



Norway's Problems of Social and Economic Reconstruction

by

Knut Getz WOLD

Norwegian Ministry of Finance, London

The international agencies and programmes for post-war reconstruction that are gradually taking shape have been the subject of recent articles in the Review¹, and accounts have also been given of the planning in progress in various countries which are free of enemy occupation. But for the occupied countries, too, concrete plans are being worked out by their Governments in exile, and the International Labour Office welcomes the opportunity to publish the following article on the problems with which the Norwegian Government will be faced, and the methods by which it may set about restoring normal social and economic conditions², once the country has been liberated.

INTRODUCTION

WHEN Norway was invaded on 9 April 1940, the country had experienced a period of continuous economic and social expansion without precedent in its history. The repercussions of the world economic depression in the early 'thirties were less severely felt than in most other countries. From the middle of the 'thirties production and employment showed a marked upward trend. The outbreak of the second world war was felt primarily in the

¹ Cf., for example, *International Labour Review*, Vol. XLVIII, No. 2, Aug. 1943, pp. 139-156: "The United Nations Conference on Food and Agriculture"; pp. 157-173: "Proposals for International Exchange Stabilisation", by L. B. JACK; Vol. XLIX, No. 2, Feb. 1944, pp. 145-159: "The United Nations Relief and Rehabilitation Administration". The "Industrial and Labour Information" section of the *Review* also regularly contains notes on post-war reconstruction questions.

² For an account of the existing situation, cf. Henrik PALMSTRÖM: "Labour Conditions in Occupied Norway", *idem*, Vol. XLVIII, No. 5, Nov. 1943, pp. 584-610.

monetary field, while in most other respects the period from September 1939 to April 1940 may be regarded as a continuation of the expansion of the preceding years.

Rapid economic progress made large-scale social reforms possible. Thus, during the last pre-war years, a new law protecting workers' rights and conditions in industry, trade, commerce, transport, etc., was passed, while, in the field of social insurance, a national non-contributory old-age insurance scheme and a compulsory unemployment insurance system were introduced. Housing conditions improved rapidly and a comprehensive nutrition policy was on its way.

This development towards a social welfare democracy was brought to a standstill after the German invasion of Norway. The breaking off of economic connections with the outside world and the burdens imposed by German occupation have caused a progressive deterioration of economic and social conditions in occupied Norway. The re-establishment of normal social and economic life will involve difficult problems. It is the object of the present article to give a general outline of some of these problems and the measures which may be adopted in solving them.

RELIEF WORK

Norway's first and most obvious economic task after the liberation of its territory will be that of satisfying the most urgent needs of the population. Medical supplies, foodstuffs, and clothes will have to be distributed as soon as possible. Their transport by sea to Norwegian ports should be a comparatively easy matter, but the breakdown of the inland system of communications may present difficult problems, which will have to be met by providing lorries, rolling stock for the railways, etc.

The organisation of relief work in Norway will encounter less difficulty than in most of the countries on the European continent. The administrative system for the distribution of supplies throughout the country is operating under heavy strain during the occupation, but it is still in working order. The rationing system can be adapted to the conditions prevailing during and after liberation. Moreover, a large number of well-trained doctors, nurses, and other experts eagerly await the opportunity of taking part in the relief work.

The normal consumption of foodstuffs, particularly of fats, is relatively large, owing to the climate and to the heavy physical strain which the work in many of Norway's industries involves. The same applies, of course, to the demand for clothes and fuel.

Clearly, the extreme shortage of foods and other commodities has further increased the requirements of the population.

In the resolution adopted by the Inter-Allied Meeting held in London on 24 September 1941, it is stated:

While each of the Allied Governments and authorities will be primarily responsible for making provision for the economic needs of its own peoples, their respective plans should be co-ordinated, in a spirit of inter-Allied collaboration, for the successful achievement of the common aim.¹

In pursuance of these principles, the Norwegian Government has made preparations for the solution of relief problems. This preparatory work was entrusted to a Directorate, established on 12 December 1941. On 1 October 1942 the activities of the Directorate were taken over by a new Ministry of Supply and Reconstruction², working in close collaboration with the Inter-Allied Committee, under the chairmanship of Sir Frederick Leith-Ross, and with its subcommittees. Detailed estimates of the needs of the population during successive stages after the war have been prepared and the order of priorities indicated. With the establishment of the United Nations Relief and Rehabilitation Administration (U.N.R.R.A.)³, the work of the Leith-Ross Committee will be taken over by the Committee of the Council for Europe. Regarding the transport of supplies from overseas countries to Europe, Norway will have the opportunity of making a considerable contribution to the relief work, not only of the country itself, but of other occupied countries as well.

According to the principles agreed upon at the first session of the Council of the U.N.R.R.A., held at Atlantic City in November 1943⁴, the Norwegian Government keeps the Director-General fully informed of all intended purchases in Allied and neutral countries. To a limited extent, it is in a position to pay for supplies out of foreign exchange assets at its disposal. However, the greater part of these assets are made up of compensation for merchant ships lost in the war or represent amortisation of the remaining part of the Norwegian mercantile marine. The needs of foreign exchange for the replacement of shipping losses should be taken into account in determining the Government's ability to pay.⁵

¹ *Report of Proceedings of the Inter-Allied Meeting, held in London at St. James's Palace, 24 Sept. 1941.* Cmd. 6315 (London, H.M. Stationery Office, 1941), p. 17. Cf. *International Labour Review*, Vol. XLV, No. 4, Apr. 1942, p. 422.

² *Idem*, Vol. XLVIII, No. 1, July 1943, p. 70.

³ Cf. *Agreement for United Nations Relief and Rehabilitation Administration.* Cmd. 6491 (London, H.M. Stationery Office, 1943).

