Reformers between theory and ideology: Government economists and 'neoliberalism'

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The late 20th century saw a remarkable shift in economic policymaking. Starting with Ronald Reagan and Margaret Thatcher in the USA and UK, post war dirigiste systems for fine tuning the economy were swept away by liberalizations and privatizations, reforms aiming to free markets domestically and internationally, encouraging private enterprise and innovation. In the 1980s and 90s, the wave swept Western Europe, the developing countries of Africa, Asia, and Latin America and, with dramatic effects, the former communist states of Eastern Europe and Central Asia. Even the People's Republic of China, the last major communist stronghold, imitated these reforms under Deng Xiaoping and his successors. The changes had effects on the World economy so profound and far-reaching that we are still struggling to grasp them. 'Future historians may well look at the years 1978–80 as a revolutionary turning-point in the world's social and economic history', writes geographer David Harvey in one influential account of the shift.[1]

This paper will contribute to our understanding of the late 20th century shift in economic policymaking. It will do so by exploring the role of ideas. Most historians, including David Harvey, agree that ideas are somehow necessary to explain the shift.[2] The economic, political, and institutional circumstances were simply too different to foster such a uniform political thrust by themselves. Arguments for reform, on the other hand, had many similarities across different countries. Ideas do not float freely, however. It seems reasonable to assume that the general shift to market oriented policy in the late 20th century can be explained at least partly by the development and spread of a specific set of ideas, beliefs, or notions.[3]

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[1] David Harvey, *A Brief History of Neoliberalism* (Oxford: Oxford University Press, 2005), 1.

[2] For works specifically on the role of ideas in the international transformations of the period, see Daniel Yergin and Joseph Stanislaw, *The Commanding Heights: The Battle for the World Economy* (New York: FreePress, 2008 [1998]); Mark Blyth, *Great Transformations: Economic Ideas and Institutioonal Change in the Twentieth Century* (Cambridge: Cambridge University Press, 2002); J. L. Campbell, *Institutional change and globalization* (Princeton NJ: Princeton University Press, 2004). There are also a long range of specialized studies that rest on some variant of ideas/notions/beliefs to explain change in this period, as will be clear from the following notes.

[3] The theoretical points are laid out in Peter A. Hall, "Policy paradigms, social learning, and the state: The case for economic policymaking in Britain," *Comparative Politics* 25, no. 3 (1993); Kathleen R. McNamara, *The currency of ideas: Monetary politics in the European Union* (Ithaca: Cornell University Press, 1998); Peter M. Haas, "Introduction: Epistemic communities and international policy coordination," *International Organization* 46, no. 1 (1992).

Many historians agree that these ideas are to be found in the economics discipline. The discipline was institutionalized over the course of the 20th century, gaining a fairly uniform international outlook based on a set of 'mainstream' theories and models. Many point to a set of new theoretical or conceptual innovations gaining prominence in mainstream economics in the 1970s, related to concepts like supply side economics, rational expectations, public choice, and monetarism. These innovations seemed to suggest — and were sometimes invoked explicitly to justify — the kind of liberalization policies conducted by Thatcher, Reagan, and numerous other politicians.[4]

There is, however, little agreement in the literature about what role exactly these economic ideas played. One strand of literature ties the new economic ideas of the 1970s closely to the concept of *neoliberalism*. It tends to explain late 20th century reforms ultimately by the rise of a neoliberal ideology rooted in Austrian economist-philosopher Friedrich A. Hayek's ideas. Hayek argued that states would best secure welfare, prosperity, and freedom by ensuring markets operating with minimal government interference.[5] They see the rise of new trends in 1970s economics as testimony to the success of Hayek, via shrewd intellectual entrepreneurship, to influence the development of American mainstream economics.[6] Although few in this strand examine exactly *how* neoliberal thought formed the economic theories in question, the assumed close links between neoliberal ideology, the economics discipline, and liberalizations forms a crucial premise for their line of argument.

Another strand of literature highlights that the innovations of 1970s economics were deeply rooted in the 'neoclassical' foundations of mainstream economics.[7] Becchio and Leghissa emphasize how the neoclassical framework, developed already in the late 19th century, created a powerful conceptual framework centered on individual utility maximization and on the market as a way to reach economic stability and welfare. These foundations made a return to market analysis and market solutions natural

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[4] This view is reflected in many of the abovementioned works. For a more explicit account, see Daniel Stedman Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal politics* (Princeton: Princeton University Press, 2012).

[5] See in particular Philip Mirowski and Dieter Plehwe, eds., *The Road from Mont Pelerin: The Making of the Neoliberal Thought Collective*, 2nd ed. (Harvard University Press, 2015); Quinn Slobodian, *Globalists: The End of Empire and the Birth of Neoliberalism* (London: Harvard University Press, 2018); Edward Nik-Khah and Robert Van Horn., "The Ascendancy of Chicago Neoliberalism," in *The Handbook fo Neoliberalism*, ed. Simon Springer, Kean Birch, and Julie MacLeav (Routledge, 2016); Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal politics*. A particularly relevant contribution in the context of this paper is Ola Innset, *Markedsvendingen: Nyliberalismens historie i Norge* (Oslo: Fagbokforlaget, 2020).

[6] Nik-Khah and Horn., "The Ascendancy of Chicago Neoliberalism."; Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal politics*.

[7] John L. Campbell and Ove K. Pedersen, eds., *The Rise of Neoliberalism and Institutional Analysis* (Princeton: Princeton University Press, 2018 (2001)); Giandomenica Becchio and Giovanni Leghissa, *The Origins of Neoliberalism* (New York: Routledge, 2017); Yahya M. Madra, *Late Neoclassical Economics: The Restoration of Theoretical Humanism in Contemporary Economics* (New York: Routledge, 2017). For a slightly different, but closely related line of argument, see Johanna Bockman, *Markets in the Name of Socialism: The Left-Wing Origins of Neoliberalism* (Stanford: Stanford University Press, 2011).

when dirigiste policies began to struggle into the 1970s. Neoliberal ideology and entrepreneurship, in other words, was not necessary for economists to develop market normative theory or advocate the virtues of the market.

We see that the different strands of literature form competing hypotheses. Although several authors, including abovementioned David Harvey, try to ride both horses, they suggest a very different interpretation of the relationship between 'neoliberalism', the economics discipline, and market reform. If neoliberal ideology was crucial for economics' newfound 1970s love for markets, then the significance of the disicpline's 19th century neoclassical heritage must be secondary. But if neoclassical economics already provided the ideas necessary for the turn to the market, then authors' insistence on the role of neoliberal ideology and entrepreneurship must be exaggerated.

