

Comments to Sverre Knutsen's paper:

Why did it happen again?

The American sub-prime-crisis compared with the
Norwegian banking crisis 1987-92

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Outline of comments

- General comments on paper and argument
- Some suggestions for strengthening the paper
- Some critical comments on the Norwegian case



General comments

- The core idea of the paper is to compare the present US crisis with the Norwegian banking crisis of 1987-92
 - Is this really a good idea?
- Yes. The authors argues convincingly for “the most different systems approach” - i.e. if you find common critical variables in very different cases, you are probably on to something
 - Moreover, the findings in this regard is of much interest



- The author applies Minsky – Kindleberger as theoretical framework
 - Here I have some misgivings
- What does applying the framework add to your particular comparison?
- As a minimum I would recommend a shortening of the text on this point

Some structural suggestions

- Problem in short: too long and too unbalanced
 - 14,000 words+
 - Detailing the American crisis takes too much space
- Suggestions
 - I would have liked to see more of the arguments in the introduction
 - Curtail the framework section
 - Make the presentation of the two crises more stylised
 - particularly the American
 - Move more of the discussion to the last section

Some remarks on the Norwegian crisis

- I think the paper presents the Norwegian banking crisis of 1987-93 in a good way
- I find myself in general agreement with the analysis with some reservations
 1. A matter of style
 2. A matter of emphasis
 3. A matter of substance (the role of monetary policy)

A matter of style

- I have misgivings with the terms *neoliberal* and *neoliberalism*
 - Are they analytical terms, political rhetoric or just verbal abuse?
- Two quotes:
 - *Norway carried out, however, a wide ranging liberalization of the financial sector from the end of the 1970s and especially from about 1980, motivated by the neoliberal wave of “new laissez faire”.*
 - *The driving force behind the liberalization of financial markets was at the outset an alliance between financial capital’s money managers and a growing number of neoliberal economists*
- Who were these neoliberal economists?



The guilty ones?

Hardly...

The liberalisation of the credit market was initiated by trusted servants of the social democratic order who had experienced that their cherished instruments of direct regulation no longer gave the desired results



A matter of emphasis

- I agree that the liberalisation of the credit market – *or at least how the liberalisation was carried out* – is important for understanding the financial boom and subsequent banking crisis
 - However, there are usually more to a story...
- The paper would benefit from at least some reflection about how the “old ways” faced mounting troubles in the 1970s

A matter of substance

- Knutsen takes issue with Steigum's assessment that the main cause for the banking crisis was pro-cyclical monetary policy
 - I am not quite sure whether Knutsen dismiss monetary policy all together or just the main cause claim
- The jury might still be out on whether pro-cyclical monetary policy was the main cause but it obviously played a role
 - Monetary policy or to be exact the lack of efficient monetary policy helped fuel the boom 1983-6 and gave a strong contractive impetus in the downturn



- *Consider:*
- Interest rate setting was still subject to political meddling even after lending volumes were liberalised in 1984
- Knutsen: the existing tax regime effectively sterilized the potential of monetary policy to cool the boom
 - 70 percent of interests paid were deducted for top tax rate payers making debts the sensible adjustment strategy for the broad middle classes
- This can also be seen the other way around:
 - A (fiscal) policy which rendered Norges Bank with only blunt instruments is *also* monetary policy and produced clearly pro-cyclical result