active state planning and intervention in order to prevent economic slumps and unemployment and allocate resources more efficiently and more fairly than in a free-market situation. From this perspective, the extended use of enabling acts and the centralization of power gave the government essential freedom of action. On the other hand, the non-socialist parties, the conservative *Høyre* and the liberal *Venstre* in particular, emphasized the problematic sides of a powerful State, and regarded the concentration of authority as a threat to liberty. While there was an all-party understanding that extensive direct regulations were necessary during the extraordinary recovery period, the non-socialist parties grew increasingly worried about what they saw as attempts to establish such

²⁶ For a comprehensive summary of this debate up until the early 1990s, see T. Grønlie, *Forvaltning og fullmaktslovgivning som etterkrigshistorisk forskningsfelt*, LOS-senter report no. 9308, Bergen: LOS (Norwegian Research Center in Organization and Management), 1993, pp. 25-43; G. Yttri, *Pris- og rasjonaliseringslova. Ordskiftet i og ikring DNA-regjeringa 1952-1953*, post-graduate thesis [hoveddøppgave] in history, Oslo: University of Oslo, 1993, pp. 16-21. Later contributions include: Lie 1995, pp. 202-218; R. Slagstad, *Nasjonale strateger*, Oslo: Pax, 1998, pp. 233-250.

²⁷ The parallel between the debates over the price and rationalization acts and the nationalization of the BoN has been pointed out by the historian Egil Borlaug, but he does not elaborate on possible implications for the role of the BoN. Borlaug 1994, pp. 25-34.

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regulations on a permanent basis. With reference to Germany in the 1930s, when the increasing use of enabling acts became a means of giving the transition from democracy to dictatorship an appearance of legality, the non-socialist parties drew a parallel with Labor's extensive use of enabling acts since 1945, and interpreted the proposal to change the reporting line of the central bank as yet another initiative to delegate more power to the government.²⁸

Hence, in the parliamentary debate, the non-socialist MPs claimed that the bill on the nationalization of the BoN implied a clear violation of the constitutional rights of the Storting. A leading Conservative, Sjur Lindebrække, stated that both the proposal to nationalize and change the reporting line of the central bank and Labor's ambition to introduce new and permanent price and rationalization acts were steps towards a change of the political system, which presupposed a centralization of power that was incompatible with constitutional norms.²⁹ The leader of the Conservative party, Carl J. Hambro, described the new parliamentary bill as:

part of a system that aims to deprive the Storting – step by step, always in the same direction – of more and more of its constitutional scope of influence, and transfer it to ministries or directorates or cabinet ministers, sometimes by enabling acts, sometimes by other restrictive measures, and sometimes by pleading that transferring all power to the hand of the Government is done for merely practical reasons.³⁰

According to the non-socialist parties, the authority of the BoN and the fact that the central bank was considered to be the bank of the national assembly was closely associated with the overall power of the Storting. They claimed that the proposal to change the reporting line was a clear violation of section 75c of the Constitution, which assigned the Storting the supervision of the national monetary system. Furthermore, they emphasized that within a framework established by legislation and guidelines from the Storting, the

²⁸ F. Sejersted, “From liberal constitutionalism to corporate pluralism: the conflict over enabling acts in Norway after the Second World War and the subsequent constitutional development”, in J. Elster and R. Slagstad (eds.) *Constitutionalism and Democracy*, Cambridge: Cambridge University Press, 1988, pp. 276-278.

²⁹ Sjur Lindebrække (Høyre), Parliamentary document Odelsting no. 49 (1949), St. forh. 1949, vol. 8, p. 386.

³⁰ Carl J. Hambro (Høyre), Odelsting debate no 49 (1949), p. 402.

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BoN was intended to have an autonomous position, precisely because this enabled the Storting – through the central bank – to supervise and control the financial dispositions of the government.³¹

As a consequence of the above views, the non-socialist parties went further than the advice of the BoN and rejected not only any change to the reporting line but also the nationalization proposal. The non-socialist minority of the parliamentary finance committee found “no objective reason” for either of the proposals and argued that nationalization of the central bank was a break with tradition that could harm the recovery process. They found the proposal to change the reporting line even worse, as it represented a threat not only to the BoN but was an attack on the constitutional rights of the Storting.³² However, this did not imply that the non-socialist parties were in favor of traditional central bank independence, in the sense that the BoN should be allowed to carry out a monetary policy at its own will. Like governor Jahn, they argued that the central bank ought to be an autonomous organization but yet operate under guidelines given by the political authorities. However, the most important factor was that this political control should be maintained by the Storting, not the government:

The decisive element is not the independence of the Bank of Norway in itself. There is no one who would dare to incline towards the opinion that the Bank of Norway should be allowed to follow its own line of politics, its own monetary policy, or that the central bank in any way should be sovereign when it comes to issuing final guidelines in this vital area. However, the key point is the Bank of Norway’s independence from the government, and its equally clear dependence on this assembly, on the Storting.³³

While the non-socialist parties portrayed the parliamentary bill as an attack not only on the central bank but also on the constitutional rights of the Storting, Labor accused the opposition of creating a storm in a teacup. “This

³¹ Parliamentary documents Innst. O.XI (1949), p. 5; Odelsting debate no 49 (1949), pp. 385-386 (Lindebrække, *Høyre*(H)), 391 (Moseid, *the Farmers Party* (B)), 395 (Wikborg, *the Christian People's Party* (*KrF*)), 399-400 and 416 (Sundt, *the Liberal Party Venstre* (V)), 401-402 (Hambro, H) and 405-406 (Utheim, V).

³² Recommendations from the Standing Committee on Finance and Economic Affairs [*Finanskomiteen*], Innst. O.XI (1949), pp. 4 (quote) -5.

³³ Sjur Lindebrække (*Høyre*), Odelsting debate no. 49 (1949), p. 385.

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is not a matter of power”, Labor MP Carl J. Westerlund stated; “it is a practical matter (...), a matter of common sense”. Labor flatly rejected the idea that the government was trying to undermine the power of the Storting, and claimed that the handing over of annual reports and accounts was hardly significant, as the Storting would still have the power to appoint most of the representatives to the BoN.³⁴ However, while Labor MPs accused the non-socialist parties of exaggerating the constitutional consequences of these proposals, when it came to the role of the central bank, they themselves painted a gloomy picture of the intentions of their political opponents. Even though the non-socialist parties had argued against traditional central bank independence, several Labor MPs accused them of trying to establish the BoN as a “Supreme Court of monetary policy” and a “Fourth Estate”, independent of political control altogether.³⁵ These arguments underline the strong ideological dimensions of this debate, where Labor saw central bank independence as a symbol of unrestrained market forces, a system they accused the non-socialist parties of trying to reintroduce.

Even though Labor’s main argument was that the parliamentary bill represented only minor practical adjustments, a closer look at the argumentation behind these proposals uncovers a radical view on the role of the central bank. Firstly, the government tried to put the BoN on the same footing as other state-owned and state-guaranteed banks. While the non-socialist parties accentuated the unique position of the central bank in the monetary system, Labor argued that after the nationalization, the BoN could easily be compared to more specialized state-owned banks that were established to provide credit for politically preferred sectors such as housing, manufacturing industry, fisheries, and education. It was common practice for these banks to hand their annual reports and accounts directly to the Ministry of Finance, and the government argued that it was only natural that the same routines applied for the BoN.³⁶ By toning down the superior position of the central bank compared to other financial institutions, the government communicated a view that seems closely associated with an ambition to turn the BoN into a directorate under the Ministry of Finance, as Gunnar Jahn had feared.

³⁴ Odelsting debate no 49 (1949), pp. 388 (quote), 403-404.

³⁵ Odelsting debate no 49 (1949), pp. 388 (Westerlund), 411 (Strøm), 415 (Meisdalshagen).

³⁶ Ot. prp. no. 65 (1949), p. 3. Non-socialist opposition: Odelsting debate no. 49 (1949), pp. 385-386 (Lindebrække, Høyre), p. 391 (Moseid, the Farmers Party).

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Secondly, indirectly finance minister Meisdalshagen admitted that the bill aimed at increasing the political control over central bank, as part of extending democratic control over the economy. In the parliamentary debate, Meisdalshagen stated that the central bank should be an executive body of the Ministry of Finance, and nothing more. He further pointed out that although the governing bodies of the central bank were politically appointed, they did not follow parliamentary election results. Because both the Board of Directors and the Supervisory Council had been appointed before Labor won the parliamentary majority in 1945, the non-socialist representatives held a majority in the central bank, although they had a minority position in the Storting.³⁷ Meisdalshagen claimed that this represented a democratic problem. Since the government always would reflect the national will far more than the heads of the central bank, and since the monetary policy had become an increasingly important measure in the societal policy, it was therefore a matter of democracy to ensure that the government controlled the central bank. Hence, he concluded, “all thinking human beings know that this is not an attack on democracy. On the contrary, this is a coordination and extension of democracy.”³⁸

Compared to traditional ideals of central bank independence, and even to non-socialist visions of an autonomous BoN controlled by the Storting, Meisdalshagen’s ideas of the central bank as a regular state-owned bank merely executing orders from the Ministry of Finance appear fairly radical. However, the parliamentary debate revealed that some Labor representatives had far more extreme ideas. While the official argument of the government was to tone down the significance of the new proposals, Labor MP Gundvald Engelstad laid out the nationalization and changed reporting line as steps on the road to a socialistic society. In his speech, Engelstad regretted the slow pace of this development but ensured the audience that the Labor government was on a steady course towards this goal. The nationalization of the BoN was only one step on the road, and the remaining financial institutions would follow. His party colleague Olav A. Versto joined in and

³⁷ For an overview of the appointments to the BoN’s governing bodies during 1945–1950, see Parliamentary documents Innst. S. no. 72 and no. 161 (1947), *St. forh.* 1947, vol. 6a; Innst. S. no. 65 and no. 179 (1950), *St. forh.* vol. 1950, vol. 6a.

³⁸ Olav Meisdalshagen (Labor), Odelsting debate no. 49 (1949), pp. 389 (quote), 399 and 415.

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claimed that these changes were contributions to the goal of a society in total control of the monetary system: a complete economic democracy.³⁹

These socialist visions from the Labor MPs, on the one hand, and the heated response from the non-socialist parties, on the other, illustrate the strong ideological undertones in the debate on nationalization and changes to the reporting line of the central bank. Rather than being practical adjustments of minor importance, as the government tried to argue formally, the parliamentary debate suggests that, whether in favor or not, many MPs recognized the symbolic value of a central bank owned by the State and controlled by the government. By linking the proposals to the conflict over the enabling acts or visions of more extensive nationalization, both non-socialist and Labor representatives turned the debate into a conflict, which in the last resort, concerned the future development of Norwegian society.

While foreign exchange problems had previously postponed the nationalization process, this third initiative from the Ministry of Finance passed successfully through the Storting. Despite surprising support from the Communist Party, the non-socialist parties lost the parliamentary vote by the narrowest possible margin.⁴⁰ Hence, the Labor majority put an end to two institutional cornerstones in the 135-year history of the BoN: the private ownership and the traditional position of the Storting as the main supervisor of the central bank. However, the consequences for governor Jahn and his staff went beyond these formal institutional changes. The heated debate on the nationalization and changes to the reporting line confirmed that the role of the central bank was not only a matter of practical, rational considerations. The strong ideological undertones and Meisdalshagen's declared link between democracy and the subordination of the central bank constituted an informal institutional basis for increased political control, which in practice probably had wider consequences than the formal legislative changes. Moreover, the non-socialist emphasis on central bank autonomy as a way of strengthening the power of the Storting took the role

³⁹ Odelsting debate no. 49 (1949), pp. 407 and 414.

⁴⁰ Odelsting debate no. 49 (1949), p. 422; Besl. O. no 159 and 160 (1949); approval by the Lagting, St.fork. 1949, vol. 8, pp. 459-460. The rationale behind the Communist votes was a fear that the nationalization and change to the reporting line would have little practical effect but still would delay a total revision of the old Central Bank Act of 1892, which the Communists regarded as a necessary precondition for the complete control over the central bank and the rest of the financial sector.

of the central bank into the realm of high politics. Hence, for the BoN, the support from the non-socialist parties probably had the opposite of the desired effect. Rather than strengthening its autonomy and authority, the non-socialist support instead increased the suspicion of the Labor government, and finance minister Meisdalshagen in particular, of any notion of central bank independence.

3.4 The governing bodies: political exercise or professional advice?

In the process of nationalizing the BoN, we have seen that there were internal disagreements in the governing bodies of the central bank. This brings focus to the role and importance of these governing bodies internally, in their relations with the governor, and externally, in their relations with the political authorities. What role did the governing bodies play in the nationalization process and in the process of developing a new role for the central bank?

During the nationalizing process, at least two important tendencies in the operations of the Board of Directors and the Supervisory Council emerged. Firstly, in the discussion of all three nationalization initiatives, the members of the governing bodies were strongly guided by their political affiliation. In 1947, the Board of Directors and the Supervisory Council voted unanimously in favor of postponing the nationalization, but since their advice coincided with the outburst of the currency crisis, this consensus probably reflected a common sense of emergency rather than political neutrality. Thus, already by the 1948 proposal, when the foreign exchange situation still was highly uncertain, there was a clear-cut split between the Labor representatives and the non-socialist members of the governing bodies regarding the timing of the nationalization. When in 1949 Meisdalshagen extended the nationalization proposal and added the changes to the reporting line, this political divide was even more pronounced.

Gunnar Jahn seemed extremely frustrated by the political biases of the governing bodies. Prior to the votes, he expressed some hope that the governing bodies would set aside their political agendas and instead give priority to economic considerations regarding the recovery process. And once the split resolutions were a stated fact, he complained in his diaries about undue “party-based alliances” and “clear-cut party voting”.⁴¹

⁴¹ GJD April 6, 1948 and April 22, 1949.

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From a methodological point of view, there is generally reason to be critical of Gunnar Jahn's descriptions and self-presentation in his personal diaries. Even though the diaries were private at the time, they were probably designed for future public reference and historical research. Hence, Jahn's general tendency to present himself as a sober-minded professional in matters of economic policy, as opposed to more politically biased colleagues, must be handled with care. In this case, however, there is reason to trust Jahn's indignation over the governing bodies as a genuine response, since the non-socialist majority in the Board of Directors and the Supervisory Council in fact ensured internal support for his views. While Meisdalshagen had seen this as a democratic problem, the main difficulty from Jahn's point of view appears to have been that such 'party voting' involved the central bank in the political tug of war. Instead, Jahn seemingly sought to establish the central bank as an expert organization that could provide the political authorities with relatively neutral professional advice.

A second tendency regarding the role of the governing bodies can be gleaned from an interesting twist to this story, namely that the idea to change the reporting line of the central bank probably originated from within the BoN itself. According to Jahn, Erik Brofoss revealed that the proposal was raised by one of Labor's representatives in the Supervisory Council, Albert Sund, who brought the matter up at a meeting of Labor's parliamentary group, which then forwarded the suggestion to the government.⁴² If the original source of this proposal indeed was a member of the Supervisory Council, this suggests that the formal constitution and reporting line of the central bank's governance bodies was less important than informal relations and personal networks. Despite being in a minority position, Labor

⁴² GJD April 21, 1949. This course of events has been difficult to confirm from alternative sources. In the books of minutes from the meetings of Labor's parliamentary group, there is no mention either of the matter of nationalization or the changes to the reporting line of the central bank during the winter and spring of 1949 (See: the books of minutes from the parliamentary group of the Norwegian Labor Party at the Labor Movement Archives and Library, Oslo [hereafter: DNA-St], series A, Møtebøker, box 2). An internal note by deputy secretary F. G. Nissen in the Ministry of Finance suggests that this initiative was raised during government discussions on the nationalization in early March 1949, but this may refer only to the moment when the civil servants in the Ministry of Finance started their evaluations and does not necessarily exclude the possibility that the proposal originally came from Albert Sund via the parliamentary group. (PM of March 3, 1949, handwritten by G.F. Nissen, FIN-fin box 449, file "Statens overtakelse...").

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representatives could promote their views by sidestepping the formal communication channels. Finance minister Meisdalshagen seems to have had few reservations about this procedure. He embraced the new proposal and ignored advice from his own officials in the Ministry of Finance, who warned against changing the reporting line since this was a far-reaching proposal that could complicate the nationalization drive.⁴³ From this perspective, the new finance minister confirmed that the formal change of the reporting line probably would have few practical consequences, however, not because it represented only a minor adjustment, as the government claimed, but because this *de jure* provision in practice was less important for influencing policy outcomes than informal communication behind the scenes.

To the extent that the governing bodies of the BoN influenced the nationalization process, they did so by reinforcing the political dimension of this matter. The members of the Board of Governors and the Supervisory Council, whether Labor or non-socialist representatives, mainly reproduced the arguments of their political parties, rather than giving independent professional advice, as governor Jahn had hoped for. However, the case of the nationalization and changes to the reporting line was much more politicized than the regular business of the governing bodies, and in the daily conduct of the BoN, the governor appears to have had substantial influence. An examination of the minutes from the meetings of the Board of Directors and the Supervisory Council from 1945-1954 leaves the impression that the governing bodies played a limited role. In particular the Supervisory Council, which usually met 5-6 times per year, seems mainly to have given formal approval to the recommendations from governor Jahn and the Board of Governors. The governor or deputy governor attended and participated actively at all meetings of the Supervisory Council and only very rarely did the Council debate or reject their advice. The Board of Governors, on the other hand, met daily to discuss a wide range of practical and political matters. Nevertheless, also in this arena, the minutes leave the impression that the governor played a leading part in the sense that his views were decisive for the recommendations of the Board. All in all, the remaining sources thereby seem to confirm that governor Jahn, like his predecessor

⁴³ PM of March 3, 1949, handwritten by G.F. Nissen, FIN-fin box 449, file “*Statens overtakelse...*”.

Nicolai Rygg, left a highly personal mark on the resolutions and advice from the central bank.⁴⁴

3.5 The occupational account: the key to a new role?

By the Liberation, we have seen that the so-called occupational account, the separate account from which the German occupants withdrew more than 11 billion NOK during the war, offered two fundamental problems from the BoN's point of view. Firstly, it generated a monetary surplus that not only represented a constant inflationary danger but also paralyzed the traditional ways in which the central bank had influenced the financial system. Secondly, it left the central bank technically insolvent since this account was recorded without any formal debtor, and thereby helped to undermine its professional credibility, especially in the eyes of the international financial markets.⁴⁵ Hence, from the central bank's point of view, settling this account could be a key to renewed influence not only by improving its credibility and access to foreign loans but also by withdrawing liquidity from the domestic economy and thereby enabling the direct regulations to be replaced by new policy instruments. For Gunnar Jahn and his staff, this was thus a matter of potentially great importance, but during the first postwar years, the central bank failed to catch the attention of the Labor government on this matter. In the autumn of 1948, however, the occupational account was brought back up onto the political agenda, and this time the initiator was not the central bank but the international Marshall Plan administration. This forced the Labor government to take the question more seriously.

Previously, we have seen that the Marshall Plan influenced the BoN indirectly by directing political attention towards the central bank's traditional area of expertise, the foreign exchange policy, and by setting preconditions for the aid program that hastened the liberalization of domestic regulations. In the autumn of 1948, the Marshall Plan administration

⁴⁴ This account is based on examinations of minutes from the 1945-1954 meetings of the Board of Governors, the Supervisory Council, and the Permanent Committee [*Den faste komité*] (a sub-committee of the Supervisory Council, consisting of the chairman and deputy chairman and three additional Council members, who prepared cases prior to full meetings). See BoN-DirI, series A; The Bank of Norway Archives, *Representantskapet* [hereafter: BoN-R], series A; The Bank of Norway Archives, *Representantskapet – Den Faste Komite* [hereafter: BoN-R-DFK], series Eba, all at the National Archives of Norway, Oslo.

⁴⁵ See chapters 1.5 and 2.1.

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intervened more directly in the state of the Norwegian central bank and suggested a down payment of the occupational account as part of the technical implementation of the aid program. The specific request from the Economic Cooperation Agency (ECA), the US organization in charge of administrating Marshall Aid, was that the Norwegian government should use the occupational account to underwrite the main part of the Marshall funds.⁴⁶ The underlying rationale for this proposal was a general and absolute precondition from the ECA that, in order to avoid inflationary effects of Marshall Aid, most of the funds had to be withdrawn from circulation in the domestic economy. In the case of Norway, the proposal from the ECA implied that Norwegian *kroner* exchanged for Marshall dollars should be used to pay off the occupational account and thereby should be withdrawn permanently from circulation. Such an arrangement would not only prevent further monetary expansion linked to Marshall Aid but also potentially reduce the war-related excess liquidity. The proposal from the ECA was thereby linked directly to the controversial issue of monetary reorganization, for which Gunnar Jahn had fought in vain after the war.⁴⁷

For the BoN, this request from the Marshall administration represented a new window of opportunity. In 1948, the occupational account still amounted to 7.9 billion NOK, or 90 per cent of the central bank's total assets, and from the Bank's point of view, a solution to this problem was long overdue.⁴⁸ Thus, in November 1948, governor Jahn and the Board of Governors drew up a proposal containing three elements: 1) to pay off 1.6 billion NOK on the occupational account to withdraw domestic liquidity; 2) to settle the technical insolvency of the central bank by letting the State pose as the formal debtor for the remainder of the occupational account, though without being subject to any interest or repayment obligations; and 3) to create a new monetary policy instrument by using a part of the remaining account to issue treasury bills that the BoN could sell in order to further withdraw liquidity.⁴⁹

⁴⁶ GJD January 5, 1949; Jahn's speech at the meeting of the BoN's Supervisory Council, February 14, 1949, *Norges Banks beretning og regnskap* (BoN's annual report), 1948, p. 14.

⁴⁷ See chapter 2.1.

⁴⁸ *Norges Banks beretning og regnskap* (BoN's annual report), 1948.

⁴⁹ Letter of November 23, 1948, from the BoN's Board of Directors to the Supervisory Council, appendix to Parliamentary document Innst. S. no. 201 (1949) "Innstilling fra finans- og tollkomiteen om Norges Bank – Okkupasjonskontoen".

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The Labor government had an ambivalent approach to the occupational account. On the one hand, it resisted paying off the account because, as a matter of principle, it rejected the idea of taking responsibility for any action of the occupying regime. The government also showed little concern for the financial state of the central bank, which it regarded as a technical formality. Moreover, based on the theories of Ragnar Frisch – which argued that the monetary side of the economy was of little importance compared with the real side and that direct regulations could control inflationary tendencies caused by excess liquidity – Labor had originally seen little reason for withdrawing liquidity through the occupational account.

On the other hand, with the new international requirements and growing problems in economic policy, paying off this account appeared increasingly relevant. By the late 1940s, the stabilization line was threatened from all sides as domestic and imported prices continued to rise inexorably and the index-linked wage system thereby became increasingly expensive, while there were rumors that the fixed foreign exchange rate could be under pressure. Moreover, the currency crisis of 1947 had demonstrated considerable difficulties in maintaining and coordinating the direct regulations, and also revealed extensive foreign exchange problems that threatened to undermine the reconstruction process. Norway was in need of foreign exchange, US dollars in particular, a problem that the Marshall Aid program could ease, and the Norwegian authorities thereby could hardly afford to reject demands from the ECA regarding the occupational account.

The response from the Labor government appeared in May 1949 in a parliamentary bill on the occupational account, which reflected the above ambivalence and constituted a compromise between Labor's original stand and the advice from the Marshall Aid administration and the BoN. The government accepted a reduction in the occupational account, but declared that reducing this account was not "a goal in itself". It therefore proposed to pay off only 566 million NOK, of which 110 million were donations from the Marshall Aid program. This was only a third of the amount proposed by the BoN, and suggested that the government at this point was not prepared to use the occupational account to withdraw war-related liquidity. However, in accordance with the Marshall Aid agreement of July 3, 1948 between the US and Norwegian governments, the government agreed to further reductions of

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the occupational account in relation to possible future Marshall Aid donations.⁵⁰

While the government at least to some extent accepted the need to withdraw liquidity, it rejected the two other proposals from the BoN. The Ministry of Finance completely ignored the proposal to introduce a new monetary policy instrument through the trading of treasury bills, and also rejected the idea that the State should pose as the debtor for the occupational account. Instead it argued that the central bank's credibility and creditworthiness in international financial markets would be sufficiently secured through the nationalization of its privately owned stocks. There was thus no need for additional initiatives to sort out the Bank's questionable accounting status.⁵¹

Both before and after the government presented this parliamentary bill, the occupational account was subject to heated political debate. In his annual speech in February 1949, Governor Jahn characterized this matter as a "boil", which he knew was controversial to bring up but was nevertheless too important to ignore.⁵² The question of a monetary reorganization and whether to withdraw war-related liquidity had been a key controversy between Labor and the non-socialist opposition since the Liberation, and once the government presented its compromise proposal, the non-socialist parties interpreted this as a victory. Labor, on the other hand, once again tried to tone down the importance of its initiative, as it had done in the matter of nationalization of the BoN, and argued that it was rather a technical formality.⁵³ However, while the government was probably right that the nationalization and changes to the reporting line of the central bank were formal alterations of limited practical consequence, the withdrawal of liquidity through the occupational account did in fact represent a turning point in the post-WWII economic policy.⁵⁴

⁵⁰ Parliamentary document St. prp. no. 86 (1949), quote p. 3.

⁵¹ St. prp. no. 86 (1949), p. 2-3.

⁵² Jahn's speech at the meeting of the BoN's Supervisory Council, February 14, 1949, *Norges Banks beretning og regnskap* 1948, pp. 14-15.

⁵³ Parliamentary debate of July 23-25, 1949, St. forh. (1949), vol. 7b, *Tidende S*, pp. 2388-2437.

⁵⁴ The importance of the occupational account has previously been pointed out by Preben Munthe in the official history of the BoN. However, Munthe does not elaborate on the role of the central bank or the Marshall mission in this process. Jahn et. al. 1966, p. 391.

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In practice, the withdrawal of liquidity through the occupational account became much more comprehensive, and more in terms with the original recommendations of the BoN, than the government had suggested. By around 1950, the monetary surplus generated during World War II had more or less vanished. This was caused by a gradual withdrawal of liquidity, which seems to have accelerated after 1948. Fiscal policies, especially taxes, accounted for some of this effect. Unquestionably the most important factor, however, was withdrawal through the exchange of currency in the BoN. The total net withdrawal of liquidity through these foreign exchange transactions was 3.5 billion NOK,⁵⁵ and table 3.1 shows that almost 2.4 billion NOK of this was paid off on the occupational account between 1948-1952.

Table 3.1: The occupational account 1945-1952 (million NOK)

1945	1946	1947	1948	1949	1950	1951	1952
8163	8108	8094	7924	7114	6202	6202	5546

Sources: annual accounts of the Bank of Norway, *Beretning og regnskap*, 1945-1953; St. prp. no. 86 (1949); Innst. S. no. 201 (1949); St. prp. no. 28 (1952); Innst. S. no. 52 (1952).

Table 3.2 illustrates the importance of the occupational account from an alternative perspective, through an overview of the use of the Marshall Aid donations. Marshall Aid was granted partly as loans and partly as donations, and in the Norwegian case, the total value of grants between 1948-1952 has been estimated at 460 million US dollars, of which 90 per cent was donations. Contemporary estimates by the BoN show that out of a total 2.5

⁵⁵ Jahn et. al. 1966, p. 392.

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billion NOK in donations from the Marshall Aid program, more than 1.9 billion NOK was generated through the occupational account.⁵⁶

Table 3.2: Use of Marshall aid, donation part (million NOK)

Written off on the occupational account	1931
Extraordinary investments, Northern Norway (of which 26 mill. For military purposes)	110
Military house building	75
Other defense and standby arrangements	300
Productivity purposes	44
Total	2460

Source: The Bank of Norway, *Beretning og regnskap 1955*, St.meld. no. 61 (1956), p. 18.

To what extent was this withdrawal of liquidity through the occupational account the result of a conscious policy? Originally the Labor Party, supported by the new generation of Frischian economists, had argued that the monetary surplus generated during the war did not represent a problem. Did Labor change its views? There are indications that the government did at least to some degree change its views during the second half of the recovery period, both regarding policy instruments as well as the working of the economy. The currency crisis of 1947 and the increasing problems with maintaining the stabilization line seem to have contributed to such a reorientation. In August 1948, Jahn reported a private conversation with Erik Brofoss in which the latter had been extremely worried about the balance of

⁵⁶ The exact amount of funds granted through the Marshall Aid program has been difficult to determine. Contemporary estimates by the BoN suggested a total of 2,460 million NOK during the period 1948-52, while later estimates are somewhat higher. The most thorough examination in later years has been carried out by Olaf H. Thommessen, who estimates a total grant of US\$460 million or 2,950 million NOK. See *Norges Banks beretning og regnskap 1955* (BoN's annual report), p. 18; O. H. Thommessen, *Norge og Marshall-planen – En analyse av Marshall-hjelpens anvendelse i Norge*, thesis [diplomoppgave], Sandvika: Norwegian School of Management BI, 1999, p. 31; O. H. Thommessen, *Marshallplanen- spilte den noen rolle?*, discussion paper no. 12, Department of innovation and economic organization, Sandvika: Norwegian School of Management BI, 1999, pp. 5-7.

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payments problems as well as the imbalances in the domestic economy. According to Jahn, for a moment Brofoss “was on to the monetary side and the occupational account and many things that he has previously not been willing to touch”. At the time, Jahn was uncertain how deep-rooted these changes were, and he also feared that in any case Brofoss would fail to convince the rest of the government to change its policy, since the stabilization line had so far been almost “an article of faith”.⁵⁷

However, during the winter of 1948/49, the impression of a reorientation in the government regarding the future economic policy became stronger. Jahn repeatedly referred to “Brofoss’ turn” towards monetary issues, a turn that Jahn – not surprisingly – interpreted as consent to his own long-standing arguments.⁵⁸ At first, Brofoss seemed to stand alone within the government in his reorientation, but there were also signs of a new tone from the Ministry of Finance, which previously had denied that the excess liquidity represented a noteworthy problem. In finance minister Meisdalshagen’s annual financial address in January 1949, he emphasized the problematic consequences of the over-expansionary monetary policy during the war, and declared:

There is probably no doubt that the monetary liquidity at this point is too high compared to available real economic resources.⁵⁹

Jahn’s reports of a turn in Labor’s economic policy must of course be reviewed with a critical eye. From the governor’s point of view, these changes implied that his own arguments had gained ground, and thus he might have exaggerated the impression of a political turnaround. Nevertheless, Meisdalshagen’s public emphasis on the problematic liquidity situation, and a proposal for a relatively tight fiscal policy in the national budget of 1949, indicate that the government no longer took the efficiency of the direct regulations for granted. Moreover, even though the parliamentary bill of 1949 proposed a relatively limited down payment of the occupational account, it did acknowledge the need to withdraw liquidity. Hence, compared to the immediate postwar years, by the end of the recovery period the Labor government seemed more preoccupied with the monetary side of

⁵⁷ GJD August 27, 1948 [Quote: “...en slags trosretning”].

⁵⁸ GJD January 5, February 17, April 21, 1949.

⁵⁹ “Finansministerens redegjørelse for statsbudsjettet”, January 14, 1949, St. forh., *Tidende S*, vol. 7a, p. 11.

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the economy and less optimistic about curbing inflation through direct regulations.

While the economic effects of the reduced occupational account were considerable, the problems related to the technical insolvency of the BoN remained. By 1954, the occupational account still amounted to 86 per cent of the central bank's assets, assets that continued to have no formal debtor. This concerned governor Jahn, and one of his last initiatives before retiring as governor in the summer of 1954 was a new attempt to sort out the financial state of the BoN. The Bank once again requested that the State should take formal responsibility and pose as the debtor for the occupational account, which should be renamed *Statens konsoliderte konto* [the consolidated account of the State].⁶⁰ This initiative had few immediate results apart from yet another parliamentary debate, but Jahn's successor as governor, Erik Brofoss, continued to pursue these arguments, and in 1958 the Storting finally settled the matter for good. In accordance with Jahn's proposal from 1954, the remaining sum in the occupational account was transferred to a new account in the government's balance sheet, *Statens konsoliderte konto*, and the technical insolvency of the Norwegian central bank became a thing of the past.⁶¹

For the BoN, the occupational account had fundamental consequences, initially by undermining its credibility and traditional tasks, and later by helping to remove the monetary surplus and thereby preparing for the dismantling of the extensive regulations and rationing in the domestic economy. This represented a potential for introducing new policy measures, which in practice would prove more important for the credibility of the central bank than its ongoing dubious financial state. In the summer of 1949, however, the government still held on to the stabilization line, but this situation was about to change as international events once again affected Norwegian domestic affairs.

⁶⁰ Letter of May 21, 1954, from the BoN's Board of Directors to the Ministry of Finance, appendix to Parliamentary document St.prp. no. 9 (1958).

⁶¹ Parliamentary documents Innst. S. no. 245 (1954); Innst. S. no. 299 (1955); letter of December 11, 1956 from the BoN to the Ministry of Finance, appendix to St.prp. no. 9 (1958), "Ompostering av okkupasjonskontoen m.v. Norges Banks markedsoperasjoner"; Innst. S. no. 42 (1958).

3.6 Devaluation and the fall of the stabilization line

Towards the end of the recovery period, we have seen that the stabilization line proved increasingly difficult to maintain. Despite extensive direct regulations, both domestic and imported prices continued to rise, and during 1945-1949, the consumption index of the SSB increased by 15 per cent. In accordance with the income policy agreement between the government and labor organizations, this price inflation was met with rising subsidies, which from 1945/46 to 1949/50 more than tripled from 250 to 800 million NOK. Hence, the stabilization line threatened not only to end up in a price-wage spiral but also represented a considerable fiscal burden.⁶² While the BoN hardly took part in maintaining these domestic price and wage policies, it was directly involved in the third element of the stabilization line: the exchange rate policy. In the final stage of the stabilization line, the BoN played an active role, and this time the governor and his officials not only developed further their working relations with Erik Brofoss and the civil servants in the domestic central administration, but also took advantage of their own international networks to obtain and process information on the foreign exchange situation.

Throughout its long history, the BoN had developed stable relations with other central banks, especially the Nordic ones and the Bank of England. Through annual meetings, written and telephonic contact and personal visits, the central bank governors and their senior staff discussed matters of principle concerning their operations as well as more immediate policy problems. The nature of this contact appears both professional and personal, as for example the annual meetings of the Nordic central banks seem to have contained a substantial element of social activities and sightseeing, which supplemented the more formal professional arrangements. This socialization probably helped to build personal trust and produced off-the-record discussions and exchanges of information. The relations with the Bank of England had a similar, yet somewhat less intimate tone, and included annual visits by British central bankers to Oslo and more irregular visits by civil servants from the BoN to London. In addition, the BoN developed and maintained networks with other central bankers at international events, such

⁶² For a comprehensive analysis of the stabilization line, see Lie 1995, pp. 46-51 and 120-126.

