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# POL2012 – TERM PAPER

*1) Senterpartiet are now on their way back into the Norwegian government. A core part of their political program is supporting domestic agriculture. From a **political economy perspective**, should Norway protect its agricultural sector? Why? Why not?*

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*Should Norway protect its agricultural sector?  
Ricardo's theory of comparative advantages  
and the broader value of Norwegian  
agriculture*

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# 1. Introduction

Following the recent Norwegian parliamentary election, it became apparent that a new left-wing coalition was on its way into the governmental office. The 14<sup>th</sup> of October 2021, a coalition consisting of the Labor Party and the Centre Party was officially appointed to form government (Regjeringen, 2021).

Though there is earlier precedent for these two parties in coalition, the situation is somewhat different. The Centre Party's election results were there strongest in a long time and as such their position in the coalition talks as well.

The Centre Party, formerly known as the Farmers' Party, has historically been a party especially known for their protective relationship to the Norwegian primary industries, and thus of course the agricultural sector. In their own political program, they underline the importance of protecting Norwegian agriculture from imports, and generally support the development of the national agricultural sector (Senterpartiet, Senterpartiet: Vedteken politikk, 2020).

In this paper, I will examine through use of Ricardo's theory of comparative advantages, whether Norway should protect its agricultural sector through protectionist policies such as tariffs and trade restrictions on imports. The conclusion is that Norway as a small country with less-than-ideal conditions for agriculture is dependent on a certain level of imports. Norway will not in any near future be able to reach full autarky. However, this does not mean that there is not any value in protecting the Norwegian agricultural sector. The sector plays an important role in the broader regional policy of maintaining smaller rural communities, as well as an upholder of our cultural heritage.

## 2. Empirical, historical and theoretical context

### ***2.1 The Centre Party***

The Norwegian Centre Party has a long tradition in Norwegian politics in positioning themselves as a party especially friendly to farmers and the agricultural sector at large. This was reflected in their initial name being “Bondepartiet”, directly translated the Farmer’s Party, until their name-change in 1959 (Senterpartiet, Senterpartiet: Historien, 2017). In the party’s program for the 2021-2025 parliament, the importance of protecting Norwegian agriculture is heavily underscored. In the program they amongst many things advocate for generally protecting national agricultural from international imports (Senterpartiet, Senterpartiet: Vedteken politikk, 2020).

In the debate regarding Norwegian-European connectivity, The Centre Party has historically been an important actor. The Centre Party fronts itself as very eurosceptic, and strongly opposed to any institutional relationship to the EU (Leruth, Trondal, & Gänzle, 2020). Their role was prominent in the opposition movement to EU-membership in the 70s and 90s, and their anti-EU stance still lives on in their wish to renegotiate *The European Economic Area Agreement (EEA)* (Senterpartiet, Nei til EU, 2021).

### ***2.2 Division of Labor and Specialization***

In “*The Wealth of Nations*” Adam Smith eagerly advocates for specialization of production through division of labor. He illustrates this division through an example of a pin factory he visited himself. He describes a division of labor within a factory of 10 workers, where “*One man draws out the wire; another straights it; a third cuts it; a fourth points it...*” (Smith, 1776/2007, s. 3). He continues to make the point that ultimately the creation of a pin in the factory is divided into 18 separate tasks. This division ultimately makes the factory able to create 48000 pins in a day. Smith further on makes the assertion that each of the 10 workers would make far less than a tenth of this output by doing all the separate tasks by themselves (Smith, 1776/2007). What Smith ultimately tries to argue by using this pin factory example, is the benefit of *specialization*.

### ***2.3 David Ricardo: Comparative advantages: a story of cloth and wine***

The benefits of specialization which Smith argued for, was based on specializing production tasks to 10 individual workers. However, the thought of specialization and division of labor as a means of increasing productivity, has also been explored at the level of nation-states.

David Ricardo based his theory of comparative advantages on the idea of specialization and the division of labor. Similar to how Smith found the pin factory's efficiency increased by specializing tasks across several different workers in one factory Ricardo took this to a macro-level understanding.

