Context and Contingency: Explaining State Ownership in Norway

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At the present time, the Norwegian state owns a large number of business enterprises. The state controls around 35 percent of the total values on the Oslo Stock Exchange, and five of the seven largest listed companies are partially owned by the state, ranging from 34 to 64 percent. This article traces the background of state ownership from the formative phase of state involvement in the modern economy, and it demonstrates how this ownership provided growth in state enterprises after 1945. The broad support for large state enterprises is explained by ongoing national, political, social, and economic contexts. There is a high level of trust in the state, which is perceived as a protector of common interests. Broad support is also based on the fact that there is a lack of private investors and a strong inclination to restrict foreign influence in the domestic economy.

The Norwegian state is currently one of the world's largest business owners. Most of this ownership is managed by the Norwegian state's petroleum fund, which invests exclusively outside of Norway.[1] The state, nonetheless, is a predominant actor in the Norwegian private sector; not only does it directly own around one-third of the total value of the companies listed on the Oslo Stock Exchange, but it also disposes of many unlisted assets, foremost of which is its direct ownership of the oil resources on the Norwegian continental shelf.

This article focuses on the direct state ownership of commercial enterprises in Norway. The breakthrough for Norwegian state ownership

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1. The formal name of the fund is Government Pension Fund Global.

came just after World War II—as was the case for several other European countries—when a number of large firms were established or acquired by the state. State ownership in Norway was extended by the emergence of an oil industry in the 1970s and by the economic downturn in the same decade. Starting in the 1980s, other Western countries tended to reduce state ownership, but in Norway it has been the opposite.

This article investigates why state ownership in Norway remains so extensive. The root of this ownership is traced to the formative phases of state involvement in the modern economy, which provided the foundation for the growth in state enterprise after 1945. I argue that the broad support of the large state enterprise can be explained by three characteristics of the national political, social, and economic contexts: a high level of trust in the state as a protector of common interests, a persistent lack of robust private investors, and a strong inclination to avoid a powerful foreign influence in the domestic economy. From the 1970s though the 1990s, different contingent factors gave state ownership new content, the most prominent being the discovery of huge oil reserves on the continental shelf and the banking crises in the early 1990s (which extended state ownership to commercial banking). An argument in this article is that these contingent events were handled according to dominating values and traditions in the Norwegian political economy; this contributed to a reproduction of and strengthening of the conditions working in favor of state ownership.

The aim of this article is to make a contribution to a "history of the present,"[2] namely, the background and explanation for the existing large state ownership in Norway. I believe that this ownership is deeply rooted in a national context, and that history is more suitable than economic theory, for example, to explain its extent and scope.

The structure of this article is as follows. First, I outline the context of postwar state ownership in Norway, that is, the political, economic, and cultural factors influencing the specific reasoning and decisions in this area. This context, in the next section, is used to explain the emergence and characteristics of postwar state enterprise in Norway. In the following section, the emergence of the oil sector and the economic turmoil in the late 1980s and early 1990s is discussed, with emphasis on how financial and organizational solutions were shaped by and embedded in the Norwegian political economy. Finally, features of the present ownership in listed Norwegian companies are discussed, and a general summary concludes the article.

2. Spohr Readman, "Contemporary History in Europe."

A Comment on Methodology: Context and History

The debate on whether or not states should have large ownership has often been played out in arguments culled from economic theories and concepts that are common to many countries. Issues of natural monopolies, exploitation of rich natural resources, production of common goods, and so forth tend to provide arguments in favor of state ownership. Arguments against state ownership include a general tendency toward low efficiency in state-run businesses, and a number of formal and obvious challenges when the state both acts as an owner of business enterprises and defines the rules and overall framework of the game.

It is, however, difficult, if not impossible, to explain long-term systematic differences in state ownership between countries solely on the basis of such arguments. Though these factors can be compared from one country to the next, in individual countries they will be read into norms and historical experiences that are not immediately accessible, so this calls for other intellectual resources. According to a 2012 Gallup poll, Americans still view Big Government as the largest threat to society, much larger than Big Business, and this has been the case since Gallup started this polling in 1965.[3] Conversely, the term Big Government, with its fine combination of descriptive and normative elements, is basically untranslatable into the Nordic languages because of the large number of welfare states and a high trust in the government.

Key concepts such as state, government, and business inherently contain more general political and cultural norms that they transfer into the specific debate, but without these norms coming to the fore. In order to avoid glossing over national idiosyncrasies, it is the historian's task to "reinsert that which economic theory takes out," to borrow a phrase from Kenneth Lipartitio.[4] Following historical institutionalism (for example, see Peter Hall and David Soskice), factors that need to be reinserted include the agents' own understanding of challenges and possibilities—created through their shared experiences—which shape and coordinate their expectations for the future.[5] Moreover, factors like these are important in the context of how and why over time Norway has acquired ownership of commercial enterprises.

Historians often use "context" as an explanatory resource, at times without reflecting on the relation between the context and the

3. Jones, *Record High in U.S. Say Big Government*.
4. Lipartito, "Connecting the Cultural," 702.
5. Hall and Soskice, *Varieties of Capitalism,* 13.

phenomenon to be explained and on the researcher's role in establishing "context." What appears as context in an explanation, however, is always constructed or formulated by the researcher. The elements in the context should thus be explicitly discussed, whether theoretically or historically. It is necessary to explain how contextual factors influence a particular event or development, and how contingent events—which always play a role in the analysis of political and economic institutions over a long time span—both affect and are affected by context. Moreover, to explain how "context" is rooted in the perception of historical actors or their material and economic surroundings, it is important to avoid a passive transformation of the established opinions of the researcher into something called "context," which in the next moment is used to confirm the very same opinions.[6] However, this is often difficult to achieve.