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as the annual meetings of the Bank for International Settlements (BIS), the World Bank and, not least, the IMF, which we will see below.⁶³

Through this interaction, governor Jahn and his staff had access to information on current affairs in the international financial markets, and in August 1947, a dramatic rumor reached the Norwegian central bank. According to “a reliable source” in the Bank of England, Britain planned to devalue Sterling by 25 per cent. The source claimed that Britain would do this “suddenly” without regards to its obligations under the Bretton Woods agreement to go through specific administrative procedures. This news coincided with the emerging currency crisis, and when Jahn informed Erik Brofoss of the rumors, he claims the then finance minister “almost had a stroke”.⁶⁴ This time, the rumors turned out to be false, but from then on, the possibility of a British devaluation was the subject of ongoing debate. At the annual meeting of the Nordic central banks in November 1947, the future foreign exchange policies were discussed in detail, and the central bank governors agreed to maintain an old understanding that – as far as possible – any changes of their exchange rates should be subject to prior discussion and coordination between the central banks.⁶⁵

During the next couple of years, the pressure on the British pound continued. In an attempt to maintain its previous hegemony as the leading international currency, Britain had fixed Sterling at what turned out to be an unrealistically high level, and in practice, it was the US dollar that became the main international currency. This trend that was reinforced by the massive trade and balance of payments deficits of Western Europe towards the United States, and from 1948 onwards, the US government put pressure

⁶³ For some interesting insights into the cooperation between the Nordic central banks during 1945-1955, see various minutes from annual meetings and internal notes filed in: BoN-DirI, boxes D-0148 and F-0003. In the archive of the Bank of England, there are some equally interesting reports from their visits to Norway and other material on Norwegian conditions gathered by the British civil servants. See BoE-OV26/4, OV26/5, OV26/6 "Country files".

⁶⁴ GJD August 19, 1947.

⁶⁵ The occasion for discussing foreign exchange policies at this meeting was not only the recent rumors of a British devaluation, but also an incident in the summer of 1946, when the Swedish authorities revalued the *krona* without prior consultations with the other Nordic countries. See note of November 19, 1947, by Alf Eriksen, BoN-S box D-0148, file 3: “Seddelbank. Skand. nasjonalbankmøte, Helsingfors, 1947”, S-2-2.

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on Britain to readjust its exchange rate.⁶⁶ The prospect of a British devaluation thus seemed increasingly realistic. Nevertheless, when in September 1949 the British government finally devalued Sterling against the US dollar by 30.5 per cent, both the timing and the extent came as a surprise to the Norwegian government.

The process leading up to this devaluation gives interesting insights into the role of Gunnar Jahn and the BoN by the end of the recovery period, and suggests that once more, practical problems related to the foreign exchange policy generated the active participation of the central bank. Moreover, this process illustrates the importance of personal networks, both at home and internationally, for the ability of the BoN to contribute to policy formulation and implementation.

The British devaluation took place during the annual meeting of the International Monetary Fund (IMF) in Washington. As central bank governor, Gunnar Jahn had participated at every IMF gathering since the inaugural meeting in March 1946, and he knew this organization and its delegates fairly well. Jahn was also known to bureaucrats of the IMF, who in internal evaluations of Norway tended to regard the governor as something of a watchdog as far as the Norwegian government was concerned.⁶⁷ Thus, Jahn appeared as a respected and well-known representative to the IMF, and one of his tasks at the 1949 meeting was to gather confidential information regarding a possible British devaluation.

Before heading for Washington, Jahn had discussed the prospect of a British devaluation with the government and, at length, with Erik Brofoss. The Ministry of Commerce had been particularly concerned about this matter, and internal estimates suggested that a devaluation of 25 per cent through increasing import prices would give a domestic price rise equivalent to 3.6 points on the cost of living index, a jump that could definitely blow the stabilization line since the authorities would probably be unable to provide

⁶⁶ William Jansen, *Devalueringen i 1949*, post-graduate thesis [*hoveddøppgave*] in history, Trondheim: University of Trondheim, 1975, p. 63.

⁶⁷ See for example, note of March 12, 1947, file: C/Norway/320 Economic Conditions 1947; note of February 18, 1948, file C/Norway/320 Economic Conditions 1948-1949, both in the archives of the International Monetary Fund in Washington D.C. [hereafter: IMF].

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sufficient compensational subsidies.⁶⁸ According to international newspapers, a British devaluation was more or less unavoidable at this point, and even if such speculations were wrong at first, they contributed to a lack of confidence in Sterling and could thereby turn out to be self-fulfilling prophecies. Thus, the Norwegian government had to prepare for a British devaluation and make up its mind whether to follow the pound or not.

After several cabinet meetings in August and September 1949, the government was divided on this matter. Erik Brofoss was the strongest advocate of devaluation, supported by governor Jahn, who was present at two of the cabinet meetings. They argued that Norway had to follow a British devaluation to protect the export industries, which would otherwise suffer a dramatic loss of competitiveness in relation to Norway's main trading partner. Opposing Brofoss and Jahn was, among others, the Minister of Labor, Ulrik Olsen, who feared negative reactions to a comprehensive devaluation from the labor organizations, since this probably would compromise the stabilization line. Abandoning this basic element of Labor's economic policy right before the autumn election would be very challenging politically. In the end, the government did not reach any final conclusions. Instead of making a principal decision regarding the devaluation and the stabilization line, the government chose to provide Jahn with preliminary authority to inform the IMF that the Norwegian authorities would follow a moderate British devaluation of approximately 20 per cent. However, informally Brofoss countered this decision by privately telling Jahn to follow a British devaluation, seemingly regardless of its extent.⁶⁹

Once in Washington, Jahn searched actively for information on the British strategies and wrote daily reports to Brofoss. On September 14, he stated that there were no signs of an immediate devaluation but that the Norwegian government probably should be prepared for such an event within a few months.⁷⁰ The following day, however, Jahn had to reconsider this timing after having spoken to the vice-president of the IMF and a senior civil servant in the Bank of England, who both stated that the devaluation would definitely come. The British official added that it probably ought to happen as soon as possible. Jahn immediately forwarded the news to Brofoss by

⁶⁸ Jansen 1975, p. 18.

⁶⁹ GJD September 1 and 9, 1949; Jansen 1975, p. 10.

⁷⁰ Report of September 14, 1949, in enclosed file to GJD Ms4° 2579: 14, "Møte i Bank og Fund 1949. Ad Devalueringen".

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telegram and at the same time asked for more formal and explicit authorization from the government to negotiate on behalf of Norway.⁷¹

The exact time and extent of the British devaluation was made known to Jahn on September 16, 1949, in what appears as a rather amusing incident, in which the governor failed to acknowledge that his contacts in the Bank of England had handed him confidential information. At an IMF dinner, the wife of one of Jahn's acquaintances in the British central bank approached Jahn, handing him one of her husband's business cards. The card contained a handwritten date, the number 30,5 and the words "tell Bramsnæs" [the Danish central bank governor]. Jahn interpreted this as an internal message to Bramsnæs that could wait until later. He thus continued his dinner and sat through all the formal speeches. The time was approaching midnight before Jahn finally handed over the business card to Bramsnæs, just as the British central banker and his wife passed by and apologized for not having been able to tell them the news any sooner. It was at that point the two Nordic central bank governors realized that the business card revealed the time and extent of the British devaluation.⁷²

Governor Jahn immediately retreated to his hotel room along with his Danish counterpart and their officials to discuss this new turn of events. They all agreed that a devaluation of 30.5 per cent was larger than expected and anticipated that this could cause some serious trouble at home. Jahn had not received any further instructions from the government, and according to recollections by Svend Viig, a civil servant from the BoN present at this meeting, the Norwegian central bank governor "paced restlessly up and down the floor without knowing what to do". Rather than complying with Brofoss' informal instruction to follow Britain no matter what, Jahn forwarded the new information and asked for further instructions in an

⁷¹ GJD September 15 and 16; report of September 16, 1949 and undated telegram, both in enclosed file to GJD Ms4° 2579: 14, "Møte i Bank og Fund 1949. Ad Devalueringen".

⁷² GJD September 16, 1949. Bolton's original business card is still kept in the enclosed file to GJD Ms4° 2579: 14, "Møte i Bank og Fund 1949. Ad Devalueringen". This incident also illustrates some social aspects of the IMF meetings, where the formal representatives often brought along their wives and took part in organized sightseeing as well as a long series of lunches and dinners. As in the case of the annual meetings of the Nordic central banks, this emphasis on creating a jovial social atmosphere probably contributed to the development of personal networks also in professional matters.

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express telegram to Brofoss, where he also, out of consideration for the export industries, repeated his previous advice to follow the British devaluation in full.⁷³

Due to the above misunderstanding, Jahn's information reached Brofoss after the Ministry of Commerce had been informed directly by the British authorities. In this situation, one might expect Brofoss to summon the government and discuss what steps to take next. However, as the historian William Jansen has shown, Brofoss instead made the decision on his own. In accordance with Jahn's advice and without consulting anyone else in the government, he instructed Jahn to inform the IMF on behalf of the government that Norway would devalue the *krone* by 30 per cent, a decision that Jahn followed up in a formal letter to the IMF.⁷⁴

Jansen interprets this procedure as an act of "enlightened despotism" by an intellectual elite of economic experts, that is Brofoss and Jahn, who set aside the democratic rules of the game in order to carry through a devaluation that they must have known would lead to the fall of the stabilization line.⁷⁵ Considering how Jahn has usually been viewed as an inferior and an opponent of the government, it is interesting that Jansen seems to put the governor on the same footing as Erik Brofoss. However, as we have seen, after the currency crisis of 1947, Jahn and Brofoss did have a working relationship that was often characterized by a greater mutual understanding than Brofoss shared with other members of the government, including finance minister Meisdalshagen. In cases of disagreement between Brofoss and Jahn, the Minister of Commerce would undoubtedly have the final say. However, surprisingly often these two political opponents ended up with similar conclusions, despite their different views on the working of the economy. Hence, Jansen's depiction of the two as a unified intellectual elite seems quite pertinent when it came to cooperation and problem solving in practice. Jansen's emphasis on the undemocratic aspects of this procedure also seems correct, since despite lengthy discussions the government had not

⁷³ Quote: Interview with Svend Viig conducted by William Jansen in August 1974, see Jansen 1975, p. 11.

⁷⁴ Letter of September 17 from Gunnar Jahn, "governor of the Central Bank of Norway Acting on behalf of the Government of Norway", to the IMF, in enclosed file to GJD Ms4° 2579: 14, "Møte i Bank and Fund 1949. Ad Devalueringen"; Jansen 1975, pp. 11-12.

⁷⁵ Jansen 1975, pp. 100-101.

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agreed on what to do. However, a modifying practical side of Brofoss' procedure was the fact that government members were scattered all over the country campaigning before the parliamentary election, and were therefore difficult to summon at short notice.

By participating actively in the devaluation process, governor Jahn demonstrated a will to cooperate loyally with the government to solve practical policy problems. This also implied a will to compromise, since Jahn by professional conviction still opposed important parts of Labor's economic policy, especially the continuing emphasis on economic planning and the lack of deregulation. However, this represented only one dimension of the central bank's relations the political authorities. In public, governor Jahn still could appear as a fierce critic of the Labor government. An example of such opposition occurred in the aftermath of the devaluation of 1949, when Jahn delivered the keynote speech at a dinner of the Norwegian Shipowners' Association [*Reder forbundet*], in front of a prominent assembly of 220 politicians, senior civil servants and leading businessmen. There, Jahn launched a fundamental attack on Labor's economic policy and accused the government of deceiving the public. Jahn claimed that the government tried to tone down the serious state of the Norwegian economy, criticized the estimates of the national budget for being inaccurate, and stated that the devaluation was caused not so much by the British steps as by underlying imbalances that required extensive retrenchment measures.⁷⁶

This attack could be interpreted as professional advice from the central bank governor to the government and public to 'tighten their belts'. But by launching such profound criticism of Labor's economic policy just before the parliamentary election, Jahn appeared more as a politician than a neutral professional. The speech created big headlines in leading newspapers, and caused the Ministry of Commerce to issue a statement completely rejecting Jahn's account.⁷⁷ Thus, rather than promoting changes in Labor's economic policy, Jahn's opposing arguments probably instead helped to undermine his

⁷⁶ A full version of Jahn's speech of September 30, 1949 was printed in *Norges Handels- og Sjøfartstidende* October 1, 1949.

⁷⁷ *Norges Handels- og Sjøfartstidende* October 7, 1949; *Verdens Gang* October 8, 1949.

professional credibility in the Labor government and increase its skepticism about the BoN.⁷⁸

3.7 Summary: contradictory trends and signals

During the second part of the recovery period, the BoN was subject to two partly contradictory types of signals from the Labor government. On the one hand, based on ideological and political considerations, there was a drive to reduce the central bank into an agency completely subordinated to the Ministry of Finance. This drive induced initiatives to nationalize the privately owned stocks of the central bank and change the traditional reporting line between the BoN and the Storting, and also explains the government's long refusal to settle and take formal responsibility for the occupational account in order to sort out the technical insolvency of the central bank. On the other hand, due to practical problems with the economic policy, the authorities continued to include the BoN in policy formulation and implementation. The foreign exchange and balance of payments problems in the aftermath of the currency crisis of 1947 meant that the nationalization drive was postponed twice and also caused the government to accept preconditions for receiving Marshall Aid that meant down payments on the occupational account and the withdrawal of surplus liquidity from the domestic economy. These practical challenges also occasioned governor Jahn and his officials to participate in negotiations for loans abroad and act on behalf of the Norwegian government during the devaluation process in 1949.

⁷⁸ Behind the scenes, minister Brofoss appeared less dismissive of Jahn's arguments. According to Jahn's own records, Brofoss privately admitted that retrenchment measures were called for, among them the reduction of the investment level. However, Brofoss feared reactions from the labor organizations and stated that nothing could be done before the general election. Jahn also reported that Brofoss had declared he would resign from the government after the election. The reason was that he repeatedly had been voted down in the government. Jahn regretted this news. He feared that Prime Minister Gerhardsen would replace Brofoss with "a new Meisdalshagen", that is a politician who could "calm down the parliamentary group, the labor organizations and the Party" rather than a person with economic knowledge. Jahn encouraged Brofoss to continue in the government, and after Labor had won the 1949 election, he also personally contacted Gerhardsen in order to convince him to hold on to Brofoss. Gerhardsen gave no clear answers at the time, but the final outcome was that Brofoss continued as Minister of Commerce without any further commotion.

See GJD September 24, October 3 and 18 (quotes), November 7, 1949.

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Hence, the development of a new role for the central bank that had started with the currency crisis of 1947 continued, although not on a straightforward path. In this chapter, we have discussed several possible factors that influenced this development in different ways, some by promoting further influential integration of the central bank into Labor's policy-making, others by reinforcing the drive for reducing the status of the Bank and increased control over it. A determining factor in the former development was governor Jahn's continuing working relationship with Erik Brofoss. In public, the two could appear as fierce opponents, as in the case of Jahn's attack on Labor's economic policy just before the 1949 parliamentary election, but behind the scenes, based on a common priority of practical problem solving, Jahn and Brofoss cooperated constructively. The growing problems of maintaining the stabilization line and obtaining sufficient foreign loans also appear to have promoted a more common understanding between these two regarding the underlying causes, as Brofoss at least to some extent reconsidered his earlier disregard of the monetary side of the economy and the internal and external imbalances in the Norwegian economy. Hence, despite some remaining professional differences, especially concerning the efficiency of market regulations, Brofoss and Jahn surprisingly often ended up in the same position on key policy issues such as the timing of the nationalization, the settlement of the occupational account, and the devaluation. They also agreed on the importance of maintaining the BoN as an autonomous expert organization, and within the government, Brofoss could thereby try to counter Meisdalshagen's initiatives to downgrade the status of the central bank.

Governor Jahn's cooperation with Erik Brofoss gave the central bank access to information and possibilities for influence, and networks between lower-ranking civil servants in the central bank and the central administration in matters of foreign exchange yielded similar positive results for the BoN as an organization. However, the BoN not only benefited from these domestic relations, but also made good use of its international network of policy-makers and other central bankers. During its history, the Norwegian central bank had developed particularly close contact with its Nordic counterparts and the Bank of England, and in connection with the devaluation of 1949, these contacts served as partners in ongoing discussions as well as sources of information. At the IMF meeting where the British devaluation finally took place, governor Jahn used his personal relations within the IMF and the Bank of England to obtain confidential information regarding the timing and extent of the devaluation. And once the devaluation was a fact, Jahn and his staff also discussed the consequences with their Danish colleagues. By operating at international arenas, such as the annual meeting of the IMF, governor Jahn and his staff strengthened the legitimacy of the Norwegian

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central bank in foreign financial circles, a legitimacy that also improved its odds of surviving as an autonomous organization in domestic policy-making.

The international context helped to strengthen the position of the BoN also from another perspective, as external events and demands continued to generate opportunities for active participation. Just as with the currency crisis of 1947, the lengthy process of the British devaluation in 1949 created an uncertain situation in which the government requested professional advice and information from the central bank. The BoN thereby became further involved in the formulation and implementation of the foreign exchange policy. Furthermore, in connection with the Marshall Aid program, the central bank had a renewed opportunity to promote the withdrawal of domestic liquidity as well as improving its own financial state, after the Marshall administration requested that its donations should be written off on the occupational account. In the end, the government delayed taking formal responsibility for the occupational account and thereby solving the technical insolvency of the central bank. However, by reducing a substantial part of the domestic monetary surplus, the partial installment of this account became a turning point not only in the postwar economic policy but also in the process of finding a new role for the central bank. Combined with the devaluation of 1949, which dealt a final blow to the stabilization line, the removal of the excess liquidity enabled the government to step up the liberalization of the domestic direct regulations, regulations that the central bank had taken little part in maintaining. The deregulation thus implied a renewed opportunity for the BoN to expand its participation in policymaking, by suggesting much-needed new policy instruments, as we will see in chapter 4.

Whereas the above relations and events contributed to the influential integration of the BoN into policy formulation and implementation, there was simultaneously a contradictory drive towards the downgrading of its status and increased political control. This drive was closely linked to finance minister Olav Meisdalshagen, who in economic policy appears almost as an opposite not only to Gunnar Jahn but also to his fellow minister Erik Brofoss. As a non-economist, Meisdalshagen did not share Brofoss and Jahn's concern for the foreign exchange situation and appeared more preoccupied with domestic regional interests and national sovereignty. Meisdalshagen was also a leading force behind the drive for increased control over the BoN, and prepared for a downgrading that would have placed the central bank on the same footing as other state-owned banks, completely subordinated to the government. This was quite in accordance with Frisch's earlier ideas of turning the BoN into an office in the Ministry of Finance. Meisdalshagen represented the left wing of Labor and many approved of his views on the BoN, an approval that grew when the central

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bank became involved in the broader political debate between Labor and the non-socialist parties.

The status of the central bank was subject to general political evaluation in the debate on Meisdalshagen's proposal for nationalization and the changes to its reporting line. This debate revealed an all-party agreement that totally independent central banks in the orthodox sense were a thing of the past. Despite some Labor accusations to the contrary, the non-socialist parties accepted that the authority of the central bank in policy formulation and implementation had to be subject to political control. However, they disagreed with Meisdalshagen's proposals in two important respects. Firstly, they rejected any attempts to break the traditional ties between the central bank and the Storting, and insisted that it was the national assembly rather than government that should exert the political control. Secondly, in continuation of this argument, they claimed that the BoN should be maintained as an autonomous organization. The ability of the Storting to control the dispositions of the government depended on maintaining the central bank as an autonomous expert organization that could provide the national assembly with independent information. Thus, the non-socialist parties saw the nationalization drive and the proposal to change the reporting line, along with the government's reluctance to settle the occupational account, as threats not only to the legitimacy and status of the central bank but also as a constitutional challenge.

Paradoxically, this advocacy in defense of central bank autonomy probably had the opposite of the intended effect. By linking the position of the BoN to the highly controversial balance of power between the government and the Storting, the non-socialist parties involved the central bank in high politics. This brought focus on Jahn's political background and, from Labor's point of view, created a close association between the central bank and the political opposition. Although governor Jahn mostly cooperated loyally with the government behind the scenes, in public, he often helped to confirm this impression, for example when he attacked the government just before the 1949 election. By such public displays, Jahn thereby countered his own ambition of establishing the BoN as a politically neutral expert organization.

Involvement in politics, with the subsequent undermining of professional legitimacy, was also the most important effect of the nationalization process, as well as the main contribution of the governing bodies, in terms of the changing role of the central bank. Whereas the formal shift of ownership from private to public had no practical consequences for the conduct of the central bank, since the private owners never had any operational influence, the fact that Meisdalshagen's extended proposal to change the reporting line turned the nationalization process from a formality into a major controversy

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helped to raise Labor's political suspicions of the BoN as an autonomous organization.

During the process of nationalization, the politically appointed members of the BoN's governing bodies further politicized the central bank by voting according to party lines rather than providing more independent advice. Apart from such extraordinary political cases, however, the governing bodies seem to have played a limited role in developing a new role for the central bank during the first post-WWII decade. The Supervisory Council usually followed the advice of the Board of Governors, while the latter, according to the surviving sources, appears to have voted in accordance with the advice of governor Jahn. Jahn thereby follow up the tradition of his predecessor Nikolai Rygg and left his personal mark on most of the advice and resolutions from the central bank.

Throughout the recovery period, a general trend in Norwegian policy-making appears, a trend that probably also continued into more recent times, where informal communication behind the scenes often outweighed formal reporting lines and statutory provisions. In the process of nationalizing the BoN, this trend was exposed when the proposal to change the reporting line was launched by a Labor representative in the Supervisory Council, ignoring Labor's formal minority position in the governing bodies and promoting his views through informal interaction with party colleagues. It was also underlying the attempts from finance minister Meisdalshagen to disregard standard procedures and exclude the central bank from both designing the new provisions and commenting on this matter. More fundamentally, this trend legitimized the replacement of the *de jure* rights of the BoN according to the Central Bank Act of 1892 with more informal political control. Hence, from one perspective, this emphasis on informal decision-making constrained the influence of the central bank in its relations with the political authorities.

On the other hand, this trend also offered possibilities for the BoN. It implied that formal institutional changes such as the nationalization of ownership and changes to the reporting line as well as its continuing technical insolvency caused by the occupational account had only a limited effect on the *de facto* authority and autonomy of the central bank. Moreover, to the extent that governor Jahn and his staff managed to establish well-functioning networks with influential policy-makers such as Erik Brofoss, the central bank could benefit from this trend of informality. The devaluation of 1949 illustrates that through such networks, the BoN could be closer to the center of events than the main parts of the Labor government. From the central bank's point of view, there was never any doubt that Brofoss and the government had the final authority, but through active participation and

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integration in the policy-making process, the BoN still obtained some influence. Moreover, and more importantly, this contributed to the process of finding a role in the new post-WWII political environment. And in this environment, nursing personal relations and participating in informal networks became an important path to influence for the central bank.

4 Opposition and compromise: from legislation to suasion (1950-51)

In a contemporary perspective as well as in retrospect, the years 1950-51 represented a watershed in post-WWII economic policy. After an unexpectedly rapid recovery from war damages, the economy was on the verge of transition from extraordinary to ‘normal’ times. At the same time, direct regulations of prices and resources in the domestic economy had to be phased out due to the international contractual obligations to liberalize, as well as experiences at home – including the currency crisis, the devaluation and the collapse of the stabilization line – which had demonstrated that direct regulations were difficult to maintain. As a result, around 1950, the Norwegian government, like most of its Western counterparts, was looking for new policy measures to handle inflationary dangers and balance of payments problems as well as ensuring continued influence on the economic development.

At the 1949 election, the Labor Party had won a solid parliamentary majority and held a more powerful position than ever. The question was, however, which way the government would proceed when the direct regulations were abandoned. We have seen that Labor contained a wide range of opinions, from those who saw a socialist society as the final goal via representatives such as finance minister Meisdalshagen, who favored rural interests and the national control of resources, including firm control of the central bank, to associates of the Minister of Commerce, Erik Brofoss, who had a pragmatic approach to the choice of policy instruments as long as it promoted his strategy of large-scale industrialization and export-led growth, but who also seemed increasingly concerned with the economic imbalances caused by the direct market regulations. Did this concern imply a turn towards more market-based policy instruments, in accordance with governor Jahn’s principal views? Or would Labor further its ambitions to control the economy via market regulations, even if the direct controls over the production and distribution of goods and services had to be abolished?

For the BoN, these uncertainties regarding the future economic policy represented a new window of opportunity. So far, the central bank had established an active role in the foreign exchange policy, and now there was a renewed possibility to influence also the choice of domestic policy means. How did the BoN respond to this opportunity? Previously, we have seen that in relation to the Labor government, governor Jahn switched between loyal cooperation and fierce opposition. Did this seemingly contradictory behavior

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continue? And what were the consequences for the role of the BoN in domestic economic policy?

This chapter will discuss the above questions in eight sections of which the first five analyze a little-noticed proposal to introduce a new policy instrument in the domestic financial market: deposit reserve requirements. Section 4.1 demonstrates how governor Jahn and his officials launched this as a new monetary policy instrument that would place the BoN in an influential position, while section 4.2 debates why this proposal had unexpected support from Frischian economists. The following two sections analyze the launch of an alternative model for deposit reserve requirements, which agreed more with the ambitions and views of finance minister Meisdalshagen. Section 4.3 discusses the primary purpose of this alternative model, namely to fund the struggling state-owned banks, while section 4.4 focuses on the suggested role of the BoN in this new proposal and compares this to Meisdalshagen's previous initiatives to downgrade the central bank. Section 4.5 presents reactions to the new proposal from Erik Brofoss and Jahn, and debates why the two responded differently despite sharing a common understanding of its consequences. Section 4.6 analyzes the role of governor Jahn in the establishment of yet another policy strategy, this time based on voluntary cooperation rather than statutory provisions. Section 4.7 debates this cooperative strategy in a historical and international context. The concluding section 4.8 summarizes the shifting strategies of the BoN during this transitional period, and discusses their consequences for the establishment of a new role in domestic economic policy.

4.1 Jahn initiates a flexible monetary instrument

In February 1950, Gunnar Jahn forwarded a draft law to the Ministry of Finance, suggesting the introduction of flexible deposit reserve requirements as a new monetary policy instrument to influence bank liquidity and the general credit volume.¹ This was the first step in a legislative process, which lasted until the Storting passed a new Act on deposit reserve requirements in June 1952. Historians have paid little attention to this process and without further comment have written off the deposit reserve requirements as an insignificant policy measure with few practical implications. From an economic and political perspective, this is understandable. As we will see in this and the following chapter 5, this Act was not implemented until 1955

¹ Letter of 17.02.1950 from the Money and Finance Council to the Ministry of Finance, unpublished appendix to Parliamentary document St.ppr. no. 129 (1950).

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and then the reserve requirements were set at such a low level that it had only minor or no effect on bank liquidity. However, this outcome was not accidental. It was rather the result of a tug of war regarding not only the future economic policy but also the role of the BoN, a process in which governor Jahn and the central bank played a decisive part.

The principal idea of Jahn's draft law was that deposit reserve requirements would be a flexible and permanent monetary policy measure, maintained mainly by the BoN. As a model, Jahn explicitly referred to the US system where the central bank, the Federal Reserve, since 1917 had been allowed to instruct banks to place parts of their deposit on separate accounts in the Federal Reserve system and thus withdraw these means from circulation. After legislative revisions in the 1930s and in the summer of 1948, these deposit reserve requirements were gradually transformed into a flexible and potentially powerful instrument that the central bank could adjust relatively frequently in order to influence market liquidity and the circulation of money. These deposit reserve requirements were used in combination with instruments such as flexible discount rates and so-called open market operations, and thereby appeared as part of a market-based monetary policy.²

Inspired by the US system, Jahn suggested that Norwegian joint-stock banks and savings banks could be instructed to deposit a maximum 20 per cent of their demand deposits and 10 per cent of their time deposits in a separate account in the BoN. This new instrument was designed as a separate act in order to make a clear distinction between these deposit reserve requirements and the reserve requirements already included in the two existing banking laws, which were established to promote bank solidity. Jahn argued that the new deposit reserve requirements should be a specific monetary policy measure, and to emphasize this exclusive purpose, he proposed that their basis of calculation should be each bank's total deposits, except deposits from other domestic banks, and should not include less liquid assets such as government bonds and securities. By including the most liquid assets only, the deposit reserve requirements could be an effective instrument to influence bank liquidity and lending ability, and thereby the total credit

² PM no. 1103 of April 19, 1950, by Alf Eriksen, the BoN, BoN-S box F-0003. Open market operations were a policy measure developed in Great Britain and the USA in the interwar period. They allowed central banks to influence the level of economic activity by buying and selling securities, short-term treasury bills in particular.

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volume. Jahn also proposed that the new act should be permanent, to underline that this was intended as a long-range policy instrument.³

The main purpose of Jahn's initiative was to establish a policy instrument to battle the continuing inflationary dangers in Norwegian economy. Once the war-related excess liquidity had been abolished, the inflationary tendencies continued due to a growing credit volume. This growth was partly caused by Labor's intensive public investment program to reconstruct and modernize the Norwegian economy, but private demand for credit had also increased. The traditional way to curb credit demand had been to increase interest rates, but unlike the many other countries that gave up their cheap money policies around 1950, the Norwegian government held on to its ambition to maintain low and stable interest rates. In addition to the inflationary challenges, this cheap money policy also created an allocation problem, namely to ensure sufficient funding for the specialized state-owned banks that were established to provide means to sectors of political priority. These banks were funded mainly by government bonds, but the traditional buyers of such securities, the financial institutions, were reluctant to purchase at the existing low rates.

In Norway, increasing interest rates were politically unacceptable, and instead the short-term solution to this dilemma had been to appeal to the banks to volunteer to adapt their lending policy to the overall guidelines for the economic policy, in terms of both volume and purpose. This approach reflected a predominant view in Labor that financial institutions should operate less as ordinary business enterprises and more as part of a national infrastructure that promoted socially desirable activities. This implied not only a quantitative control of the credit volume, but also a qualitative control of the purpose of the loans. In January 1949, the BoN communicated this view in an appeal to the two national associations for joint-stock and savings banks:

³ Letter of 17.02.1950 from the Money and Finance Council to the Ministry of Finance, unpublished appendix to St. prp. no. 129 (1950).

To compensate for the decentralized structure of the Norwegian banking system and prevent unintended and invidious consequences of the reserve requirements, Jahn's draft also allowed varying percentages based on a bank's size and geographical location.

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If the banking community is to fulfill their function in society, they have to base their dispositions on social rather than private economic considerations. (...) We have found reason to issue an appeal to the banks to help lead the business community on to a healthy track and refuse to support enterprises that cannot be described as persistently benefiting our community.⁴

When the BoN issued such a message, which could easily be associated with the Labor Party, this partly reflected the political control over the central bank. However, there was a wider historical precedent for appeals of social responsibility to the banking sector, which went beyond Labor's governing regime. During the interwar period, based on similar ideas, we have seen that the authorities established voluntary cooperation with the banks to handle the foreign exchange crisis.⁵ And in the aftermath of the banking crisis in the 1920s and the early 1930s, the BoN had also requested the banks to take social considerations into account. In 1924, in a letter to the Norwegian Bankers' Association, the BoN had urged the joint-stock banks to ensure that "available capital was distributed in such a way that the most important needs – seen from a national economic perspective – were favored", that the banks abstained from granting loans even if they were justifiable from a private economic point of view, and that they "endeavored to limit unnecessary consumption and less important imports". In 1931, the central bank issued a similar statement, which, as in 1924, the Bankers' Association distributed to its members.⁶

⁴ Letter of January 6, 1949, from the BoN to the Norwegian Bankers' Association, the archives of the Norwegian Bankers' Association at the National Archives, Oslo [hereafter: DnB-3], box: 42 B 103-106, file 103.

[Quote: *"Skal bankvesenet fylle sin oppgave i samfunnet må bankene la samfunnsøkonomiske, ikke rent privatøkonomiske, synsmåter være avgjørende for sine disposisjoner. (...) Vi har funnet det riktig å rette en appell til bankene om å medvirke til at utviklingen av næringslivet ledes i et sundt spor, og at de avslår å gi sin støtte til foretak som ikke kan betegnes som en varig vinning for vårt samfunn."*] ⁵ See chapter 1.4.

⁶ Letter of November 1, 1924, from the BoN to bank director Kamstrup Hegge, Kristiania; circular no. 42-1924 of November 14, 1924, from the Norwegian Bankers' Association to its members; letter of December 11, 1931, from the BoN to the Norwegian Bankers' Association; circular no. 58-1931 of December 17, 1931, from the Norwegian Bankers' Association to its members, all: DnB-3 box: 42 B 103-206, file 103.

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In times of crisis, such appeals appeared as a necessary measure to gain control, and it is probably that for governor Jahn and his staff this historical precedent legitimized, to a certain degree, the appeals of 1949, since they could not be seen merely as part of Labor's governing ambitions. However, from an economic and political point of view, the fact that the banks could choose to obey or not to obey these one-way appeals made them insufficient as a long-term policy instrument, especially once the direct regulations were liberalized and monetary policy appeared as a key area of focus. Thus, the BoN was looking for more powerful instruments to influence the financial markets. Flexible deposit reserve requirements based on statutory provisions appeared as one such instrument.

Gunnar Jahn's draft law assigned an important role to the BoN. Although acknowledging that the government would have the final authority, the draft envisaged that the BoN would play a leading part in policy formulation and implementation by suggesting that the government should delegate authority so the central bank would be responsible for monitoring bank liquidity, initiating when and how the reserve requirements should be effectuated, and making sure that the banks followed their obligations according to the law. Thus, this proposal would reestablish monetary policy as a key part of the domestic economic policy as well as reintroduce the central bank as an expert organization and leading participant in this policy area. This latter ambition would be reinforced by an additional anticipation that:

... such reserve requirements would facilitate a natural contact between the central bank and the private banks, a contact that has been non-existent since the war.⁷

Maintaining the deposit reserve requirements could thereby help to restore the position of the central bank as a boundary organization, a position that

[Quotes from letter of November 1, 1924: “[Bankdirektør N.Rygg] innskjærpet betydningen av at bankerne drog omsorg for, at den disponibele kapital fordeles på en saadan maate at de – nationaløkonomisk seet – viktigste behov blir tilgodeseet”; ”laan, som vel kunde ansees forsvarlige seet fra den laagivende banks standpunkt, men som under nuværende forhold ikke kan ansees berettigede”; “[bankene] i det hele retter sine bestræbelser paa at begrense unødvendig forbruk og mindre nyttig import”.]

