

ECONOMIC SURVEY OF NORWAY 1974  
(“ØKONOMISK UTSYN 1974”)

ENGLISH SUMMARY  
(TRANSLATION OF THE CONCLUDING CHAPTER: “SLUTTORD”)

## THE ECONOMIC SITUATION

For the Western world as a whole, 1974 was a year characterized by a marked economic slowdown. Production showed a weak development in virtually all industrialized countries, and unemployment was rising. The economic contraction became more severe towards the end of the year. At the same time, prices increased rapidly throughout the world, and high oil prices resulted in very large balance of payments deficits in most industrialized countries.

The economic slowdown now being experienced by the Western world began towards the end of 1973, following one of the most expansive economic eras during the post-war period. The first signs of a slower growth in production appeared in the summer of 1973. Initially, the slowdown was a result of a shortage of idle production capacity, but as the major industrialized countries gradually adopted more restrictive policies to dampen the pressures on the economy, the fall in demand became an increasingly more important contributing factor in slowing the rate of growth. The trend toward a reversal in economic activity was intensified when, in the autumn of 1973, reduced oil supplies from the Middle East caused uncertainty in industry and trade while higher prices for oil products contributed to sharply reducing the purchasing power of consumers. In the United States and Japan the fall off in demand led to declining production after November 1973 and signs of stagnation began to appear almost concurrently in Western Europe. In the course of 1974 the economic slowdown spread to virtually the entire Western world. During the last few months of the year the contraction became substantially more pronounced in some countries, including the U.S. The duration and scope of this recession must be attributed to the fact that many countries deliberately avoided implementing measures to stimulate demand because of their concern with bringing inflation under control. Only towards the very end of the year, when the problem of unemployment became more prominent, was it possible to detect signs that a cautious shift in policy in a somewhat more expansive direction was taking place in some countries.

The rise in prices during the last two to three years has turned into a world-wide inflation. The international prices of food and raw materials were the first to rise and have also shown the sharpest increase. From the bottom point in the fourth quarter of 1971 until the peak in 1974, prices of such goods increased nearly threefold, or by 177 per cent according to Reuter's index of raw material prices. The surge in prices was related to the strong economic expansion in Western Europe and North America in 1972 and 1973, but special supply-related disturbances - as crop failures and the politically-motivated hike in oil prices in the autumn of 1973 - were contributing factors. In the course of 1974 the prices of many industrial raw materials fell substantially, while the rise in food prices continued. On the whole, international raw material prices were, as late as end-1974, more than double the level of a few years ago. The rise in food and raw material prices has also gradually had an impact on the prices in later stages of the production chain and has given rise to a strong wage-price spiral in all countries. From the autumn of 1973 to the autumn of 1974 the OECD countries registered an unprecedented rise in consumer prices, with rates ranging between 10 and 20 per cent in most countries.

On the basis of calculations at year-end, the rise in the volume of gross domestic product from 1973 to 1974 for the OECD countries combined (including the U.S., Canada, Japan and Australia) was about 1/4 per cent. The output growth in Western Europe is estimated at 2 3/4 per cent. The growth for all OECD countries combined was as high as 6.3 per cent from 1972 to 1973. The growth from 1973 to 1974 varied considerably from one country to another. Of the OECD member countries, Spain and Austria showed the sharpest growth with 5 1/2 and 5 per cent respectively, while the development was weakest in Japan with an estimated decline of 3 1/4 per cent in gross domestic product. In general, the smaller countries fared somewhat better than the large countries. In the United States total output fell by about 2 per cent from 1973 to 1974 according to preliminary estimates. In Great Britain the coal mine strike and the three-day week in the beginning of the year contributed to the decline in gross domestic product, estimated at 1/2 per cent. In West Germany the growth amounted to about 1/2 per cent according to provisional national estimates. Italy and France felt the effects of the economic slowdown later than the other large industrialized countries, and the growth from 1973 to 1974 is estimated at about 4 3/4 per cent for both. Among the smaller countries, Belgium, Finland, Norway and Sweden recorded a growth of between 3 and 4 1/2 per cent, while the growth in Denmark, Ireland, the Netherlands and Switzerland amounted to between 1 1/2 and 3 per cent.

For the Norwegian economy 1974 was in many respects a favourable year. Investments in oil activities and the spin-off benefits of these gave rise to a separate Norwegian boom and, in contrast to most other Western countries, Norway had a high level of employment and capacity utilization throughout the year. A sharp rise in the prices obtained by Norwegian export goods entailed that the Norwegian industries exposed to foreign competition probably recorded the best economic result since the mid-1950's.