"If we are to understand the fast-changing political and economic developments of our contemporary world, it is important to put them in the context of the long-term story of the underlying institutional structure of societies," writes Francis Fukuyama in his latest book, *Political Order and Political Decay*.[7] Fukuyama's context is basically a set of institutions, such as state structures, rules of law, and democratic accountability, which explain how "political order" has developed. The elements that constitute the relevant context are always selected by the relevant author. Unlike many historical narratives, this "contexting" is done explicitly in the opening chapters, in a process that acknowledges that context cannot be seen simply as something passive, waiting to be discovered. There are no self-evident criteria of what is more or less relevant when context is presented. The proof of the context is in the reading, in whether or not it facilitates a convincing interpretation of historical development toward the present political order.

Fukuyama does not always make explicit connections between context and the actions or perceptions of historical actors; however, this is not doable over long time spans; and conceptions tied to, for example, "democratic accountability" are difficult to trace outside political and academic institutions. However, the lack of such connections weakens context as an explanatory tool. I point this out because I do the same in the following analyses.

As stated above, since the mid-twentieth century, three main elements have been important for understanding the characteristics of state ownership in Norway: strong trust in (or a positive perception of) the state; an ongoing lack of robust private investors, and a desire

6. Asdal and Moser, "Experiments in Context and Contexting."
7. Fukuyama, *Political Order and Political Decay*, 7.

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to avoid foreign influence in the domestic economy. The latter two factors are relatively straightforward and easy to trace as elements in decision making in political and administrative systems. The attitude toward the role of the state is more complicated. Trust in state authorities is a recurrent topic in political and social theories that has received much attention over the last fifteen to twenty years. As some authors point out, people who support collective interests seem to have a positive perception of public institutions; this observation is in line with the high trust levels and large public sectors in the Nordic countries.[8] Trust in specific policy areas is often correlated with a more diffuse trust in government. However, trust can be lost over parts of public policy because of scandals and mismanagement, but without a change in the general perceptions of public institutions.[9]

Moreover, support for, and trust in, public authorities may be based on a structural legitimacy, meaning long-term positive experiences with the workings of government. As a number of scholars have underlined, trust developed over time will normally be rooted both in process (e.g., a competent, incorrupt service; adequate democratic procedures) and in the outcome and performance of tasks handled by public authorities.[10] In the following, both elements provide a background for how trust in the state is presented in this text.

The Context of Norwegian State Enterprises

The most decisive elements to understand expansion or contraction of state ownership include a broad perception of the state's role in the economy and the potential and legitimacy of private commercial ownership in general (which obviously is the only alternative to public ownership).

I begin with the state. The modern Norwegian state is relatively young. It was founded in 1814 in a moderately loose union with Sweden, but with its own constitution, and it achieved full independence in 1905. In line with the ideals from the American and French revolutions, the vestiges of nobility were ended in 1821, and a broadly conceived suffrage was introduced, where economic independence and political rights were interlinked so that all men who were engaged in independent economic activity, who owned a

8. Christensen and Lægreid, "Trust in Government"; March and Olsen, *Rediscovering Institutions*, 102f.

9. Bowler and Karp, "Politicians, Scandals, and Trust in Government."

10. Bouckaert et al., "Identity vs. Performance" gives a broad overview of the literature on trust in political science; see also Van de Walle, Van Roosbroek, and Bouckaert, "Trust in the Public Sector."

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home or land, or who had lifelong tenancy agreements could vote. As with the other Nordic countries, Norway was also religiously and ethnically homogeneous, something that helps explain an enduring lack of factional competition over the state as an apparatus of power.

Unlike its Nordic neighbors, as historian Francis Sejersted has highlighted, Norway did not have a community of wealthy magnates who could act as the national elite.[11] Instead, as commonly pointed out in Norwegian historiography, national and local civil servants became the leading political force during the nineteenth century.[12] Such civil servants were largely regarded as competent and honest. Accusations of corruption had been common throughout the seventeenth and eighteenth centuries, but these were reduced radically by the mid-nineteenth century.[13] The governing elite's ideals were liberal, albeit not in quite the same way as classical British liberalism. Rather, the Norwegian state was actively used to develop national infrastructure, such as roads and railways, and large investments were made to facilitate commercial development throughout the latter half of the nineteenth century.

The governing elite's project was at times controversial. Several popular counter-movements existed. They were, however, more rooted in demands for national values and political independence than similar movements in neighboring countries.[14] The agrarian opposition in the Norwegian parliament, the Storting, repeatedly called for reducing the state's investments, which would in turn reduce the need to generate revenue in the form of taxes and customs.[15] The notion that the state should actively expend its resources on facilitating economic activity became deeply ingrained from one generation to the next. The preindustrial modernization of the so-called civil service state of nineteenth-century Norway thus created an image of a strong state that was not dominated by any defined economic interests. Politically, early-twentieth-century Norway can be regarded as liberal, with fixed exchange rates, secure private property rights, free domestic and foreign trade, and a premium on legislative predictability.[16]

The industrial breakthrough in Norway first took place around 1900 as part of the Second Industrial Revolution, built upon heavy, energy-intensive industries.[17] The emerging industries and energy

11. Sejersted, "Den norske Sonderweg," 318f.
12. Seip, *Utsikt over Norges historie*.
13. Teige, *Korrupsjon i det norske og danske embetsverket etter 1814*.
14. Hilson, *Nordic Model*, 16.
15. Hodne, *Economic History of Norway,* Ch. 9.
16. Sejersted, "Demokrati og rettstat."
17. Hovland and Nordvik, "Det industrielle gjennombrudd i Norge 1840–1914 med samtidens og ettertidens øyne."