This paper seeks to test these hypotheses. If we can identify the actual arguments that were used to justify concrete market-oriented reforms in the late 20th century, we can also say something about what theoretical notions they rested on. We would then also be able to trace the likely historical sources for these theoretical notions. By separating clearly between the pre-1945 neoclassical or mainstream economics and the independent, new contributions of the 1970s, we can say something about to what extent the actual arguments for reform were 'neoliberal' or 'neoclassical'. This is important if we are to explain the intellectual origins of market reform. It is equally important to assess the overall importance of distinctly neoliberal ideology, and hence, perhaps, of the highly controversial neoliberalism concept itself.[8]

Economist practitioners and market reform

To test these hypotheses, we must leave the lofty heights of ideological entrepreneurship and enter the murky corridors of government. Historical institutionalists point out that economic policymaking is complex, fraught with uncertainty. This leads politicians to delegate de facto decisions to technical experts in the civil service, often in day-to-day discussions on technical problems.[9] The murky corridors, accordingly, is the place where economic ideas and policymaking practice meet. The economist

[8] On the controversies over the term, see Rajesh Venugopal, "Neoliberalism as Concept," *Economy and Society* 44, no. 2 (2015); Damien Cahill, "Ideas-Centred Explanations of the Rise of Neoliberalism: A Critique," *Australian Journal of Political Science* 48, no. 1 (2013); Kim Phillips-Fein, "The History of Neoliberalism," in *Shaped by the State:Toward a New Political History of the Twentieth Century*, ed. Brent Cebul, Lily Geismer, and Mason B. Williams (Chicago: Chicago University Press, 2019).
[9] Hall, "Policy paradigms, social learning, and the state: The case for economic policymaking in Britain."; McNamara, *The currency of ideas: Monetary politics in the European Union*.

profession had by the 1970s become the key profession in government policymaking apparatus of most countries.[10]

Numerous studies have shown how these economic policymaking practitioners, government adviser, central bankers, and civil servants — under very different historical circumstances and with very different arguments — served as proponents for the very market reforms that changed the late 20th century world.[11] It is to these economic practitioners we must turn when finding the decisive arguments for market reform.

We will use Norway as a case study, exploring the roots of Norwegian government economists' urge for market-oriented reform in the 1970s and 80s. The choice is partly a pragmatic one, since Norwegian government economists constituted a relatively small and tight-knit group whose views I happen to know well and whose impact on policy outcomes is well documented. But it can also be argued that Norway is particularly interesting because of the special significance economic practitioners' ideas had in the Norwegian historical context.

Like most other Western European countries, Norway experienced a rise and fall of state-led dirigisme in the second half of the 20th century. The Second World War had imposed controls on capital, foreign currency and domestic prices, and controls were only gradually lifted into the 1950s and 60s. Inside this framework, Norway like its European neighbour countries retained capitalist institutions while retaining a relatively high level of government intervention, a common West European trend associated with the term 'embedded liberalism'. Inside this framework into the 1950s, 60s, and 70s, however, Norway arguably developed one of the most elaborated regulations systems outside the Communist Bloc. In the 1970s, Norwegian attempts to steer wage formation went further than in most European countries. Its commitment to Keynesian stabilization policy was firm. State enterprise was beginning to dominate industry, not least Norway's emergent oil and gas industry. The most characteristic aspect of Norwegian dirigisme, however, was a financial system where a complicated network of government banking institutions, bond market regulations, and interest rate regulations sought to skew credit to politically favoured purposes while maintaining below equilibrium interest rates.[12]

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[10] A. W. Bob Coats, ed., *The Development of Economics in Western Europe since 1945* (London: Routledge, 2005).

[11] Cornel Ban, *Ruling ideas: How global neoliberalism goes local* (Oxford: Oxford University Press, 2016); Juliet Johnson, *Priests of prosperity: How central bankers transformed the postcommunist world* (Ithaca: Cornell University Press, 2016).

[12] Einar Lie and Eivind Thomassen, "A Norwegian fixation: Explaining cheap money in Norway 1945-1986," *Scandinavian Economic History Review* 64, no. 2 (2016).

The fall of this dirigiste system is usually traced in the economic difficulties that all West European countries experienced in the 1970s and 80s. Slower growth and rampant inflation made it difficult to maintain full employment and a stable balance of payments. Unlike other countries, such as the UK , where the ‘stagflation’ of the 1970s is seen to have contributed decisively the tun to market-oriented policies, Norwegian authorities managed to maintain full employment and relatively low inflation into the mid-1980s. This was in large measure due to the discovery of oil and gas on Norway’s Continental Shelf, allowing more freedom in policy choice, also into the 1980s and 90s.

Only in 1986 did Norwegian authorities turn decisively away from its dirigiste approach. By then, a 1984 reform had largely liberalized domestic credit while maintaining below equilibrium interest rates, fueling a credit boom and new rounds of inflation. When a sudden drop in oil prices in 1986 led to a sharp deterioration of the balance of payments, Norwegian authorities were forced to fight inflation the hard way, by raising the interest rates. The policy came at the cost of rising unemployment and, eventually, a credit crunch and systemic banking crisis in the early 1990s.

This shift triggered a broad range of reforms reducing the extent and nature of state intervention in the economy. Means of industrial protectionism were abandoned and taxation systems reformed. The role and reach of state credit institutions were altered into the 1990s. Reforms culminated in the signature partial privatizations of Statoil and Telenor in 2001, state-owned giants in Norwegian oil and telecom. ‘1986 constitutes a turning point in the history of Norwegian economic policymaking’, writes Einar Lie.[13]

Politics seems at first glance to explain much of the rise and fall of Norwegian dirigisme. The rise of dirigisme in the 1950s, 60s, and 70s was accompanied by the exceptional dominance of the Norwegian Labour party, a staunch proponent of a strong state presence in the economy. It commanded a majority of seats in the Norwegian parliament 1945–63 and exercised government power until 1981, except for the years 1965–71 and two very short interludes. The criticism against dirigisme in the 1970s and 80s was likewise spearheaded by the Norwegian Conservative party leading government from 1981 until the turning point in 1986.

Many Norwegian historians have played down the role of top-level politics, however. Conservative reforms of the 1980s were selective, and restricted on matters of economic policy. It was a Labour party government, returning to office in 1986, that took the decisive steps away from dirigisme and that hindered a return to regulation in the decade that followed.[14] The iconic reforms of the 1990s and

[13] Einar Lie, *Norsk økonomisk politikk etter 1905* (Oslo: Universitetsforlaget, 2012), 140.
[14] Lie, *Norsk økonomisk politikk etter 1905*.

early 2000s were largely the work of Labour governments. In Norwegian accounts, the Labour party is seen as the paradoxical figurehead of 'neoliberal' policy.[15]

Einar Lie has to a large extent, together with many other Norwegian historians, explained both rise and fall of Norwegian dirigisme by the rise and fall of dirigiste ideas among Norwegian government economists.[16] A crucial figure in these narratives is Erik Brofoss. Erik Brofoss was the first trained economist to hold a top political post within the Labour party regime as a minister 1945–54, first of Finance, then of Trade. Brofoss is seen as the mastermind behind the Norwegian dirigisme and of the institutional structure that he composed to execute it. Brofoss, moreover, is seen to have played an important role in securing fellow economists their key position within this new institutional arrangement.