⁷ Quoted from the Money and Finance Council, “Statement of August 30th, 1950” [Uttalelse av 30. august 1950], p. 8, appendix to St. prp. no. 129 (1950).

had been lost once the surplus liquidity and direct regulations had marginalized the role of the BoN in domestic policy-making. As pointed out earlier, the theory on boundary organizations portrays central banks as agencies operating in the zones between international and domestic concerns and between the public and private spheres. By providing expert advice and participating in the foreign exchange policy, the BoN had reestablished some of its former boundary position between the political authorities and the banking sector and also maintained some influence regarding international concerns.⁸ By maintaining the new flexible deposit reserve requirements, the central bank could hope to regain a similar position also in the domestic monetary policy.⁹

4.2 Surprising expert backing, but political resistance

Gunnar Jahn designed the proposal for new deposit reserve requirements on his own, probably with some assistance from his officials in the central bank, but rather than forwarding the proposal from the BoN, he chose to send it to the Ministry of Finance in his capacity as chairman of the Money and Finance Council [*Penge- og finansrådet*], a committee of inquiry established in 1945 to assist the Ministry of Finance in matters of monetary policy, public debt, foreign exchange and credit control. Besides Jahn, the Money and Finance Council had a majority of economists more in favor of centralized planning and direct controls, including professor Ragnar Frisch and his former students Petter Jakob Bjerve, Gunnar Bøe and Knut Getz Wold. This choice of sender indicates that Jahn expected finance minister Meisdalshagen to be better disposed to this expert Council than to the central bank.

Jahn was right to assume that the Ministry of Finance had confidence in the Money and Finance Council, and Meisdalshagen's immediate response was to ask the Council for further investigation, where Jahn's proposal for deposit reserve requirements would be discussed in a wider context of the monetary and fiscal policy measures that could replace the direct regulations. In his diaries, Jahn characterized the Money and Finance Council as the most difficult committee he had ever worked with, and he was particularly frustrated with the endless arguments from Frisch and his students regarding the theoretical basis for policy instruments that Jahn felt would in any case

⁸ See chapters 1.1, 1.2, and 2.5.

⁹ PM no. 1176 of 06.07.1950, Minute from the annual meeting of the Nordic central bank governors in Oslo June 5th 1950, BoN-S, box F-0003.

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be chosen for political reasons.¹⁰ Nevertheless, in the case of his proposal for flexible deposit reserve requirements, the Council gave Jahn unanimous support.

In August 1950, the Money and Finance Council presented a report that concluded that due to balance of payments problems and the scarcity of financial and material resources as well as labor supply, new contractionary measures were necessary in both fiscal and monetary policy. In addition to budgetary cuts and tax increases, the Council suggested several monetary policy instruments, the most important being Jahn's proposal for flexible deposit reserve requirements. Without reservations, the Council adopted Jahn's draft law both regarding purpose and design. Flexible deposit reserve requirements ought to be a permanent part of the future monetary policy, the Council argued, and the BoN should play a key role in initiating and executing such a law. Moreover, the Council stressed the importance of improving the "natural" relations between the central bank and the private banking industry. In that connection, the Council also referred to a new, additional proposal from governor Jahn to arrange regular meetings between the BoN and the two banking associations, in order to discuss matters of qualitative credit control and to promote development that corresponded with guidelines laid down by the political authorities at any given time.¹¹

There are several possible reasons why the Council accepted Jahn's proposal for deposit reserve requirements. Firstly and perhaps foremost, there was a definite and critical need for new policy measures to replace the direct regulations, and in itself Jahn's proposal was compatible with Labor's economic policy. Elsewhere such flexible reserve requirements often were part of market-based monetary policies, but they were also possible to implement without challenging the cheap money policy, since they merely were a way to tie up bank liquidity. Hence, compared to more radical advice from Jahn, for example to use the discount rate as a flexible measure, the deposit reserve requirements did not fundamentally challenge Labor's policy strategies. Secondly, several other countries besides the USA had recently introduced deposit reserve requirements, among them neighboring Denmark (temporary act of 1942, suspended in 1949) and Sweden (temporary act of 1937, replaced by a new act of June 3, 1949). Thus, combined with the wider

¹⁰ GJD November 24, 1951.

¹¹ The Money and Finance Council, "Statement of August 30th, 1950" [*Uttalelse av 30. august 1950*], p. 8, appendix to St. prp. no. 129 (1950).

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set of measures that the Council proposed, flexible deposit reserve requirements probably appeared as adequate to control the growing credit volume.

A third explanation why the Frischian economists in the Money and Finance Council accepted Jahn's proposal relates to the fact that this draft law represented a first attempt to introduce a monetary policy instrument based on statutory provisions, which implied active and frequent intervention in the Norwegian banking market.¹² Traditionally, the principle of free banking had had a strong standing in Norway, and unlike in many other countries, Norwegian joint-stock banks had not been subject to any regulation until after the banking crises of the inter-war period.¹³ Hence, Jahn's proposal in itself was by no means a liberalist initiative that could be associated with laissez-faire policies, but rather an attempt to introduce an effective macro management tool to control the credit volume, a purpose to which the Council majority also could relate.

Jahn's proposal for flexible deposit reserve requirements prepared for such a degree of state intervention in the banking sector that it provoked strong objections from the banks. In their written assignments on the Council report, the Norwegian Bankers' Association and the Central Association for Norwegian Savings Banks both rejected the need for new, permanent legislation in monetary policy. Although they admitted that the direct regulations had to be replaced by new policy instruments, they claimed that any new legislation should be designed as temporary additions to the existing banking laws rather than be given any permanent character. However, the Bankers' Association was highly critical even of such temporary provisions. Rather than immediately passing new legislation based on the Council's proposal, the Bankers' Association called for more thorough and comprehensive examinations and suggested that a second committee of inquiry, the newly appointed Money and Banking Committee of 1950 [*Penge- og bankkomitéen av 1950*], should reconsider the draft law. As an immediate action, the Association proposed expanding the voluntary cooperation between the banks and the political authorities. Unlike Jahn and

¹² There was one prior instrument based on statutory provisions, namely the central bank's discount rate, but the main purpose of this provision was not to serve as a monetary policy instrument in the domestic financial markets but to maintain the external value of the *krone*.

¹³ See Ecklund and Knutsen 2000.

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the Money and Finance Council, however, it did not present such cooperation as a permanent element of monetary policy.¹⁴

This dismissive response from the banking associations appears primarily as an attempt to avoid regulations. In principle, Norwegian bankers, particularly the joint-stock banks, opposed Labor's strategies for governing the economy and instead shared Jahn's views on the need for flexible interest rates and market-based solutions. In practice, however, they followed the argument that any policy instrument should intervene as little, and with as much flexibility, as possible in the day-to-day business of the banks. Thus, even if Jahn's proposal seems to agree well with the principal views of the banks, it also represented a powerful instrument that could curb their ability to grant loans and thereby appeared as a threat.

To the Ministry of Finance, reexamining the proposed deposit reserve requirements was a welcome idea. Meisdalshagen probably perceived this proposal as yet another attempt from the central bank governor to oppose Labor's economic policy. Jahn's references to the US system were a provocative reminder of the fact that he primarily wanted a market-based monetary policy with flexible interest rates, while in the eyes of the finance minister, his emphasis on the BoN as the initiator and executor of a new law was like a red rag to a bull. To Jahn's great frustration, Meisdalshagen basically considered him a political opponent rather than a professional advisor, and in March 1950 Jahn concluded in his diary: "Meisdalshagen has obviously no confidence in either the Bank of Norway or in me".¹⁵

Hence, based on his ambition to control the central bank, Meisdalshagen wanted changes in the proposal for new deposit reserve requirements. Even more importantly, however, such changes were required because Jahn's proposal did not attempt to solve the critical problem of funding the state-owned banks. In the following section, we will analyze this latter dimension in the light of a new law, before in section 4.4 we discuss how the Ministry of Finance and the Money and Banking Committee of 1950 prepared for a

¹⁴ Letter of October 19, 1950, from the Norwegian Bankers' Association; letter of October 20, 1950, from the Central Association for Norwegian Savings Banks, both: BoN-S box H0001, file: "Penge- og finansrådet. Forslag til lov om bankers innskottsreserver i Norges Bank", 1950-1951; P-1-1

¹⁵ GJD March 15, 1950. [Quote: "*Meisdalshagen har åpenbart ingen tillit til Norges Bank eller meg.*"]

complete exclusion of the central bank as an active participant in the monetary policy.

4.3 Launching an alternative model: reserve requirements as a source of funding

While the Money and Finance Council appeared as an expert committee of economists and civil servants appointed to give general advice to the Ministry of Finance, the Money and Banking Committee of 1950 had a broader composition and a more controversial purpose. This Committee was established by Royal Decree in March 1950 with a commission to examine the organization, functioning and purpose of the public and private financial system, as well as to propose legislative changes for joint-stock banks, savings banks, the Banking Inspectorate, and the BoN. The Committee was headed by Anders Frihagen, former Labor cabinet minister, director of the state-owned industrial bank *Industribanken*, and one of the most Labor's most pronounced advocates of the socialization of private banks. Hence, many perceived this as a Committee in charge of reorganizing and increasing the political control over the financial system. Governor Jahn was originally offered a seat in the Money and Banking Committee but he was totally against this initiative, which he regarded as a first move by radical Labor members to nationalize the banking sector. Jahn tried in vain to convince Prime Minister Gerhardsen not to establish the Committee, and when he failed and was denied the role as chairman of the Committee, he refused to participate and instead asked deputy governor Sven Viig to serve as the representative of the BoN.¹⁶ Thus, when the Money and Banking Committee of 1950 was charged with redesigning the deposit reserve requirements, there was reason to expect some fundamental changes to Jahn's original proposal.

Besides the BoN and the two banking associations, the Money and Banking Committee of 1950 had a majority of members with a background in Labor and Frischian economics. Two of these members, Petter Jakob Bjerve and Gunnar Bøe, were also members of the Money and Finance Council, but in

¹⁶ Minute of March 14, 1950, from government conference, STAT-regj, series Db, minute book no. 6; GJD March 15, 1950; Borlaug 1994, chapter 2; T. Bergh, *Storhetstid (1945-1965)*, the history of the labor movement in Norway, vol. 5, Oslo: Tiden Norsk Forlag, 1987, pp. 195, 200, 379f.

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this new setting they no longer found reason to support Jahn's original proposal.¹⁷

When receiving the commission to redesign the deposit reserve requirements, this Committee majority immediately appointed an internal working committee constituted only of representatives who were critical of Jahn's proposal, namely Anders Frihagen and the two representatives from the banking associations, Rolf Thorsteinsen (director of the Norwegian Bankers' Association) and Arne Jensen (office manager of the Central Association for Norwegian Savings Banks). This confirmed governor Jahn's expectations that the BoN would have little influence on the recommendations from this Committee.

Within only a month, in early November 1950, the working committee presented a revised draft law that fundamentally changed the nature and design of the deposit reserve requirements, in terms of purpose, administrative routines and long-term position in the economic policy. The most important distinction from Jahn's original proposal was that the new draft changed the purpose of the deposit reserve requirements from a specific monetary policy instrument into a more diversified tool that also could be used to fund the state-owned banks through the bond market. While Jahn had included bank deposits only in the basis of calculation of the deposit reserve requirements, the revised draft law of the working committee suggested that banks could meet the reserve requirements also by keeping government securities and government-guaranteed bonds. In this way, the working committee tried to ease the problem of funding the state-owned banks.¹⁸

By expanding the basis of calculation, the working committee simultaneously reduced the liquidity effect of the reserve requirements and thereby their effectiveness as a macro-economic instrument. Moreover, any

¹⁷ The original members of the Money and Banking Committee of 1950 were Anders Frihagen (Labor), Trygve Bratteli (Labor), Konrad Nordal (the Norwegian Federation of Trade Unions), Gunnar Bøe (Labor), Knut Getz Wold (Ministry of Trade), Petter Jakob Bjerve (SSB), Rolf Thorsteinsen (the Norwegian Bankers' Association), Arne Jensen (the Central Association for Norwegian Savings Banks), and Sven Viig (the BoN).

¹⁸ Draft law of November 4, 1950, "Utkast til midlertidig lov om tillegg til aksje- og sparebanklovgivningen", prepared by a working committee in the Money and Banking Committee of 1950, printed in Parliamentary document Ot. prp. no. 82 (1950), appendix 2.

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anti-inflationary effects were more or less neutralized by a provision that allowed banks to increase their loans in the BoN against the security of government securities and government-guaranteed bonds. Banks could thereby effectively counter the liquidity effect of the requirements. The effectiveness and flexibility of this instrument was further reduced by the introduction of complicated and time-consuming administrative procedures to change the reserve requirements. While Jahn had based his proposal on a US model, in which the central bank easily could adjust the reserve requirements depending on current economic developments, the working committee proposed a procedure that among other things introduced mandatory submissions from the central bank, the Banking Inspectorate and the two bankers' associations before the reserve requirements could be raised. Moreover, the committee created an additional administrative delay by stating that the government could not demand the requirements should be met "until 90 days at the earliest" from the date of an increase, a provision that definitely eliminated Jahn's ambitions to use the reserve requirements to wield continuous influence over bank liquidity.¹⁹

The new proposal also removed the element of permanency that Jahn had intended for the new deposit reserve requirements. In accordance with the requests of the two banking associations, the working committee recommended that the new provisions were made temporary. They thereby signaled that deposit reserve requirements were not meant as a long-range policy instrument. Finally, the committee suggested that the new reserve requirements were designed not as a separate act, but as an expansion of the existing banking acts. One technical reason for this was that the new and broader basis of calculation corresponded with the provisions on reserve requirements in these banking acts. In the following section 4.4, however, we will see that this seemingly practical solution had wider political consequences, as it generated a direct challenge to the role of the BoN as the executive agency in monetary policy.

Governor Jahn had designed the new deposit reserve requirements as a long-range, flexible and potentially powerful instrument that the authorities could use to wield continuous influence over liquidity in the banking sector and thereby the credit volume. The revised version created by Anders Frihagen and the representatives of the banking associations jeopardized this vision. The working committee – with the approval of a majority of the full Money

¹⁹ §2 of the working committees' draft law, Ot. prp. no. 82 (1950), appendix 2, p. 15.

and Banking Committee of 1950, including Bjerve and Bøe – instead proposed a policy measure that could ease the problems of funding the state-owned banks but, on the other hand, reduced its effectiveness and efficiency in the general monetary policy. From Labor's point of view, the revised proposal thereby provided a temporary relief to the pressure for rising interest rates, while the representatives of the banking associations regarded this as an acceptable compromise regarding introduction statutory provisions, since it was only temporary, it limited the ability of the authorities to influence bank liquidity and it introduced favorable administrative arrangements such as extended deadlines for meeting the requirements and opportunities to influence through submissions. Hence, interestingly enough, this revised deposit reserve requirement appeared as a less interventionist solution than Jahn's original proposal.

4.4 The BoN challenged as an executive agency

The redesigned deposit reserve requirements proposed by the Money and Banking Committee of 1950 represented a setback for governor Jahn in his efforts to generate more flexible monetary policy instruments. However, an equally serious challenge for the BoN was the Committee's lack of guidelines regarding the role of the central bank. In this section we will see that by failing to make explicit the intended role of the central bank in the wording of the new act, the Money and Banking Committee of 1950 paved the way for an attempt from the Ministry of Finance to undermine the traditional role of the BoN as an executive agency in monetary policy.

In the original draft law, Jahn had allocated a significant role to the BoN as the principal initiator and executor of the deposit reserve requirements, while he intended the Ministry of Finance to be relatively inactive apart from giving final approval to suggestions made by the central bank. The Money and Banking Committee of 1950, on the other hand, paid relatively little attention to this aspect. The main focus of the working committee was to design deposit reserve requirements as a source of funding and a policy measure, and, unlike Jahn's proposal, paid little explicit attention to the possible side effects for the central bank. The only discussion of the role of the central bank was in the elaborating comments to §1 of the draft law, where the Committee introduced a fundamentally new element in Norwegian monetary policy by suggesting a division of labor between the central bank and the Banking Inspectorate.

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Traditionally, the Banking Inspectorate had been engaged only in bank supervision and control that aimed at protecting depositors and promoting financial stability, and it had never played any part in the formulation or execution of the monetary policy.²⁰ The Money and Banking Committee proposed to change this, and suggested the Banking Inspectorate should be co-responsible for enforcing the new deposit reserve requirements. The Committee stated that a “natural” practice of the new provisions would be that the BoN took initiatives to change the reserve requirements as part of the monetary policy, whereas the Banking Inspectorate through its on-site inspections and documentary examinations should ensure that the individual banks met these requirements. The Ministry of Finance would have an overarching responsibility to coordinate these two agencies.²¹

By introducing the Banking Inspectorate as a participant in monetary policy, the Money and Banking Committee to some degree challenged the unique position of the central bank in this policy area. Nevertheless, the explicit yet almost casual remark in the elaborating comments to the new Act, which labeled the BoN as a ‘natural’ policy initiator, demonstrates that the Committee still intended the central bank to play a key part in policy formulation and execution. In the actual wording of the draft law, however, the Committee failed to express this intention. The draft law did not allocate any explicit function to the central bank as either initiator or executive agency. Instead, the Ministry of Finance was granted full authority to enforce the law, while the BoN was put on the same footing as the two banking associations and the Banking Inspectorate as bodies entitled only to comment on changes to the reserve requirements suggested by the Ministry of Finance.²² Furthermore, since the Committee’s draft law was designed as an addition to the two existing banking acts rather than a separate act, the Banking Inspectorate – which had the daily responsibility of enforcing these banking acts – intuitively appeared as the immediate executive agency for the Ministry of Finance also as regards the new deposit reserve requirements.

²⁰ For an analysis of the supervision of financial markets in Norway, see: Ecklund and Knutsen 2000.

²¹ Ot. prp. no. 82 (1950), appendix 2, p. 17.

²² See §4, ”Midlertidig lov om tillegg til aksje- og sparebanklovgivningen”, Ot. prp. no. 82 (1950), appendix 2, p. 15.

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By failing to define the intended role of the BoN in the wording of the law, the Money and Banking Committee gave an opening to the Ministry of Finance to undermine yet further the autonomy and authority of the central bank. Finance minister Meisdalshagen's personal distrust of Gunnar Jahn, whom he regarded primarily a political opponent, and of the BoN as an autonomous organization, which he associated closely with the crises of the interwar period, suggested that he had no intention of assigning a renewed and active role to the central bank.

Since the process of nationalizing the central bank, the relationship between finance minister Meisdalshagen and governor Jahn had deteriorated, and during the discussions about the new deposit reserve requirements this conflict peaked. The Ministry of Finance prepared a new Act on deposit reserve requirements without consulting the central bank at all, a neglect that caused Jahn to complain directly to Prime Minister Gerhardsen about Meisdalshagen's behavior. After consulting Erik Brofoss, Jahn arranged a meeting with Gerhardsen in November 1950, where he ended up presenting the Prime Minister with an ultimatum:

Either you dismiss me, or Meisdalshagen has to agree to consult me.²³

Jahn claimed that Meisdalshagen was wrong to consider him a “scheming *Venstre* politician”, and insisted that his main concern was to contribute professionally to improving the state of the Norwegian economy. Gerhardsen, however, was not prepared either to dismiss Jahn or to reprimand Meisdalshagen. Instead, he encouraged Jahn to talk directly to Meisdalshagen to sort out their problems.²⁴

When failing to make the Prime Minister intervene, Jahn confronted the finance minister directly in a meeting a few days later. Meisdalshagen denied that he consciously avoided conferring with the central bank, but pleaded his right to consult party colleagues without informing Jahn. Nevertheless, Jahn's complaints seem to have made some impression, as the

²³ GJD November 4, 1950.

[Quote: *“Enten får dere avsette meg, eller Meisdalshagen får finne seg i å konferere med meg.”*]

²⁴ GJD November 4, 1950. [Quote: *“...han ser på meg utelukkende som en intrigant venstremann...”*]

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Ministry of Finance a few days later forwarded its draft for a new Act on deposit reserve requirements to Jahn. The BoN thereby received this draft even before Erik Brofoss.²⁵

From the BoN's point of view, the proposal was even worse than expected. The Ministry of Finance ignored Jahn's original suggestions for flexible deposit reserve requirements and instead based the bill directly on the draft by the Money and Banking Committee of 1950. Also, it envisaged even less authority for the central bank than the Committee had intended. In the parliamentary bill, the Ministry of Finance chose to disregard the elaborating remarks in which the Committee had depicted the central bank as the initiator of a new law. Instead it merely copied the wording of the Act without any further comments regarding the central bank. Consequently, the bill prepared for further downgrading of the BoN, quite in line with the ideas underlying Meisdalshagen's previous initiative to change the reporting line of the central bank. All these initiatives challenged the traditionally unique position of the BoN in the financial system. In the case of the reporting line, the finance minister had argued that after the nationalization, the central bank could be placed on the same footing as regular state-owned or state-guaranteed banks.²⁶ In this new proposal for deposit reserve requirements, the Ministry of Finance went even further and wrote off the central bank off as a body entitled only to comment, on a level with the joint-stock and savings banks.

The peripheral position of the BoN was confirmed by the fact that the bill was designed as an addition to the existing banking laws. It was thereby the Banking Inspectorate rather than the BoN that became formally responsible for maintaining this new policy instrument. Unlike the BoN, which was an autonomous legal entity, the Banking Inspectorate was organized directly under the finance minister. Without exaggerating the importance of such formal organizational differences, this was likely to facilitate the ministerial control over the Act, especially since the Banking Inspectorate had no prior experience in issues of monetary policy and therefore depended on the expertise of the Ministry of Finance. Moreover, from January 1951, the new managing director of the Banking Inspectorate would be Anders Frihagen, chairman of the Money and Banking Committee of 1950, who would

²⁵ GJD November 11, 1950.

²⁶ See chapter 3.2.

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obviously offer the government less opposition than governor Jahn and the BoN.

While the Ministry of Finance prepared for tighter political control of the central bank than ever before, in most other respects it followed the proposals of the Money and Banking Committee of 1950, regarding both motivation and design of a new law. It included securities and government-guaranteed bonds in the basis of calculation, and thereby aimed at easing the problem of funding the state-owned banks at the cost of the liquidity effect of the new Act. The Ministry of Finance also retained the complex administrative routines for changing the reserve requirements, including the presupposed submissions, with one minor modification. Instead of a deadline of “90 days at the earliest” to meet the requirements, the bill reduced this to “60 days at the earliest”.²⁷ Still, the bill was in every way far from the flexible instrument originally suggested by Jahn.

The draft law provoked strong reactions, not only in the BoN but also in the Ministry of Commerce. Jahn characterized it as “the most obvious inflationary plan ever put forward by a Cabinet Minister”, and in his diaries he claimed that the Minister of Commerce, Erik Brofoss, was “almost as appalled as I am” over Meisdalshagen’s initiative.²⁸ In a joint effort to stop the new Act, Jahn and Brofoss confidentially planned a strategy behind the back of the Ministry of Finance. Brofoss promised to argue strongly against the bill in the government, where he expected to have enough support to make Meisdalshagen ask for another revision of the proposition. Based on these expectations, Brofoss requested that the BoN should start such a revision right away. Jahn had set his civil servants to prepare written comments and alternative solutions immediately after receiving Meisdalshagen’s proposal, and now they started preparing another revision. Before meeting the rest of the government at the Prime Minister’s office, Jahn and Brofoss also carefully coordinated their arguments and discussed their speaking order in order to secure the desired support.²⁹

²⁷ §2 of Ot. prp. no. 82 (1950), p. 6.

²⁸ GJD November 11, 1950 [Quote: *“Det er den mest opplagte inflasjonsplan jeg ennå har sett lagt fram av noe statsråd.”*]; GJD November 14, 1950 [Quote: *“Han er nesten likeså forfærtet som jeg...”*].

²⁹ PM no 1186 of November 13, 1950, by Alf Eriksen, marked “Confidential”, BoN-S, box F-0003; GJD November 14 and 15, 1950.

After lengthy discussions, the meeting with the government concluded with the seemingly promising agreement that Anders Frihagen and Jahn would try to reach a compromise between their two proposals. However, it turned out that Frihagen, who according to Jahn had received his instructions from the Ministry of Finance, could not be swayed.³⁰ Still, the BoN completed its preparations for a revised bill, which Jahn then forwarded to Brofoss. After a few days of silence, the Minister of Commerce informed Jahn that their strategy had failed. Finance minister Meisdalshagen had demanded a vote of confidence in the government over his proposal for deposit reserve requirements, and although Brofoss had managed to gather support from two Cabinet Ministers, he had failed to convince the Prime Minister and thereby Meisdalshagen had his way. On November 17, 1950, the government thereby adopted the bill by Royal Decree and forwarded it to the Storting for further discussion.³¹

4.5 Brofoss objects – Jahn prepares a new initiative

The adoption of Meisdalshagen's Act on deposit reserve requirements seemed to represent a total defeat for the BoN. Jahn's attempts to introduce a policy instrument that could be part of a more market-based monetary policy and would have assigned an active and autonomous role to the central bank were completely set aside. Surprisingly enough, however, once the bill had been forwarded to the Storting, the governor seems to have refrained from further action. Instead it was Erik Brofoss who confronted the government.

Several times before, Brofoss had suffered defeats in the government in matters concerning economic policy and the BoN, for example regarding the timing of the bills on nationalization and the occupational account in 1949. In these cases, Brofoss had avoided formal dissent by not attending the final preparations in the Cabinet.³² In the case of the new deposit reserve requirements, by contrast, Brofoss chose direct and forceful confrontation, and his main focus was the unfortunate consequences for the BoN.

In a letter to Prime Minister Gerhardsen, dated three days after the government had forwarded the bill to the Storting, Brofoss raged against the

³⁰ GJD November 15, 1950.

³¹ GJD November 17, 1950; Note of November 17, 1950, by Alf Eriksen, BoN-S, box H0001; Ot. prp. no. 82 (1950), approved by Royal decree on November 17, 1950.

³² See chapters 3.2 and 3.5.

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proposal to downgrade the BoN to a body entitled only to pass comments, and argued that this was a clear disavowal of both Jahn and the central bank. After having stated that the final control of the monetary policy unquestionably should be in the hands of the Ministry of Finance, Brofoss warned the Prime Minister against carrying through this parliamentary bill and thereby further undermining the authority of the central bank:

After having made this clear [the final authority of the Ministry of Finance], it is also necessary to state that the Bank of Norway should be the executive agency of the Ministry of Finance (...). Before this arrangement [the deposit reserve requirements] is introduced, I request the Prime Minister to consider what would be the consequences if Jahn decided to tender his resignation. He has not indicated any such thing, but the present proposition must be understood as a clear disavowal of him and the institutions he is set to lead. In his place, I would not have hesitated a moment, but quite simply resigned. Whether he will do so, I do not know, but if he does, the Government must have an opinion on what to do next.³³

Whereas Brofoss clearly stated his mind after the government had passed the new bill, the objections from governor Jahn died down. The historian Einar Lie points out that Jahn, “who usually would not hesitate to take out the sledgehammer when things didn’t go his way”, seemed far less concerned than Brofoss with the fact that the bill left only a minor role to the central bank. Lie explains this apparent paradox by directing attention to Brofoss, and suggests that the Minister of Commerce used the argument of central bank autonomy in order to stop a bill that he felt had other significant weaknesses. The fundamental problem of Meisdalshagen’s bill, according to Brofoss, was the use of deposit reserve requirements as a source of funding for state-owned banks. The new deposit reserve requirements should instead be used to curb the increasing inflationary tendencies. Brofoss thereby agreed with Jahn that the reserve requirements ought to be designed as a specific monetary policy measure, and, according to Lie, he used the argument of central bank autonomy to push this point.³⁴

³³ Erik Brofoss in a letter of 20.11.1950 to Einar Gerhardsen, quoted from Lie 1995, p. 225.

³⁴ Lie 1995, pp. 224-25.

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By calling attention to Brofoss' motives rather than Jahn's lack of response, Lie seems to indicate that the bill did not represent any real threat to the position of the BoN and therefore did not alarm the central bank governor. However, there can be little doubt that Jahn and his officials were very concerned about the consequences of the new bill, both for the Norwegian economy and for the role of the BoN. They not only realized that the deposit reserve requirements in their present form would be insufficient to control liquidity and inflation, but also fully acknowledged that the bill undermined the position of the central bank in the financial system.³⁵ Moreover, we have seen that Jahn, in cooperation with Erik Brofoss, worked hard behind the scenes in order to revise or stop the bill before its passing. Thus, the BoN was not quite as compliant as Lie assumes.

Nevertheless, it remains a fact that Jahn toned down his opposition once the bill had been forwarded to the Storting. This, however, does not necessarily represent a paradox. In earlier chapters we have seen that Jahn throughout his time as governor had demonstrated that the sledgehammer was not his only weapon. He had also often turned to compromise and cooperation to obtain influence. Such a shift from opposition to compromise seems to have taken place once Jahn realized his objections to Meisdalshagen's deposit reserve requirements had failed. Rather than continuing his opposition, Jahn instead turned his attention towards the second policy initiative he and the Money and Finance Council had proposed earlier, namely formalized cooperation with the banks.

In their report of August 1950, Jahn and the Money and Finance Council had presented voluntary cooperation between the BoN and the banks as an instrument to supplement stationary provisions. From the point of view of the authorities, the rationale for choosing cooperation as a policy measure was to influence financial institutions to accommodate their operations to politically determined guidelines for economic policy in general and credit policy in particular. In 1950, this meant that joint-stock and savings banks should adapt their lending and investment practices in order to counteract inflationary pressures and provide funding to politically prioritized sectors. By trying to achieve this through negotiations rather than statutory provisions, the authorities could hope that banks would feel obliged to meet the agreed stipulations rather than try to evade political demands based on a law.

³⁵ See for example PM no 1186 of November 13, 1950, BoN-S box F-0003.

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From the BoN's point of view, formalized cooperation also represented an alternative way of improving its relations with the banking sector, now that the new deposit reserve requirements no longer assigned a key position to the central bank. Internal evaluations by the BoN concluded that Meisdalshagen's bill would leave the central bank unable to "feel the pulse of the banking sector".³⁶ Thus, by obtaining a leading position in a cooperative system with the banks, the BoN could get access to information as well as possibilities for influence. This could also imply a renewed opportunity to become an important participant in domestic policy-making.

A precondition for voluntary cooperation as a policy measure was the presence of common benefits and mutual trust between the parties involved. Hence, in order to make such a system work, Jahn would have to ensure that the banks were willing to commit to voluntary cooperation on a long-term basis. In the aftermath of the November bill, Jahn therefore approached the Bankers' Association in confidence regarding a possible new arrangement for regular meetings between the BoN and the banks.³⁷

From the banks' point of view, systematic cooperation with the authorities implied a possible danger of being taken "hostage" in the sense that the outcome of the negotiations could be cited as support for the government's economic policy. Moreover, due to the dual role of the authorities as both participant in and supplier of terms for such cooperation, the banks had reason to question how equal the negotiating parties would be. Nevertheless, it turned out that the joint-stock banks were prepared not only to support an idea of cooperation as a short-term initiative to solve immediate problems but also to commit in a longer time-perspective. At a board meeting in early December 1950, the Norwegian Bankers' Association gave "its fullest approval" to Jahn's initiative, and stated that such meetings could create a basis for voluntary agreements with the authorities.³⁸

³⁶ PM no 1186 of November 13, 1950, BoN-S box F-0003.

³⁷ Letter of 21.12.1950, from Gunnar Jahn to finance minister Olav Meisdalshagen, BoN-S box D-0131.

³⁸ Minute from board meeting of the Norwegian Bankers' Association on December 7, 1950, quoted in circular no 129-1950 of December 22, 1950, to the members of the Association, DnB-3 box: 42 B 103-106, file 103.

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With the support of the Bankers' Association secured, Jahn was ready to address the Ministry of Finance again. And this time his proposals were met with approval.

4.6 The Joint Cooperation Council: a compromise solution

Just before Christmas of 1950, Jahn discussed the future credit policy at a conference with finance minister Meisdalshagen, Minister of Commerce Erik Brofoss, Minister of Local Government Ulrik Olsen, and several civil servants.³⁹ At this meeting, Jahn presented his ideas on formalized cooperation with the banks, although his primary advice to the government was to ease the problems of funding the state-owned banks and controlling the credit volume by revising the interest rate policy and give up the fixed 2.5 per cent level. Jahn underlined that raising interest rates would be no panacea, but it represented one of several necessary measures. However, as usual, the governor's proposal for a more market-based monetary policy did not win much approval. To a majority of the government, and finance minister Meisdalshagen in particular, giving in to the upward pressure on the 2.5 per cent discount rate was an unacceptable option. Formalizing and extending the cooperation with the banks, on the other hand, agreed much better with Labor's ideas. Corporatist cooperation had been intended as a core element in Labor's economic policy after World War II, and the government was eager to promote negotiations between the authorities and various industrial and professional groups in all areas of economic life. The introduction of formalized cooperation in the banking sector thereby went hand in glove with Labor's party program.

The outcome of the above meeting was that Meisdalshagen gave Jahn authority to compose a formal proposal for cooperation with the banks, a move that suggests that the finance minister – despite personal and professional reservations – still accepted the central bank as a key participant in such negotiations. The BoN had prepared a detailed proposal in advance, and already the following day, Jahn forwarded a letter to the Ministry of Finance, including a complete plan for systematic cooperation between the authorities and the banks. This plan offered descriptions of every aspect of a new council, from possible member candidates to its organization, frequency of meetings and membership conditions.

³⁹ GJD December 22, 1950.

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Governor Jahn proposed to establish a permanent council that would meet on a regular basis, at least every other week, in order to discuss various monetary policy issues such as the liquidity of the banking sector, lending policy etc. The council should serve as a link, or consultative group, between the banks and the authorities, and thereby help to “exercise a certain control” over the allocation of credit in accordance with economic and political guidelines at any given point of time.⁴⁰ Jahn once again prepared to assign an influential position to the BoN, and stated that he intended to serve as chairman of the new council and preside at meetings. He also added a new dimension to the negotiations compared to previous cooperative solutions in the monetary and foreign exchange policy by suggesting that the council should include not only representatives from the central bank and the other banks, but also from the political authorities. Thus, Jahn proposed that the Council should have one member from the Ministry of Finance and one from the Banking Inspectorate. Jahn suggested that the Norwegian Bankers’ Association should be represented by three members and the Central Association for Savings Banks by one, a distribution that reflected the relative importance of these two groups as buyers of government bonds.

