Chapter 9
The capitalist state or the state as private owner

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ABSTRACT  This article traces the origins of the considerable state ownership in listed companies in Norway. The Norwegian state is the owner of approximately 30 per cent of the market value of the Oslo stock exchange, and controls companies that account for over half of the market value. The Norwegian parliament has agreed that the state shall operate as a private owner in these companies, respecting other shareholders and the companies’ integrity as private enterprises, and thus accommodating the attendant principles of being listed companies. This ownership model for the state developed in the post-war era as a result of the state’s ownership in Norsk Hydro; hence, the ownership model is called the Hydro model. The paper will provide a historical explanation of why the Hydro model prevailed, and thereby provide an important explanation for the considerable state ownership in Norway.

KEYWORDS:  State ownership | Hydro model | business history | and corporate governance

9.1 INTRODUCTION

A key characteristic of Norwegian businesses and society is the extensive state ownership, particularly in listed companies. The Norwegian state owns approximately 30 per cent of the values in the Oslo Stock Exchange, and controls companies that account for more than half of the market value. This is quite extensive, not least compared with other countries (Storting Report No. 27, 2013–2014). State ownership was a controversial political topic during the post-war era, but broad political support for this ownership developed from the 1980s, along with the belief that it was important to ensure a national anchor for a number of important companies.

From a wider perspective, it may appear paradoxical that state ownership became broadly supported in the 1980s, a decade that was otherwise characterized
by liberalization and globalization. The UK, under its Prime Minister Margaret Thatcher, was at the forefront of this liberalization through the selling and privatization of several state-owned companies. Globalization entailed that an increasing number of companies had foreign owners, and an international division of labor that has particularly benefited small countries such as Norway. On the other hand, globalization—with international agreements—has weakened the possibility of securing national ownership in businesses. With weak private ownership in Norway, several companies were vulnerable to foreign acquisition. In 2002, the majority in the Storting’s (Norwegian parliament’s) Standing Committee on Business and Industry stated that the “country must have leading companies with central functions such as headquarters and R&D organizations located in Norway.” (Recommendation to the Storting No. 264, 2001–2002). In line with this, state ownership should be considered a form of selective protectionism, i.e. protection against foreign acquisitions (David and Mach, 2003; Christensen 2003).

It is difficult to fully understand the desire for national ownership. Within fields concerned with economics, ownership and economic development, one often finds more or less strong arguments for active, diversified or concentrated, and competent ownership. On the other hand, one would be hard pressed to find a single person from such fields who would argue for why national ownership is important. Nevertheless, one can find many who argue that the value of national ownership is exaggerated (Jakobsen, Goldeng, and Reve, 2001). However, there are several characterizations of ownership that show that most countries are concerned with ensuring national control over particularly important companies (David and Mach, 2003; Christensen, 2003). One expression of this is that while most listed companies in the world can be acquired and sold in what is called the “market for corporate control”, this is rarely the case for the most important companies across a range of countries. National ownership in these types of key companies—in Norway often referred to as industry locomotives—was considered important for cooperation between the state and businesses, for innovation, and to ensure a long-term perspective in a variety of ways. More specifically, the desire is to ensure that strategic functions linked to the headquarters, research, and so on, remain in the country.

The concern for national ownership is thus applicable in several countries, so the question is actually why Norway has landed on state ownership as the most important form of selective protectionism. In other countries, concentrated family ownership, combined with other forms of protections against acquisition, has had the same function. According to a global history on corporate governance, capitalism outside the US and UK is “a system where a handful of immensely wealthy
families control almost all of a country’s great corporations” (Morck and Steier, 2005, p. 1). For example, in Sweden, the Wallenberg family controls several major companies through shares and preferred shares, thus securing Swedish ownership. In both Germany and Italy, families dominate ownership in large companies such as Fiat and BMW.

The Norwegian historian, Francis Sejersted, believes that the absence of rich and powerful families that could take a nationally leading role after the industrial revolution has characterized Norway since 1814. This can be attributed to the absence of nobility since the Middle Ages, and/or that the financial crises after 1814 hit the upper classes particularly hard. Sejersted believes that the principle of equality was and remains strong in Norway, and that there has been a correspondingly strong skepticism to private power and capital (Sejersted, 1993a, 2005). Recently, Einar Lie has recently presented another theory that there is “a high level of trust in the state as a protector of common interests” (Lie, 2016). Trust in the state—or distrust in private players—could be said to be two sides of the same coin, and both are important characteristics of Norway, which could contribute to explaining the scope of the state ownership.

This contribution emphasizes another cause: the form of the state ownership that developed and that was eventually supported across the political spectrum. But first, a key complaint against state ownership has been that state-owned companies were not sufficiently focused on efficiency and profitability, and that this was due to the lack of zealous private owners who wanted returns on their invested capital. Companies have many stakeholders, with interests invested in different parts, functions and effects of the company. This includes owners, employees, suppliers, customers, local communities, and society at large. An important feature of capitalism is that the owners have the final say in the company. One argument for this is that it is primarily people who have invested their own money who are able and willing to put the profitability requirement ahead of other interests. This could, for example, relate to closing down a part of an enterprise that is losing money even though it affects the interests of employees, suppliers and local communities. It may appear brutal in the individual case, but will also be necessary to ensure societal growth and welfare over time (Bøhren, 2011, p. 198). One objection against the state is that it lacks sufficient capability and willingness to sacrifice the interests of other stakeholders in order to achieve efficiency. One reason for this is that the state, and those who represent the state, lack a pecuniary self-interest. Another is that the state and state companies are vulnerable to pressure from different stakeholders.
The form of state ownership in Norway is referred to as the Hydro model, and is characterized by the state exercising its ownership as a private shareholder, while also respecting minority shareholders. This is to alleviate the traditional problems that ordinary state companies face. The state promises to respect the company’s autonomy—and particularly its integrity—as a listed company. The state pledges not to pursue political ends as a company owner, which in practice entails passive ownership. In this respect, the Hydro model means that the state ties itself to the mast as regards governance. The model entails that the companies have private owners, ensuring that profitability is at the top of the agenda. One important element here that has been particularly stressed in recent years is that the companies are public listed companies, so they are subject to market monitoring (Storting Proposition No. 36, 2000–2001, p. 27).

