



NORGES BANK

# ON INSTITUTIONS – FUNDAMENTALS OF CONFIDENCE AND TRUST

A COLLECTION OF ARTICLES BASED ON PRESENTATIONS AT A SEMINAR  
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NORGES BANK OCCASIONAL PAPERS No. 47

## **On institutions – Fundamentals of confidence and trust**

A collection of articles based on presentations at a seminar arranged by Norges Bank and the Norwegian Academy of Science and Letters on 12 November 2013.

Oslo, 2014



## On institutions – Fundamentals of confidence and trust

A collection of articles based on presentations and plenary debate at the sixth seminar arranged by Norges Bank and the Norwegian Academy of Science and Letters on 12 November 2013.

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## Introduction

From 2008 onwards Norges Bank and the Norwegian Academy of Science and Letters have arranged a series of annual seminars on selected topics of general interest for a wide audience.<sup>1</sup> The topic of the seminar in 2008 was “*On keeping promises*”, the topic in 2009 was “*On transparency*”, the topic in 2010 was “*On making good decisions*”, the topic in 2011 was “*On managing wealth*” and the topic of the fifth seminar in 2012 was “*On learning from history – Truths and eternal truths*”.

The sixth seminar in this series was arranged on 13 November 2013 and the topic was “*On institutions – Fundamentals of confidence and trust*”. Deputy Governor Jan F. Qvigstad, Norges Bank, gave a speech on the topic and there were two invited commentaries reflecting the views of leading institutions in Norway, the *Supreme Court* (Aage Thor Falkanger, Supreme Court Justice), and the *Norwegian National Opera & Ballet* (Tom Remlov, Executive Director).

The proceedings from the previous seminars, including lightly edited minutes from the plenary debate, have been translated into English and published in the series *Norges Bank Occasional Papers*. We follow this tradition also for the sixth and final seminar in the series. It is our hope that this booklet will provide food for thought and reflection. I would like to thank Helle Snellingen for excellent help with the English translation throughout the entire series.

The six topics covered by this series of seminars comprise a wide range of different aspects of central banking. Taken as a whole these topics may be subsumed by the more general and overriding theme “*On central banking*”.

Oslo, August 2014

Øyvind Eitrheim

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<sup>1</sup> Details about the six seminars in the series can be found on the Norges Bank website: <http://www.norges-bank.no/en/Published/Speeches/The-Norwegian-Academy-of-Science-and-Letters/>





# On institutions – Fundamentals of confidence and trust

Jan F. Qvigstad\*, Norges Bank

## 1. Institutions

The concept *institution* has many meanings. For example, there is an important distinction between its meaning as an abstract concept and as a concrete one. The *judicial system* in Norway is an institution in an abstract sense, while the *Supreme Court* is concrete. The *Norwegian National Opera & Ballet* is a concrete cultural institution within our more abstract *cultural heritage*. In my own field, the *monetary system* is abstract whereas *Norges Bank* is concrete. I would like to speak about the role institutions can play in the economic advancement of a nation and use the central bank as an example.<sup>2</sup> My co-speakers will view the issue from different perspectives and the ensuing debate will bring forth yet further aspects.<sup>3</sup>

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\* I have received valuable assistance in drawing up this speech, in particular from Mike Bordo, Arne Jon Isachsen, John Llewellyn and Anders Vredin outside Norges Bank, and from Norges Bank staff; Øyvind Eitrheim, Amund Holmsen, Marie Norum Lerbak, Inka Rogne, Øystein Sjølie, Birger Vikøren and Lars Fredrik Øksendal. I would also like to thank Helle Snellingen for the translation into English. Contact information: Norges Bank, P.O. Box 1179 Sentrum, 0107 Oslo. E-mail: [jan.qvigstad@norges-bank.no](mailto:jan.qvigstad@norges-bank.no).

<sup>2</sup> Among the many who have shed light on the role of institutions from this perspective is Douglass C. North, a 1993 Nobel laureate in economics together with Robert W. Vogel. In his work, he refers to institutions as: “Institutions are the rules of the game of a society and in consequence provide the framework of incentives that shape economic, political, and social organization. Institutions are composed of formal rules (laws, constitutions, rules), informal constraints (conventions, codes of conduct, norms of behaviour), and the effectiveness of their enforcement. Enforcement is carried out by third parties (law enforcement, social ostracism), by second parties (retaliation), or by the first party (self-imposed codes of conduct). Institutions affect economic performance by determining, together with technology employed, the transaction and transformation (production) costs that make up the total costs of production.” See North, Douglass (1997) in Drobak, J. N. (Ed.): Prologue of *Frontiers of the New Institutional Economics*, p. 6.

<sup>3</sup> Economists use a basic and powerful theoretical construct to demonstrate that, at the most fundamental level, production takes place through the use of labour, capital and raw materials as well as through technological progress. Lying behind it – and often having a profound

Good institutions provide sound frameworks that increase confidence and promote economic progress. This is so in relation to minor, everyday situations as well as to major life choices. At the fishmonger's, the *Norwegian Metrology Service* ensures that you pay for the actual weight of your cod fillet. When you buy a home, clarity about ownership and encumbrances is ensured by the *land register*.<sup>4</sup> The *Norwegian Industrial Property Office* grants patents so that entrepreneurs can make profits on their innovations. In the absence of such institutions, each of us would have had to spend more time on taking precautions and fewer investments would have been profitable.<sup>5</sup> However, in and of themselves, institutions are insufficient to ensure progress – the key is whether they are strong or weak.<sup>6</sup> This is also the starting point for

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effect on it – is how firms and the society in which the firms operate are organised. And organisation is about institutions in the broad sense – everything from society's moral norms to how production is organised in each firm.

<sup>4</sup> Hernando de Soto in *The Mystery of Capital* (2000) argues that a lack of proper land registration in poor countries makes it impossible for the poor to obtain credit. As a result, a large proportion of the population is in effect barred from establishing a business.

<sup>5</sup> The Arab sociologist and diplomat Ibn Khaldūn analysed the relationship between institutions and economic progress. He published his major work in 1377. The book was published in Norwegian in 2013 under the title *Al-Muqaddimah. Introduksjon til verdenshistorien* [Introduction to World History], translated by Abdel Magid Al-Arakion. In 1759, in his work *Theory of Moral Sentiments*, Adam Smith wrote that institutions are the framework for progress. Good institutions promote confidence and thereby efficiency in society. The Norwegian American Thorstein Veblen, 115 years ago, described institutions as the building blocks of economic development (see *The Theory of the Leisure Class: An Economic Study of Institutions*). In newer Norwegian research, Halvor Mehlum, Kalle Moene and Ragnar Torvik have documented that institutions determine whether a country will manage to utilise discovered resources (see "Institutions and the Resource Curse", *The Economic Journal* 116, pp. 1-20).

<sup>6</sup> The young and already internationally renowned economist Jeffrey Sachs called on the then Secretary General of the OECD, Jean-Claude Paye, immediately after the collapse of the former Soviet Union. Sachs claimed that all that was needed to get the economy moving was to liberate Russia's animal spirits. Paye demurred, saying that he thought that institutions would matter too. Sachs countered, saying "But you are French, and so you think that institutions are more important than they really are." To which Paye replied "And you are young, and take your institutions too much for granted." And then he added, almost as an afterthought, "If you do not have good, strong institutions, all you will get will be the mafia." E-mail correspondence from John Llewellyn, former colleague of Paye, dated 3 November 2013.

Daron Acemoglu and James Robinson's book *Why Nations Fail*.<sup>7</sup> They introduced the concepts *inclusive* and *extractive* institutions.<sup>8</sup>

- Inclusive institutions do not forget why they exist: they remember that their purpose is to serve the people, as the term “public servant” aptly illustrates. A well functioning constitutional state makes cooperation and transactions simpler and cheaper.
- Extractive institutions, on the other hand, are found in countries where rulers govern without notable opposition, where the judicial system is not fair, and where rights are not equal for all.

The authors refer to several examples where people groups with identical backgrounds and access to the same natural resources have developed differently because of institutional differences.<sup>9</sup>

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<sup>7</sup> Acemoglu, D. and J. Robinson (2012): *Why Nations Fail: The Origins of Power, Prosperity and Poverty*, Crown Publishers, New York.

<sup>8</sup> Acemoglu and Robinson are not alone in attempting to capture institutional differences using concept pairs. In a historically based social analysis, North, Weingast and Wallis use the distinction between *natural state* and *open access societies* as reference for stage of development. The former was a strongly hierarchical society with tightly woven personal bonds with a clear social order. Collaborating elites had a monopoly on violence and dictated the allocation of resources. In an open-access society, on the other hand, the state holds power but there are institutional constraints. Political leadership has support from relatively broad economic and social groups, with more impersonal relationships and hence stronger competition and mobility. The authors argue that the transition between development stages to what they refer to as “the second social revolution”, a somewhat broader concept than the Industrial Revolution that gives weight to, inter alia, the Enlightenment and Modernity, started over 200 years ago, and that it is still underway. In many countries, society has benefited from technological progress but is still captive of the old stage of development of personal power relationships. They point to a clear concurrence between the open-access society and economic prosperity. North Douglass C., Wallis, John Joseph and Weingast, Barry R. (2009) “*Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*”, Cambridge University Press.

<sup>9</sup> Nation-building is a difficult task if there is no trust in as vital an institution as the police. Professor of law at the University of Oslo Johs Andenæs spent the spring semester of 1971 as a visiting fellow at Oxford, taking along his son Ulf, who was my schoolmate. That year, Leszek Kołakowski, one of the past century's most famous philosophers, was also a visiting fellow at Oxford, and Johs Andenæs and Kołakowski became friends.

This leads to a key question: what are the principles that underlie those institutions that actually fulfil their role and effectively serve society?

A relevant starting point – as we are now approaching the bicentenary of the Norwegian Constitution – is 1814. This was the time when key nation-building institutions were founded, such as the Storting (Norwegian parliament), the Supreme Court, the University of Oslo and Norges Bank. By the mid-1800s, civil society was also developing rapidly, as illustrated by the surge in the number of associations. The historian Jan Eivind Myhre has described this development in his book on Norway’s history from 1814 to 1905. He relates, for example, that 60 clubs and associations were established in Løten in Hedmark county between 1850 and 1898.<sup>10</sup> These ranged from shooting clubs, cycling clubs, choirs and agricultural associations to local political, missionary and workers’ associations. An array of common arenas boosts trust between people in a society. Trust in strangers helps oil the machinery. If you are able to trust the other party to the contract, you do not have to hedge against all possible outcomes.<sup>11</sup> The wheels of business turn faster and more smoothly.

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Although Kołakowski had been one of Marxism’s prominent post-war thinkers, by 1971 he had completely lost faith in the ideals of his youth. His relationship with the same communist authorities that he had served as an ideologist earlier in his life was becoming increasingly difficult. When the end of Kołakowski’s visiting appointment neared, Johs Andenæs was told privately that Kołakowski was debating whether to defect and remain at Oxford. Kołakowski was particularly repelled by a fellow Pole who was also a guest professor and whose loyalty to the regime he believed was sheer opportunism. To Johs Andenæs, Kołakowski spoke of his countryman thus: “He is a criminal. He cooperates with the police!” As a professor of criminal law, Johs Andenæs found this to be an interesting statement. Kołakowski, for his part, did not return to Poland when his visiting fellowship ended soon afterward, but defected and became a leading critic of Marxist theory and practice and one of the intellectual fathers of Solidarity and the fall of communism.

<sup>10</sup> Myhre, Jan Eivind (2012): “Norsk historie 1814-1905: Å bygge ein stat og skape ein nasjon” [Norwegian history 1814–1905: Building a state and creating a nation].

<sup>11</sup> The level of trust in a society is influenced by many conditions. It may be that the recent years’ large migration flows are eroding the trust that has prevailed in Norway earlier. However, immigrants have in fact adopted surprisingly rapidly the level of confidence in their

The 1800s were characterised by upheaval and a change in the pace of economic development. In *the old society*, safety lay in close-knit networks and small institutions: the family, relatives and neighbours. Once the pace of development picked up, however, these networks and institutions were no longer sufficient. New ones were needed.

Local savings banks are a good example. Specialisation, market focus and new tools demanded more financial muscle than the old, family-based networks could mobilise. The solution was for villages to join forces to create savings banks, an institution rooted in the local community but reaching beyond the old networks. Løten savings bank opened in 1855.

A good public school system is a prime example of an inclusive institution. In May this year, I had the pleasure of visiting Stavanger Cathedral School. The head teacher, Turid Myhra, showed a portrait of one of her predecessors, Johannes Steen; schoolmaster, statesman and nation-builder.<sup>12</sup>

Steen was notably a key driving force behind what was to become an important milestone in the construction of Norway's collective identity: the

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new home country. See also Dag Wollebæk (2013): Truer innvandringen tilliten? [Does immigration undermine trust?], Article in *Aftenposten*. Alexander Cappelen and Bertil Tungodden at the Norwegian School of Economics are also working on these issues (see e.g. <http://paraplyen.nhh.no/paraplyen/arkiv/2012/juni/tillitstesten/>). See also Algan and Cahuc (2010): "Inherited Trust and Growth", *American Economic Review* 100 (5), pp. 2060-92, which documents a strong causal relationship between trust and economic prosperity.

