In Search of a Greater Economic Entity: Norway and the Sterling Area Episode of the Early 1950s Reconsidered

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Abstract

In the early 1950s, Norway attempted to join the sterling area. This article argues that this futile attempt can be used as a point of departure for understanding the country's ambivalence towards multilateralism in the early post-war period. The attempt was triggered by the prospects of an early move to convertibility under conditions Norway believed to be premature. Norway saw closer association with Britain through the sterling area as a buffer against the negative effects of multilateralism and at the same time as a window of opportunity for becoming part of a larger market. Moreover, I argue that both the perception of the costs of multilateralism and the positive view of Britain as a natural ally was deeply embedded in the prevailing economic thinking of Norwegian social democracy.

The countries of northern Europe seem to harbour a particular reluctance towards European integration. The Swedes joined the European Union late and have rejected monetary unification in a referendum. The Danes, while members since 1973, have a long history of being troublesome Europeans and have not yet adopted the euro. In Britain, popular feelings are still less than enthusiastic towards Europe, and the likelihood of the British abandoning sterling is still rather dim.

The history of northern reluctance can be traced back to the early post-war years and the first attempts to promote economic integration. Within the Organisation for European Economic Co-operation (OEEC) – set up by the recipients of Marshall Aid to further economic growth and co-operation – the Scandinavian countries and the United Kingdom emerged as a separate political bloc with an agenda different from

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that of the continental countries. The differences ultimately led to a divided Europe, with the establishment in the late 1950s of the European Economic Community (EEC) and the European Free Trade Association (EFTA).

The Scandinavian reluctance is often understood in the light of the overall importance of the United Kingdom as the main trading partner and closest political ally. Thus, when Britain applied to join the EEC in the 1960s, the Norwegians and Danes just played the familiar game of follow-the-leader.[1] While this interpretation certainly holds considerable explanatory power, it is too narrow a basis for understanding the forces shaping foreign economic orientation.

The aim of this article is straightforward. By looking into what is by now an almost forgotten episode in the history of foreign economic diplomacy, the Norwegian attempt to join the British-led sterling area, I would like to draw attention to some predominant features in the Norwegian foreign economic thinking of the 1950s that might shed light on the country's persistent reluctance towards European integration and ambivalence at the time towards openness in general.

The bid for sterling area membership: a short overview

In May 1953, the Norwegian minister of trade Erik Brofoss travelled to London for talks with the British chancellor of the exchequer, R. A. 'Rab' Butler. He brought with him a loose mandate from his government; to seek out the conditions for a closer Norwegian association with the sterling area. In London his approach was met favourably. In the course of the summer, exploratory talks were held at civil-servant level between Norway and the United Kingdom on one side, and Norway, Sweden and Denmark on the other, to clarify the prospects of a Scandinavian entry into the sterling area. Concurrently, the Norwegian government carried out studies of the merits of membership, returning with a positive long-term verdict. Nevertheless, by late autumn the membership option lost steam. The Danes and Swedes did not share the Norwegian eagerness and the British lost whatever interest they initially had attached to the question. In the end it all came to nothing.

This episode is characterised as 'something we today would regard as political "innocents abroad"',[2] while the historian Elisabeth Skogrand labels it 'mission impossible'.[3] There is some truth in these pictures. However, history is not only about actual outcomes. The outcome in this case, that membership was never realised, is not very interesting. The interesting aspect is why Norwegian leaders earnestly considered membership in the first place.

[1] In the 1960s Sweden – hampered by security policy considerations – only applied for association with the EEC.

[2] Knut Einar Eriksen and Helge Øystein Pharo, *Kald krig og internasjonalisering, 1949–1965* (Oslo: Universitetsforlaget, 1997), 144. All translations of quotations from untranslated sources are by the author

[3] Elizabeth Lie, 'Pride and Prejudice: Norway and the European Payments Union 1950–1955', master's thesis, University of Oslo, 1997, 137.

The sterling area in three minutes

The sterling area was set up in the aftermath of the collapse of the gold standard in 1931, as an informal bloc consisting of members of the Commonwealth and a few other countries with strong economic links to Britain.[4] Trade among the members was settled in sterling. With a few exceptions members held no independent foreign exchange reserves; they kept their reserves in sterling and the Bank of England managed the common pool of foreign currency. In a turbulent decade characterised by the rise of autarky, the combined effect of imperial preference and a common monetary area led to increased interdependence among sterling countries and helped them to avoid some of the worst effects of the Depression.

The sterling area survived the Second World War and the first stage of the demolition of the Empire. By 1950, a quarter of the world population still belonged to the area and around half of all international payments were settled in sterling. In the post-war period of austerity, the area took on a more formal shape. Within it, payments on current and capital account took place freely. Britain adhered to a policy of free exchange of goods towards the outer area, and gave sterling area citizens access to the London capital market on level with its own residents. However, the independent members of the area maintained policy freedom when it came to foreign-exchange control, trade licensing and internal monetary policy. The British treasury gave unofficial limits for a single member's dollar use. For independent states these limits took the form of recommendations, for the colonies the form of orders. Economic policy was co-ordinated through the Commonwealth Economic Conference.

The literature on the sterling area focuses on the internal relationship between Britain and the other members and the relationship between the area and the major powers.[5] Thus relationships between the area and smaller non-members such as Norway are very much on the sidelines of the main analyses. Hopefully, this article contributes to understanding how the actions of a major country like Britain influenced a small country like Norway.

The European monetary scene of the early 1950s

The Norwegian desire for a closer association with the sterling area was triggered by the British plans for an early move to convertibility. Why this could become a triggering point was deeply embedded in the economic thinking of the post-war social democratic leadership. Before we return to the Norwegian view, I will sketch the European monetary scene of the early post-war period.

In the aftermath of the war, Europe returned to the bilateral trade and payments policies of the 1930s. Thus currencies were not convertible, trade was strictly regulated

[4] Canada, although a member of the Commonwealth, did not participate in the sterling area.