While finance minister Meisdalshagen consistently ignored Jahn’s advice regarding flexible interest rates and new deposit reserve requirements, he proved more willing to listen to his initiatives on cooperation. As explained above, the primary view of the Ministry of Finance had been that statutory provisions should form a context for cooperative arrangements between the banks and the authorities. The idea was that measures based on legal authority, such as the new deposit reserve requirements, could serve as a ‘hidden threat’ that would make banks more ready to comply with economic and political guidelines. In practice, however, formalized cooperation turned out to be an appealing instrument in itself.

When the Ministry of Finance received Jahn’s proposal for a new cooperative council, the Storting had not yet passed the bill on deposit reserve requirements. Despite this, Meisdalshagen accepted Jahn’s plan with minor modifications. In a letter in early January 1951, the Ministry of Finance agreed to establish an advisory council, the Joint Cooperation Council [*Samarbeidsnemnda*], with representatives from the BoN, the Banking Inspectorate, the Ministry of Finance, and the two banking

⁴⁰ Letter of 21.12.1950, from Gunnar Jahn to finance minister Olav Meisdalshagen, BoN-S box D-0131.

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associations. The new Council would be headed by governor Jahn, and in accordance with Jahn's proposal, the mandate was to be a consultative body and a connecting link between the participating organizations. The Joint Cooperation Council would discuss guidelines for the loans and liquidity of the banks as well as their position in other respects, all in accordance with the fundamental principles for the economic policy as stated by the government at any given time.⁴¹

Only in two respects did the Ministry of Finance diverge from Jahn's original proposal. Firstly, it decided that the Association for Savings Banks would have two representatives instead of one, and thereby provided a more balanced representation between the two banking groups. Secondly, and more importantly, the Ministry of Finance made the new arrangement temporary. Rather than viewing formal cooperation as a long-term policy measure and creating a permanent agency, the Ministry of Finance dated the appointment of the new Council from January 1, 1951 "until further notice but for the time being no longer than until December 31, 1953".⁴² This indicates that the Ministry regarded voluntary negotiations as a trial arrangement that could be abolished if they did not serve their purpose, an interpretation that agrees well with its earlier skeptical approach to formalized cooperation. As we will see, however, the Joint Cooperation Council became a more long-lasting agency than the Ministry expected.

In the first – and so far only – comprehensive empirical study of the Joint Cooperation Council, the historian Marit Graff Hagen argues that "there is reason to believe" it was finance minister Meisdalshagen, not Gunnar Jahn, who extended the scale and scope of the Council from 'bilateral' negotiations between the central bank and the banks to an arena in which the banks also met with representatives from the Ministry of Finance and the Banking Inspectorate. Graff Hagen does not substantiate this claim empirically, and instead her interpretation seems to be based on a predisposed assumption that the Ministry of Finance was the dominant

⁴¹ Letter of 06.01.1951, from the Ministry of Finance to Gunnar Jahn, file no. 7068/1950 C, BoN-S box D-0131.

⁴² Letter of 06.01.1951, from the Ministry of Finance to Gunnar Jahn, file no. 7068/1950 C, BoN-S box D-0131.

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player in post-WWII policy-making, an assumption that has been adopted and developed further by later scholars.⁴³

The surviving sources do not reveal any details of discussions between Jahn and the government before the Council was established, and it is therefore difficult to make any final assessment of who said what. Still, there is reason to believe that it was governor Jahn who initiated and drove this process. In his letter to the Ministry of Finance, there are no indications that his detailed proposal was the result of a joint effort or discussions with the government. Instead, Jahn consistently uses terms like “my intention is”, “in my opinion”, and “I propose”. He concludes the letter by encouraging the Ministry of Finance to “confirm” his suggestions.⁴⁴ These phrases might of course have been the result of an oversized ego, but there are no signs of objections or alternative proposals either from the Ministry of Finance or the other participants.

Thus, while the Ministry of Finance had expressed clear reservations about cooperation without underlying statutory provisions, the surviving sources indicate that it was Gunnar Jahn who first launched the idea of formalizing the cooperation between the BoN and the banks, he was the one to make a confidential approach to the Bankers’ Association in order to receive support for this idea, and he probably also designed the final proposal for the new Council, which included representatives from the political authorities. And in all essentials the Ministry of Finance accepted this proposal in terms of mandate, composition, and the role of the BoN governor as council chairman.

For the BoN, there were also obvious reasons for expanding the scale and scope of the new Council. The strained relations between Jahn and Meisdalshagen and the lack of communication between their two organizations suggested that unless the Council in some way included the Ministry of Finance, its influence and importance would be limited.

⁴³ M. Graff Hagen, *Samarbeidsnemnda. En studie av samarbeidet mellom staten og de private kredittinstitusjoner 1951-1965*, post-graduate thesis [*hoveddøppgave*] in history, Oslo: University of Oslo, 1977, pp. 19, 34 and 201. See also: T. Nordby, *Korporativisme på norsk. 1920-1990*, LOS-series, Oslo: Universitetsforlaget, 1994, p. 63; Lie 1995, pp. 226-227.

⁴⁴ Letter of 21.12.1950, from Gunnar Jahn to finance minister Olav Meisdalshagen, BoN-S box D-0131.

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Participation by the Ministry of Finance thereby appeared as a precondition rather than an obstacle for actual influence over policy formulation. Moreover, from the theoretical perspective of boundary organizations, including the Ministry of Finance in the Council could also benefit the central bank by reestablishing its position as an intermediary between the political authorities and the private banks also in domestic policy. Hence, no matter who initiated this expansion, it was almost certainly welcomed by the central bank.

Rather than trying to decide who initiated and decided the design of the Joint Cooperation Council, an alternative and perhaps more interesting approach is to emphasize the element of compromise on which it was based. The new Council represented advantages and drawbacks for all the main parties involved. For the Ministry of Finance, it implied an immediate way to ease the critical problem of funding the state-owned banks as well as an arena that might potentially improve communication with and influence over the banking sector. On the other hand, the Ministry had explicitly stated reservations about formalized cooperation without underlying statutory provisions, and since the Storting not yet had passed the new Act on the deposit reserve requirements, the government had no alternative measures to fall back on if the negotiations failed. Moreover, to the Frischian economists in the Ministry of Finance, with their high ambitions of centralized planning and coordination of economic policy, the idea of formulating credit policy through negotiations rather than instructions probably appeared less than ideal.

The Joint Cooperation Council also had its pros and cons from the point of view of the central bank. To governor Jahn, this arrangement appeared as a second-best solution, and he did express doubts regarding the outcome of such negotiations.⁴⁵ Jahn and his staff would have preferred to govern the economy through flexible discount rates and deposit reserve requirements, which they believed would lead to a more balanced economy, more effective control of the general economic development, as well as a more efficient role for the BoN. However, given the poor results when trying to advocate market-based monetary policies, the Joint Cooperation Council appeared as an alternative that could to some extent balance the lack of policy measures after the liberalization of direct controls. Furthermore, as chairman of the Council, governor Jahn could reestablish the central bank in a key position in

⁴⁵ GJD December 22, 1950.

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domestic economic policy and thereby potentially improve the relations not only with the banking sector but also with the political authorities.

The element of compromise in the establishment of the Joint Cooperation Council was most limited for the banking organizations. By engaging in formalized negotiations, the banking organizations could obtain information and improve their relations with the BoN and the political authorities and thereby make their problems and considerations better known. They could also hope that the formalized cooperation would postpone, or even replace, statutory provisions as the main policy instrument in the future credit policy. Still, they ran the risk to becoming too closely associated with the economic policy of the Labor government, and, since the banking organizations only had the authority to advise rather than instruct their members, they could also risk jeopardizing the new negotiations if their members did not live up to the agreed result. In that case, the Joint Cooperation Council would probably be a short-lived affair as the Ministry of Finance could refuse to continue the arrangement.

4.7 Moral suasion – beyond Labor corporatism

In historical analyses of Norwegian post-WWII economic policy, most scholars have, without further discussion, interpreted the Joint Cooperation Council mainly in a national context and seen it as part of Labor's corporatist ideas and ambitions.⁴⁶ No doubt, the Joint Cooperation Council agreed well with Labor's economic and political program. Since the interwar period, corporatist ideas had been central to the Labor movement, and a corporatist reorganization of Norwegian economic production was a key element of Labor's political program. From the perspective of the government, the basic idea of corporatism was to combine democracy with efficiency: through binding negotiations the authorities could force and motivate trade associations and other industrial organizations and corporations to take social responsibility.⁴⁷ Formal negotiations became a cornerstone in Labor's income policy, and the government also tried to apply

⁴⁶ S. L. Solberg, *Samarbeidsnemnda – en nyskapning i norsk pengepolitikk*, Bergen: Norges Handelshøyskole, 1961; Hagen 1977; Bergh 1987; T. Bergh, "Arbeiderpartiet og statens styrende hånd", in T. Nordby (ed.) *Arbeiderpartiet og planstyret 1945-1965*, LOS series, Oslo: Universitetsforlaget, 1993; Nordby 1994; Lie 1995. Hagen does add an international perspective to her analysis by referring to the use of cooperative solutions in various other countries.

⁴⁷ Bergh 1987, p. 241ff (in particular pp. 378-83).

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corporatist principles in other areas, such as the introduction of industrial democracy and worker participation in corporate management.⁴⁸ Hence, Jahn's initiative to use negotiations as a credit policy measure agreed well with Labor's program.

Nevertheless, viewing the voluntary negotiations in the Joint Cooperation Council merely as a result of Labor's corporatist ambitions is too simplified. We have already seen that this Council was in fact initiated by governor Jahn and the BoN rather than the Labor government, and that similar techniques had historical precedent in Norwegian politics well before Labor entered office. During the foreign exchange and banking crises of the interwar period, appeals for social responsibility had been made to the banking sector, and the BoN had also established formalized cooperation with the banks in the so-called Foreign Exchange Committee [*Valutakomiteen*].⁴⁹ Moreover, after World War II, so-called 'moral suasion' appeared as an increasingly popular policy measure also in other countries, without being part of any wider corporatist systems or ambitions.

Moral suasion can be defined as a persuasion tactic used by an authority to influence and pressure, but not force, members into adhering to a policy. This tactic can be used either as a supplement or an alternative to statutory provisions, and in the latter case, moral suasion has been characterized as the "rule of men" as opposed to the "rule of law".⁵⁰ A brief international comparison shows that in the early 1950s, a series of countries tried out moral suasion as a strategy in monetary policy. In Europe, countries like Switzerland, the Netherlands, Austria, Sweden, Finland and Denmark introduced formal but not legally binding understandings, usually called 'gentlemen's agreements' between the political authorities and the financial institutions. And in the USA, market-based policy measures such as open market operations and flexible deposit reserve requirements were supplemented by formalized cooperation in 1951, when the Board of

⁴⁸ H. O. Frøland, *Korporativt kompromiss gjennom komporativ konsert: tariff- og inntektspolitikk i LO-N.A.F området, 1950-1965*, Dr. Philos. thesis in history, Trondheim: University of Trondheim, 1992; E. Søilen, *Drømmen om et inntektspolitisk samarbeid: Finansdepartementets kamp mot særinteresser*, post-graduate thesis [hoveddøppgave] in history, Oslo: University of Oslo, 1993; Søilen 1998.

⁴⁹ See chapter 1.4.

⁵⁰ J.T. Romans, "Moral Suasion as an Instrument of Economic Policy", *American Economic Review*, vol. 56, no. 5, 1966, pp. 1220-1226 (quote: p. 1221).

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Governors of the Federal Reserve System appointed a National Voluntary Credit Restraint Committee comprising representatives of commercial banking, investment banking and life insurance, which aimed at restraining private credit expansion through voluntary initiatives rather than statutory provisions.⁵¹

This raises the question to what extent was the Joint Cooperation Council inspired by practices in other countries. In historical studies where oral sources no longer are available, the direct transfer of knowledge on relatively informal policy measures such as moral suasion can be difficult to trace, since such transfers are rarely manifested in writing and kept in archives. In the case of the Cooperation Council there are no surviving sources that provide direct confirmation of any international sources of inspiration, but there are still some indirect indications of inspiration from the two countries that probably served also as models for the cheap money policy, namely Great Britain and Sweden.⁵² Both these countries introduced moral suasion through systematic appeals and negotiations with the banking sector before 1950.

In Great Britain, the Chancellor of the Exchequer issued appeals and qualitative guidelines in 1939, 1945, 1947, and twice in 1949. These encouraged banks to restrict their lending to sectors and projects without political priority, to give priority to initiatives that could improve the balance of payments, and to help to curb inflation by reducing their loans in general. These appeals were thus designed to fight some of the same problems that the Norwegian authorities faced, and were similar to the 1949 appeal from the BoN. In Sweden, the authorities extended the form of the moral suasion by entering into formal agreements with the banks in 1947, 1948, 1949, and 1950. These committed the banks to restrict their lending policies. From 1950, these agreements were supplemented by statutory provisions; first on deposit reserve requirements and later on interest rate control. However, the Swedish government avoided carrying through the new Act on interest rate control and instead allowed these statutory provisions serve as

⁵¹ PM no. 1251,1534, 1622, 1624, and 1628; internal note of June 20 1956, BoN-S box F-0003.

⁵² Regarding the origins of the cheap money policy, see chapter 2.1.

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“a gun on the table” during negotiations with the banks.⁵³ This Swedish practice was therefore similar to the strategy preferred by the Norwegian Ministry of Finance, that is, to use statutory provisions as a hidden threat rather than carry them into effect.

The surviving sources do not offer much information on any direct transfer of moral suasion as a policy measure from these or other countries. And the fact that similar arrangements had been used before in Norway indicates that the Joint Cooperation Council could have been established without such international influence. Nevertheless, through international publications as well as direct interaction with other countries, it is highly likely that the Norwegian policy-makers were well aware of similar arrangements abroad. Thus, it is probable that the increasing international popularity of moral suasion as a monetary policy instrument did at least contribute to an awareness of this as a possible solution to ease the domestic problems of curbing the credit volume, keeping interest rates low, and funding the state-owned banks.

4.8 Summary: leaving the traditional role behind

During the transition from postwar recovery to more regular times, the search for new instruments revealed that Labor still had high ambitions to govern the economy through market regulations. Even though there had been indications of a reorientation in the government regarding economic policy and the underlying causes of the inflationary problems, this did not imply a more positive attitude towards market-based policy solutions, as governor Jahn had hoped. While several other countries, such as Great Britain and Sweden, abandoned or eased their cheap money policies around 1950, the Norwegian government adhered to this strategy, which became a cornerstone in the economic policy during the following decades and meant that the volume and allocation of credit could not be influenced by manipulation of the price mechanism but instead were subject to quantitative and qualitative

⁵³ Translation of article by J. L. Northcott in *Journal of the Institute of Bankers*, February 1952, “Hvorledes bankenes utlånspolitikk blir berørt av Treasury’s retningslinjer”; circular of August 15, 1950, from the Swedish Bankers’ Association to its members, both DnB-3 box 42 B 103-106, file 103; letter of October 22, 1952 from the Norwegian Bankers’ Association to the Swedish Bankers’ Association; letter of November 3, 1952, from the Swedish Bankers’ Association to the Norwegian Bankers’ Association [containing quote: “revolver på bordet”], both DnB-3 box 201 R 41-43, file 42.

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controls. Monetary policy in the traditional sense was thereby abolished also on a long-term basis and replaced by a new credit policy, which implied the indirect regulation of resource allocation and the level of economic activity but still maintained much of Labor's previous ambitions to maintain centralized planning and control.

The search for new policy instruments in 1950/51 appeared as an opportunity for the BoN to expand its participation and influence from the foreign exchange policy to the domestic economic policy. Governor Jahn initially responded to this by advising the government to ease the interest rate controls and introduce flexible deposit reserve requirements. Although this latter policy measure in itself was compatible with Labor's ambitions for market regulations, the deposit reserve requirements could easily be integrated into a market-based monetary policy, and since Jahn explicitly referred to the US system in his advocacy, this initiative was – rightfully – perceived as opposition to Labor's economic policy.

The fact that Jahn forwarded his proposal from the Money and Finance Council rather than the BoN suggests an attempt to counter minister Meisdalshagen's lack of confidence in the central bank. And even though this ruse was not successful, it did occasion surprising support from Ragnar Frisch and several of his students. A reason for this support might have been that these economists not only realized the urgent need for new policy instruments that could curb inflation, but also recognized Jahn's proposal as a first attempt to introduce statutory provisions that could be used effectively to influence bank liquidity. Jahn's proposal prepared for active state intervention to such a degree that it was rejected by the banking organizations, which preferred the alternative version of the deposit reserve requirements designed in the Money and Banking Committee of 1950 and adopted by the Ministry of Finance. Hence, Jahn's flexible deposit reserve requirements in fact prepared for more effective intervention in the banking sector than Labor's later proposal. This confirms the impression that at this point in time, Jahn's economic and political approach was far from one based on liberalist ideas of laissez-faire politics.

When the Ministry of Finance still rejected Jahn's proposal, this was probably caused partly by the influential role assigned to the BoN, which gave the Bank the authority to monitor the liquidity in the banking sector, initiate and carry out changes in the reserve requirements and ensure that the banks met their obligations. It also suggested a correspondingly passive role for the Ministry of Finance, which would provide formal approval of the proposals from the central bank. The response from the Ministry of Finance to this initiative was to prepare for a hitherto unprecedented downgrading of the BoN. In the previous changes to the reporting line of the central bank,

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Meisdalshagen had compared the BoN to regular state-owned banks and thereby played down its traditional superior position in the financial system. In its alternative proposal for new deposit reserve requirements, the Ministry of Finance went even further and ignored the intention of the Money and Banking Committee of 1950, which felt that the central bank would have a natural role as the initiator of a new Act. Instead, this proposal reduced the BoN to a body entitled to comment only, on the same level as the private banks. Moreover, by designing this new policy measure as an extension of the existing banking acts, which were maintained by the Banking Inspectorate, the Ministry of Finance introduced this traditionally supervisory body into policy formulation and implementation, a initiative that also fundamentally challenged the role of the central bank in monetary policy.

Jahn's attempt to reintroduce the central bank in a traditional role thus apparently failed, and his proposal for a new monetary instrument was also rejected. From the point of view of the Ministry of Finance, a fundamental flaw in Jahn's proposal was that it did not address the urgent problem of funding the state-owned banks without raising interest rates. By including government bonds and securities in the basis of calculation for the deposit reserve requirements, the Ministry of Finance tried to ease this problem, but this simultaneously reduced their effect as a monetary instrument to influence liquidity. This effect was further undermined by the provision that secured the banks the right to increase their loans in the central bank against the security of government securities and government-guaranteed bonds. The flexibility of the reserve requirements was abolished by complex and time-consuming administrative procedures. Thus, instead of a potentially potent and flexible instrument to fight inflation, as Jahn had intended, this new version of deposit reserve requirements appeared as an ineffective measure barely suited to ease the funding of the state-owned banks.

Rather than objecting to this disavowal of the central bank, governor Jahn kept a low profile once Meisdalshagen's parliamentary bill was forwarded to the Storting. Instead, the governor seems to have shifted his strategies from opposition to compromise. Previously, we have seen that Jahn had often shifted between opposition and cooperation in his relations to the political authorities, often in a seemingly random way. One moment he cooperated loyally with the government and confirmed his ambition to establish the central bank as a neutral expert organization, the next he launched fierce

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public attacks and appeared as a political opponent of the government and thereby helped to politicize the central bank.⁵⁴ While these previous shifts often seemed somewhat arbitrary, Jahn's shift from opposition to compromise this time appears more conscious and strategic, based on a repeated experience that any initiatives that conflicted with Labor's ambitions to maintain continuous market regulations were futile. Jahn thus refrained from further protests and instead prepared for a new policy instrument based on voluntary cooperation with the banks; one that agreed with Labor's corporatist ideals, but was also legitimized by historical and international precedent, and still assigned an active and influential role to the BoN.

For governor Jahn, as for all the parties involved, the Joint Cooperation Council was based on the will – or necessity – to compromise. Jahn would primarily have preferred market-based policy instruments, but settled for voluntary negotiations in which the central bank played a key role. The Ministry of Finance favored statutory provisions (although of a different design) as the basis for the new credit policy: provisions that would not necessarily be carried out but could also serve as a 'hidden' threat in more informal negotiations, but still accepted the establishment of the Council before the Storting had passed the new deposit reserve requirements. The banking organizations were willing to participate in order to avoid more extensive state intervention, despite running the risk of being 'taken hostage' and becoming too closely associated with Labor's economic policy.

The composition of the new Council implied a formalization and further development of earlier practices in the monetary and foreign exchange policy. From the authorities' point of view, it had a similar purpose as the previous one-way appeals and formalized cooperation, namely to persuade banks to adapt their operations to political guidelines. To some extent the organization of the Council also was based on previous experience since it was headed by the BoN, and the banking organizations were represented through their national organizations.⁵⁵ Moreover, like the earlier arrangements that were initiated to solve crises in the monetary and foreign

⁵⁴ See chapter 3.

⁵⁵ These historical lines were present not only at an organizational but also at an individual level, since one member of the Foreign Exchange Committee in the interwar period, the president of the Central Association for Savings Banks, H. Gundersen, also was one of the original members of the Joint Cooperation Council.

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exchange policies, the Cooperation Council was also established to ease an immediate problem, namely the funding of the state-owned banks. However, unlike previous arrangements, the new Council was not a pure ad-hoc solution. It had, at least from the perspective of the BoN and the private banks, a potential of permanency. Another novelty was that the political authorities were represented in the negotiations, which previously had been held between the central bank and the banking organizations. For the BoN, including the Ministry of Finance in the negotiations probably appeared as a precondition for success, since this reduced the chances that finance minister Meisdalshagen and his staff would ignore this new policy arena. In addition, as head of the new Council, there was a potential for the central bank to strengthen its boundary position between the political authorities and the banking sector.

This process of introducing new measures in 1950-51 reveals three important characteristics, which were decisive for how and why the BoN found a new role in Labor's policy regime after World War II. Firstly, governor Jahn and his staff displayed an ability to 'stay in the game': to continue their efforts to influence policy formulation and implementation despite facing repeated defeats and attempts to undermine the authority and autonomy of the central bank. Rather than leaving the arena to the Ministry of Finance and accept submission, the BoN continued to define and redefine policy measures and test the limits of the new political framework surrounding the central bank. This endurance finally led to the second decisive point for finding a new role, namely to develop a policy instrument that the Labor government not only accepted but actually welcomed, a tool that still assigned an important role to the BoN as intermediary between the political authorities and the banks.

Thirdly, in this process, governor Jahn continuously used his personal relations and interaction behind the scenes to promote the interests of the central bank. On the one hand, Jahn confronted his opponent Olav Meisdalshagen, when he felt that the BoN was ignored in the policy-making process. In the case of the deposit reserve requirements, this conflict peaked, and Jahn tried in vain to involve Prime Minister Gerhardsen but ended with a personal confrontation with Meisdalshagen, who seemingly complied with Jahn's demands. On the other hand, Jahn nursed his working relationship with Erik Brofoss. Jahn consulted Brofoss before confronting Gerhardsen and Meisdalshagen, whereas Brofoss protested against the new deposit reserve requirements on behalf of governor Jahn and the BoN. Jahn and Brofoss, who agreed that these reserve requirements were insufficient to battle inflation and also mistreated the central bank, also made a joint effort to stop the new Act, an effort that included consultations behind Meisdalshagen's back, a redesigning of the new proposal, and careful

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coordination of their arguments and presentation. Although their efforts failed, this cooperation gave governor Jahn and his staff access to important information not only on the policy-making process but also on internal conditions within the government. Nevertheless, since Brofoss repeatedly failed to convince the government in important policy matters, this working relationship generated fewer results for the BoN in domestic economic policy than it had initially in the foreign exchange policy.

All in all, both governor Jahn's use of personal networks and the establishment of the Joint Cooperation Council agreed well with the general trend in Norwegian policy-making, that informal communication behind the scenes often outweighed formal reporting lines and statutory provisions. In the following chapter 5, we will see how this interaction affected the emerging role of the BoN, once the new Cooperation Council started its operations.

5 Towards the institutionalization of a new role (1951-54)

Since the currency crisis of 1947, the BoN had gradually reestablished a more influential role in Labor's economic policy, first in the foreign exchange policy, and, with the establishment of the Joint Cooperation Council (JCC), potentially also in the new domestic credit policy. The question was to what extent would this become an institutionalized part of Labor's new policy regime. The institutionalization of new practices and structures occurs when they are taken for granted and they appear to be the obvious solution. So far, we have seen that the increased *de facto* participation and influence of the BoN had been countered by attempts from the government to downgrade its autonomy and authority. Would these contradictory tendencies continue during the final years of Gunnar Jahn's governance, or would the role of the central bank finally be clarified and settled?

The position as head of the JCC offered the BoN possibilities of improving its boundary position between the political authorities and the banking sector. This could reestablish the central bank as an influential intermediary and boundary organization not only between these two entities but also between international and domestic concerns, a position that the central bank had lost since the breakdown of the gold standard system. However, this presupposed that the JCC became an important policy-making arena. If the voluntary negotiations failed, it was highly likely that the Ministry of Finance would resume its original idea of controlling the volume and allocation of credit through statutory provisions, beginning with the new deposit reserve requirements, the latest version of which had envisaged an unprecedented downgrading of the role of the central bank. Hence, the ongoing practices and the degree of influence of the JCC appeared to be of vital importance for resolving the future role of the BoN.

So far, the *de facto* role of the BoN had diverged from the *declared* ambitions of the government to establish full political control over the central bank, in the sense that the Bank had established a somewhat more active and influential position in policy formulation and implementation. However, in the legislative processes for nationalization and changes to the reporting line of the central bank, as well as in the proposal for new deposit reserve requirements, we have seen that the government had consistently attempted to underpin its declared ambitions by assigning the Bank a subordinate *de jure* role. Nevertheless, according to the old Central Bank Act of 1892, the formal *de jure* position of the Bank still was one of political

autonomy and authority. Would the government try to substantiate its ambitions of increased political control by changing the Central Bank Act? From an institutional perspective, such changes in formal legislation could underpin and perhaps also further increase the political control over the BoN. This suggests that the government would take new legislative initiatives, and if not, why did it refrain from doing so?

The above questions will be discussed through the eight sections of this chapter. The first two analyze the role of the BoN and the JCC in the continuing process to introduce new deposit reserve requirements. Section 5.1 examines how the central bank, through its position in the JCC, had renewed opportunities to influence this legislative process, while section 5.2 discusses how and why the new Act on deposit reserve requirements had little significance as a policy instrument but still was important for the formal position of the central bank. Sections 5.3 through 5.5 analyze the role of the BoN and the JCC in practical policy-making during the early 1950s, and question the established view that the Ministry of Finance controlled and drove the development of a new credit policy. Sections 5.3 and 5.4 examine the active role of the BoN and the JCC in designing and maintaining new credit controls, while section 5.5 debates why they failed to establish a similar position in the matter of funding the state-owned banks. Section 5.6 illustrates how the cheap money policy entered a new phase in the early 1950s, and discusses how this cornerstone in Labor's economic policy continued to influence the autonomy and authority of the central bank. Section 5.7 discusses initiatives to establish a new *de jure* position for the BoN by replacing the old Central Bank Act of 1892, whereas the concluding section 5.8 sums up the period 1951–54 and discusses to what extent the BoN institutionalized a new role during these final years of Gunnar Jahn's governance.

5.1 The postponement and redesign of the deposit reserve requirements

The founding convention of the JCC was on January 18, 1951, only a couple of weeks after finance minister Meisdalshagen had accepted governor Jahn's proposal for the establishment of such a corporatist arena in the credit policy. The Council immediately started working on a broad range of tasks, from critical economic and political problems such as credit control and funding of the state-owned banks, which will be discussed below, to the design of more long-term credit policy instruments, such as the new deposit reserve requirements. Despite this rapid constitution, most historians have neglected the first years of the Council's operations, and instead emphasized its role as a policy measure after 1954, when Erik Brofoss succeeded Gunnar Jahn as chairman. The usual assumption is that Jahn's critical approach to the Labor

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Party prevented the Council from achieving influence, whereas Erik Brofoss turned it into a relatively powerful agency.¹

Our previous observations of cooperation between the BoN and the Labor government throughout the recovery period give reason to question this assumption, since governor Jahn, despite fundamental opposition to important parts of Labor's economic policy, still managed to compromise and participate actively in the policy-making process. Moreover, finance minister Olav Meisdalshagen signaled from the very beginning that the JCC would be included in the development of the new credit policy. Hence, even though he had a strained personal relationship with Jahn, Meisdalshagen appeared perhaps even more eager than the governor to try out voluntary cooperation in practice.

In the process of establishing the JCC, governor Jahn operated individually in his dealings with both the private banks and the Ministry of Finance, whereas the central bank officials seemingly did not take part. As soon as the Council started its operations, however, Jahn made sure that his staff was involved. At the founding convention of the new Council, he put forward a motion the BoN should serve as the Council secretariat, just as it previously had in the Foreign Exchange Council.² As Council secretariat, the civil servants of the central bank would be responsible for preparing and reporting from meetings, providing underlying information, producing drafts for resolutions and completing Council decisions. The BoN as an organization could thereby potentially become deeply involved in formulating and implementing the new credit policy and could also reestablish networks with other parts of the central administration involved in domestic policy-making. The JCC unanimously accepted Jahn's proposal, and from the very beginning, the BoN thereby took part in the Council work at a broad basis.

One of the first tasks of the JCC was to reevaluate the proposal for new deposit reserve requirements, which the Ministry of Finance had forwarded to the Storting only a couple of months earlier. While Meisdalshagen had pushed through this parliamentary bill against the advice of both Erik

¹ See for example F. Sejersted, *Opposisjon og posisjon, 1945-1981*, the history of *Høyre*, vol. 3, Oslo: Cappelen, 1984, pp. 118-120; Bergh 1987, p. 378; Lie 1995, pp. 275-276.

² Minute of January 26, 1951, from the founding convention of the Council on January 18, 1951, BoN-S box D-031. See also chapter 2.5.

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Brofoss and the BoN, he now rather surprisingly asked the JCC for a reassessment. This retreat probably reflected the fact that the Ministry of Finance realized that the bill had fundamental flaws, and once formalized cooperation was established as an alternative way to ease the funding of the state-owned banks, the finance minister could allow another reevaluation of the reserve requirements. This also reinforces the impression that Meisdalshagen intended to take moral suasion through the Council seriously as a policy measure.

The process of reevaluating the deposit reserve requirements was a time-consuming task, which tested the members' will to negotiate as well as the actual influence of the central bank. Since Meisdalshagen's bill had been based on recommendations from the Money and Banking Committee of 1950, which included representatives from the political authorities and the banking associations, the BoN would have to convince the other members to reassess their original views on both the purpose and design of the Act in order to obtain a more flexible version of this new policy measure. A first step, however, was to stop the Storting from passing the existing bill in order to achieve a proper reconsideration of the design of the deposit reserve requirements compared to other instruments. Thus, at its second meeting, the JCC asked the government to withdraw the bill from the Storting, or alternatively "let the matter rest" more informally, a request that the Ministry of Finance accepted despite long having argued that corporatist negotiations should be backed up by statutory provisions. Rather than formally withdrawing the bill, however, the government asked the Storting for a postponement.³

In November 1951, after several delays and long negotiations, the JCC presented a revised version of the deposit reserve requirements, which illustrates some of the scope and limitations of the central bank's influence at this stage. On the one hand, governor Jahn and his officials managed to convince the other Council members in important respects regarding the purpose and design of the reserve requirements as well as the role of the central bank but, on the other hand, the new version still lacked the flexibility and effect as a monetary policy measure that Jahn had originally intended. Moreover, despite giving the BoN a more prominent position in

³ Minute from meeting of the JCC January 31, 1951; letter of January 31, 1951, from the Council by Gunnar Jahn to the Ministry of Finance, both: BoN-S box D-031.

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enforcing the new Act, the Council majority did not explicitly define its autonomy and powers.

Compared with previous versions, the new proposal for deposit reserve requirements from the JCC agreed more with Jahn's original proposal than with Meisdalshagen's bill. Firstly, it stated that the main purpose of this new measure should be to control the credit volume, and the Council thereby abandoned the idea of using the reserve requirements to fund the state-owned banks. The new basis of calculation included the most liquid assets only, that is deposits and not securities, and, as originally suggested by Jahn, the new reserve requirements were designed as a separate Act rather than an addition to the existing banking laws. This latter element implied a second victory for the central bank, since it excluded the Banking Inspectorate from the enforcement of the new Act, a point that was reinforced by a proposal to omit the Banking Inspectorate as a body entitled to comment on changes to the reserve requirements. Instead, the Council reserved this right to the two banking associations and the central bank.⁴

The Cooperation Council also explicitly assigned a more prominent role to the BoN. In the elaborating comments to the new Act, the Council stated that the central bank, after consultation with the Ministry of Finance, should be responsible for determining the percentage level of the reserve requirements. This would contribute to an effective and fair implementation of the requirements, and could also create better coordination and cooperation between the central bank and the banking communities. The Council thereby reassigned the responsibility for enforcing the deposit reserve requirements to the BoN, but like the Money and Bank Committee of 1950, the Council failed to express this intention in the wording of the new Act. A question was thus whether the government would once again ignore this advice.⁵

Despite this lack of *de jure* recognition, the redesigned deposit reserve requirements demonstrated that governor Jahn and his officials had succeeded in convincing the other Council members regarding both the purpose of the Act and the declared position of the central bank. However, they failed in other respects concerning the actual effect of the deposit reserve requirements. Most importantly, the Council majority kept the

⁴ Letter of November 15, 1951, from the JCC to the Ministry of Finance, BoN-S box H-0001.

⁵ See chapter 4.4.