<sup>12</sup> Johannes Steen (1827-1906) was born in Christiania (now Oslo). After completing a higher degree in philology at the University of Christiania in 1848, Steen held a number of positions in the school system and was for many years the headmaster of the Stavanger Latin School. Steen was also a member of the Storting and prime minister. Both as an educationist and as a politician, Steen made key contributions to the creation of the Norwegian comprehensive school. Source: *Store Norske Leksikon*, [http://nbl.snl.no/Johannes\\_Steen/utdypning](http://nbl.snl.no/Johannes_Steen/utdypning).

Internationally, the Society of Jesus is known as the founder of the modern school system, with a curriculum tailored to the child's age and previous knowledge and schooling characterised by systematic progression. These pedagogical principles evolved gradually through the second half of the 1500s, culminating in 1598 with *Ratio Studiorum*, the official plan for Jesuit education (see O'Malley, J. W. (1993): *The First Jesuits*, Harvard University Press, Cambridge, Massachusetts).

adoption of the Primary School Act in 1889. The result was a comprehensive school system that strengthened our collective identity.<sup>13</sup>

For Norwegians, it is easy to take inclusive institutions for granted. Throughout human history, however, it is extractive institutions that have been the norm. There were attempts to achieve a balance of power in regimes as disparate as ancient Rome, China and Venice. But they remained attempts. The inclusive institutions were replaced by nepotism and abuse of power.

The economists Acemoglu and Robinson point to the Glorious Revolution in 1688 as a turning point in history.<sup>14</sup> The British Parliament permanently curtailed the power of the Crown. The UK did not become a democracy in the modern sense overnight, but checks and balances were introduced. The development of written laws and a judicial system featuring independent courts started. Patent laws were adopted and limited companies saw the light of day. The Bank of England, which was established in 1694, was controlled by the Crown's creditors. This limited the Crown's scope for printing money freely. Acemoglu and Robinson maintain that the Glorious Revolution paved the way for the Industrial Revolution.<sup>15</sup>

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<sup>13</sup> Compulsory military service is also often quoted as a common area in which people from different backgrounds met on an equal footing, and often formed closer bonds. Accordingly, the Norwegian Armed Forces have not only helped to protect the country, but also developed Norway's social capital, at least that of half the population (see also Langeland, N. R.: "Møtet med krigens ånd" [Meeting the spirit of warfare], *Morgenbladet*, 1 November 2013).

<sup>14</sup> Hermann, Richard (1992): *Med Skjebnen I hånden* [With Destiny in Their Hands], Cappelen, Oslo

<sup>15</sup> Not everyone agrees on this view of the *Glorious Revolution*. See, for example, Sussman, N. and Y. Yafeh (2004): "Constitutions and Commitments: Evidence on the Relation between Institutions and the Cost of Capital", CEPR Discussion Paper 4404.

## 2. The monetary system

A man who makes pins on his own can make between one and 20 pins a day. However, if the work is distributed among several workers such that one produces the wire, another straightens it, someone else cuts it to size, yet another sharpens it, and so on, ten men can produce 48,000 pins per day.

This is Adam Smith's famous example, taken from *The Wealth of Nations*, of how the division of labour is important for productivity and economic prosperity.<sup>16</sup> In Smith's example, all the operations take place within a single factory. But in a more complex society, one firm's output is another firm's input. An important prerequisite for such division of labour is that there are institutions that facilitate simple trading of what is produced.

The monetary system is an institution that simplifies trade in goods and thereby promotes the division of labour, productivity and economic prosperity. We must bear in mind that money and the monetary system are not a goal per se. Money is like oil in the machinery.

Nevertheless, of all the systems existing within a state, the monetary system is among the more mystical when examined closely.

Historically, the King issued money, initially in the form of coins. His stamp turned the coins into a means of payment, and his power underpinned the monopoly on the issue of coins. Many kings managed their coinage. One example is Henry VII, the father of the modern English coinage system, whom

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<sup>16</sup> Smith, Adam (1776): *An Inquiry into the Nature and Causes of the Wealth of Nations*, Book I: *Division of Labour*.

historians have identified as an early proponent of healthy money.<sup>17</sup> His son, Henry VIII, was not as successful. From school, we best remember him for his high turnover of wives. To coin collectors, on the other hand, he is associated with the Great Debasement, whereby the silver content of one coin after another was diluted.<sup>18</sup> Neither the turnover among his wives nor the debasement of the coinage was conducive to building confidence.

The King could solve a short-term financing problem by issuing debased coins and more notes. However, with ever more coins and notes chasing the same goods, the long-term consequence was rising prices. Economists refer to this as an *inflation tax*.<sup>19</sup>

What happens when executive powers unleash inflation?

- First, confidence in money as a *store of value* disappears. An extreme example is the 1923 hyperinflation in Germany, when absolutely everything, including perishable food products, provided better security than money.<sup>20</sup>
- Second, money disappears as an *accounting unit*. Goods became the new standard. During the Napoleonic Wars, inflation was also very high in Norway, and the local history of the islands of Karlsøy and

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<sup>17</sup> Sinclair, David (2001), *The Pound. A Biography. The Story of the Currency That Ruled the World*, London: Arrow Books 2001 pp. 141-2.

<sup>18</sup> Between 1526 and 1542 the silver content of the circulation coin *groat* was reduced by 23.2 percent while the coin retained its nominal value of four pence. The King's gross seignorage increased from 2.1 to 20.1 percent. Glassman, Debra and Redish, Angela (1988) "Currency depreciation in early modern England and France", *Explorations in Economic History*, Vol. 25, Issue 1, pp. 75-97.

<sup>19</sup> Normally, it is Parliament's responsibility to appropriate money and the Crown's prerogative to spend it. When taxation occurs through inflation, this rule is broken.

<sup>20</sup> One of the classic accounts of hyperinflation is provided by Fergusson, Adam, *When Money dies. The nightmare of the Weimar Hyper-Inflation*, London: William Kimber & Co.



Helgøy shows that accounts were kept in silver or goods such as cod liver oil, pollock and flour rather than speciedalers.

- Finally, money ceases to function as a *means of exchange*. After the Second World War, German industrial workers were paid in the firm's own products. Cigarettes and nylons functioned as a general means of payment.<sup>21</sup>

I mentioned that the monetary system seems to be shrouded in a veil of mystique. Initially it was not. A coin's value was equal to its weight in silver. In our day, the promise of precious metal has been replaced by the central bank's promise of price stability. Underpinning this promise is an institution, that is to say a bureau of statistics, which can measure general price developments, normally by means of a consumer price index. The statistics bureau must be independent of the political authorities, unlike in Argentina recently where the director was replaced because the government did not like the price figures.<sup>22</sup> Or unlike the situation in Norway in the 1950s, when the

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<sup>21</sup> Owing to a lack of reliable means of payment, the recovery of production capacity and commerce in Germany after the war came to a standstill. On Sunday, 20 June 1948, under the direction of Ludwig Erhard, a large-scale currency reform was carried out in the western zones of occupation. The introduction of the Deutsche Mark was followed by measures to deregulate the economy and dismantle price controls. Virtually overnight, goods were available in the shops again. In the wake of these reforms, the Bank deutscher Länder, the precursor of the Bundesbank, was founded. The launch of the Deutsche Mark was an institutional prerequisite for the beginning of the postwar German Wirtschaftswunder. The successful reform bolstered the reputation of the monetary policy authorities and provided fertile soil for the trust the Bundesbank has enjoyed as a defender of stable money up to the present day.

<sup>22</sup> The events in Argentina in 2007 led to the initiation of a research project at the MIT Sloan School of Management to collect price data from retailers on a daily basis using scraping technology. The project, currently referred to as the *Billion Prices Project* (see <http://bpp.mit.edu/>) is primarily associated with the MIT researchers Alberto Cavallo and Roberto Rigobon. The project started on a very small scale in 2007 when Cavallo used the technology to collect price data from supermarkets across Argentina, and he showed that inflation in Argentina was between twice and three times as high as reported in the official figures.

government subsidised some goods in the index to avoid automatic wage increases.<sup>23</sup>

The monetary system has also become more intricate along another dimension. Today, cash accounts for only 5 percent of the money supply. Payments are primarily made using deposit money, which involves electronic signals created by the banks themselves, via cards, mobile phones or online payments.<sup>24</sup>

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Today, the project is being continued under the direction of the private company PriceStats, which provides data collection and processing services. The *Billion Prices Project* currently involves the collection of price information from more than 70 countries and daily inflation series are published for over 20 of them. Fortunately, Argentina proved to be the only country where price indices using the new scraping technology were systematically on a much higher level than the official inflation figures. Thus, it appears that in today's open societies, it is difficult to conceal true developments. Incidentally, Argentine inflation figures from PriceStats continue to show much higher inflation than the official figures (see <http://www.pricestats.com/argentina-series>). From February 2012, *The Economist* has replaced the official inflation figures for Argentina in its statistical tables with inflation figures compiled by PriceStats.

<sup>23</sup> Index manipulation is a demanding enterprise that often resulted in perverse economic incentives, sometimes with entertaining results. After 1945, a stabilisation strategy was one of the cornerstones of the Government's economic policy, and prices were to be kept stable as a way of navigating through the economic cycle. In July 1948, the Ministry of Trade received an offer to purchase a consignment of part-skim Danish Gouda cheese, a food item that was included in the cost-of-living index. Despite the bargain offer, the import price would have been higher than the selling price, so that subsidies would be necessary to avoid impacting the index. The end of the story was that a consignment of full-fat Gouda was imported, an item that was far more expensive, but that was not included in the index. Lie, Einar (1995): *Ambisjon og Tradisjon. Finansdepartementet 1945-1965* [Ambition and Tradition]. The Ministry of Finance 1945-1965], Oslo: Universitetsforlaget, p. 121.

A few years ago, the news website TV 2 Nettavisen revealed that the large grocery chains adjusted the prices of goods they knew were included in price tests conducted by the media in order to come out favourably in the tests. For example, the price of hand soap in a pump dispenser is lower than the equivalent quantity in a refill package: <http://www.nettavisen.no/okonomi/privat/article373382.ece>

<sup>24</sup> According to the economist Stephen Quinn, secure central bank money triggered a spate of financial sector innovations. The central bank could offer notes with little risk regarding liquidity and public acceptance. On the other hand, notes were costly to use – an example is the considerable interest payments forgone when large amounts are held in cash. With the monetary system firmly anchored, private participants could offer more cost-effective payment solutions: deposit accounts, giro transfers, clearing and cheques. This system rested on confidence in central bank money. (Quinn, Stephen F., and William Roberds. 2005. "The

Millions of transactions between individuals, companies and banks take place every day. These payments are settled at Norges Bank four times daily by transferring money between banks' accounts in Norges Bank. Norges Bank does not regulate the issuance of deposit money directly. By setting the interest rate on banks' sight deposits with Norges Bank and by securing settlements between the banks, the central bank is nevertheless the fundament of a vast and complex payment system.<sup>25</sup>

### 3. The central bank

History has shown that monarchs are not always to be trusted to safeguard the monetary system.<sup>26</sup> An institutional solution is to delegate the task of issuing money to a central bank and shield it from the authorities' temptation to focus on short-term interests.<sup>27</sup>

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Big Problem of Large Bills, the Bank of Amsterdam and the Origins of Central Banking.” Federal Reserve Bank of Atlanta Working Paper 2005–16).

<sup>25</sup> Large-value payments between banks are settled continuously in Norges Bank. See also Lerbak, Marie N. (2013): “Om pengemengden” [On the money supply], *Norges Bank Staff Memo* no. 14.

<sup>26</sup> A characteristic of money as a means of payment is its anonymous nature. Before the use of money became common among ordinary people, payments usually took place in connection with commercial transactions, whether for goods or services, via networks from which it might be difficult to extricate oneself. The farmer was usually indebted to a town merchant, which resulted in dependency and an obligation to deliver a portion of his produce. Labourers might receive partial payment for their efforts in kind, or at large mills, in scrip that could only be used for purchases in the company store. The monetisation of the economy, based on secure monetary values, severed many of these ties of dependency. With money in their pockets, accepted as legal tender everywhere, the farmer or labourer was able to choose. This is also freedom. Nor did the party receiving payment, e.g. the town merchants, have to know more about the customer than that he had money in his pocket and could pay for the goods. Eitrheim, Ø. and L.F. Øksendal (forthcoming): *On secure monetary values and freedom*.

<sup>27</sup> A central bank requires mechanisms that ensure confidence. Kydland and Prescott demonstrated that policymakers who tried to pursue an optimal plan for economic policy may have a strong incentive to deviate from the same plan at a later point in time. This will be the case, even in the absence of news that would warrant a change in the plan (see Kydland F.E. and E.C. Prescott (1977), “Rules Rather Than Discretion: The Inconsistency of Optimal Plans”, *Journal of Political Economy*, Vol. 85, No. 3, pp. 473-491).

In Norway, the aim of shielding the monetary system from the government was already embodied in the Constitution of Norway adopted on 17 May 1814. The drafters of the constitution formulated the following in Article 75(c): “It devolves upon the Storting ... to supervise the monetary affairs of the Realm”.

