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why wealth-reducing reforms in the Iceland fisheries?

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introduction

- Iceland as a laboratory for economics of institutions
- the problem of understanding the emergence and persistence of wealth-reducing social organization in communities of rational actors
- the special case of fisheries in Western industrial organization
- why an efficient system of governance in the Iceland marine fisheries should be a high priority





outline of paper

- players involved in institutional change
- the assumption of instrumental rationality
- paradigm shifts in modern history
- the demand for institutional reform: four general motives
- four theoretical insights relevant when evaluating government regulations of marine fisheries
- application: demands for changing Iceland's ITQ system
- the political game and re-entry of the macro paradigm
- any lessons?





institutional change: the players

- **the rule maker** (government and its agencies)
- **the right holders** (those who receive new property rights)
- **the duty bearers** (those required to respect the new rights)
 - a) those with direct material interests (materialists)
 - b) other citizens with potential interest in the legitimacy of the new institutions (ideologists)





how much do they know?

- instrumental rationality:
 - the players have full knowledge of the economic system:
 - how it works
 - how to repair it
 - how to design an effective new system
- the macro paradigm vs. micro paradigm
 - long cycles





demands for reform: four sources

Four Ways for Institutional Policy to Fail

Policy Authority Basic Design Failure		Right Holders and Duty Bearers	
		Source of Opposition	
Unworkable institutional design, even when there is no opposition	Material interests hurt by the new institution	Beliefs that the institutional design is operationally unworkable	Beliefs that the new institution is illegitimate because it does not fit general social theories





four useful theoretical insights

- 1. characteristics of efficient property rights
- 2. the Coase theorem and the implications of transferable property rights
- 3. the windfall-gains principle
- 4. relevance of rent theory in the spirit of David Ricardo and Henry George





the empirical story: sources opposition to the ITQs

- **unworkable design:** no serious opposition
- **material interests:** the materialists (duty bearers)
fishers and communities hurt by transfers of quotas;
 - **channels of opposition:** 1) Icelandic courts, UN Commission on Human Rights; 2) political process
- **illegitimate institutions:** the ideologists (duty bearers)
 - **channels of opposition:** mostly 1) public debate, 2) political processes





why lack of legitimacy?

- 1. time zero: why free quotas were the only available alternative
- 2. why the system's technical success became a threat to its legitimacy
- 3. how culture of equality and preferences for the macro paradigm influenced the ideologists
- 4. exogenous shocks: UN Human Rights verdict and 2008 financial crisis





what did the voters want in 2007?

- **typical voter**
 - rationally ignorant about the windfall-gain principle
 - wants to deprive the industry of illegitimate gains
 - has vague ideas about other aspects of a new institutional policy for the fisheries
 - a relatively small group want regional quotas or end to quota transfers





the political history of the ITQs, 1

- origins of system 1990
 - introduced by a center-left government
 - center-right Sjálfstæðisflokkur votes against
 - industry is hesitant
- second half of 1990s, success of ITQs now obvious
 - Sjálfstæðisflokkur defends ITQs
 - opposition to ITQs becomes a focal point for center-left
 - fisheries entrepreneurs vilified as thieves





political history of the ITQs, 2

- 2008 financial shock, 2009 election, first center-left coalition in the history of republic
 - the two leaders of coalition, same people who introduced ITQs in 1990, make a priority of reforming it
- reform bills 2011 and 2012
 - surprise experts by disregard of economic incentive structures, lack of concern for potential political abuse, and shoddy workmanship





the reform proposals

return of the micro paradigm

license fees, which as proposed would bankrupt the industry—measurement and calculation errors

stepwise reductions in share of TAC going to the ITQ system, goes instead into “political” pots

special tax on quota transfers, various new constraints, and plan to end transfers 20 years from now; little attention to economic incentives

enormous role for central management, detailed central controls





why?

- the unavoidable origins of the system and a transfer shock
- dislike of ITQs becomes an ideological symbol
- creates political opportunities
- UN verdict and 2008 crash rekindle the fire
- center-left government led by people steeped in macro paradigm
- plus a sharp ideological swing away from decentralized solutions and market orientation after 2008