⁴ Cf. *United Nations Relief and Rehabilitation Administration. Resolutions and Reports adopted by the Council.* Cmd. 6497 (London, H.M. Stationery Office, 1943), Resolution No. 17.

⁵ *Ibid.*, Resolution No. 14.

Relief supplies should be paid for in cash by the consumers. In most cases, this procedure would not meet with any difficulties, owing to the relatively high level of incomes and the restricted possibilities of spending during the occupation. Persons without means should, clearly, be provided for by regular social insurance and social assistance benefits. From an anti-inflationary point of view, this policy would be decidedly advantageous, compared with any system of free distribution of supplies, since it would mop up part of the excess purchasing power.

The relief supplies must not be exclusively restricted to finished goods. Certain raw materials and implements for home production of foodstuffs must be imported as soon as possible. Thus, if Norway gets oil and equipment for its fishing fleet, its fisheries might play an important role in relief work both at home and in other countries too.

An extreme shortage of medical supplies has been experienced during the occupation, and medical relief material must be provided as soon as possible. Hospitals at present requisitioned for military purposes will have to be evacuated and re-equipped with medical and surgical goods, etc. Special emergency measures should be introduced for facilitating the treatment and speedy recovery of wounded and disabled soldiers and of persons suffering from diseases contracted during the war.

During the occupation, a large part of the population has been living under an extremely heavy mental and physical strain. Thousands of persons are at present in concentration camps in Norway and Germany. The seamen of the Norwegian mercantile marine, as well as members of the Norwegian armed forces in Great Britain and elsewhere, have been completely separated from any connections with their families in Norway. To a large part of the population in occupied Norway, the very framework of civilised life has been broken down. Any day may bring new waves of arrests and executions. Clearly, a large number of those who have suffered most severely will need rest and recuperation in peaceful surroundings. Norway offers exceptional natural opportunities for such arrangements, which should be financially supported by the Government or municipal authorities. This applies especially to the school children, who have, for various reasons, been in the centre of political events in occupied Norway.

Before the occupation, a popular movement for the provision of cheaper facilities for holiday trips to all parts of the country was in rapid progress. The organisation established for this purpose, the Norwegian People's Holiday Organisation (*Norsk Folke-Ferie*), will certainly play an important part in rebuilding the people's health and physical well-being after the war.

Finally, the need for tackling the housing problem in an effective way should be emphasised. The war damages during the campaign in 1940 were largely concentrated in certain parts of the country, where a number of towns and villages were completely wiped out. More than 30,000 people were made homeless. No reconstruction of ordinary dwelling houses worth mentioning has taken place during the occupation. The construction of new houses after the war will therefore have to make up, not only for the war damages, but for the arrears in ordinary building activities as well. However, during the relief period, the construction of new buildings should be concentrated in war-ravaged districts. Even so, shortages of materials will limit the amount of work done during this period. The materials used for German soldiers' barracks, etc., erected during the first year of occupation, when the materials were of first-class quality, can to some extent be used again for the construction of dwelling houses. As most of the materials used for building purposes are normally produced in Norway, these initial difficulties will, however, be gradually overcome.

WAR PENSIONS

The care and pensioning of military and civilian war victims is arranged under three different schemes. The first of these, comprising seamen and fishermen, was introduced before Norway entered the war, while the other two schemes cover military and civilian war victims in occupied Norway.¹

During the Spanish civil war, an amendment to the Seamen's Accident Insurance Act was introduced, by which Norwegian seamen disabled or killed on account of the war and their dependants became entitled to a 100 per cent. increase of the compensation granted under the Act. In addition, an indemnity of 10,000 crowns is paid in cases of death or total loss of working capacity. These provisions were applied to war accidents after the outbreak of the present war, when the frequency of such accidents naturally rose considerably. According to an agreement between the Norwegian Shipowners' Association and the Norwegian Seamen's Union, an additional 5,000 crowns was paid in cases leading to death or total disablement, making a total indemnity of 15,000 crowns in such cases.

This scheme continued in operation after Norway entered the war. The occupation authorities have cancelled the increased rates of benefits, as well as the indemnity, to dependants of seamen killed or disabled while sailing for the Allies. In such cases, only

¹ Cf. Henrik PALMSTRÖM, *loc. cit.*, pp. 606-609.

the ordinary rates of benefit under the Seamen's Accident Insurance Act are being paid in occupied Norway. But the Norwegian Shipping and Trade Mission in London and New York, which operates five sixths of the Norwegian mercantile marine, has covered the capital value of pensions and indemnities to seamen under the war-risk insurance contracts for the merchant fleet. Thus sufficient funds will be available after the war to put the original scheme into operation.

Military and civilian war victims (other than dependants of seamen sailing for the Allies) in occupied Norway are cared for under two different Orders, issued on 9 December 1941. Officers and men incapacitated in the course of military operations are entitled to a disablement pension, with additional grants for dependent children, medical aid or in-patient treatment at a public hospital, and certain other benefits. Widows and children of fallen officers and men receive funeral benefit and an annual pension.

The rates of benefit are very high in comparison with ordinary social insurance benefits. Thus a private soldier totally incapacitated in the war is paid an annuity of 2,000 crowns, as compared with a maximum pension of 1,200 crowns under the Accident Insurance Act for factory workers. For officers, the rates are increased to a maximum of 3,000 crowns, applicable to captains and higher ranks. For lower percentages of disablement, the rates are correspondingly less. Children's allowances are granted as percentage increases on the pension, graduated from 20 per cent. for one child to 55 per cent. for five or more children.

Widows of private soldiers killed in the war get an annuity of 1,200 crowns, as compared with a maximum of 400 crowns under the Accident Insurance Act. In addition, children's allowances are granted, graduated from 40 per cent. for one child to 100 per cent. for five or more children.

Pensioners are not subjected to any ordinary means test. But although no deductions are made on account of private income or fortune, there is one exception to this rule: partial deductions are made for other pensions and any life insurance payments received on account of the death or invalidity.