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resources were mainly financed and developed by foreign capital. This invasion of foreign capital just after the dissolution of the union with Sweden in 1905 motivated a number of concession laws regulating the ownership of natural resources, such as waterfalls, mines, forests, and cultivated land. A number of different interpretations of the debate exist. Core issues included strong expectations that the state should safeguard society against the undesirable effects of industrialization, in general, and of possible growth in foreign economic control, in particular.[18]

An important element in the concession of waterfalls—the main resource behind the rapid industrialization—was the system for the reversion of waterfalls. Waterfalls could be sold to private investors (normally international investors or enterprises), but after eighty years they had to be transferred back to the state. The Norwegian term for this institution of transfer is *hjemfall*, from *hjem* (home) and *fall* (fall, drop), and in contemporary debates, one often heard about the waterfalls being "returned" to the state or the public.[19] The latter term is interesting because the waterfalls had never been owned by the state; Norwegian farmers or landowners had owned them, and they sold them to foreign investors. Both concepts signaled a perception of the waterfalls as something that in a deeper sense belonged to the national community and its common institutions. However, the system of reversion became a central element not only in the politics of resource management, but also as a mechanism for growth in state ownership of energy resources when the concession periods ran out. The reasoning and concepts were integrated into later debates on energy policies and energy-intensive industries, and provided a strong connection with past experiences.

The postwar state ownership of industry is politically linked to the Labour Party (*Arbeiderpartiet*) and social democracy, as was the case in many European countries.[20] The Labour Party's electorate was created during the rapid industrialization in Norway; internationally, the party remained part of the socialist, anti-capitalist movement throughout the 1920s. In debates on general economic policy, the party typically viewed large-scale industry as an expansive, transformational force. The Labour Party formed a minority government in 1935. Implementing a policy for mitigating the effects of the Great Depression was a critical issue, but the practical, pragmatic instruments were

18. Kaartvedt, *Drømmen om borgerlig samling*, 275ff; Lange, "Concession Laws"; Nordby, *Venstre og samlingspolitikken 1906–1908*; Slagstad, *De nasjonale strateger*, 136ff.

19. Thue, *Statens kraft 1890–1947*, 90f; Lange, "Concession Laws."

20. Aharoni, *Evolution and Management of State-Owned Enterprises*; Parris, Pestieau, and Saynor, *Public Enterprise in Western Europe*.

a far stretch from the party's previous rhetoric, and there were few issues that really provoked the center-right opposition parties. The Labour Party remained in power, with a parliamentary majority, from the postwar general election in 1945 until the 1960s.

Over those years, the government apparatus became evermore dominated by a party that prioritized industrial growth, within a national context of a relatively weak capital base, strong foreign ownership, and a positive-pragmatic view of the state's role in facilitating modernization.

The Establishment of Large-Scale State Ownership

The major growth in state enterprises took place in the early postwar years, in Norway as well as in many countries in Western Europe.[21] In this section, I first briefly present the content and size of the ownership, and then highlight a few elements concerning the role of the state and of national and foreign ownership.

Norway acquired many diverse interests during the first five or six years after World War II, though this activity lessened in the subsequent period. In summer 1946 Parliament decided that the state should build a new aluminum plant in the small town of Årdal, on the western coast of Norway, and ironworks and steelworks factories in Mo i Rana in northern Norway. The following year, the state took over approximately 45 percent of the shares in the major chemical company Norsk Hydro, one of Norway's largest and most technologically advanced companies. The shares acquired by the Norwegian government came from German's part-ownership of Hydro: after the postwar reparations, the shares owned by Germans fell into the state's hands.[22] During the postwar years, the state assumed ownership of numerous mines and acquired lesser shares in a number of other commercial activities.[23]

The Labour Party's affinity for the manufacturing industry, combined with the fact that Norway still lacked strong private investors, is an obvious part of the explanation of why extensive state ownership occurred in these years. Historian Even Lange has pointed out that the vacuum left by an undeveloped milieu of private ownership was filled by the state as an entrepreneur, with state funds invested in

21. Aharoni, *Evolution and Management of State-Owned Enterprises*; Chick, *Industrial Policy in Britain 1945*–1951; Toninelli, *Rise and Fall of State-Owned Enterprise*, Ch. 1; Vernon and Aharoni, *State-Owned Enterprise in the Western Economies*.

22. Christensen, *Statens forhold til Norsk Hydro 1945–1952*, Ch. 1.

23. The text here and in the following is based on Grønlie, *Statsdrift*.

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steel, aluminum, pulp and paper, and many other sectors where the demand for capital investment was large and the risks substantial.[24] These were industries that were exposed to major, long-term, cyclical fluctuations in prices and profitability. The ironworks in Mo i Rana represents the most obvious example. The ironworks industry had been debated throughout much of the 1920s and 1930s, motivated by a strategic desire for the country to be self-sufficient in regard to iron and steel, a need that would be underlined in World War II.[25] However, the investments needed at the time could only be carried by the state.

Whereas all parties agreed to investment in iron, the new ownership of both the aluminum plant in Årdal and Norsk Hydro were politically controversial.[26] In these investments, the skepticism toward large foreign ownership—a central part of the context for state-business relations throughout Norwegian industrialized history—was mobilized. There was relatively broad consensus that substantial foreign ownership of Norway's Big Business was a problem; in fact, it was a national problem, as it was often called. This was not very different from the "national" arguments used in the debate over the concession laws forty years earlier. Norsk Hydro was an exceptional case by virtue of its size, name, and emblematic status as an innovator.[27]

I turn more explicitly to what I earlier labeled as a shared trust in the state as a tool for modernization and promotion of the common good. Since this element of the context is seldom (if ever) formulated directly, there is no strong connection between context and text, or context and any kind of expressions. Still, I believe that neither the entry nor exit from classic postwar state ownership contributed to a dramatic rupture of the perception of the state's relation to business life. Historian Tore Grønlie, who has explored state ownership in detail in several works, highlights the difficulty of identifying only a few, clear-cut motives behind such ownership.[28] Neither the state nor the Labour Party created a comprehensive, overall plan that clearly articulated the motives and strategies behind the postwar acquisitions. Rather, individual cases were justified not through extensive political or ideological reflections on free enterprise, the state, or society at large in postwar Norway, but in a pragmatic, matter-of-fact manner.[29]

24. Christensen, *Statens forhold til Norsk Hydro 1945-1952*, Ch. 1; Lange, *Samling om felles mål*; Sejersted, "Den norske' Sonderweg."