Brofoss' institutional structure centered on the Ministry of Finance. After some experimenting in the late 1940s, it was this Ministry he chose as the nucleus of macroeconomic planning and policymaking in the early 1950s, adding these tasks to the Ministry's traditional responsibility for state budgeting. The Ministry of Finance, thanks to this powerful combination, became the closest Norway got a 'super ministry'. Brofoss made the Norwegian bureau of statistics, Statistics Norway, the most important partner to the Ministry, as the official supplier of models and statistical data required for the Ministry's planning. The University of Oslo, supplying these institutions with newly trained economists, was seen as a third pillar of Brofoss' institutional structure. The structure was with time referred to as the *Iron Triangle*, hinting at the power embedded in it. The position of the University department would, however, gradually be supplanted by Norges Bank, the Norwegian central bank, where Brofoss became governor 1954–70.

Many of the economists Brofoss recruited soon rose to prominent positions within this institutional system. Two of his early favorites, Petter Jakob Bjerve and Odd Aukrust, became key in developing the planning models and statistics at Statistics Norway, as chief director 1949–80 and director of research 1953–84, respectively. Another early recruit, Eivind Erichsen, became the *éminence grise* of the powerful Ministry of Finance as secretary general 1958–87. A fourth favorite, Knut Getz Wold, became Brofoss' deputy at the central bank 1958–70 and his successor as governor 1970–85. Several others could be mentioned. One economist that would become particularly important, however, was Hermod

[15] Innset, *Markedsvendingen: Nyliberalismens historie i Norge*.

[16] Einar Lie, *Ambisjon og tradisjon: Finansdepartementet 1945-1965* (Oslo: Universitetsforlaget, 1995); Einar Lie and Christian Venneslan, *Over evne: Finansdepartementet 1965-1992* (Oslo: Pax, 2010); Trond Bergh, "Norsk økonomisk politikk," in *Vekst og velstand: Norsk politisk historie 1945-1965*, ed. Trond Bergh (Oslo: Universitetsforlaget, 1977); Bergh, "Norsk økonomisk politikk."; Tore Jørgen Hanisch, Espen Søilen, and Gunhild Ecklund, *Norsk økonomisk politikk i det 20. århundre: Veivalg i en åpen økonomi* (Kristiansand: Høyskoleforlaget, 1999).

Skånland. He became one of the leading figures in the Ministry of Finance 1953–71, where he headed the powerful economics division from 1960. Skånland then became a remarkably influential deputy central bank governor 1971–85 and then governor 1985–94.

From the 1970s onwards, these Norwegian government economists took many initiatives to reform the dirigiste system. Historians have seen these initiatives as important in paving the way for market-oriented reform. The initiatives were made in very different forms, some as internal memos, some in the form of official expert committee reports. Skånland from time to time even shared his viewpoints with the press. The message can be difficult to interpret, seeking to balance calls for change with a sense of loyalty to their political masters. Historians nevertheless agree that the general thrust of these initiatives was for relaxing dirigisme and increasing the role of the market. Deputy central bank governor Hermod Skånland is seen as particularly important in promoting such advice. Many initiatives were rejected by politicians, but some were accepted. Partial reforms prior to 1986, such as the liberalization of lending restrictions in 1984, are believed to have contributed to the breakdown of 1986 and to make a return to regulation technically impossible.[17]

Existing literature has to a large extent explained the rise and fall of Norwegian dirigisme by the rise and fall of dirigiste ideas in the education of Norwegian economists. Brofoss and the key post war government economists were all educated at the University of Oslo. Here, Professor Ragnar Frisch had instituted the first educational program for professional economists in the 1930s. Søilen, Bergh, Hanisch, and Lie all emphasize Frisch's strong enthusiasm for planning and regulation. Frisch's views were so characteristic and influential, according to Andvig, as to constitute a 'school', later called the Oslo School.[18] 'Contrary to Keynes, who sought to improve the market economy,' writes Søilen, 'the Oslo School sought to replace the market with administrative systems for scientific allocation of the resources'[19] 'In an international perspective', writes Hanisch et al., 'the philosophy of the Oslo School was in a class of its own.'[20]

Many have accordingly explained economists' promotion of market mechanisms from the 1970s onwards by the waning influence of Ragnar Frisch and the rise of new impulses from abroad. The increased volatility of the 1970s led economists, according to Tranøy, 'to look for solutions outside the

[17] Einar Lie et al., *Norges Bank 1816-2016* (Oslo: Fagbokforlaget, 2016).
[18] See Espen Søilen, "Fra Frischianisme til Keynesianisme? En studie av norsk økonomisk politikk i lys av økonomisk teori 1945-1980" (Høyskolen i Agder, 1998), 2-25.
[19] 'I motsetning til Keynes, som ønsket å forbedre markedsøkonomien, ville Osloskolen langt på vei erstatte markedet med nye administrative systemer for vitenskapelig utnyttelse av ressursene.' (my translation) Hanisch, Søilen, and Ecklund, *Norsk økonomisk politikk i det 20. århundre: Veivalg i en åpen økonomi*, 20.
[20] 'I en internasjonal sammenheng stod Osloskolens styringsfilosofi i en klasse for seg.' Hanisch, Søilen, and Ecklund, *Norsk økonomisk politikk i det 20. århundre: Veivalg i en åpen økonomi*, 216.

predominant cognitive framework'[21] Tranøy ties the new ideas to the 'neoliberal wave', referring supply side economics and monetarism as key notions. Tranøy's studies of central bank economists suggests these new ideas were brought in from periods of study abroad, particularly to the USA.[22] Lie and Venneslan, while avoiding the term neoliberalism, shows how a new emphasis on supply side economics entered the Ministry of Finance in the 1980s. They argue that new perspectives, including welfare economics, were attributed more importance in analyses from the 1970s onwards, and suggest international trends as part of the explanation.[23] In a book on the Norwegian central bank, I show how central bank economists were inspired by monetarist theories when forming alternative monetary policy frameworks into the early 1980s.[24]

Norwegian historians have of course also emphasized a range of other possible explanations for reform and change that had nothing to do with economic theory. A new generation unscathed by the great depressions and world war, more sceptical of the intransparent and authoritarian forms that had underpinned the regulated system and the conformity it implied. Transparency and individual freedom became slogans of 1970s politics in Norway as in many other Western societies. These probably made politicians and voters more open to suggestions for doing away with old regulations, and place more faith in individual that market reform implied. Although we will focus in this paper on economists and their ideas, it is important to keep in mind that these economsists were also affected by these broader sentiments.

We shall in the rest of this paper explore more closely where Norwegian government economists urge for reform in the 1970s and 80s came from. The paper is not based directly on original archive work but seeks to synthesize the rich existing literature that sheds light on this question. The literature on Norwegian economics discipline, Norwegian government economists, and on economic policymaking is extensive, based on impressive archival study, rich on findings and insights, but has largely been concerned with particular persons or institutions. It is also predominantly Norwegian language, making it little accessible to outsiders.

Mainstream economics and neoliberalism

[21] '… ledet fagmiljøet til å lete etter løsninger utenfor det rådende kognitive rammeverket.' Bent Sofus Tranøy, "Da gode råd ble dyre: En teorihistorisk diskusjon av de økonomifaglige premissene for dereguleringen av dte norske kredittmarkedet," *Tidsskrift for samfunnsforskning* 35, no. 3 (1994): 431.
[22] Bent Sofus Tranøy, "Styring, selvregulering og selvsosialisering: Staten, bankene og kredittpolitikken 1950-1988" (Hovedoppgave i statsvitenskap Universitetet i Oslo, 1993).
[23] Lie and Venneslan, *Over evne: Finansdepartementet 1965-1992*, 250.
[24] Lie et al., *Norges Bank 1816-2016*.