[5] Ian M. Drummond, *The Floating Pound and the Sterling Area 1931–1939* (Cambridge: Cambridge University Press 1981); Catherine R. Schenk, *Britain and the Sterling Area: From Devaluation to Convertibility in the 1950s* (London: Routledge, 1993).

and the implementation of the Bretton Woods Agreement belonged to the future. This reflected both the dollar shortage and the European need to give scarce resources priority for reconstruction purposes. By the late 1940s it became clear that bilateralism hampered further trade expansion and slowed down economic growth.[6] In 1949, the west European countries, through the so-called OEEC free listing process, implemented a scheme for the removal of quantitative restrictions on private trade. In 1950 the same countries, supported by the United States, set up a multilateral clearing mechanism, the European Payments Union (EPU).[7] The union was as a soft-currency bloc, introducing regional convertibility in Europe whilst simultaneously allowing for continued discrimination against the dollar sphere. The EPU can best be understood as a transitory monetary regime paving the way from bilateralism to the restoration of global multilateralism with the introduction of current-account convertibility in 1958. Thus for most of the 1950s the EPU rather than the International Monetary Fund (IMF) was the European monetary scene.[8]

The four countries of northern Europe, in particular Britain and Norway, showed the strongest reluctance to the establishment of the union. Norway feared that the removal of quantitative restrictions would hamper its ambitious modernisation programme, whose accomplishment depended heavily on the instruments of trade regulation. At the same time Norway's opinion was that the union gave too strong incentives for debtor adjustment, thus putting the modernisation programme under additional strain. Moreover, Norway believed that the use of convertible resources in short supply (i.e. gold and dollars) in the EPU settlement mechanism might turn the union into a source for international monetary contraction.[9] To some extent the British shared this outlook. However, Britain had additional and probably more important worries. One concerned the necessity of preserving the vital trade links with the Commonwealth, another how to maintain sterling as an international reserve currency and London as a major international financial centre. Europe by the early 1950s was apparently less important than the two other pillars of British foreign economic orientation, the Commonwealth and the United States, and seen 'more as potential drain than contributor'.[10]

Within the union Britain became Norway's closest ally. They shared the same Keynesian outlook and voiced many of the same worries over the alleged deflationary bias of the working of the settlement mechanism. The Norwegian feeling of kinship with Britain was strengthened by the view of the economic policies of some of the continental countries, notably West Germany and Belgium, as a direct threat to

[6] Robert Triffin, *Europe and the Money Muddle* (New Haven: Yale University Press, 1957) 146.

[7] For more on the EPU see Jacob Kaplan and Günther Schleiminger, *The European Payments Union: Financial Diplomacy in the 1950s* (Oxford: Clarendon Press, 1989); Barry Eichengreen, *Reconstructing Europe's trade and Payments: The European Payments Union* (Manchester: Manchester University Press 1993)

[8] Keith J. Horsefield, *The International Monetary Fund 1945–1965* (Washington, DC: International Monetary Fund, 1969), 342.

[9] Lars Fredrik Øksendal, 'Multilateralism and Domestic Policy in the Early 1950s: Explaining the Case of Norwegian Ambiguity', *Review of International Political Economy*, 14, 4 (2007), 602–25.

[10] Kaplan and Schleiminger, *European Payments Union*, 49–53.

their model of society. The gradual removal of quantitative foreign trade regulations had already deprived the Norwegians of 'by far the most important instruments' in their central-planning approach to economic policy.[11] If the continental countries were to have the decisive say over the future organisation of the European payments system, the Norwegians feared that they would have to adjust their policy formation to an increasingly liberal order and maybe abandon the modernisation programme altogether.[12]

Throughout the 1950s Norway was not at ease with a European payments system that did not meet its expectation of an optimal regime. However, the EPU gave some benefits, notably multilateral settlements and substantial credits valued by the Norwegians. Moreover, the alternative – an early move to convertibility – was regarded as even more damaging for Norwegian prospects.

Convertibility on the table

The ultimate objective of payments liberalisation, the restoration of currency convertibility, was not achieved until 1958. Nevertheless, from autumn 1952 the convertibility question was high on the European agenda. Although all countries – some, like Norway, hesitantly – agreed on the objective, they differed strongly on the route to follow to achieve this end. The fundamental questions at stake were the necessary conditions for a successful move, the timing of the move and the manner in which the move was to be carried out.

In January 1953 the United Kingdom answered these questions by announcing its intention to seek exploratory talks with the US government on the necessary dollar credits to support a unilateral sterling move to convertibility. The answers, however, were not met with approval from Britain's continental partners within the OEEC. They disliked both the unilateral character of the initiative – that is, sterling moving towards convertibility ahead of all other currencies – and the manner in which Britain envisaged maintaining convertibility. The plan for early convertibility reflected the weakness of the British economy at the time. Current-account convertibility was to be supported by strengthened trade regulations, a more flexible exchange rate and the freezing of sterling balances, that is, sterling reserves held by Commonwealth and other countries. Moreover, with the failed attempt at sterling convertibility of 1947 fresh in the memory, a crucial prerequisite for a successful move was a major standby credit provided by the United States.

On the surface, the idea of a unilateral move was motivated by the desire to promote sterling as an international reserve currency and restore London to its rightful place as a leading financial centre. The underlying motivation was to take decisive steps in order to change the fundamentals of the domestic political economy of post-war Britain. By liberalising the currency under a floating exchange rate, the economy would be exposed to international market forces. The pound would

[11] Brofoss to Gerhardsen, 10 Jan. 1950, Box 44, Privatarkivet etter Erik Brofoss (Brofoss's papers – BP), Arbeiderbevegelsen arkiv og bibliotek (Archives of the Norwegian Labour Movement – ANLM).
[12] Øksendal, 'Multilateralism and Domestic Policy'.

depreciate, import prices rise and unemployment soar. Exposure would thus 'free up' the labour market, encourage economic adjustment, render soft markets unnecessary and force British industry to compete with dollar goods. Although a harsh recipe, the end result was perceived to be a sounder and more competitive British economy.[13] This desire for a radical shift to a more market-based approach was unknown to the outside world.

The hostile reaction of the continental countries to the British plan was motivated by three major objections. First, convertibility supported by strengthened trade regulations, which everyone realised was a condition for a British move, flew in the face of the very idea of multilateralism and the results so far achieved by the EPU. Second, the idea of a floating currency was contrary to the fixed-exchange-rate regime accord of the Bretton Woods conference. Third, the unilateral manner of the British plan, inconsistently named 'A collective approach to convertibility', was against the spirit of European co-operation. Moreover, a British move would probably break up the EPU. This would force the others either to adopt convertibility ahead of schedule or to return to some kind of bilateralism.

The British move promptly induced the continental countries to formulate an alternative plan, 'an institutional approach to convertibility'. The key idea of this counter-plan, called 'the "hardening" of the EPU', was to turn the union into a vehicle for convertibility by gradually strengthening the gold element in the settlements and simultaneously liberalising trade with the dollar area. In this manner the difference between the sheltered Europe and the United States would gradually be reduced and Europe would progressively have to adjust to the conditions prevailing under convertibility.

In spring 1953 Norway was caught in crossfire. Initially Norway was the only country in the OEEC to take a conciliatory view of the British plans, much to the irritation of the continental countries.[14] As the Norwegians learned more of the plans, in particular how convertibility would be supported by strengthened trade regulations, worries grew.[15] However, the continental alternative was even less attractive. Norway agreed that the EPU ought to continue, but differed strongly with the continentals on the issue of increased gold payments and liberalisation of dollar trade. Increased

[13] Peter Burnham, *Remaking the Postwar World Economy: Robot and British Policy in the 1950s* (London: Macmillan, 2003), 1–5. The British initiative of 1953 was a watered-down version of the ROBOT plan promoted by the Bank of England and forces within the treasury in the aftermath of the Conservative return to power in 1951. The idea of ROBOT was to tackle the prevailing currency crisis by restoring sterling current-account convertibility based on wide floating margins. The controversy over the plan was, according to Cairncross, the 'perhaps the most bitter of the post-war years in Whitehall' and the initial plan foundered due to the conceived domestic and foreign costs. Alec Cairncross, *Years of Recovery* (London: Methuen, 1985), 234–71.

