Mismanaged fish

by Thorvaldur Gylfason

REYKJAVÍK--Economic collapse in Europe since 1989 has not been confined to the former socialist economies in the East.

There is a West-European country, with its own long history, language, and culture, whose national economic output, like that of Russia, has contracted by more than a third over the last five years and whose foreign debts, measured in proportion to its output, are now exceeded only by those of a handful of the most severely indebted African countries. With nearly one in four out of work, unemployment is higher than anywhere else in Europe except in Spain. Almost a tenth of the population of less than 50.000, young professionals in particular, have left. This has been the fate of the Faroe Islands, an autonomous part of Denmark in the North Atlantic.

How could this happen in the state of Denmark?

The Faroese derive almost all their export earnings from fish, their sole natural resource. This was their first mistake; they should have developed a more diversified economy. They put all their eggs in one basket, and dropped it.

Mainly because of overfishing, the fish stocks around the islands have plummeted, triggering a collapse in catches. Furthermore, the Faroese overinvested in expensive high-tech trawlers and fish processing plants: they built 21 such facilities where two or so might have sufficed for the available catch. They overextended themselves in other directions as well, with borrowed funds mostly. They built three old-age homes and three harbors on an island with 1.700 inhabitants. They constructed tunnels through mountains on tiny islands to reach towns with 20 people.

This febrile investment produced a fantastic boom for a while. However, like in Eastern Europe, the economy was bound to crumble eventually under the weight of unproductive capital and the mounting inefficiency of the heavily subsidized and overregulated fishing industry that had been disconnected from the discipline of world markets.

Why did the Faroese do this to themselves? In 1987, their Minister of Finance told the *Wall Street Journal*: "It is rooted deeply in our minds that Denmark will not let us go bankrupt." But that's not all. They did it also because of deep structural flaws in their own society. Thanks to its overwhelming influence, the fishing lobby was able to dictate and execute the law in large measure, run the banks, manipulate the press, and so on, all essentially without opposition or even serious discussion of the possible consequences except for a few dissenters whose voices were drowned in a resounding chorus of the guardians of the *status quo*.

The moral of this sad story is a simple one: fish can be dangerous, even deadly. In Newfoundland, an independent country earlier in this century, but now a Canadian province, a third of the labor force is now unemployed because the entire fleet is tied to port. With rampant unemployment, Greenland is not much better off. Independent Iceland, still dependent on fish for over a half of its export receipts, has suffered a decline in national output per head seven years in a row, with no relief in sight any time soon. Similar stories can be told about fishing communities all over the industrial world.

With modern technology, it takes fewer fishermen and boats than ever before to bring shrinking catches to shore. If overfishing is allowed to continue, the fish stocks will inevitably collapse one after another like in the Faroese case, and with them the communities that depend on fish for their livelihood.

This can be prevented by limiting the access of boat-owners to fishing grounds--not by decree, Soviet-style, because that is inefficient and unfair, but by price. That way the market forces can be harnessed most efficiently to allocate scarce fish resources to those fishermen who can fetch the allowable catch at least cost, and also preserve the fish stocks for future generations.

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