The theory of comparative advantage theory can very easily be described "*as the view that countries trade to take advantage of their differences*" (Krugman, 1987, s. 132). This is of course a simplification, but it is sufficient to describe the basic logic of Ricardo's argument.

To explain this further Ricardo used an example of two countries, Portugal and England. In this example England would require the labor of 100 men to produce a certain value in cloth, and to create the same value in wine it would require 120 men. In Portugal however, the wine would only require 80, and the cloth 90 (Ricardo, 1817/2001, ss. 90-91). Thus, Portugal would have an absolute advantage in the production of both wine and cloth, meaning they could produce both more effectively than the British. Ricardo however advocates that Portugal should use their labor in the production of wine, and to trade said wine with British cloth. Even though Portugal could produce cloth with less labor (90) than England (100), it would gain more from specializing their production solely on wine. Despite the fact that Portugal's efficiency in both wine and cloth production was better than England's, they would gain more from specializing in one commodity rather than by diversifying production (Ricardo, 1817/2001, ss. 90-91).

The example of the wine and cloth trade, effectively illustrates Ricardo's theory of comparative advantage. For England the trade would be beneficial, as they could receive the wine whose value in England would be the labor of 120 workers, to a price of the labor of 80 Portuguese workers, and the Portuguese would make a profit selling their wine to a market where the wine is more valuable.

Fully accepting Ricardo's argument, leads us to a conclusion that specialization and global free trade will always be beneficial mathematically for any actors in the global marketplace.

## ***2.4 David Ricardo, Thomas Malthus and the corn laws of 1815***

Following the theory of comparative advantages, it is no surprise that Ricardo was a supporter of global free trade. This became ever so clear in the debate regarding the British corn laws of 1815. The corn laws were essentially a variety of protectionist policies such as tariffs and other trade restrictions regarding imports of grain to the UK<sup>1</sup>. Ricardo as a true believer in the virtues of global free trade, was an ardent opponent of such protectionist policies (Salvadori & Signorino, 2015).

Thomas Malthus, another famous scholar within political economy, was however positive to the protectionist policy put forward by said corn laws. Malthus though also an ardent believer in free trade saw issues with a policy of free foreign trade. He feared that Britain would become structurally dependent on the import of foreign corn and feared the impact this could have on the British society (Salvadori & Signorino, 2015).

Malthus nevertheless acknowledged what he saw as positives of free imports of corn. Malthus found that the free importation of corn could: a) increase the demand for British manufactured goods, b) lead to a general downturn in domestic corn market prices and c) the foreign exporters would generally have strong incentives in exporting their goods to Britain (Salvadori & Signorino, 2015). However, he feared that British dependency on foreign imports could have severe downsides. Most prominently he feared the political risk that the free trade position could lead to. The free trade strategy would then lead to a dependency on imports, which he feared could be used as a weapon against them, which could be especially harmful in times of war (Salvadori & Signorino, 2015). He also saw a significant downside to the dramatic fall in domestic corn market prices. If cheap foreign corn were to be imported with no restrictions, he feared that the fall in price would lead to a general loss of capital in British agriculture, which would further stifle innovation and technological progress within the agricultural sector (Salvadori & Signorino, 2015).

Thus, Malthus advocacy of such a protectionist policy can be boiled down to two worries he had with a complete free trade policy. 1) The political risk of free trade, and the risk of international instability and war. A more protectionist policy, could effectively protect Britain from such risks as Malthus also thought Britain had a potential of achieving self-sufficiency.

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<sup>1</sup> When referring to corn in this text; understand that this refers to a variety of grains, and not corn as it is understood in the modern tongue.

2) Free trade of corn would weaken the domestic technological innovation within the agricultural sector, as the sector would be exposed to increased international competition (Salvadori & Signorino, 2015).