[14] The 33rd session of the EPU Board, 19–22 January 1953, report by Knut Getz Wold, 28 January 1953, Box 298, Handelsdepartementets valutavdeling (Ministry of Trade records/Foreign exchange division – FED), Riksarkivet (Norwegian National Archives – NNA).

[15] Lars Fredrik Øksendal, 'Norsk betalingspolitikk 1945–1958', master's thesis, Norwegian University of Science and Technology, 2001, 188–92.

gold payments at a time of scarce dollars would strengthen the deflationary bias of the union.

Politically, the idea of hardening the EPU won little support in Norway. However, early sterling convertibility and the probable end of the EPU represented the most immediate threat. In the course of February and March 1953, Norway became convinced that Britain, in order to support sterling convertibility, would have to reduce its external deficit either by way of trade regulations or by a general curtailing of internal demand. As Norway ran a major sterling surplus, the Norwegian leaders believed that the country would be among those hardest hit by a reduction in imports by Britain, regardless of the means deployed. A reduced sterling surplus would render Norway fewer resources with which to settle its deficits on the Continent. Thus the Norwegian leadership foresaw a scenario in which Norway would become more dependent on the Continent and with increased pressure to adjust the economy in a liberal direction at the expense of its domestic ambitions.

It was this fear that triggered Norway to seek out a closer understanding with the British. Before we turn to a closer scrutiny of the sterling area episode, however, we need a closer examination of the foreign economic thinking from which this fear derived.

Foreign economic thinking in the post-war years

In post-war Norwegian social democracy, ideas mattered. The formative experience of the generation that was now shaping Norwegian economic policy had been the Depression and the collapse of the international economy in the 1930s. Norway turned against market forces and scorned traditional economic liberalism. Keynesianism and central economic planning were embraced as the new way to avoid to further depressions and pave the way for an era of prosperity and full employment.

The ideas derived from the inter-war experience took the form of strong convictions that answered the fundamental questions on which the future rested. Ideas thus served as road maps, giving directions and limiting options. In domestic policy the Labour Party emphasised a strategy of rapid reconstruction and accelerated export-oriented industrial modernisation. Investments were given priority over consumption and public welfare. Only the commitment to full employment enjoyed an equally high place on the agenda as the growth policy.

One important lesson from the 1930s influencing Norwegian policymakers was that multilateralism embodied dangers and potential costs. The old belief that multilateralism was always beneficial no longer held. Whether multilateralism led to an efficient division of labour and increased wealth depended on the character of the international regime and whether it promoted an expansionist economic climate. The collapse of the international order and the subsequent rise of autarky in the 1930s served as a projection of what might happen if the conditions were not ripe for multilateralism. In the eyes of the Norwegian leaders such as Brofoss, the inter-war gold standard had been a straitjacket that led to deflation and unemployment.[16] Domestic autonomy had been undermined as an illiquid monetary system had hampered growth and transmitted depressing international business cycle fluctuations.

The embedded liberalism of the Bretton Woods Agreement was an attempt to unite the conflicting interests between an efficient international regime and the ambitious nation states' desire to safeguard domestic autonomy.[17] Although the Norwegian leadership to some extent recognised this, the fear that payments liberalisation would recreate the international economic climate of the depression was a recurrent point of reference well into the late 1950s. The establishment of the payments union in 1950 was labelled a 'system that will automatically tend to deflation and unemployment'.[18] Throughout the decade, in the arenas of financial diplomacy Norway repeatedly warned against the deflationary bias of the union and the possible depressing impact of an early move to convertibility.

The experiences of the 1930s led the government to question multilateralism. However, the key feature of the modernisation policy, export-oriented industrialisation, rested on access to foreign markets. A core conviction of the social democratic leadership was that the future belonged to 'economies of scale'. Norway was too limited a market to secure an efficient exploitation of its natural resources and industrial potential. Standing outside an emerging multilateral order was therefore not an option. However, participation was marked by strong ambivalence. One fear was the belief in the deflationary bias in a multilateral order dominated by dollar payments, a currency deemed to be the bottleneck of economic growth. Another was that the key instrument of allocation – direct regulation of foreign trade in order to keep down consumption and channel investment resources to chosen industries – went contrary to the very idea of multilateralism. Liberalisation thus deprived the government of its single most important set of policy instruments. Due to the accelerated nature of the modernisation policy, the level of investments was consistently higher than domestic capital formation. The modernisation policy thus captured the ambivalence in a nutshell; it depended on market access, but its successful accomplishment rested on a level of investment and a policy of allocation that did not comply with multilateralism. Thus Norwegian policy in the first half of the 1950s became a combination of paying lip service to multilateralism and simultaneously attempting to shield the domestic economy from its consequences.

The ambivalence that derived from the political economy of post-war Norway clearly put the country outside mainstream Europe. In retrospect, the growing multilateralism of the 1950s did not embody the dangers attached to it by the

[16] Brofoss to the cabinet: Memo on the proposals for a new payments system in Europe, 4 January1950, BP 44.

[17] John Gerard Ruggie, 'International Regimes, Transactions and Change: Embedded Liberalism in the Post-war Economic Order, *International Organization*, 36, 2 (1982), 379–415; Eric Helleiner, *States and Reemergence of Global Finance: From Bretton Woods to the 1990s* (Ithaca: Cornell University Press, 1994).

[18] Brofoss to the Prime Minister: Memo on the revitalisation of economic policy, 3 February 1950, Box 93, Statsministerens kontor – notater til regjernings økonomiske utvalg (Office of the Prime Minister Records/ Memos for the economic committee of the cabinet – OPM/ECC), NNA.

Norwegian leadership, but was a part of the fundamental prerequisites for a decade of impressive economic growth. Other core elements of Norwegian foreign economic thinking also had more to do with perceptions than realities. With hindsight, the Norwegian leadership's high esteem of Britain and the negative appraisal of the continental countries are clearly skewed and do not catch the strong common features that characterised Europe in the 1950s. In particular, the Norwegian vilification of West Germany is not really appropriate. The new federal republic was seen to represent a liberalist approach where domestic stability was achieved at the expense of full employment and economic growth.[19] For Norwegians, who believed that they had found the way to steer clear of contraction and mass unemployment, the continental approach stood out as a return to the orthodoxy of the inter-war years. Moreover, through multilateralism it represented a direct threat to their model of society.[20] Brofoss even argued that the German government pursued a conscious policy of high unemployment in order to stay competitive and 'will thereby once again manage to infiltrate the world economy'.[21] Although clearly wide of the mark in the eyes of present observers, this kind of contemporary assessment determined Norwegian policy.