Based on provisional figures, gross domestic product at constant prices increased by 3.5 per cent from 1973 to 1974. The explanation for the somewhat lower rate of growth as compared with a year earlier (4.2 per cent) may primarily be found in the production decline in shipping where large sales of second-hand ships during 1973 and 1974 entailed that the size of the merchant fleet was virtually unchanged. When shipping is excluded, gross domestic product at constant prices advanced by 4.0 per cent from 1973 to 1974 compared with 3.7 per cent in the preceding year. Preliminary estimates, based on fragmentary data at year-end, show that the growth in gross product was lower than usual also in fishing (-10.9 per cent) and in wholesale and retail trade (+1.6 per cent). A higher than average growth was recorded by agriculture (+4.9 per cent) and forestry (+6.5 per cent). The gross product in the building and construction sector, including oil drilling, climbed as much as 7.5 per cent. The increase in the gross product of manufacturing industry, mining and power supply combined is estimated at 4.1 per cent; this figure includes the production of oil in the North Sea which lowered the figure somewhat in 1974 but which still plays only a minor role. Provisional estimates show that the gross product of the service industries, excluding shipping and wholesale and retail trade, increased somewhat more sharply (4.5 per cent) than the gross domestic product.

With the demand for shipping services representing an important exception, the demand focused on Norwegian industry in 1974 was not much affected by the international economic slowdown. The foreign demand for important Norwegian export products held up remarkably well. This was particularly true for those industrial semi-manufactures (including metals and wood-processing products) where an international shortage prevailed because the expansion in capacity abroad had not kept pace with the increase in demand during the last economic expansion. On the other hand, foreign orders for more processed products showed a distinctively weaker trend in the course of the year. Domestic demand for investment goods (excluding ships) was virtually

unaffected by the international economic contraction, and the strong wave of investment activities which began in the summer of 1973 gained further momentum during 1974. The improved profitability situation in manufacturing industry and expectations of continued price rises were factors which, along with the oil activities in the North Sea, contributed to the sizable upward adjustments of business investment plans. Consumer demand, which has shown a sluggish growth for several successive years, again showed a relatively weak advance in 1974, particularly in the first half of the year. During the second half of the year the wage settlements along with tax reductions and increased subsidies resulted in a considerable expansion in the real disposable income of wage-earners, but the effects this had on consumer demand were less than expected.

On the whole, it was the shortage of capacity more than market possibilities which limited the production growth in Norway in 1974. Characteristic for the year was the vigorous expansion in the activities of the building and construction sector, including oil drilling. It is also noteworthy that the expansion in manufacturing production last year was almost completely concentrated in investment goods and input goods for building and construction; in the course of the year the production of both these groups rose by about 10 per cent at an annual rate, while the production of goods for export and for consumption showed little change from the autumn of 1973 to the autumn of 1974. These factors combined may be interpreted as an indication that the structural changes in Norwegian industry generated by the offshore oil activities were well under way in 1974.

Summing up, the international recession did not have a major impact on the Norwegian economy in 1974. Only towards the end of the year was it possible to note that the reduced activity abroad began to affect parts of Norwegian industry. Shipping was particularly adversely affected and tankers without long-term charters began to be laid up. As late as the end of the third quarter the total order backlog in manufacturing industry was at a very high level, but towards the end of the year several large companies reported a decline in new orders and in some cases less favourable contract prices. The Central Bureau of Statistics' Economic Barometer shows that there was a pronounced shift in sentiments in manufacturing industry in the fourth quarter. There were some scattered cases of cutbacks in the labour force and the trend of declining unemployment figures became less distinct. The figure for vacancies, which in the first three quarters of the year had been considerably higher than in 1973, was at the end of 1974 at about the same level as a year earlier. The volume of merchandise exports showed a weak trend during the second half of the year; even though this in most cases was related to capacity problems and structural changes in industry, the decline was also to some extent cyclically determined. At the end of the year there were thus several factors indicating that the domestic economic situation had become more varied. However, the situation was ambiguous in many respects. Seasonally adjusted unemployment figures for the last few months of 1974, for example, showed a slightly downward trend, the level of activity remained high, and the seasonally adjusted index of production for consumer goods, which had remained virtually unchanged through the first part of the year, rose sharply in both October and November.

#### ECONOMIC POLICY

When the National Budget was submitted in the autumn of 1973, the Norwegian economy was characterized by pressure tendencies with a high level of capacity utilization and a tight labour market for the country as a whole, strong inflationary stimuli from abroad and an

expanding current account deficit. A strong wave of investment activities was in progress, generated by activities in the North Sea, and foreign demand was expected to provide a considerable impetus to growth again in 1974. The rate of growth in private consumer demand, however, was sluggish. Against this background, it was decided to pursue an economic policy which aimed at restraining the growth in investment demand and stimulating consumer demand, while also curbing the rise in costs and the pressures on the labour market. A specific objective was to slow the increase in the level of taxation, primarily for the economically active population.

The oil supply situation and the impending income settlements entailed that the original economic policy drawn up for 1974 had to be revised shortly after the beginning of the year. With the specific aim of strengthening the real disposable income of wage-earners and pensioners and thereby avoid a clearly inflationary income settlement, it was decided in March-April to initiate a number of fiscal and credit policy measures. The measures, which were often referred to as the "Kleppe package", primarily included substantial increases in subsidies and a reduction in the withholding tax amounting to 2 per cent of gross income with effect from 1 June. In addition, social security benefits were raised, company taxation was increased, the state banks' commitment quotas were expanded and the interest rate level was revised upward. It was assumed that the measures would increase the current account deficit, but it was deemed acceptable to "use some of the oil billions in advance".