The scheme is financed by the State.

Under the Order relating to civilian war victims, persons totally incapacitated owing to war injuries receive an annual pension of 1,500 crowns. Seamen employed in the coastal trade or in the trade between Norway and the European continent get 1,800 crowns, while anti-aircraft personnel, etc., are paid 2,000 crowns. In fatal cases, the widows are granted 900, 1,080, and 1,200 crowns respectively. Children's allowances are graduated according to the

same percentage scale as for military war victims. The scheme is financed by a small increase of the income tax (one tenth of 1 per cent. of the income), earmarked for this purpose.

The most important of the provisions of the two above-mentioned War Pensions Orders will presumably remain in force after the liberation of Norway. Dependants of Norwegians who left the country after the campaign in 1940 are excluded from the present scheme and must, of course, be included. The same applies to Norwegians who have been disabled in concentration camps in Norway and Germany or who have been executed by the Germans. The very high rates of benefit, in comparison with other social insurance schemes, have met with general approval and should be retained. This would not encounter serious financial difficulties if the number of war victims does not increase heavily during the remaining period of the war.

EMPLOYMENT AND PRODUCTION

When the war ends, conditions on Norway's labour market will be entirely dislocated. More than 100,000 workers will be actively engaged on German military construction works, while a large part of the remainder will be working in industries of special importance to Germany's war economy. On the other hand, there will be a considerable decrease in the number of workers engaged in other branches of economic life, *e.g.*, industries working for export markets or depending upon supplies from oversea countries.

The productive capacity of industry will have deteriorated seriously. Stocks of raw materials of all kinds will be depleted; repairs and reinvestments have been neglected. Livestock on the farms will be considerably reduced. The inland transport system will suffer from an acute shortage of rolling stock. Durable consumers' goods will be worn out and in need of replacement, etc. At the conclusion of hostilities, a considerable part of the mercantile marine, five sixths of which is now sailing for the Allies, will have been sunk by enemy action.

Nevertheless, the economic life of occupied Norway is not yet in such complete chaos as is the case in some other European countries. Whether such a situation will develop during the remaining part of the occupation or during the liberation is, of course, impossible to predict. If Norwegian territory is again turned into an actual battlefield, war damages may be far more extensive than in the 1940 campaign.

Clearly, the restoration of industry to the pre-war level will

demand enormous amounts of capital. Such a programme cannot be realised in its entirety at once. The productive resources of the country will not be sufficient, nor will the import facilities allow it. Under an unrestricted economy, the co-existence of an enormous demand for investment and consumption purposes and a liquid monetary and capital market would result in excessive inflation. The rise of prices would thus prevent the completion of the necessary volume of investments. It is clear, however, that everybody will wish to avoid such an inflation, particularly after the experiences of the post-war period in the 1920's. A priority schedule should therefore be established, in order to discriminate between those installations which are urgently needed for the country's supplies and industries, and the reconstruction which, from a national point of view, may be more easily postponed.

The planning of the gradual development of the country's economy in the early stages cannot, however, aim only at ranking the various needs which present themselves in building up capital plants. It will be necessary also to regulate consumption, directing it towards the spheres and within the limits prescribed by the scope of this capital investment. Now the fact is that, in Norway today, the economic system is almost completely centralised. Investments, consumption, employment of labour and raw materials, prices, wages, profits, interest, rents, etc.—all these parts of the economic system are controlled. It will be necessary in the beginning to make use of this already existing technical apparatus. Its task so far has been to place the country's economic resources at the disposal of the German war machine. Under the new conditions, its task will be to assure the technical accomplishment of economic reconstruction.

Nevertheless, there might be political difficulties in retaining a system of regulations which is publicly connected with the régime of the occupation authorities. This is particularly the case as regards the transfer of workers. The right of seeking employment in any trade and wherever one likes is now more appreciated than ever. But during the transition period, it would be impossible to allow workers to return freely to their old employment or to flock in excessive numbers to reconstruction works in cities devastated during the war. Such movements might seriously upset any effective planning of reconstruction and employment policies and the economical utilisation of the country's productive resources.

On the other hand, the relaxation and ultimate removal as soon as possible of restrictions on the free movement of workers is clearly highly desirable. The voluntary transfer or continuance of workers in accordance with plans made for the successive develop-

ment of the various branches of economic life should therefore be encouraged. The co-operation of trade unions as well as of employers' associations in these schemes will be of great importance. Special facilities regarding travel and billeting, etc., might be introduced. Even more important would be a reasonable adjustment of relative wage levels. Care should be taken to avoid excessive wage rates in construction and building trades in war-devastated towns and villages, while, on the other hand, some upward adjustment of wages in industries depressed during the occupation will be desirable.

The unemployment insurance system will play an important role during the transition period because workers will experience a great number of short-term unemployment periods during transfers from one place of employment to another. Clearly, the extension of the system of employment exchanges introduced in 1940 should be retained, while, in most other respects, the provisions of the 1938 Act must be reintroduced.¹ Thus, the excessive rates of contribution levied according to the 1940 Order will have to be reduced to their previous level. As no large-scale unemployment of a durable character can be expected during the reconstruction period, these rates of contribution would, presumably, suffice to cover the expenses of the scheme.

A large number of young persons who have found employment in Norwegian industries or German construction works during the occupation have not undergone ordinary vocational training, while many more have had some sort of training of no particular use for peacetime needs. Special temporary courses should be arranged for training these workers. Further, facilities must be given to older workers who wish to retrain for new occupations with better prospects in post-war economic conditions. During training periods, provision should be made for these workers either in connection with the unemployment insurance system or by introducing a special scheme.

The first and most obvious economic task for the resumption of industrial production and employment is the provision of new machinery, tools and implements, raw materials, etc.

