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## The Norwegian Elections

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# Monetarists demand more austerity— because of too much money

by Ulf Sandmark

In Norway's national elections on Sept. 14-15, a popular revolt among the Norwegian electorate against the government's austerity policies created a situation that will lead to the resignation of the socialist government by Oct. 13. During the 1990s, all the Scandinavian countries have been put through a senseless austerity regime. But Norway, in contrast to the other Scandinavian countries, has not been in an economic depression. Despite that, the Labor government has been implementing a similar austerity policy, with cuts in social benefits, schools, and the public sector.

The monetarist paradox is, that the Norwegian government has a huge budget surplus because of its oil income, but it is using that as a reason to impose harsher austerity. The oil income had, up to 1995, been used in the state budget. As of 1996, the oil surplus began to be put into a fund for investments in international financial markets.

These monetarist schemes became the main topic of the election debate, particularly how and when to use the surplus. In April 1990, the parliament decided to set up a "petroleum fund" for the profits from the state ownership of the oil companies. The initial deposits were made in 1996. In April 1997, this fund reached 5% of Gross National Product, or 48 billion Norwegian crowns. In 2001, it is expected to reach 30% of GNP, or 414 billion crowns, and in 2010 it will be 1,000 billion crowns (about \$140 billion). The main idea behind this "oil fund," as the Norwegians call it, is to make the income from the oil more identifiable and to be able to separate it from the normal state budget. The oil bonanza is seen as short-term national wealth or patrimony, and discussions are intense about how to save the wealth in the best way for the future.

The Labor government, which, after Gro Harlem Brundtland's resignation in October 1996, is now led by Prime Minister Torbjorn Jagland, decided to totally separate the oil fund from the Norwegian economy. True to their longtime support for oligarchical policies, they decided to throw the oil money into international financial markets, so far mostly in U.S. government bonds. But beginning next year, half the oil fund is earmarked for buying up financial paper on foreign stock markets, helping to prop up the speculative bubble. At the same time, the government has been pursuing a domestic austerity policy.

### A 'danger' to the economy

How could these decisions be defended? With monetarism, of course. The monetarists painted the oil money as the biggest danger to the Norwegian economy. If the money were used in Norway, they argued, this would push up the demand for workers. This would push up wages and, therefore, inflation and interest rates. The ruling Labor party (Arbeiderpartiet, DNA) adopted this argument, and throughout the entire election campaign declared war against higher interest rates. Interest rate hikes would bankrupt indebted homeowners and stop investments, they said, and they demanded that the money be locked up in a bank account.

The monetarist "experts" argue that the danger with higher interest rates would be the attraction of international financial flows to invest in Norway, which would make the Norwegian crown too strong. The overvalued currency would make it hard for Norwegian industry to export its products. The oil economy could therefore destroy the land-based part of the Norwegian economy.

The responsible "long-term" policy, according to these monetarists, is to create this enormous oil fund as a passive pension fund for the future. Any "short-term" expenditure on consumption or infrastructure would destroy the plan to build up the fund. The Norwegian example shows that, with a monetarist analysis, too much income could be bad. In either case—government deficit or surplus—the only accepted monetarist solution seems to be, that the money should not go to the population or to real investment, but should be put into the financial markets. The Labor government tried to patch up this monetarist rule with an enormous propaganda campaign about saving money for the children, pointing to the insecurity of the oil income and the final depletion of the oil reserves. Meanwhile, enormous new oil and gas fields have been discovered in the North Atlantic Ocean.

Jens Stoltenberg, finance minister and son of the pro-British UN-mediator in Bosnia Torvald Stoltenberg, has been in charge of sending the oil money to the speculators. To attract votes, he tried to portray the "responsible" policy of the DNA as the main defender of the unemployed—who, in fact, have been abandoned. Inflationary salary increases would make Norwegian exports less competitive and make

it more difficult for the unemployed to get jobs, the Labor government warned.

## The election outcome

While the Socialist International shoots itself in the foot, Norwegians are turning to populists. The outcome of the national elections has certainly thrown Norway into a political spin. The main result is that the center parties will run the country, but they will be under pressure from two sides. One side is the populist Carl I. Hagen, and the other side, is the no less populist nomenklatura within the Socialist International. The DNA minority government will resign, after an election strategy which was rather peculiar, to say the least. Prime Minister Jagland declared a month before the election that, if the DNA did not receive 36.9% of the vote, which was their result in the the last election, the government would resign. Labor made a strong last-minute surge and got 35.3%, but this was not enough. Jagland has to resign.

The second biggest party, with 15% of the vote, is one of the winners in the election: the Progress Party (FrP), under the leadership of Carl Hagen. The FrP more than doubled its vote; at one point during the election campaign, it was getting about 25% in the polls. It was then that Jagland launched his tactic to scare the voters back to Labor by presenting his ultimatum, and starting a big campaign against the allegedly racist right-wing threat from the FrP. He thereby tied his political fate to one-tenth of a percent, because if the result had been 37.0%, it would have been seen as political cleverness, whereas it would have been seen as stupid if the result had been 36.8% or thereabouts.