This provision strongly censured the Danish King’s monetary policy during wartime. In future, representatives appointed by citizens, not the Crown, were

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The expression “tying oneself to the mast” encapsulates in a simple way how the central bank can avoid the dilemma that Kydland and Prescott describe. The traditional task of the central bank was to issue notes and coins and ensure a well-functioning payment system. But the payment system is only well-functioning when the public has confidence in the value of money. Thus, the primary duty of central banks is to ensure that the value of money is stable. The value of money relies on the confidence of the public that a responsible policy is being pursued. If a central bank is to keep its promise and deliver stable money, it is important that the political authorities stand behind it. Otherwise the central bank will be unable to keep its promise.

Throughout history, central banks have tried various mechanisms for tying themselves to the mast. Being accountable for their promises in the form reporting and follow-up is one mechanism that ensures that the central bank is tied to the mast. Relinquishing the opportunity to break a promise makes that promise more credible. These are matters I touched on in my speech “On the topic of keeping promises” in 2008. Keeping a promise is difficult, because reneging on a promise will often be the tempting or rational choice in the short-term. The legal scholar and economist Michael Woodford has pointed out that in order to keep your word it is not enough to make a promise today and keep your word tomorrow. When making interest rate forecasts, we must also take into consideration the promises made yesterday. Only then can we fully use expectations to stabilise the economy optimally. This is referred to as monetary policy from a timeless perspective (Michael Woodford, 2003: *Interest and Prices*, Princeton University Press). Today there is general consensus that price stability is the best contribution that monetary policy can make to economic stability over time.

In the long term, a stable value of money is the only promise that the central bank has the means to deliver. This promise was previously kept by regulating the supply of money issued. Today, the interest rate is the instrument. The central bank does not manage real wages, the labour supply, employment or the level of unemployment in the long run. But, if price stability is firmly anchored, the central bank can help to reduce short-term economic fluctuations. While central bank independence promotes price stability, researchers do not find a discernible connection between central bank independence and real economic variables such as GDP growth or unemployment (see Alesina, A. and L.H. Summers (1993), “Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence”, *Journal of Money, Credit and Banking*, Vol. 25, No. 2., pp. 151-162).

to have final responsibility for the monetary system.<sup>28</sup> The King's scope for taxation by means of inflation was curtailed.

The Storting, which was supposed to meet every third year, was not equipped to assume day-to-day responsibility for the monetary system. "Someone" had to do this on behalf of the Storting. That "someone" became Norges Bank, which was established in 1816. The Storting realised that the objectives of monetary policy could be best achieved if the monetary system was shielded from the arbitrary intervention of the monarchy. The distance between the seat of government in Oslo and the central bank in Trondheim was a perhaps deliberate twelve day journey.<sup>29</sup>

At irregular intervals during the past 200 years, Norges Bank has faced *defining moments* – crossroads – that have defined the bank as an institution. At such defining moments, the central bank becomes what it is, both in its own awareness and in that of the general public. These are situations where it sometimes became bigger than itself, or inversely, where it became smaller than itself and did not fulfil its role. As is so often the case, it is only in retrospect that we can fully identify the defining moments and assess the wisdom of the choices made.

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<sup>28</sup> The principle whereby the new state would have its own monetary system, separate from Sweden, was written into the November Constitution in the same year. Here the word "bank" is also used for the first time. In line with the emerging liberal thinking of the time, keeping the value of money secure was considered essential, a prerequisite for the liberty of the citizenry.

<sup>29</sup> This journey time is for transport with a military escort. A post rider was able to make the journey considerably faster. Only after confidence in the new institution had been established – several generations later – was the Bank moved to the capital Christiania. Incidentally, the desire to compensate for the loss of the Bank was one of the reasons that Trondheim was chosen as the location for another institution, the Norwegian Institute of Technology.

Norges Bank faced its first defining moment early on. When it was first established, the Bank was unknown to the public at large. The new paper money, speciedaler notes, was linked by law to a specific amount of silver.<sup>30</sup> Despite the fact that the silver tax had secured Norges Bank a considerable silver reserve, the authorities were afraid to permit free silver redemption. The fear was that the silver fund would be emptied quickly. The notes in circulation with the promise of silver redemption far exceeded the silver value of the silver forks and silver plates that had been collected.

Confidence in the new notes waned, and in 1822 the Storting adopted a long-term strategy whereby the redemption rate in silver for the speciedaler would gradually be increased. The aim – the right to full silver redemption, i.e. that the same amount of silver would be paid out as stated on the face of the note – was first achieved 20 years later. I will call this period the “*long promise*”. The fulfilment of this long promise strengthened and consolidated the Bank’s reputation. Perhaps the strongest proof of increased confidence in the central bank was the domination of trade by notes following the introduction of free silver redemption.<sup>31</sup>

The remainder of the 19<sup>th</sup> century until the First World War became the heyday of safe money. Inflation was stable throughout, and the Bank kept its promise to redeem its own notes, first in silver and, from 1874, in gold.

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<sup>30</sup> This was not the first time the Norwegian authorities established a silver standard. In accordance with the regulation of King Haakon V of 1314, silver was to have a standard of purity of 13 ½ *lødig*, which is equivalent to a fineness of 844 silver according to the modern method for calculating fineness (Halén, Widar (2009): “Arvesølvet og Peter Wessel Zapffes sølv gave” [The family silver and Peter Wessel Zapffe’s gift of silver]. Lecture at the Norwegian Academy of Science and Letters.

<sup>31</sup> The speciedaler became legal tender shortly after Norges Bank was established.

Towards the end of the 19<sup>th</sup> century, optimism gained the upper hand in Norway. Increased exports and strong growth in manufacturing culminated in a wave of speculation in securities and property. In particular, the capital experienced a surge in economic growth and population, which resulted in the construction of large parts of the city as we know it today. The bubble burst in 1899. Under the leadership of the Governor<sup>32</sup> Karl Bomhoff, Norges Bank acted resolutely.<sup>33</sup> For the first time, the Bank acted directly as a lender of last resort for banks to avert a banking crisis. Norges Bank provided liquidity to troubled banks, thereby helping to ensure the orderly winding-up of the speculative banks that had sprung up.

Bomhoff's decision in 1899 was a defining moment for Norges Bank, which has since played an important role in dealing with a number of crises as bankers' bank.

After the First World War, inflation and large-scale imports of goods caused a loss of confidence in the krone, which dropped considerably in value. When Nicolai Rygg became Governor of Norges Bank in 1920, he started work on

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<sup>32</sup> Adam Posen, a former member of the Monetary Policy Committee of the Bank of England, compares central banks to pharmacists: “[W]ith a limited medicine cabinet, and restricted by law from exceeding certain bounds, both must make sense of scrawled prescriptions from differing specialists, decide what side effects to take into account, and then ultimately dispense the proper dosage of medicine to their customers, all without knowing or controlling everything else the patient is consuming.” See *Foreign Affairs*: <http://www.foreignaffairs.com/articles/139465/adam-s-posen/the-myth-of-the-omnipotent-central-banker>.

<sup>33</sup> Karl Bomhoff was appointed as the first Governor of Norges Bank in 1893. By education he was a pharmacist. When Norges Bank's head office was moved to Oslo, Bomhoff also moved to the head office, where there was more extensive expertise than earlier. This facilitated Norges Bank's role as bankers' bank. The theme of my speech is institutions. It might seem paradoxical to refer to physical persons, such as Bomhoff, and not decision-making bodies. However, there is a connection between “what is a central bank” and “who is the central banker”.

putting the monetary system in order. In his view, the central bank was obliged to bring the gold value of the krone back to its pre-war level – referred to as *par policy*.<sup>34</sup> However, this ambitious aim entailed years of strong deflation and blight before the gold value was achieved in 1928.

For 90 years, historians have discussed *par policy*. My contribution will have to be a present-time analysis with the inherent scope and limitations.<sup>35</sup> Was this a good policy? There is no doubt that the motives were good. Rygg considered that Norges Bank had a moral obligation to keep its word, as it had done a century earlier, but was also of the view that this was rational in the longer term. There is also no doubt that Rygg adhered to the rules of the game. *Par policy* had the support of the political authorities. Nevertheless, an action must also be assessed by the outcome. The central bank was blinded by the old gold content as a guideline for monetary policy and implemented a policy that inflicted large-scale real economic costs on the country. Many countries had suspended the gold standard during the war, but no other country pursued such an ambitious *par policy* in the 1920s.<sup>36</sup> Norges Bank was deaf to growing

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<sup>34</sup> Also the other Scandinavian countries and the UK embarked upon a similar policy to reintroduce gold convertibility. However, there was a crucial difference. While the Swedish krona had depreciated marginally and sterling by only 10 percent, the Norwegian krone had depreciated by 50 percent in terms of gold. In other words, a substantially tighter policy was necessary compared with Sweden and the UK. It is also an open question whether returning the krone to gold parity after such a steep depreciation actually was in keeping with the orthodox understanding of the gold standard. During the great British debate on the gold peg after the Napoleonic Wars, even David Ricardo, the gold standard's most ardent defender, warned against returning to earlier parity values after a sharp depreciation. Friedman, Milton og Schwartz, Anna Jacobson (1963), *A Monetary History of the United States of America, 1867-1960*, National Bureau of Economic Research, p. 82.

<sup>35</sup> Since the past is our laboratory and the source from which we draw lessons, it is more fruitful to try to understand the past on its own terms than to sit in judgement over it. Anything else would make history as a serious branch of study into a meaningless exercise, reducing it to a running, constantly changing contemporary commentary on what has been.

<sup>36</sup> In the opinion piece “Mytedannelsen om paripolitikken” [Myth-making and *par policy*], Hermod Skånland points to the strong political support for *par policy* in the 1920s and to the



contemporary criticism and sustained a substantial reputational loss.<sup>37</sup> As a consequence, the Bank's ability to fulfil its role in society was weakened for decades to come.

The par policy failure was an important reason behind the post-war opposition to allowing the central bank to make monetary policy decisions independently.<sup>38</sup>

A prominent feature of the post-war period was the conviction that the economy could be micromanaged by coordinating instruments drawn up by the government. At the time, few people considered this state of affairs as problematic. Although inflation was higher than before, unemployment was low and growth strong. This approach was in line with the dominant philosophy abroad, although the Norwegian variant was probably taken a step further than in most other countries.

The then Governor of Norges Bank Erik Brofoss had both time and energy to concentrate on matters that interested him but which differed from the traditional interests of a central bank. Brofoss was, for example, keen to solve the housing shortage problem following the war. He had visited England and

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fact that growth was higher in Norway than in its neighbouring countries: "Against this background, it might be difficult to understand that par policy has endured as the great policy blunder of the 1920s, and Rygg as the primary culprit for the ills that followed.(..) This had to do with the fact that the flexibility that could be obtained through monetary policy was more to the liking of leading economists in the 1930s and up to the present day, than the stability and the long-termism that may result when one imposes constraints on oneself of the type Nicolai Rygg represented." See *Aftenposten*, 30 May 1998.

<sup>37</sup> The Bank *must* on occasion be deaf to contemporary criticism in order to safeguard long-term considerations. But there will be a trade-off: which short-term costs are we willing to bear to keep our long-term promises.

<sup>38</sup>[http://www.norges-bank.no/Upload/67282/Artikkel\\_Gjedrem\\_180408.pdf](http://www.norges-bank.no/Upload/67282/Artikkel_Gjedrem_180408.pdf)

been inspired by the New Towns.<sup>39</sup> He asked the Bank's lawyers to draft a Norwegian statutory bill based on the British act of 1946.

Norges Bank Governor Knut Getz Wold was even clearer about the Bank's reduced role in monetary policy. In a speech in 1972, he stated the following:

*“Cartels and price agreements play an increasing role in the setting of prices. The social partners exercise decisive influence over wage developments. Agricultural prices are set in negotiations between the agricultural organisations and the state (...) In these circumstances, it is almost meaningless to talk about the central bank's special responsibility for inflation.”*<sup>40</sup>

The diminished role of the institution, which persisted well into the 1980s, must be seen in the light of mixed experiences with par policy, ambitious aims of micromanaging the economy, and the conviction that lower unemployment could be achieved by accepting higher inflation.<sup>41</sup> At the same time, major imbalances were building up in the economy. Fiscal policy, in conjunction with credit regulation and tight political control of business investment, gradually undermined the monetary system as an institution. Later in the 1970s, these problems came to the surface. Growth declined, inflation surged and unemployment rose sharply. I should add that these problems were not

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<sup>39</sup> In a letter to Norway's ambassador in London dated 1963, for example, he wrote:

“As you may have seen from the Norwegian newspapers, I have in several lectures proposed that we should consider building entirely new towns as part of solving the problems of the districts.” Discussions with Viking Medstad on 3 January and 24 October 2013.

<sup>40</sup> [http://www.nhh.no/Files/Filer/Om%20NHH/lehmkuhlforelesning/lehmkuhl 1972.pdf](http://www.nhh.no/Files/Filer/Om%20NHH/lehmkuhlforelesning/lehmkuhl%201972.pdf)

<sup>41</sup> Berg, Thomas N. (2011): “Mellom politikk og marked” [Between policy and market], Norges Bank Staff Memo no 19, Norges Bank. [http://www.norges-bank.no/Upload/Publikasjoner/Staff%20Memo/2011/StaffMemo\\_1911.pdf](http://www.norges-bank.no/Upload/Publikasjoner/Staff%20Memo/2011/StaffMemo_1911.pdf), p. 62.

confined to Norway. In 1971 the Bretton Woods system collapsed. Two years later the first oil price shock occurred.