Purchases made prior to the liberation will facilitate the maintenance and re-establishment of economic life during the period of transition. But in any circumstances we must be prepared to encounter great difficulties. It is not possible by public initiative to secure in advance the means of production necessary for an immediate renewal of the whole of normal economic activity, and it

¹ Cf. Henrik PALMSTRÖM, *loc. cit.*, p. 603.

would take a considerable time before private trade could re-establish its old connections and provide the goods. A large proportion of the factories and workshops have also been destroyed or worn out during the war. Consequently, it will not be possible at once to transfer the huge number of workers now engaged in German war industries or working on German fortifications in Norway back to normal employment. It will be imperative for our economic policy to include the carrying out of a comprehensive and effective employment programme by the State to provide work for these men until they can get normal employment. In the beginning, it will be necessary to concentrate these public undertakings on such kinds of work as demand comparatively little capital, such as the construction of roads. As import trade is resumed, it will be possible gradually to adopt a programme which will utilise the available labour for reconstruction purposes. A matter of great urgency will be the restoration of the inland transport system: we shall have to replace the rolling stock which has been destroyed or taken away, find new ships for the coastal traffic, and provide lorries and buses for the road traffic. This restoration will claim a relatively large import of expensive capital goods. For the rebuilding of cities and districts which have suffered through the war, the situation is different. As mentioned above, most of the important raw materials of the building industries are being produced in Norway. Building undertakings need a large supply of labour, and a major proportion of unemployed workers might be transferred to these trades.

The question of completing the industrial construction works started by German concerns in Norway during the occupation will depend upon a comparison of their value for Norway's peacetime economy and the additional investments in buildings and installations involved. The greater part of these works consist of new aluminium factories and electrical power plants. Taking into consideration the enormous expansion of America's aluminium industry during the war, the post-war export prospects for aluminium are open to serious doubt. The electricity works, on the other hand, will be more useful for the country's industrial and civilian needs.

From the viewpoint of unemployment policy, however, it might be expedient to continue some of the German industrial construction works during the transition period. It should be remembered that, owing to their importance to Germany's war economy, considerable quantities of materials, concrete, etc., will be available on the spot. It might also prove convenient to go on with the construction of roads, etc., which are primarily of military im-

portance, but some of which are highly desirable from a civilian point of view too.

For the resumption of ordinary industrial activity, the supply of coal is of primary importance. Only 10 per cent. of the total pre-war consumption was produced in the Norwegian mines at Spitzbergen, which, in 1941, were completely destroyed by the Allies for military reasons. According to the commercial treaty of 1933 between Great Britain and Norway, the latter undertook to import 70 per cent. of its total consumption of coal from Great Britain. It should be remembered, however, that after the last war British coal exports fell to one third of pre-war figures. In view of the present trends in the production and home consumption of coal in Great Britain and of that country's own post-war needs, a similar position might be feared during the first years after the armistice. As the export capacities of Poland and Germany seem most uncertain, Norway might encounter considerable difficulty in securing the necessary imports of coal for its industries after the war. If so, economic reconstruction would be seriously delayed.

However, assuming a more favourable situation as to imports of raw materials and coal, and in view of the possible destruction of works and factories during the German withdrawal from Norway, it seems improbable that any serious unemployment crisis will develop during the immediate reconstruction period. Whatever the economic outlook, the incentives for investment (including "investment" in durable consumers' goods) will be sufficient to make full use of existing productive resources. More difficult problems will arise when the immediate needs have been covered. The avoidance of a major depression such as occurred in 1920 will depend upon the successful co-ordination of expansionist economic policies in the major industrial countries. In the concluding section of this article, some of these problems will be briefly considered from the Norwegian viewpoint.

Finally, it should be remembered that during the occupation formidable vested interests have been created, which will resist adaptation to peacetime conditions. This applies especially to agriculture. To avoid undue hardships, the economic policy adopted will have to allow sufficient time for adjustments to take place.

WAGES AND PRICES

Control of wages and other sources of income, as well as of prices of goods, will have to be retained for a considerable time after the war. The aim of economic policy during this period will be the gradual raising of the standard of living and real wages. For econo-

mic as well as political reasons, the control of wages must be supplemented by control of dividends, interests, rent, etc.

Many reasons for the rise of prices during the occupation will disappear automatically after the war. Internal and external communications will be reopened, the expensive production of substitutes will cease, goods may again be bought in the cheapest market, and so forth. On the other hand, the purchase of supplies for the whole European continent will create a large demand for goods and shipping in the world market. After the last war a similar demand led to a continued rise of prices during the first period following the armistice. To what extent this will happen again will depend on the forms of international collaboration which will be established for the purchase of such supplies. Again, however, the wear and tear of the productive apparatus, as well as the partial destruction of industries and the transport system resulting from the occupation, will lower economic productivity and, consequently, keep costs of production higher for a considerable time to come than would otherwise be the case.

In any case, it is obvious that internal economic policy will have a decisive effect on the price level which will have to be chosen for a stabilisation. The movement of wages and other cost items is particularly important. The economic conditions of industry in the first years after the occupation will necessitate a lower standard of living for the people than before the war. In peacetime it would be neither possible nor desirable to carry out such a reduction by means of import control; nor would it then be advisable to promote it through a rationing system. After the war both these methods will have to be retained for some time. One must hope that the rationing of ordinary foodstuffs can be abolished soon, and the same applies to ordinary clothes. Purchases of other durable consumers' goods, on the other hand, most of which are imported, will clearly have to be curtailed for a long time to come.