25. Grønlie, *Jern og politikk*, Introduction.

26. Asdal, *Politikkens natur–naturens politikk*, 23; Gjestland, *Storbedrift til et utkantdistrikt*; Grønlie, *Statsdrift*, 55, 77f.

27. Andersen, *Flaggskip i fremmed eie*; Christensen, *Statens forhold til Norsk Hydro 1945–1952*.

28. Grønlie, *Statsdrift*, 55.

29. Grønlie, *Jern og politikk*; Grønlie, *Statsdrift,* 379 ff.

The Labour government's belief in industrialization and its general dislike of the business community undoubtedly spurred its preference for the state to own and manage industry. It is, nonetheless, a crucial point that the party's and the government's leading strategists and operators set clear limits to the state's involvement. In the previous section, I emphasized the relative autonomy of the state as a tool to promote some kind of ever-changing "common" interest without being completely seized by competing groups or fractions. This is a large and rather complex issue; it is, however, noteworthy that the Labour government, despite its radical rhetoric, never used its authority to challenge the role or primacy of private ownership. This would have been perceived as a severe intervention, worsened the climate for cooperation with the state and various organizations, and challenged the traditional perception of the state as a tool for promoting shared national interests. Additionally, any form of nationalization in Europe would have cost money, as former owners—with the notable exception of those who had just lost the war—would have to be given compensation that was financially and legally justifiable. Nationalization had been chosen in the United Kingdom, even though the British state finished the war with a record level of debt, far in excess of those burdening southern European countries today.[30] In contrast, by the war's end, Norwegian public finances were enviably unstrained, with one key factor being the major revenue from Nortraship, the wartime shipping company administrating the Norwegian merchant fleet.[31] Following the Marshall Plan, starting in 1948, the Norwegian state was in a relatively solid financial position, with negligible state debt.

The Labour government was nonetheless against costly nationalizations, even by "good" and socially important companies. As Prime Minister Einar Gerhardsen emphasized in a speech at the Labour Party conference in 1947, the government would not want large-scale nationalization even if industry owners voluntarily stepped aside and said, "Help yourself." At the 1949 party conference, Vice Chairman Trygve Bratteli explained that state ownership of companies would have to take place without clear limits. State takeovers would require a great deal of capital and administrative man-hours; additionally, the state risked getting stuck with poor-performing companies that lacked long-term viability.[32]

30. The United Kingdom's public debt in 1946 was 250 percent of GDP, a greater percentage than after World War I, and roughly the same as after the Napoleonic Wars.

31. Eitrheim and Einar, *Noen riktig lange linjer*.

32. Bergh, *Storhetstid (1945–1965),* 195; Grønlie, "Norsk industripolitikk 1945–65," 113.

State ownership in Norway was substantial, but not remarkably so in an international perspective. Norway was never among the Western countries where state-owned commercial activity was really large, such as in France, Austria, and Italy. Calculations of state-owned companies' value adding, investments, and employment suggest it was approximately 20 percent for such countries in the 1960s, while the corresponding figure for the United Kingdom and Germany was roughly 10 percent.[33] Norway lies closer to the latter: according to calculations made in Norway in 1965, wholly and partly state-owned companies represented roughly 13 percent of the gross domestic product and 5.5 percent of the employed work force.[34] All these figures include the relatively large Norwegian railway sector, which inflates the Norwegian percentages somewhat when focusing on commercial businesses.

Oil Riches in Context

The North Sea oil discoveries in the late 1960s and early 1970s profoundly affected both the size and context of state ownership in Norway. At the same time, the solutions found were shaped by the very same context, initially directly, in that the government invested in or established new companies to manage the oil sector in accordance with political preferences and traditions, and later on indirectly, in that revenue from the oil sector enabled the government to maintain and expand wide-ranging ownership according to the same traditions.

The oil sector illustrates the shared positive-pragmatic view of the state, and perhaps above all how there were only small differences between the political parties. As mentioned above, the Norwegian state owned 44 percent of the fertilizer and metallurgy giant Norsk Hydro, where French interests remained heavily involved. By way of these French owners, Norsk Hydro began to cooperate with French oil companies in the North Sea, leaving the company with shares in two major fields: the Ekofisk oil field and the Frigg gas field. In 1971 the four-party center-right coalition government, which had been in power since 1965, invested heavily in Norsk Hydro and increased the state's ownership of the company from 44 to 51 percent. In 1967, the government had sold half of the shares in aluminum company ÅSV (Årdal og Sunndal Verk) to Canadian-based Alcan. The sale had been initiated by ÅSV's management, which feared for the company's

33. Toninelli, *Rise and Fall of State-Owned Enterprise*, pp. 21 and 242.

34. Grønlie, "Norsk industripolitikk 1945–65"; Thon, *Statsdrift i Norge og andre land*.

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future if it did not have any ownership for extraction and production of raw material (bauxite) or processing of melted aluminum. The state had not attempted any general restructuring of its ownership in previous years, but it now used its resources to acquire a majority share; the state reacquired Alcan's shares in 1974. At the time, it was speculated whether this acquisition was actually a defensive move, that is, that the government wanted to establish the semiprivate Norsk Hydro as the politically preferred instrument on the Norwegian continental shelf in order to avoid the founding of a purely state-owned company.[35]

The coalition government resigned in 1971 and was replaced by a Labour government. The new government's proposal that a purely state-owned company be founded was adopted unanimously by Parliament. Although the center-right parties were ideologically opposed to founding such a company, this opposition was not so strong that they voted against Labour's proposal. No greater, indeed, were the dividing lines on the state's role as an owner in the oil business. (At the same time, Danish authorities, without any substantial tradition of state ownership of commercial enterprises, left most of the oil exploration and production on its continental shelf to one single private company, the domestic Maersk-Møller.)