At the beginning of the 1980s, the problems in the Norwegian economy had reached a pinnacle. In May 1986, the Brundtland government decided to devalue the Norwegian krone by 10 percent. As was usual on such occasions, it was said that this would be the “last time”. Less usual was that it actually was the last time. Prime Minister Gro Harlem Brundtland, Minister of Finance Gunnar Berge and his State Secretary Bjørn Skogstad Aamo had come to a decision. Devaluation policy was consigned to the past. Price stability, defined as low and stable inflation in line with that of trading partners, was established as an anchor for economic policy.<sup>42</sup> To implement this policy, both the monetary system and Norges Bank had to be re-established as independent institutions.

Whether the government gave or Norges Bank repossessed control over the policy instruments, especially the key policy rate, remains subject to debate. But the result was that Norges Bank in fact gained independence in interest rate setting to achieve the government-defined policy objectives. Inflation fell from double-digit figures around 1980 to 2-3 percent a decade later.

During the banking crisis around 1990, Norges Bank played a key role, which Bomhoff had paved the way for 90 years earlier, as a provider of liquidity to troubled banks.

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<sup>42</sup> In autumn 1987, Gro Harlem Brundtland and Gunnar Berge had to defend Norges Bank’s independence in interest rate setting to fellow party members, members of the Storting and the central committee during what was called the “interest rate uproar”. Rossavik, F. (2007): *Stikk i strid. Ein biografi om Einar Førde* [At variance. A biography of Einar Førde]. Spartacus, Oslo.

During the 1990s, the intellectual basis for modern monetary policy was laid in Norges Bank. The transition from exchange rate targeting to inflation targeting, with an explicit price stability objective, occurred gradually, and was formally introduced in March 2001. A new order was established. Norges Bank was again responsible for the monetary system. The institution was reconstituted.

The defining moments in both the initial and latter period of Norges Bank's 200-year evolution were thus quite long. I called the period 1822 to 1842 the "*long promise*". The period 1986 to 2001 can be described as the "*long return*".

But we must not allow complacency to set in. The world economy is still marked by the financial crisis that took hold in 2008. This is the first major crisis to hit the West's monetary system since the gold standard was abandoned in 1971.<sup>43</sup> In addressing the crisis, many central banks have deployed unconventional instruments. Both the Federal Reserve and the Bank of England have lent substantial amounts of money and implemented unorthodox measures. Central bank governors might feel that they have recently faced many defining moments in a short time span. Many might say that they have drawn on the institutions' accumulated confidence. Only time will tell whether these defining moments have truly secured the monetary system and central bank independence.

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<sup>43</sup> Philip Coggan (2012): *Paper Promises: Debt, Money and the New World Order*, Penguin, London.

## 4. Conclusion

Public institutions are the product of their tasks and history. The monetary system was shaken when Norges Bank solely focused on bringing the krone's value back to par. We might say that the institution lost sight of broader social responsibilities. But the monetary system also suffered in the following period when the authorities took control and lost sight of the central bank. The conclusion with regard to the monetary system is that it must be both steered and guarded. The political authorities must define the objectives and the central bank must be the devoted guardian of the monetary system. The central bank must deliver price stability, a robust payment system and a stable financial system.

It is in its performance of this responsibility that the central bank contributes to realising the mandate issued by the Storting – to supervise the monetary system.

Inspired by the former Governor of the Bank of England, Mervyn King, I will summarise my experiences in a few *simple* principles, which if followed, would enable institutions to fulfil their role in society and serve its citizens.<sup>44</sup>

1. It must know its social responsibility and restrict itself to the pursuit of the defined objectives and not be distracted by extraneous concerns – it must keep its promises.

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<sup>44</sup> Many attempt to measure whether institutions are fulfilling their societal role, which is a difficult exercise. As a nation, Norway scores high. Individual institutions are also measured. If any of us has preconceived notions, at least mine bear out. The institutions I thought would be at the bottom of such lists are at the bottom, and vice versa – those I thought would be at the top are at the top. But this is not a static situation. Movement is possible – in both directions.

2. It must use its instruments and expertise to achieve the objectives – it must make good decisions.
3. Leaders must be aware that the institution will be held accountable – it must practice transparency as a principle.
4. Leaders must utilise institutional memory and staff experience – they must learn from history and manage their wealth – their cultural heritage.

These principles also summarise the six speeches I have given at the Academy of Science and Letters: a good institution keeps promises, makes good decisions, practices transparency as a governance principle, learns from its own history and manages its cultural heritage.

And the threads are gathered here. Today's speech seeks to encompass all the themes in one frame. The lessons learned from Norges Bank's first 200 years and the criteria I just cited are useful both in Norges Bank's daily work and in making longer-term assessments. I would argue that these general principles apply to other institutions too, whether legal, cultural or educational. Decisions that are made in these institutions determine whether a country's citizens can live a life of freedom and prosperity.

## Institutions in the Arts – On Fixing the Ephemeral

### Tom Remlov, Norwegian National Opera & Ballet

I would like to begin with two images:

World-renowned choreographer Jîri Kylian is perhaps the artist who has had the greatest individual influence on international dance in the past decade. And as he recently stated, he has found a home with us at the Norwegian National Opera & Ballet. He has found a venue for his works and a place he feels both cared for and challenged – in short, a place where he can develop. Some years ago, in an interview in the *Financial Times*, he related his encounter with Aboriginal dance traditions, and the answer he received when he asked the oldest man he met *why* he danced: “Oh, it’s because my father taught me and because I have to teach my son.”<sup>1</sup>

Hold on to that image.

I have been invited to represent the arts in today’s discussion, to talk about the institutions of culture. As my home is the dramatic arts, I intend to use them as my thematic anchor. This is underlined by my second image:

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<sup>1</sup> Jîri Kylian: I saw on television an Aboriginal dance called *The Hunter and the Animal*. I just fell for it completely and then I thought I should go and study with them. Dance is their way of life. We organised the biggest dance festival of Aboriginals ever held. It was held on Groote Island in Australia’s Gulf of Carpentaria. I asked this old man, “Why do you dance?” And he said, “Oh, it’s because my father taught me and because I have to teach my son.” I was stunned. He saw himself as a part of a chain and with one hand he holds his father and with the other, his son – it’s a constant stream of creating and teaching and passing on knowledge. It’s the only truly living culture that I know because the culture is evident only when they perform it, when they tell the stories, when they do their dances, because nothing is written.

Interview with Alistair Spalding in the *Financial Times*, London, 28 November 2009

The Swiss actor Bruno Ganz, known to many here from his role as Hitler in the film *Der Untergang*, wears a large diamond ring on his right hand. This is the Iffland ring, a ring commissioned by and bearing the portrait of the German actor and theatre manager August Wilhelm Iffland. Upon Iffland's death in 1818, he bequeathed the ring to the man<sup>2</sup> he considered to be the leading German-speaking actor of the time, with the express instruction that he in turn bequeath it in the same manner. The ring has now been owned by nine generations of actors, and has become, well, an institution. It is today administered, or protected, by the Austrian government, although the current owner always has the exclusive right to pass it on.

At first glance, the two images appear to express the same thing – both are about fixing something which by its very nature is ephemeral. However, let us briefly take a closer look at them.

The first image describes an art form – dance – that is kept *alive* through performance and memorisation. As I understand it, this happens in a framework of ritualised gatherings, in the framework of a tradition that developed in the twilight of history.

The second image tells the story of an art form – the actor's art – that is being upheld. Yes, it is *upheld*: its status is protected by illuminating its history, by establishing or perhaps even *invoking* a tradition beyond its known origins.

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<sup>2</sup> The ring can only be inherited by men.



This is the Janus Face of the arts, and summarises their bisected and yet united *raison d'être*. They live and move between tradition and provocation; provocation in the sense of “evocation” or visualisation.

One side of the face is the *development* of the art form. As a constant, the institution becomes a meeting place for the past and the present, where the known facilitates the unknown, a place where the individual characteristics of the art form can be both maintained and continued. Continuity ensures refinement. Tradition must be mastered before something new can be created. To recast an old saying, the point is to conserve in order to change. Or, put another way: I expect that the Aborigine’s son will not dance exactly the same dance as his father.

To institute may mean to *facilitate*. A better, albeit looser, definition may be *to create space for*.

This is what an institution is – a framework.

In our context, this means a framework that protects the ability to take risks and ensures diversity and continuity.

By definition, institutions have access to guaranteed or predictable resources although this guarantee often seems debatable. This allows us to take risks. Risk-taking is the essence of the arts. Even pure entertainment pieces constantly aspire to something hitherto unseen. When a concept fails, as often happens, the institution will hopefully have both the funds and muscle needed

to patch any holes and compensate for losses on other fronts. We can strive to create the very finest works and let quality be the final decider.

This was how the precursors of our modern institutions arose. They were protected by a monarch and tasked with enabling leading artists to praise the monarch by creating the very finest works. Accordingly, the greatest talents have always had an almost paradoxical form of freedom, as in the case of the court jester.

But, do they have this freedom today?

A question that is regularly asked in Western cultural life is whether large institutions like ours are the best venue for the outstanding individual achievements that lie at the heart of all art. Are personal expression, the individuality of the creative process and the willingness of the artist to take risks and explore, not subordinate to the machinery of production and political, financial and regulatory interests? Would the Aborigine survive in our house? In short, don't institutions result in *institutionalisation*?

Clearly they do. That is why perhaps my most important task as the head of such an institution is to encourage attitudes to counteract such tendencies, both internally and among our public and our owners. Nevertheless, underpinning all this is an absolute belief in the importance of the institution *precisely as an institution*.

This leads us to the other side of the Janus Face.

Qvigstad put it like this: “Inclusive institutions do not forget why they exist: they remember that their purpose is to serve the people.” He also used the term *social objective*.

An institution protects the place of an art form in society. It provides a buffer against economic cycles by legitimising the art form, by presenting a clear, convincing case that the art being created is beneficial, not to mention *useful*, to society.

Our new home at Bjørvika in Oslo is a particularly apt illustration of this. We have been given a new building that was both intended as and has become a landmark for the entire nation. Not only has it generated renewed, increased interest in opera and ballet, but it has also given modern Norway a new, important identity marker. The building “serves the entire nation”, with crowds swarming on its roof every single day. In this way, it also serves as an unavoidable reminder of the connection between heritage and the past and obligations and the future. To complete the picture, I would ask you to consider the sculpture of Kirsten Flagstad – not particularly beautiful, but nevertheless – displayed in the plaza in front of the new building. Turning from Ms Flagstad on her plinth to face the towering opera house is a particularly satisfying exercise – it is a movement from *talent* to *monument*.

This alone, however, is insufficient. The crucial question is what happens *inside* the building, to what purpose it is put, what the institution *does*. This quickly leads to a further question: “Does the building really serve the *entire* nation?”

Here is the dilemma confronting national arts institutions throughout our Western culture, indeed, soon, across the entire globe: How can we simultaneously give priority to both quality *and* breadth? How can we combine exclusivity and diversity? How can we show that what we create *is* in fact of common benefit?

These questions generate considerable internal conflict in many institutions. Here in Norway, the most high-profile example is probably provided by us, the Opera. Exceptionally talented people, including technical staff with their specialist expertise, quickly see threats to their artistic freedom in the many other considerations inherent in public relations work, political legitimisation and funding initiatives. We are accused of having become a community centre; that we exist more for the population at large than for art.

My personal view is that this has created a more stimulating position for our institutions than we have had for a long time. The point is that we are subject to real claims, from various sources, and few things stimulate greater vitality – just as in one’s personal life. We cannot take our existence for granted. Not even an institution as weighty as the Norwegian National Opera & Ballet can content itself with defining its own role. Our owner has a political programme. Our funding presupposes extensive contributions from the private sector. We have a media landscape in which national institutions no longer can dictate their own terms. We have to conquer our place in the society of which we are a part, every day. The pre-millennial mantra on the absolute independence of art now appears a spoiled illusion. Society does not exist for us. It is the other way around.

This situation is aptly summarised by the term *social objective*. At first glance, the phrase appears to be simply a neologism for what used to be called “mission”. However, it is quite differently powerful: applied to artistic work, it falls somewhere between the market orientation of Anglo-American liberalism and the centralised instrumentalism employed by totalitarian regimes. Of course, this also means that the phrase both splits and unites across traditional political divides. But when even the Deputy Governor of Norges Bank uses it without blinking, I feel confident in employing it myself.

The phrase “social objective” first entered the Norwegian vocabulary in the early 2000s, and expresses a new mindset in our European understanding of society. For cultural institutions, it implies that it is no longer sufficient to claim legitimacy by reference to artistic results, or even public support. We have to make it clear, not least to ourselves, that we have accepted an assignment. And the assignment is issued by the community. In this context, not even today’s much paraded ideal of “accessibility” – used to renew British cultural policy, for example – is adequate. Nor is our Scandinavian requirement of “relevance”.