The Hydro model is not the result of a plan or design; it emerged as a result of choices that were made along the way. Nevertheless, the model can be viewed as an attempt to make the best of both worlds: a solid and long-term national foundation, along with the profitability demands of private shareholders and markets. We will see that this was perceived as a successful model, and that this was the basis for this ownership model being chosen for Statoil and Telenor in 2001. These are the two largest companies on the Oslo Stock Exchange, and the state’s ownership interests in these companies account for about 80 per cent of the state ownership in the Oslo Stock Exchange. This makes it readily apparent that the Hydro Model is important in explaining the scope of the state’s ownership in listed companies.

In the following section, we will follow the state ownership from the Second World War and up to when Telenor and Statoil were listed on the stock exchange in 2001. The primary emphasis will be placed on the background for the general support for the Hydro model from the 1980s. This was particularly related to repeated experiences where companies in which the state was the dominant owner had trouble operating efficiently, and in which the state was left to take responsibility for problems with companies and projects. At the same time, it is not only state-owned companies who have wasted money. In the 1990s, the banking crisis and other scandals tarnished the reputation of private business and industry in Norway, and the state had to save both banks and insurance companies. On one hand, this was important as part of the broad political support that grew for the Hydro model and state ownership. On the other hand, these types of scandals were

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1. When the state promises to respect minority shareholders, this is also to avoid accusations of exploitation, which is referred to as “tunnelling”, which would then affect the companies’ share price.
important in Norway and other countries because this led to more interest in corporate governance, which in turn laid important guidelines for how the state acted as owner.

This work is based on my own research and that of others, and Tore Grønlie’s range of work on state ownership; a variety of contributions from Einar Lie on business history in general, and state ownership in particular, should be noted especially. This work attempts to provide a status of what the literature can tell us about how the state ended up as such a considerable owner in the Oslo Stock Exchange, and why there is such broad-based support behind this. In conclusion, we will point out key questions for further research.

9.2 STATE OWNERSHIP IN THE POST-WAR ERA

After the Second World War, state ownership in Norway was significantly expanded. The state became an owner in many companies, e.g. within fisheries, electronics and mining. However, three companies formed the center of gravity of the state’s ownership: Norsk Jernverk, which the Storting unanimously decided to establish in 1946; Årdal Sunndal Verk (ÅSV), which started by completing the Germans’ work on establishing an aluminum plant in Årdal; and Norsk Hydro, which, at 47 per cent, the state became the largest owner in when taking over German shares in the company (Christensen, 1999).

Hydro diverged from the other state companies in that it retained its private identity and method of operation as a public listed company. The state respected Hydro management’s overarching goal of generating a profit for their shareholders (Grønlie, 1989; Christensen, 1997). This was not the case for the other state companies. They were not established to make money, but rather to fulfill other objectives such as employment, regional policies, the exploitation of natural resources, and to obtain export revenue. Profitability was a means to achieve these objectives, but not a goal in and of itself. In practice, this meant that other interests superseded the profitability objective. Lie has described how trade unions and local politicians visited decision makers in Oslo to prevent “cost cuts, downsizings or shutdowns” in ÅSV, and thus contributed to “weakening the decision cen-

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2. This was due to a number of factors: It was considered necessary to ensure rapid industrialisation; the state took over German ownership in existing and newly established companies. The Labour Party’s majority in the Storting provided stable political power, and the war contributed to national and political unity, not least between business leaders and representatives of the Labour Party state. Grønlie 1989; Christensen 1997; Sogner 1994, p. 16.
tres that were working for efficient and rational operations” (Lie, Myklebust, and Norvik 2014, p. 61).

The Labour Party was not as concerned with profitability as private owners, but still wanted the state companies to operate as normal public companies. The party toned down the significance of state ownership, and gave the companies considerable freedom, inviting businessmen to take on roles in the companies and their governing bodies. The Conservative Party, on the other hand, argued in favor of more control of the companies, and in particular control of the state’s conduct vis-à-vis the companies (Grøndahl, 1995a; Christensen, 1997). This was in line with the Conservative Party’s skepticism regarding the Labour Party state’s extensive use of authorizations (Sejersted, 1993b). As regards the view of the Storting’s role, there was a healthy dose of opportunism involved—which we can also recognize from our current era. As a government party, the Labour Party wanted a form of governance that would not entail parliamentary responsibility for the Government; as the opposition party, the Conservative Party defended the parliament’s primacy and wanted to bring as many issues before the Storting as possible (Christensen, 1997). In practice, however, enterprises that were run well had freedom from state interference, while enterprises that faced and created problems had to accept tighter scrutiny from the state.