The overall fiscal budget policy was considerably less restrictive in 1974 than in the preceding year. The change in the magnitude of "surplus prior to loan transaction" for the central government and social security sector and other central government accounts (including tax collectors' accounts) combined is often used as a summary expression of changes in the contractionary or expansionary effects of budget policy. Based on provisional data, this surplus increased from 3 500 million kroner in 1972 to as much as 5 400 million kroner in 1973, and declined again to close to 3 500 million kroner in 1974. The steep rise in 1973 was primarily due to a sharp increase in the revenue surplus of the National Insurance Scheme and in tax collectors' holdings that year. Calculated as a percentage of gross domestic product, the surplus prior to loan transactions amounted to 2.7 per cent in 1974, as against 4.9 per cent in 1973 and 3.6 per cent in 1972. This indicator, however, has some major drawbacks inasmuch as it does not take into account that the same change in different revenue and expenditure items in public budgets will usually have a different effect on the level of activity depending on the revenue and expenditure items to which the change refers.

The original fiscal budget proposal for 1974 entailed an increase of 11.5 per cent in expenditure for goods and services as compared with the finally adopted budget for 1973. This represented a somewhat slower rate of increase in expenditure than that shown by the average account figures for the preceding two years. In spite of proposals concerning certain nominal reductions in the National income tax for personal taxpayers, total tax revenue was budgeted to show an increase. The higher tax revenue figure was based in part on proposals to increase the rates of certain indirect taxes and in part on expectations concerning rising prices and incomes and increased private consumption. Following the change in Government in the autumn of 1973, the new Government submitted proposals concerning tax changes with the aim of giving low and medium income groups a greater growth in real disposable income than that allowed for in the original budget proposal. In addition, the revised budget contained proposals for increased taxes on higher incomes, company incomes and large capital holdings. The revised fiscal budget proposal balanced with a surplus prior to loan transactions amounting to about 300 million kroner, i.e. about the same as in the original budget proposal. Following the budget debate in the Storting, the new Government's budget proposal was finally approved with a surplus prior to loan

transactions of 150 million kroner. As a result of additional expenditure in connection with the income settlements in the spring of 1974, supplementary appropriations and adjustments in the course of the year, revised tax estimates, and the normal shortfall of spending compared with appropriations, it is now estimated that the accounts - for the first time in a number of years - will balance with a deficit prior to loan transactions, amounting to 200 million kroner for the year 1974. In 1973 the accounts had shown a surplus prior to loan transactions of 1 200 million kroner.

The social security budget presented in the autumn of 1973 allowed for an increase in expenditure of about 11 per cent from 1973 to 1974. This was a considerably slower growth than in the preceding year when expenditure expanded sharply as a result of the reduction in the age of retirement, and also considerably slower than the normal growth in recent years. The relatively moderate growth in expenditure in 1974 can be ascribed to the fact that the social security budget for 1974 did not include any major reforms entailing increased expenditure. The social security budget was otherwise characterized by the desire to have the real disposable income of pensioners and wage-earners increase at about the same pace; the objective in adjusting the rates for social security benefits was to bring about such a development. The proposal did not entail any changes in the premiums paid to the National Insurance Scheme. The change in Governments resulted in proposals to change the method of calculating the medical component of the membership premium paid to the National Insurance Scheme as well as certain other changes, and the social security budget was adopted with a surplus of close to 1 850 million kroner. When allowance is made for changes in both the revenue and expenditure of the budget as a result of the measures initiated in the spring of 1974 and based on revised estimates for social security premiums, etc., it is now envisaged that the revenue surplus will turn out to be of this magnitude, estimated at about 1 825 million kroner. It is estimated that the revenue surplus for the social security sector as a whole, including accrued interest of the National Insurance Fund, will amount to about 2 300 million kroner for 1974 compared with 2 450 million kroner in 1973.

The surplus for other central government accounts, which includes central government pension funds, tax collectors' balances and a number of other funds is estimated at about 1 350 million kroner in 1974, or about 400 million kroner less than in 1973 and about 300 million kroner more than in 1972. A major part of the surplus in this sector stems from taxes and fees collected by industry from the general public but which at the end of the year have not yet been transferred to public funds.

Credit policy in 1974 aimed at avoiding too sharp a growth in the credit-financed demand for investment goods. The originally stipulated lending guidelines for the commercial and savings banks were revised upward on two occasions in the course of the year (May and October); this change was influenced by the increase in the National Budget's estimates for investments as well as the sharper than expected rise in prices. The liquidity reserve requirements were modified, in both directions, several times in 1974. In the course of the first eleven months of 1974 commercial bank lending rose by 2 760 million kroner, while the target figure for the year was 2 800 million kroner, according to the credit budget. The growth in savings bank advances during the first eleven months of 1974 amounted to 1 972 million kroner, i.e. about 325 million kroner less than the 1974 target figure as specified in the credit budget. All total, it was envisaged that the domestic credit supply would amount to about 14 800 million kroner and the credit supply from abroad to about 6 500 million kroner in 1974. A substantial

share of the credit supply from abroad was related to oil production, oil drilling services, etc.