Much of the literature on 'neoliberalism' assumes, often without much elaboration, that mainstream economics was influenced by a set of distinctly new notions and ideas in the 1970s, ideas that can be traced back to Freidrich Hayek's ideology of neoliberalism. We can identify some ideational elements that can be associated with the supposedly neoliberal Chicago School and that were new from the 1960s onwards — elements that figured in Norwegian government economists arguments for reform. The relationship between neoclassical and 'neoliberal' economics is, however, very complex.

What we refer to as 'neoclassical' economics is the mainstream economic discipline that developed between the 1920s and the 1960s on the conceptual basis established by the marginalist revolution of the 1870s. There is a debate about whether 'neoclassical' is the appropriate label, but not about whether there existed such a mainstream.[25] The marginalist revolution refers to the introduction of formalized theories of the economy built on the marginalist principle. This principle stated that individuals seek to maximize utility and will seek to balance costs and benefits of their actions so that there is nothing more to be gained by adding or subtracting one *additional* (that is, marginal) unit of effort or consumption.[26] This suggests that the production and prices of an economy will determined by the aggregate balancing of all individuals, labelled a general equilibrium. Leon Walras developed the first comprehensive general equilibrium model based on the marginalist principle in the 1870s, and the framework was further refined and formalized authoritatively by Alfred Marshall into the 1890s.[27]

Marginalism allowed a theory of the economy that could be stated in precise mathematical terms. This opened up the possibility for constructing a comprehensive, formalized and consistent model of the economy that could be supplied with statistical data to provide a comprehensive model for the economy. This, in turn, opened up enormous opportunities for analysis and understanding. Marginalism spurred intense efforts internationally to expand upon this framework and filling out its many gaps theoretically, conceptually, and empirically. The unifying framework of marginalism, in other words, allowed economics to become a cumulative science.

Marginalism also allowed powerful tools for analysis of economic phenomena. The laws of supply and demand derived from the marginalist principle allowed a framework for understanding why prices and quanta changed. But it also allowed tools to address economic systems normativelt, according to given criteria. Walras' assumptions about utility maximizing individuals suggested that the general equilibrium also represented a socially and politically desirable equilibrium, since aggregate utility was

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[25] Tony Lawson, "What is this 'school' called neoclassical economics?," *Cambridge Journal of Economics* 37 (2013).
[26] Sandmo, 147.
[27] Agnar Sandmo, *Samfunnsøkonomi: En idéhistorie* (Oslo: Universitetsforlaget, 2006).

here maximized at minimum cost. It was in one sense both efficient and equitable. In its simplest form, it implied that other normative criteria had to be established externally and be imposed on the economy. The study of this, so-called welfare economics, was further developed by Vilfredo Pareto in the early 20th century.

Macroeconomic theory and methods came to develop largely inside this framework into the first half of the 20th century. In the 1930s, John Maynard Keynes famously challenged the framework by pointing out factors that could inhibit the smooth working of utility maximizing individuals and instead create unstable situations where aggregate utility was not maximized at minimum cost. Keynes contributed to making postwar mainstream economists more sceptical about free market equilibria and more optimist about government's ability to contribute to better equilibria through stabilizing aggregate demand — the attitude referred toa s Keynesianism. His successors sought, however, eagerly to incorporate Keynes' general ideas as modifications into the same analytical framework.

We see that all requirements for a market analysis and for comparing, at least in theoretical terms, the efficiency and welfare of a dirigiste system were present in the neoclassical framework that existed already in the 1890s. Whoever accepted this framework in the century to follow, had simultaneously accepted a range of views about the relationship between regulation and the market. If a politically imposed system of regulation was perceived to deliver badly on efficiency and welfare, it followed from the theory as an obvious — and sometimes expedient — option to allow more freedom.

The authors who emphasize the role of neoliberalism in explaining late 20th century market reforms tend to tie its influence to what is usually (and confusingly) called new classical economics.[28] New classical economics — which must be separated clearly from its near-namesake, neoclassical economics — is closely associated with the University of Chicago and its contributions to economics discourse in the 1960s, 70s, and 80s. New classical economics is tied to the re-appraisal of the so-called micro-foundations of classical economics, i.e. that individuals are rational and utility maximizing. Although clearly compatible also with neoclassical economics, and building directly on it, new classical economics clearly added elements and emphasis that did not follow with necessity from the neoclassical framework. It makes sense, therefore, to seek to distinguish between neoclassical and new classical economics, a distinction which is not always clear in the literature.

Public choice theory, pioneered by James Buchanan, used utility maximizing individuals to analyze political institutions. Highlighting how institutional mechanisms could be exploited for personal ends, the approach cast doubts on the view of politicians as benevolent custodians of the common good. It

[28] Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal politics*.

raised doubts about politicians' ability at all to design institutions or conduct policies in ways that would enhance welfare and efficiency at all. (Not new classical, strictly speaking, but an institutional approach. To be clarified.)

Rational expectations theory, popularized by Robert Lucas jr. and Thomas Sargent, took seriously the notions that individuals would take into account government discretion in their pricing and negotiation choices. Milton Friedman combined this theory with monetarism, arguing for a neutral money supply. These theories that cast doubt on the feasibility of Keynesian demand management.

The joint thrust of neoliberal economics was to question government regulation, in particular short-term fine-tunign of aggregate demand, and to emphasise the market's ability, within proper institutional boundaries, to reach benevolent equilibria. This did not lead to a blind market fanaticism, as is sometimes assumed in popular accounts, but, as has been carefully driven home by many neoliberalism scholars, to a careful attention to the frameworks of policymaking.

One component of this framework was so-called 'supply side economics', seeking to enable economic growth by structurally incentivizing the growth of factors of production. Such growth could be incentivized by tax cuts, lifting labour market regulations and so on. Another was a more rules-based policy of demand management, structured not to retain full employment in the short run, but to secure balance in the longer. Important for such stability was the notion of a 'neutral' monetary policy. A neutral monetary policy was first operationalized as a stable growth of the money supply, the doctrine known as monetarism. This was later, into the 1990s, operationalized in the form of inflation targeting.[29]

It is far from clear how closely these new notions should be associated with a neoliberal ideology. The usual argument for association is that many of the key proponents of new classical economics were either self-proclaimed neoliberals or had personal or institutional ties to Friedrich A. Hayek and his 1947 Mont Pelerin Society. Milton Friedman is the prime example. It is far from clear, however, whether Friedman's ties to Hayek, let alone his membership in Mont Pelerin, played any role for his theoretical contributions to economics or his obvious ideological fervor. Friedman himself was careful to distinguish between his academic and political enterprise.[30] This question is, at any rate, somewhat on the side of our purpose here. Our task is to investigate the *allegedly* neoliberal new classical

[29] Cf. Eivind Thomassen, "Translating central bank independence into Norwegian: Central bankers and the diffusion of central bank independence to Norway in the 1990s," *Review of International Political Economy* 24, no. 5 (2017).
[30] Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal politics*, 201.

economics' contributions, not to prove the neoliberal nature of these contributions — let alone neoliberalism.