A “main approach in Hydro’s relationship with the state,” according to Øivind Grøndahl, was “the extensive freedom from almost any form of state interference” (Grøndahl, 1995b). Minister of Industry Lars Evensen gave a fundamental clarification early on when he rejected a proposal to instruct the state’s representatives on Hydro’s board; “I cannot advise a recommendation or order to the state’s representatives in a board of this nature” (Christensen, 1997). This would complicate the cooperation with Hydro and businessmen. Moreover, one could “reach further,” according to Evensen, “by negotiating directly with the company’s administrative and technical leaders” (Christensen, 1997). In addition, the state had considerable influence through frequent contact with Hydro. In 1950, one of the company’s board members pointed out “the necessary daily contact Norsk Hydro has with the Norwegian government” (Christensen, 1997). This contact dealt with capital requirements, lease of hydropower, research, the agricultural need for inorganic fertilizer, sensitive products such as heavy water and magnesium, and later on, oil. As an owner, the state was passive, but was active in the relationship with Hydro. The ownership laid important guidelines for the policies the state enacted with regard to Hydro, not least through the fact that state ownership gave the company a legitimacy that paved the way for a policy of expansion (Christensen, 1997, 2003).
The 1960s were characterized by several difficult issues related to state companies. The financial overruns linked to Koksverket became a symbol of a mismanaged state company. A more serious example was the Kings Bay accident in 1962 in which 21 people died. This was the fourth mining accident on Svalbard after the war; a total of 64 people had lost their lives. In addition, ÅSV had recurring problems with polluting spills, and Jernverket struggled with major deficits and bleak prospects. The scandals tarnished the reputation of state industry and contributed to the non-socialist election victory in 1965. However, this did not result in more control of the state companies. “The lessons from Kings Bay and the ‘industrial scandals’ in 1963/64”, according to Tore Grønlie, “appear for all parties to have been to ‘keep your hands off’” (Grønlie, 1995). Under the Conservative Party’s Minister of Industry, Sverre Walter Rostoft, the companies were given the same amount of freedom as under the Labour Party. He had faith that experienced business leaders would do a good job on the boards and in managing the companies. (Grønlie, 1995).

The Conservative Party’s resistance toward state ownership was moderate in the years following the war, and mainly dealt with criticism concerning the organization of state ownership. One important exception was the ownership in Norsk Hydro; the party argued that the state should sell some of its shares—if not all. This applied both when the state became the owner after the war, and became an even bigger issue in the debates on whether the state should fully subscribe in Hydro’s issues of shares in 1956 and 1963 (Christensen, 2003). Nevertheless, it was in the 1970s that the confrontation between the Conservative Party and Labour Party regarding state ownership became more pronounced.

9.3 THE 1970S: AMBITIOUS POLITICS AND OVERRUNS

After oil was discovered in the North Sea in 1969, the Conservative government wanted to give Norsk Hydro an advanced role in the petroleum activities, and the state therefore increased its ownership in the company to 51 per cent in 1971 (Storting Proposition No. 63, 1971–72). The Conservative Party hoped that this would prevent the establishment of a wholly-owned state oil company, but the Labour Party took over the government the same year, and Statoil (now Equinor) was established in June 1972 (Storting Proposition No. 113, 1971–72). It is difficult to determine why the Conservative Party supported its establishment; much indicates that they did not want it to become an operative oil company (Aven, 2014). The Labour Party, on the other hand, wanted to develop a strongly integrated Norwegian company that could match the advantage that multinational oil
companies had through their industrial and technological insight. Moreover, they wanted to use Statoil as a tool of industrial policy and, along with the technology agreements, Statoil became important for aiding the development of a Norwegian supplier industry (Christensen and Rinde, 2009). The conflict regarding the Storting’s role became relevant as the Labour Party wanted to give Statoil considerable freedom, while the Conservative Party requested “measures that could ensure parliamentary governance and control” (Grønlie, 2001). The Conservatives’ desire for control did not diminish from the fact that several Labour Party veterans—Jens Chr. Hauge, Finn Lied and Arve Johnsen—dominated Statoil for the first 10–15 years, the first two as chairs of the board, and Johnsen as CEO.

The state companies would not only create jobs and export revenues; they would also serve as locomotives for industrial and technological development. This particularly applied to Statoil and Kongsberg Våpenfabrikk. The EC referendum, the oil crisis and subsequently the economic crisis in the 1970s, created “an ideal climate for ambitious industry politicians,” according to Grønlie (1995c). The phenomenon was far from uniquely Norwegian; several European governments—for example, the Swedish government—practiced an ambitious industrial policy with a strong element of state ownership (Giovanni and Foreman-Peck, 1999; Bohlin, 2014, p. 128; Benner, 1997). In Norway, this development had an additional twist due to the faith in future oil money, and the fact that the Labour Party wanted to stop the progress of the Socialist Left Party. The state therefore spearheaded multiple industrial projects with the aim of increased refinement and value creation in Norway.

Firstly, the state was an initiator in ÅSV increasing the further processing of its own metals, which led to major losses, and also caused the company Alcan to sell all the shares it had purchased in ÅSV in the 1960s (Lie, 2005). Nye Tofte was another ambitious project to produce cellulose sulfate for paper production in order to replace polluting cellulose sulfite. When the project was about to fail due to uncertain economic calculations, the Association of Paper Workers convinced the state to join the project.3 This did not turn out well, but rather ended in bankruptcy court. In the so-called Emden project, state-owned Sydvaranger contributed 75 per cent of the share capital to the company that would produce sponge iron using Norwegian iron ore and North Sea gas. The project was proceeding as planned until a failing market for sponge iron and higher gas prices spoiled these plans, and the company went bankrupt (Byrkjeland and Langeland, 2000). The official commission that investigated both Nye Tofte and Emden concluded that

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3. Multiple wood processing companies were involved, and there were therefore ambitions for the project to contribute to a rationalisation of the industry (Byrkjeland and Langeland, 2000).
the state had not conducted sufficiently thorough commercial risk and profitability assessments (NOU 1983:31). Jernverket was one of several (state) companies that struggled with major deficits, and needed transfers from the state (Fossen, 2013).