In connection with the economic policy measures taken prior to the income settlements, the Bank of Norway's discount rate was raised from 4 1/2 to 5 1/2 per cent. Following discussions in the credit policy liaison bodies, agreement was also reached on a new "Interest Rate Understanding" between the Ministry of Finance and the Bank of Norway on the one side and the Norwegian Bankers' Association and the Life Insurance Companies' Association on the other. The agreement resulted in a 1 per cent increase in most of the interest rates for loans, while the interest rates paid on deposits were raised by 1/2 per cent for the time being.

No changes were made in the Norwegian krone's central rate of exchange i.e. the rate of the krone measured in SDR units in 1974. Nonetheless, the international value of the Norwegian krone (computed as a weighted average of each country's currency with Norway's exports and imports for that country as weights) rose by about 2 per cent from the beginning of 1974 to the end of the year. In 1974 the value of the krone was an average of 5 per cent higher than in 1973.

#### PRODUCTION AND DEMAND

Demand developed quite differently in 1974 when compared with preceding years. Foreign demand represented the most expansive factor both in 1972 and 1973 and remained at a generally high level also in 1974; however, the shortage of capacity along with the fall off in demand towards the end of the year entailed that the total export volume did not change much from 1973 to 1974. Thus, in contrast to the preceding two years, domestic demand provided the strongest impetus to growth. Private investments in fixed capital other than ships showed a particularly strong expansion, but investments in stocks were also substantially higher than in 1973. The growth in private consumption was only negligibly higher than in the preceding year. Public sector demand for goods and services showed a slower growth in 1974 than in 1973.

Total exports of goods and services increased in value by as much as 24.7 per cent from 1973 to 1974, or even more sharply than in the preceding year (21.6 per cent). Export volume showed little change (-0.1 per cent), after having risen sharply in the preceding two years. Merchandise exports, including new ships from Norwegian yards but excluding exports of second-hand tonnage, showed a decline in volume of 0.3 per cent from 1973 to 1974, while there was an increase of 9.8 per cent a year earlier. Some of Norway's traditional export products such as fish products, pulp and fertilizer registered a considerable fall in volume last year, and exports of ores also declined. However, there was a sharp rise in prices for all of these products, entailing that the value of exports increased. Wood-processing products, excluding pulp, as well as metals and products from the engineering industry registered an expansion in both volume and value. In shipping, gross freight earnings advanced by 23 per cent in 1974 (18 per cent a year earlier). The volume of shipping services declined somewhat after showing a rise in recent years. Exports of second-hand tonnage were very high in both 1973 and 1974, amounting in value to 3 800 million kroner and 4 000 million kroner respectively.

According to preliminary figures, gross fixed capital formation increased in volume by a total of 8.0 per cent from 1973 to 1974 compared with 15.5 per cent in the preceding year. The overall figure for 1974 conceals sizable variations from one industry to another. Investments in ships and boats thus declined sharply in volume (26 per cent), while investments in

plant and equipment for oil activities (drilling for oil and gas, production of crude oil and natural gas, oil and gas pipelines) showed a vigorous expansion (73 per cent). Measured in value, investments in oil activities last year accounted for 14 per cent of the total gross capital formation and were, for the first time, higher than investments in shipping (5 800 million kroner and 4 300 million kroner respectively). When investments in ships and oil activities are excluded, investments increased in volume by 6.8 per cent from 1973 to 1974 (4.5 per cent in the preceding year). Housing investments rose by 1.3 per cent in volume, the smallest increase in the last ten-year period. Public fixed capital formation advanced in volume by 1.5 per cent, also representing a lower rate of increase than in the preceding year. Investments in fixed capital by the business sector, excluding shipping and oil production (dwellings and public fixed capital formation are also excluded) showed an increase in volume of 11.0 per cent in 1974; the growth was more than twice the rate of the preceding year (5.3 per cent). A major part of the increase in these investments in 1974 was concentrated in manufacturing industry; following a pronounced drop in 1972 and a moderate expansion in 1973, manufacturing industry's investments in fixed capital advanced considerably in 1974, by 35.5 per cent measured in volume. Gross investments in the remainder of industry increased in volume by 2.2 per cent last year.

Investments in stocks in 1974 were again considerable, following the low levels recorded in the preceding two years. The national accounts figures for changes in stocks, which are somewhat uncertain, suggest that investments in stocks in 1974 reached the record levels of 1970 and 1971, measured at current prices. Measured in volume they were considerably lower. It may be noted that stocks of export goods, which were reduced during the international economic expansion in 1972 and 1973, again registered an increase in volume through 1974. There was also a rise in the stocks of imported goods. Manufacturing industry's stocks of raw materials, which during the last two years have been relatively small, showed an advance in 1974.