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complex administrative routines established in Meisdalshagen's bill, with hearing rounds and long deadlines for meeting the requirements. To be sure, the new proposal did reduce the number of bodies entitled to comment from four to three and also lowered the deadline from "60 days at the earliest" to "30 days at the latest", but these routines still ruled out the reserve requirements as a flexible and effective monetary policy measure since they gave the banks time to counter-argue implementation and thus also offered opportunities to evade the requirements. In addition, the private banks insisted on keeping maximum limits for the reserve requirements as low as possible. The Banking Inspectorate supported this view, as it was more concerned with potential negative effects on the solidity of the banks than the effect of the reserve requirements as a monetary policy measure. At the final meeting before forwarding the new draft law to the Ministry of Finance, governor Jahn managed to convince the Council to raise the maximum limit from 10 to 15 per cent, but this was still lower than the central bank would have preferred.⁶

The above account suggests that the position as chairman and secretariat offered the BoN considerable possibilities to influence the recommendations of the JCC, whether through direct persuasion of the members or by providing underlying information. However, this influence was limited since it depended on the ability to persuade, rather than any formal authority or sanction. Hence, in the case of implementing the reserve requirements, the BoN failed to promote the flexibility suggested by the original US ideal. Despite different underlying reasons, the Ministry of Finance and the banks instead joined forces and introduced complex routines that gave the banks opportunities to influence and evade the law and offered the Ministry bureaucratic control.

By contrast, in the case of the maximum limit of the reserve requirements, the arguments of the BoN were more appealing to the Ministry of Finance. During the Council negotiations, the central bank had failed to persuade the private banks and the Banking Inspectorate to accept the need for a higher limit. The Ministry of Finance, however, was also concerned with the effect of the reserve requirements as a monetary policy instrument, a concern that implied an opportunity for the central bank to promote its ideas *outside* the arena of the JCC. Unlike the other members, who backed the joint recommendations from the Council with only minor comments, the BoN

⁶ Minute from meeting of the JCC of November 15, 1951, BON-S box D-0131.

thus chose to appeal the outcome through a written submission to the Ministry of Finance, where it continued its arguments for higher maximum limits and proposed a further raise from 15 to 25 per cent.⁷

This procedure illustrates that for the BoN, the JCC represented only one of several possible arenas to promote its views. The various professional positions of governor Jahn – whether as central bank governor or as chairman of several public councils and commissions – offered him and his officials opportunities to communicate their opinion to the political authorities. In chapter 4, we saw that Jahn originally forwarded his proposal for new flexible deposit reserve requirements through the Money and Finance Council [*Penge- og finansrådet*] rather than the BoN.⁸ Now, Jahn used his position as governor, with the support of the Board of Directors, to make his alternative stand known when he did not get his ideas through as chairman of the JCC.

5.2 Reestablishment of the central bank – and displacement of the reserve requirements

In March 1952, the government presented another revised bill on deposit reserve requirements, which by and large followed the recommendations of the JCC both in terms of purpose and design, and thereby simultaneously rejected the previous proposal from the Ministry of Finance. In addition, the government chose to adopt a maximum limit for the requirements of 25 per cent, as suggested by the BoN outside the Council. Thus, from the perspective of the central bank, the redesigned bill represented a considerable improvement, although it was still far from the flexible monetary policy instrument originally proposed by governor Jahn. Instead, the government used the contributions from the JCC and the BoN to develop a compromise instrument, which aimed specifically at regulating the credit volume but was still based on administrative rather than market-based control.

In several important ways, this new bill reestablished the BoN as a key agency in the credit policy. The government dropped Meisdalshagen's previous initiatives to bypass the BoN in the enforcement of the law, and

⁷ Letter of 21.12.1951, from the BoN to the Ministry of Finance, Parliamentary document Ot. prp. no. 17 (1952), p. 4. The written submissions from the remaining Council members are partly in Ot. prp. no. 17 (1952), p. 3.

⁸ See chapter 4.2.

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followed the advice of the JCC to exclude the Banking Inspectorate from enforcing the law as well as removing its entitlement to pass comment. It also informally acknowledged the BoN as responsible for implementing the reserve requirements. However, the government still refused to provide a more explicit definition of the legal position of the central bank in the wording of the Act.

In its written submission on the proposal from the JCC, the BoN had pointed out the lack of clarification of its *de jure* position. In order to reflect the actual autonomous position of the central bank in the financial system, the Board of Directors had argued that the new Act should assign initiating authority to the BoN and state explicitly that the level of the deposit reserve requirements should be determined by “the King after a proposal from the BoN”.⁹ The government rejected this proposal. In the underlying comments to the new parliamentary bill, the Ministry of Finance approached the matter pragmatically by stating that “it would hardly have any important practical consequences whether one used this formulation or that one”, but it still concluded that “from a constitutional perspective” it was more appropriate to assign this responsibility to “the King”, that is, the government through the Ministry of Finance.¹⁰

In this way, the Ministry continued to emphasize the political control over the central bank, but the new Act on deposit reserve requirements still represented a new acknowledgement of the BoN as the executor of policy. Whereas the integration of the Bank into Labor’s economic policy had so far proceeded on an informal basis, through practical policy-making, the government now confirmed an active role for the central bank in the legal proceedings to the Act, even if it still assigned the formal authority to the Ministry of Finance in the wording of the Act.

Symbolically, this hesitant acknowledgement represented a formal improvement of the central bank’s position. In practice, however, the new deposit reserve requirements had little significance. The redesigned bill was passed by the Storting with only minor comments in June 1952, but the new Act was not put into effect until February 1955, and then the reserve requirements were set at such a low level that they had little effect. Thus,

⁹ Letter of 21.12.1951, from the BoN to the Ministry of Finance, Ot. prp. no. 17 (1952), p. 4.

¹⁰ Ot. prp. no. 17 (1952), p. 6.

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during 1955-1960, the banks generally had larger deposits in the BoN than was required by law.¹¹ Moreover, the reserve requirements were not used in a flexible way to influence changes in the credit volume. In fact, after their implementation, they were changed only once, in 1961, when the savings banks were exempted from the provision.¹² Instead, voluntary negotiations inside as well as outside the JCC became the main credit policy instrument. Why did moral suasion displace the new statutory provisions in this way, despite the fact that both the Ministry of Finance and the BoN seemed eager to introduce new deposit reserve requirements?

Historians who have discussed this question usually emphasize the *indirect* effect of the deposit reserve requirements; that the new Act served as a hidden threat, which would be put into effect if the banks did not comply with the demands of the authorities during negotiations. In his comprehensive study of the Ministry of Finance, Einar Lie thus characterizes the postponement of the first bill on deposit reserve requirements, its redesign and later replacement by negotiations as “a deliberate game by the Ministry of Finance, a game that had sure gains”.¹³ As we will see below, there is little doubt that the government made the most of these indirect effects and used statutory provisions as an underlying threat in negotiations with the financial institutions. However, there is still reason to add some nuance to the above interpretation.

Firstly, the indirect effect of this specific Act on deposit reserve requirements as a hidden threat should not be exaggerated. Even after the redesign, the reserve requirements appeared too complex and cumbersome to be efficient, and the complicated administrative routines ruled this out as an effective way to control bank liquidity in practice. Within the BoN, the new Act was thus described as “quite useless”.¹⁴ Hence, even if the new Act on deposit reserve requirements could serve as a rhetorical threat, it was

¹¹ Solberg 1961, p. 31. See also: Parliamentary document *Tidende O & L.*

Stortingsforhandlinger (1952), vol. 8, pp. 78-80.

¹² Jahn et. al. 1966, pp. 399-400.

¹³ Hagen 1977, pp. 73-74; Lie 1995, pp. 226-227 (quote: p. 226) [Quote: ”*Det var åpenbart snakk om et bevisst spill fra Finansdepartementets side, et spill som ga sikker gevinst*”].

¹⁴ PM no. 1497 of 15.09.1954 by Gabriel Kielland, BoN-S box: F0003. [Quote: “*helt ubruklig*”]

probably rather the potential introduction of further legislation in the future that had a disciplinary effect on the negotiations.

Secondly, the process of replacing statutory provisions with voluntary negotiations can hardly be seen as a game controlled by the Ministry of Finance. As we have seen, other participants, including the Ministry of Commerce and the BoN, intervened actively in this process and had considerable influence on the outcome. Furthermore, the Ministry of Finance did not necessarily operate as a unified agency. In the balance between statutory provisions and voluntary negotiations in monetary and credit policy, there was growing discrepancy between the political leadership and civil servants in the Ministry of Finance. While the finance minister and his political staff generally preferred negotiations as the main policy instrument, the economists in the civil service consistently argued for more extensive statutory provisions as part of their ambitions of centralized planning and control. This discrepancy was detectable already in the early 1950s and continued until the late 1960s, first under different Labor governments and from 1965 onwards under a non-socialist coalition government.¹⁵ Bearing this in mind, the political commitment to negotiations as a policy instrument can be seen as a setback for the civil servants in the Ministry of Finance, while it reflected a breakthrough for ideas advocated by the Ministry's political management, the BoN, and the private banks.

5.3 Negotiating new credit controls

In its daily work, the JCC focused on solving practical problems, in particular related to the volume and allocation of credit. Already at its first meeting, the Council started working on the development of new guidelines for credit control. Within the JCC, the BoN took the leading role, and governor Jahn and his officials played an active role in all parts of the design, from outlining the first drafts of the new guidelines to completing the final version. However, the main content of these guidelines was initiated by a government office outside the Council, namely the Ministry of Commerce. For governor Jahn, this process of developing guidelines for credit control thereby became a continuation of the working relationship he had established with the Minister of Commerce, Erik Brofoss. The process also

¹⁵ Gunhild J. Ecklund, *Kredittpolitikken som redskap i den samfunnsøkonomiske styringen fra 1965-1980*, post-graduate thesis [*hoveddøppgave*] in history, Oslo: University of Oslo, 1995, chapters 1 and 2.

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helped to strengthen the boundary position of the central bank between the political authorities and the private banks.

Within three days after the first Council meeting, the BoN produced a first draft for new guidelines. This draft was based on two memorandums from the Ministry of Commerce, which in general terms pointed out the international considerations that had to be taken into account in the design of domestic credit controls. The Ministry emphasized that the codes of liberalization to which Norway had made international commitments allowed restrictions on credit for funding trade as long as these restrictions did not relate to the issuing of licenses itself. Another precondition was that the credit controls were not biased in favor of products manufactured in Norway at the cost of import goods. Based on these underlying considerations, the BoN composed a tentative draft for new guidelines with an eight-item list of instructions on credit refusals, self-financing, high- and low-priority goods, and terms of payment for import and export goods.

This draft from the central bank served as a starting point for negotiations in the JCC. The draft was first handled by in an internal working committee, which after lengthy discussions forwarded its views to the central bank officials, who then rewrote and expanded their previous draft into a copious note of more than twenty pages. This note was launched as a preliminary draft for a joint statement from the Cooperation Council.¹⁶ The process of designing the new guidelines continued throughout the spring of 1951, and the BoN produced new drafts based on comments from governor Jahn and from the JCC, comments that only slightly modified the original content. In this way, the BoN served as a facilitator in the ongoing negotiations and also offered original contributions to the design, based on the underlying preconditions laid down by the Ministry of Commerce.

In March 1951, the Ministry of Commerce tried to intervene more directly in the design process by presenting a list of 36 items, specifying detailed qualitative guidelines for the funding of different types of goods,

¹⁶ Memorandum of January 2, 1951, by K. Getz Wold (the Ministry of Commerce), “Regler for bankenes kredittgivning til finansiering av import (og eksport)”; memorandum of January 11, 1951, by H. Seip (the Ministry of Commerce), “Notat i forbindelse med forslaget om regler for bankenes kredittgivning til finansiering av import”; draft of January 22, 1951, by G. Kielland (the BoN), “Regler for aksje- og sparebankenes kredittgivning”; draft of January 29, 1951, “foreløpig utkast til uttalelse fra Samarbeidsnemnda”, all: BoN-S box D-0139.

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investments, imports and exports.¹⁷ Governor Jahn acknowledged that these guidelines clarified some important political priorities, but stated that they were “far too detailed and hardly possible to carry through”.¹⁸ The remaining members of the Council approved of his view, and in its formal recommendations for new guidelines, which was forwarded to the Ministry of Finance in April, the JCC proposed to cut back on the list of priorities, include high-priority goods only, and instead use more general formulations to instruct the banks. The Council pointed out that the qualitative rationing of credit that the guidelines envisaged represented a completely new element in the financial system, and it was thus important to implement the new guidelines “with a certain elasticity” in order to gain experience on how the individual banks would respond to this new measure.¹⁹

So far in this process, the Ministry of Finance had kept a low profile, and merely participated in the design as a regular member of the JCC. Thus, governor Jahn was uncertain how Meisdalshagen and his officials would respond to the redesigned and simplified proposal from the JCC.²⁰ To Jahn’s surprise, however, the Ministry of Finance accepted the proposal with only minor adjustments. By contrast, the Ministry of Commerce criticized the JCC for proposing too superficial guidelines, and argued that the guidelines at least should have a more comprehensive introduction, which explained the economic situation and demands facing the banks. The two Labor Ministers Brofoss and Meisdalshagen thereby once again had diverging opinions on strategy, a discord that the JCC feared would leave the guidelines ending up drifting between the Ministry of Commerce and the Ministry of Finance and finally emerge as “an economic treatise” rather than succinct instructions that could be of practical use to bank managers and employees.²¹

In order to settle this dispute, the JCC took an interesting initiative: it encouraged governor Jahn to discuss this privately with Erik Brofoss to find an acceptable solution. The other Council members, including the

¹⁷ Note of March 8, 1951, “Utkast til retningslinjer for aksje- og sparebankenes utlånsvirksomhet”, BoN-S box: D-0139.

¹⁸ GJD March 14, 1951.

¹⁹ Copy of letter of April 16, 1951, from the JCC to the Ministry of Finance, attachment to minute from meeting of the JCC on April 13, 1951, BoN-S box D-0133.

²⁰ GJD April 13, 1951.

²¹ Minute of April 30, 1951, from meeting of the JCC on April 25, 1951, BoN-S box: D-0131. See also: Hagen 1977, p. 48.

representative from the Ministry of Finance, thereby trusted the governor to handle this matter on their behalf through his personal relations with Brofoss. On the one hand, this suggests that in the matter of establishing credit controls that balanced domestic and international concerns, the Ministry of Finance accepted that the Ministry of Commerce attended to the interests of the government. On the other hand, this reflected the intermediary position of the central bank between the political authorities and the banking sector.

No sooner said than done. Governor Jahn discussed the design of the guidelines directly with Brofoss, and made the Ministry of Commerce finally yield to the arguments of the JCC. Hence, in May 1951, the Ministry of Finance could issue a new set of guidelines on credit control based on the final proposal from the JCC, a proposal that was distributed to the banks through their associations along with an appeal from the Cooperation Council that urged each and every joint-stock and savings bank to do its best to accommodate its lending policy to the guidelines and base its operations on loyal cooperation with the authorities.²²

5.4 Credit control through the JCC

The active role of the Ministry of Commerce in the initial design of new guidelines on credit control probably facilitated the participation and influence of the central bank, since governor Jahn had a much more productive working relationship with Erik Brofoss than with the representatives of the Ministry of Finance. In the history of the JCC, however, the close cooperation between the BoN and the Ministry of Commerce during this process appears as an exception to the rule, since there are no records of the Ministry of Commerce participating in later negotiations in the JCC, either regarding credit control or on other issues. Once the basic principles of the guidelines of May 1951 had been established, the role of the Ministry of Commerce in the domestic credit policy faded out. In other respects, however, the above process formed a precedent for the formulation of credit controls during the following years.

²² Circular letter of May 31, 1951, from the Ministry of Finance by finance minister Olav Meisdalshagen to all joint stock and savings banks, “Retningslinjer for aksje- og sparebankenes utlånsvirksomhet”, including “Liste over høyprioriterte varer prepared by the Ministry of Commerce”, BoN-S box: D-0133; circular letter no. 60-1951 of June 14, 1951, from the Norwegian Bankers’ Association to its members, DnB-3, box: 42 B 103-106, file 103.

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The JCC continued to play a decisive role in the control of bank lending, and rather than being controlled by the Ministry of Finance, the JCC operated as an independent negotiating arena that was substantially influenced by governor Jahn and the civil servants of the central bank.

These above tendencies are obvious during later initiatives to improve the credit controls. In the spring of 1952, the Ministry of Finance asked the JCC to evaluate the results of the guidelines of May 1951, bearing in mind the need for a redesign. The Council handed the matter over to the BoN, which organized a survey among the joint-stock and savings banks in order to find out how the guidelines had worked in practice. The survey, which was carried out on a representative selection of banks from both banking associations, concluded that the guidelines had probably not had much effect, even if they had made it somewhat easier for the banks to refuse loans. Nevertheless, the banks claimed they had done their best to comply with the priorities laid down in the guidelines, a statement that was confirmed by former Labor Cabinet Minister Anders Frihagen, who now served as managing director of the Banking Inspectorate and was therefore a member of the JCC. Based on this information, the Council advised the Ministry of Finance to let the matter rest.²³ And even if reemerging problems of inflation and balance of payments deficits could have called for stricter credit controls, the Ministry of Finance chose to comply with this advice.

The recommendation not to expand the credit controls was obviously in the interest of the banking associations, but the JCC was by no means a mouthpiece for the banks. Instead, the Council appears as an alternative voice to the Ministry of Finance in the debate on when and how to implement new policy initiatives. This gave the BoN an opportunity to influence the timing as well as the content of the credit controls.

In the autumn of 1952, the Council, on its own initiative, suggested reinforcing the credit controls. New estimates showed continuing high inflation in Norway while many other countries experienced deflation, a situation that threatened not only the domestic economy but also reinforced

²³ Letter of April 19, 1952 from the Norwegian Bankers' Association to governor Jahn, the BoN; letter of April 21, 1952 from the Central Association for Norwegian Savings Banks to governor Jahn, the BoN; letter of May, 28, 1952, from the JCC to the Ministry of Finance, all: BoN-S box: D-0139. Minute from meeting of the JCC on May 20, 1952, BoN-S box D-0131.

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the balance of payments problems. At the same time, liquidity had once again increased substantially in the domestic credit and monetary market. In order to meet these problems, the JCC found reason to remind the banks of the need for continuing credit control. The Council therefore asked the BoN to issue an appeal directly to the banks, urging them to comply with these instructions and continue to restrict their lending. The civil servants of the central bank composed such an appeal, which was forwarded to the banks in November 1952. To the financial institutions, the BoN thereby appeared partly as a representative of the political authorities and partly as a communicator of a message negotiated by their own organizations. Governor Jahn reinforced this intermediary role at a personal level, by underlining the need for restraints in private conversations with bank managers.²⁴

In the summer of 1953, the Ministry of Finance once again initiated revisions of the guidelines on credit control, and this time the Council accepted its request. The outcome of this revision also agreed well with the requests of the JCC, as the new guidelines were based directly on the previous version of May 1950. The Ministry of Finance added some information on changes in the international economic situation and the aggravation of the balance of payments problems, but in other respects retained the wording of the previous agreement. The Ministry also chose to drop the list of high-priority goods that had been attached to the 1951 guidelines, just as the Council had argued earlier. Moreover, after objections from the Cooperation Council, the Ministry of Finance designed this additional information as an appendix to the instructions of 1951, rather than as a new set of guidelines. Thus, to repeat the conclusion of the Bankers' Association, the new guidelines of 1953 contained "essentially nothing new".²⁵

Einar Lie has argued that in the early 1950s, there was no complete institutional framework within which the formulation and implementation of the credit policy could take place. Instead, to a large extent the policy was

²⁴ Letter of November 25, 1952, from the BoN's Board of Directors to the Norwegian Bankers' Association, DnB-3, box: 42 B 103-106, file 105; Hagen 1977, pp. 50-51; GJD November 10, 1952.

²⁵ Letter of May 19, 1953, from the Norwegian Bankers' Association to the JCC, DnB-3, box: 42 B 103-106, file 105; GJD June 10, 1953; circular letter of June 22, 1953, from the Ministry of Finance to all joint-stock and savings banks, "Tillegg til retningslinjer for aksje- og sparebankenes utlånsvirksomhet", BoN-S box: D-0139.

designed after improvised negotiations between the Ministry of Finance and the financial institutions, where promises and threats were used alternately to control credit and fund the state-owned banks. As in the above case of the deposit reserve requirements, Lie views this as a process largely controlled by the Ministry of Finance. He thus argues that at this point in time, the Ministry attached very limited importance to the JCC as a corporatist body. Lie contrasts this with the period after 1954, when Erik Brofoss became the governor of the central bank and the BoN established a more important role as a link between the financial institutions and the Ministry of Finance.²⁶

The above account gives reason to question Lie's interpretation as regards the matter of credit control. Firstly, the process of developing new guidelines on credit control took place largely within the JCC, whereas the underlying political priorities and main content of the guidelines were provided not by the Ministry of Finance, but by the Ministry of Commerce and the BoN. Secondly, although the JCC was a newly established institution, it did provide a defined framework for policy formulation and implementation from the very beginning, a framework in which governor Jahn and the BoN played an active role as a provider of information, head of negotiations, and mediator between the political authorities and the banks. This can perhaps offer an alternative explanation why the Ministry of Finance initially attached little importance to the new Council: not because the Ministry controlled policy formulation and implementation and found the Council irrelevant, but because it lacked control and influence over the Council's work.

While the JCC and the BoN substantially influenced the development of new credit controls, Lie's interpretation is more accurate when it comes to the matter of funding the state-owned banks. In the following, we will see that even though the Council and the central bank initially took part in sorting out this main problem in Labor's economic policy, the process of funding the state-owned banks was gradually taken over by the Ministry of Finance.

5.5 From Council participation to independent negotiations

The most critical reason for establishing the JCC had been to find ways to fund the state-owned banks. These banks, which allocated credit to sectors of political priority such as housing, manufacturing and fisheries, had traditionally been funded through the bond market. Since the late 1940s,

²⁶ Lie 1995, pp. 229, 275-276.

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however, the trade of bonds had come to an almost complete stop. Due to Labor's aim to keep interest rates at a low and stable level, combined with tax rules that discriminated against securities and a general fear of future deflation, the demand for bonds vanished completely during 1950, as bond rates dropped to 93-95 per cent of par value. The state-owned banks thereby quickly ran out of fresh funds to cover their lending activities.²⁷

The JCC immediately started examining this problem. During its first month of operation, the Council surveyed the existing and future borrowing requirements of the state-owned banks and discussed possible ways to cover these needs. In February 1951, it presented a report to the Ministry of Finance, which concluded that the bond market was dead and immediate action had to be taken. Data collected by the BoN showed that parallel to the drop in the demand for bonds, the state-owned banks had increased their lending substantially. From the end of 1946 to the end of 1950, the total lending from state-owned banks increased from 782 million to 1775 million Norwegian *kroner* (NOK). The Norwegian Housing Bank was responsible for a large part of this growth, and by September 1950, loans from this bank alone amounted to almost 500 million NOK.²⁸

The Council estimated that in order to cover their contractual lending obligations for 1950 and 1951, the state-owned banks needed funding for a total of 700 million NOK, of which 200 million NOK had already fallen due and been met by temporary, short-term loans in various private banks. This critical state threatened to overthrow the whole system of state-owned banks. As an immediate measure, the Council therefore recommended using up to 400 million NOK from the war-related *Statens reguleringskonto*, an account on which the government had disposed part of the loans from the Marshall Aid program, to provide loans to state-owned banks.²⁹ This initiative would generate increased liquidity in the banking sector, which the Council proposed to constrain by enforcing effective qualitative rationing of bank credit.

²⁷ Parliamentary document St. prp. no. 52 (1951) "Statsbankenes innlån og statens reguleringskonto m.m".

²⁸ Report of February 24, 1951, from the JCC to the Ministry of Finance, fully quoted in St. prp. no. 52 (1951), pp. 4-7.

²⁹ On *Statens reguleringskonto*, see St. prp. no. 28 (1952) "Statens konto for lån til statsbankene. – Overføring av ytterligere 350 mill.kr. fra statens reguleringskonto"; Innst. S. no. 52 (1952).

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To create long-term balance in the bond market, the JCC proposed curbing lending from the Housing Bank and other state-owned banks by revising their lending instructions and stimulating demand for bonds by abandoning the so-called acquisition clause, a right for issuers of bonds to cover contractual installments by market acquisitions rather than by payments. The Council rejected the possibility of any substantial increase in the bond portfolios of the private banks or life insurance companies, given the present rate of returns. It thereby avoided commenting directly on the politically controversial matter of stimulating demand by raising interest rates, but indirectly criticized the cheap money policy by refusing to commit the private financial institutions to further purchases of bonds without a prior rise of interest rates.³⁰

Despite these careful formulations, these recommendations from the JCC were not well received in the Ministry of Finance, which only a couple of weeks later presented a parliamentary bill on this matter. Although the Ministry acknowledged the fundamental imbalances in the bond market, it was not willing to implement any of the long-term suggestions. Instead, it concluded that these proposals and alternative measures should be subject to further examination. As an emergency measure, however, the Ministry accepted the proposal to transfer 400 million NOK from the *Statens reguleringskonto* to provide temporary funding for the state-owned banks.³¹

To the BoN, this unenthusiastic response hardly came as a surprise. Even though the Cooperation Council had refrained from direct attacks on the rigid control of interest rates, which the central bank regarded as the main obstacle to a more liquid bond market, the fact that the Council pinpointed fundamental imbalances and refused any commitments of funding from the private banks appeared as an indirect criticism. However, through his position as chairman of the Money and Finance Council, governor Jahn had a renewed opportunity to reintegrate both the BoN and the JCC into this process when the parliamentary Finance Committee proposed to let this expert committee examine the funding problem. Thus, when the Money and Finance Council received this commission in the autumn of 1951, Jahn

³⁰ Report of February 24, 1951, from the JCC to the Ministry of Finance, fully quoted in St. prp. no. 52 (1951), pp. 4-7; Report of January 13, 1952, from the Money and Finance Council, p. 48 (appendix to Parliamentary document St. meld. no. 75 (1952) "Retningslinjer for penge- og kreditpolitikken").

³¹ St. prp. no. 52 (1951).

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immediately integrated his own officials as well as the JCC into these examinations.

Through his double position as chairman of both councils, governor Jahn in practice served as a link, which allowed him to mediate between the financial institutions, which were represented in the JCC, and the government's expert advisors in the Money and Finance Council. He also had a renewed opportunity to express his own views on behalf of the central bank. Hence, along with the JCC, the BoN provided the Money and Finance Council with both information and advice. The JCC developed a new proposal for the Money and Finance Council, which recommended a transfer of a further 350 million NOK from the *Statens reguleringskonto* to ease the problems with the state-owned banks. The Money and Finance Council adopted this proposal, along with several other measures suggested by the JCC, including abandoning the acquisition clause and revising the lending instructions of the Housing Bank. At one point, however, the two councils parted, namely the interest rates. While the JCC this time suggested a partial raise of the nominal bond yield, the Money and Finance Council instead proposed a shorter term of maturity in order stimulate demand. The nominal rates of interest could thus remain stable, which was crucial from a political point of view.³²

The proposals from the Money and Finance Council and the JCC attempted at improving the balance between supply and demand in the bond market. However, apart from the emergency measure of transferring more funding from the *Statens Reguleringskonto*, the Ministry of Finance was not willing to comply with its advice either by improving the rates of return or by revising the lending instructions for the Housing Bank. Providing low-cost housing was a top priority in the Labor party, and the government had no intention of restricting the growth of this or any other state-owned bank. Hence, the fundamental imbalances in the bond market were to continue.

In the autumn of 1952, all the funds on the *Statens reguleringskonto* had been spent and the government had to find other ways to allocate funding to the state-owned banks. The Ministry of Finance then turned to another short-term solution suggested by the JCC and the Money and Finance Council: to fund the state-owned banks over the state budget by raising new government

³² Report of January 13, 1952, from the Money and Finance Council; Hagen 1977, pp. 59-61.

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loans from the private financial institutions. This solution implied consent from the financial institutions, and would normally have been subject to negotiations in the JCC. However, the Ministry of Finance deliberately avoided this formal negotiating arena and instead initiated independent negotiations with the two banking associations, outside the Council and without consulting the BoN.³³

Governor Jahn was informed of the ongoing negotiations by representatives of the banking associations at a JCC meeting. This illustrates that this Council not only operated as an advisory and policy-making agency, but also served as an independent arena for the exchange of information. Moreover, this confirmed the Bank's expectations that the Council could improve its contact with the banking sector and thereby strengthen its traditional boundary position between the banks and the political authorities. Based on the information from the banking representatives, governor Jahn immediately approached the Ministry of Finance and insisted that the ongoing negotiations fell under the responsibility of the JCC and therefore should be subject to discussions within the Council. The Ministry accepted Jahn's objection. It forwarded the case documents to the central bank and asked the JCC to evaluate once more how the joint-stock and savings banks could contribute to funding the state-owned banks.³⁴ The BoN, backed by the Cooperation Council, thereby managed to change an ongoing policy-making process and, for the time being, stop the Ministry of Finance from carrying out independent negotiations outside the Council.

Once back in the negotiations, the JCC also managed to redefine the outcome. The Council argued that the State should fund the state-owned banks by issuing treasury bills, which were far more liquid than bearer bonds and therefore a less risky investment for the banks. The JCC recommended that the Ministry of Finance ask the Storting for permission to issue treasury bonds for up to 500 million NOK, and also a medium-term bond loan of up to 100 million NOK. As long as these bonds were issued directly by the State, the Council assumed they would be possible to sell. The Council also argued that to the extent that the banks were able to raise these funds, there should be little reason for the government to implement the new Act on deposit reserve requirements. The Council thereby used this process to

³³ GJD April 24, 1952; Hagen 1977, p. 62.

³⁴ Minute from meeting of the JCC on May 20, 1952, BoN-S box: D-0131.

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confirm voluntary negotiations as the main credit policy instrument, a move that also consolidated its own position in the policy-making process.³⁵

The Ministry of Finance fully accepted the proposal from the JCC, in terms of the nature and size of the government loans as well as regarding the preference of voluntary negotiations over statutory provisions. A precondition for the latter, however, was that the banks actually signed up for the new loans. If this voluntary arrangement failed, the Ministry of Finance indicated it would effectuate the new deposit reserve requirements.³⁶ The Storting also consented to this proposal without much debate, and during the following months, the banks by and large signed up for the agreed amount. Nevertheless, the fundamental funding problems of the state-owned banks continued.

In the beginning of 1953, the Ministry of Finance initiated a new round of negotiations, which this time were carried out partly as independent talks between the Ministry and the banking associations and partly within the framework of the JCC. Again, the result was only a temporary relief. Throughout 1953 and 1954, the Ministry of Finance therefore arranged new negotiations but unlike before, it did not include either the JCC or the BoN. This time, the Ministry maintained its initial strategy and prevented the Council and the central bank from reentering the negotiation process. Instead, the Ministry carried out independent negotiations with the major joint-stock banks and the Bankers' Association, based on a strategy of threatening to introduce statutory provisions unless the banks complied with government demands. In this way, by the skin of its teeth, the Ministry managed to generate further funding from the private banks.³⁷

In sections 5.3 and 5.4, we saw that the BoN and the JCC played an active role in the process of introducing credit controls during the early 1950. Why did the two agencies fail to maintain a similar position in the funding of the state-owned banks? One reason concerns the urgency of the two problems and the outcome of the respective negotiating processes. In the early 1950s, funding the state-owned banks appeared as a more acute and critical problem than controlling the credit volume and allocation. Although it represented a

³⁵ Letter of May 28, 1952, from the JCC to the Ministry of Finance, partly quoted in Parliamentary document St. prp. no. 129 (1952), pp. 2-3.

³⁶ St. prp. no. 129 (1952).

³⁷ Hagen 1977, pp. 63-64; Lie 1995, pp. 228-229.

potential inflationary threat and contributed to continuing balance of payments problems, the growing credit volume from the private banks was at times stalled by substantial variations in bank credit due, among other things, to international events such as the Korean War. Hence, the problem was in practice limited by varying market conditions. Moreover, in the matter of credit controls, the JCC, in cooperation with the Ministry of Commerce and the BoN, had managed to establish specified guidelines to which the banks had sincerely tried to live up. By contrast, the negotiations on funding the state-owned banks did not produce any long-term commitments, and were characterized by many more disagreements regarding the definition of the underlying problems as well as the preferred solutions.

This leads us to the second and equally important reason why the Ministry of Finance gradually edged out the central bank and the JCC from the negotiation process, namely the fact that the problem of funding the state-owned banks was directly linked to Labor's cheap money policy. With increasing intensity, the BoN and the JCC argued that the funding problem could only be permanently solved by, on the one hand, restricting lending from the state-owned banks, and on the other hand, increasing the rate of return on bonds and other loans. To a certain degree, the Ministry of Finance had to comply with these demands, as the official lending limits for the state-owned banks were reduced by almost 40 per cent from 1953 to 1954, from 950 to 580 million NOK, and the negotiations of February 1954 concluded with a raise of yields for bonds reserved for life insurance companies from 2.5 to 3.5 per cent. Nevertheless, the Labor government maintained its fundamental ambitions of expanding the state-owned banking system and keeping interest rates low and stable.

The continuing objections from the BoN and the JCC to the cheap money policy and the imbalances in the bond market represented an oppositional approach, which was perceived as incompatible with Labor's economic and political aims. As the BoN had repeatedly experienced, such opposition tended to result in marginalization. Furthermore, it was the Ministry of Finance that controlled the matter of funding the state-owned banks, while the new guidelines for credit controls had been handled mainly by the Ministry of Commerce, with which the BoN had much closer relations. Thus, governor Jahn and the JCC had fewer possibilities to influence the former policy issue, and consequently ended up in a more marginal role.

5.6 A new Interest Control Act – and fresh attempts to downgrade the BoN

Throughout this dissertation, we have seen that Labor's cheap money policy influenced the role of the BoN in several ways. The most obvious

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consequence was that the central bank lost its traditionally most important policy instrument: the flexible discount rate. The cheap money policy was also a main reason for not carrying out a comprehensive monetary reorganization immediately after the war, a measure that could have eliminated the excess liquidity left by the Nazi regime, and it prevented the introduction of market-oriented policy instruments proposed by the BoN, which would reestablished the central bank in an active and autonomous role.

Around 1950, the cheap money policy entered a new phase. Until then, the debate whether to keep interest rates low had been rather theoretical since the war-related excess liquidity implied low rates in any case. Once this liquidity decreased, however, the cheap money policy had more practical consequences, by creating increasing problems of controlling the credit volume and funding the state-owned banks. So far, we have seen that when it came to solving practical problems in the foreign exchange policy and other areas of the domestic credit policy, the government had been willing to compromise and chose policy solutions that assigned a key role to the BoN, even if this partly contradicted the political ambition to downgrade the central bank. Regarding the cheap money policy, however, Labor was unwilling to lower its demands. Rather than reconsidering the ambition of keeping interest rates down when pressure increased around 1950, the government chose to reinforce the market controls, not only of the volume and allocation of credit but also of the interest rates *per se*. Thus, the government proposed the introduction of new statutory provisions. And instead of explicitly confirming an active position for the BoN in the enforcement of this new Interest Control Act, the Ministry of Finance initially made yet another attempt to exclude it from policy formulation and implementation.