The state companies were one thing; another was that the state practiced active politics toward the rest of industry. One example was the extensive support for the shipbuilding industry, which was criticized toward the end of the 1970s for draining the public purse and preventing adjustments in the sector (Lie, 2012). The state also invested heavily in the Norwegian electronics or IT industry in the 1970s, but the majority of the companies underwent crises and/or bankruptcies (Christensen, 2006). The point here is not to discuss whether the policies had favorable consequences. For example, Hans K. Mjelva argues that the shipbuilding support was beneficial because it kept shipyards running, which could later adapt into becoming suppliers for the oil industry (Mjelva, 2005). Neither is the point to argue against state involvement in innovation and business policies. For example, a lot of valuable knowledge emerged from the investment in Norwegian IT industry. There are extensive studies on the significance of national policies for business development. Mariana Mazzucato has received a lot of attention for showing the state’s significance for innovation (Mazzucato, 2013).

Generally, however, we can say that politics were more characterized by bold industrial ambitions, but not by corresponding financial governance and control, and/or market orientation. With the exception of companies linked to the oil industry, there are not many Norwegian companies with roots in this effort. A recurring problem with the policy was that different representatives of the state had diverging opinions and priorities. In privately owned companies, it was easier for an owner to enforce the profitability requirement. With the state, there were different representatives saying different things. Moreover, parts of the state apparatus, and the political parties, were vulnerable to pressure from stakeholders. This included pressure from employees, or from powerful industrial players, who were more interested in further refining natural resources than assessing financial risk.

Toward the end of the 1970s, the Labour Party fully acknowledged the problems with the industrial policy and the Government appointed the Lied Committee to lay the foundations for a shift in industrial policy. The committee was headed by the Labour Party’s former Minister of Industry, Finn Lied, and he was joined by the head of LO (Norwegian Confederation of Trade Unions), Tor Halvorsen, and former president of the Federation of Norwegian Industries, Jens-Halvard Bratz.4 The committee claimed that the industrial policy had to be market-based,

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and that “private profitability coincides with socioeconomic profitability” (NOU 1979: 35). Over the course of the 1980s, “[the Labour Party] moved in a liberal economic direction, where it was no longer a goal for the state to own industry”, writes Elin Fossen, who goes on to write: “The primary focus was that business and industry should be profitable, and there were also warnings against public subsidy schemes” (Fossen, 2013, p. 26).

9.4 THE 1980S: LIBERALIZATION AND SCANDALS

One reason for the industrial policy and state companies’ challenges in the 1970s was the economic crisis that struck the entire western world. That same crisis laid the foundation for a right-wing wave with less faith in state initiatives and more faith in the market. In Norway, this was manifested through the non-socialist election victory in 1981 that made Kåre Willoch prime minister. He took several steps to phase out and privatize state companies. Here, we will focus on Willoch’s skepticism regarding Statoil, which he referred to in his memoirs as “a combination of business, administration, political agency and propaganda machine” (Willoch, 2002; Aven 2014). He was fully supported by his eager state secretary, Terje Osmundsen, who in 1981 wrote the critical book: *Gjøkungen – skal Statoil styre Norge?* (The cuckoo—should Statoil run Norway?)

One objection was that Statoil, through its knowledge and its administrative duties, was given the power to manipulate political processes (Aven, 2014; Lie, 2005). Another was that Statoil’s favorable financial terms weakened the company’s incentives to streamline and cut costs. Partial privatization of Statoil was never on the table at this point, but Willoch’s warnings against making Statoil too powerful were heard. Following negotiations with the Labour Party in 1984, it was agreed that administrative duties would be removed from Statoil and to move large block interests out of the company and over to the State Direct Financial Interest (SDFI). Referred to as the clipping of Statoil’s wings, the result was that Statoil became less of a state agency, more resembling an ordinary company.

While Statoil had been favored with the Labour Party’s attention and goodwill, Willoch and the Conservative Party developed close ties to Norsk Hydro, and the company became an important contributor to the design of the party’s oil policy platform (Aven, 2014; Lie, 2005). To the Conservative Party, it was important to break Statoil’s monopoly as a Norwegian oil company. This was the underlying

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5. Through significant ownership interests in the commercial oil blocks, the company was destined to achieve major profits.
idea when Hydro was awarded operatorship of the Sølvfaks field, later renamed the Oseberg field, which made the company a bona fide oil company (Storting Proposition No. 109, 1983–84; Recommendation to the Storting No. 290, 1983–84). Hydro was praised for how it solved the operatorship role, not least with important innovations that increased the amount of oil extracted from the wells. Hydro’s takeover of ÅSV in 1986 was another important step in the industrial policy. A merger had been in the works for a long time. The Labour Party wanted this merger to take place for decades, to no avail. However, Hydro rejected a merger, and demanded a takeover of ÅSV—and more importantly here, that the state’s ownership should continue to follow the principles of the Hydro model (Lie, 2005). The Conservative Party had no issues accepting these conditions—rather the opposite, and Hydro’s takeover was presented as a privatization of ÅSV.