Private consumption, calculated at constant prices, advanced by 3.1 per cent from 1973 to 1974 compared with 3.4 per cent from 1971 to 1972 and 2.7 per cent from 1972 to 1973. Preliminary estimates concerning both consumption and income are uncertain, but bearing this reservation in mind the growth in private consumption in 1974 appears to have been considerably less (and the advance in private savings therefore higher) than the rate normally suggested by the increase in real disposable income. Based on experience from previous years the change in income from 1973 to 1974 should have resulted in a growth in private consumption estimated at about 6 per cent, i.e. twice that of the actual growth based on preliminary figures in the national accounts. In view of the incomplete data available at this time, it is not possible to provide an explanation for this development. The increase in volume in private consumption in 1974 was greatest for the categories furniture and household equipment, recreation and education, and rent, light and fuel. The group medical care, where public health services dominate, increased in 1974 by about the same rate as total private consumption, after having shown a considerably sharper rise in both 1972 and 1973. Clothing and footwear, which recorded a decline in volume in the preceding two years, showed a small rise in volume in 1974. For a number of years it has been this category which has shown the slowest rate of growth.

Public consumption expanded in volume by 2.6 per cent from 1973 to 1974, according to preliminary estimates. This was a somewhat slower rate of increase than in the preceding two years (3.9 per cent from 1971 to 1972 and 4.5 per cent from 1972 to 1973). Public civilian consumption rose by 3.8 per cent in 1974 (5.8 per cent the preceding year). The rise was greatest for central government civilian consumption. Military consumption, which remained



approximately the same from 1972 to 1973, registered a slight decline in volume (2.3 per cent) last year.

Total imports of goods and services increased in volume by 4.3 per cent from 1973 to 1974 compared with an expansion of as much as 14.4 per cent the preceding year. The slower rate of growth in imports in 1974 may to a large extent be ascribed to the substantial reduction in investments in ships. Imports of ships, which rose by 48 per cent from 1972 to 1973, fell by 25 per cent in 1974. Shipping expenditure abroad (operating expenditure, expenditure for repairs and investment outlays) declined in volume by 8.1 per cent from 1973 to 1974 compared with a more modest decline of 1.3 per cent the preceding year. Imports, excluding ships and shipping expenditure abroad, rose in volume by 10.4 per cent last year compared with a gain of 13.5 per cent in the preceding year. Imports directly related to offshore oil activities expanded sharply in both 1973 and 1974 (increasing in volume by about 37 per cent last year). In 1974 these imports amounted to 4 400 million kroner at current prices, accounting for 6.8 per cent of the value of total imports. Imports, excluding ships, shipping expenditure abroad and imports related to oil activities, increased in volume by 9.2 per cent from 1973 to 1974. Merchandise imports (excluding ships) showed an increase in volume of 9.8 per cent compared with a rise of as much as 14.4 per cent in the preceding year.

#### PRICES AND WAGES

During the last 5-6 years the pace of inflation has accelerated throughout the entire Western world. While the consumer price level in the OECD area rose by an average of 3.4 per cent annually during the period 1959-1971, the rate of increase during the period 1971-1974 was 8.5 per cent. The rise in prices was particularly steep from 1973 to 1974, as much as 13.8 per cent.

For a small country like Norway it is difficult in the long run to maintain a rate of price changes which deviates substantially from the rest of the world, unless there are changes in the rate of exchange which prevent the price stimuli from abroad from having a full impact domestically. Since the current monetary system, involving partly floating exchange rates, was introduced at the end of 1971, the international value of the Norwegian krone has appreciated by about 11 per cent. It must be assumed that this has restrained the rise in prices of Norwegian imports and exports, measured in kroner, by about the same per cent. Yet Norwegian import and export price indices for merchandise excluding ships have risen by about 53 and 62 per cent respectively from 1969 to 1974.

The most recent and strongest international surge in prices began to be noticeable in the Norwegian import and export price indices in the summer of 1973. The rise in prices from the third quarter of 1973 to the same quarter in 1974 amounted to about 29 per cent for imports and 36 per cent for exports (excluding ships). The rise in export prices was particularly steep for raw materials and semi-manufactures. For example, from the third quarter of 1973 to the third quarter of 1974, the prices of paper pulp rose by close to 80 per cent, chemical materials by 55-60 per cent, fertilizer by close to 60 per cent, iron and steel by about 45 per cent and animal oils and fats by more than 70 per cent. These are exceptionally high figures for such a short period. During the same period, the index of import prices showed a rise of 60-65 per cent for grain, almost 80 per cent for sugar and nearly 140 per cent for fuels. Processed export and import goods recorded a more moderate increase in prices. On the whole the

Norwegian economy in recent years has been confronted with a rapidly rising international price level. There is reason to believe that the inflationary pressures emanating from abroad have not yet had a full impact on the domestic economy.

An overall measure of the price rise in Norway may be found in the national accounts price index for goods and services for domestic use; this showed an increase of 11.9 per cent from 1973 to 1974. Gross investments recorded the sharpest rise in prices (15.5 per cent). The prices of consumer goods, which were influenced by the increase in subsidies, rose by 9.6 per cent measured by the national accounts price index for private consumption and by 9.4 per cent according to the official consumer price index. The national accounts price index for public consumption increased by 12.7 per cent.