Thus the perceptions derived from the political economic policy of the post-war years made the Norwegians meet the emergence of a multilateral order with ambivalence. In order to maximise welfare potential through economies of scale the country had to belong to a greater economic unit, but needed simultaneously to be sheltered from the potential costs of multilateralism.

A threat and an invitation

In their high-level talks with the United States in March 1953 on the possibility of a standby credit and support for sterling convertibility, the British received a frosty reception. The United States was prepared to risk neither the money nor the break-up of the successful EPU co-operation.[22] In retrospect, early sterling convertibility was no longer a viable option after March 1953. Nevertheless, with hindsight the obvious problem is that this insight was not present at the time. The outcome of the talks was clearly a setback – perhaps even a major one – for British ambitions, but very few people at the time would have predicted that it would take close to six years to achieve current-account convertibility. In practice, the British still laboured with some notion of early convertibility, although not as early as envisaged when the 'collective approach' was launched in January 1953. One example of this is how the British attempted to use UNISCAN, the joint policy forum of the United Kingdom and the three Scandinavian countries, to rally support for sterling convertibility among the friendly smaller countries. In the UNISCAN meeting at

[19] Brofoss to the cabinet: Memo on the proposals for a new payments system in Europe.
[20] Knut Getz Wold: Brief for university students in economics on the new European payments systems, 22 April 1950, Box 173, Privatarkviet etter Knut Getz Wold (Getz Wold's papers – GWP), NNA.
[21] Brofoss to Faaland, 14 April 1954, GWP 3; Brofoss to Faaland, 27 April 1954, BP 178, RA.
[22] Kaplan and Schleiminger, *European Payments Union*, 172–8.

the end of April 1953, Britain asked whether the Scandinavians would follow an early sterling move and how they envisaged a future relationship with the sterling area. The Norwegians felt that the British had to be more definite on timing and economic policy under convertibility and declined to answer. However, in a private conversation with Mr Eggers of the British treasury in the aftermath of the formal meeting, Christian Brinch, head of the foreign-exchange division in the ministry of trade, raised the Norwegians' concerns over sterling convertibility. Norway would lose important credits through the EPU and have to start repaying debt. Simultaneously, the favourable UNISCAN rules of capital mobility would be discontinued and Norway risked its sterling surpluses being frozen. Brinch further asked what lay behind 'linking of currencies' and 'association with the sterling area', the expressions the British had used in the meeting's agenda. Eggers claimed that the main question was the use of sterling surpluses. It was not satisfactory if Norway earned sterling that was converted to dollars or used in settlements with the rest of Europe: 'If the pound sterling becomes convertible, England in all likelihood has to ensure a substantial reduction in the Norwegian sterling surplus. It would be otherwise if we enter a closer collaboration'. Under a framework of closer collaboration, the countries could negotiate on import restrictions, the use of sterling surpluses, dollar imports, credits and central bank co-operation. This would imply discrimination in breach of international obligations, but in the end the formation of natural economic blocs would have to be recognised.[23]

In this conversation the British representative launched a threat: without collaboration, the surplus had to be forced down. This was not a threat that the Norwegians were likely to disregard. The inviting threat produced a result. When Brofoss went to London in late May 1953 for talks with British officials, he had been asked by the cabinet to seek out the possibilities for a closer association with Britain and the sterling area. Before we return to the talks in London, a closer examination of the motives for the Norwegian response to the threat are in order.

Understanding the Norwegian response

Confronted with a threat, you can either resist or give way. As the subsequent account demonstrates, Norway chose the latter response. How can this reaction be explained? Let me attempt to answer by way of three suggestions. First, in spring 1953 the Norwegian leadership undoubtedly regarded early convertibility as probable. This, rather than what we retrospectively know about the likelihood of early convertibility, shaped Norwegian strategies. Second, the threat, or what at least appeared to the Norwegians to be a threat, neatly complemented the Norwegian notion of how the European economy would work under premature convertibility: US monetary hegemony would continue and the dollar would still be the major bottleneck that hampered growth. Convertibility would reinforce the scramble for dollars. As a balance-of-trade deficit would equal dollar loss and a surplus dollar income, the

[23] C. Brinch, Memo on talks in UK Treasury on convertibility, 4 May, 1953, FED 302.

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European economies would deflate. A return to the 'beggar thy neighbour' policies would be the inevitable outcome. The Norwegians, caught in their own grim perceptions of the future, thus thought that they might find shelter with their traditional ally, Britain.

Third, this 'shelter' corresponded closely both to the traditional Norwegian foreign economic thinking and the prevailing perceptions of the governing Labour Party. Norway had to become part of a greater economic unit in order to exploit its economic potential. Since the 1920s Norway had looked to Britain for guidance and had, like Britain, restored the gold standard at pre-war parity. The turbulent 1930s had witnessed an even stronger approximation. Norway followed sterling off gold in 1931, pegged its currency to sterling in 1933 and entered a major trade agreement with Britain the same year. In a search for the origin of the economically divided Europe of the late 1950s, between a northern-dominated bloc and the continental countries, 1931 is a likely point of departure.[24] In the 1930s the four countries of northern Europe to a large extent enjoyed much the same patterns of economic development and managed to avoid the worst consequences of the Depression. Intellectually, the moral bankruptcy of economic liberalism and the impact of Keynesianism were more profound here.

In the post-war years Norwegian social democracy believed that it had found a soulmate in the British Labour Party. On economic planning, the emphasis on full employment and the necessity for international economic expansion suggested that there was a close resemblance between the two parties. The feeling was mutual. British Labour envisioned Europe as a hotbed of forceful and revitalised neo-liberalism. The Scandinavian countries, despite their limited influence, stood out as natural allies.[25] Already, in 1948, Norway had launched the idea of closer co-ordination of the British and Norwegian investments in the European Recovery Programme. Despite an enthusiastic response, the idea ran aground on the Norwegian desire to raise British capital for Norwegian investments. As was pointed out by Alan Milward, 'money was not as available as pleasant feelings'.[26] However, the initiative resulted in the formation of an Anglo-Norwegian co-operation committee that met regularly.[27] Moreover, as the only two countries in Europe to do so, they reciprocally refrained from claiming settlements in gold for persistent imbalances in their bilateral trade.[28] The Conservative Party's election victory in Britain in 1951 did not alter the Norwegian attitudes.[29]

[24] The special cases of Austria and Switzerland, both founding members of EFTA, are assumed to be out of this equation.

[25] Alan S. Milward, *The Reconstruction of Western Europe 1945–1951* (London: Routledge, 1992), 316.