Prime Minister Jagland's decision to attack Hagen with a racial slur, in an attempt to contain the popular revolt, didn't work. Hagen continued to attack the government's austerity policy, particularly the austerity in the public health system. Hagen also demanded that some of the oil money be used for schools, hospitals, and the elderly. He adopted the slogan to increase retirement pay for the poorest pensioners, with a monthly stipend of 1,000 crowns (\$140). This demand became dominant among all parties. Even the staunchly monetarist conservative party, Høyre, was forced to consider it.

The scare tactics from Labor, the left, and the media, to cast Hagen as a hater of minorities and immigrants, and even comparing him to Jean Le Pen in France, backfired. It is certainly true that Hagen is running partly on an anti-immigrant platform, and that his party houses a gaggle of immigrant-haters. Hagen himself has in the past made nasty remarks about various immigrant communities. But, to regard Hagen as a pure and simple racist, misses the point. He is more complex than that, and during this election he emerged as a rather skillful and experienced politician, who captures popular discontent over the unfair practices of the government bureaucracy. Even though Hagen is a dedicated libertarian, this did not stop him from making a frontal attack on the government for its austerity policy, and he even demanded some infrastructure development. This transformed the whole

debate in Norway.

These interventions into the economic debate, however, offer no real solutions. In the bind of the monetarist paradox, Hagen's solution is for Norway to consume its way out of the crisis, by increasing the population's purchasing power. This was the very argument the Labor government used against him and the center parties. According to the DNA, the lesson from the 1980s was that Norway spent its oil surplus on consumption, and therefore got an economic and banking crisis with increased unemployment and inflation. As a populist, Hagen has no answer to that.

## Solving the monetarist paradox

But, there is a real solution to the monetarist paradox. The profits from the oil sector can definitely be used for development in Norway without creating the catastrophic effects the monetarists speak about. A program for infrastructure development would lower the costs for industry and other production, thereby offsetting rises in wages. The oil fund can be used as long as there is idle capacity available in the economy. First, of course, there are the unemployed in Norway, still officially at 3%, who can be put to work. Second, there are capacities abroad that can be used without any adverse effects on the monetary balance inside Norway. The oil income is already in dollars, and could be used for imports that could put cost-saving equipment into place.

Infrastructure projects are already under construction,

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- that Washington and Franklin championed Big Government?
- that the Founding Fathers promoted partnership between private industry and central government?

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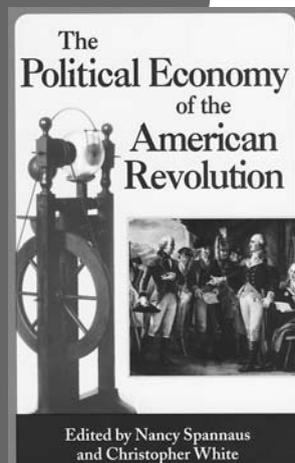
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such as the improvement of the road network, and a high-speed rail line to Gardemøn, the new Oslo international airport. Road construction could be expanded, especially along the rough coastline, where there are plans for more road and tunnel projects. At the old Oslo airport, Fornebu, a new high-technology center is under discussion. The long-awaited gas pipeline system, which would open up the use of the enormous gas fields in the North Atlantic, should also be a priority. After the collapse of the Oslo local train transit system in August, because of cuts in maintenance, a fully automated public mass transit system should be in order.

The real gift to the children of Norway would be to put into place a fully modern rail transport system, magnetically levitated rail, which is so well suited for the mountainous Norwegian terrain. With these investments, the profits from the North Sea, where workers toil under dangerous conditions, would be saved for the future in the only safe way, in the form of higher productive capacities of Norwegian labor-power.

### An international solution needed

The monetarist scare scenarios can be peddled because Norway also has deregulated its financial markets. The speculators can create runs on the crown and influence interest rates. Norway is also in the hands of oil speculators. An international financial crash would not only be the end for the oil fund, but

also for the oil income. Norwegians, therefore, are highly vulnerable to the financial crisis, as long as the probable new government, a Christian-Center-Liberal coalition, is not moving for an international solution. One such move would be to support the call for U.S. President Bill Clinton to assemble a New Bretton Woods Conference.

An attack against the speculative international financial system from the Norwegian side is not entirely impossible. One challenge to monetarist thinking is the reactivation of the old Center Party proposal to impose a turnover tax on the trade at the Oslo stock exchange. This was supported during the election by the man who, it is believed, will be the new prime minister, Kjell Bondevik of the Christian People's Party.

The purpose of the tax is to curb speculation, and it reflects some of the lessons from the mid-1980s, when Norway went through a severe banking and financial crisis.

Another result in the election, which shows that a large part of the electorate was voting in protest, is the fact that Steinar Bastesen was elected, and will be the only maverick in the parliament. Bastesen was running under the banner of a newly formed party, the Coast Party, in the far north. In some precincts, he received up to 38% of the vote. Bastesen is one the leading fighters against Greenpeace, both in Norway and internationally. He has been defending Norway's right to hunt whales, and through that, has become a nightmare for the environmentalists.

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