The wing-clipping weakened Statoil, but the major overruns at the Mongstad refinery proved even more significant. It was indicative to many that Hydro withdrew from the Mongstad project in 1986, fearing major overruns. The wholly-owned Statoil, however, continued investing heavily, which caused the company to lose considerable amounts of money, damaging its reputation. The overruns led to the resignation of the board and the company’s powerful leader, Arve Johnsen, in 1987. This was a significant blow to Statoil in particular and state operations in general. Willoch used the opportunity to propose that the state should partially privatize Statoil, based on the template of the Hydro model (Willoch, 1987). The Labour Party was far from ready to accept such a proposal, and was instead concerned with the Conservative Party’s responsibility for the Mongstad scandal and the issues that were piling up at Kongsberg (Førde, 1987). For Willoch and others, this illustrated the main problem with state operation: firstly, that the companies had no owners, i.e. that there was no involvement of private shareholders, who would have been terrified of damaging overruns; second, that it was futile to believe that the state and politicians could play the role of shareholder.

Mongstad was important, but the truly significant banner cause for the Labour Party, and one which ended up symbolizing the party’s change with regard to industrial policy and state ownership, was the crisis in Kongsberg Våpenfabrikk (KV). The company experienced strong growth through the 1970s, increasing sales from NOK 200 million in 1969 to NOK 2.4 billion in 1985 (NOU 1989:2). The previously mentioned Hauge and Lied played key roles, and the company had many accomplishments within technology and products, but profitability was poor. In October 1986, KV requested NOK 600 million in fresh state capital, accompanied by the promise that this would be enough to get the company on a solid financial footing. However, after the oil price drop in 1986, money grew
tighter. In addition, there were many who questioned whether the transfers would put KV on an even keel. One of the skeptics was the company’s shop steward, and later LO head, Roar Flåthen (Øyangen, 2014).

Eventually, Minister of Industry Finn Kristensen lost faith in KV’s management. The head and board were therefore replaced by a board consisting solely of business people, apart from employee representatives. The new chair of the board Karl Glad set the tone: he and Kristensen fully agreed that KV needed change and, not least, an orientation toward profitability. A highly symbolic meeting took place when the old industry strategists Hauge and Lied met with Prime Minister Gro Harlem Brundtland and Kristensen. “True to form, Hauge offered up a long monologue which emphasized the historical dimensions as well as the industry and defense policy sides of the issue”, writes Knut Øyangen in the history of KV, “Finally, the Prime Minister leaned over to look at the Minister of Industry’s watch—the time of the old guard was literally over.” (Øyangen, 2014).

KV did not go bankrupt; in 1987, a composition solution was determined to be the path forward. This was dramatic for KV, but most people believe it was for the best that there was a growth through the crisis in Kongsberg after the change in approach (Øyangen, Sogner, and Petersen, 2014). It was perhaps equally important as a signal to other state-owned industries that one could no longer ask the state to cover deficits in the companies. This became particularly important during the years around 1990. An underlying point, which was challenging for the Labour party to articulate clearly, was that large sections of industry faced extensive and painful restructuring processes. In Norway, nearly 120,000 industrial jobs disappeared between 1975 and 1990; in Oslo alone, 13,000 industrial jobs disappeared during the financial crisis of 1987–1992 (Statistics Norway, 2003). There was no way to bypass this adjustment; as an example, thousands of industry jobs disappeared as a result of the digitalization of the telecommunications industry. It would be challenging for the state to be left with the responsibility for this. This was most likely an important reason why the Labour Party wanted to scale down its involvement in industry policy and to leave adjustment and restructuring to the market.

The Conservative Party and representatives from businesses had a more principled argument against state operation and for the value of putting private owners in charge of state-owned companies, especially in the context of the financial crisis at the end of the 1980s. The Conservative Party accepted that the state would remain a major owner in Norwegian business and industry, and thus that the Hydro model should be the norm. Willoch talked about the model as a suitable vaccine “against the disease that, based on experience, afflicts pure state companies”
I believe in the Hydro model,” said the Conservative Party’s Else Bugge Fougner in a comment on the major losses in state companies (Aftenposten, 1987). In 1988, Per Kristian Foss said about Statoil that “the Conservative Party wants to gradually develop the state oil company into a Hydro model with mixed state and private ownership” (Foss, 1988).

The Conservative Party’s strong resistance to the Hydro model from the post-war era was thus a thing of the past. It was now viewed as a private version of state ownership, and a good and realistic alternative to privatization. In a longer article in Dagens Næringsliv in 1990, several people advocated for a partial privatization of Statoil. The company’s CEO, Harald Norvik, said that it was too soon, but added that there was “no doubt that Norsk Hydro, at the moment, appears to form a school of thought and point out the final goal for the reorganization of Norwegian state companies” (Dagens Næringsliv, 1990). This was expressed, for example, in the partial privatization of Raufoss Ammunisjonsfabrikker in 1990 (Raufoss Ammunisjonsfabrikker, 2009).

The Labour Party, however, was far from ready for partial privatization of Statoil, and it took some time before the party embraced the Hydro model. On the other hand, the party took the initiative to modernize the state in several ways. The so-called Hermansen Committee’s official report on “A better organized state” (NOU 1989:5), was particularly important, and laid the foundation for a general market correction of large parts of the public sector, including “liberalization and deregulation of the energy, telecommunications and post sectors, among others” (NOU 2012:2). This reflected a general skepticism to state governance and bureaucracy, primarily on the grounds that public producers did not receive signals from the market and/or from challenging owners (Arnesen and Hagen, 2008).