[26] Milward, *Reconstruction*, 317.

[27] Ingrid Sogner, 'The European Idea: The Scandinavian answer: Norwegian Attitudes towards a Closer Scandinavian Economic Cooperation 1947–1959', *Scandinavian Journal of History*, 18, 4 (1993).

[28] St.meld. nr 32 (1952) Om varebytte og betalingsavtalene i tiden 1945–1951 (Norwegian Parliamentary Records, Government White Paper no. 32 (1952) On trade and payments agreements 1945–1951), 16.

[29] Brofoss remarked on Butler, 'I have seldom met a conservative politician with so much common sense'. Brofoss to Ragner Frisch, 9 Oct. 1954, BP 53.

An important prelude for the sterling area episode was the establishment of UNISCAN. The initial British ambition for UNISCAN was to liberalise trade and payments between itself and Scandinavia. A part of the background for the initiative was the desire of Britain to position itself favourably vis-à-vis the United States in response to the plans for closer regional co-operation on the Continent.[30] In the end the initiative came close to nothing. As a vehicle for trade liberalisation UNISCAN was overtaken by the OEEC even before any agreement was signed. As a payments scheme UNISCAN was rendered superfluous by the EPU. As the continental plans stranded, Britain lost interest. The only elements that remained were an arena for policy consultation and some minor concessions on foreign-exchange quotas for tourists and access to the London capital market. What is interesting from the perspective of this article is the eagerness the Norwegians expressed. Closer co-operation between the four answered much of the Norwegian worries over multilateralism. In marked contrast to its general protectiveness of domestic autonomy, Norway positively embraced the notion of a general co-ordination of economic policy as a necessary prerequisite for liberalisation between the four.[31] Norway further argued that the UNISCAN countries should liberalise trade further between themselves than that committed to under the OEEC free-listing scheme, believing that an inner trade bloc could function as 'a safety valve' or a buffer under a European trade regime dominated by gold payments. At this point the other participants rejected the idea of a new preference system.[32] What clearly was at the forefront was the issue of external funding of Norwegian industrial modernisation. This had been the motive back in 1948 and continued to be pivotal throughout the 1950s. Here Norway in the course of the UNISCAN negotiations gained bilateral concessions from the British regarding shipbuilding credits.[33]

To sum up, closer collaboration with Britain was seen as complementing Norway's long-term foreign economic thinking and perception of national interest. Although to receive a threat was not comfortable, influential circles saw the invitation as a window of opportunity. Norway was obviously far less ambivalent regarding close co-operation when it took place between countries with which it perceived that it shared common values rather than with respect to general European co-operation.

London talks and a pledge

In London, Brofoss discussed the sterling area issue with Butler and with the deputy governor of the Bank of England, Sir George Bolton. The message he conveyed was that Norway was concerned about jeopardising its access to the London capital market and UNISCAN co-operation. Norway desired the co-operation to continue in a

[30] Sogner, 'European Idea'; Milward, *Reconstruction*, 319.

[31] C. Brinch et al., Memo on extended economic co-operation between the UK and the Scandinavian Countries, 7 December 1949, BP 152.

[32] Report from the British–Scandinavian talks on the possibility of closer economic co-operation in London, 16–21 January 1950, 25 January 1950, BP 152.

[33] Sir Henry Brittain to C. Brinch, 21 January 1950, FED 202.

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form compatible with sterling convertibility. One form might be a closer Scandinavian attachment to the sterling area. Brofoss did not bring up the British threat, but chose a more positive angle. In the long term, he emphasised, Norway wanted to strengthen trade with Britain in order to reduce dependence upon Germany. Increased imports of British machinery, iron and steel would improve Norway's balance of trade with Germany. However, Britain had to be more forthcoming with regard to credits. In the event of sterling convertibility, Norway would have to rely on British credit facilities and support for an increased quota in the IMF. Butler, for his part, expressed the view that closer co-operation might be an option even if only one or two of the Scandinavian countries were prepared to follow a British lead.[34] Sir George Bolton, on the other hand, claimed that this was only possibly if all three joined in.[35]

Brofoss seemed to be pleased with the talks. A report written by a Bank of England official who had accompanied him to the station on his return conveys his mood:

> I gathered that the Chancellor had been very cordial – and Brofoss stressed that, whereas the Bank saw much difficulty in a lone Norwegian approach to Sterling Area membership, the Chancellor appeared ready to welcome them alone or in company . . . I gained the impression that his own mind is definitely in favour of a move to towards membership of the Sterling Area if HMG are agreeable – but he recognises the political difficulties, which in his view are greater in Sweden and Denmark than in Norway. I think he intends to press ahead fairly rapidly.[36]

The impression of Brofoss's commitment is supported by his letter to Butler on his return to Oslo:

> With respect to [the] question concerning our relations with the Sterling Area and the maintenance of the Uniscan arrangement in a form compatible with sterling convertibility, I have the pleasure of informing you that the Norwegian Government is highly appreciative of the interests which she has been shown by your Government in this matter. Ambassador Skaug has been requested to contact the Swedish and Danish officials who headed their countries' delegations in the Uniscan negotiations. We hope that the Swedish and Danish reaction will be favourable. In that case I will as quickly as possible fulfil my promise to try to formulate an approach with respect to a possible form for an expanded Sterling Area.[37]

In a courteous note to the British senior servant Sir Leslie Rowan, the minister referred to his own 'personal interest' in questions connected to convertibility and the sterling area.[38] Some days earlier he had expressed to the Norwegian prime minister Oscar Torp the view that the foreign economic position had become the limiting factor in the economic expansion of the country. After prolonged deliberation he had arrived at the view that in order to go on with her post-war strategy Norway ought to

[34] Brofoss: Report on talks in London 20–23 May 1953 with a) President of the Board of Trade Mr. Thorneycroft (20 May), b) British civil servants in the Board of Trade (May 21), c) British Chancellor Mr. Butler and treasury civil servants (May 21), Box 61 (C-2–3), Økonomiavdelingen (Economic Policy Unit – EcPU), Finansdepartements arkiv (Norwegian Treasury Records – TR), NAA.

[35] Brofoss: Report on talks with officials in the Bank of England, 22 May 1953, EcPU 61 (C-2–3).

[36] JSL (signature only) to Sir George Bolton, 26 May 1953, OV 26/19 Archives of the Bank of England (BoE).

[37] Brofoss to Butler, 12 June 1953, BP 98.

[38] Brofoss to Rowan, 12 June 1953, BP 98.