A more important problem in our context is new classical economics' ambiguous relationship to neoclassical economics. Milton Friedman portrayed his insights as revolutionary, particularly those of rational expectations theory. James Forder has shown that this was hardly the case. Monetarism had obvious roots in the classical quantity theory of money. It is still an open question whether new classical economics should be seen as a product of revolution or evolution. The answer to this question is fundamental also for how to understand the link between new classical economics and neoliberal ideology.

Whatever the exact relationship between new classical and neoclassical economics, and between new classical economics and neoliberalism, it is nevertheless clear that there emerged something around 1970 that could be seen, at least to some extent, to be distinct from neoclassical mainstream economics at the time, and that could be associated with the University of Chicago and with self-proclaimed neoliberals. It is widely assumed, as we have seen, that this new style of economics exerted influence on political choice, even in Norway. It is interesting, therefore — regardless of how we view the exact role of neoliberalism — to explore whether this new style of economics exerted influence on Norwegian economic policymaking of the late 20th century.

The neoclassical foundations of Norwegian economics

Before we investigate reform proposals of the 1970s and 80s, we should examine briefly the Norwegian government economists' economic training. Many authors have stressed the Oslo School's extreme dirigisme.[31] This strengthens the hypothesis that change must have come from outside. The interest shown for the peculiarities and idiosyncrasies of the Oslo School has in my view, however, led to an under-appreciation of how deeply Norwegian postwar economics was rooted in mainstream 'neoclassical' economics.

Ragnar Frisch was a deeply convinced dirigiste. He was shaped by the unemployment of the 1920s and 30s, which he saw as both unjust and resulting from irrational policies. 'The study of the machinery of the modern economy has made me totally convinced that this machinery, if left to its own devices, will have to go through the most violent convulsions, at times spreading sorrow and misfortune to large

[31] This in part as a reaction to an early non-specialist literature that inaccurately associated Norwegian post war economic policy closely with 'Keynesianism', cf. Søilen, "Fra Frischianisme til Keynesianisme? En studie av norsk økonomisk politikk i lys av økonomisk teori 1945-1980.". see also Gjølme Andersen

groups of the population.'[32] He eagerly promoted policy that could eliminate unemployment and increase welfare and social justice. Unemployment had been one of the primary drivers for revolution and war. Frisch was certain that failure to meet the new standards for growth and employment would lead to the collapse of liberal democracy, as it had done in Nazi Germany. This added a further layer of urgency to his program, echoed by some of Frisch's early students in the government apparatus.[33]

For all his dirigisme, however, Frisch stood firmly in the middle of the broader institutionalization of the economics discipline. As Frisch himself pointed enthusiastically out in a 1926 programmatic article, his drive to create economics as a rigorous science built on the marginalist framework developed by neoclassical economists from the 1870s onwards.[34] It was Frisch's engagement with the marginalist framework that enabled him to found the sub-discipline of econometrics, together with a range of other significant contributions to mainstream economics. The award to Frisch, together with Jan Tinbergen, of the first Nobel Memorial Prize in economics in 1969 was testimony to this.

The introduction to neoclassical economic theory also formed the cornerstone of Frisch's courses in economics at the University of Oslo. It was Alfred Marshall's *Principles of Economics* (1890) that served as Frisch's text book into the 1960s. A frim command of Marshall's conceptual and analytical framework was thus required by Frisch's top candidates, many of whom found their way into Brofoss' Ministry of Finance.

This mix of neoclassical economics and dirigisme may at first seem paradoxical, given Walras' and Marshall's concentration on a free market equilibrium. As Johanna Bockmann has pointed out, however, neoclassical economics had also provided an important academic foundation for economic planning. Walras suggested with his general model that achieving an equilibrium was at heart about solving a set of equations. It followed that they could, at least in theory, be solved by a central planner just as well as by the sum of individual utility maximizing individuals. Pareto had elaborated on this point, demonstrating that a perfect market and a perfect planner was mathematically equal. 'This result', wrote Pareto, 'is extremely remarkable.'[35] It was these insights that underpinned the Oslo School's conviction about regulation.

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[32] 'Studiet av det moderne økonomiske maskineri har gjort meg fullkomment overbevist om at hvis dette maskineri overlates til seg selv, vil det ifølge sin natur måtte gjennomløpe de mest krampaktige trekninger, og periodevis spre sorg og ulykke til store befolkningsgrupper.' Frisch in 1947 Quoted in Sandmo, *Samfunnsøkonomi: En idéhistorie*, 317.
[33] See in particular Odd Aukrust and Petter Jakob Bjerve, *Hva krigen kostet Norge* (Oslo: Dreyers Forlag, 1945).
[34] Ragnar Frisch, "Kvantitativ formulering av den teoretiske økonomikks lover," *Statsøkonomisk tidsskrift* 40 (1926).
[35] Quoted in Bockman, *Markets in the Name of Socialism: The Left-Wing Origins of Neoliberalism*, 24.

What set the Oslo School apart in international comparison was the extent to which it believed neoclassical planning could be implemented in practice. The pessimists of the so-called calculation debate of the 1920s and 30s (including Friedrich A. Hayek) maintained that it was practically impossible to gather the necessary information for a planner to maintain a sufficiently efficient and at the same time socially equitable equilibrium. Frisch, on the other hand, insisted that it was possible for a planner to achieve any political goal for the economy, if only 1) his conceptual and empirical grasp of the economy was comprehensive enough, and 2) the instruments of regulation were sufficiently numerous, precise, and powerful. Frisch agreed with Hayek and numerous other economists that satisfying these requirements would be difficult. He failed, however, to see why it should be impossible. If planning was feasible, moreover, it offered a path to avoid Frisch's gloomy visions of an authoritarian future. 'Our only hope is that this holds true', he wrote in 1952.[36]

One crucial prerequisite for rational planning, Frisch, insisted, was to jettison the many conventions that dominated popular views of the economy. These were 'fictious delusions', often stemming from the failure to see the 'real' economy behind the veil of money, or from respecting handed-down institutions like central banks, trade unions, or interest rates, that lacked justification in a thoroughly planned and regulated economy. The ultimate test for Frisch's planning philosophy was not whether planning was technically possible, but whether politicians were truly willing to transform the institutional structure of the economy.

Frisch's ideas came to be extremely influential among the Oslo School economists into the postwar era. They all maintained that achieving almost any political goal was achievable, as long as instruments were numerous and powerful enough. They thus also came to moan the persistence of 'fictious delusions' and to think rather freely about what new institutions could look like.

At the same time, the Oslo School's rooting in neoclassical theory placed the idea of regulation and planning within a framework where market allocation, however inferior, was always the ready alternative — in theory and practice. Economists would hardly have to seek outside the predominant cognitive framework to analyse the flaws of a dysfunctional regulations system or to propose solutions if the requirements for rational planning could not be satisfied.