After having observed that effective yields on long-term government bonds increased from 2.5 to 3 per cent between the spring of 1950 and the autumn of 1951, and having registered a general trend towards increasing interest rates, the government asked the Money and Finance Council to consider adequate ways to bring interest rates back to the level of early 1950 or, at least, prevent a further rise.³⁸ This caused heated discussions within the Money and Finance Council between, on the one hand, Ragnar Frisch and

³⁸ Letter of October 15, 1951, from the Ministry of Finance to the Money and Finance Council, partly quoted in the Council report of January 13, 1952, p. 5.

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his former students, who accepted low and stable interest rates as a political premise that they tried to underpin with theoretical arguments, and, on the other hand, chairman Gunnar Jahn and the more traditionally-oriented economist and member of the conservative party *Høyre* Erling Petersen, who argued that interest rates should be allowed to reflect and affect market conditions flexibly. Briefly summarized, a main difference between their arguments was that the Frischian economists regarded interest rates primarily as a cost factor for manufacturing industry and housing, which influenced incomes and profits, while the latter two argued that interest rates also had a profound impact on the demand for credit and were an important capitalization factor.

The outcome of these long-lasting discussions was a split recommendation presented in January 1952. The majority of the Money and Finance Council provided arguments why interest rates should be kept low in order to maintain a high level of investment, secure full employment, and provide reasonably priced housing to the public. Jahn and Petersen issued separate dissents in which, using different wording, they argued that the government should abandon the cheap money policy, introduce flexible interest rates, and compensate for any unfortunate social effects of increasing rates with other policy measures.³⁹

In April 1952, the Ministry of Finance presented a white paper on the future credit policy, which in all essentials agreed with the majority of the Money and Finance Council and ignored the advice of Jahn and Petersen. The Ministry also confirmed that preventing increasing interest rates was a separate policy objective, and declared that the discount rate of the BoN should be kept at a 2.5 per cent level. The preferred way to keep interest rates down would be through appeals and cooperation with the private banks, but the government also announced that it would soon present a parliamentary bill on a new Interest Control Act, based on similar legislation that had recently been passed in Sweden. The Ministry indicated that this new Act would serve as an underlying threat to be implemented if the voluntary arrangements failed.⁴⁰

³⁹ For a more comprehensive account, see the report of January 13, 1952, from the Money and Finance Council, pp. 57-63.

⁴⁰ St. meld. no. 75 (1952), p. 22.

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In June 1952, the Ministry of Finance forwarded a first draft for an Interest Control Act to the BoN. This draft had been developed under new political management as in November 1951 Einar Gerhardsen had handed over the Prime Minister's post to his party colleague Oscar Torp, while Trygve Bratteli had replaced Olav Meisdalshagen as finance minister. Like Meisdalshagen, Bratteli had close relations with the grassroots of the Labor Party but unlike his predecessor, he also mastered economic reasoning and terminology. He has thus been described as a “translator of the professional language of economists” and a bridge builder between professional economists and the masses.⁴¹ From governor Jahn’s point of view, this replacement probably appeared positive not only because of his strained personal relations with Meisdalshagen but also because he had repeatedly experienced the difficulties of communicating with a finance minister with only a minimal knowledge of economics. Nevertheless, based on the draft for a new Interest Control Act, it appeared that the Ministry of Finance would continue its efforts to downgrade the central bank.

The proposal combined elements from the Swedish Interest Control Act with previous temporary legislation on interest controls in Norway that had been introduced during the interwar period and by the outbreak of World War II.⁴² It contained provisions for controlling interest on both loans and deposits in private banks, as well as an obligation for banks to submit reports on any changes to their interest rates. It also prohibited the emission of all bearer bonds without approval from the government, and assumed the authority to control the level of interest and provision on such securities.

In one crucial respect, however, this first draft from the Ministry of Finance diverged from the new Swedish legislation, namely regarding the role of the central bank. While the Swedish Act stated that interest controls could be implemented only after an initiative from the central bank, the *Riksbanken*, the draft from the Ministry of Finance assigned this initiative to the government through the Ministry itself, without mentioning the BoN at all.

⁴¹ G. Anderson, *Trygve Bratteli*, Oslo: Gyldendal, 1984, pp. 176-181 (quote: p. 176).

⁴² Temporary enabling act of June 29, 1934, regarding instructions on interests on loans from joint-stock and savings banks; resolution of May 28, 1940 by the Administration Council [Administrasjonsrådet] regarding the reduction of interest rates; the temporary Interest Control Act of December 5, 1947 ‘Lov om adgang til regulering av renter mv.’. The Swedish Interest Control Act of December 7, 1951, is partly quoted in St. meld. no. 75 (1952), appendix B.

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Moreover, the Ministry once again tried to introduce the Banking Inspectorate into the monetary policy, and proposed that this agency, not the central bank, should manage the implementation of interest controls. In terms of the role of the central bank, these proposals were therefore direct replicas of the early initiatives from the Ministry of Finance to exclude the BoN from enforcing the Act on deposit reserve requirements. On top of this, the draft of the Interest Control Act did not clarify whether the controls would include not only the private banks but also the central bank's own interest rates. It could therefore also be seen as an attempt to establish by law political control over the BoN's discount rate.

This draft on new interest rate controls made governor Jahn and his staff conclude that the Ministry of Finance wanted to exclude the BoN from enforcing monetary policy. They found it extremely worrying that the Ministry of Finance wanted to introduce interest controls based on such a poor model as the new Swedish Act, but even worse that this draft law went much further than the Swedish provisions in terms of undermining the authority of the central bank.⁴³ Jahn of course also criticized the proposal from an economic and political perspective and argued that it would require comprehensive “police controls” for it to be respected. Such extensive controls, Jahn stated, could have very unfortunate effects not only for the domestic economy but also for Norway’s reputation abroad.⁴⁴

This first draft for a new Interest Control Act had been designed by the Frischian economists in the Ministry of Finance, who, since Labor entered office, had effectively promoted centralized planning and controls of the economy. From their point of view, a new Interest Control Act maintained by the Ministry of Finance and the Banking Inspectorate appeared as an efficient instrument to underpin the cheap money policy. However, these ideas met resistance not only from the central bank but also from within the Ministry itself. As Einar Lie has demonstrated, there was a strong heritage of legal expertise within the Ministry of Finance, which emphasized fiscal elements in economic policy-making rather than planning and control. And,

⁴³ Note of June 12, 1952, from G. Kielland to governor Jahn, “Ad utkast til lov om regulering av rentesatser”, BoN-S box: D-0139, file: *Samn. Om adgang til regulering av r og provisjon, 1951-1956, S-1-6*; PM no. 1371 of June 12, 1952, by A. Eriksen, ”Notat til direktør Jahn. ad Utkast til lov om adgang til regulering av rentesatser”, BoN-S box: F-0003; GJD June 1, 1952.

⁴⁴ GJD June 18, 1952.

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as it turned out, representatives of this more established tradition were prepared to defend the position of the BoN in the case of the new interest controls, probably because the *de jure* authority of the central bank as the body responsible for executing monetary policy had a long historical precedent. Thus the legal experts prepared an alternative draft for a new Interest Control Act, which reestablished the BoN as responsible for enforcing the new Act and also explicitly excluded the central bank's rates from the provisions.⁴⁵ Even though this new draft still reserved the formal initiating rights for the political authorities, the central bank, rather than the Banking Inspectorate, thereby appeared once again as the obvious executor of monetary policy.

In the autumn of 1952, the government presented a revised proposition for a new Interest Control Act, which was largely based on this alternative draft by the legal experts of the Ministry of Finance. This suggests that even though the Frischian economists had established an influential role within this Ministry with surprising speed, their authority still had its limits. In addition to reassigned a more prominent role to the central bank, the revised proposition suggested that the Ministry of Finance should no longer implement interest controls at its own discretion, but had to await written submissions from the BoN and the Banking Inspectorate. Moreover, the provision to control emissions on bearer bonds should include only emissions above 5 million NOK. Besides this, the proposal upheld the provisions on the control of interest on deposits and loans, as well as on the obligations to submit reports on interest rate changes.⁴⁶

Although governor Jahn in principle was against introducing new statutory provisions on interest rate controls, he described this alternative draft law as "far more moderate" and therefore somewhat more acceptable.⁴⁷ Even so, in their formal comments on the revised proposal both the BoN and the private banks declared that they saw no justification for introducing such far-reaching provisions. They therefore advised the government against forwarding the proposal to the Storting. To the extent that the authorities still wanted to pass a new Interest Control Act, the two banking associations recommended that the Swedish experience should serve as a model, firstly,

⁴⁵ Lie 1995, pp. 230-231.

⁴⁶ Letters of August 21 and September 18, 1952, from the Ministry of Finance to the BoN, BoN-S box: D-0139, file: S-1-6.

⁴⁷ GJD August 20, 1952.

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by leaving the formal initiating authority with the central bank rather than the government and, secondly, by continuing the voluntary negotiations established between the authorities and the financial institutions.⁴⁸

While the banking associations thus softened their stance towards the new Act, the BoN continued to advocate its principal view that the cheap money policy should be abandoned. Governor Jahn consistently argued against a new Act and instead insisted that the government should break the “political taboo” of keeping interest rates low and stable.⁴⁹ As before, however, this led nowhere. Abandoning the cheap money policy was out of the question for Labor, especially since 1953 was an election year. Instead, despite repeated postponements of the parliamentary debate, the cheap money policy stood firm.

The cheap money policy became a key characteristic of Labor’s economic policy for decades, but this policy also had a much broader foundation in Norwegian politics. When the Storting passed the new Interest Control Act in July 1953, only the Conservative Party (*Høyre*) voted against the bill. The other non-socialist parties did question the need for such legislation and argued that the only permanent way to prevent rising rates would be to improve market imbalances, but they were nevertheless willing to accept the new Act without any reservations regarding the controls themselves. This suggests that there was a solid and broad political basis for the cheap money policy, which was probably caused partly by the collective memory of the high interest rates and debt crisis during the interwar period. Instead, the non-socialist parties once again attacked the constitutional dimension of this enabling Act, and insisted – in vain – that the final implementing authority was assigned to the Storting rather than the government. This echoed the previous heated debates on the change to the central bank’s reporting line and the Price and Rationalization Acts. It also reflects the timing of the parliamentary reading, shortly before the general election, when

⁴⁸ Letter of November 1, 1952 from the Central Association for Norwegian Savings Banks and the Norwegian Bankers’ Association to the Ministry of Finance, BoN-S D-0139, file: *S-1-6*.

⁴⁹ Jahn in meeting with Prime Minister Torp, GJD November 10, 1952.

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constitutional principles probably seemed a more appealing topic than potentially higher interest rates.⁵⁰

While the BoN failed in its opposition to the cheap money policy *per se*, the final version of the Interest Control Act and, not least, the practical implementation of the policy of low interest rates assigned a more prominent role to the central bank than had been indicated in the first draft from the Ministry of Finance. According to the new Act, the BoN was responsible for sanctioning emissions of all bearer bonds as well as administering and approving the reports on interest rate changes. The final authority for implementing the new Act was “the King”, that is the Ministry of Finance, but the provisions on the control of interests (§2) and bond emissions (§3) could be implemented only after procuring advance statements from the BoN. Furthermore, unlike the original proposal, the interest controls applied only to loans, not deposits. Hence, the new Act was more moderate than the initial proposals, both in terms of its scope and the role of the central bank, but it still contained a potential for considerable intervention in the financial markets.⁵¹

In one respect the new Act still contained a potential threat to the position of the BoN, as the final version of the Act included a role for the Banking Inspectorate and the corresponding supervisory agency for insurance companies, the Insurance Council [*Forsikringsrådet*], which were entitled to comment before any execution of interest rate controls and were responsible for supervising the implementation of the Act as a whole. This represented a unique element in Norwegian monetary policy, in which the supervisory agencies traditionally had no formal authority. In practice, however, these provisions had no consequences. The only part of the Interest Control Act that was ever implemented was the control of emissions of bearer bonds; a section in which the supervisory agencies played no part and the BoN was in charge of enforcing the law. The other sections on interest controls and reporting obligations were never carried out. Instead, the Norwegian authorities followed the example of neighboring Sweden and continued to

⁵⁰ See Parliamentary document Innst. O.XXIII (1953), “Tilråding frå finans- og tollnemnda om mellombels lov om høve til regulering av rente og provisjon”, pp. 11-14. On the constitutional debates, see chapter 3.3.

⁵¹ “Lov om adgang til regulering av renter og provisjon” of July 17, 1953.

control interest rates by moral suasion, with statutory provisions as an underlying threat.⁵²

5.7 New central bank legislation abandoned

Previously, we have seen that in the development of credit policy instruments, the Labor government had been reluctant to specify the *de jure* position of the BoN. Although the central bank in the end obtained an active role in enforcing the new Acts on deposit reserve requirements and interest controls, the government still insisted it was constitutionally more appropriate to reserve the formal right to initiate these measures for the King through the Ministry of Finance. From a legal point of view, these statutory provisions thereby confirmed the *declared* ambitions of the Labor government to subordinate the central bank to the Ministry of Finance.

By contrast, the legislation that concerned the role of the BoN directly, the Central Bank Act of 1892, was still based on previous liberalist ideals and prescribed a central bank that developed and implemented monetary policy independently of the political authorities. Hence, it was not surprising when in 1950 the government began to examine ways of redesigning this old legislation in accordance with new ambitions and practices. More unexpected was the fact that, unlike the new credit policy provisions, this initiative to change the central bank legislation petered out. After comprehensive accounts and discussions, the proposal for a new Central Bank Act was postponed and later abandoned. Instead, the old legislation was formally maintained until 1985. Throughout the whole post-WWII period, there was thus a conspicuous discrepancy between the *de jure* role of the BoN, the *declared* ambitions of the government, and the *de facto* practices. In this section, we will see that the failed process of redesigning the Central Bank Act sums up important characteristics and controversies in the debate on the role of the central bank after World War II. It also serves as a good example of how the central bank used its international relations and evidence from abroad to legitimize its arguments.

The government assigned the task of redesigning the Central Bank Act to the Money and Banking Committee of 1950, which we have seen also held the commission to develop new legislation for the joint-stock banks, savings banks and the Banking Inspectorate, and was involved in designing Meisdalshagen's alternative model for new deposit reserve requirements.

⁵² On the Swedish control of interest rates, see Jonung 1993, chapter 13.

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The majority of this Committee sympathized with Labor and Frischian economic ideas, so there was reason to believe that the outcome of the deliberations over a new Central Bank Act would agree with the ambitions and expectations of the Labor government.⁵³

From May 1951 to June 1953, when its final recommendations were ready, the Money and Banking Committee prepared several drafts for new statutory provisions that reflected the double message that the government had conveyed in its communications with the central bank throughout the recovery period. On the one hand, the Committee assigned a pronounced position to the Bank in practical policy implementation by stating: “the Bank of Norway is the executive agency for the country’s monetary and foreign exchange policy”.⁵⁴ It thereby removed any remaining doubts regarding the balance of power and division of tasks between the central bank and the Banking Inspectorate. The Committee also explicitly established the Bank as an autonomous legal entity, and thus formally blocked any ideas of transforming it into an office or directorate under the Ministry of Finance. On the other hand, however, the Committee majority proposed the introduction of a series of new arrangements that aimed to increase political control over the central bank.

Among the most consequential recommendations was a proposal to downgrade the governor and deputy governor to the rank of ordinary members of the Board of Directors. This represented a fundamental blow to the traditionally influential role of the governor. It implied that any of the remaining Board members, who were politically appointed by the Storting for a limited period only, could be nominated as chairman and thereby not

⁵³ See chapters 4.2 and 4.3.

Governor Jahn had tried to prevent the establishment of the Money and Banking Committee of 1950, and within the government he once again found support from the Minister of Commerce Erik Brofoss, who feared that such a Committee would interfere negatively with the allocation of Marshall Aid. Brofoss tried to postpone the process and gained the support of several Cabinet Ministers. However, finance minister Meisdalshagen managed to convince Prime Minister Einar Gerhardsen to appoint the Committee immediately. The Money and Banking Committee was established by Royal decree on March 24, 1950. See minutes of government conferences on March 7, 9 and 14, 1950, STAT-regi series Db, minute book no. 6; GJD March 22, 1950.

⁵⁴ Section 26 of first draft, quoted from PM no. 1246 of May 10, 1951, BoN-S box: F-0003.

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only obtain a double vote at Board meetings but also appear as the public face of the central bank. The consequence would be a substantial downgrading of the BoN's administrative management and corresponding increase of political control over the bank. The Committee also proposed to establish by law the norm that the BoN could not change its discount rate without prior consultations with the Ministry of Finance. Moreover, it suggested introducing an explicit objects clause that gave the government the right to instruct the operations of the central bank. This represented a fundamental break with tradition that the Storting formally controlled and was responsible for the monetary system, and reinforced the undermining of the traditional strong ties between the central bank and the Storting that had been challenged during the process of nationalization in 1949. The proposal from the Money and Banking Committee suggested that the BoN should present its reports and accounts to the Ministry of Finance rather than the Storting, and also extended the scope of these reports. The Committee majority thus endorsed the Labor stance in the debate on the constitutional balance of power and the position of the central bank as the bank of the national assembly.⁵⁵

Despite the introductory statements regarding the autonomous position of the BoN, these proposals represented an erosion of authority, something that had occurred in practice but had never before been established by law. They also strengthened the position of the Ministry of Finance at the cost of the Storting in the monetary system as well as towards the central bank. To justify these initiatives, the Money and Banking Committee referred to negative historical experiences, concerning the independent role of the BoN during the interwar period, and new contemporary practices that drew parallels between the central bank and other state-owned banks. The Committee thereby reproduced the arguments underlying the 1949 debates of nationalization and changes to the reporting line.⁵⁶

From the BoN's point of view, these proposals represented a challenge not only to the authority of the administrative management, the governor in particular, but also to the traditional autonomy of the central bank as an organization. Governor Jahn did acknowledge that the historical legacy of

⁵⁵ See also chapter 3.3.

For a summary of recommendations from the Money and Banking Committee regarding a new Central Bank Act, see Borlaug 1994, chapter 3.

⁵⁶ Borlaug 1994, pp. 51-51 and 58-60.

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the BoN made it politically problematic to maintain full autonomy, as he admitted that the role of the central bank during the par policy had damaged both its reputation and its ability to influence policy-making.⁵⁷ Nevertheless, he was not willing to accept what he regarded as an attack on the efficiency and professional force of the central bank. Instead, Jahn advocated a *status quo* solution, which implied that the existing statutory provisions should be maintained and the administration of the Bank should remain unchanged. Since the Central Bank Act of 1892 was based on the gold standard system and therefore in many ways appeared outdated, governor Jahn thus suggested that the *de jure* position of the Bank could be ignored and instead was prepared to accept the predominant trend during the post-WWII period: that the position of the Bank was defined through informal networking and problem-solving in practice.

The BoN repeatedly expressed these views at various arenas throughout the legislative process. Deputy governor Viig objected to the majority view throughout the work of the Money and Banking Committee and expressed his diverging opinions through minority statements in the Committee's reports, supported by the banking representatives. Governor Jahn, who described the proposal to downgrade the administration of the central bank as "insane", used his personal relations to campaign against what he considered to be an attempt to undermine not only the authority but also the professional efficiency of the BoN as an expert organization. During the whole process, Jahn held repeated meetings and discussions on the matter with several members of the government, including the Prime Minister Torp and the Minister of Commerce Erik Brofoss, as well as representatives of the political opposition. Finally, the central bank's Board of Directors and Supervisory Council issued formal complaints in various written submissions where they strongly advised against passing the proposed provisions. An interesting point here is that, apart from some discrepancies on technical matters concerning the monetary system, the governing bodies of the central bank, which now had a majority appointed by the Labor Party, supported the views of governor Jahn. This confirms our earlier suggestions that the governing bodies were fundamentally influenced by the governor.⁵⁸

⁵⁷ GJD February 23, 1951.

⁵⁸ Borlaug 1994, chapter 3; GJD February 11 and 27 and May 30, 1952, July 6, November 26 and December 7, 1953 [quote from May 30, 1952: "*det vanvittige forslaget*"]. See also chapter 3.4.

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Behind these informal and formal objections lay huge amounts of work by Bank's officials. In order to evaluate the proposals and prepare counterarguments, they gathered information from a number of sources. An important approach was to read up on international literature and theory evaluating the new role of central banks after the breakdown of the gold standard and the ideal of central bank independence. This predominantly British and American literature discussed the various responsibilities of central banks and generally emphasized that they had to adapt their operations to changing economic and political contexts but, on the other hand, they also had to maintain a certain degree of autonomy in order to perform their tasks effectively.⁵⁹

The civil servants in the BoN also gathered information on legislation and practices in other countries, through brochures, public newsletters and reports as well as direct inquiries. In late 1951, they sent letters of inquiry to a number of central banks abroad. This was done partly in order to provide information for the Money and Banking Committee of 1950, but also served as a basis for internal discussions and evaluations within the BoN. The replies from the other central banks revealed that legislation and practices varied between countries, from relative independence in Finland, Denmark and Belgium to close cooperation with the political authorities in Great Britain and Sweden. However, most replies agreed with the above-mentioned literature, that central banks now had to combine close communication with the political agencies with some degree of autonomy in order to maintain a stable monetary system.⁶⁰

In the process of opposing – or promoting – the introduction of new central bank legislation in Norway, international provisions and experiences could provide inspiration for new policy solutions as well as legitimacy for or against established views. In numerous memos and reports, the central bank officials referred to practices in other countries when they prepared the

⁵⁹ See for example PM no. 1251a of May 23, 1951, where Alf Eriksen sums up and discusses several articles and books on the role of central banks, among them R.G. Hawtry, *The Art of Central Banking*, London: Longmans, Green & Co, 1933; M.K. de Kock, *Central Banking*, London: P.S. King, 1939; R.S. Sayers, "Central banking in the Light of recent British and American Experience", *Quarterly Journal of Economics*, vol. 67, no. 2 (May), 1949.

⁶⁰ See various reply letters in BoN-S box: D-0145, files 8 and 9.

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formal counterarguments from the BoN.⁶¹ Governor Jahn and his staff also used their international relations to discuss the Norwegian developments at international meetings and conferences, such as at the annual meetings of the Nordic central banks, where the proposal for a new Central Bank Act was an item on the agenda in 1951 and 1952. Although the organization and autonomy of the Nordic central banks varied, the Norwegian delegation found unanimous support among their Nordic colleagues. According to Jahn's personal record, the other central bankers found the proposals from the Money and Banking Committee quite sensational:

It [the preliminary proposal for a new Central Bank Act] created a lot of commotion, and *landshöfding* Johnsson, who is chairman of the *Riksbank*'s General Council and an old Social Democrat, came up to me and said: 'This must not go public, it can have very harmful effects in Sweden. It is an amazing proposal.' It caused alarm also among the other Swedes and Danes and Finns, who all thought we are approaching Russian conditions.⁶²

Backed by the support from Nordic colleagues and well updated on foreign conditions, the BoN argued strongly against the majority proposal from the Money and Banking Committee of 1950. And, seemingly, the government was willing to listen. Or at least, in practice the government abandoned the idea of redesigning the Central Bank Act, first by postponing the legislative process and then by shelving the new Act altogether. Why was this the outcome, when new statutory provisions could have substantiated Labor's ambitions of achieving full control over the central bank? Well-founded objections from the BoN might of course have had some effect, especially if the foreign financial markets perceived this as an initiative that clipped the Bank's wings. However, such objections and the potentially negative

⁶¹ See for example PM no. 1246 of May 10, 1951, PM no. 1251a of May 23, 1951, PM no. 1369 of June 4, 1952, PM no. 1376 of June 25, 1952, all: BoN-S box: F-0003; note of March 17, 1952, "Seddelbanklovgivningen", BoN-S box: E-0013, file 8: 208.

⁶² GJD May 25, 1952 [Quote: "*Det vakte svær oppsikt og landshöfding Johnsson som er formann for Riksbankens fullmektiger og gammel sosialdemokrat kom til meg og sa: 'Dette må ikke offentliggjøres, det kan virke meget skadelig i Sverige. Det er et fantastisk forslag.' Det vakte like stor bestyrtelse hos de andre svenskene og danskene og finnene som alle sammen syntes vi nærmest oss russiske tilstander.*"]; PM no. 1256 of July 6, 1951; PM no. 1366 of May 30, 1952, both: BoN-S box: F-0003.

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response from abroad had not stopped the government from carrying through legislative reforms on previous occasions. We therefore also have to consider other explanations.

In his study of the changing position of the BoN after World War II, the historian Egil Borlaug explains the abandonment of the new statutory provisions as a practical solution to a technical problem concerning the so-called gold clause case. This refers to a prior lawsuit against the Norwegian State by French bond owners, who argued that their bonds, dating back to the late 19th century, should be paid back at gold value. The French lost this lawsuit, and the Norwegian Supreme Court ruled that as long as the gold standard system was formally suspended only, the bond should be paid back at nominal – and considerably lower - value. A consequence of the proposal from the Money and Banking Committee, however, was that the gold standard would be permanently abolished, since the draft for a new Central Bank Act was combined with new statutory provisions on the monetary system as a whole, and redefined the value of the Norwegian *krone*. Borlaug thus argues that the government feared that a new Central Bank Act would make it difficult to escape complying with the French claims. It therefore abandoned the amendment. The date of redemption of the last bonds was 1984, and until then the old central bank legislation was maintained.⁶³

From a technical point of view, Borlaug's emphasis on the gold clause case seems quite reasonable, since new statutory provisions would have represented a legal challenge that could have generated a net fiscal burden. However, considering the contemporary debate regarding the role of central banks around 1950 and the process of generating new policy measures and practices, the abandonment should also be discussed in a broader context, and at least three additional – and interconnected – explanations can be added.

First, the general trend in Norwegian policy-making during the post-WWII period, when informal solutions and communication often outweighed statutory provisions, implied that the old Central Bank Act could be set aside without causing many problems of legitimacy for the government. In section 5.1, we saw that during the process of introducing the new deposit requirements, the government argued that it would hardly be important whether one used “this formulation or that one” in the wording of a new Act,

⁶³ Borlaug 1994, chapter 5.

a statement that of course can be seen as playing to the gallery but it also reflected the fact that informal procedures appeared to be a commonly accepted approach.

This brings us to a second explanation why the new statutory provisions were abandoned, namely the emphasis on practical problem solving in Norwegian policy-making in the aftermath of World War II. This emphasis had underlain the working relationship between Erik Brofoss and governor Jahn and it had helped to reintegrate the BoN first into the foreign exchange policy and later into the domestic credit policy, despite the ambitions to reduce its authority and autonomy. Thus, even though the government probably regarded a new Central Bank Act as desirable from an ideological and constitutional point of view, there were no sufficiently strong forces within Labor to drive through this legislative process. Instead, the scale and scope of the central bank's operations were gradually clarified through practical policy-making.

A third explanation concerns the process of institutionalizing a new role for the central bank. Was the new Central Bank Act abandoned because the BoN had already established a new *de facto* role in Labor's economic policy? There are several indications that this was the case. Through the processes of trial and error, the tasks and authority of the central bank had been defined, first in the foreign exchange policy and later in the domestic credit policy. Within the new political and economic context of the post-WWII period, through opposition and compromise, governor Jahn and his officials had to a large degree reestablished the central bank as a boundary organization and intermediary between the political authorities and the banking sector, and between international and domestic concerns. This role allowed the central bank to operate as an autonomous expert agency outside the Ministry of Finance, but was still subject to sufficient political control to be acceptable to the Labor government. However, as we will discuss more thoroughly below, by the end of Jahn's governance, this new role had not been fully institutionalized in the sense that it was taken for granted.

5.8 Summary: clarified position and new tasks

Historians have usually assumed that neither the BoN nor the JCC had much influence on Labor's economic policy during the leadership of Gunnar Jahn. Instead, it was the Ministry of Finance that drove the policy-making process, while the central bank and the Cooperation Council had influential roles only after Jahn had been replaced by Erik Brofoss. This chapter, which handles the final years of Jahn's governance, challenges this interpretation in important ways. First, we have seen that the JCC from the very beginning served as a coordinating arena for developing new guidelines for credit control, a development in which the central bank played a decisive role.

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Initially, the underlying premises for these guidelines came from the Ministry of Commerce, which operated outside the JCC, but when this Ministry later intervened more directly in the negotiating process and tried to expand the scope and level of detail of the guidelines, the JCC prevented this by letting governor Jahn negotiate personally with Brofoss. Moreover, the JCC had substantial influence not only on the implementation of these new guidelines, but also on the timing and content when they were revised. Hence, in the matter of establishing, implementing and developing the guidelines on credit control, the JCC and the central bank appear as active and influential agencies, while the Ministry of Finance seems to have played a more subdued role.

Governor Jahn and his officials were involved in all the stages of developing the new guidelines, both as chairman and secretariat of the JCC and in direct negotiations with the authorities outside the Council. This development took place at several levels and arenas: first, directly between the civil servants of the BoN and the Ministry of Commerce, then within the JCC, between the Council and the Ministry of Commerce, and finally between governor Jahn and Cabinet Minister Brofoss. Throughout this process, the central bank composed the initial proposals, headed the negotiations in the JCC, and transformed the outcome of these negotiations into the final guidelines. When the Ministry of Finance tried to bypass the JCC and negotiate directly with the private banks, Jahn objected successfully and managed to reintroduce the Council as the main negotiating arena. Thus, the central bank became deeply involved in the domestic policy-making process, not only through Jahn's individual position, personal networks and negotiating skills but also as an organization, just as it previously had done with the foreign exchange policy.

While the JCC and the BoN took an active part in developing new guidelines for credit controls, they failed to obtain a similar role in the process of funding the state-owned banks. In this policy issue, the Ministry of Finance gradually took over the negotiations, whereas the JCC and the central bank ended up on the sidelines. This was the outcome of several factors: funding the state-owned banks appeared to be a more urgent problem and the negotiations within the JCC produced less binding results than in the matter of credit controls, and, even more importantly, the funding problem was linked directly to core elements of Labor's economic policy – the expanding system of state-owned banks and the cheap money policy. When the JCC with growing intensity insisted that the funding problem only could be solved on a long-term basis by restricting lending from the state-owned banks and raising interest rates, the response from the Ministry of Finance was the same as the central bank had met with when it tried to oppose

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fundamental parts of Labor's economic policy: the price of such opposition was marginalization.

The process of reinforcing the cheap money policy by introducing new legislation in the early 1950s generated an additional challenge, since the Ministry of Finance's first proposal for an Interest Control Act once again envisaged the downgrading of the central bank and the introduction of the Banking Inspectorate as the executive agency for the credit policy. This was a direct replica of the proposal that the Ministry had originally launched as part of the new deposit reserve requirements. While this earlier initiative had been shelved after renegotiations in the JCC, this latter proposal was abandoned after opposition from legal experts within the Ministry. Hence, in the final version of the Interest Control Act, the BoN was again formally established as the main monetary policy agency along with the Ministry of Finance. The original proposal thereby appears as the final attempt to displace the central bank from its role in monetary policy. After this, there seem to have been no further initiatives to include the Banking Inspectorate in the implementation of monetary policy.

In its proposal for a new Central Bank Act, the Money and Finance Council acknowledged this by clearly establishing the Bank as an autonomous organization in charge of executing the government's monetary policy, even though the Council majority of Frischian economists and Labor sympathizers otherwise strove for a *de jure* confirmation of the declared political ambitions to control the central bank. However, when this new legislation was postponed and later abandoned, the *de jure* position of the BoN throughout the post-WWII period remained one of independence and authority, a legal status that in practice had little relevance since the government continued to set aside the old Central Bank Act. This approach was in accordance with the general trend in Norwegian politics, where informal solutions often outweighed statutory provisions. In practice, the *de facto* position of the central bank thus continued to be characterized by a combination of political control and active participation with corresponding possibilities of wielding influence. This was reflected in the implementation of the cheap money policy, which in itself represented a strong element of political control but was simultaneously carried out through moral suasion instead of statutory provisions, a strategy in which the central bank took an active part. The Bank was also initially in charge of maintaining the only section of the new Interest Control Act that was ever effectuated, the control over the issuing of bearer bonds.

In the summer of 1954, governor Jahn retired from his post as governor of the BoN and was replaced by Erik Brofoss, after a process that clearly demonstrated that from now on the government wanted a Labor sympathizer

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as head of the Bank but also reflected the fact that there still were forces in Norwegian political and economic life opposed to Labor's predominant position. There was one additional applicant for the position as governor, namely Svend Viig, the former deputy-governor who shared Gunnar Jahn's views on the working of the economy. According to internal documents in the Bank of England, based on recent visit by British officials to Norway, Viig's decision to apply for the job was not made with any expectation of getting it. Instead "his aim, reportedly encouraged by a prominent shipowner/bank director, was to indicate to Brofoss that his appointment was not unanimously supported in the bank and to inspire a cautious rather than provocative start in the bank by the new Governor".⁶⁴ In the BoN's Supervisory Council Viig lost with 6 votes to Brofoss' 7, and the final decision was made by the government, which not surprisingly chose Brofoss over Viig.⁶⁵

To what extent were the tasks, authority and autonomy of the BoN settled by the time Brofoss took office? Had the new role of the Bank been institutionalized in the sense that it appeared as an obvious and clarified part of Labor's economic policy? In the foreign exchange policy, the answer appears to be yes. Here, there is little evidence of controversy regarding the role of the Bank as an expert organization and coordinating agency. In the domestic credit policy, by contrast, the position of the Bank was still somewhat uncertain, or at least not taken for granted. However, in retrospect, we can see that all the main elements of what would become the new institutionalized role of the BoN were, in fact, established under Jahn. They only lacked the political legitimacy necessary for them to be accepted without question. The elements in the new role of the central bank that were established and clarified under Gunnar Jahn's governance but would finally become institutionalized under Erik Brofoss can be summarized in seven points. Firstly and most fundamentally, the BoN was maintained as a legal autonomous entity. Rather than being formally subordinated to the Ministry of Finance in the way Frisch originally proposed (as a cashier's office) or as suggested by the later initiatives under Meisdalshagen (as a directorate subordinated directly to the finance minister), the central bank continued to

⁶⁴ Note of 14.07.1954 [unsigned] "Visit to Norway – June 1954", BoE-file: *OV26/7, 1952 May 9 – 1956 Nov 23, Country files*.

⁶⁵ On the voting in the Supervisory Council, see BoN-R, book A-0007, minute of June 18, 1954.

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serve as an autonomous agency outside the administrative control of the political authorities.