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> . . . seek association with the Sterling Area to get access to the British capital market on the same terms as other sterling countries. It would hardly imply any immediate ease but would have great significance for the future. It could open opportunities for direct investments in Norway from countries in the Sterling Area, particularly from the UK.[39]

On 5 June 1953 Brofoss gave the parliament his verdict on convertibility. Convertibility could only be advantageous for Norway if the major powers pursued a policy of expansion and full employment. Otherwise economic stagnation and trade restriction would be more likely to reoccur. Access to additional credit would become decisive in deciding whether Norway would follow sterling or not. Under convertibility foreign economic pressure would increase as other countries regarded Norwegian kroner as being valuable as dollars. They would promote exports to Norway and try to curb Norwegian imports in order to earn dollars. Britain would have to reduce its deficit, and with a major sterling surplus Norway would be among the countries hardest hit. In order to protect itself against such a development, Norway had to increase its imports of iron, steel and machinery from Britain. He did not directly air his desire for sterling area membership, but referred to Norway's considerable interest in finding a form of continuing UNISCAN co-operation under sterling convertibility.[40]

Thus by summer 1953 both trade arguments and long-term investment needs had convinced the central architect of post-war policy to opt for the sterling area. What was now needed was to make the commitment made to the British operational.

The appearance of the sterling bid on the Scandinavian diplomatic agenda

To get the Danes and Swedes on board was a major prerequisite for closer co-operation. Although Butler had signalled his interest in co-operation or even entry into the sterling area by Norway alone, the preference was clearly for a solution that covered Scandinavia as a whole. Important decision-makers in Britain saw no merits at all in a Norway-alone option, as revealed by internal documents from the Bank of England:

> The Bank of England holds the view that whilst the adhesion of the three Scandinavian countries to the Sterling Area would strengthen the prestige of the Sterling bloc the adhesion of Norway, the weakest economically of the three, alone would bring no such advantage.[41]

However, on political grounds even the 'Old Lady' did not want to discourage the Norwegian interest, unless further examination showed that membership would be a definite liability.[42] Moreover, a joint Scandinavian entry would obviously reduce the potential for domestic opposition in Norway.

[39] Brofoss to the Prime Minister: Memo on the economic situation and future economic policy, 9 June 1953, BP 50.

[40] The minister of trade's statement in parliament 5 June 1953 on the foreign economic situation (ms.), OPM/ECC 95.

[41] Bank of England memo (draft): Scandinavian membership in the Sterling Area, 5 August 1953, BoE OV 26/19.

[42] Ibid.

In June and early July senior civil servants Arne Skaug and Christian Brinch held a number of talks with their opposite numbers from Sweden and Denmark. The reception was somewhere between lukewarm and negative. Neither the Danes nor the Swedes shared the preoccupation with capital formation. The Danes wanted to achieve a more balanced composition of the foreign economy and reduce the dependence on Britain. Thus in this case the British threat suggested the opposite answer. The Swedes, from an economically more favourable position, were prone to emphasise the problems connected with membership obligations: the position of the reserves, the commitment to hold sterling and the consultations on fiscal policy and dollar imports. Both countries were sceptical on the question of strategy; it should be Britain and not Scandinavia that ought to take the initiative. Moreover, the Swedes feared that supporting any British desire might result in triggering a premature convertibility and effectively ruled out any formal participation.[43] Neither Sweden nor Denmark closed the door for future talks, but the underlying message was that they were not very interested.

From the outset, the desire for closer sterling association reflected a set of rather particular Norwegian concerns. This is the main reason why the Norwegian initiative failed to gain the support of its two neighbours. In short, the initiative addressed concerns the other Scandinavians simply did not share. Neither regarded capital imports as the crucial economic bottleneck, and although the Swedes in particular shared much of same expansionist economic thinking as Norway, they did not take the same grim, catastrophic view of premature multilateralism. Although they, like the Norwegians, were against early convertibility and wanted to continue the payments union, the sterling area was considered more a leap in the dark than a potential buffer or window of opportunity.

Examining Norwegian membership

In parallel with the talks, a group of senior civil servants picked by Brofoss carried out an examination of a possible Norwegian membership. I have not found the actual mandate for the group, but as the final report is addressed to Torp, it is reasonable to assume that the study was undertaken on behalf of the cabinet. The implicit view conveyed in the study is that the merits of membership did not outweigh the disadvantages.[44]

The study stated the background for the sterling area question: the desire to continue the UNISCAN agreement's clauses on capital transaction and the fear of a reduced Norwegian sterling surplus under early sterling convertibility. The crucial question was what kind of sacrifices regarding sovereignty in the economic and financial sphere Norway was willing to accept in order to compensate for the likely worsening of its foreign economic position as a result of the dismantling of the payments union.

[43] Øksendal, 'Betalingspolitikk', 208–12.

[44] Norway's, Sweden's and Denmark's association with the Sterling Area. Recommendation from group led by Arne Skaug, 9 September 1953, BP 174.

The first question addressed was how membership would influence the balance of trade and payments. The sterling area countries could decide their import policy themselves, but the group assumed that on entry there would have to be negotiations on trade. Although it was not stated explicitly, I assume that the group implied that Norway had to give concessions, but 'an expanded and more intimate trade relationship . . . of mutual character is the basic idea of a possible scheme'. Membership would have no implications for tariffs as trade preference was reserved for members of the Commonwealth. Under convertibility Norway would no longer be able to use the sterling surplus to cover its deficit with the Continent, and its own dollar earnings were insufficient for this task. On entry, the Norwegian exploitation of the common dollar reserve would be a question of negotiations and 'the current dollar position of the Sterling Area decisive for the results Norway could achieve in these negotiations'. Thus Norway probably would have to reduce the imports from the Continent. It might keep its present gold and dollar reserves, but future reserves would be accumulated in sterling. Norway would be cut off from making independent foreign-exchange policy decisions. Without entry, Norway could change current sterling earnings into dollars but would not enjoy the freedom of access to the British market for capital export on a par with the sterling countries.

The group did not believe that membership would solve the Norwegian credit problem. Access to the London financial market on terms with the other members was in fact the right to line up in the same queue. And the queue was indeed long. The credit problem, however, was not primarily a sterling problem, they stated, but a dollar problem, in order to cover the deficit on the continent. It would be even harder to raise dollar credits for this purpose than to raise sterling for use within the sterling area.

Despite the negative undertone, there is no explicit conclusion. In my view, the question arising from the report is as follows: the merits of membership depended upon the assessment of the negative impact of sterling convertibility for the Norwegian economy. If the assessment mirrored Brofoss's fears, Norway ought to go for membership even if the consequence was discrimination in favour of Britain and loss of sovereignty over foreign-exchange policy.

Re-examining Norwegian membership

The report did not discuss the deeper political impact of membership but concentrated on technical and short-term considerations. Brofoss himself was disappointed with the verdict, and wrote in the report's cover note that at present he did not wish to express any view on the report. However, he stressed in general that Norway was too limited an economic entity to exploit its natural opportunities through economies of scale. The cabinet's permanent committee on economic policy gave its tacit support for Brofoss to carry on examining the question.[45]

[45] Brofoss to the Cabinet's economic committee, 9 September 1953, BP 174.