The most important measure, however, will be to adjust the level of income and prices to the restricted quantity of goods available for consumption by the population. During the occupation, the cost of living has increased by some 30 per cent. Supposing that the pre-war income level, which has been maintained more or less unchanged during the occupation, is kept up; the raising of the standard of living, as compared with the present conditions, will then take the form, partly of a fall in prices and partly of the gradual discontinuance of the rationing and shortage of goods. But it is not to be expected that prices will return to their pre-war level. Apart from the changes which have taken place in the structure of the world's economy, possible alterations in rates of

exchange, and so forth, the reason lies in the fact, already mentioned, that the standard of living during the immediate post-occupation period must be lowered in relation to pre-war conditions. On the other hand, an attempt might be made to maintain the higher price level caused by the occupation, allowing incomes to rise. In that case, the reduction in the standard of living, as compared with conditions before the war, will be expressed in the impossibility of raising incomes in proportion to the increase in prices—if inflationary effects are to be avoided. The weakness of the latter method consists chiefly in the difficulty of ensuring that *all* incomes increase, or increase in the same proportion. Certain sections of the population—people with fixed incomes, pensions, and so on—will be hit more than others in this way. This policy would, however, facilitate the process of transition and adjustment. Moreover, it would limit the real burden of the public debt contracted during the occupation. In any case, it will prove necessary and desirable to make adjustments in the relative positions of the various sections and income groups.

The question of post-war prices is closely connected with the rates of exchange of foreign currencies. At this stage, it is clearly impossible to predict the exchange value of the Norwegian crown after the war. If an effective control of prices and costs can be retained during the remaining period of the war and after the occupation, the exchange value in relation to the pound sterling or the U.S. dollar may possibly not deviate very much from the pre-war level. The position will, of course, depend upon to what extent Great Britain and the United States are able to check the present rise of wage rates and other cost items.

MONETARY AND FINANCIAL RECONSTRUCTION

If we turn from exchange problems to those of internal monetary reconstruction, we may expect that the situation after the war will be marked by a vastly increased volume of purchasing power. The reason why the enormous increase of the circulating medium and bank deposits has not, so far, led to an uncontrolled inflation is to be found in the extensive regulation of the whole of economic life which has been practised. As mentioned above, control of the key factors in economic life will have to be retained during the reconstruction period. It will not be possible, however, nor indeed desirable, after the war to maintain this system of regulation in its present rigorous form. When economic life gradually resumes its "normal" course, the vast circulating purchasing power will represent a potential risk of inflation, the immediate removal of which will be of primary importance. There are several ways in

which this may be done. Import surpluses, whether financed by our own exchange reserves, by foreign loans, or possibly by German payments of compensation, will augment the volume of trade. The money used to pay for these goods will be placed at the disposal of the Bank of Norway, which, through the adoption of a restrictive credit policy, can keep it back from new circulation. The same applies to the proceeds of public loans and various forms of new taxes, etc., which may be introduced. Special difficulties might arise in connection with the compensation for ships lost in the war and certain other items. These amounts, which are rather large on account of the high percentage of ships lost, are now held in trust for the shipowners by the Norwegian Shipping and Trade Mission. The release of corresponding funds in Norwegian currency might cause considerable difficulties to any policy of monetary stabilisation if the shipowners want to use the money in Norway for investment purposes. Special measures may be necessary, such as the freezing of part of these funds until possibilities occur of contracting for new ships abroad. (By far the greater part of the Norwegian mercantile marine is built abroad.) Such measures might, of course, be regarded as part of a general policy of controlling investment activities.

In view of the enormous expansion of the volume of currency and credit during the occupation, more drastic measures may, however, prove necessary in the transition period, for example, the introduction of temporary restrictions on the disposal of banking deposits and a rigid control of the capital market. A part of the excessive volume of notes in circulation would have to be sterilised in blocked banking accounts. These devices should be combined with the introduction of new currency notes, given in exchange for those of the old ones which are not blocked in the way suggested.

As for the distribution of the burdens of the war, a large public loan may provide a basis for subsequent measures. If the State takes over the account of the German *Wehrmacht* in the Bank of Norway, it will be possible to let the money lent go directly towards paying off this account, whilst some of the goods delivered by Germany as compensation may be sold in the home market and the profits used to write off the account. For realistic planning, however, it has to be assumed that the amount of compensation will, at most, correspond only to a fraction of what the occupation army has robbed from Norway. After the war, German industry will be ruined, and, even with a very low standard of living, Germany will not have any noteworthy surplus for export. However, certain deliveries in kind should be possible, for example, coal and

merchant ships, both of which would be of primary importance for the resumption of economic life in Norway, without involving insoluble financial difficulties of transfer.

The part of the *Wehrmacht* account which the German compensation payments will fail to cover should not simply be written off. Such a measure must be deemed unfair, as it would place too great a part of the burden on the banks and the holders of bank-notes and Treasury bills—in short, all creditors of the Bank of Norway and the Treasury. It is necessary to find some juster way of distributing the war losses. The suggestion has been made and discussed that a 100 per cent. tax should be imposed on any considerable profits made during the occupation. Such a tax would, in the first instance, affect the great fortunes made by building contractors and other firms working for the Germans. Furthermore, all the German property in Norway should be transferred to the Norwegian State. Such transfer would be all the more natural in that these German properties have for the greater part been acquired through the *Wehrmacht* account. It is not possible to give any estimate of the amount to be expected from such a confiscation of the profits made during the occupation. It would certainly not yield a sufficient sum to cover the increase of the national debt that taking over the *Wehrmacht* account by the State would involve. To cover a part of the rest, a general capital levy or other new and extraordinary taxes might be introduced, while the remaining part would represent a permanent increase of the public debt.

The problems of monetary policy which a contraction of the volume of purchasing power will present, as well as the problems connected with the distribution of the debt left by the occupying power, will, in the time immediately after the war, call for thorough and radical solutions. During the occupation, the Norwegian banks have been very cautious in their investment policy and have not engaged themselves in such long-term enterprises as they would have deemed unsound in times of peace—allowance being made for investments which the occupation authorities have forced them to take part in. The control of the real estate market has prevented a general increase in the value of farms and forests, a circumstance which will be of vital importance in reconstruction policy.