Parliament's explicit reason for founding a purely state-owned oil company, named Statoil, was to ensure "national control" over the oil sector, which was otherwise dominated by major international companies.[36] This reasoning was highly similar to the arguments for the rapid expansion of hydropower and industry at the dawn of the twentieth century: the context was also similar in that both cases featured rich natural resources that immediately attracted attention from established international companies. A new, but not unimportant, feature of the ownership was that the state aimed at a maximum "government take" from the oil sector. However, homogeneous tax rules entailed that the expected returns for especially promising fields were extremely high. State ownership became an effective solution to retaining as much of the economic rent as possible from the state's prime fields.

Statoil's founding took place in a period when the use of state companies in general was on the rise in the oil sector.[37] Specifically, the company was founded along with the expansion of ownership in Norsk Hydro, and at the same time as the political debate on

35. Johannessen, Rønning, and Sandvik, *Nasjonal kontroll og industriell fornyelse,* 322ff.

36. Ryggvik, "Short History of the Norwegian Oil Industry."

37. Klapp, *Sovereign Entrepreneur*.

Norwegian EEC membership in 1972. This debate served to accentuate demands for self-determination and national democratic control, in a rhetoric that was markedly opposed to big business, in particular foreign-owned big business.[38] The referendums in 1972 and in 1994 had a majority of votes against membership, leaving Norway outside the European Union. Also in the 1994 referendum, the fear of losing sovereignty and national democratic control was at the center of the electorate's resistance.[39]

The Critical Transformation of State Ownership

The structure of state ownership changed considerably in the late 1980s as a result of the poor performances of state-run companies, which dramatically reduced trust in the government as an active business operator. Nevertheless, this does not seem to have fundamentally affected the perception of state ownership as an active tool to promote national interests in the economy. I now present the anatomy of the failure, and then return to why and how state ownership was transformed.

Throughout the 1970s, the Norwegian state entered into a number of new projects outside of the oil sector, and became bolder in trying to find industrial solutions.[40] However, problems were manifold, triggered by a combination of an economic downturn, weak productivity, and high operating costs partly caused by the record-high wage settlements in the mid-1970s. There was often a blurred transition from government help (through inexpensive loans and various subsidies) to state ownership. The technology and dockyard sectors received long-term general support, and the state also invested in myriad other sectors, such as mining and electronics, in order to help at-risk companies.

The changes in state ownership were driven by problems "from below." During the 1980s both the newly acquired companies and several of the old state-owned flagships were going through a rough patch. From the mid- to late 1980s most of these companies were downscaled, closed, or sold to private companies. The divestment of the traditional state-owned companies began during the Conservative Party (*Høyre*) government that Kåre Willoch led until 1986,

38. Allen, *Norway and Europe in the 1970s*, Ch. 1; Valen, "National Conflict Structure and Foreign Politics."

39. Pettersen, Jenssen, and Listhaug, "The 1994 EU Referendum in Norway."

40. The general characteristics of the industrial policy are astutely outlined in Espeli, *Industripolitikk på avveie*.

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but most of the sales and closures took place during the subsequent Labour government led by Gro Harlem Brundtland. Norway followed the same trend as the rest of Western Europe, where states limited the extent of their involvement in the private sector.[41] This was partly caused by a turn away from state intervention in the economy in general.[42] However, unlike a number of other countries, Norway's retreat from postwar ownership neither created national political cleavage nor a general distrust in state ownership.

One reason for this is that negative results and performances—a well-known source of growing distrust in state authorities—were handled. The new outlook in the late 1980s in Norway was implemented not by liberal or conservative parties, as in the United Kingdom and many other countries, but by the Labour Party, the very instigator of state enterprise in the postwar era. Their arguments came out more as a gradual reorientation of how industrial policy should be conducted than as an ideological critique of a political position. "Ever since Gerhardsen's first government [in 1945], Labour has maintained that a number of challenges are best solved by the market forces," stated the minister of finance in a public debate in 1992. He explained that the state would retain a position as "a significant capitalist" in the coming decade, but after having adapted to the new challenges.[43] Gerhardsen would hardly have talked about the state as a "capitalist." Nevertheless, statements like these helped connect old visions with new realities, and they came from the politicians who had a legitimacy to make such connections, namely Labour's own leadership.

Nearly every major state-owned or state-run company was either closed or sold by the government. One of the most important changes occurred in the ownership of the state-owned aluminum company ÅSV. As previously mentioned, Alcan was brought in as a part owner in 1967, and the state reacquired Alcan's shares in 1974. After a long and complicated process, in which several Norwegian and foreign alternatives were assessed, the aluminum giant was sold to Norsk Hydro, of which the state owned 51 percent. In the public discourse, this was perceived as "privatization." What was the difference between the state owning 100 percent or 51 percent of a company? The main difference was that Norsk Hydro had a longstanding tradition as an independently run, publically listed company with strong private investors. Profitability was a core concern, and there was no tradition for the government to interfere with operational decisions. The management

41. Foreman-Peck and Federico, *European Industrial Policy*; Toninelli, *Rise and Fall of State-Owned Enterprise*.

42. Chick, *Governments, Industries, and Markets*; Foreman-Peck and Federico, *European Industrial Policy*.

43. *Dagens Næringsliv*, January 17, 1992.