There were substantial variations in the rate of price increases for the different groups of goods and services which are included in the consumer price index. In 1974 the sub-indices by sector of origin in the consumer price index generally developed according to the same pattern as in 1973. The price rises on the world market had a strong impact on the sub-index for imported consumer goods in both years; this sub-index rose by 13.4 per cent in the 12 months to November 1974. Norwegian-produced consumer goods with a low content of imported raw materials along with services - two groups for which prices are primarily determined by the domestic cost level - showed a somewhat slower rate of price increase during this period, i.e. 11.2 and 9.3 per cent respectively. The sub-index for agricultural products rose by only 1.8 per cent during the same period. The increased food subsidies provide an important part of the explanation for the modest rise shown by agricultural goods; the underlying price increase was considerably greater. It is estimated that subsidies and VAT compensation for food reduced the rise in the consumer price index by about 3 percentage points from 1973 to 1974.

Wage settlements were negotiated on a union-by-union basis in 1974. The negotiations were difficult and began in earnest only after the Government proposed certain economic measures. In general, all of the most important agreements were revised along the same principles. The negotiations resulted in two-year agreements, which for 1974 involved a general pay increase with effect from 1 May and automatic index compensation with effect from 1 December. When compared with the wage level in the third quarter of 1973, the negotiated increases in tariff rates effected from 1 May entailed an average rise of 12 per cent in hourly earnings for adult male workers in manufacturing industry. In relative terms the wage increase was greatest for low-paid workers, while it was more moderate for, inter alia, engineering industry employees. The wage agreement in wholesale and retail trade, which was last revised in the autumn of 1973, led to index compensation along with agreed wage increases from October, amounting on the average to about 14 per cent. New wage agreements for shipping and the hotel and restaurant sector resulted in pay increases in the first year of the agreement of 17-20 per cent and 20-25 per cent respectively, with effect from 1 November 1974.

Wage drift in 1974 was the highest ever recorded. Wage drift for adult male workers in manufacturing industry is estimated at as much as 8.5 per cent from the third quarter of 1973 to the third quarter of 1974. The previous record of 7 per cent was registered for the period 1st quarter 1970 - 1st quarter 1971, while the wage drift for the 1970's has generally been about 5 per cent. During the last half of the 1960's the annual wage drift usually varied between 3 and 4 per cent. The strong wage drift last year is related to the pressures on the labour market, but is also an indication that important industries must have been capable of paying higher wages than the negotiated rates.

The total wage bill per man-year (wage and salary payments along with the employers' contributions to the National Insurance Scheme and other social benefits) rose for all industries combined by 13.7 per cent from 1973 to 1974 according to preliminary national accounting figures. Average wage and salary payments per man-year showed about the same percentage growth (13.6 per cent). However, the average figure for all industries combined conceals important variations. Wage payments in manufacturing industry showed the sharpest rise, 18 per cent. The increase was 12 per cent for employees in wholesale and retail trade, building and construction and public administration.

#### INCOMES AND INCOME DISTRIBUTION

The national accounts' income figures are to a large extent based on indirect calculations, entailing that there may be considerable margins of error in the preliminary figures. There is particular uncertainty attached to the estimates for entrepreneurial income and its distribution by industry. In years with sharp increases in prices and a substantial shift in relative prices, as in 1974, the preliminary figures in the national accounts will inevitably be even more uncertain than usual.

With this reservation in mind, the calculations at year-end show that the tendencies in the development of income, which had been visible in 1973, became more distinct in 1974. The sharp rise in prices both at home and abroad resulted, particularly in 1974, in sharply inflated nominal income figures; the percentage growth in total factor income last year was the highest since the Korean War. Entrepreneurial income recorded a slightly higher rate of growth than wages in 1974, so that wages and salaries, calculated as a percentage of factor income, declined slightly, according to preliminary figures. The rise in entrepreneurial income was particularly concentrated in manufacturing industries exposed to competition. The public sector's share of factor income fell somewhat, a development which represented a deviation from previous trends.

Based on preliminary figures in the national accounts, total factor income expanded by 13 300 million kroner, or 16.2 per cent, from 1973 to 1974 as against 14.0 per cent the year before. Factor income in agriculture and fishing showed a weak growth (+6 per cent and -2 per cent respectively) while factor income rose sharply in forestry (36 per cent). There was also a strong increase in manufacturing industry (27 per cent) and in building and construction, including oil drilling (17 per cent). The growth in shipping was modest (5 per cent).

The total wage bill increased by 9 700 million kroner from 1973 to 1974, with 8 100 million kroner representing an increase in wage and salary payments and 1 600 million kroner the rise in the employers' share of social security contributions, etc. This corresponds to an increase of 15.6 per cent in total wage costs and approximately the same percentage increase for wage and salary payments. Calculated as a share of total factor income, wage and salary payments for all industries combined amounted to 63.7 per cent in 1974, while the corresponding figure for 1973 was 64.2 per cent according to revised figures. Employers' contributions to social security amounted to 11.3 per cent of factor income in 1974.