Disappointment with regulation

[36] 'Vårt eneste håp er at dette holder.' Frisch Mål og midler i økonomisk politikk i etterkrigstiden, Samtiden 56 1947 26–38, 28.

Most accounts have emphasized the 1960s as a heyday of dirigisme, explaining the search for alternatives in the volatility of the 1970s. It is important to appreciate, however, that the frustrations of the 1970s were not new. The regulation system that had developed by the 1960s saw good results. But it did not satisfy requirements for a rational system. Frustrated government economists relied increasingly on market analysis and were looking restlessly for alternatives, well before the troubles and new impulses of the 1970s.

The Labour party governments 1945–65 proved little intent on jettison conventions. Of most symbolic importance to its dirigiste ambitions occurred when government refused to introduce a an extremely controversial legal framework, promoted by Erik Brofoss, that would allow detailed government regulation of private firms' pricing and production policies in 1954. This decision has been seen as a symbolic turning point in government's relationship to regulation.[37] Of more practical significance was the abandonment of a fixed price level in 1950 and the gradual liberalization of price controls and (centralized) wage bargaining into the 1950s together with the lifting of rationing on many goods. The market was allowed to play a gradually greater role in determining prices and production and the allocation of resources.

Deregulation shifted the focus on government's economic policymaking from planning to general stabilization, to satisfy the goals of full employment, rapid growth, and stable prices. 'Regulation' lost much of its original content and turned, almost imperceptibly, into conventional management of aggregate demand.

Much frustration stemmed from this stabilization policy. Since the economy was booming, the Ministry of Finance's main challenge was to *restrain* demand. State budgets were kept tight, but state lending grew rapidly under an artificially low interest rate. One key aspect of demand management thus became to restrict private lending. This was achieved through a set of agreements with the banking sector 1955–65, but these were fragile and prone to evasion. Another way to restrict demand was by incomes policy, i.e. to encourage restraint in the wage negotiations between the large, national employer and employee unions. These organizations were powerful, however, and guarded warily over their autonomy. Politicians proved hesitant to challenge their traditional freedom of contract and conflict. From 'a sober economic perspective', wrote Statistics Norway's head of research, Odd Aukrust, in 1966, it was irrational that while all other major economic instruments had been subjected

[37] Rune Slagstad, *De nasjonale strateger* (Oslo: Pax, 1998).

to political control, 'the 'wage level instrument' [is] left to be fixated in negotiations behind closed doors.'[38]

Still, the level of government intervention remained high compared to the interwar period and to many other contemporary countries. The achievements were remarkable. Employment remained high throughout the 1950s and 60s, and prices grew only moderately compared to the interwar period. Growth was firm, wages steadily rising, and labour conflicts were few. The results created a notion that an interventionist approach represented a long stride in the right direction. Government economists could not escape the fact, however, that they lacked precise instruments to control the various policy objectives. The system did not satisfy their requirements for a rational policy and could easily spin out of control.

Economists related differently to this recognition. Ragnar Frisch, the father of the Oslo School, felt his extraordinary ambitions betrayed. In a private letter from 1964, Frisch lambasted the Labour government for its ineptitude and for its 'extremely naïve and unimaginative form of economic planning.'[39] The father of government dirigisme, Erik Brofoss, had come to see his ambitions for planning ruined already by the late 1940s, asking for permission to retire from cabinet. Although loyally obeying the prime minister's refusal, Brofoss gradually took a more anonymous role, becoming central bank 1954–70, from where he could criticize government more freely.

Government economists who were earlier in their careers, were naturally seeking a more constructive approach. Som, like Odd Aukrust, reflecting on the curious success of eclectic planning, became tolerant of the existing institutional system. In an influential 1966 thesis on the wage bargaining system, Aukrust interpreted centralized wage negotiations favourably, as representing a form of social institutional equilibrium in its own right. Others, like Knut Getz Wold, central bank deputy governor under Brofoss, maintained their urge for reform, while accepting unsentimentally social and political constraints. These economists also tended to trivialize inflation, as a form of side effect of a system that was not entirely rational, but socially sound.

One economist, Hermod Skånland, took a militant approach against all irrationality. He thus also took a militant approach against inflation, seeing it as a sure sign that demand management was failing.

[38] 'et nøkternt samfunnsøkonomisk synspunkt', 'virkemidlet 'lønnsnivået' overlatt til fiksering gjennom forhandlinger bak lukkede dører av representanter for LO og N.A.F.' En «eksperts» tanker omkring inntektsoppgjøret, foredrag av Aukrust 9.2.1968 i studentforeningen Fredrik, perm O. Aukrust 4, SSB.
[39] 'regjeringens udugelighet', 'en ytterst naive [sic.] og fantasiløs form for økonomisk planlegging' Frisch i korrespondanse med Trygve B. Hoff, sitert i Hanisch og Trygve Sæther, Den glemte avhandlingen: Trygve J.B. Hoff: Økonomisk kalkulasjon i socialistiske samfund , Høgskolen i Agder Working paper series 2003: 2, 11 (note that page numbers are not in sequence).

Skånland spared no opportunity to curtail it, if necessary even by unilaterally raising the exchange rate — like Frisch refusing demonstratively to accept convention for convention's sake. Skånland, writing in the early 1980s, compared inflation to a 'weak toothache' that could suddenly erupt 'into flaming agony.'[40]

It is interesting to note how neoclassical economics saturated the analyses of the economists. Already in 1948 Odd Aukrust had written an internal memo in the Ministry of Finance (together with oteh rprominent Oslo economists) criticizing the price regulations. According to Lie, the memo was reminiscent 'of a brief textbook on how market mechanisms operates to allocate goods and factors of production.'[41] Aukrust 1966 analysis of centralized wage bargaining was also explained by free-market analogies, and its conclusions obviously inspired by Walrasian thinking in equilibria. Hermod Skånland rejected Aukrust's optimism about centralized wage bargaining. Drawing on cartel theory, Skånland argued that without market discipline, centralized bargaining could never guarantee against spiralling wage growth.[42]

New classical impulses of the 1970s

The period leading up to the turning point of 1986 is seen as a 'transitory period'. Government economists in this period produced a series of recommendations and advice, starting with reports on interest rates and credit rationing in 1974, leading up to the report of the interest rate committee in 1980 and of the instruments committee in 1983. Simultaneously, Hermod Skånland took a series of semi-official initiatives 1981–84 which led directly to the deregulation of credit rationing in 1984. All these recommendations implied a greater role of the market. Even though their advice was followed hesitantly and inconsistently by politicians, it contributed to the gradual dismantling of the Norwegian regulation system. How important were new, 'neoliberal' economic impulses for these efforts?