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and the board were zealous about treating all stockholders equally, and resisted any signals from the government about increasing or maintaining production in certain localities for political reasons.[44]

The entirely state-owned companies were, of course, supposed to make money, although other considerations factored in. This included creating jobs, preferably in regions with slow growth and little industry. Arguments on national production of certain basic goods and products were featured prominently in major decision making. During potential cost cutting, layoffs, or closures, trade unions and local politicians frequently had direct access to the policy makers in Oslo, and often sidestepped the management of the local plant or company. It was, therefore, easy to undermine the command centers that strove to operate the given company in an effective, rational manner, and instead empower policy makers who were far removed from day-to-day operational decisions but who were vulnerable to disgruntled voters and influential backers.[45]

The "Norsk Hydro model" emerged around 1990 as the most financially viable blueprint for Norwegian state ownership. The company's private owners and its listing on Norwegian and international stock exchanges made the company more mindful of profits and return on capital. Norsk Hydro had never been bailed out from any financial or other crisis. The company also enjoyed a good relationship with the unions, largely avoided industrial conflicts, was highly cost conscious, and was a technological innovator both in its offshore oil production and in several of its land-based activities. More importantly in the context of this article's emphasis on context, the state added long-term stability to the ownership side with a majority share, and thus prevented a possible take-over from international companies. This element was a part of the public and political debate around Norsk Hydro, especially in the 1970s and 1980s when the company enjoyed favorable concessions in the oil extraction.

The Collapse of the Financial Sector: Crisis Resolution in Context

The first major company to follow the Norsk Hydro model was the defense contractor Kongsberg Våpenfabrikk, through a restructuring

44. Lie, *Oljerikdommer og internasjonal ekspansjon*—see Ch. 9 for a detailed discussion.

45. This is discussed in Lie, *Oljerikdommer og internasjonal ekspansjon*, 196ff., where the starting point is precisely the differences between Norsk Hydro and ÅSV through 1986.

after its collapse in the late 1980s. Kongsberg was followed by the country's largest commercial bank, DNB, after the banking crisis in the early 1990s. The crisis was contingent on other events, but the financial solution was distinctly Norwegian and illuminates the role of the state in a succinct manner. The reasons for the crisis have been analyzed elsewhere: after Norway's economic boom-and-bust in the mid-1980s, all major banks and many smaller ones lost all their equity capital when they had to make large provisions for losses in 1991 and 1992.[46] The government's supply of new equity capital was based on the principle that when the state became an investor, existing venture capital would be written off entirely in the event that all equity was lost, as was believed could happen for many Norwegian banks, including the country's two largest banks, which together represented over half of the Norwegian loan volume. In Norway, this practice was a given. In countries such as the United Kingdom, and especially the United States, in contrast, state capital is added without tight corresponding requirements that private owners be removed. The Norwegian principle is used in other countries, including Sweden, although not as directly as in Norway.[47]

Several measures were implemented; for example, before the state became involved and existing shares were nullified, government agencies, as external auditors, had to verify that the equity really was lost.[48] The state also attempted to induce other private owners to invest in the banks. When it was clear that the parties in question either could not or would not make such an investment, the state injected the capital to ensure sufficient equity for the banks to operate in accordance with banking regulations. These operations were generally not controversial in Norwegian public life; they incited some protest from existing shareholders but gained general support from all political parties.[49]

Although the tendency in the United States is, conversely, to let taxpayers, rather than the venture capitalists, take the hit, it is hardly because Norwegians (and to a certain extent Swedes) have a greater respect for the basic capitalist principles of risk and reward than Americans. On the contrary, it is likely that compared with the Nordic social democracies, the Anglo-American tradition has a greater acceptance for the risk–reward aspect of profit and loss that stems

46. Lie and Venneslan, *Over evne*; Moe, Solheim, and Vale, *Norwegian Banking Crisis*; St.R. No 75, "Report to the Storting No. 75 (1963–64)."

47. Moe, Solheim, and Vale, *Norwegian Banking Crisis*.

48. Ibid.

49. Bankkrisekommisjonen, "Dokument nr 17 (1997–98) Rapport til Stortinget fra kommisjonen som ble nedsattav Stortinget for å gjennomgå ulike årsaksforhold knyttet til bankkrisen."

from having a relatively weakly regulated free market economy. The most important difference is that the United States is generally more skeptical of involving the state as an owner of, for example, large commercial banks. Here, the Norwegian view of the state is more pragmatic: if necessary, the state can be used on par with private capital to keep the banks running; but, in that case, existing ownership interests would have to be eliminated, similar to how an alternative private owner would not accept that old share capital could continue as a "free rider" after the refinancing.

The resolution of the banking crises thus provides an example of the role of the state. One could make the argument that the banking crises exemplified the lack of a strong private capital basis as an alternative to state ownership. This would, however, push the concept of context too far; irrespective of the strength of private capital in normal times, it would have been difficult to engage large amounts of private capital in the midst of the vast liquidity drought created by the financial crises in the early 1990s.

The third element highlighted in the introduction, sentiments in favor of national control, influenced the subsequent management of state ownership of the banks. During the 1990s the state gradually sold its interests in the Norwegian banks, except for the largest bank, DNB, where the state kept 34 percent interest. Representatives of the government and a majority of the political parties stated in 1991 and 1992 that the state would retain a sufficiently large percentage of ownership to prevent a takeover from foreign investors. If not, "Deutsche Bank could buy DNB during a lunch break," as a Member of Parliament's Finance and Budget Committee said to a journalist.[50]

However, in the early 2000s, a general reason for having major shareholdings in publicly listed companies was provided. In a number of white papers, the government highlighted the need to preserve national ownership to keep the head offices of very large enterprises, with their financial, strategic, and technological competence, in Norway.[51] This became the official formulation of what earlier generations of politicians labeled as "national interests." The state not withdrawing its ownership in DNB is obviously part of this picture. In its structure, the state ownership of DNB is similar to the Norsk Hydro model.

Possible deregulation of the telecommunications sector was being explored at the same time—around 1990—although it took a few

50. *Dagens Næringsliv,* November 20, 1991; for a longer analysis, see *Dagens Næringsliv*, April 1, 1992.

51. Næringsdepartementet, "St. meld. No. 13 (2006–2007)–Et aktivt og langsiktig eierskap."

years for that solution to be adopted. The state enterprise Televerket was transformed into an ordinary corporation that was to compete with other companies in the previously monopolized market.[52] From 1994 to 1995, Televerket was legally transformed and renamed Telenor, and in the following years the company carried out a vigorous expansion in both Nordic and international markets—in Europe, and especially in Eastern Europe and Asia. In 2000 Telenor was publicly listed and partially privatized, and Norway retained a majority share; in early 2016 it was 54 percent.