Secondly, the Bank also remained the executive agency for monetary and credit policy. The ideas and initiatives to supplement or replace the central bank with the Banking Inspectorate were abandoned, and the traditional division between monetary policy-making and financial supervision in Norway was maintained. However, it was also clearly established that the Ministry of Finance also could initiate policy changes, and that it was the Ministry, not the central bank, that had the final say in such changes.

Thirdly, as a continuation of this, important limits to the central bank's ability to change Labor's economic policy had been clarified under governor Jahn. It was obvious that the cheap money policy stood firm as an underlying precondition for the new credit policy and more traditional, market-based monetary instruments, such as flexible interest rates, deposit reserve requirements, and open market operations, were out of the question.

As a fourth element, the nature of the favored policy instruments had been determined, namely the preference of voluntary cooperation over statutory provisions. The JCC had been established as a main arena for negotiating and exchanging information, whereas existing or possible new legislation was used as a threat underlying this strategy of moral suasion. A basic institutional framework of the credit policy was thus in place, a framework that Brofoss developed further by including the life insurance companies in the JCC from 1955 onwards and by introducing formal yet voluntary agreements that quantified the allocation and volume of credit from the financial institutions.⁶⁶

Fifthly, as chairman of the JCC, the governor of the BoN had established a position as head of these negotiations, while his officials served as the Council secretariat, which provided information and advice. The Bank was thereby involved in Labor's policy-making not only at an individual level but also as an organization. This helped to increase the legitimacy of the

⁶⁶ These voluntary agreements formed the basis of the credit policy until 1965, when a new Money and Credit Act caused the financial institutions to withdraw from further cooperation, against the wishes of the BoN as well as the political management of the Ministry of Finance. See Ecklund 1995.

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Bank in the eyes of the political authorities as well as the financial institutions.

A sixth element in the new role of the central bank was the use of international relations and information in policy formulation and implementation. This international approach had been developed throughout the history of the Bank and represented a continuous element in the on-going institutional changes. It included direct interaction with other central banks, the Nordic ones and the Bank of England in particular, participation in international arenas, such as the annual meetings of the IMF, the World Bank and the BIS, as well as the more general gathering of information on theory and practice abroad from journals, newspapers and other publications.

The seventh and final point was that the BoN, within the new institutional framework of the post-WWII world, was reestablished in a boundary position between the political authorities and the private banks, and between international and domestic concerns, as it previously been during the gold standard system. As we will discuss more thoroughly in the concluding chapter, this boundary position helped to confirm the renewed influence of the central bank.

Paradoxically, the main obstacle for institutionalizing the above elements in a settled role for the central bank appears to be the individual who contributed to their constitution, namely governor Gunnar Jahn. Jahn's repeated attacks on Labor's economic policy and his public image as a political and professional opponent of the government overshadowed his more subdued will to compromise and cooperate. Hence, he still lacked the necessary political legitimacy for these new institutional arrangements and practices to gain final acceptance. It was therefore not until Brofoss took over as governor that Labor relaxed its fundamental suspicion of the BoN as an agency that ultimately wanted independence and power to change Labor's policies, a change of thinking that was essential for the final institutionalization of a new role.

6 Conclusion: creating a new role for an old central bank

In this thesis, we have discussed how and why the BoN found a new role in policy formulation and implementation after World War II. The conventional view has been that the BoN lost most of its former autonomy and authority during the first post-WWII decade, when the oppositional politician and economist Gunnar Jahn served as the governor of the central bank. The Bank was re-established as part of Labor's new policy regime only after Labor strategist Erik Brofoss succeeded Jahn in 1954 – and even then it obtained only a modest and subordinate position. However, existing research on this matter has been limited, and in order to identify more clearly the actual role of the BoN, including its tasks, degree of influence, and independence, it has been necessary to carry out a detailed empirical study of the policy-making processes in which the Bank took part. This study has uncovered complexities and variations in the position of the central bank, and added new information on how and why the role of the Bank changed. These findings also have consequences for our understanding of the broader economic and political development of post-WWII Norway.

This concluding chapter is organized in eight sections, which debate the main research questions and theoretical perspectives presented in the introductory chapter. The first two sections give a summary of how the role of the BoN developed during the first post-WWII decade. Section 6.1 presents the development of the Bank in policy formulation and implementation from marginalization to influential integration, whereas section 6.2 takes a closer look at the complex nature of the interaction between the central bank and the political authorities during this period. These first two sections serve as a background to the following discussions of why this development occurred. Section 6.3 debates to what extent the theory on boundary organizations can explain these changes, while section 6.4 examines the importance of the international context for the development of a new role. Section 6.5 analyzes how practical participation influenced this process, whereas section 6.6 turns the attention towards institutional theory and discusses why the institutional changes under the new Labor government represented both possibilities and constraints for the central bank. Section 6.7 examines the broader nature of the institutional and political changes that took place in Norway after World War II and questions the interpretation of a static dichotomy between an old and a new regime. Section 6.8 sums up the main conclusions of this thesis, with focus on the dimensions of continuity and change.

6.1 From marginalization to influential integration

The position of the BoN relative to the political authorities went through important changes during the governance of Gunnar Jahn. Rather than being a relatively stable period characterized by a lack of influence and autonomy, as usually assumed by scholars, our examinations have revealed that the initial marginalization of the central bank was followed by increased participation in policy formulation and implementation, an engagement that developed towards the institutionalization of a new, integrated role in Labor's economic and political regime.

In chapter 1, we saw that before taking office in January 1946, Gunnar Jahn had been well aware that new economic theories and new norms for central banking, combined with Labor's political progress and high ambitions of governing the economy, implied that the BoN would play a subordinate role. However, the extent to which the government ignored the Bank was dramatic. Chapter 2 demonstrated that despite facing huge challenges of economic recovery, the Ministry of Finance, which was responsible for coordinating and formulating the economic policy, completely neglected to consult the central bank. Jahn's critical approach to long-term direct regulations and his advocacy of a comprehensive monetary reorganization confirmed his public image as a political opponent of the Labor party as well as an economist on a collision course with the new generation of economists trained by Ragnar Frisch, an image that made the government ignore him as a political advisor. Jahn's personal lack of influence was reflected in the marginalization of the BoN as an organization, as the central bank hardly took part in policy formulation, whether in maintaining the domestic direct regulations or in the new economic planning.

Besides this lack of political influence, the future organizational autonomy of the central bank in itself was uncertain. A comment from Professor Frisch that the BoN ought to be reduced to a cashier's office in the Ministry of Finance may in retrospect appear somewhat farfetched, but at the time the degree and nature of Labor's political control over the central bank was by no means settled. As part of a modern economy, the authorities of course needed the technical tasks of a central bank, such as issuing and distributing money. However, given Labor's high ambitions of coordinating and controlling the economy, an organizational integration of the politically oriented operations of the Bank – that is, the formulation and implementation of the monetary and foreign exchange policy – appeared quite realistic. Immediately after entering office, Labor had started preparations for nationalizing the central bank, and the extent to which the government would allow the BoN to continue as an autonomous legal entity

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was yet to be decided. Hence, in 1946-47, it seemed likely that the Norwegian central bank would have to fight for survival as in institution of influence.

A turning point in this – from the central bank's point of view – sad story occurred with the currency crisis in the autumn of 1947, which was examined in chapter 2. This crisis came as a shock to the government, even though the BoN had tried to warn about potential problems in advance. And while the Ministry of Finance had ignored these warnings before the crisis, finance minister Erik Brofoss now recognized the expertise and experience of the central bank in foreign exchange matters. He thus appointed governor Jahn and his officials as head and secretariat of the new Foreign Exchange Council, which was in charge of coordinating and maintaining the currency controls, and at a personal level, Brofoss established regular contact with Jahn through weekly meetings and more frequent informal discussions.

This renewed recognition of the BoN as an expert organization was rooted in its long history of responsibility for formulating and implementing foreign exchange policy. In chapter 1, we saw that this responsibility included not only the market-based policy during the gold standard, when the ideal of CBI still was predominant, but also continued after the breakdown of the gold standard, when free capital movements were replaced by clearing agreements and the occasional rationing of foreign exchange. In this new institutional setting, the BoN remained autonomously in charge of formulating and implementing the new foreign exchange policy. During the currency crisis of 1931/32, the Bank also gained valuable experience in so-called 'moral suasion', since the rationing of foreign exchange was not based on statutory provisions but rather implemented through voluntary negotiations with the private banks. As pointed out in chapter 4, this strategy of combining voluntary cooperation with an underlying threat of introducing new statutory provisions in the foreign exchange policy served as a historical precedent for the informal appeals and more formal cooperation in the domestic credit policy after World War II.

For the BoN, the events following the currency crisis of 1947 represented a breakthrough in the process of finding a new role. The reform of the foreign exchange policy was important, as was the position as head of the new Foreign Exchange Council, not primarily because it added to the power of the central bank, but because it generated a new and constructive interaction between the central bank and the political authorities. While governor Jahn and his officials had so far operated on the margin of politics, for the first time they became an integrated part of Labor's regulatory regime. By

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heading the coordination of the currency regulations and providing updated information, the BoN became closer associated with the Labor government's policy formulation, without losing any of its organizational autonomy. Hence, unlike the idea of turning the central bank into an office of the Ministry of Finance, this was a type of integration that in fact increased the influence of governor Jahn and his officials in the foreign exchange policy rather than depriving them of power.

The second major breakthrough in the process of creating a new role came with the establishment of the Joint Cooperation Council (JCC) in 1951, which was the subject of analysis in chapters 4 and 5. As head and secretariat of this new Council, governor Jahn and his officials obtained a key position in the new credit policy and thereby became integrated also into the domestic economic policy. By accepting the cheap money policy as a political premise and proposing a policy instrument that agreed well with Labor's corporatist ideas, governor Jahn had managed to reestablish a role for the central bank in practical policy-making. The JCC also institutionalized a new pattern in the contact with the financial institutions, a contact that until then had often consisted of direct approaches by the Ministry of Finance to individual financial institutions. From its establishment, the JCC gradually took over as the main arena for persuading the financial institutions through their national associations, and as head of this Council, the BoN thereby obtained a key position.

The JCC has usually been interpreted as a part of Labor's corporatist strategy after World War II. Our examinations suggest, however, that although the idea of voluntary cooperation agreed well with Labor's program, the underlying rationale of this arrangement went beyond Labor corporatism. For one thing, the establishment of the JCC was initiated not by the government but by governor Jahn, whereas the Ministry of Finance played a relatively modest role in its establishment as well as in its initial development of new guidelines for credit control. Moreover, the idea of using moral suasion in dealings with the financial institutions not only had historical precedent in the foreign exchange policy well before Labor entered office, but also was part of an international trend around 1950, when a series of countries introduced similar arrangements to curb inflation and promote a development in accordance with political priorities. In addition, as we argued in chapter 4, that the JCC represented a compromise solution for all parties involved, including the Ministry of Finance, which at the least would have preferred to underpin the negotiations with more extensive statutory provisions and, as part of Labor's persistent ambitions of planning and

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economic control, perhaps also primarily would have chosen to instruct the banks rather than to negotiate with them.

Also for the BoN, the JCC represented a compromise. In chapter 4, we saw that Jahn's initiative to establish this council came only after his previous proposal to introduce flexible deposit reserve requirements, based on an US model and intended as part of a wider set of market-based policy instruments, not only failed but also led to a fresh attempt from the Ministry of Finance to eliminate the Bank from policy formulation and implementation. Thus, Jahn and his officials considered the JCC to be a second-best solution that still was worth trying out when the government rejected more market-based solutions.

As head and secretariat of the Foreign Exchange Council and the JCC, the BoN obtained a potentially influential position in Labor's new economic policy. However, it is important not to exaggerate the power of either of these councils. The Foreign Exchange Council had important coordinating and administrative tasks, in addition to giving policy advice, but it was the government that had the final say in the formulation of the foreign exchange policy within the international framework of the Bretton Woods system. The same went for the JCC, since the government could overrule any politically undesirable results from the negotiations and instead it could activate and establish new statutory provisions. Moreover, in chapter 5 we saw that the Council had to operate within strict limits, particularly in terms of accepting the cheap money policy as an underlying premise, and if the Ministry of Finance felt that its priorities were threatened, such as for example in the process of funding the state-owned banks, it still could bypass the JCC and the BoN and instead negotiate directly with individual banks.

Despite these limitations, for the BoN, the leading role in these two councils formed an important institutional basis for a new role, firstly, by removing any remaining doubt regarding its organizational autonomy and position as co-executor in the monetary and credit policy, and secondly, by providing access to information and policy-making processes in a way that still increased its influence within Labor's politically defined limits.

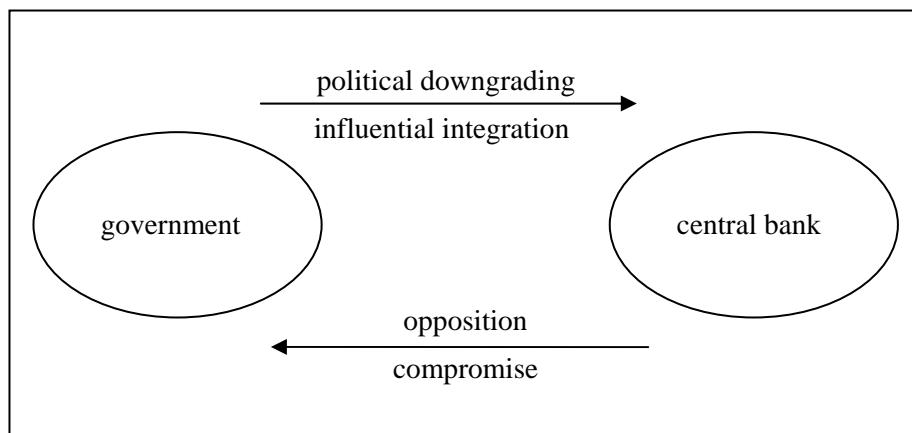
6.2 Complex and conflicting interaction

The above development in the role of the BoN from marginalization to influential integration was by no means a straightforward process. Instead the relations between the government and the central bank during the first post-WWII decade were characterized by conflicting trends, as political initiatives that undermined the authority and legitimacy of the central bank

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coincided with the active and influential participation of governor Jahn and his officials in policy-making, whereas fierce opposition from the central bank often concurred with a distinct willingness to compromise, as illustrated in figure 1.

Figure 1: Norwegian government – central bank relations 1945-1954



What can explain these conflicting trends? The Labor government's approach towards the central bank can be understood at an individual level as well as from a more general perspective. After the currency crisis, there was increasing personal disagreement within the government between Erik Brofoss, who promoted active participation and the influential integration of the central bank, and his successor in the Ministry of Finance, Olav Meisdalshagen, who took several policy initiatives that sought the fundamental downgrading of the Bank in terms of policy formulation and implementation (an approach that was originally adopted also by the next finance minister, Trygve Bratteli).

The initiatives to downgrade the central bank included the changes to the reporting line of the Bank from the *Storting* to the government, which was discussed in chapter 3, a seemingly minor proposal that caused a huge political stir and became part of the constitutional debate at the time concerning the division of power between these two. From the BoN's point of view, this proposal implied a break with its traditional position as the bank of the national assembly and reflected the Ministry of Finance's ambition of increased political control. In chapters 4 and 5, we saw that the Ministry's initiatives to downgrade the Bank also included proposals that the Banking Inspectorate, rather than the central bank, should be responsible for

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implementing the new Acts on deposit reserve requirements and interest controls, while the BoN was referred to as a regular state-owned bank and was to be reduced to a body entitled to comment only, on the same footing as the private banks. Hence, these proposals envisaged a downgrading that would have undermined the traditionally superior position of the central bank in the financial system. After sharp protests, among others from Brofoss, and the launch of the alternative policy measure by the JCC, these proposals were abandoned, and in practice the BoN maintained its position as policy co-executor, whereas the Banking Inspectorate, as before, stayed out of policy formulation and implementation.

The personal differences between Brofoss and Meisdalshagen that led to conflicting initiatives towards the BoN reflected a more general discord within Labor, between advocates of a pragmatic and practical approach to politics and the role of the central bank, such as Brofoss, and more ideologically based activists, such as Meisdalshagen. The former advocated the modernization of the Norwegian economy through the development of large-scale export industry, a strategy that required access to foreign capital and implied the downsizing of the agricultural sector and the centralization of the rural population. To the extent that the central bank could contribute to such a development as an expert organization, it was welcome to take an active part in policy formulation and implementation. Meisdalshagen and his associates, in contrast, saw national and political control over both economic resources and the BoN as crucial. They argued that the domestic small-scale agricultural sector and regional settlement pattern should be preserved on the whole, and the Norwegian economy should be modernized in a less radical fashion. Access to foreign loans thereby appeared as less of a necessity and more of a threat to national sovereignty. Based on the unfortunate experiences with independent central banks in the interwar period, they also regarded state ownership and political control over the central bank as something that went beyond the matter of policy-making and instead had a symbolic value in itself.

Whereas the contradictory approach of the government towards the central bank can be explained by different groups of interests, the conflicting trends in the reverse communication, from the Bank towards the political authorities, appear more puzzling since they originated from the same individual, namely governor Gunnar Jahn. How can we understand Jahn's repeated shifts between opposition and compromise? From one perspective, they can be viewed as strategic maneuvers to obtain increased political influence or, at the least, survive as an autonomous organization. After discovering repeatedly that attempts to oppose fundamental parts of Labor's

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economic policy led only to marginalization – whether with the monetary reorganization, the cheap money policy, or the introduction of more market-based policy instruments – governor Jahn shifted his strategy towards compromise and launched the idea of establishing the JCC, a proposal that agreed well with Labor's preferences but still assigned an important role to the central bank.

As a prominent and long-standing participant in Norwegian public life, Gunnar Jahn obviously had experience in strategic evaluation and maneuvering. However, there is still reason to add some nuance to this emphasis on rational strategy underlying his behavior. Throughout the whole recovery period, including his period as finance minister in the transitional government in 1945 as well as his acceptance of the position as central bank governor, Jahn had demonstrated a will to compromise that seemingly went beyond his personal interests and power. This was a result of the general atmosphere of cooperation that characterized Norwegian politics after World War II. However, in accordance with the normative branch of institutional theory, which was presented in the introductory chapter, this behavior can also be understood as an adaptation to expectations in the surrounding institutional environment. Instead of explaining individual behavior as a result of the rational evaluation of what best serves one's interests, this theoretical approach argues that individuals – consciously or unconsciously – can base their behavior on expectations of their role in an institutional setting. From this perspective, Gunnar Jahn's switches between opposition and compromise can thereby also be linked more explicitly to his role as governor of the BoN.

A complicating factor regarding this latter perspective is the fact that this was a time of institutional change. Hence, the expectations of the role of the governor of the central bank governor were unclear. Whereas the new, emerging role prescribed loyal subordination to political guidelines, the governor's old role had been to oppose the authorities publicly in cases of dissent. In the political setting after World War II, Labor was obviously an exponent of these new ideals, whereas the expectations of the non-socialist parties were more in accordance with the traditional role model. These diverging expectations can help to explain the abrupt shift between compromise and opposition that we saw in chapter 3, when in 1949 Jahn first cooperated loyally with Brofoss and the government in preparing and implementing the devaluation of the *krone* and immediately after launched a fierce public attack on Labor, right before the autumn election. Although this attack was seemingly based on professional arguments, the timing helped to politicize the central bank. Strategically, Jahn thereby undermined his own

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ambition to establish the Bank as a politically neutral and professional expert organization. From a normative institutional point of view, however, Jahn's attack agreed well with the expectations of the non-socialist parties linked to the traditional role of the central bank governor, whereas his cooperation during the devaluation process was in keeping with new expectations of political subordination.

The contradictory communication between the political authorities and the central bank during the first post-WWII decade had a parallel in the interaction between the authorities and private business at the time, as has been pointed out by Francis Sejersted in his analysis of Norwegian and Swedish economic development during the 1950s and 1960s. Sejersted suggests that Norwegian business circles, like the central bank, pursued a similar double strategy of cooperation with and ideological opposition to the political authorities. The reverse communication from the authorities towards business circles, however, was different, as Sejersted argues that the authorities seemingly intervened only cautiously in the capitalist system but in reality pursued policies that sought to "pluck the feathers off the capitalists".¹ We have seen that the way the Labor government communicated with the BoN was, in contrast, to declare an ambition to strip the central bank of all authority and independent tasks, but in practice allow it to participate actively in policy formulation and implementation. Hence, the double nature of the government's stance towards the central bank in fact appears to be the opposite of the one it took towards business circles.

The above analysis has concerned key elements of how the role of the BoN developed during the first post-WWII decade, including the complexities in government-central bank relations. The following sections will discuss, from various angles, why these changes took place. First, we will discuss the relevance of a reoccurring perspective throughout this thesis, namely the theory on boundary organizations.

6.3 The BoN as a boundary organization

The theory on boundary organizations, as laid out in the introductory chapter, suggests that the influence and autonomy of central banks depend

¹ F. Sejersted, *Sosialdemokratiets tidsalder. Norge og Sverige i det 20. århundre*, Oslo: Pax Forlag, 2005, pp. 340-345 and 357 (quote).

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on their capacity to provide necessary resources to principals of the political authorities and financial institutions as well as their ability to act as intermediaries not only between these public and private spheres, but also between domestic and international concerns. To what extent can this theory help to explain the development of a new role for the BoN, from marginalization towards influential integration? When we examine the quality and frequency of the interaction between the BoN, the political authorities and the banking sector during the period from 1945 to 1954, as well as the bank's degree of influence over domestic and international concerns, we see that they varied in ways that agree with the theoretical suggestions of a correspondence between the bank's boundary position, or lack of such, and its influence and autonomy.

During the first half of the recovery period, when the BoN was completely marginalized in the economic policy, the central bank no longer operated as a boundary organization. The contact with the political authorities was at a minimum and because of the high liquidity in the domestic economy, the BoN also lost its traditional close contact with the banking sector. The banks could finance their operations without borrowing from the central bank, and there were no other instruments or mechanisms that generated mutual interaction. Hence, the BoN had neither access to information nor did it control other resources that appeared important to the political authorities and the banking sector. We have seen that this was a recognized problem within the bank and an underlying motive for proposing new policy instruments, such as flexible deposit reserve requirements.

Just as the initial marginalization of the BoN coincides with its dysfunction as a boundary organization, the gradual reintegration of the Bank into policy formulation and implementation corresponds with its reestablishment in an intermediary position between the political authorities and the banking sector. When the BoN was granted the chair and secretariat of the Foreign Exchange Council, it obtained closer relations not only with the Ministry of Finance and other governmental agencies involved in currency regulations, but also with important parts of the banking sector. The extensive currency regulations implied a growth of the central bank staff involved in foreign exchange matters, a development that was reinforced by the currency crisis, and the civil servants from the BoN had regular, at times daily, contact with the authorized foreign exchange banks. The administration of the currency controls thereby to some degree countered the lack of contact with the banking sector caused by the excess liquidity in the domestic economy. The BoN could thus provide necessary information regarding the foreign

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exchange banks to the political authorities, and also keep the banks informed of policy aims and instruments.

The establishment of the JCC in 1951 confirms the co-occurrence between increasing influence and the reinforced position as a boundary organization. The position as head and secretariat of the JCC also established the BoN as part of the domestic credit policy, and placed governor Jahn and his officials in a key position between the political authorities and the two bankers' associations. The Council thereby further improved the contact between the central bank and the banking sector as a whole, a development that was reinforced by the withdrawal of excess liquidity from the domestic economy at the time. It also cleared the ground for a more constructive working relationship between the BoN and the Ministry of Finance, a relationship that until then had been characterized not only by a lack of contact but often by direct conflict. Hence, with improved access to the political authorities as well as the banking sector, the central bank increased its influence and could mediate more efficiently between these two spheres and provide them with resources.

According to theory, central banks as boundary organizations operate also on a second axis, where they balance domestic and international concerns. During the gold standard system, where the politically independent central bank had been in charge of a market-based monetary policy, this had implied a balance between managing the domestic currency and safeguarding its international value. With the extensive market regulations after World War II, this direct link between domestic inflation and the exchange rate was replaced by administrative controls, and in chapters 1 and 2, we saw that during the recovery period, the government completely ignored governor Jahn's attempts to argue along traditional lines that the foreign exchange problems were caused by domestic imbalances. As the regulatory problems grew, Jahn claimed that the Labor government, to an increasing extent, acknowledged this link between the international and domestic situation, but, nevertheless, neither the market-based policy instruments that reinforced these links nor the independent role of the central bank were reintroduced. Thus, during the post-WWII period, the balance between international and domestic concerns became more a matter of politics and administration than of changing market conditions.

In this new institutional setting, the BoN also found its place. As the central bank was reintegrated into policy formulation and implementation, its arguments on the balance between domestic and international concerns received greater acknowledgement, for example when the process of

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nationalizing the central bank was postponed with reference to the foreign exchange situation, as demonstrated in chapter 3. Moreover, and more importantly, governor Jahn and his officials gradually became involved in the new political and administrative procedures underlying both the foreign exchange policy and the domestic credit policy. Hence, even though the central bank was no longer formally in charge of balancing domestic and international concerns, it could once again provide necessary information and expert advice to the political authorities, in accordance with the theory of a successful boundary organization.

The above account identifies a parallel development between the influence of the BoN and its position as a boundary organization. However, the causal link between the two seems less straightforward. According to theory, it is the intermediary position that causes influence. But this theory does not explain how an organization ends up in a boundary position. In the case of the BoN, we have seen that this intermediary position was not an automatic feature, but something that varied and had to be achieved. Thus, the causal explanation may just as well be the opposite: it was the successful reintegration of the BoN into policy formulation and implementation that increased its influence and thereby improved its access to the political authorities and the banking sector, an improvement that, in turn, enabled the Bank to serve as a boundary organization. Once situated in an intermediary position, its influence was reinforced, since mediation gave the central bank further access to information that again could be forwarded to principals on either side of the public-private boundary. Hence, rather than a simple one-way causal link, there appears to be a mutually reinforcing mechanism between power and influence, on the one hand, and the position as a boundary organization on the other. This theoretical perspective can thereby be applied as a useful analytical tool for understanding the nature of the interaction between the central bank and the other agencies, but in itself it has limited explanatory power for understanding why the BoN found a new role.

6.4 The fundamental importance of the international context

A second theoretical approach that may help to explain why the role of the central bank changed as it did, relates to the term ‘embedded statism’, a concept presented in the introductory chapter that emphasizes how national processes are embedded in an international context. This approach suggests that changes in the role of central banks are not caused by domestic political processes and conflicts alone, as often assumed by political scientists, but also by the international institutional, political and economic context in which they take place. In keeping with this perspective, we have seen that

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external events, changes and initiatives had fundamental consequences for the emerging role of the Norwegian central bank. On the one hand, these external changes influenced the Bank indirectly by altering the institutional preconditions within which it had to operate. On the other hand, they intervened more directly in Norwegian developments by changing the domestic political agenda and thereby creating windows of opportunity for the central bank.

The most fundamental formal institutional change was of course the breakdown of the gold standard and later the constitution of the Bretton Woods system, which altered the international preconditions not only for central banking but also for trade and financial interaction in general. By the provisions that allowed the regulation of capital movements, the Bretton Woods system was a necessary precondition for the shift from orthodox monetary policy to the cheap money policy, a shift that in itself changed the tasks, authority and autonomy of the central bank. Before this, the international economic unrest during the interwar period had also generated more informal institutional changes such as new norms for the conduct of economic policy as well as the trend towards increased political control over central banks. These norms were reinforced by the two World Wars, which demonstrated that centralized planning and market controls could be both efficient and effective and thereby supported the idea that central banks should play a more subordinate role. As demonstrated in chapter 1, the two World Wars also had more direct consequences for the Norwegian central bank, the first by fueling the financial boom that later led to crisis, the second by leaving the Bank technically bankrupt and politically in standstill due to questions regarding its political loyalty during the Occupation. All in all, these international changes and events helped to undermine the legitimacy of traditional central banking and prepare for new types of political control.

The process of creating a new role for the BoN was thus embedded in an international context that initially triggered and provided a legitimate basis for the general and worldwide changes towards increased political control. However, international events can also help to explain the specific outcome of the Norwegian case after World War II, both directly and indirectly. The first crucial event was the currency crisis of 1947, which we have seen represented a first turning point in the process of finding a new role for the BoN. This international calamity created a window of opportunity in the sense that it enabled the Bank, for the first time since after the war, to become part of policy formulation and implementation once again.

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Another important international event was the devaluation of Sterling in 1949, which not only triggered the fall of the stabilization line and prepared for the introduction of new policy instruments in the domestic economic policy, but also confirmed the key role of the BoN in the foreign exchange policy. Chapter 4 demonstrated that during the process of examining the rumors of a British devaluation and implementing the subsequent devaluation of the Norwegian *krone*, governor Jahn and his officials participated in high-level politics, in the international arena as well as at home. Before the devaluation, the BoN used its international relations with the other Nordic central banks and the Bank of England to provide information to the government, it offered evaluations and advice on possible Norwegian countermoves, and once the British devaluation was a stated fact, Jahn helped to decide the scale and scope of the devaluation, in close cooperation with the Minister of Commerce, Erik Brofoss, and without the formal consent of the government. This demonstrated that in this policy area, the central bank could be closer to the center of events than most of Labor's Cabinet Ministers.

A third international event that directly influenced the process of finding a new role was the US aid program for Western Europe known as the Marshall Plan. In our context, the Marshall Plan is relevant because it reinforced the political focus on the foreign exchange situation and supported Jahn's repeated emphasis on the connection between external and internal imbalances in the economy. However, in chapter 4 we saw that the Marshall Plan also intervened more directly in the affairs of the BoN by bringing the controversial matter of the occupational account back on to the political agenda. This war-related separate account in the Norwegian central bank, from which the Nazi occupants withdrew more than 11 billion NOK, had not only generated a monetary surplus that represented a constant inflationary danger and paralyzed the traditional ways in which the central bank had influenced the economy, but also left the Bank technically insolvent since this account, which constituted nine-tenths of the BoN's total assets, was recorded without any formal debtor. It thereby helped to undermine the Bank's professional credibility, especially in the eyes of the international financial markets. When the Marshall Plan administration insisted that the main part of their financial donations was used to pay off this account, the Labor government could no longer ignore this matter. Hence, even though the technical insolvency of the Bank was not finally settled until the late 1950s, the substantial withdrawal of liquidity through the occupational account became an important element in the process of finding a new role, since it was a precondition for introducing new instruments into the domestic economy that included the participation of the central bank.

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One additional dimension that underlines the importance of the international context concerns the possible transfer of policy ideas. Below, as part of a general discussion of the importance of personal networks, we will analyze the value of international relations in the process of finding a new role. Here, we will emphasize how such relations could generate and diffuse new policy solutions, such as voluntary cooperation and moral suasion in the financial markets. As pointed out above, at the same time as governor Jahn suggested the establishment of the JCC, similar solutions were implemented in several countries. Although it has been difficult to establish empirically any direct transfer of this or other policy solutions, it is highly likely that the international context also served as a source of information and inspiration in domestic policy-making, whether regarding specific policy instruments or the role of the central bank.

By providing a new institutional framework, generating events that intervened directly in Norwegian policy-making, and probably also contributing to the transfer of ideas, the international context thus had a fundamental impact on the process of changing the role of the Norwegian central bank.

6.5 Influence and legitimacy through participation

Another main explanation of why the role of the BoN developed as it did concerns its participation in practical policy-making. Rather than being decided by pre-designed theoretical or *de jure* guidelines, we have seen that the BoN discovered the limitations and possibilities of its new role, its new tasks and authority, in direct interplay with ongoing policy formulation and implementation.

In the policy-making processes during the first post-WWII decade, at least three characteristics stand out as decisive for the renewed influence of the central bank. Firstly, it was the ability of the Bank to ‘stay in the game’ and continue its efforts to influence policy formulation and implementation despite facing repeated defeats. Rather than leaving the arena to the Ministry of Finance and accept complete submission, governor Jahn and his officials continued to define and redefine policy measures and test the limits of the new political framework surrounding the central bank.

Through this endurance, they contributed to the survival of the central bank as an autonomous agency, and also discovered the second decisive element in the process of finding a new role, namely the development of a policy instrument that the Labor government not only accepted but also welcomed, and one that still assigned an important role to the BoN. In chapter 4 we saw

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that although the flexible deposit reserve requirements that Jahn initially proposed appeared as a powerful policy instrument to control the credit volume, the underlying ideological dimension of market-based policies and the direct reference to the US model completely clashed with Labor's approach to politics and were thus abandoned. The JCC, on the other hand, wend hand in glove with Labor's corporatist ideas and could thereby be implemented.

The third characteristic was the central bank's ability to utilize personal networks and contacts. In the ongoing policy-making processes, governor Jahn used his networks to block attempts to downgrade or bypass the central bank, to search for advice, and to promote new ideas and proposals. Without some of these contacts, the working relationship with Erik Brofoss in particular, the Bank would have probably ended up in a less influential position whilst facing more persistent pressure on its organizational autonomy.

Our analysis of the interaction between the BoN and its surroundings has included both the individual and the organizational level. Governor Jahn's personal networks and relations are important, first and foremost because Jahn, like his predecessor Nikolai Rygg, had a prominent position within the Bank itself. In chapter 3 we saw that, apart from particularly politicized cases such as the nationalization of the privately owned stocks, the surviving sources indicate that Jahn left his personal mark on most resolutions and advice from the BoN, as well as on the daily conduct of the bank. Jahn held a powerful position both within the Board of Governors and the Supervisory Council and in the external interaction with other agencies. Hence, his personal conduct and relations were major determinants in the process of defining a new role.

In our context, the interaction between governor Jahn and Labor Ministers Erik Brofoss and Olav Meisdalshagen has been of particular interest. We have seen that after the currency crisis of 1947, Jahn and Brofoss developed an increasingly close working relationship that included ongoing discussions on general policy matters as well as more specific evaluations of the authority and autonomy of the BoN. Despite their political and economic differences, Jahn and Brofoss agreed surprisingly often on policy controversies, from the timing of the nationalization of the BoN, the design of the new deposit reserve requirements, the withdrawal of liquidity through the occupational account, to the position of the BoN as an autonomous agency and co-executor of policy. In all these cases, Meisdalshagen appeared more as an opponent than a political ally of Brofoss. For example,

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as we saw in chapter 4, Brofoss and Jahn confidentially planned a strategy behind Meisdalshagen's back to stop his proposal for new deposit reserve requirements, and when this strategy failed, Brofoss appealed directly to the Prime Minister to stop this initiative, with reference to its negative consequences for authority of Jahn and the BoN. Hence, even when his initiatives and protests failed, Brofoss represented a crucial contact for the BoN, both as a source of information and a connecting link to the government.