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In a memorandum the leader of the group, Ambassador Arne Skaug, sketched the task ahead. The attitude of the cabinet, he understood, was that the first report had dealt with only one of several aspects of the issue and that any further examination would have to asses whether long-term advantages outweighed temporary inconveniences.[46] The point of departure ought to be the view expressed by Brofoss 'that the development in the Norwegian economy for the foreseeable future would depend on our becoming, at least in real terms, part of a greater economic entity. It has to be others than us who undertake the saving and capital formation necessary for the development of Norwegian industry'. Skaug assumed that the report would conclude that in a historical perspective capital import had been a prerequisite for large-scale industrialisation. If Norway had to be a part of a greater entity, there would be three probable alternatives, Scandinavia, the Continent and the sterling area. Of those alternatives, the sterling area stood out as the most likely to fulfil Norway's aspirations.[47]

The final version of the report, submitted to the government in early October 1953, differed from the first in the emphasis it placed on the wider foreign policy and foreign economic perspective. The verdict was conclusive: in a future Europe divided into economic blocs, Norway's place was together with Britain and the sterling area.[48]

The report emphasised the double pressure to which Norway would be exposed under sterling convertibility: Britain would try to save dollars by reducing the deficit and West Germany would try to earn as much as possible in dollars by increasing its exports to Norway. In this situation membership would promote Norwegian exports. This might in whole or in part make up for the disadvantages of membership. The long-term perspective followed the lead laid down earlier by Skaug: Norway needed to become a part of a greater entity. In the short term, the sterling area would not solve Norway's capital formation problem. However, free capital movements were not likely to reoccur. Norway thus had actively to support international economic co-operation in order to gain access to capital and accept greater commitments than previously.

In a divided Europe Norway ought to choose the alternative that best fitted its foreign economic orientation and the one whose development it could most easily influence. Scandinavia would not solve the capital formation problem and was not regarded as a sufficiently large market for the full exploitation of existing and future production capacity. Despite this, one ought to pursue the possibilities embedded in Nordic co-operation as far as possible. Any continental alternative would imply 'co-operation on principles of supranational character that are alien to us', and even if some continental countries might contribute to solving the capital formation problem, the possible implications for economic policy were not agreeable. The sterling alternative, on the other hand, gave 'certain opportunities' and was in

[46] Skaug: PM, 14 Oct. 1953, GWP 159.
[47] Ibid.
[48] Skaug et al. to Prime Minister Torp: Report on developing the UNISCAN arrangement in order to establish a closer association with the Sterling Area, 8 Feb. 1954 FED 302.

terms of production and trade policy more favourable than the continental one. In a long-term view the possibility of obtaining British loans and direct investment had to be emphasised, as well as the positive effects of joint economic planning. However, the group was worried that economic policymaking would take place in two separate groups, first within the Commonwealth, then bilaterally between Britain and Norway. In isolation this might well become a major problem. To move unilaterally without Sweden and Demark implied a political liability Norway 'could not readily accept'. A combination of Nordic co-operation and some kind of closer association with the sterling area might be a compromise. In that respect, the challenge was to solve the capital-formation problem and find other forms of joint economic planning with the British. The group ended their report with a long-term view:

It is not unthinkable that the development in Western Europe will lead to the establishment of a continental bloc . . . If this is to happen, the question of the Nordic countries' position would immediately be put on the agenda. Great Britain would, after all that is said, not support such a policy of European unification. The problem of our own and the other Nordic countries in this situation is whether to stay outside alone or seek an orientation either towards the Continent or towards the Commonwealth. There are no other alternatives. We believe that we in this situation ought to orient ourselves towards Great Britain and the Sterling Area.[49]

Much ado about nothing . . .

By the time the final report was submitted, the steam had gone out of the sterling area option. Further talks with the Danes and Swedes had revealed even greater reservations than before. Moreover, the British showed increased reluctance. Already in the summer a British representative, referring to Brofoss's letter to Butler, warned that the question was not as high on the British agenda as the Norwegians had presumed.[50] Later, the British showed their hesitancy by emphasising the many obstacles ahead. The Bank of England was possibly the most reluctant on the British side. It did not have much faith either in Norwegian economic policy or Norway's motives for entry: 'Norway's present internal financial policy would not be described by many as orthodox and she is also committed to a fantastically large investment programme which may well land her in difficulties.'[51] In the view of one bank representative, the Norwegian bid for sterling membership served 'solely as a means of raising additional capital to carry out her fantastically large investment programme'.[52] By autumn 1953 the bid for all practical purposes was abandoned, although as late as July 1954 Brofoss told the Bank of England's governor, Lord Cobbold, that from an economic point of view membership was desirable, but was politically impossible because of the Swedish and Danish attitude.[53] In the end it came to naught.

[49] Ibid.
[50] C. Brinch: Report on talks with MR. Eggers, UK treasury, 23 June 1953, FED 302.
[51] C. R. P. Hamilton to Miss Oppe (treasury), 17 Aug 1953, BofeE OV 26/19.
[52] P. M. by Mr. Hamilton, dated 13Aug 1953, BoE OV 26/19.
[53] Brofoss: Report on talks with Cobbold 19 July 1954, 22 July 1954, FED 302.

. . . or maybe not

One might easily dismiss the bid for sterling area membership as an episode of limited political significance, one that, with the benefit of hindsight, stands in an almost comical light. I beg to differ: not because I believe that the outcome is of importance or because I wish to deny the somewhat fantastical character of the Norwegian approach. What makes the episode interesting is the unique insight it gives us into Norwegian social democracy's prevailing foreign economic thinking. The importance of the episode does not rest on its outcome, but rather on why membership was placed on the agenda in the first place. The composite set of answers to that question is a fertile point of departure for understanding the Norwegian ambivalence towards multilateralism in the early phase of European integration. Moreover, this understanding might provide us with additional insight into why Norway turned out to be a future troublesome European as well.

The background to the sterling area bid is on one hand straightforward: the threat of an early British move on convertibility triggered Norwegian fears of a further contraction of credit opportunities, increased pressure to reduce its sterling surplus and increased dependence on Germany. Given these fears, membership was seen as a potential buffer to safeguard the modernisation programme from liberalisation and a shelter against some of the cost of growing multilateralism. On the other hand, that the prospect of a British move should trigger these reactions is by no means self-explanatory, and brings us directly to the core of post-war economic thinking.

The fears aroused were based on Norway's ambivalent attitude towards multilateralism, which began with its experiences during the depression. Multilateralism carried costs as well as benefits. The actual outcome of freer trade and payments depended on the policies pursued by the leading countries. A policy approach based on traditional liberalism would turn multilateralism into a potential source of deflation and unemployment. An approach based on the readiness of the leading countries to pursue progressive expansionist economic policies, on the other hand, would be positive both for the international economy and for the domestic agenda of Norwegian social democracy.