Even the state-owned oil company Statoil became publicly listed and partially privatized, in part for reasons related to the company itself, the oil sector, and the Norwegian continental shelf. The change was initiated by Statoil's CEO, who wanted a more independent role for the company. As the recommendation of the Parliament Committee pointed out, the state's total ownership prevented Statoil from "being subject to the same market-based monitoring as its competitors." This point reflects previous experiences with maintaining profitability, cost-awareness, and adaptability in the traditional state enterprises, and the more specific recognition that Statoil had a higher cost level than other companies on the Norwegian continental shelf.[53]

The public listing and partial privatization of Statoil created a debate within the Labour Party. A number of party veterans, strongly connected to the classical postwar ownership, protested intensely against bringing Statoil to the stock market. One of their arguments was that the state could no longer use Statoil as a tool for promoting common or Norwegian interests (except as remaining a Norwegian company). This critique had some relevant points. Partial privatization implied that practical, commercial considerations gained predominance over "politics." Any operation's decision making had to be justifiable to all shareholders, not only the state, which normally has a number of motives, including financial returns.[54]

A number of smaller transformations were carried out with less conflict. Raufoss ammunisjonsfabrikker—a smaller defense contractor—was reorganized and sold. The civil section, engaged in the production of aluminum structures, was sold to Norsk Hydro, and the ammunition section to a Finnish company. Statens kornforretning (a publically owned grain wholesaling company) was reorganized as a public company in 1995. It purchased a fish food producer the next year; then

52. Grønlie and Flo, *Den nye staten?*, 175f.

53. Recommendation from the Standing Committee on Energy and the Environment concerning Ownership in Statoil and the Future Management of the State's Direct Financial Interest. Recommendation to the Storting no. 198 (2000–2001).

54. Andersen, "Politisk styring eller markedstilpasning av Olje-Norge."

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moved into fish farming; divested its original wholegrain activities; became listed on the stock exchange; and finally was sold to Mitsubishi Corporation in 2013 as a successful company without "strategic interest" of the Norwegian state.

Other producers of public utilities, such as Statkraft—the main producer of electricity in Norway—the post service, the transporting section of the national railway, and the construction division of the Statens vegvesen (Norwegian Public Roads Administration) were organized in the 1990s as public companies to enable them to operate commercially in open national and international markets. These companies, however, remain fully owned by the state.

The Size and Stability of the New State Ownership

With the public listing of Telenor and Statoil, the Norwegian state's ownership in listed companies increased greatly, though it is more a matter of an ownership taking on a new guise than an expansion. After 2000 important structural changes originated with the partitioning of the former industry conglomerate Norsk Hydro. The old core business, the production of fertilizers, was spun off to a new company, Yara, which became the world's largest producer of nitrogen fertilizers. Hydro itself continued as one of the world's leading aluminum companies; and in 2007, Hydro's oil and gas division was transferred to Statoil, with the state retaining a 67 percent interest.[55]

The state, as a major shareholder, approved the restructurings during general meetings, and management and various boards recommended the restructurings as being in the interest of all the shareholders. This division of labor, in accordance with general principles of governance, has stood the test of time through recent decades, perhaps surprisingly so. The state has refrained from intervening in decisions made by corporate bodies, and it has allowed companies to take part in a number of mergers and acquisitions. The shareholder returns of the publically listed state-controlled companies generally show a good return on capital, compared with average performances in relevant sectors.[56] In the 1990s, financial analysts often talked about a "state discount" in companies with large state ownership, which implies a lower market value as a result of the state's investment. Over the last decade, the talk about state discounts seems to have vanished.[57]

55. This information is from Report to the Storting no. 13 (2010–11), *Aktivt eierskap*.

56. Sirnes, "Samme avkastning for statlige selskaper og indeks."

57. Lie, Myklebust, and Norvik, *Staten som kapitalist,* Ch. 10.

This is, in light of previous research, not surprising. Robert Millward, in a number of studies, has pointed out that state-owned enterprises normally have a number of objectives, some related to social and political questions, and some related to security and defense strategies.[58] Financial returns are normally only one of several aims behind state-owned enterprises. The dominant Norwegian reason can be regarded as a pragmatic, commercial-oriented solution. Political objectives are not removed, but they are confined to preserving national ownership, and that can be achieved without discretionary involvement in business operations.

The performance of these enterprises is important for the general support of state ownership today, as it contributes to the general trust in the present model. But this is not, strictly speaking, an explanation of why cabinet ministers in Norway have refrained from engaging in operational questions. In the postwar era, lessons from the government-managed state enterprises have played a role in today's more disciplined behavior. An important argument made in white papers from various cabinets is that minority shareholder interests in listed companies should be protected.[59] A state, which is ultimately responsible for stock exchange regulations through its legal system, could hardly hold any other opinion. Still, it seems reasonable to take this argument seriously when explaining the political restraint in the new ownership model.

A new contingent factor, Norway's large financial investments, made possible and necessary by the state's large financial surpluses from oil activities, has supplied the national context for state ownership with some new considerations. The Norwegian state itself is more a larger minority shareholder than majority shareholder: it is a major investor in the Norwegian private sector by way of the Government Pension Fund, originally established as an asset manager for the national insurance scheme. The Norwegian Petroleum Fund (formally named the Government Pension Fund Global) is the largest sovereign fund in the world, with minority ownership interests (up to a few percent) in a very large number of international companies.[60] Both organizations are focused on establishing corporate rules that protect minority shareholders, and this curbs interventionist urges

58. Millward, "Business and the State"; Millward, *Private and Public Enterprise in Europe*.

59. Næringsdepartementet, "St.meld. nr. 22 (2001–2002)–Et mindre og bedre statlig eierskap"; Næringsdepartementet, "St.meld. nr. 13 (2006–2007)–Et aktivt og langsiktig eierskap"; Næringsdepartementet, "Meld. St. 27 (2013–2014)–Et mangfoldig og verdiskapende eierskap."