Besides his ongoing working relationship with Brofoss, Jahn also interacted directly with other members of the government, particularly Prime Ministers Gerhardsen and Torp, for example during the repeated attempts from the Ministry of Finance to bypass the central bank in policy formulation. Jahn's professional and personal network also included politicians from the non-socialist parties, business executives, and bank managers, whom he met both as head of various committees and councils and in more private settings, such as participation at dinner parties, and visits to his office in the bank.² We have also seen that Jahn had substantial international networks, with personal contacts in other central banks, in the IMF and the World Bank, and to some extent in the BIS, as well as with his fellow statisticians, established during his time as director of the National Bureau of Statistics.

These networks at home and abroad had several functions. They served as sources of information on specific policy instruments as well as international policy processes, such as the Marshall Aid program and the devaluations of 1949. As in the above case of the attempts to stop Meisdalshagen's proposal for new deposit reserve requirements, they could also provide arguments and advice on how to proceed in ongoing domestic processes and disputes. Moreover, through his international networks, especially with their Nordic counterparts, Jahn and his officials found much-needed support and sympathy as regards his lack of influence and the attempts to downgrade the bank, as we saw in chapter 5, in connection with the later-abandoned proposal for a new Central Bank Act. Ultimately, these networks also added legitimacy to the BoN, since they helped to confirm the professional

² Gunnar Jahn's diaries can serve as an interesting starting point for further examination of these relations, since Jahn usually recorded whom he had met during the day. See for example GJD November 10, 1952, when Jahn had a meeting with the Prime Minister in the morning and dinner with bank directors in the evening.

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reputation of governor Jahn and his officials, and added to the personal trust between the Norwegian central bankers and their counterparts abroad. They also proved that the international agencies acknowledged the governor and his officials as expert national representatives and integrated the BoN directly into the new institutional context of the Bretton Woods system. Thus, these international relations also helped to strengthen the legitimacy of the Bank in its dealings with the domestic authorities.

Although Jahn's personal position and relations were important, his individual efforts alone cannot provide sufficient explanation of the constitution of a new role for the BoN. This required that the Bank had to be included also at an organizational level. Hence, the establishment of the BoN as secretariat first of the Foreign Exchange Council and later of the JCC was crucial. These positions ensured that the central bank as an organization was integrated into all parts of the policy-making process, from providing underlying data and questions for discussion, via facilitating the coordination and cooperation within these councils, to developing their final results and resolutions. As part of this council work, the civil servants of the central bank established their own networks and relations within the central administration as well as with the banking sector. The central bank thereby both became better equipped as an expert organization and more familiar with these important parts of its context.

In the introductory chapter, we asked to what extent legitimacy and trust appear as crucial elements for understanding the changing role of the BoN after World War II. This question was based on Francis Sejersted's emphasis on legitimacy and trust as necessary underlying preconditions for the efficiency of central bank independence (CBI) as a policy model. Our examinations seem to confirm Sejersted at this point. By contributing constructively to the daily policy-making process at home and abroad, insisting on staying in the game, fighting too vigorous attempts to impose political control but still cooperating with the government, and utilizing and developing networks with the surrounding environment, the BoN gained legitimacy and trust of the political authorities, the bureaucracy of the central administration, the financial institutions and their organizations, as well as the general public. This was an important precondition in the process of finding a new role. However, under Jahn's governance, this legitimacy and trust were not sufficient to institutionalize these new practices as self-evident parts of Labor's new policy regime. In the eyes of the Labor Party, Jahn's public image as a political and professional opponent of the government overshadowed his will to cooperate. Hence, as long as Jahn remained in power, the process of institutionalization could not be completed.

6.6 Institutionalization and institutional change

In a stable institutional context, organizations and individuals face formal rules and informal norms and beliefs that define their freedom of action and explain, “what is and what is not, what can be acted upon and what cannot”. By conforming to such rules and requirements, they can receive support and legitimacy.³ In the post-WWII setting, the BoN in a way searched for – and tried to establish – such institutional clarifications. With the old rules and norms for economic policy and central banking in retreat, and new institutions still to be finally settled, the Bank was in a special position since it both operated as an organization within this changing institutional framework and simultaneously constituted a part of the same framework. Hence, by going through processes of trial and error, of strategic opposition and initiatives as well as attempts to comply loyally with surrounding expectations, the BoN helped to clarify not only its own role but also a new institutional context, which would help to stabilize economic and political activities in Norway during the following decades.

Even though the new role of the central bank was not finally institutionalized – in the sense that its redefined tasks and authority were taken for granted – under Jahn’s governance, we have argued that in contrast to the conventional views, the main elements of this role had been introduced and clarified by the time he left office. On the one hand, the organizational position of the Bank regarding the political authorities was settled. The Bank was no longer challenged as an autonomous legal entity, not only because its *de jure* autonomy was maintained by the Central Bank Act of 1892, but more importantly because any ideas of subordinating the administration of the Bank to the Ministry of Finance had been abandoned. So were the initiatives to introduce the Banking Inspectorate into policy formulation and implementation, and the central bank was thereby *de facto* reestablished as the executor of the credit policy, along with the Ministry of Finance. The traditional division between monetary policy-making and financial supervision in Norway was thereby maintained, whereas the Ministry of Finance obtained an overarching responsibility for both these policy areas.

³ A.J. Hoffman, “Institutional Evolution and Change: Environmentalism and the U.S. Chemical Industry”, *Academy of Management Journal*, vol. 42, no. 4, 1999, pp. 351-371 (quote: p. 351); Scott 1995.

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On the other hand, the nature of the future policy instruments, including the participation of the central bank, was basically set. Important limitations to the influence of the Bank on policy formulation had been clarified, since the repeated attempts by Jahn and his officials to introduce market-based policy instruments had failed and the cheap money policy had been confirmed as the basis of the new credit policy. Moreover, moral suasion and voluntary cooperation in the JCC had been established as a main policy instrument, to a large extent replacing statutory provisions. Instead, the possibility of implementing existing or new legislation served as an underlying threat in the negotiations. As chair and secretariat of the JCC, the BoN had established an influential position in these negotiations, a position that also helped to reinforce the function of the Bank as a boundary organization.

When Erik Brofoss succeeded Jahn as governor of the BoN, these characteristics in the new role of the central bank and in the credit policy were developed further and institutionalized as an obvious part of Labor's new policy regime. With party colleague Brofoss as governor, the government no longer feared that the BoN would try to undermine Labor's economic policy, and the practices and arrangements established under Jahn could thereby gain final acceptance. Brofoss expanded the scope of the JCC by including the national organization for life insurance companies as a Council member, and also turned the general guidelines for credit control into more formalized agreements between the political authorities and the financial institutions. The JCC, headed by the BoN governor and supported by his officials, thereby remained a main arena for the formulation and implementation of the credit policy until it was shut down in 1965, by the introduction of a new Act on money and credit regulation. The central bank also remained chair and secretariat of the Foreign Exchange Council, but the importance of this council gradually faded out after full convertibility was reintroduced in 1958.⁴

A basic behavioral presumption in this thesis is that individuals and organizations are institutionally embedded, yet capable of maneuvering

⁴ The Foreign Exchange Council was revived in 1983 to serve as a coordinating and advisory agency for the Ministry of Finance, the Ministry of Commerce and the Ministry of Foreign Affairs in matters of foreign exchange. In keeping with tradition, the governor of the BoN served as Council chair. This Council was formally closed down by the Royal Decree of September 3, 2003.

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purposefully. In continuation of this, the process of institutional change after World War II has been presented as a result of externally generated formal and informal elements, such as the Bretton Woods system, the new institutional framework for international trade as well as new norms regarding the role of the state in the economy, combined with a domestic process in which a number of actors and agencies influenced the new practices and ideas that gradually developed into a new, stabilizing institutional framework. As part of this latter process, the BoN was one of several ‘institutional entrepreneurs’. This theoretical concept, which was presented in the introductory chapter, emphasizes how institutional change is brought about strategically by skillful individuals or organizations. According to theory, institutional entrepreneurs will try to narrate and theorize change in ways that convince other groups to cooperate and accept their initiatives. This emphasis on deliberate entrepreneurship implies a danger of exaggerating the strategic element behind institutional change, as opposed to a gradual and less conscious implementation of new norms. Nevertheless, this concept captures important aspects by presenting institutional change as an ongoing process, a negotiating scene, rather than the result of a ready-made recipe or plan. Moreover, it brings focus to the necessary participation of individual decision-makers for such processes to take place. Hence, bearing in mind that individuals are not only strategic and rational but also adapt to the expectations of their surroundings, the concept of institutional entrepreneurship can add to our understanding of why the institutional setting changed the way it did after World War II.

As institutional entrepreneurs, governor Jahn and his officials had limited direct success, since they failed to promote their primary vision of a new institutional framework of market-based policy instruments maintained by an active and autonomous central bank within guidelines provided by the political authorities. Even so, the central bank exercised decisive entrepreneurial skills by continuing its efforts to influence the ongoing institutional changes, by adapting its proposals to predominant political norms, and by opposing the most ambitious initiatives of state intervention. The Bank thereby helped to shape the emerging formal regulations and informal norms, in a process that was dominated by Labor but one in which all parties involved were obliged, to some extent, to compromise and adapt their views.

The new institutional framework that evolved after World War II represented both possibilities and constraints for the BoN. The new norms for central banking along with new statutory provisions that prescribed a subordinate role towards the political authorities definitely limited the

Bank's room for maneuver compared with earlier practices. However, to the extent that the Bank managed to adapt its ways to these predominant norms, they could also work in its favor. An example of this was the increasingly accepted tendency that informal solutions and negotiations behind the scenes outweighed statutory provisions and formal lines of communication, a tendency we have detected throughout this thesis. On the one hand, this norm led to numerous attempts to bypass the central bank and, at times, prevent it from participating in policy-making. On the other hand, it was simultaneously the underlying basis of the working relationship between Gunnar Jahn and Erik Brofoss. In this way, this initially constraining norm also contributed to increased influence and autonomy for the Bank in practical policy-making.

6.7 Convergence rather than static dichotomy

The nature of the changes in Norwegian economic policy that took place after World War II has been subject to debate among historians. While some present this a quite distinct shift between old and new policy systems, others have rather emphasized the element of gradual development.⁵ This study of the changing role of the BoN supports the latter interpretation, and suggests that the emphasis on static dichotomies between old and new, plan and market, and socialism and liberalism should be modified in several ways.

Firstly, we have seen that rather than being developed systematically by a new generation of Labor politicians and Frischian economists, the economic policy after World War II evolved in a complex process in which other agencies and people of different orientation than Labor also contributed actively, among them governor Jahn and the BoN. Whereas the initial ambition of the Labor government may have been to formulate a new economic policy without assistance from the central bank, it was 'hit by reality' with the currency crisis of 1947, after which the government, somewhat hesitantly, allowed the BoN to contribute as an expert organization to policy formulation and implementation.

Secondly, our examinations have demonstrated that Labor did not appear as a uniform entity. Instead, it was constituted of several groups and individuals

⁵ The former historians include Lie 1995; Søilen 1998, whereas the latter include Bergh 1987; Grønlie 1989; Lange 1998.

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with different interests and approaches to economic theory as well as practical policy-making. This is confirmed not only by the repeated confrontations between Erik Brofoss, Meisdalshagen and other Cabinet Ministers, but also by the differences between the Labor politicians and the Frischian economists, for example regarding moral suasion as a policy instrument. Here, Gerhardsen and Meisdalshagen supported the idea of voluntary cooperation with the financial institutions, whereas the Frischian economists in the Ministry of Finance (and later the Ministry of Commerce) preferred, to an increasing extent, to govern by statutory provisions. By contrast, when he became the governor of the BoN, the Frischian economist Brofoss followed his predecessor Jahn and advocated voluntary cooperation over statutory provisions. Hence, in practical policy-making, there was room for unexpected alliances across party lines and professional backgrounds.

Thirdly, there is also reason to question the importance of economic theory in ongoing policy formulation and implementation. Whereas the economic planning through the national budgets was based directly on Frischian economics, the choice of policy instruments towards the financial sector appears to have been influenced just as much by practical and ideological considerations. An emphasis on pragmatic problem solving was not only the basis of the working relationship between Jahn and Brofoss but also of Brofoss' approach to policy-making in general. By contrast, Olav Meisdalshagen was more driven by ideological concerns, and he was also far less educated and interested in economics. Still, our examinations suggest that both these politicians influenced Labor's policy-making, a finding that contradicts the usual assumption that Brofoss had a dominant position. We have seen that Brofoss' influence had definite limits, and he suffered repeated defeats in the government, for example regarding the timing of nationalization of the central bank, the payment of the occupational account, and the design of the new deposit reserve requirements. Thus, all in all, Labor's economic policy after World War II appears less as a result of systematic implementation of theory-based instruments and more as a process of trial and error, internal bargaining, and adaptation to changing international conditions.

In continuation of this, there is also reason to discuss the assumption of a relatively abrupt shift between old and new systems, and between the old and new generations of policy-makers. When reflecting upon the political situation after World War II, Gunnar Jahn seems to support the idea of a distinct systemic shift. In his diaries, he compared his own situation to another famous political shift in Norwegian politics, when the conservative government headed by Prime Minister Fredrik Stang in the 1870s and 1880s

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had tried in vain to stop the introduction of a parliamentary system. Jahn referred to a poem by Bjørnstjerne Bjørnson, a famous Norwegian poet and critic of Fredrik Stang, which describes how Stang fought a losing battle against the will of a new generation. In his poem, Bjørnson warned Stang against “building a barrier against the great river [of people who wanted a new regime]”, and he ended his poem by urging Stang to give in and change his views. A rough translation of the poem goes as follows:

This is a meeting of the old and the new:
our people are reborn to participate!
Look around, old man,
you nearly have the whole country against you.

*Det er det gamle og det ny, der mødes:
til sin bestemmelse vort folk gænfødes!
Nu må du se dig om, du gamle mand,
du har imod dig fast det hele land.⁶*

Gunnar Jahn commented in his diaries that “Yesterday, I read Bjørnson’s poem to Fredrik Stang, which was healthy reading for me these days”.⁷ In retrospect, Fredrik Stang’s regime appeared as a reactionary effort to prevent necessary change. Jahn wrote these reflections in 1945, which indicates that by then, he was ready for a serious reevaluation of his previous totally dismissive approach to Labor’s political ideas. This generates an alternative interpretation of the economic and political changes that took place after World War II: namely that instead of an abrupt shift, this was a gradual process that started in the interwar period with two distinctly opposing approaches that, to an increasing extent, converged towards a more moderate position.

There have been several indications throughout this thesis that both Gunnar Jahn and leading Labor politicians changed their views regarding the degree and nature of state intervention in the economy. Whereas Jahn in the 1930s

⁶ “Til stats-råd Stang” by Bjørnstjerne Bjørnson, first published in *Norsk Folkeblad*, vol. 6, no. 37, Kristiania, 1871.

⁷ GJD, October 8-15, 1945 [”Jeg leste Bjørnsens dikt til Fredrik Stang i går og det var sund lesning for meg i disse dagene”].

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rejected all ideas of countercyclical initiatives to curb the economic crisis and had repeated public confrontations with Ragnar Frisch regarding the working of the economy, after World War II his approach to state intervention was far more positive. Jahn still disapproved of what he regarded as undemocratic elements in Labor's program as well as the degree of control and centralized planning that the government envisaged. However, this did not reflect any liberalist ideas or ambitions of laissez-faire politics. In chapter 1 we saw that Jahn explicitly rejected any association with liberalist circles gathered around the periodicals *Farmand* and *Morgenbladet* and claimed he had more in common with Labor. In retrospect, he also regretted that he had not carried out countercyclical measures as finance minister in the early 1930s. Most importantly, however, his initiatives to introduce market-based policy instruments such as flexible discount rates and deposit reserve requirements were based on a will to intervene effectively in the economy in order to promote economic growth and prevent future crises. He rejected Labor's direct regulations of the market mechanisms mainly because he did not think they would work but rather would teach people to evade the law. Instead, Jahn aimed at manipulating the market mechanisms by changing the discount rate and influencing liquidity in order to obtain more effective control. The private banks seem to have recognized this when they rejected Jahn's original proposal for new deposit reserve requirements and preferred Meisdalshagen's modified but less effective version.

Whereas governor Jahn became increasingly more amenable towards state intervention, leading Labor politicians such as Erik Brofoss also to some extent seem to have changed their views. Also in this respect, the currency crisis of 1947 appears as a turning point in the sense that after this, Brofoss gradually became less optimistic about the government's ability to control the economy directly without considering underlying domestic and external imbalances. As suggested in chapter 4, the increasing problems of maintaining the stabilization line also appear to have caused a more general reorientation regarding the working of the economy, with increasing attention paid to the previously neglected monetary side of the economy. This did not imply that the government abandoned its ambitions to govern the economy, however, but rather that it realized that the underlying market conditions had to be taken into account.

By the mid-1950s, there were obviously still fundamental disagreements between Labor and Jahn, most importantly regarding the cheap money policy, which remained a cornerstone in Labor's economic policy, probably more for ideological and social reasons than because of any underlying

economic theory. Nevertheless, there seems to have been a greater overlapping between these two policy systems than has usually been assumed, both as regards participants and ideas. Thus, based on experience, the supporters of both approaches changed in interaction with their surroundings.

6.8 Concluding remarks: continuity and change

The new role of the BoN after World War II was developed in a process in which the international context and participation in practical policy-making appear as the two most important influencing factors. This role contained elements of both change and continuity. On the one hand, the tasks and independent authority of the Bank in policy formulation and implementation changed, as part of the general political and institutional changes that took place after World War II. Whereas previously, the BoN had independently maintained a market-based monetary policy, the Bank now appeared as an integrated part of a policy system in which political and administrative control of the financial markets became a fundamental element. This integration implied a degree of political control, but also generated renewed possibilities of influence on policy formulation and implementation, compared to the total marginalization that the Bank originally experienced after the war.

On the other hand, the new role of the BoN was marked by the fact that this was an old central bank, which during well over a century had been part of both the Norwegian and international economy and policy-making. This represented an element of continuity and stability that continued also into the post-WWII period. The Bank kept its traditional position as an autonomous legal entity and also maintained a superior position in the financial system. Moreover, throughout its long history, the BoN had gained experience and expertise that became of vital importance in the process of finding a new role. Both in general policy areas, such as the foreign exchange policy, or regarding specific policy measures, such as moral suasion and voluntary cooperation, the BoN had developed knowledge that, as it turned out, the Labor government needed more than it originally assumed. In addition, through its longstanding international relations and participation in international policy-making arenas such as the founding convention of the Bretton Woods and the annual meetings of the IMF, the BoN was part of a wider institutional framework that helped to increase its legitimacy and effectiveness also at home. Hence, it proved more difficult to abolish the central bank as an autonomous agency than some of the more radical advocates of State planning and control had originally assumed.

Chapter 6 Conclusion

In the introductory chapter, we drew a conceptual distinction between the *de facto* and the *de jure* role of central banks, and we added a third dimension, namely their *declared* role. During the first post-WWII decade, we have seen that the role of the BoN diverged in all these respects. The *de facto* influence and participation of the Bank became more extensive than *declared* by the political authorities. However, this *de facto* role was subordinate compared to earlier practices and diverged from the *de jure* position of the Bank, as stated in the old Central Bank Act of 1892, an Act that was based on the ideal of CBI. As discussed in chapter 5, the ideas of coordinating the *declared* and *de jure* role of the BoN in a new Central Bank Act were abandoned partly for technical reasons linked to the so-called gold clause case, but perhaps more importantly because the BoN in practice had already found a new role. The informal setting aside of the old Central Bank Act also agreed with the predominant norm at the time, which often generated informal solutions rather than legislative changes.

From a methodological view, this story of the BoN during the first post-WWII decade can serve as an interesting example of how research results depend on the questions asked and the approach taken. From one angle, this is a story of decline, a story of a central bank governor and his officials fighting a losing battle against increased political control, an old economic and political regime succumbing to new ideas, instruments and initiators. From another perspective, however, this is a success story. For the BoN as an organization, the main purpose was to survive as an autonomous entity and find a meaningful place in its new political and institutional surroundings. In this respect, the struggles of the Bank during the first post-WWII decade can be viewed as a display of successful adaptation.

Bearing this methodological point in mind, an interesting question regarding future research on central banking is: what will we find if we abandon our usual emphasis on the dichotomy of independence and political change, and instead focus on the *interdependence* between the central bank and the political authorities? This shift of attention would probably bring renewed interest in aspects of the role of the central banks that often are neglected: in the case of Norway, for example, the fact that from its establishment up until today, during shifting regimes of CBI and political control, all members of the Bank's governing boards have been politically appointed. Does this institutional arrangement imply that throughout history, there has been more continuous cooperation and mutual dependence between the Bank and the political authorities than has usually been recognized? Such an alternative focus on interdependence may also have implications for how we understand policy-making and economic development in a broader sense, namely less as simple power struggles and more as complex processes of interconnected participants.

7 Acronyms and abbreviations

In the text

BoN: the Bank of Norway [*Norges Bank*]

JCC: the Joint Cooperation Council [*Samarbeidsnemnda*]

SSB: the National Bureau of Statistics [*Statistisk sentralbyrå*]

IMF: the International Monetary Fund

BIS: the Bank of International Settlements

CBI: central bank independence

NOK: Norwegian *kroner*

Parliamentary documents

St. prp.: Royal Proposition to the National Assembly [*Stortingsproposisjon*]

St. meld.: Royal Report (corresponding to the British white paper) to the National Assembly [*Stortingsmelding*]

Ot. prp.: Royal Bill Proposition to the *Odelsting* [*Odelstingsproposisjon*]

Archives

BoE: the Bank of England's central archive (the Bank of England, London)

BoN-Drl: The Bank of Norway Archives, *Direksjonen I* [the Board of Directors](the National Archives of Norway, Oslo)

BoN-R: The Bank of Norway Archives, *Representantskapet* [the Supervisory Council], (the National Archives of Norway, Oslo)

BoN-R-DFK: The Bank of Norway Archives, *Representantskapet – Den Faste Komite* (the National Archives of Norway, Oslo)

BoN-S: The Bank of Norway Archives, *Statistisk avdeling* (the National Archives of Norway, Oslo)

BoN-V: Books of minutes from the Foreign Exchange Council [*Valutarådet*] (the Bank of Norway archives, Oslo)

DNA-St: Books of minutes from the parliamentary group of the Norwegian Labor Party (The Labor Movement Archives and Library, Oslo)

Acronyms and abbreviations

DnB-3: The Archives of the Norwegian Bankers' Association (the National Archives of Norway)

EB: The Brofoss Archive [The personal archive of Erik Brofoss] (The Labor Movement Archives and Library, Oslo)

FIN-Eks: The Ministry of Finance, *Ekspedisjonskontoret* (the National Archives of Norway, Oslo)

FIN-Fin: The Ministry of Finance, *Finanskontoret C* (the National Archives of Norway, Oslo)

GJD: Gunnar Jahn's diaries (the Manuscript Collection at the National Library of Norway, Oslo)

HD-V: The Ministry of Commerce, *Valutaavdelingen* (the National Archives of Norway, Oslo)

IMF: The IMF archives (The International Monetary Fund, Washington D.C.)

STAT-regj: The Prime Minister's Office, *Regjeringskonferanser-referater* (the National Archives of Norway, Oslo)

8 Sources and archives

Gunnar Jahn's diaries (GJD)

at the Manuscript Collection at the National Library of Norway (*Håndskriftsamlingen ved Nasjonalbiblioteket*), Oslo.

Gunnar Jahn kept detailed private diaries throughout his professional career. These provide useful information not only on his own views on a wide range of political and economic issues, but also give his personal descriptions of and references to meetings with other politicians, civil servants, and businessmen. The diaries contain hardly any information on Jahn's personal life. The diaries are part of a larger selection of Jahn's files, which sometimes serve as underlying documentation for his accounts in the diaries. Mostly, Jahn seems to have written his diaries on a daily basis, even though his accounts sometimes cover several days at the time. However, in some places the text appears to have been edited at a later point, as the original text has been cut out and in some cases replaced by new versions. As a source of ongoing policy processes, the diaries should therefore be handled with criticism and care. Nevertheless, their richness in detail and Jahn's frank descriptions make them an interesting source. In this thesis, I have used Jahn's diaries from the period 1944-1955, and whenever possible, I have crosschecked his statements with other sources and archives, as referred in the footnotes.

The archives of the Bank of Norway (*Norges Banks arkiv*)

The main bulk of this archive is kept at the National Archives of Norway (*Riksarkivet*), Oslo, except the archive of the Foreign Exchange Department, *Valutaavdelingen* (BoN-V), which still remains in the Bank of Norway, Oslo. During the past decade, the archives of the Bank of Norway have been reorganized professionally. Through its wide range of policy documents and preparatory analysis, these archives give good insights to the tasks and positions of the BoN in policy-making. In the thesis, I have gone through the archives of the following departments, (unless other periods are specified) during the period 1945-1955:

The Department of Statistics (Statistisk avdeling) (BoN-S)

The archives of the *Statistisk avdeling* has, with a few exceptions, been inaccessible until recently, but have now been reorganized and appear as a rich source of information on the role of the BoN in policy formulation and implementation. I have gone through the D-series (*Serie D – Saksarkiv*), which contains material from the Joint Cooperation Council (*Samarbeidsnemnda*) as well as background information and minutes from

Sources and archives

the annual meetings of the Nordic central bank governors; the E-series (*Serie E- Saksarkiv*), which has information on the interest rates policy and money and credit policy of the 1950s and 1960s; the F-series (*Serie F – PMs 1930-1962*), which contains a numbered series of policy documents (*PMs*) on money and credit policy, legislative issues, the role of the central bank, policies and practices in other countries, as well as some minutes and documents from the annual meetings of the Nordic central bank governors; and the H-series (*Serie H – Gabriell Kielland*), which is the personal archive of a long-standing civil servant of the BoN, Gabriell Kielland. This series contains among other issues studies and evaluations of the credit and monetary policy, the role and tasks of central banks in Norway and other countries in the mid-1950s, as well as preparatory work for the Money and Finance Council (*Penge- og finansrådet*).

The Board of Governors (Direksjonen I) (BoN-DirI)

I have gone through the A-series (*Serie A – Forhandlingsprotokoller for Direksjonen*) during the period 1944-1950, which contains books of minutes from the daily board meetings. These minutes give relatively comprehensive accounts of the discussions and cases under evaluation.

The Supervisory Council (Representantskapet) (BoN-R)

I have gone through the A-series (*Serie A – Møtebøker*) during the period 1946-1954, which contains books of minutes from the meetings of the Supervisory Council. These minutes are far more limited than those of the Board of Council and give no accounts of any internal debates. They merely provide brief references to the agenda, participants and resolutions of the meetings.

The Supervisory Council – The permanent committee

(Representantskapet – Den faste komité) (BoN-R-DFK)

This was a working committee responsible for preparing the meetings of the Supervisory Council. I have gone through the Eba-series (*Serie Eba – Forhandlingsprotokoller*) during the period 1945-1950, which contains brief minutes from the committee meetings, in the style of the minutes from the full Council meetings.

The Foreign Exchange Department (Valutaavdelingen) (BoN-V)

This part of the BoN's archive has not yet been handed over to the National Archives. I have gone through the books of minutes from the meetings of the Foreign Exchange Council (*Protokoll over møtene i Valutarådet*) during the period 1947-1951. These minutes give comprehensive accounts of the discussions and cases under evaluation.

Sources and archives

The archives of the Ministry of Finance (*Finansdepartementets arkiv*)

These archives are kept at the National Archives of Norway (*Riksarkivet*), Oslo. I have gone through box 447 in the archive of the *Ekspedisjonskontoret* (FIN-Eks), which contains material on the investigations of the operations of the BoN during the occupation; and the Da-series (*Serie Da – Banksaker*) of the *Finanskontoret C* (FIN-fin), boxes 448 “*Norges Bank. Okkupasjonskontoen 1948-1956*” and 449 “*Norges Bank. Overtakelse av aksjene i Norges Bank*”, which contains letters and documents regarding the occupational account and the nationalization of the BoN.

The archives of the Ministry of Commerce (*Handelsdepartementets arkiv*) (HD-V)

These archives are kept at the National Archives of Norway (*Riksarkivet*), Oslo. I have gone through box 5 “*1.2 Valutarådet*” in the archives of the Foreign Exchange Department (*Valutaavdelingen*), which contains material on the Interministerial Currency Committee (*Den interdepartementale valutakomite*) as well as documents on the foundation of the Foreign Exchange Council (*Valutarådet*) in 1947; and boxes Da 275, Da 276, Da 277, Da 278, Da 279 and Da 280, which contain minutes and documents from the meetings of the Foreign Exchange Council during the period 1955-1959. The minutes from the Council meetings before this appear to have been lost from this archive.

Erik Brofoss Archive (*Brofossarkivet*) (EB)

The personal archive of Erik Brofoss at the Labor Movement Archives and Library (*Brofossarkivet ved Arbeiderbevegelsens arkiv og bibliotek*), Oslo. Considering that Erik Brofoss was the governor of the BoN from 1954 until 1970 and had frequent contact with the Bank prior to this, his personal archives contain conspicuously little material on the BoN and central banking in general. I have gone through the Dc-series (*Serie Dc – Saksmapper 1948-1970*), boxes 41 and 42, which contain personal correspondence, including letters from Gunnar Jahn (1948) and correspondence regarding Petter J. Bjerve’s appointment, as well as box 43 with information on the devaluation in 1949; the Di-series (*Serie Di – Norges Bank*), which contains material on the 150th anniversary of the BoN in 1966, including Brofoss’ speeches on the occasion; and the Dg-series (*Serie Dg – Saker 1945-1949*), box 115 “*Det europeiske gjenreisningsprogram*”, which contains letters, documents and printed publications on the Marshall Plan, including letters from Jahn (1948).

Sources and archives

The archive of the parliamentary group of the Labor party (Arbeiderpartiets stortingsgruppe) (DNA-St)

This archive is kept at the Labor Movement Archives and Library (*Arbeiderbevegelsens arkiv og bibliotek*), Oslo. I have checked the A-series (*Serie A – Møtebøker*), which contains the books of minutes from the meetings of Labor's parliamentary group regarding two cases: the appointment of Gunnar Jahn as governor of the BoN in 1945 and the nationalization of the BoN in 1949. These books of minutes give only brief accounts of the agenda and resolutions from the meetings, and give no reference to any internal discussions.

The archive of the Prime Minister's Office (Statsministerens kontor) (STAT-regj)

This archive is kept at the National Archives of Norway (*Riksarkivet*), Oslo. I have gone through the Db-series (*Serie Db – Referater fra regjeringskonferanser*) during the period 1945-1950, which contains minutes from the Cabinet meetings (*protokoll nr. 4 (1945-46), nr. 5 (1947-48), nr. 6 (1949-50)*). These minutes give brief accounts of the agenda and resolutions from the meetings, and only very rarely refer to any debates or dissents.

The Archives of the Norwegian Bankers' Association (Den norske bankforenings arkiv – PA575) (DnB-3)

These archives are kept at the National Archives of Norway (*Riksarkivet*), Oslo. I have gone through part 3 of this archive (*3. Saksarkiv*), and used material from box 42 B 103-106, which contains information on regulations of the bank's credit policies from 1924 to 1953.

The Bank of England's central archive (BoE)

This archive is kept at the Bank of England, London, UK. The Bank of England kept so-called country files on its international relations, and I have gone through the Norwegian files (Country files OV26/4 through 11), which cover the period 1945-1961. These files contain, at times, comprehensive analysis of Norwegian affairs, politicians and economic development, including preparations for and reports from the annual visits of Bank of England officials to Norway. These accounts offer personal descriptions and evaluations by the BoE officials. The files also contain correspondence with Norway and other contacts regarding Scandinavian affairs.

The IMF archives (IMF)

These archives are kept at the International Monetary Fund, Washington D.C., USA. The IMF also kept country files, and I have gone through the surviving Norwegian files from 1946 to 1970. These contain a somewhat random collection of documents, correspondence and evaluations of

Sources and archives

Norwegian affairs and economic development, in particular foreign exchange matters. My examinations include the series C/Norway/320 *Economic conditions*, 1947-1965; C/Norway/420 *Exchange controls and Restrictions*, 1946-1952 and 1957-1970; C/000Norway (some correspondence 1948-1964); and C/Norway/810 *Mission*, which contains 13 files on so-called IMF missions to Norway between 1948 and 1959. For comparative reasons, I have also gone through the corresponding country files on Sweden and Denmark.

9 Printed sources

The BoN's annual reports (*Norges banks beretning og regnskap*) 1945-1960

Parliamentary documents

St. prp. no. 1 (1945-46) "Den kongelige proposisjon om Statsbudsjettet for budsjett-terminen 1 juli 1945-30 juni 1946"

St. prp. no. 164 (1947) "Om opprettelse av et nytt departement – Handelsdepartementet".

St. prp. no. 86 (1949) "Norges Bank. – Okkupasjonskontoen"

St. prp. no. 129 (1950) "Nedsettelse av bevilgningene til investeringer i statsbudsjettet 1950-51 m.m.", including appendix: "Penge og finansrådet. Uttalelse av 30. august 1950"

St. prp. no. 52 (1951) "Statsbankenes innlån og statens reguleringskonto m.m."

St. prp. no. 28 (1952) "Statens konto for lån til statsbankene. – Over føring av ytterligere 350 mill.kr. fra statens reguleringskonto"

St. prp. no. 129 (1952) "Fullmakt til å ta opp innenlandske statsslån. – Statens konto for lån til statsbankene"

St. prp. no. 9 (1958), "Ompostering av okkupasjonskontoen m.v. Norges Banks markedsoperasjoner"

St. meld. no. 10 (1947) "Om nasjonalbudsjettet 1947"

St. meld. no. 75 (1952) "Retningslinjer for penge- og kreditpolitikken"

Ot. prp. no. 64 (1945-46), "Om utferdigelse av lov om valutaregulerering"

Ot. prp. no. 65 (1949) "1. Lov om statens overtakelse av aksjene i Norges Bank. 2: Lov om endring i lov om Norges Bank av 23. april 1892"

Ot. prp. no. 82 (1950) "Midlertidig lov om tillegg til aksje- og sparebanklovgivningen"

Ot. prp. no. 17 (1952) "Lov om aksje- og sparebankers innskottsreserve i Norges Bank"

In the footnotes of this thesis, I have noted my use of any additional parliamentary material that followed the above reports and propositions, including recommendations from the parliamentary committees and the parliamentary debates.

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