## **2.5 Protectionism:**

Rose & Wieladek defines financial protectionism as follows:

*“We define financial protectionism as a change in the preferences of domestic financial institutions, induced by public policy that leads them to discriminate against foreign households and/or enterprises.”* (Rose & Wieladek, 2014).

When using this definition of protectionism, it is clear that the British corn laws could be ascribed a description as protectionist. Through the corn laws the British government effectively aimed, through public policy, to discriminate against foreign importers. The protectionist strategy is an obvious counter to the free trade policy which Ricardo effectively advocated following his theory on comparative advantages. If every country were to implement protectionist policies the Ricardian dream of each country using their comparative advantages in the market, would be useless. However, protectionist policies don't occur without any reasoning.

I have now established the historical context of the debate of free trade vs protectionism. I will now attempt to show how this debate relates to modern Norwegian politics. The Centre Party, whom can be ascribed certain protectionist tendencies (especially within the agricultural sector) have now taken part in a coalition government with the Labor Party. This shows that an important historical economic debate is not dead.

### 3. Should Norway protect its agricultural sector?

#### **3.1 Norwegian agriculture policy through the theory of comparative advantage**

A natural starting point in answering the question set in the introduction, would be going back to Ricardo's theory of comparative advantages, and whether the Norwegian agricultural sector is viable according to this. As already noted, the essential meaning of comparative advantage is the basic concept of nations through trade using their vast differences to their own advantage (Krugman, 1987, s. 132). These differences could be everything from climate, availability of natural resources, labor pool or any other unique sets of properties which could make a nation especially equipped for production/extraction of a certain good. What then must be evaluated is whether Norway can find it truly advantageous to maintain its own agricultural production, instead of investing its labor and capital in other industries, while importing agricultural products internationally.

##### ***3.1.1 Norwegian geography and climate***

It is a well-known fact that Norway, because of its geographical location elevated on the northern hemisphere, is especially exposed for challenging weather-conditions. The climate (especially winters) can be cold and harsh which is not very advantageous for agriculture, compared to countries with more temperate climates. The Norwegian landscape also consists of more mountainous terrain than many other countries (GRID-Arendal, 2016). Potential for agricultural expansion within Norway is therefore also somewhat limited.

Despite these obvious obstacles to developing a sustainable national agricultural sector, there still exists profitable farms within Norwegian territories. It can also be reasonably assessed that some of these challenges met regarding climate and geography can be mitigated through technological development. However, it is hard to ignore the obvious disadvantages faced in Norwegian agriculture.



### **3.2 Export/Import of Norwegian food supply**

In 2019 the Norwegian trade surplus in food supply reached 44 billion kroner, exporting for 117 billion and importing for 73 billion (Pettersen & Kårstad, 2021, s. 22). At first glance this may look promising for the agricultural sector. If we look closer at the numbers however, the reality is somewhat different. The surplus is mostly due to Norway's strong seafood/fishing industry, which on its own had a trade surplus of 96 billion kroner. In goods stemming from agriculture however, Norway has a trade deficit of over 50 billion kroner (Pettersen & Kårstad, 2021, s. 22). The general trend for Norwegian agriculture does not seem promising. The trade deficit has since 2007 increased by 190% (Pettersen & Kårstad, 2021), making it seem like Norway is going in a direction of which we will be evermore dependent on agricultural imports.

In 2018 the Norwegian degree of autarky (self-sufficiency) was estimated to be about 45% (Paulsen Rye, 2019, ss. 63-64). The report from NIBIO shows that in some areas such as meats and fish Norway has a potential of reaching autarky in some areas such as meats and fish. In other food groups like grains, vegetables, and fruits however the potential for autarky does not seem realistic in the near future (Paulsen Rye, 2019, s. 64). The Norwegian food-production solidly does not reflect the Norwegian consumption level, which shows that Norway at current day is heavily dependent on a certain level of imports. This dependency on import-levels of i.e. grains shows that the Norwegian agricultural sector likely won't be able to realistically satisfy Norwegian needs.