In my view, the crucial issue is *participation*, i.e. assuming an influential role in the society of which the institution is a part. This means engaging actively with all other social stakeholders, be they private businesses, political institutions, the media, NGOs or the surrounding cultural community. It means, for example, participating in symposiums like this one. Above all,

however, it means exposing oneself to demands and expectations from all levels of society.<sup>3</sup>

The paradox is that institutions such as ours have their origins in this concept of participation. They were established with the conviction that art has a role to play.

This is perhaps illustrated most clearly in the dramatic arts, which have their roots in ritual, in society's need to institutionalise – i.e. to fix, or maintain – its history and norms, and to establish a foundation and generate support for a common future.

In his seminal work “Æschylos and Athens”, the British professor George Thomson – perhaps today's leading expert on the culture and politics of antiquity – wrote the following:

*“... In his religious policy Peisistratos<sup>4</sup> was pursuing a consciously realised objective. The same is true of his attitude to drama. When he instituted (note the word “instituted”, i.e. created an institution) the tragic contests, his aim was not merely to gratify the tastes and interests of the Athenian merchants and artisans, but to use the art form which the people had created, as a means of raising their cultural level and welding them into a nation (my emphasis). Just as the new art-form was an expression of the progress already made, so under his*

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<sup>3</sup> For further discussion of the term “social responsibilities”, see my article “Å finne sin plass” [Finding one's place], Samtiden nr 1/2012.

<sup>4</sup> The enlightened tyrant, i.e. the head of state, who ruled in Athens during most of the period between 561 and 527 BC.

*direction it became a stimulus to further progress. Athenian tragedy was from the beginning inseparably bound up with the material and social advancement of the Athenian people.*<sup>5</sup>

Here, there can be no doubt as to the social objective. It is this objective that has given us what is still considered the most superior of all the dramatic forms – the Greek tragedy.

Nevertheless, could an institution have such a plain and unadulterated objective today?

Yes, it could. Det Norske Teatret (The Norwegian Theatre) celebrates its centenary this year, which of course has invited examination of what kind of institution this really is.<sup>6</sup> In this respect Alfred Fidjestøl's excellent anniversary book "Trass alt" [In spite of everything] makes for very interesting reading. The institution was born in response to linguistic conflict between Danish and Norwegian, and was intended to counter perceived colonialism in the form of a foreign culture represented domestically by the institution Nationalteatret (The National Theatre). This struggle for a uniquely Norwegian language was held up as the instrument for the construction of a new nation, and ever since the author Hulda Garborg first proposed a theatre of this kind, Det Norske Teatret has laboured to pursue and conform to this linguistic programme. Moreover, during the Second World War, the institution

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<sup>5</sup> George Thomson, *Aeschylus and Athens*, p. 182, Lawrence and Wishart, London, reprint 1980.

<sup>6</sup> Today there are two Norwegian written languages. One has its roots in Danish, which was the administrative written language when Norway was a part of the Danish-Norwegian Union. The other written language has its roots in Norwegian dialects "untouched" by the Danish influence. Det Norske Teatret (The Norwegian Theatre) uses the dialect-based Norwegian.

was challenged in an entirely new way – probably facing what Qvigstad has referred to as a *defining moment* – and barely succeeded in defending its position as an institution in which the nation could have confidence after the war. In other words, it “found itself”. “The choice of name was of course a strategic move in the battle for ownership of ‘the essentially Norwegian’”, writes Fidjestøl. He goes on to say:

*Arne Garborg [influential Norwegian author and language activist, and Hulda Garborg’s husband], who in his diary called The National Theatre “The Un-national theatre”, was the author of the two-nation doctrine, the idea that the country consisted of a Danish-Norwegian nation and a Norwegian-Norwegian nation. From this perspective, Det Norske Teatret was a link in the chain of the institutional establishment of the Norwegian-Norwegian nation.<sup>7</sup>*

Precisely – institutional.

Incidentally, Det Norske Teatret developed out of Hulda Garborg’s travelling troupe of semi-professional actors (Det Norske Spellaget), just as the theatre of antiquity was preceded by Thespis and his wagon of entertainers. Her central role illustrates the underlying ideology:

*Her life’s work and career linked the foundation of the theatre with the political processes that marked the country in the decades preceding 1913 and out of which the theatre grew: the increasing power of farmers, the fight for control of the Norwegian language, the battle for*

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<sup>7</sup> Alfred Fidjestøl, “Trass alt”, Samlaget, 2013, p. 79.



*democracy, the dissolution of the union with Sweden and the Modern Breakthrough.*<sup>8</sup>

It is easy to recognise Peisistratos' project in this, I think.

In other words, Det Norske Teatret was always intended to be an educational project, as it remains to this day. At the same time, this mandate has exposed the theatre to a particularly clear version of the recurring challenge faced by institutions today: "The theatre was an ambiguous project," writes Fidjestøl. "[I]t had two agendas; it was at one and the same time to be a theatre and an agent for a political programme of linguistic change."<sup>9</sup>

This, as you will have gathered, is in fact where the rest of us also find ourselves. There is artistic freedom and there is the legitimacy of the institution.

For my own part, I think I have made my position clear. But I admit that the problem will not disappear.

"The time is ripe for large arts institutions to be given new cultural policy objectives and a different basis of legitimacy," said Professor Anne-Britt Gran in *Dagsavisen* last week, adding: "I am sure the institutions would be motivated if they were allowed to formulate some of these objectives themselves."<sup>10</sup>

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<sup>8</sup> Ibid, p. 199.

<sup>9</sup> Ibid, p. 198.

<sup>10</sup> *Dagsavisen*, 7 November 2013.

Professor Gran represents an increasingly vocal position in the current cultural policy landscape which – apart from the somewhat patronising professorial tone in which it is expressed – is a useful corrective. Would our institutions secure their legitimacy by pursuing an exclusively artistic programme, where we were no longer expected to reach a *broad* audience but primarily to secure a sufficiently *large* audience – and corresponding income – irrespective of demographic, not to mention democratic, composition?

It is clear that quality legitimises. For artists, this must be paramount; there can be no argument about that. Nevertheless, the following question remains: “Will this suffice – to give body to that which can otherwise only be imagined, in other words: to fix the ephemeral? Has the artistic institution then fulfilled its role?”

I do not think so. But the question needs to be posed – time and again.

And now I have posed it here.

## On institutions – Fundamentals of confidence and trust

### A commentary

#### Aage Thor Falkanger, Supreme Court

Today's topic is institutions, and in response to Deputy Governor Qvigstad's comments, I want to reflect a little on the judicial system and the Supreme Court in particular.

Among other things, an institution is characterised by the fact that it is greater than the sum of its individual parts. This is due to its formal and practical expertise and, not least, acquired trust – what Qvigstad called “social capital”.

A common means of building trust is to introduce rituals intended to support and reinforce the importance of the institution. Following the establishment of the Supreme Court in 1815, a tradition was introduced whereby two heralds and a contingent from the corps of chasseurs rode around town proclaiming the opening of the court session. All well and good until 1840, when the minister of finance announced that he no longer wanted to pay the 22 *spesiedalers* the procession cost.

I do not know whether his intention was to put an increasing self-assured state power in its place. Presumably, he simply thought that the money could be spent more usefully elsewhere. That was probably sensible. Nevertheless, rituals remain important in the Supreme Court, although they have been somewhat toned down.

Based on my perspective from the Supreme Court, I want to comment particularly on two key points in Qvigstad's comments: the tasks and objectives of the institution and the importance of independence in its work.

Like Qvigstad, I would like to include some historical reflections. In 1965, professor of history, Jens Arup Seip, wrote that, “*lawyers are in eternal flight from their history*”. I have never really understood that sentence. Generally speaking, lawyers are quite interested in history. I prefer the historian Norman

Davis's proposition: "*When lawyers write history, they are generally the heroes*".

## Tasks and objectives

Today, Norges Bank's mandate is to conduct monetary policy using an inflation target which is set at 2.5 percent. The Ministry of Finance has set a marker on the horizon that is to be reached, but left it to the Bank to determine what course it should adopt to achieve it. The Supreme Court has not been given such a clear objective.

When the Supreme Court heard its first case on 30 June 1815, the lawyers who appeared before it – Morgenstjerne and Hielm – stated that the Supreme Court should find "*equitable solutions to disputes between parties*", and "*protect the innocent and punish violence*". Although these statements seem straightforward, they conceal some difficulties.

The Supreme Court must of course pronounce judgment in accordance with the law, but often neither legislation nor other objective sources of law can provide answers. In such cases, we have to search for good and fair solutions.

Not infrequently, there is tension between what is fair to the parties in a specific case and what would be a good legal rule for society. What should the Supreme Court choose in such cases? In this context, a fixed guideline – like the 2.5 percent target – would be helpful.

Throughout legal history, attempts have been made to establish clear objectives: the will of God, natural law and utilitarianism. Various attempts have been made to define the latter more precisely, for example as the greatest possible total human happiness or the largest possible number of happy people.

Judges face the difficulty that their objectives are not definitively established. Instead, we constantly have to switch between an individual perspective and

that of society as a whole. On the other hand, this reinforces our robustness to criticism.

In the past, if Norges Bank did not have sufficient silver and gold to meet its obligations, it was clear that it had failed in its duties. The same applies today if it grossly misses the inflation target of 2.5 percent.

In response to the criticism that the Supreme Court was holding back social development through its judgments in the period 1910–1930, the judges could argue that they were protecting the interests of the individual. In the 1950s and 1960s, if critics pointed out that a decision was unfair to one of the involved parties, the judges could maintain that they were taking the need for social development into account.

Justice Oliver Wendel Holmes opposed slavery, and during the American Civil War suffered life-threatening injuries three times after enlisting with the North on idealistic grounds. Surely *he* had some kind of guiding principle as to what decisions produce good solutions. Well, listen to this:

*“I am so sceptical as to our knowledge about the goodness or badness of laws that I have no practical criticism except what the crowds want”*

And further:

*“If the people want to go to hell, I will help them”*

In other words, he was a sworn adherent of the popular will. Fair enough. However, a problem arises when a majority wants to send a minority “to hell”. It is such situations that can give rise to “defining moments”, as Qvigstad called them.

The US Supreme Court experienced such a moment when it heard the “segregation cases” of the 1950s. It had to review laws stating that the different races should be “separate but equal” – each with their equally good benches, equally good schools, etc. The popular will as expressed through

these laws had placed the US in a predicament, and a “defining moment” occurred when the Supreme Court set aside the laws, bringing the nation back on course.

Here in Norway, an institutional “defining moment” arose when the Supreme Court first found, in 1866, that the courts have a right and duty to review whether laws conflict with the Constitution. A similar moment probably occurred when the Supreme Court decided, in the *Kløfta* case in 1976, that constitutional review remained a reality despite lying dormant for many years.<sup>55</sup>

It is difficult to find other examples in Norwegian law that mirror the segregation cases, i.e. situations where the Supreme Court truly rescued the nation from a predicament created by the legislature. Rather, I would highlight as “defining moments” certain decisions in which the law was upheld and that facilitated positive social development.

The first case I would like to mention is *Hjemfallssaken* [the Reversion case], from 1918.<sup>56</sup>

The majority of the Supreme Court refused to grant the landowners compensation. Their reason was that, I quote, “*Ownership per se does not confer on an owner greater possession than that resulting from the legislation applicable at any given time*”. With this decision, the Supreme Court paved the way for the development of the welfare state we have today. In other words, this was a “defining moment”.<sup>57</sup>

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<sup>55</sup> The *Kløfta* case concerned the terms considered to be just compensation to a previous owner of a property when that property is subject to expropriation by the state.

<sup>56</sup> The *Reversion* case concerned an act providing that the state could include, without paying compensation, a condition in waterfall acquisition licences stating that the waterfall rights would revert to the state after 60 years. From a social perspective, it was of course extremely important to ensure national control of these assets, but the owners suffered a reduced sale value. The question was whether owners were entitled to compensation under Article 105 of the Constitution, which protects ownership rights.

<sup>57</sup> “It may be unreasonable for the legislature to restrict ownership rights to such an extent that the object in question loses practically all of its value to the owner... but an owner cannot bring any legal claim for compensation under Article 105 of the Constitution.”

Before this audience, it is also natural to mention the gold clause case from 1962. A number of bearer bonds from around the turn of the century entitled the bearer to payment in Norwegian krone, which at the time could be redeemed in gold. However, an act from 1923 suspended the right of bondholders to payment in gold for as long as the krone could not be redeemed in gold, as was now the case. The question was therefore whether this act contravened the prohibition in the Constitution on giving legislation retrospective effect.

If the answer was yes, it was clear that the case could have dramatic consequences for the monetary system in general. The Supreme Court stated that such a judgment would “... *intervene in, complicate or perhaps render impossible the state’s efforts to maintain an orderly and, insofar as possible, stable monetary system, something which is of fundamental and critical importance to all of society...*” Since “*the vital interests of society*”, as it was put at the time, were at stake, the Supreme Court found that the interests of bondholders had to yield. The opposite result would certainly have been “defining”, albeit in a negative sense.

## Independence

Command of institutions confers power. This is also true of the judicial system and was, of course, the reason why the kings of old sought direct influence over “Lagting” assemblies<sup>58</sup>, a step King Sverre<sup>59</sup> achieved by making the Lagting’s law speaker a royal official. This ensured that judgments were handed down in the King’s name, which formally remained the case in both lagting assemblies and other courts until the adoption of the Constitution in 1814.