Before we turn to the ideational details, it is important to recognize that these reform initiatives were taken under the impression that regulation was failing. This impression built on two different sets of events that occurred at the turn of the 1960s and 70s. One was the emergence of evidence suggesting regulation had failed, even during its heyday, to achieve its major objectives. Norwegian post 1945

[40] 'svak tannverk', 'flammende smerte', Hermod Skånland, *Inntektspolitikkens dilemma: Kan det løses?* (Oslo: Cappelen, 1981), 8-9.
[41] '… minnet mer enn noe annet om en kort lærebok I hvordan markedsmekanismen fungerer for fordelingen av varer og produksjonsfaktorer.' Lie, *Ambisjon og tradisjon: Finansdepartementet 1945-1965*, 123.
[42] Eivind Thomassen and Lars Fredrik Øksendal, *Modellbyggere: Det tekniske beregningsutvalget for inntektsoppgjørene 1967-2017* (Oslo: Pax, 2017).

governments had been explicit about their aim of rapid economic growth. The credit allocation regime had been seen as contributing to this goal, facilitating extraordinary high levels of investment in comparison with other European countries. From the late 1960s onwards, it became clear that these extraordinary efforts had not resulted in extraordinary growth. Norwegian growth rates were close to the European average. Increasingly as international growth rates seemed to slow down into the 1980s, the failure to deliver on its objectives became an important source of doubt towards the existing dirigiste financial system.

Regulations did also fail in the more tangible day to day efforts to stabilize wage and price growth. Attempts to curtail inflation through incomes policies from 1974 proved a complete failure, fuelling incomes growth rather than reducing it. Keynesian counter-cyclical measures to counter the fall in international demand further fueled inflation while straining the balance of payments. By 1977–78, Norwegian authorities faced a mounting debt crisi. The advent of large-scale oil production in 1979 –– on top of a new, fortunate oil price hike — saved Norwegian government from acute needs to change policy, but strengthened economists' urge for a more fundamental change of course.

The credit rationing regime was arguably the most chaotic area of regulation. A new credit law of 1965 had introduced a complicated set of indirect regulations as a substitute for the old system of voluntary agreements with private banks. The regulations failed systematically to achieve the figures for total credit and credit allocation between sectors planned in the national budgets.

Both these developments were important for the investigations and recommendations of Norwegian government economists into the 1970s and 80s. Government economists proposed that interest rate structure and credit rationing had to be relaxed, opening for market allocation of credit and the use of interest rate policy in demand management to curb spiralling price and wage growth.

To justify this advice, Norwegian economists drew explicitly on some of the ideas that can be associated with new classical economics. For example Hermod Skånland, heading I 1973 expert committee on the inflation problem, referred to rational expectations theory in order to explain how rampant inflation was likely to stick. It is also clear that the central bank drew on monetarist theory when seeking to establish a framework for a future interest rate policy. Growth in money supply became a key variable in the central banks' economic analyses into the 1970s. In 1981, the central bank proposed a new framework for policy where the central bank should use the interest rate to achieve a specific growth in money supply from domestic sources.

Moreover, public choice arguments about the flaws of political institutions seemed increasingly to colour economists' advice. 'There is therefore a tendency in the very [political] system that it is easier to take popular measures than to conduct measures that are necessary but less popular', noted Hermod Skånland in a speech in 1979, as a possible argument for delegating interest rate policy to the central bank.[43]

It seems natural to conclude like Bent Sofus Tranøy and Ola Innset do, that neoliberal impulses helped strengthen Norwegian economists in their conviction for market reform. It provided them with a set of notions and concepts that were in vogue internationally.

Looking closer at the recommendations, however, these concepts were not used to promote a market economy, but a mixed system where market signals would add flexibility, but where high dirigiste ambitions were maintained. In some instances, they even called for increased intervention to secure a rational economic policy. Norwegian economists clearly maintained that regulation was possible.

In 1973, when Hermod Skånland employed rational expectations theory to warn against inflation, for example, his advice was not to reject Keynesian demand management, as Lucas did, but to create a more active incomes policy. The core component of this system was nominal wage levels determined by government, limiting labour market organizations' rights to free negotiations and conflict. In return, government tax cuts and allowances would secure a specific growth in real disposable wages. As part of this programme, he also promoted exchange rate alteration as an instruments of economic policymaking. This represented a belief in government's regulative capacities completely at odds with 'neoliberal' thought.

As usual, however, politicians refused to dictate wage growth. Government accepted, however, the idea of using tax cuts to encourage wage moderation, a strategy that failed spectacularly into the 1970s. Failed incomes policies on top of an expansionist fiscal policy contribute significantly to Norway's deteriorating balance of payments position in the late 1970s and to Skånland's fast growing disillusionment with politicians.

Well into the 1980s, however, Skånland still insisted that greater stability could be achieved through government regulation of wage formation, allowing wages to adjust to labour market requirements within roofs set to stabilize aggregate demand and international competitiveness.[44]

Interest rate policy recommendations showed a similar duality. The suggestion to make the money supply the key variable in monetary policy was not intended to enable a neutral monetary policy along

[43] 'Det ligger derfor i selve [det politiske] systemet en tendens til at det er lettere å få truffet populære vedtak enn å få gjennomført tiltak som er nødvendige, men lite populære' Hermod Skånland, 'Alternative ri stabiliseringspolitikken', Penger og kreditt no 4 1979.
[44] Chapter 8.

the lines of Milton Friedman, but chiefly to enable more flexible adaptation to economic fundamentals while allowing to restrict demand. This was in essence a discretionary interest rate policy of the sort that Friedman condemned.

The so-called interest rate committee of 1980 (where Skånland participated) argued for lifting the tight regulation of interest rates and allow more market mechanisms, primarily with a view to restrict credit demand. '[T]he authorities can in certain situations achieve a more efficient allocation of resources by interfering in the market', the committee stated.[45] Its conclusion was *not* 'that the rates of interest should be determined by the market.'[46] Its main point was to abandon the *fixing* of interest rates that had become so characteristic of the Norwegian system after 1945, and allow it to take into account shifting economic circumstances. This was portrayed explicitly as a measure to increase government's control over the economy rather than as a way of increasing efficiency, individual freedom or other assumed benefits from less regulation.[47]

It is obvious that initiatives on both interest rate and incomes policy were motivated primarily by demand management concerns. This explains the focus on incomes policy, which presented the biggest potential for such management. Politicians' refusal to take decisive steps on incomes policy, in turn, explains the raising interest in interest rate policy. When fiscal policy, credit allocation, and incomes policy proved increasingly inefficient, interest rate remained the only policy tool of some magnitude. Norwegian government economists used new classical perspectives as *additional* arguments for their cause, not accepting their full implications.

The roots of market sympathies

To say that economists gave priority to demand management is not to say that they were indifferent to market efficiency. It is well documented that government economists were concerned that the low interest rates and the extensive regulations on capital resulted in inefficient capital allocation. There was concerned from the 1960s that this had contributed to less than impressive growth figures and that it could contribute to reduced productivity growth in the future. These concerns had formed a cornerstone of economists' reports and advice since the early 1970s

[45] 'Under slike forhold kan myndighetene i visse tilfelle få til en mer effektiv ressursutnytting ved å gripe inn i markedet.' NOU 1980: 4, 13.
[46] 'Av dette følger det ikke imidlertid ikke nødvendigvis at rentesatsene bør være markedsbaserte.' NOU 1980: 4, 13.
[47] 'I denne avveining er det lagt særlig vekt på hensynet til kredittpolitisk styring […]', NOU 1980: 4 Rentepolitikk, 11.