THE BALANCE OF PAYMENTS

It will be necessary to direct development in the various fields of economic life not only because of the limitation of Norway's own economic resources, but even more because of the restricted possibilities of import. At present, it is not possible to calculate the reserves in foreign exchange which will be available after the

war. The merchant fleet, five sixths of which is controlled by the Norwegian Government in London and operated under its leadership, while only one sixth was seized by the Germans, provides considerable income in foreign exchange. On the other hand, the Government has to meet large expenses for the prosecution of the war. In its endeavour to increase Norway's war effort to a maximum, expenditure on this item is limited only by the possibilities of obtaining war material. In addition, foreign exchange has to be secured for the payment of interest and instalments in Allied and neutral countries on the foreign loans of the Norwegian State, loans guaranteed by the State, and some municipal loans which the Government has found it expedient to serve *ex gratia*. These expenses must be covered by means of the income from shipping. The present annual expenditure of the budget of the Norwegian Government in London amounts to more than £16,000,000. Apart from the amounts of exchange that can be obtained from shipping income, the Bank of Norway in London is in control of the country's gold and a considerable amount of foreign assets. Before the war these reserves, however, served the important purpose of being the foundation of the country's monetary system and exchange policy, and most of them will be needed for the same purpose after the war. Compared with the vast demand for exchange for economic reconstruction after the war, the reserves at the country's disposal will be insufficient, even on the assumption of a drastic cutting down of most legitimate claims. It should also be borne in mind that Norwegian export trade will not be able to resume its normal course until after a considerable time. The reasons are, firstly, the destruction of industry during the occupation, which might well proceed to such an extent as to curtail seriously the capacity to produce export goods and services for a long period after the war; secondly, the extraordinary needs of home consumption; and, thirdly, the interrupted connections with our most important export markets. Shipping, seriously reduced by war losses, may possibly be in no better position, especially in view of the possible breakdown in the freight market for some time after the war.

In any circumstances, however, it will be essential for the rebuilding of Norway's economy that the country can obtain sufficiently large foreign loans during the early stages. In the years before Norway was involved in the war, it had a large surplus in the annual balance of payments, which was used towards paying off foreign debts. Norway will therefore no doubt be capable also of paying interest and instalments on its reconstruction loans, as soon as its trade and industries have been restored. The available funds in pounds sterling will presumably suffice to cover the surplus

imports from Great Britain and the British Empire. During the war, Great Britain's possibilities of acquiring foreign exchange have deteriorated seriously on account of its loss of foreign investments. It is probable, therefore, that the transfer of funds in Great Britain to countries outside the sterling area will be possible only to a limited extent.¹ Thus, the needs for foreign loans relate especially to U.S. dollars for use in North and South America and to certain neutral currencies, such as Swedish crowns and Swiss francs.

PLANNING SOCIAL POLICIES

The post-war development of Norway's social services will, no doubt, partly have to follow other lines than those prevalent in the pre-war years. After the extension and unification of the social insurance system, a certain change of emphasis towards other fields of social policy, such as housing and nutrition problems, may be expected. This development began in the late 'thirties, which were, however, characterised mainly by the introduction of large-scale social insurance schemes. At the outbreak of war, the most important measures in this field still not implemented were, in the first place, the extension of the national health insurance system to comprise the whole of the population, including farmers, employers, traders, and independent workers, groups so far not included in the compulsory scheme. Secondly, a disablement insurance system for cases not covered by the Accident Insurance Acts was on its way. In addition, certain smaller improvements were being prepared. When these measures have been introduced, the social insurance system will cover the major causes of loss of income. The benefit rates, however, should be increased. This would meet with far greater difficulties after the war owing to the decrease in national income and the enormous burdens which the war debt and reconstruction will place upon public finances. Nevertheless, a policy of securing a minimum standard of living to all citizens will be quite possible if this aim is given the second call on the nation's resources, next only to the international security measures. No doubt developments abroad, such as the implementation of the Beveridge Report in Great Britain, will deeply influence public opinion on these matters in Norway.

In 1938, an official committee on children's allowances proposed the introduction of a State-financed scheme of family allowances

¹ The American plan for an international stabilisation fund envisages the possibility of the fund buying blocked balances from member countries on certain conditions. Cf. U.S. TREASURY: *Preliminary Draft Outline of a Proposal for An International Stabilization Fund of the United and Associated Nations* (Washington, D.C. 1943), p. 12. See also *Proposals for an International Clearing Union*, Cmd. 6437 (London, H.M. Stationery Office, 1943), p. 16, and L. B. JACK, *loc. cit.*

to all children or, at least, to all children after the first. The publication of the report resulted in a thorough discussion on alternative ways of securing children's health and welfare.¹ In the opinion of the opponents of the scheme, these aims might best be attained by subsidising children's consumption, for example, by the extension of school meals, by an elaborate system of price discriminations on foodstuffs, by rent reductions, etc., in favour of families with children. The pursuance of such a policy might facilitate the co-ordination of social and economic policies, such as housing and unemployment policies and nutrition and agricultural policies.

Arguments such as these might gain increased importance after the war. Raising the standard of living will necessitate an economic policy directly aimed at the fullest possible exploitation of the economic resources of the country. Production in those spheres where possibilities of expansion exist should be directed primarily towards satisfaction of the physiological needs for food, housing, clothes, holidays, and the like.