### **3.3 The broader value of the Norwegian agricultural sector: Rural communities and cultural heritage**

From Norwegian agricultural sector's poor climatic and geographical conditions, as well as our dependency on imports of agricultural products, it might seem like the obvious answer would be to have a quite liberal stance on imports. I would however argue that there exists a broader value in protecting national agriculture.

In Norway the agricultural sector has often been strongly linked to the regional policy regarding the more rural parts of Norway. In many ways federal subsidies to agriculture has historically worked as an indirect subsidy in the wider regional policy of supporting local rural areas (Nersten & Hegrenes, 2003). This also coincides with The Centre Party's general political stance of decentralization, and protection of smaller rural towns (Senterpartiet, Senterpartiet: Vedteken politikk, 2020).

It can therefore be argued that liberalizing the current restrictions on imports, and loosening the protections of the Norwegian agricultural sector, could lead to increasing centralization as rural towns would be especially vulnerable in losing their agricultural industry. This is especially problematic if there is a general political wish for the survival of smaller rural communities. A general trend in the last century has been more people fleeing smaller rural communities and moving to more population dense areas (Kommunal- og Moderniseringsdepartementet, 2018). If a liberalization of agricultural imports, were to expand the scope of this, the ramifications could spread to other industries as well. I.e., Fishing and seafood represent an important export industry for Norway, and the Norwegian trade surplus in 2019 reached a total of 96 billion kroner. The industry has also seen a general trend upwards in terms of profitability in the last decade, making it a growingly profitable industry for Norway. The industry is largely dependent on smaller coastal communities, and depopulation of such areas would thus not be very beneficial for continuing growth in the sector.

It is worth considering the indirect economic consequences which could follow for smaller rural communities if a liberalization were to occur. However, this not an argument for protecting the agricultural sector in itself. If liberalization of agricultural trade were to be beneficial for the Norwegian economy at large, one could say that the “death” of rural communities is simply inconsequential. This of course does not take account of any qualitative value one could see in simply the mere existence of rural communities.

A fear one might have from losing the Norwegian agricultural sector, could be a loss of cultural heritage. One could argue that there is a direct connection between active farming and Norwegian cultural heritage (Daugstad, Rønningen, & Skar, 2006), and thus the Norwegian farmer is a symbol of Norwegian culture. The strong cultural linkage of Norwegian agriculture comes through in much of the marketing from companies producing products stemming from the agricultural sector. Take for instance the company “*Synnøve Finden*”, who for a long time have used a milkmaid dressed in old-fashioned clothing with a classically Norwegian-looking backdrop as their logo  Figure 1. Thus, tying an agricultural commodity directly to a larger Norwegian cultural heritage.



Figure 1: Synnøve Finden logo

## 4. Conclusion

To sum it up, the Norwegian society at current date is heavily dependent on imports of certain agricultural products, and with Norway's relatively low degree of self-sufficiency this does not seem likely to change. Norway's conditions for agriculture are less-than-ideal, considering its climate and geography. Following Ricardo's doctrine of comparative advantages, Norway would benefit from liberalizing imports and trade restrictions. The protectionist stance of the Centre Party is therefore, according to Ricardo a losing project for Norway's economy at large. Ricardo's theory however does not take account of the broader value the agricultural sector could have in the Norwegian society. I.e., its role in maintaining the existence of smaller rural communities, where a strong agricultural sector could work as a decentralizing factor. If the national agricultural sector were to be outcompeted by international agriculture, this could have dire repercussions for said communities and its surrounding industries, i.e. fishing. Norwegian agriculture can also be said to have an extra qualitative value in its role as an upholder of cultural heritage.

The conclusion is then; that Norway realistically is dependent on international imports, there is however a certain value in not completely opening all protections of our local agriculture.

Going further from my findings in this paper it would be interesting to delve deeper into Ricardo's theory of comparative advantages and identify the potential for how a Norway with a complete unprotective policy regarding agriculture would look. Perhaps a case study comparing Norway to another country with optimal conditions for agriculture and explore the possibilities for trade according to Ricardo's ideal in such an instance.

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