It is also clear that the only sound solution to this problem, as many economists saw it, was market allocation. As long as government intervened directly by setting arbitrary interest rates, it would with necessity skew capital away from its most productive uses. . It was a line of argument perfectly consistent with new classical economic theory.

It is also clear that the formulation of recommendations did not necessarily reflect their true intentions. It is well documented that the content was shaped by tactical concerns. Economists tried consciously to make their views as politically acceptable as possible. It is possible that a more flexible interest rate was sold in primarily as a demand management instrument and that economists' eyes were really on the more efficient capital allocation it would imply.

The desire for capital market efficiency might therefore be an area where economists were in fact influenced, consciously or unconsciously, by new classical economics.

It is impossible to determine, however, whether new classical economics was indeed the source of influence. It is difficult to see that the economists' analysis of the problem, let alone suggestions for solutions, required anything more than the basic neoclassical concepts they had learned from Marshall. A marginalist equilibrium conception of the capital market could be traced as far back as to Eugen von Böhm-Bawerk in the 1880s. Lie and Venneslan suggest that welfare theory and the concept of opportunity cost had been neglected by Frisch and only gradually returned to Norwegian economists, suggesting, possibly, that economists picked the concept up from international discourse. Søilen has shown how welfare theory was taught at the University of Oslo, at least from the late 1940s. Neither welfare economics nor opportunity cost had their origins in new classical economics, but harked back to the beginning of the century.[48]

Regardless of what ideological views economists held, moreover, it seems only natural that they gave priority to aggregate demand. This was, after all, the Ministry of Finance and the central bank's main task. If politicians wanted to retain an inefficient capital allocation system, that was, at the end of the day, a legitimate political choice. To lose control with the economy, on the other hand, was directly to defy the Ministry's, and the government economists' own raison d'etre. This was the view of all government economists, regardless of political sympathies. Odd Aukrust spoke in his 1966 treatise about the 'iron laws' of economics that under such circumstances would force development back to equilibrium, if necessary at prohibitive costs to society. Skånland consistently warned about the situation 'where politicians would not anymore have a choice'. The 1976 UK Sterling crisis, and a

[48] See opportunity cost, reference entry, Encyclopedia of quality of life and well-being research, Springer (https://link.springer.com/referencework/10.1007/978-94-007-0753-5). Retrieved September 14 2023.

number of debt crises among the developing countries into the 1980s, made this scenario an ever more pressing possibility.

Conclusion

Norwegian government economists were crucial promoters of late 20th century market-oriented reform. We asked in the introduction whether their arguments could be traced to the new ideas of new classical economics, closely associated by some historians to neoliberal ideology, or whether they can be sufficiently explained by the framework of neoclassical economics, established by the marginalist revolution of the 19th century.

As we have seen, historians have found that ideas associated with new classical economics did indeed find their way into Norwegian economists' writings. Rational expectations, public choice, and monetarism were all ideas that the economists related to. Insights from these theories were applied to give additional strength to arguments for reform. The thrust of Norwegian economists was also largely compatible with new classical economics' orientation towards the supply side, reducing somewhat the heavy emphasis on demand management introduced after 1945. If we had studied also the many structural reforms after 1986, these influences would have been even more evident.

There is, however, little to suggest these ideas in themselves caused economists urge for reform, or added any decisive weight to their arguments. As we have seen, government economists had argued for reforming the Norwegian regulation system since the late 1940s. Many of them had developed deep scepticism towards the system by the 1960s. When calls for reform became desperate into the 1970s and 80s, the chief motive was stabilization and demand management, not to create a neutral monetary policy, but to avoid balance of payments deficit and foreign debt accumulation. Economists were sympathetic to new classical focus on the supply side, recommending deeper structural reforms of the financial and taxation systems, but these objectives came, after all, in the background in the crucial reform proposals leading up to 1986.

Neither was new classical economics important as a conceptual frame for analysing problems and suggesting solutions. As we have seen, the neoclassical training of the economists had ensured that market analysis was applied — and the market consulted as a theoretical alternative — whenever the regulation system ran into trouble. Already in the 1940s, government economists used market analysis to criticize direct price regulation. When the Ministry of Finance lost control with credit regulations and inflation in the 1970s, economists analysis continued to rest largely in this framework.

As we have seen, rather than a result of new classical impulses, Norwegian economists' call for reform could equally well be explained within the intellectual framework established by Ragnar Frisch in the 1940s. As Frisch had pointed out, successful planning placed extraordinary requirements on modelling, on instruments and on institutional design. It was obvious to all economists by the 1960s that none of these requirements had been satisfied. The existing system was not rational and status quo no option. The question was whether to encourage more rational planning or revert to the market.

Norwegian government economists, in most of their major reform initiatives, clearly opted for the former — while allowing market mechanisms a bigger role in a somewhat wobbly balancing effort. Whether they did so because they themselves wanted a strong government role in the economy or because they believed politicians wanted it, we will never know.

When the turning point came in 1986, Norwegian economists claimed that there was no going back to embedded liberalism. This was not necessarily because they had changed their minds on regulation. Rational planning and regulation, they believed, was technically possible. The crucial obstacle was politicians and the working sof the political system. This was perhaps inspired, it could be argued, by the insights of Chicago public choice theory, emphasizing the individual utility maximizing politicians desire for re-election and popularity. But it was equally firmly rooted in the Oslo School's enmity towards delusions. Above all, it was a claim that economists by now found solid evidence for in their own experience.

These finding confirms the suggestion that neoclassical economics provided a crucial framework for the late 20th century introduction of market reform. We have seen that this was the case in peripheral Norway. There is reason to believe that this framework was even more important in many other countries, where the market normativity of Walras, Marshall, and Pareto had been accepted even more readily in the interwar and early post war periods. This is not to say, fo course, that new classical insights did not influence more directly on 1970s political change in other countries than it did in Norway.

This finding raises new objections to the literature that ties reform to a distinct neoliberal ideology godfathered by Friedrich A. Hayek. If we accept the notion of some authors that new classical economics was a form of 'neoliberalism', the significance of this neoliberalism on Norwegian reform is clearly insignificant. If the neoclassical mainstream framework itself was sufficient to spot problems with regulation and the benefits of a market alternative, it is likely to have been this way in other countries as well. And even if it is likely that new classical economics exerted more influence on politics in some countries, it is still far from clear, as we have only touched upon briefly, whether new classical economics should justifiably be seen as neoliberal at all.

The paper thus has strong suggestions for the further historical study of market-oriented reform — and for studies of neoliberalism. Market reforms must be studied in terms of government experts' advice and its connection to actual political reform processes. Focusing solely on the 'top' ideological level, whether on big economic theoreticians or ideological entrepreneurs, risk overemphasizing the practical impact of individuals and their ideas. Developing a concept of neoliberalism that can be fruitfully applied to studies of economic policymaking, moreover, requires and end to the mania of Friedrich Hayek and the Mont Pelerin Society and the opening up of the concept to much broader and more complex processes and mechanisms.

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