At the same time, it was important that European integration followed these steps, and that Norway adapted to this. Despite these trends, the development in the 1990s would involve a more critical view of private owners and private business and industry.

9.5 THE 1990S: PRIVATE DOWNTURN, STATE BOOM AND CORPORATE GOVERNANCE

In the 1970s and 80s, crises in state-owned industry dominated the debate on ownership in Norway, and led to the state’s retreat. This changed with the banking crisis in the years around 1990, when privately-owned banks squandered billions of kroner on bad—and in part outrageous—banking operations (Lie, 1998; Knutsen, Lange, and Nordvik, 1998). The bank losses are not entirely comparable with the
losses from Mongstad, as an example, because parts of the banks’ losses were recouped when the (real estate) market recovered. Nonetheless, the losses in Stat-oil and KV were modest compared with the total bank losses, which were said to have amounted to NOK 76 billion (Hernes, 2008). In addition, several Norwegian companies lost considerable sums on foreign acquisitions in the 1990s. Kværner’s acquisition of Trafalgar House and Saga’s acquisition of Santa Fe, both in 1996, did not align with the corporate governance of vigilant private shareholders who were afraid of losing their money. Most notorious was the insurance company Storebrand’s attempt to buy the Swedish Skandia, which ended with the company being placed under public administration (Christensen et al., 2017). In many ways, banking and insurance had been the symbol of private capital in Norwegian business and industry, and these industries were now on their knees. This undermined the narrative that if one only allowed private owners, this would be a guarantee against the building of empires and vast financial losses. The narrative about the Hydro model was confirmed by the fact that it became the mode of rescue for failed banks.

In this connection, the Labour Party’s Karl Eirik Schjøtt-Pedersen recommended the “Hydro model” for the banks that were now owned by the state after the banking crisis. “The reason is that we do not want hard-handed governance. The banks must be operated commercially” (Aftenposten, 1991). In 1993, the Socialist Left Party’s Eilif Meland warned against what would happen when “the EEA Agreement enters into force”, because “then these shares will be freely negotiable.” A Hydro model could then ensure a national anchoring (Aftenposten, 1993). The state was left with a considerable ownership interest in DnB after the banking crisis; the other large banks in Norway were purchased by foreigners. It was agreed across the political spectrum that the state was necessary to ensure that the largest Norwegian bank, DnB, remained in the hands of Norwegians. The old KV was split into several companies, including Norsk Forsvarsteknologi, which was listed on the stock exchange in 1993 and renamed Kongsberggruppen in 1995. The state was left with 50 per cent of the shares. The Conservative Party’s Foss said that he was not “allergic to state equity” and noted that “the Hydro model [was] in fact an excellent way for the state to contribute long-term capital”, not least because “the company’s performance is constantly measured in the share market through the fact that it is listed on the stock exchange” (Bergens Tidende, 1995).

6. The EEA Agreement is Norway’s—along with Iceland and Liechtenstein—agreement with the EU, that provides it with access to the “Internal Market”, and which stipulates that Norway must adopt most EU legislation concerning the single market.
In the 1980s, the wing-clipping and Mongstad overruns at Statoil had dominated the news. The news coming from the company became less dire in the 1990s. In fact, there were several people who praised the Norwegian model for oil and gas exploration and management, in which Statoil played a key role (Sejersted, 1997). Not least, Statoil’s significance in helping develop the Norwegian supplier industry was emphasized. The fact that the company was run more commercially under Norvik’s leadership in the 1990s was noticed, with a more trim and specialized organization (Lerøen, 2002; IAKH, 2016). At the same time, the private company Saga was floundering after its acquisition of Santa Fe. The company was taken over and split between Norsk Hydro and Statoil in 1999. Yet again, a cleanup was needed after a private failure. Saga’s shareholders were paid in Hydro shares, which meant that the state’s ownership interest in Norsk Hydro was reduced to 43 per cent. In the late 1990s, however, Statoil suffered another misstep with the Åsgard field. The overruns totaled NOK 17 billion, and led to the resignation of the CEO—Norvik—and the board in 1999. At this point, Norvik had already worked intensely for a partial privatization for some time, and the Åsgard overrun became yet another argument for listing the company on the stock exchange (Eger, 2008; Lie et al., 2014; Storsletten 2018).

Before we get to that, we must briefly cover Televerket’s development. For the Conservative Party, the agency had been a popular scapegoat throughout the post-war era (Christensen, 2006). Now, the very same organization, without private owners, had gained a completely different reputation. “At the end of the 1980s, we were so pleased with ourselves,” said Televerket’s Kåre Aarvik, “that the only thing we lacked was the Lord’s official blessing. We were living in the clouds, and not entirely without reason.” (Aarvik, 1993). Around 1990, Norway had one of the world’s best and most efficient and modern telecommunications networks, and the old agency was ready to make investments in other countries (Thue, 2006; Christensen, 2006). The Labour Party’s former Minister of Industry, Kjell Holler, who had been at the forefront for the modernization as general director, believed in 1990 that if Televerket was to privatize parts of its operations, a Hydro model was the way to go (Holler, 1990).