AGRICULTURAL PROBLEMS

A world economy, based on an expanded division of labour, and a freer international exchange of goods also implies a concentration of the world's production of cereals in the countries best fitted for such production. If the security problem is solved, the need to ensure the food supply in the event of war will no longer be a decisive argument in favour of a protectionist agricultural policy. The natural development of Norwegian agriculture under such circumstances will be an expanded output of animal products, vegetables and fruit, while no extension worth mentioning may be expected in the growing of cereals, such as wheat.² Increased scarcity of hired farm labour, due to the "drift" to the towns will contribute to this development. The products to which it will be natural in these circumstances to give most attention are mainly such as must of necessity be produced near their markets. Modern nutrition physiology stresses the value of these important "protective foods": milk, butter, cheese, meat, eggs, vegetables, fruit, etc. A comparatively large consumption of these foods is generally characteristic of a high standard of living.

Fortunately, the production of protective foods is concentrated on the smaller farms, which, for national and social reasons, are

¹ Cf. *International Labour Review*, Vol. XL, No. 1, July 1939, pp. 56-63: "The Question of Family Allowances in Norway".

² Cf. U.S. DEPARTMENT OF STATE: *United Nations Conference on Food and Agriculture. Final Act and Section Reports* (Washington, D.C., 1943), especially Resolution XV: "Long-Term Production Policy". See also *Review* article cited on p. 585 above.

generally considered desirable. This applies even more than elsewhere to Norway, where 92 per cent. of the farmers are freeholders. Further, the great degree of labour intensity involved in producing high-grade foodstuffs would offer a solution to the problem of partial unemployment on the smaller farms, which constitutes one of the main problems of Norway's agriculture.

However, while peasant proprietorship offers a number of social and economic advantages, care should be taken that the area of farmland is not too small for economic cultivation and efficient utilisation of the labour of the farmer and his family. In fact, the insufficient acreage available to many farmers was a cause of considerable difficulty in Norwegian agricultural policy before the war. The extension of the area of farmland on older farms by cultivating additional land should therefore continue to be encouraged. The development of new farms, on the other hand, which was promoted by the State by means of subsidies for housebuilding and tillage and cheap loans, met with considerable economic difficulties. In 1938, the market value of these farms averaged some 50 per cent. of the capital invested in them by way of State subsidies, loans, and the farmers' own contributions in labour or cash. The standard of living of many of the new farmers was completely dependent upon the availability of subsidiary employment. In view of these facts, and of the declining birth rate, which will cause a considerable decrease in the number of men seeking employment after the war, a reversal of the land settlement policy might prove necessary.

Finally, it should be remembered that, while the general standard of living in Norway before the war was relatively high, this does not apply to certain groups, for instance, agricultural smallholders, farm labourers, forestry workers, and fishermen. The problems of the agricultural population have been briefly touched upon above. The standard of living of the forestry workers and fishermen, on the other hand, cannot be solved within the framework of national economic policies. Their economic existence is above all dependent upon developments in international markets and post-war commercial policies.

INTERNATIONAL ECONOMIC RELATIONS

The reconstruction and stabilisation of Norway's economy and monetary system will, from a long-term point of view, depend largely on the existing conditions of international trade. Consequently, only certain general views can at present be suggested.

Shipping, as well as the greater part of exports, particularly in the paper and cellulose industries, the ore and metal industries,

etc., are easily and strongly influenced by the international business cycles, a fact which is bound to have far-reaching consequences for the internal economy of the country. On the other hand, the export trades cover a larger field and include a greater variety of commodities and services than is the case in several other smaller countries, whose economic existence is more or less completely dependent on a single export trade. For Norway, this circumstance in itself means a greater economic power of resistance. For reasons already mentioned, it is probable that the development of world markets immediately after the cessation of hostilities will be completely dominated by the purchase of supplies. Through international co-operation it may be possible to control this development. It is not until some time later that the risk of a world-wide depression will arise. Since Norway's industries are so dependent on foreign trade, the country would be very vulnerable to such a depression, which might endanger the continuation of economic reconstruction. It is therefore highly interested in a common international economic policy aiming at the prevention of extensive post-war depression; it is also interested in co-operation to prevent countermeasures in the form of trade restrictions and exchange restrictions.

During the neo-mercantilistic period of the 1930's, Norway tried to maintain the multilateral trade policy based on the most-favoured-nation clause. It did not introduce quantitative restrictions except when compelled to do so by the policy of other countries, above all, by the British bilateral trade policy which started with the Ottawa Agreement and was followed by the trade agreements with the Scandinavian countries in 1933. The commercial and clearing policies of Germany did not affect Norway very much, owing to the large import surplus from Germany. By initiating in 1930 the Oslo Convention between Denmark, Norway, Sweden, the Netherlands, Belgium, and Luxemburg, joined by Finland in 1932, Norway took a lead in working for mutual disarmament in trade policy on a regional basis. As far as Norway is concerned, this policy was dictated by primary economic interests, which will be even stronger after the war.

That Norway succeeded to so great an extent in limiting the restrictions on its trade and exchange market in the 1930's is above all due to the fact that the proceeds of its export industries and, still more, of its shipping were sufficient to cover the large volume of imports and, even, to enable it to pay off 500 million crowns of foreign debt during the last seven years before the war. But losses of the merchant navy in this war have been considerable, and Norway has not the same possibilities of replacing the losses as,

for instance, Great Britain. Norway will therefore be highly interested in a speedy rebuilding of its fleet after the war. Its own shipbuilding industry is very small and, even if greatly increased, will not be able to meet more than a fraction of the demand. During the last six years before the war, Sweden supplied 40 per cent. of the ships built for Norway's mercantile marine, and Germany about 25 per cent., followed by Denmark, Norway, and Great Britain. It might be possible to dovetail Norwegian shipbuilding orders after the war into the employment plans of the supplying countries. It is commonly assumed that the risk of a major depression after this war will not materialise until the "replacement boom" is over.¹ The policy of concentrating replacements in depression periods has contributed to no small degree to the prosperity of Norway's shipping industry.² Presumably a similar policy will be pursued after this war. If so, the volume of production of the shipbuilding industries would be stabilised. To ensure a proper planning and timing of these investments, international co-operation between shipping and shipbuilding industries in the various countries, as well as between the interested Governments, would be essential.³