Entrepreneurial income rose by a total of 3 600 million kroner, or 18.1 per cent from 1973 to 1974. The rate of growth varied considerably from one industry to another. In the sheltered industries combined entrepreneurial income rose by only 900 million kroner or

7.0 per cent. This was a remarkably small growth when compared with other components of factor income; calculated as a share of total factor income, entrepreneurial income in the sheltered industries fell from 16.4 per cent in 1971 to 15.1 per cent in 1974. Entrepreneurial income in industries exposed to foreign competition expanded by 2 700 million kroner or as much as 40 per cent. Most of the increase related to manufacturing industry groups exposed to competition, while entrepreneurial income in shipping - which rose sharply in the preceding year - showed little change in 1974. The increase in entrepreneurial income in manufacturing industry was particularly pronounced for those manufacturing sectors which had the sharpest rise in prices on the world market, including the wood-processing industry and the production of metals, but it also appears that the engineering industry as a whole experienced a good year. As a share of total factor income, entrepreneurial income in the industries exposed to competition amounted to 9.9 per cent in 1974 as against 8.2 per cent in 1973, according to revised figures for last year. The percentage share in both years was of the same magnitude as in 1970 (9.1 per cent). In 1971 and 1972, when profitability in the industries exposed to competition was low, the corresponding figure was 6.3 per cent.

Total public and private disposable income (disposable income for Norway) rose in nominal amounts by 13 100 million kroner, or 13.9 per cent, from 1973 to 1974 according to preliminary figures. Of the total increase, 3.0 percentage points may be ascribed to the increase in volume in net domestic product. A slight deterioration in the terms of trade from 1973 to 1974 reduced disposable income for Norway by about 0.3 percentage points, so that the total disposable income for Norway in real terms increased by between 2.5 and 3.0 per cent. The remainder of the increase in disposable income, between 11.0 and 11.5 percentage points, must primarily be ascribed to higher nominal wage rates and profit margins. Of the total increase in disposable income, the public sector claimed 1 600 million kroner in the form of an increase in both net taxes and net capital revenue. This corresponds to an increase of 5.9 per cent in the public sector's disposable income from 1973 to 1974. However, since the price level for both public consumption and investments rose at an even sharper rate, the purchasing power of the public sector's disposable income in terms of goods and services declined.

Private disposable income (i.e. private earned income plus transfers from the public sector and abroad minus social security premiums and direct taxes) increased by about 11 500 million kroner, or 17.2 per cent, from 1973 to 1974. This was a sharper growth than the rise in private income before taxes (+16 per cent), the explanation being that net taxes (i.e. after deductions for transfers) rose considerably less than income (+10.9 per cent). Taxes as a percentage of pre-tax income thereby showed a decline for the first time in many years. When private disposable income is deflated by a weighted average of the national accounts price indices for private consumption and investments, it appears that the purchasing power of private disposable income in terms of goods and services increased by 4.7 per cent last year.

Only summary and comparatively unreliable information is available to show how changes in private disposable income were distributed among different social groups in 1974. For the category wage and salary earners, social security recipients and pensioners taken as a whole, provisional estimates show a rise of close to 17 per cent in nominal disposable income from 1973 to 1974. This group's income is primarily used for consumption; when deflated by the price index for private consumption in the national accounts, this corresponds to an increase of 6.5 per cent in real disposable income (purchasing power in terms of goods and services for consumption). Provisional estimates indicate that the growth in nominal disposable income for all other income earners combined - primarily self-employed persons and business enterprises -

amounted to almost 19 per cent. When evaluating this figure it must be taken into account that a major part of this income is used for the purchase of investment goods which, in 1974, showed a considerably sharper increase in price than consumer goods.

Calculations of the changes in real disposable income from 1973 to 1974 for selected households show that taxes in 1974 along with the development in prices and income resulted in a strong growth in real disposable income for most wage-earner households (cf. table 67). The calculations indicate a shift in the distribution of income in favour of small households and households with low and medium incomes. This is related to the fact that tax and social security rates, income deductions and the progressive tax scale were not adjusted in step with the increase in income; since the tax system is progressive this entails that the rate of growth in real disposable income generally declines with rising incomes. The figures for 1974 are also influenced by the fact that rates for family allowances were changed less than the tax rates, etc. The real disposable income of insured married couples with no other source of income than the basic pension provided by the National Insurance Scheme (18 100 kroner in 1974) showed a growth of 1.9 per cent from 1973 to 1974, i.e. considerably less than the increase recorded for most wage-earner households. The figures in table 67 suggest that in 1974 the share of factor income which is transferred via the tax and social security system from the economically active to the economically inactive groups was smaller than in 1973 while this share was rising during previous years. It should be emphasized, however, that the figures in table 67 are based on very definite assumptions; the possibility of considerable deviations from the calculated averages must therefore be expected.