In the first half of the 1990s, the discussion regarding Televerket’s company structure was important; in 1994 it was renamed Telenor and converted into a public corporation. Grønlie points out that this structure—the public corporation—was a compromise that appeased both supporters and opponents of a strong state. The opponents viewed this as an expression of increased freedom that weakened state influence. Those who wanted a strong state saw this as an adaptation to the prevailing liberalization and globalization, but without relinquishing state control
In 1996, Holler’s successor, Tormod Hermansen, wanted a partial privatization of Telenor. One of his reasons signaled a new era as regards the view of ownership. He said that with “private owners we would be continuously monitored by players in the international capital market, and that would give us an added pressure that would have a positive impact” (BT, 1996). A few years would pass before Hermansen got his wish. Next we will take a look at one final key trend in the 1990s.

The developments in the 1990s contributed to a more nuanced view of the value of state and private owners. The more positive attitude regarding the state and state ownership is an important value-related part of the broad political support for state ownership. However, this did not mean that the state controlled the companies more; rather the contrary. The principles relating to a need for an arm’s length relationship between politics and business were strengthened, and the value of competent and active owners was emphasized by many (Jakobsen et al., 2001). The many scandals in private businesses in Norway and in other countries were actually explained by weak private governance. In the USA, corporate governance had been a topic since the 1970s, but was not widely discussed in the rest of the world until the 1990s (Cheffins, 2015; Christensen et al., 2017). The UK led the way in Europe; several scandals there meant that enterprise management and corporate governance were given high priority, and the “Cadbury Report,” among other things, was important (Maclean 1999; Lie et al., 2014). Corporate governance was considered a remedy against managerial capitalism and too-strong administrations. Corporate governance principles were considered particularly important for institutional owners, and these increased in scope. These types of general corporate governance principles have also become normative for the state’s exercise of ownership, and are stipulated in the state’s “10 principles for good ownership” (Storting Report No. 22, 2001–2002). In other words, this yields less room for the state to influence the companies as owner.

An important part of corporate governance literature is related to the value of the market monitoring that the company is subject to. Market monitoring was emphasized as a significant argument for the partial privatization of Telenor and Statoil in 2000 (Storting Proposition No. 66, 1999–2000; Storting Proposition No. 36, 2000–2001; Lie et al., 2014). Apart from the fact that, presumably, it would lead to more efficient operations, it was also perceived as a democratic benefit that such large and powerful companies were followed more closely by the market, and therefore by the media. This could result in better governance of the compa-

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7. They have subsequently been somewhat revised in Storting Report No. 27 (2013–2014).
nies, such as if Statoil was immediately forced to disclose information that was sensitive and relevant to the stock market. This entailed, for example, that if there was a risk of major overruns in projects, the market would be informed. With Mongstad fresh in the memory and major overruns in connection with the development of the Åsgard field in 1999, this was important to Statoil. That point is less convincing now, as Statoil was allegedly late to provide information about the overruns in the Snøhvit field, which took place after it was listed on the stock exchange (Evju, 2008).

The value of active ownership has also been emphasized by many. However, there may be grounds to differentiate between an active industrial and active financial ownership. By industrial ownership, we refer to the fact that the owners have opinions about the operation of the company, such as markets, technology, vertical integration, and so on. By active financial ownership, we refer to the owners stipulating requirements for profitability, returns, capital structure, and transparency. Institutional owners are usually relegated to an active financial ownership; the same usually applies to companies with diversified ownership. Large parts of the corporate governance literature deal with this type of active ownership. In companies with concentrated ownership, one usually sees a combination of industrial and financial ownership. The state is dominant in the companies we are discussing here, so it is a concentrated ownership; nevertheless, the state acts as an institutional owner. It is a firmly established principle that the state shall not interfere with the operation of the companies, but limit itself to an active financial ownership. This was, for example, clearly expressed in the proposition that formed the basis for Telenor’s listing on the stock exchange, where the state made it clear that it will focus “on questions relating to capital structure, profitability and dividend policy, with an emphasis on long-term profitable business development and value creation for shareholders.” (Storting Proposition No. 66, 1999–2000).

Another important trend from the 1990s and beyond was that several players in business and industry came forward to praise and support extensive state ownership, as long as it was conducted in a professional manner. Former chair of the board in Hydro, Einar Kloster, said in 1997 that a long-term and major owner such as the state “gives Hydro considerable stability” (Christensen, 2003). After the many scandals around the new millennium, Statoil’s CFO, Inge K. Hansen, claimed that state ownership could be a guarantee against “Enron conditions” because the state had a more long-term perspective (Aftenposten, 2002a). Many have stressed the value of the state as a long-term owner at a time when managers and investors were mostly concerned with the next quarterly figures. Previous
CEO of Statoil, Harald Norvik, stated in 2014 that the “state ownership in Norway is remarkably successful” (Aftenposten, 2014).

Finally, in 2001, the non-socialist parties formed a government with support from the Progress Party, a party that had been a consistent opponent of state ownership since it was established in the 1970s. An important item of the Conservative Party’s government platform was the reduction of state ownership. The party wanted to keep a large enough share in most companies to protect against a takeover, but believed that ownership could be significantly reduced in several companies, and expected support from the Progress Party. However, the Progress Party changed its platform in 2002 on the grounds that the Norwegian state had a wealth of money in its Petroleum Fund. In Aftenposten, the Progress Party’s Christian Tybring-Gjedde wrote that the Conservative Party was stuck in the past: “With a rich state and just a few rich private capitalists, we are choosing to take a new approach” (Tybring-Gjedde, 2003). However, the party’s Øystein Hedstrøm believed that it made “no sense for the state to sell out of strategically important Norwegian companies, putting profits of nearly NOK 80 billion in the Petroleum Fund which will then buy minority interests in international companies” (Aftenposten, 2002b). With this, the Progress Party became the final party in the Norwegian political landscape to embrace state ownership and the Hydro model.