In the spring of 1814, the Constitutional Committee formulated 11 precepts. One of them stated that the judiciary should be independent of the legislature

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<sup>58</sup> The Lagting was in the old Norse days an assembly (“ting”) of representatives from a specific region (“lag”) of Norway under common laws. Originally the Lagting both produced laws and made court decisions.

<sup>59</sup> King Sverre was the King of Norway 1177-1202.

and the executive. Although Article 88 of the Constitution states simply that the Supreme Court pronounces judgment in the final instance, the history and location of the provision show that the Supreme Court was intended to be independent of the other state powers.

As stated by Qvigstad, Article 75(c) on the organisation of the monetary system constituted severe criticism of the monetary policy pursued by the Danish King. We cannot say the same regarding Article 88 and the principle of Supreme Court independence. Ever since the mid-1700s, the Danish-Norwegian Supreme Court had in reality been independent of the King. However, unlike its sister institution in Copenhagen, the Norwegian Supreme Court was granted its own seal, and lawyers addressed its judges as “the highest judges of the Kingdom of Norway”, not as the King’s judges.

Unlike Norges Bank, the Supreme Court was not sent to Trondheim or a similar location to create distance from the other state powers. On the contrary, the Supreme Court shared premises with the parliamentary Lagting.<sup>60</sup> The president of the Lagting was required to give the chief judge appropriate notice when the Lagting required the hall for its proceedings. Fears that this arrangement would undermine independence were apparently not realised.

All the formal independence in the world is of no use if the judge is what a Swedish professor has called, “*a person sensitive to gusts of wind*”.

In modern times, we have seen examples of courts suffering institutional collapse due to a lack of power to resist such gusts of wind. While Qvigstad described hyperinflation as the “death of money”, we can talk about the death of integrity in the context of the courts.

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<sup>60</sup> The Storting (Norwegian parliament) had two chambers, the Odelsting and the Lagting. The Lagting was the quasi-upper house of the Storting 1814-2009. It got its name from the old Norse institution “Lagting” (see footnote above). The library of Oslo Cathedral School in Dronningensgate.



The author Sebastian Haffner tells a powerful story in his low-key and largely overlooked book, *“The Story of a German”*. He served in a German court in the early 1930s, and relates how proud, honourable judges gradually bent their necks, departing from their ideals under the Nazi yoke. Simply put, their backs could bear no more.

Formal independence may help, but will never be a guarantee against such collapses. It seems we must put our faith in strength of character. Here, as elsewhere, Ibsen hit the nail on the head. I quote:

*“What the country needs is not the nobility conferred by money, nor the nobility conferred by birth, nor the nobility conferred by knowledge, nor that conferred by ability. What we need is nobility of character, nobility of the mind and will.”*<sup>61</sup>

Law speaker Mandrup Schønnebøl is one of my heroes. He took up his office in Hålogaland in the mid-1600s, when witch-burning was at its peak, not least in Finnmark. Not only the King and his officials, but also the general populace, were pressing for the conviction of alleged witches. At lagting assemblies in fishing villages, Schønnebøl acquitted a number of persons accused of witchcraft. He employed advanced legal techniques<sup>62</sup> in doing so, and the practices he introduced marked the beginning of the end of such proceedings, not only in that part of the country but also elsewhere in Norway.

He must have had unusual integrity to resist the prevailing agitated mood. Note that the lagting assemblies of the time were held outdoors, with large crowds in close attendance. Apart from a largely symbolic fence, there was no buffer between the law speaker and the crowd. He had no office in which to hide.

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<sup>61</sup> The noble element. Speech to Trondheim labour association, 1885. (Woman and workers.)

<sup>62</sup> In many witch cases, the accused was put under torture to reveal accessories. Under severe pain she (or sometimes he) would randomly point out persons. In order to avoid such persons being sentenced, Schønnebøl applied an old statute saying that immoral or convicted witnesses was not to be trusted. As the witch pointing out accessories was already convicted, she fell into that category. Hence her testimony was set aside.

This brings me to another point. Independence is often thought of in relation to the other state powers. That is important, but so is independence from other interests. As a judge in today's Norway, it is not too difficult to give judgment against the state or other major stakeholders. Such parties "note the judgment", as it is often put. That is the very least they should do, but the point here is that the pressure exerted by many small stakeholders can be far greater, both before and after judgment is pronounced. Social media increase this pressure further, and we have only seen the start of developments in that field.

As judges, we have to monitor social media to avoid becoming unworldly. However, our distance from critics has also been reduced. We have excellent opportunities to understand society, but also have to be stronger than before. We must avoid becoming populist. The small and numerous are not always right, even if they enjoy press support. This presents real challenges. Here too, we require nobility of character, as Ibsen put it. My hero Schønnebøl had precisely that.

In the mid-1800s, a debate raged about whether Supreme Court voting should be made public. Opponents of such transparency pointed out that it could reduce a judge's peace of mind if he had to take his public reputation into account. They were probably partly right in that regard!<sup>63</sup>

Nevertheless, as supporters of transparency said: A man who risks losing his peace of mind in this way should not have a seat on the Supreme Court.

I will let those be my closing words.

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<sup>63</sup> Langeland, p. 369.

## **Views and perspectives—Lightly edited minutes from the debate**

### **Steinar Tjomsland, Supreme Court Justice**

About a year ago, I was on my way to a doctor's appointment in the centre of Oslo when I met Svein Gjedrem, Secretary General at the Ministry of Finance. In the course of our conversation, he expressed his dissatisfaction with the restoration of the Ministry of Finance building following the bomb explosion 22 July 2011, which was proceeding at a much slower pace than the restoration of the neighbouring building, which houses the Supreme Court. That's because the Supreme Court is different and independent, I said. That may be, but the same could most definitely be said of the Ministry of Finance, replied Gjedrem. No, I said, it's not that simple. Your rebuilding project is the responsibility of the Ministry of Reform and couldn't possibly be as efficient as the rebuilding of an institution like the Supreme Court that is not under a ministry.

And that is a characteristic typical of institutions – they are different. And I mean institution in a fairly narrow sense of the word. Some of the speakers before me used the word in a very broad sense, almost as broad and clarifying as Thorvald Stoltenberg<sup>64</sup> did when he explained who the Serbs were. We are all Serbs, he said. So we could perhaps say that we all are, or represent, institutions, though I suppose it's not that simple.

Typical institutions share some similarities. What first springs to mind is that institutions devote considerable effort to writing their 200 years of history. A

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<sup>64</sup> Thorvald Stoltenberg is a former Norwegian politician, who held the post of Minister of Foreign Affairs and Minister of Defence. In 1990, he was the UN High Commissioner for Refugees and in 1993 he was appointed Special Representative of the UN Secretary General to the former Yugoslavia.

significant number of those present today are, or have been, busy with these bicentenary projects. There will be a large number of history books when the work is completed.

One organisational characteristic of institutions is that most of them are managed by a board, the members of which are only known to a few people. On the other hand, they are typically headed by a more or less charismatic person known to many. Another feature that currently also applies to institutions is the demand for transparency. Today, a closed institution does not, at least metaphorically, sound good.

The basic issue for institutions is their relationship to the central political authorities, the question of independence. This question arises in different forms for the different institutions. We might refer here to the three institutions that are particularly strongly represented among the meeting participants here today: Norges Bank, the University and the Supreme Court. If we stop to think what form the question of independence takes for these three institutions, it is easy to see that different issues and different considerations arise. But at the same time, all three institutions protect their independence as best they can, they wave their banner of independence, or perhaps they have to make do with a pennant.

Analysis of this independence could perhaps be the subject of a scientific project, so that these institutions could be studied in context. But perhaps the project would only produce generalities. Even so, the view that the issue of independence, and how differently it affects the different institutions, can easily be undercommunicated, is of considerable interest. But the issue of

whether maximum independence for all institutions is necessarily desirable is easy to forget. Everyone is fond of their own institution. But is as much independence as possible the best thing? Shouldn't institutions work to fulfil the responsibility assigned to them – monetary protection, legal protection, environmental protection, protection of our cultural heritage etc. And isn't it in the final instance an advantage to have an agency to coordinate them all?

Most of us here today are old enough to remember the Norwegian poet Alf Prøysen. And we remember the lines from one of the songs he wrote: «It's the sixth time, not a grand celebration, but it's the sixth time». It's the sixth time this seminar has been held. It's the sixth time Jan Fredrik Qvigstad and his hand-picked co-speakers have delivered their inspiring speeches. Well done!

### **Stein Evensen, University of Oslo**

I noticed that the Deputy Governor spoke at length about responsibility and confidence. And this is only right and proper. He also spoke about the difference between the abstract and the concrete, and I thought: what is the scope of responsibility and confidence in this context? Unless my memory forsakes me, one of the main points was that Norges Bank would be responsible for monitoring the country's monetary system. For us amateurs, far outside this sphere of power, we might perhaps say that confidence in the banking system will, for most people, be completely different from confidence in Norges Bank. I am sure many people have great confidence in Norges Bank, but confidence in the banking system as an institution seems to have run aground on a number of occasions, particularly in recent years, and this is a serious problem. And I wonder, since we have representatives of the central bank here, what is the actual scope of the responsibility imposed on Norges

Bank for monitoring the country's monetary system, and by this I mean beyond the central bank itself, beyond the banking system, which, at least for many people, is associated with strange and misleading behaviour, financial acrobatics and many instances of bad advice given to customers, all of which have undermined confidence. This is my question.

### **Ola Mestad, University of Oslo**

I have two comments to the introduction: The first is that we have now heard about institutions without really hearing about what jurists know at the back of their minds to be the real *Institutiones*, i.e. Roman law. Roman law is structured according to the institutions. Gaius' institutions are the key to understanding how society operates. Gaius' institutions, on which the fundamental work on institutions *Corpus Juris Civilis* is also based, are divided into three parts, i.e. persons, things and actions. These three provide a structure for society. Society comprises these three: persons, which include what we have referred to here as institutions – judicial persons; things, the material world surrounding us; and actions. These, I believe, are the original institutions. So, even if all institutions mentioned were denoted as historical, eighteen hundred years of prehistory would still be missing. My second comment relates to the type of actions we have heard about concerning the reliability of the legal system, in contracts and their enforceability, and the link between Qvigstad's foils showing growth in gross national product in the UK, the Glorious Revolution etc., and the solidity of the legal system. If we turn to the Norwegian Supreme Court in the 1800s, this court is more solid when it comes to the reliability of a contract than the courts of England. Norway may have had the strictest interpretation of the binding character of contracts. This can be verified by comparing court rulings and also judicial theory where

Professor Oscar Platou (1845-1929) stated that Norway in these areas went further than England. In Norway the binding rules of natural law were applied to contracts as early as the beginning of the 1800s. I have been thinking that one of the reasons for Norway's strong economic growth in the 1800s is that we had such strong confidence in contracts. We have heard Aage Thor Falkanger say that the Supreme Court could always shift between an individual's interests and the interests of society, and I think that through the 1800s, as implied by what he said, the Supreme Court was heavily inclined towards the interests of the individual. An individual who committed to something was really bound by that commitment. And that formed the basis of the Norwegian economic recovery. Similarly, one could say that things began to slip when the Supreme Court began to give more weight to the interests of society. Did this lead to the crisis in the interwar period? Well, I don't think it's that simple. But it is remarkable at least that contractual freedom as an institution is enforced more strictly in Norway than in England, and coincides with economic growth.

### **Fredrik Sejersted, University of Oslo**

Once one professor of law has broken the ice, it's easier for another to follow. I have two comments. My first comment is that since we now have a main title «On institutions», and we have heard reflections on three fairly dissimilar institutions – Norges Bank, the Norwegian National Opera & Ballet and the Supreme Court – it is a little strange, especially since we are in an academic forum, the Academy of Science and Letters, that no-one so far has mentioned that the study of institutions is actually an academic discipline, *institutionalism*. I am now moving outside my own academic field. But institutionalism is, if I have understood it correctly, a branch of political

science. It developed, as far as I know, in the postwar period as a reaction to previous schools of thought that focused on other aspects, such as the importance of resources, the importance of the individual, and so on. Then *institutionalism* emerged, and I think there is even something called *new institutionalism*, or *neo-institutionalism*. And the focus is the importance of the way institutions shape society, and institutional inertia, for social development, which is the theme today.

But as I know nothing about this, I will simply raise the point. Perhaps it might provoke the political scientists in the audience to delve a bit further into the shaping of institutional frameworks.

My second comment applies to the institution of the three presented here today that I as a jurist feel most closely related to, the Supreme Court. In Norwegian history, the Supreme Court is both a distinctive and a unified institution, at least in recent history. The Supreme Court has many distinctive features. Aage Thor Falkanger mentioned the heralds, which are now gone. But anyone with some knowledge of the sociology of law knows that the Supreme Court still has its routines and peculiarities, such as only serving tea in the lunch room, not coffee. The justices live a rather secluded life there, not only from the rest of society but also from the rest of the world, of lawyers. It is a closed institution living a life of its own in that strange and impressive building.