Total private and public savings amounted to 19 400 million kroner or 17.7 per cent of net domestic product, according to preliminary and relatively uncertain figures. This represented an increase of 2 500 million kroner over last year. Private savings rose substantially (3 700 million kroner) while for the first time in a number of years public savings showed a decline (1 200 million kroner). The decline in public savings must be viewed in conjunction with the less restrictive fiscal budget policy.

#### THE BALANCE OF PAYMENTS

The deficit on current account in the balance of payments amounted to 5 900 million kroner in 1974 according to provisional figures. This is nearly three times the figure recorded in 1973 when the deficit was 2 000 million kroner. The deficit in 1974 was the highest Norway ever recorded and was primarily related to offshore oil activities. When this is excluded, the deficit in 1974 amounted to about 1 800 million kroner. Of the total deficit increase of 3 900 million kroner from 1973 to 1974, increased net imports directly related to offshore oil activities accounted for 1 200 million kroner. On the other hand, the increase in net foreign freight earnings and net imports of ships (exports of second-hand ships minus imports of ships) contributed to reducing the deficit by about 2 200 million kroner. The current account deficit, excluding imports of ships, exports of second-hand tonnage, net freight earnings and oil activities, increased by somewhat more than 4 900 million kroner.

The balance on goods and services showed a change of 3 250 million kroner, from an import surplus of 550 million kroner in 1973 to 3 800 million kroner in 1974. Exports and imports rose sharply in terms of value, by 24.7 and 31.0 per cent respectively. Net imports of ships for the merchant fleet (imports of ships minus exports of second-hand tonnage)

declined by close to 800 million kroner, while net merchandise imports excluding ships (but including exports of new ships) increased by about 4 850 million kroner. Net freight earnings in shipping expanded by 1 445 million kroner, a rise of 14.1 per cent over 1973. Net imports related to tourism and other services (including seamen's expenditure abroad) increased by about 610 million kroner.

The deficit on the balance of interest and unilateral transfers increased by as much as 640 million kroner, to 2 100 million kroner in 1974. Of this increase, the net rise for transfers accounted for about 100 million kroner. Most of the increase in the deficit on the balance of interest and unilateral transfers was due to increased interest expenditure for shipping and oil activities.

The total terms of trade deteriorated by 0.6 per cent in 1974 after registering an improvement of 2.4 per cent in 1973. The price development for earnings and expenditure in the shipping sector was primarily responsible for the deterioration. The terms of trade for merchandise excluding ships showed an improvement of 4.0 per cent.

Norway's total net gold and foreign exchange reserves increased again in 1974 in spite of the extremely large current account deficit. In the course of the first eleven months of the year the increase amounted to 1 100 million kroner. The official gold and foreign exchange reserves held by the Bank of Norway, based on the definition of the International Monetary Fund, expanded by as much as 2 800 million kroner during this same period. The difference is primarily due to the increase in the commercial and savings banks' short-term borrowing abroad and foreign krone deposits in commercial and savings banks. At the end of November 1974 total net gold and foreign exchange reserves amounted to 11 400 million kroner, corresponding to more than three months' merchandise imports. Norway's international liquidity position may continue to be characterized as favourable.

## PROSPECTS

At the beginning of 1975 the economic situation in the Western world is dominated by the recession. Most countries have been reluctant to initiate measures which would allow output to resume an upward course because this would be incompatible with desires to bring inflation and balance of payments problems under control. Nonetheless, it now appears that measures aimed at stimulating demand in order to reduce unemployment will be implemented to an increasing extent through 1975. A cautious change in economic policy in this direction can already be discerned, but thus far not to the extent that this will have a noticeable impact on the economic situation in the Western world during the first half of the year. Given the time generally required before economic measures have an effect, it must be assumed at this writing that a general economic upturn might ensure during the second half of the year at the earliest. It must be expected that the production growth in the Western industrialized countries will be weak in 1975, although the outlook varies somewhat from one country to another.

For Norway's merchandise exports it is of significance that Norway's three most important trade partners (Great Britain, Sweden, and West Germany) seem to have better growth prospects than most other industrial countries. It is therefore a possibility that foreign demand will provide Norwegian export industries with some growth stimuli also in 1975, but some sectors, including some of the traditional export industries, will be more affected by the international recession than last year. The figure for laid-up ships will probably rise. Following two

unusually favourable years, profitability in the export industries is likely to decline substantially. The domestic economic scene continues to be dominated by a strong wave of investment activities, and investment demand will probably remain high throughout 1975. Consumer demand is also expected to be a growth factor, stimulated by the increase in wages and an expansionary budget policy.

Against this background, it is probable that Norway will record a fairly satisfactory growth in production again in 1975, since it may be expected that a reduced foreign demand can be compensated for by a high level of domestic demand. In any case, there is reason to believe that Norway, during the present pronounced economic downturn, will avoid a loss of production and that employment will remain high. Revenue from oil activities in the years ahead will give the authorities considerable freedom of action in framing economic policy. The rise in prices may be considerable again in 1975.