The conflicting views of the possible outcome of multilateralism can explain much of Norway's foreign economic outlook. By the early 1950s the Norwegian leadership clearly felt that the liberalist approach had gained the upper hand. Currency liberalisation and free listing had led to increased pressure for adjustment, while the benefits failed to materialise, or at least to be recognised as such. The attempts to persuade the other participants in the OEEC to follow the path chosen by Norway came to naught. Norway's allies were few and concentrated in northern Europe. There is a tangible feeling that the Norwegian social democrats regarded themselves as proponents of a unique experiment in pursuing progressive economic thinking – a 'city on the hill', a model for others to follow, but under constant threat from the forces of continental orthodoxy.

However, the prospect for future economic growth and welfare depended on the same multilateralism that threatened the existence of the 'city on the hill'. The growth policy based on capital imports, economies of scale and access to external markets made walking alone a non-option. The fundamental challenge was thus to find a model that allowed for participation in a multilateral framework while simultaneously safeguarding domestic choices.

Thus a British move to convertibility was both a threat to Norway and a window of opportunity. It released images of the worst perceivable horrors of multilateralism: convertibility would lead to a scramble for dollars and possibly give way to deflation, reduced economic activity and a reprise of 1931. Domestically the government's ambitious strategies would be jeopardised, as the country would have to dance to the tune of the continental liberals. However, the window offered the chance to resolve the fundamental challenge once and for all by joining the sterling area, seen as a possible safe haven against multilateralism, a source of increased trade within a sheltered market and a source of the capital imports vital to sustain the modernisation programme.

One of the more remarkable features of Norway's flirtation with sterling is that there is almost no reference to loss of sovereignty, this loose concept that became so important for explaining the popular rejections of Europe in 1972 and 1994. Only with reference to any continental integration scheme was the concept ever aired, and then in a negative form. However, membership of the sterling area would have involved no less a loss of sovereignty with regard to foreign-exchange policy and possibly also with regard to economic policy co-ordination. This lack of attention testifies to both the perceived serious character of the challenges facing Norway and the ambivalent nature of Norwegian attitudes towards multilateralism. To render sovereignty on an import field is not an easy matter for any national state: thus both the situation that triggers it and the perception of potential benefits must be substantial. Norwegian ambivalence was primarily motivated by perceptions of the forces that dominated the international economy. If other countries harboured the same aspiration as Norway, and the Norwegians were able to recognize this, multilateralism and even forms of multilateralism that involved a partial transfer of sovereignty would be quite acceptable. The increasing willingness of the Norwegian elites from the early 1960s to enter wider integration schemes might thus be interpreted as resulting from a change in perceptions of the continental countries as well as changes in British attitudes.

The optimal solution for Norway was a progressive economic bloc. From a political point of view Scandinavia was ideal. Here social democrats reigned or had set their mark on society; planning and Keynesianism were the pillars of economic thinking. However, size mattered. Only together with a major power with a huge market might the predicted benefits of economic expansion on a grand scale be realised. Britain came closest to filling this role. In addition to an economic policy that was considered progressive, it might help overcome the capital formation problem. In the early 1950s such an option was of course not realised, but the flirtation with the sterling area must be seen as a prelude to Norway's entry into the British-dominated EFTA some years later.

EFTA provided an efficient answer to Norway's problems. During the 1960s the area became a vehicle for increased trade between the members. The capital formation problem, however, was not solved by politically motivated flows as envisaged by the Norwegian Labour Party leaders, but from a rather different source; the revitalisation of the international capital market and the growth of foreign direct investments after 1960. That membership of the sterling area might have proved to be the window of opportunity as envisaged by Brofoss and his ilk is more doubtful. The area was in reality on the decline. Members grew more independent and Britain itself struggled to maintain competitiveness. The 1967 devaluation was a major blow to British hopes of shoring up sterling's position as the second international reserve currency against the looming challenge of the German mark and the Japanese yen. Increased dependence on and even integration with a troubled economy, with a sluggish growth record, would probably have failed to give Norway the desired growth impetus. Thus, with hindsight the very idea of membership came close to that of flogging a dead horse.

We often think about the past in broad, sweeping images. In this perspective, post-war Europe until the early 1970s is the story of unparalleled economic growth, the return of multilateralism and the creation of welfare states. Most literature on European integration and financial co-operation reflect this broader image – not in the sense that everything is reduced to harmony, but that conflicts are interpreted within an overall understanding of the period. In this perspective, the Norway's flirtation with the sterling area constitutes an anomaly which has attracted limited interest. The same can be stated with regard to Norway's ambivalent attitude towards multilateralism in the early 1950s. One reason for this is the question of size. A small country with peculiar ideas will attract little attention and will enjoy even smaller prospects for influencing outcomes. Another reason is the effect of time. In terms of economic results, Norway fits the overall story of the European golden age beautifully, and with the passage of time its reluctance to embrace multilateralism becomes little more than a distant memory, even for the Norwegians themselves.

What the story of Norway and the sterling area tells us is the importance of perceptions and ideas in shaping policies and strategies. In retrospect we can see that the Norwegian leadership was caught up in its own perceptions in a way that limited its options and outlook. Moreover, with hindsight we recognise that these perceptions mirrored rather obscure versions of reality. West Germany was not the bogeyman Norwegian leaders liked to envisage, but a country which, although methods might differ, developed a welfare-state system not that different from the Scandinavian. Although Britain was closer to Norway in terms of economic policy, the difference between northern and continental approaches was clearly exaggerated. The failed bid for early sterling convertibility – the very initiative that had triggered Norway's interest in the sterling area – was, after all, motivated by Britain's desire to tackle its domestic economic problems by a radical return to market forces. Had this been known at the time, the Norwegian response would, in all likelihood, have been quite different. Moreover, the Norwegian leadership clearly exaggerated both the potential costs of multilateralism and Norway's vulnerability had Britain moved towards early convertibility. However, leaders of the past did not act on the benefit of hindsight, but in accordance with their contemporary perceptions.

For how long did the Norwegian post-war scepticism towards multilateralism prevail? Among the general public some traces might even be found today. However, I believe that the present opposition to European integration reflects Norway's cultural perceptions, structural economic interests and scepticism towards forms of co-operation which imply a loss of formal sovereignty and a reduction in freedom of manoeuvre in domestic policy matters. The scepticism of the social democratic elites of the 1950s probably faded away in the subsequent decade. The continued growth of the international economy reduced the impact of the inter-war experience on Norwegian policy formation. By the 1960s the economic thinking of Norway and continental Europe converged, in Norway in the form of a reduced emphasis on direct regulation, and on the Continent in a newly found faith in indicative planning. Thus, the major obstacle to multilateralism – the perception that 'the others' pursued a different agenda – became less pressing and eased the way to a more positive embracement of multilateralism, in tune with the traditional liberal orientation of a small, open economy.