60. Kjær, "The Norwegian Petroleum Fund."

when the state sits as the predominant owner. This dual role explains the state's large yet passive ownership in publicly listed companies.

Another underlying factor explaining the consensus surrounding the present ownership is the same combination of commitment to governance principles and the extent of state ownership. In the postwar era, liberal and conservative parties argued in favor of smaller state ownership and less intervention from politics in the business sphere in general, while the Labour Party and the Socialist Left Party held opposite views. The present state ownership is, however, much larger than the latter camp could have anticipated in the 1980s, and it is managed with more discipline and commercial professionalism than the former camp could have expected a few decades ago. As a result, each political party has an important stake in today's solutions.

A prominent and persistent contextual factor in preserving state ownership, in addition to the positive-pragmatic perception of the state, is that private Norwegian investors do not have the capacity to buy large numbers of state shares in the largest enterprises, such as Statoil, Telenor, and Hydro.[61] The Norwegian state currently owns around 35 percent and foreign investors 37 percent of the Oslo Stock Exchange. The unusually large figure is for domestic private investors, where private companies own around 15 percent and private individuals between 3 and 4 percent. In neighboring Sweden, which exhibits a number of shared characteristics in the general political economy, the business media has for a long time referred to the "fifteen families" as the backbone of Swedish corporate ownership. These families, often with long traditions of business ownership, control some 70 percent of the Stockholm Stock Exchange. There is no equivalent to these families in private Norwegian corporate ownership.

Thus, there is no alternative to the state if national ownership is to be preserved. In the present debate, national sentiments have been mobilized in favor of this argument. The current cabinet, formed by the Conservative Party and the rightist *Fremskrittspartiet* (Progress Party), presented a white paper on the guidelines for managing state ownership in the years to come. Among the government propositions were to sell the fully state-owned airport train serving Oslo Airport and a reduction of state ownership shares from more than 50 percent to around 34 percent in both Telenor and the technology firm and defense contractor Kongsberg. This would have reduced the state's share of the Oslo Stock Exchange from about 35 to between 32 and 33 percent. This created a heated campaign against the government for "selling out Norway," in which metaphors from the postwar

61. Lie, Myklebust, and Norvik, *Staten som kapitalist*, 181f.

reconstruction were mobilized to characterize the cabinet ministers as "those who sold our country," contrary to "those who built it." The metaphor was picked up by the head of the opposition: the leader of the Labour Party.[62]

From the outside, the agreement around vast state ownership is more striking than the differences. It is worth noting that the fear of being owned or governed from abroad is still a strong mobilizing force, even though Norwegian ownership abroad, through Norwegian multinationals and especially the state's petroleum fund, is obviously much larger than foreign investment in Norway.

Conclusion: The State and the Context of Ownership

The argument in this article is that Norway's present ownership is not only through government wealth, but also through a context characterized by a lack of strong private owners, skepticism against foreign influence, and a high trust in the state as a promoter of the common interest in economy and society. This context has not "determined" policies and solutions, but it has allowed for certain strategies while closing the door on others. Contingent factors, like the oil incomes and banking crises, have also affected the size and forms of state ownership. They have been handled according to dominant traditions and values in the Norwegian political economy, and they supported and strengthened the factors working in favor of state ownership.

One could ask if path dependency has been exacerbated over time. The state became involved to compensate for weak private ownership, and it is the state and not private ownership that has grown over time, especially after the emergence of the oil sector. However, that is not the case, at least not from a long-term perspective. The state enterprises of the postwar era did not accrue large amounts of capital, though this is obviously not the case since the growth of the oil sector: Statoil is built on Norwegian resources, and Norsk Hydro expanded tremendously through its oil division. The position enjoyed both by Hydro and the fertilizer company Yara would not have been achievable without access to financing from the oil sector starting in the late 1970s and onwards.[63]

Except for the past two or three decades, Norwegian state enterprise cannot be explained only by the accumulated effects of previous ownership, but also by Norwegian political and cultural perceptions of the state, and partly of the private sector. The Norwegian context

62. *VG*, January 25, 2015.
63. Lie, "Market Power and Market Failure."

is characterized by relatively weak national financial milieus, a reluctance against extensive foreign ownership in the economy, and a positive–pragmatic view of the state. While the *positive* perception of the state has been evident since the 1800s, the pragmatic element should also be included to underline the broad support of the state across the political spectrum as a tool for preservation of national interests.

Key political agents seldom explicitly articulate the general understanding of the state's function and purpose. It is, however, reproduced and recreated in that the state's pragmatic problem-solving role in one case after another. The state took an active role in controlling and regulating foreign ownership in the critical years of growth, starting in 1905 (with the dissolution of the union with Sweden) with a manufacturing industry and large capital inflows. The postwar state enterprise was a result of a coproduction of factors and the Labour Party's urge to industrialize. The later organization of the oil sector was characterized by a strong trust in the state as a tool for promoting public interests, and an even stronger imperative to preserve "national control." The retreat from traditional state-owned industry was painful and caused a number of local conflicts, but it did not create a general political cleavage on the national level or discredit state ownership as such. One reason might be that the restructuring was implemented by the Labour Party, the proponent of state enterprise in the postwar era, and not by conservatives and liberals. Their arguments were presented as a gradual, pragmatic reorientation of how industrial policy should be conducted, not as an ideological critique of past policies.

For now, the current model of ownership is protected by favorable financial outcomes and by a Norwegian public that is strongly inclined to favor national ownership. The state is the only available tool, but it is a highly trusted tool. This deep-rooted trust in the state as an agent for the common interest, an affinity for national self-determination, and skepticism of foreign ownership is why there is a high degree of consensus for large state ownership in Norway.

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