Equally importantly in our context, these two arguments have been central to the justification for the extensive state ownership in Norway. To cover the last point first, in other countries a common argument for privatizing state industry was that the state needed money; this is not the case in Norway. Next, Norway lacks private owners who could take over the state’s shares. This is an expression of the fact that Norway is a country of modest economic differences. A good picture of this was provided in the book Staten som kapitalist (The state as capitalist) from 2014. At that time, the market value of the state’s shares in listed companies amounted to about NOK 650 billion. At the same time, if one were to add up the fortunes of “the 100 first entries on (the magazine) Kapital’s list of the wealthiest Norwegians,” it amounted to about NOK 580 billion (Lie et al., 2014). In other words, a massive transfer of wealth would have to take place if Norwegian capitalists were to take over parts of the state’s shares. One of the arguments for reducing the wealth tax in Norway is in fact to create Norwegian ownership centers (Fasting, 2013; Vinje, 2014). One can only speculate whether this type of argument would be better received if state ownership in Norway was perceived as more problematic.
9.6 CONCLUSION

The form of state ownership chosen in Norway, with the state acting as a private shareholder, and with the promise to respect minority shareholders, is important in and of itself. It is also essential as perhaps the most decisive reason for considerable state ownership in Norway today. A significant reason for the support of the Hydro model is that there is a prevailing perception that the model is able to safeguard multiple considerations: a solid, long-term national anchoring to the companies, married with private shareholders’ and the market’s profitability requirements. In the same way as Grønlie claimed with the public corporations, the model is acceptable to both supporters and opponents of a strong state. Herein lies the background for much of the broad political support of state ownership and the Hydro model. Those who are skeptical to a strong state perceive the model and partial privatization of Telenor and Statoil as the state becoming smaller. Supporters of state involvement see this as a way to ensure that the state plays an important role and retains control.8

Although we could indicate this as a partial conclusion—that state ownership is supported for different reasons—we still know too little about how the attitudes regarding state ownership vary over time among interest groups and parties. It is difficult to know what the Labour Party believed and believes about questions of principle relating to how the market economy and capitalism work. One reason is that the party has embraced so many different groupings that there have been different perceptions. Moreover, the party has rarely seen any benefit to making clarifications of its principles. This certainly applied in the 1980s and 1990s, where the party became more positive toward the market, and correspondingly more skeptical toward active state business policy. The Conservative Party, on the other hand, preferred to explain how and why private owners were valuable, and how and why state involvement could be problematic. However, the party is not as clear on why they support state ownership or, put differently, why the party believes that national ownership in certain companies is important. This has contributed to making the debates on state ownership feel like a form of shadow boxing: one has often been more concerned with arguing against the opposing side, instead of arguing for one’s own viewpoints. This is even more reason for further research regarding which political motives and incentives lie behind the support of state ownership.

Einar Lies is right that the state enjoys a high level of trust in Norway. At the same time, the very support for the Hydro model is an expression of a lack of trust

8. Grønlie 2001 and Christensen 2003 make the same point.
that the state could run companies efficiently without contributions and corrections from private players and the market. So, it is equally a question of confidence that the state will actually be able to comply with the principles of the Hydro model—or the principles of good corporate governance—in modern terms. An important feature of Norwegian politics today is that the politicians place limitations on their freedom to take action, for example through the fiscal policy rule and corporate governance principles; the fact that the state ties itself to the mast. A more positive angle on this is that the politicians are able to stick to guidelines over time, and that they can be trusted. Although the Storting’s Committee on Scrutiny and Constitutional Affairs has contributed to the noise in recent years, an important reason for the support of the state ownership is that the state is generally able to comply with the principles of good ownership. Therefore, further research should take a closer look at the causes of this. This is, for example, important for the question of whether this model is suitable in other countries.

The Labour Party was always a proponent of state companies having a greater degree of freedom, both to avoid parliamentary responsibility, but also to ensure the companies had commercial freedom. It should also be mentioned that the state had considerable influence over the largest companies in the post-war era anyway, through negotiations and agreements on leasing power, licenses, tax conditions, and so on. This secured the state an influence that made it unnecessary to activate the ownership in the companies. This changed from the 1980s. Firstly, the requirement for transparency and equal treatment became more important, which meant that the state could not use leasing power, licenses and regulation to the same extent as policy instruments to influence the companies. Furthermore, the state had relatively less influence in companies such as Hydro, Yara and Telenor, where increasingly large parts of the operations took place abroad. Several people have questioned whether it is right for the state to own companies with such extensive foreign operations. An important question in this context will then be what value these companies have for Norwegian business, industry, and society in general. This would be a natural area for further research.9

Finally, state ownership should be placed in the international research as regards it being a de facto expression of a concentrated ownership in the companies, while the exercise of governance is characterized by being a small institutional owner. One thing is that this could yield weak governance of the companies—that the state is not watchful enough. Another is that the state becomes reluctant to have an opinion as owner out of fear of violating the principles of

9. Sverre Herstad has already done some important work in the field (Herstad and Jonsdottir, 2006).
sound corporate governance. If state ownership is linked with state weakness, it could lose its support over time. There should, therefore, be more research on the different preconditions for both the state ownership and for governance.

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