Equally important for Norway are the terms on which it may compete in the freight market after the war. What the country needs is the greatest possible amount of freedom. Development may be expected to be in one of two possible directions. Either, the international co-operation needed for allocating tonnage and fixing freights during the period of supplying immediate post-war needs will be superseded by a permanent system of international planning to solve shipping problems. In that case, Norway will be concerned about a system which secures its position, taking into account the power of expansion which Norwegian shipping has shown in international competition. The other alternative is the return to free competition in the freight market. Norwegian shipping will have no difficulty in holding its own under such circumstances. But Norway would be in a difficult position if the Great

¹ Cf. LEAGUE OF NATIONS: *The Transition from War to Peace Economy. Report of Delegation on Economic Depressions*, Part I (Geneva, Series L.O.N. Publications, 1943 II. A. 3), especially Ch. II. (See *International Labour Review*, Vol. XLVIII, No. 1, July 1943, pp. 1-22: "The Transition from War to Peace Economy: Analysis of an International Report", by E. J. RICHES and L. B. JACK.) See also ALVIN H. HANSEN: "The Postwar Economy", in *Postwar Economic Problems*, edited by Seymour E. HARRIS (New York, 1943), p. 12; HAROLD G. MOULTON and KARL T. SCHLOTTERBECK: *Collapse or Boom at the End of the War?* (Washington, The Brookings Institution, 1942), Ch. IV.

² Cf. ØIVIND LORENTZEN: *Norway, Norwegian Shipping and the War*, No. 25; *America in a World at War* (New York, Oxford University Press, 1942), p. 11.

³ Cf. *International Labour Review*, Vol. XLIX, No. 1, Jan. 1944: "The Social Aspects of a Public Investment Policy", by D. CHRISTIE TAIT, p. 6.

Powers should pursue a policy of preference for their own shipping by means of subsidies or other support. It is natural here to think of the United States, where the war is leading to a vast development of the amount of tonnage and of the shipbuilding industry. In this connection it should be pointed out, however, that the relative technical superiority (in man-hours per production unit) developed by the United States in most of the important manufacturing industries applies neither to shipbuilding nor to shipping itself. Subsidising these industries after the war would therefore be extremely expensive to the United States. It is of vital importance to Norway that its shipping after the war should be allowed to work under the same competitive conditions as that of its Allies.

Viewed under wider aspects, the shipping problem is linked with one of the most important questions of post-war world economy: the central position of the Atlantic Powers and the future economic policy of the United States, Great Britain, and the Soviet Union. If the war-ravaged countries of Europe are to be able, in the long run, to base their economy on a solid foundation, the United States must, after the period of reconstruction, be willing to pursue a policy of economic expansion and to accept the surplus imports of goods and services that are the only means by which the other countries can fulfil their financial obligations towards America.¹

Among the reasons why it proved impossible to prevent the economic crisis in the 1930's, the political factors were dominant. The economic policy of the aggressor nations was dictated solely by the demands of rearmament. To safeguard their supplies in event of war, they carried out a policy of autarky. Exports were often subsidised, their main task being to provide exchange for the largest possible supplies of such raw materials for war production as the country itself did not possess. At the same time, all efforts to restore world trade were made impossible by the increasing political tension. After the war, too, the establishment of political security will be a necessary basis both for direct economic reconstruction and for the desired stabilisation of the world's economy. Conversely, international economic collaboration is of central importance for solving the questions of political reconstruction.

There is, however, another factor which should be considered. The vast unemployment from which all the more prominent industrialised countries were suffering in the early part of the 1930's was strongly instrumental in bringing about restrictions on trade

¹ Cf. J. B. CONDLIFFE: *Agenda for a Post-War World* (London, 1943), especially Chs. 9 and 10; and S. E. HARRIS: *The Economics of American Defense* (New York, 1941), pp. 303-308 and 319.

and exchange. Any effective policy against unemployment which is carried out in only one or a few countries—whether it be based on public works or on increased employment in private industries—will necessarily lead to an increase in the volume of purchasing power in the countries concerned. Part of that purchasing power will be directed towards foreign goods, resulting in a pressure on the balance of payments. Such a situation in the 1930's called forth restrictions on trade and exchange. These restrictions were, in themselves, instrumental in further stimulating private enterprise, by giving a protection which proved effective as long as they were not met with similar countermeasures in other countries. Hence the national isolation booms which were so typical of the late 1930's.

For Norway, these problems did not arise before the war, at least, not to any great extent. This was due to the above-mentioned fact that the comparatively high income in foreign currencies made it possible to pursue simultaneously a relatively liberal trade policy and an expansive economic policy at home. As, after the war, such conditions will probably not exist, a policy of internal expansion will be dependent either on credits or on the pursuance of a similar expansion policy in other countries, whereby the pressure on the balance of payments would be relieved. As stated above, the Norwegian people will regard it as a primary demand on the national post-war economic policy that extensive unemployment shall be prevented. A similar demand will, no doubt, be raised in other countries also. If a policy of this kind is to be consistent with freer trade and an extended division of labour between the various countries, it is necessary that stabilisation funds or credit facilities—*e.g.*, in the form of a multilateral clearing system with overdraft facilities—should be created to compensate for temporary deficits in the balance of payments. Above all, it is necessary to create some form of international co-ordination of the various countries' monetary and investment policies. This again is primarily a question of the post-war economic policies of the United States.

Provided we succeed after the war in establishing a freer international exchange of commodities, the need for extensive international co-operation in the field of social policy will be even more urgent. The activity of which the International Labour Office in Geneva formed the centre during the time between the two great wars belongs to the most effective forms of organised international co-operation of that period. After the war, Norway will wish to support this activity, desiring to see it continued and strengthened in all spheres of social policy.