This institution has until recently been perceived as unified. The Supreme Court has generally reached a unanimous decision on major issues, even though there have occasionally been dissenting votes. Former Justice Leivestad (born 1907), for those of you who remember him, often dissented,



and the present Justice Skoghøy has dissented frequently in recent years. But the Supreme Court has nonetheless been perceived as unified and as a sociologically relatively homogeneous group, largely resident in the west Oslo district of Røa or thereabouts.

Falkanger referred to *defining moments* in the history of the Supreme Court as institution. He highlighted the establishment of the judicial power to review legislation in 1866 and various landmark rulings in the course of the past 100 years. My question, which is meant as to provoke a response from the justices present, is whether October 2013 shouldn't enter the annals of the Supreme Court's institutional history as another such defining moment. The question is whether the fishing quota ruling of October 2013<sup>65</sup> will be a milestone in the history the Supreme Court, marking a turning-point from a unified to a no longer unified institution. We have seen a change in recent years, where dissenting opinions are no longer only an occasional occurrence. There is now a clear dividing line straight through the Supreme Court, which has been evident in a series of judgements. The clearest example ever experienced occurred a few weeks ago in the fishing quota ruling, where in the plenary judgement the Supreme Court was divided 9-8. The fact that one of the justices recused himself and stepped down from the bench as his daughter had presided over the case in a lower court may have influenced the outcome. This is a matter for speculation, but I will not pursue it further here. But the ruling could very easily have gone the other way. And this reflects the fact that the

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<sup>65</sup> The Storting adopted a law in 2007 stipulating that the fishing quotas should not be perpetual. This law also applied to existing quotas. A trawler owner owning such a quota sued the Government claiming that this law violated paragraph 97 of the Constitution which states that no law must be given retroactive effect.

Supreme Court, for the first time in its history, at least on the surface, appears to be an institution deeply split within itself.

### **Øivind Andersen, the Norwegian Academy of Science and Letters**

I would like to add some comments to Tom Remlov's words about the classics. It was a pleasure to hear some paragraphs from George Thomson, a great writer. Thomson was also the most fanatical Marxist among British classical scholars of the last century. He emphasised the importance of art for the people, and all that entailed. It is, however, right to recall, if you think it is difficult to find a good public task for the opera, that for example a Greek tragedy was only performed once a year, sometimes two, but a theatre performance was usually only put on once a year, at a religious festival. There was no system of theatres, theatre was part of the religious cult, and part of a large-scale popular celebration, all in one package, quite different from down at the opera. But very inspiring of course to hear about George Thompson all the same.

Ola Mestad mentioned Gaius. There are a number of classical books with the word «institutiones» in the title. It must be very tempting for a jurist, I think, and this has even appeared in print, to believe that Gaius' institutiones refer to institutions of law, but they don't. Nor do they refer to legal institutes in a different sense. The word is very interesting, and allow me to say something about it, words are after all interesting, and the word «institutio» means establishing something, either to establish something or set up something or as established. But then a completely different meaning emerges, and that meaning is instruction or teaching. At the end of the second century AD, Quintilian wrote his twelve-volume textbook on classical rhetoric entitled

*Institutio Oratoria*, which means the instruction of the orator. Lactantius wrote his seven-volume *Divinae Institutiones*, which is not about divine institutions or about church institutions. It was written in the early 300s and is an introduction to Christian theology. And Calvin's most famous theological work, written in 1559 I think, is called *Institutio Christianae religionis*, and is an introduction, a basic course, in the Christian religion. Gaius' *institutiones* are also this kind of basic course. So, we are not talking about institutions, but about *institutio* or *institutiones* which in the classics primarily means instruction – thank you.

### **Christian Syse, Ministry of Foreign Affairs**

I represent the Ministry of Foreign Affairs and can identify with the fondness, Jan Qvigstad, that you feel for your institution. I would like to thank you for conveying that, which was a regale in itself. Yet, I am not entirely in tune with the speakers who expressed what I might qualify as excessive institutional optimism. In academia, there is a strand of institutional pessimists, where the most extreme would argue that the decay of western society is due to the decay of its institutions: where institutions depart from their social task and lose their educational effect on society, and only exist to serve the needs of the bureaucracy and its own employees. It occurred to me when the new finance minister presented the supplement to the Budget proposal the other day, one representative after another voiced the opinion that the budget proposal was deplorable, and engaged in harsh and censorious discourse. But the reality is that the proposal includes only marginal changes in the lavish flow of spending raining down on the Norwegian population, including the latest proposed allocation of NOK 35.6 billion to my own ministry. My question is whether institutional optimism is too high, even in Norges Bank, or is it in fact

the case that bureaucratisation, the number employees, rigidities, the tyranny of the status quo and employees' own needs are put first.

**Inge Lorange Backer, University of Oslo**

I would like to pick up the thread started by Christian Syse and raise a more general question: What is the situation for institutions today – is it worse or better than it used to be? More specifically, I am asking if it is getting worse. Not necessarily for the reason Christian Syse mentioned, or because they make poor decisions – institutions have always been capable of that, ultimately digging their own graves, albeit conversely they may rectify this by making good decisions. Has our society developed aspects that make it more difficult for institutions? Do institutions presuppose an acceptance of a sense of community that is less common in our age of individualisation, where emphasis is placed on bringing out the best by competing? This is foreign to the life of an institution. And when it comes to the inner life of an institution, I will disregard bureaucratisation and ask instead: Is an institution dependent on colleagues who preserve institutional memory over time? This is more difficult to achieve in an age when the goal is not to gain long experience in one institution (and qualify for the King's Medal of Merit, which at one time was a possibility), but on the contrary to advance one's career by jumping from one institution to another – perhaps the sooner the better.

**Ulf Sverdrup, Norwegian Institute of International Affairs**

Thank you for your interesting contributions. All three emphasise the importance of the duty to society and all three speakers have made some contribution to writing their own institution into the history of Norway and the Norwegian state. My question is related to two, slightly paradoxical questions

that arise in that context. First, if we look around the world, we see that Norway is very similar to other countries in institutional expression. So what constitutes the genuinely national in these expressions? That is my first question. The second is, if we maintain the view that the duty to society is an important justification, then, I would say, in the management of international policies, that what we want is international institutions. How can we ensure, and what can the contributions we have heard today tell us about, the conditions for the development of well functioning international institutions? If there is no typically international duty to society, and the duty to society is linked to the national demos? And an additional question is, if we are not going to build international institutions, how do these important national institutions, the Supreme Court, the Norwegian Opera & Ballet and Norges Bank, see their role in relation to other international institutions, whether we are referring to Norges Bank in its interaction with other banks, or the Supreme Court as an interwoven part of another international judicial system?

### **Geir Hestmark, University of Oslo**

We are in the house of science, and as a natural scientist I was slightly concerned about the inflation curve that has an uncanny resemblance to the pattern observed on the oscilloscope when the patient dies – a lot of up and down pulses and then a flat line from 2001 and forward. Hope the central bank has not killed the vigour of the economy. Anyway I perceive a certain epistemic drift in the knowledge foundations of monetary value. When the silver tax was issued in the early 19<sup>th</sup> century, people came from town and countryside to have various utensils examined for their silver content by the university professors of metallurgy and mining. Their attestations of silver content are today at the national archives (Riksarkivet). Money value was thus

based on sound natural science, on the chemical system of elements, Ag – argentum – silver, and later on gold – Au – aureum. Although of course the *market* value of silver and gold is a ‘cultural construct’ as social anthropologists would say, or – less postmodern – an agreed ‘convention’. Subsequently the foundations appear to have become softer. Qvigstad noted that one of the more recent directors of the central bank had been educated as a pharmacist. Well, that figures. The main purpose of the bank is after all to dispense calmative medicine. Then the slide continues into the soft science of economy. For those of us who had the pleasure of listening to Qvigstad’s fine lecture in this room last year, about the persistence – or rather non-persistence – of scientific truths, I must remind the audience that he then dismissed much previous economic theory as a failure. Now, the period that has passed since inflation was apparently tamed in 2001 is not a long time, and it seems pertinent to ask: do the leaders of the central bank now really think that they understand how the economy works, in other words, that they have finally found the truth?

### **Nils Holme, previously at the Norwegian Defence Research Institute**

I would like to highlight a minor issue related to Norges Bank’s activities. You have a tremendous advantage in that your understanding of reality is laid down by law, Statistics Norway. This institution has the task of presenting an X-ray of our economy, and to provide as impartial a picture as possible as a basis for political action and for the Bank’s actions. But this is quite unique. No other sphere of society that I know of has a similar, almost law-protected access to an understanding of reality that reflects the highest possible objectivity as a basis for policy. This is a very important question, of course, but the next stage in this argument is that if a task like this is assigned to an administrative

agency or a research establishment, it would have a fundamental effect on how matters were organised. There are two basic ways of organising this kind of activity or administration. One is through an administration designed to promote knowledge, where the duty to society is institutionalised, and it is a management responsibility to do what needs to be done and coordinate all viewpoints, assess them and so on, and arrive at the institution's best joint view. The other is the way that has forged ahead over the past ten to twenty years, i.e. the opposite, which is to make institutions business parks for one-person businesses. And where you are supposed to sit and accumulate so-called expertise, and then the phone is supposed to ring and the expertise of individual co-workers is displayed. For its purposes, it may have its strengths, but it does not generate a consolidated understanding of reality as a basis for political action. So I will conclude by saying, to those of you at Norges Bank, that you are in a privileged position and you should make efforts to see that others can enjoy the same privilege – thank you.

### **Karine Nyborg, University of Oslo**

I wanted to add a thought that is perhaps obvious, but I think it is useful to think of institutions as coordinating structures, structures that we establish in an effort to coordinate ourselves, quite simply, coordinate our expectations as to how things are supposed to work. Economists often think of the world as a large market where we trade at our own discretion and where trades are completed only if they are to the advantage of all parties, and so on. But sometimes, coordination is really needed. The example of the pins that Qvigstad mentioned is an example in point, I am sure that there are very many ways of producing pins, including in mass production. Who should do what and how should it be done? And to realise the gains, someone has to organise,

and we have to coordinate. And I think of institutions as structures we form to place the solution we choose out of the hundreds of ways we could have organised this work, in some area or other that we choose. So the role of institutions is to create a network of expectations where all the structures fit together and the expectations formed by this network fit together and are consistent. And with regard to confidence, if no-one has confidence in the institution, it won't function, and that is perhaps just another way of saying that if we do not expect things to function as the institution specifies, then the institution will not be a real institution, but a paper tiger. The fact that we need coordination does not, of course, necessarily mean that we will succeed in coordinating. And the fact that an institution is needed does not necessarily mean that the institution will succeed.

### **Tor-Aksel Busch, Director of Public Prosecutions**

Thank you for your interesting contributions. I would like to dwell briefly on two concepts that many speakers have touched upon: independence and the duty to society. These concepts are perhaps more closely related than they appear at first, and I wanted to share with you two examples that illustrate issues related to the question of independence. One concerns the Supreme Court: sentencing in connection with serious crimes has been the subject of intense debate for a long time. The Supreme Court had its view of correct sentencing, and chose a fairly conservative line. The Storting had a different opinion and wanted stricter penalties in a large number of areas. The Storting representatives conveyed their views in the form of supplementary documents to budget proposals etc., not in connection with legislative work. And in the Supreme Court, my office argued for stricter penalties based on the view of the Storting. The Supreme Court disregarded the will of the Storting as



expressed in this way - supplementary documents were of no interest. And this is how the Supreme Court “asked the Storting for a dance” and the Storting accepted. The result was legislative amendments with clear guidance as to the correct level of punishment. The Supreme Court’s room for manoeuvre in determining its response was considerably curtailed. Independence contra the duty to society is, in other words, an issue. And, to Steinar Tjomsland, I will be writing more about this in the Supreme Court’s anniversary festschrift when the time comes.

The other example is from my own office. Our rules state that we are required to draw up priorities for the police in their efforts to combat crime. This is particularly important as it concerns how the work itself is organised. In the 1990s, the Storting’s view of how combatting crime should be organised was regarded as the express wish of the Storting to the Director of Public Prosecutions. It was up to us whether the view of the Storting would be translated into action. And this is how the Public Prosecutions office “asked the Storting for a dance” and the Storting accepted. This could have developed into a serious crisis of confidence between the Storting and the prosecuting authority. The Storting would absolutely not accept it if the framework for combatting crime was not drawn up there as a natural part of the function of democracy. And again we see that independence and the duty to society are two sides of the same coin. We abdicate without question in the case of priorities and the Storting decides. We translate our directives from the Storting into action as far as possible. On the other hand, we fight harder than ever for independence from political interference in specific cases.

## **Hanne Harlem, Municipal lawyer in Oslo**

I would like to follow up the point raised by Karine Nyborg. She spoke about institutions as coordination mechanisms and units. And I completely agree that they are, but that is also where the danger lies. Qvigstad mentioned that it was important for an institution to remain within the bounds of its assigned task in society. What strikes me, as someone who has held various positions in society and has now returned to Oslo municipality, a municipality that has a comprehensive responsibility for everything that has to be done, is that it is problematic when many institutions are only concerned with their own activities and how to conduct them. So the way we link institutions together and coordinate them decides what they pursue. This may mean that you as someone who is supposed to carry something out have to deal with things that do not fit together at all. For a municipality that is required to comply with healthcare services legislation, safeguard users' interests and employees' interests and comply with procurement rules at the same time. And where the country governor ends up saying, yes, we know that you have to comply with public procurement rules and healthcare services legislation, but that is not our concern because our job is to safeguard the healthcare services act. The three institutions discussed here today, Norges Bank, the Norwegian National Opera & Ballet and the Supreme Court, are perhaps not very good examples, but if we use the term institutions in a slightly wider sense, there is no doubt that there is also a danger of institutions becoming too self-centred and focusing on achieving their own objectives and not wider objectives.

I would like to add a comment on something Fredrik Sejersted spoke about, regarding whether the fishing quota ruling of October 2013 will be a defining moment in the history of the Supreme Court or not. Inge Lorange Backer mentioned that individualisation has become stronger and stronger in our

society, and my issue is, I suppose, a provocation or a question for each of the Supreme Court justices: is it the case that the Supreme Court has become so focused on giving each justice the opportunity to write and express his or her personal opinion on what is right, that one forgets the institution itself and the need for such an institution as a joint body for the clarification of the law? What is important to society is not always what the answer provided by the Supreme Court is, but that they produce an answer which is clear, so the rest of society knows what applies.

## **Closing remarks**

### **Aage Thor Falkanger, Supreme Court**

Ola Mestad and Roman law, I lay down my cards and have no comment. As regards the question of whether we follow a stricter principle that contracts should be upheld in Norway and that we strictly followed this principle particularly around 1900, I would have to say that I am somewhat uncertain. The only case that comes to mind is the so-called Lockner case in the US around 1905 concerning the limitation of weekly working hours to 60 in bakeries in the state of New York. The Supreme Court ruled that this was in breach of the Constitution, invoking an economic line of reasoning that contracts must be upheld, and this is almost stretching it to the extreme. I doubt that we would have experienced anything similar in our country. I would also add that the Lockner ruling is considered to be an extremely conservative one, but at that time it was seen as highly radical and was a step in liberating the people from the prince, the king or whomever it might be, who governed people's lives in detail, something that was wholly unwanted in the US. This shows that perspectives can change. They looked upon this as a

radical ruling, while today we do not. Otherwise, as regards supreme court rituals, well we drink tea, and I would like to put a stop to the notion that this is particularly exciting. Perhaps this tea story also entails an end to the supreme court's image, but yes, we do drink tea, and that's where the excitement stops, and it is not in order of seniority.

And bow to Fredrik Sejersted. I did not mention the act relating to public access to coastal land and I had not intended to do so, but I don't think it is a defining moment, which is fairly self-evident and the Supreme Court ruling 7 February 1920 was unanimous. But the actual ruling is interesting. As to the ruling from October 2013, yes, it is Gunnar Reiss-Andersen<sup>66</sup> who said that you have to view the painting from a distance to see it from the same perspective as the master, and I think that is right, we must wait and see. My view so far is that that this is not a defining moment at all, but a difficult case which was met with dissension in the Supreme Court, which is not remarkable but just shows that the case lies somewhere within a grey area. Nor would I call it a defining moment in the sense that it has far-reaching consequences, but it would take too much time to elaborate on that here. There was no question of relinquishing proprietary rights to fishing resources or the like, as was reported in some media. But there are reasons why some cases are brought to plenary, and they are the equivocal ones, which that one was. Otherwise, I believe Fredrik Sejersted's observation to be on the mark. We move through phases, and around the First World War and the interwar period, considerable emphasis was placed on the individual, followed by a phase perhaps closed linked to legal realism, where social analyses played a key role.

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<sup>66</sup> Gunnar Reiss-Andersen (1896–1964) was a Norwegian artist, illustrator, lyric poet and author.

Perhaps we are now in a phase where there has been some shift back to the individual, not least as a result of the focus on human rights and the ensuing emphasis on the protection of the individual. This has been an entirely natural development, and we will have to see where it leads. Moreover, in the Kløfta case there was the same degree of dissension, but it can't be said that there was schism or the like in the court.

### **Tom Remlov, The Norwegian National Opera & Ballet**

It wasn't to be expected, I suppose, that my institution would be the prime subject of commentary in this debate, but, all the same, allow me a few remarks. I was really put out, Professor Mestad, that you did not catch that I was actually defining institutions fully in accordance with Roman Law! Indeed, come to think of it, wasn't it I who covered Roman law on your behalf, so to speak, both with regard to "objects" and "persons"? And I shall also come back to the matter of "persons" shortly. As to the "rabid Marxist professor Thomson" – you academics tend to add an adjective or two to undermine the credibility of colleagues, don't you? (In which practice, of course, they distinguish themselves totally from those of us who work in the arts.) I for my part find George Thomson completely reliable and painting a picture that is both invigorating and precise of the origins of the art forms that I have had the fortune to devote my life to and spend my life within. But since we have come together here today, you and I, professor Andersen, I would like to draw on your expertise to elicit confirmation of an anecdote that I have often paraded as a truth, albeit with varying degrees of conviction depending on the context: These festivals, as you correctly called them, and which apparently give rise to a distinction between the institution I represent and the type of institution which was established in Ancient Greece – they brought

together the entire population, didn't they, and that is of course something to aspire to for us today – but what I have also heard, is that all the free citizens of Athens were given paid leave from work to attend these festivals, right? And even the faintest little nod from you in this matter will give me historical basis for my claim, and will, for example, strengthen me in my meetings with the ministry and others where I defend my institution's requests for public funding. Do I have it? Thank you! Then there was the question from the Ministry of Foreign Affairs, from Mr Syse, of coordination and international cooperation, which most certainly pertains to my institution. In general terms, I would say that the less coordination, the more viable and more consistent with its defined role in society the arts will be. It is rather a matter of creating a profile that is so distinct that the institution finds its proper place in the wider mosaic. It has to be said, though, that it is a recurring struggle to discuss this wish for "coordination" with our owner and principal – that is, the civil service – where the ideal is synergy, competence-sharing, multipurpose and recycling. It is my experience that this dilutes rather than develops an arts institution. So I think institutions should celebrate their uniqueness, and cultivate and refine it. Yes, in the area of the arts I would say it is almost a precondition for being called an institution, with its self-respect intact. But then there was also the question of international cooperation. This is interesting, because within the arts I rather think such cooperation should primarily not be channelled through institutions. Institutions have a national role to play, whereas cross cultural collaboration only has as its proper cause the specific needs of the individual artist or a particular work. I think that Mr Syse, despite these billions allocated to his ministry and which trickle down to others, would be pleased to hear this. Because when institutions, such as mine, embark on a project, the costs are

dizzying, while when individuals set off it is a much more simple and fun affair.

Finally, by way of a conclusion, I would like to recount a brief story about the most beautiful image I have experienced of an institution in the most moving sense of the term. This happened during a trip to Moscow almost 20 years ago. An hour's drive out of Moscow lies the holy town of Sergeev Posad, a spiritual centre for the Russian Orthodox church. Behind the innermost monastery wall lies what I understood to be the oldest chapel, a holy place for Russians. The chapel is small and humble and stands in stark contrast to the many extravagant, dome-clad churches nearby. Mass was held continuously, I was told, and was fully attended. There was a constant flow of music provided by a small choir of women in everyday attire, standing on a tiered podium in a corner. After listening to the choir for a while, I noticed that one singer would leave and a new arrival take her place – there was a coming and going of members. I wondered why and was told that the women from the town sang in turn for as long as they had time. This was the way it had to be, I was told, if there was to be music throughout the mass. In this way there was music around the clock. And in this way the singing had gone on in this chapel through the centuries – with no interruption ever! Well, for all I know this isn't true. But this is what a cultural institution should be like – a place where the arts are given a space of their own and is kept alive. A home. And fully in accordance with Roman Law.

## **Jan F. Qvigstad, Norges Bank**

Stein A. Evensen raised an interesting question: “Why is the banking system so incredibly unpopular?” I don’t have a good answer to his question, but have noted that it has always been the case. In the Bible, we read that Jesus threw the money changers out of the temple. This has been the case throughout history. The monetary system and its institutions have never been popular. In my speech, I held forth the contrary – that the monetary system is a useful institution. I will rephrase Stein A. Evensen’s question. “Why is a system that is so clearly useful still so unpopular?” This is a paradox that we should seek to understand. I have no clear answer. It may be that those who are responsible for the banking system sometime forget that they exist for others. Money and the monetary system are not goals in and of themselves. Money is only the oil in the machinery. It may be that operators of the monetary system lose sight of this perspective. They forget that they are there to serve the people and take too large a share of the cake. Maybe the overriding authority is too weak, thereby giving the system’s administration too much power.

I spoke earlier today about confidence. Institutions are often measured in terms of their role and credibility. It is not easy, but it is done. Norway scores high on such confidence measures. Assessments for Russia show that the level of output would have been 70 percent higher if the country’s confidence measure had been as high as for Sweden. Confidence is important for economic prosperity.

Individual institutions are also measured. If we have certain a priori judgements, mine prove to be correct. The institutions I assumed would score lowest do, and vice versa – the ones who are at the top of the list are.



But the scores are not static. They may rise or fall. Vinmonopolet<sup>67</sup> scored lowest 30-40 years ago, while it is now at the top.

I am not here to talk about other institutions – even though it may be tempting – but to talk about my own. Norges Bank is today among the highest ranking by such yardsticks. But we must not rest on our laurels.

One of the criteria I mentioned in my speech relates to competence, which must of course be solid! As a starting point the central bank is somewhat handicapped in this respect. There are two main reasons for this: Norges Bank is a monopolistic institution. It is the only central bank in the country. There is no benchmark within our nation. Second, the institution has at its disposal a potentially enormous budget. It prints its money. Printing a 1000 krone note costs 50 øre and we sell it for 1000 kroner. The potential financial leeway is substantial. An undertaking needs a good sized budget but not one that is too big! One may easily become self-satisfied. So, even if Norges Bank has a high ranking in terms of reputation and confidence, it can quickly slip into a mood of self-satisfaction and then mediocrity. It is up to us to put into place the mechanisms to prevent this from occurring. We must tie ourselves to the mast.

What can we do? The first element is transparency. We must expose ourselves to criticism. The second element is an international dimension. We must be part of the international community of central banks and academia to provide a basis for comparison.

I mentioned that Erik Brofoss in his function as central bank governor was perhaps more concerned with questions outside the realm of central banking. But he was the one who laid part of the fundament for the “long return” –

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<sup>67</sup> The state-owned monopoly that sells wine and spirits.

maybe without knowing the scope of what was to follow or the eventual outcome. Brofoss was intent on sending young economists at the Bank out into the world to learn. When they came back, they had learned that another world was possible, benefitting from input about what central banks should be doing and how monetary and credit policy should be conducted.

Today, we have a research unit at the Bank. Its research output is useful, but a drop in the ocean in relation to the totality of the research produced in the world. But the research unit is important to keep us on our toes. It is the Bank's bridge to the academic world within and outside Norway. Internationally recognized researchers visit the Bank every week and inform us of the most recent research developments and challenge our perceptions and thinking. The very presence of internal researchers with specialist competence in the area of central banking keeps other staff on the ball. The research unit helps us as an institution from isolating ourselves, from becoming introverted and self-satisfied.

The third element is good interplay between the Bank's executive bodies and staff. Most of the literature on "making good decisions" is concerned with board composition (external vs. internal and experts vs. general competence) and their work forms (collegial vs. individualistic committees). Not least, it is important that the board use staff competence effectively.

If an institution such as mine slowly slides into mediocrity, it will not be discovered until it is too late

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**Jan F. Qvigstad** (born 1949) Deputy Governor of Norges Bank 2008-2014. From 1997 he was Chief Economist of Norges Bank, Executive Director of Norges Bank Monetary Policy and member of the executive management group in Norges Bank. Qvigstad's published works include: *Stabilitet og langsiktighet: Festskrift til Hermod Skånland* [Stability and longtermism: Festschrift for Hermod Skånland] (1994, co-edited with Sigbjørn Atle Berg and Kjell Storvik); *Choosing a Monetary Policy Target* (1997, co-edited with Anne Berit Christiansen); *Perspektiver på pengepolitikken* [Perspectives on monetary policy] (2000, co-edited with Øistein Røisland); *Twenty Years of Inflation Targeting. Lessons learned and future prospects* (co-edited with David Cobham, Øyvind Eitrheim and Stefan Gerlach)

**Tom Remlov** (born 1949) is a Norwegian actor, dramaturge and film producer. He has been Artistic Director of the country's oldest theatre, Den Nationale Scene in Bergen (1986- 1996), Managing Director of the national film studio Norsk Film AS (1996 – 2001), and Associate Professor at the National Film School (2001- 2008). Remlov was General Director and CEO of the Norwegian National Opera & Ballet 2008-2014, and is Artistic Director Designate at the Norwegian National Touring Theatre.

**Aage Thor Falkanger** (born 1965) is a Norwegian judge and legal scholar. He is cand.jur. and dr.juris from the University of Tromsø. He was a presiding judge in Hålogaland Court of Appeal from 1999 to 2007, professor of law at the University of Tromsø from 2007 to 2010 and acting Supreme Court Justice in 2007 and 2009. In May 2010 he was appointed as a Supreme Court Justice. In February 2014 he was appointed by Parliament as the Norwegian Parliamentary Ombudsman for Public Administration.

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