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**ICELAND ON THE OUTSKIRTS OF  
EUROPE: THE COMMON PROPERTY  
RESOURCE PROBLEM**

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**INTERNATIONAL TRADE**



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## ABSTRACT

### Iceland on the Outskirts of Europe: The Common Property Resource Problem\*

A structural reform of the Icelandic fishing industry which created the conditions for fair and free trade in fishing permits in Icelandic waters could conceivably remove the main current obstacle to EC membership for Iceland. This reform would grant other EC nations formal access to the market for fishing permits, as opposed to access to the resource itself. Many of the arguments presented also apply to Norway. The paper also discusses briefly, similar market solutions to problems arising in the process of economic integration in Europe related to oil extraction, forestry, environmental pollution and traffic congestion.

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## NON-TECHNICAL SUMMARY

As 1992 approaches, the EFTA nations must assess more seriously the benefits and costs of EC membership whatever is the outcome of the present negotiations about the possible establishment of a joint European Economic Space (EES). The benefits of membership would include not only the standard static gains from freer trade, greater economies of scale and increased competition, but also potentially huge dynamic growth effects. The costs of membership, on the other hand, would involve reduced – or rather shared – national sovereignty in economic and social affairs. If Austria, Sweden, Norway, Finland and even Switzerland join the EC, as now seems quite possible, Iceland will be the only remaining outsider in Western Europe.

The government of Iceland has always viewed the EC requirement of free or at least negotiable access of other member countries to Iceland's limited fish resources as an insurmountable obstacle to Icelandic entry into the Community. At the same time, there seems to be gradually increasing awareness in political circles of the potentially detrimental economic consequences of standing aloof from the Community if most or all of the other EFTA nations join. How can this deadlock be broken?

This paper suggests how a structural reform of the fishing industry could help remove the fisheries obstacle to Icelandic EC membership, thus paving the way for Iceland's entry into the Community, if desired. Many of the arguments presented also apply to Norway, *pari passu*. In both countries, overfishing has been a serious concern for many years, a problem inherent in the uncontrolled exploitation of common property resources everywhere. In Iceland, for example, the fishing fleet has been expanded by a factor of 17 at constant prices since the 1940s, while fish stocks around the country appear to have declined by about a third to one half since the mid-1950s. For purposes of conservation, fishing permits in Icelandic waters have been allocated to individual ships by the government free of charge. In Iceland, but not yet in Norway, the quotas can be traded domestically under government supervision.

In order to enhance the economic efficiency of the fishing industry, economists in both Iceland and Norway have proposed that the quotas or other forms of long-term fishing permits be sold in auction markets *ex ante* or taxed *ex post*, rather than given away free and traded freely thereafter. Understandably, this proposal is vehemently opposed by representatives of the fishing industry. They do not like the idea of fishing firms being charged for rights that many of them have hitherto been granted for free. Some also fear that a resource tax would tempt the government to expand the public sector on an unprecedented and unwarranted scale. The potential macroeconomic benefits from changing the Icelandic quota system are substantial, however: the proceeds of the sale or

taxation of quotas would gradually suffice to finance the abolition of both personal and corporate income taxes, which amount to about 4% of GNP. Alternatively, by selling or taxing quotas the government would be in a much better position to eliminate or at least reduce the public sector deficits that have been a major cause of the persistent inflation problem in Iceland in the last 20 years.

Moreover, the sale of permits could possibly help remove the main obstacle on the road to Icelandic membership of the EC, whose rules and regulations require that all members have equal access to each others' *markets*, not *resources*. If permits to fish in Icelandic and Norwegian waters were allowed to be traded freely in open and unobstructed markets, the membership of Iceland and Norway in the EC would grant other member countries the right to compete in those markets. Provided there were satisfactory safeguards against unfair trading practices (including producer subsidies), presumably only mutually beneficial exchanges would be carried out. This is a politically sensitive matter, however, because fishing, like farming, is an integral part of the cultural heritage of the Icelandic people.

Aggregate productivity of labour and capital in the Icelandic fishing industry has consistently been much higher than elsewhere in Europe – with the possible exception of Spain in recent years. The catch/fleet ratio in Iceland was about six times the EC level in 1987, and is presently more than twice as high as in Norway. In view of the comparative advantage of the Icelandic fishing industry, it does not seem likely that other member countries could compete successfully in a free market for fishing permits in Iceland if the market were opened to foreign competition, provided that satisfactory measures were taken to ensure fair trade in full recognition of the Icelandic economy's unique dependence on fishing. Consequently, the exploitation of Iceland's limited fish resources would most likely remain primarily in Icelandic hands despite EC membership, and so the main current hindrance on Iceland's way to membership could conceivably be removed without substantial cost. The same seems to apply to Norway.

The common access problem resulting from the absence of private property rights matters not only for Iceland and Norway, but also for several other European countries with an interest in fisheries or in other industries that exploit common property resources involving substantial externalities. The paper concludes by showing how a similar market solution can be applied to problems arising in the course of European economic integration in oil extraction, forestry, environmental pollution and traffic congestion.

## **Iceland on the Outskirts of Europe:**

### **The Common Property Resource Problem**

by Thorvaldur Gylfason

#### **1. Iceland: Reluctant partner**

As 1992 approaches, the EFTA nations must contemplate the benefits and costs of EC membership with increasing seriousness, the present negotiations about the possible establishment of a joint European Economic Space (EES) notwithstanding. The benefits of membership would include the standard gains from free trade *via* specialization according to comparative advantage, exploitation of economies of scale, and increased competition, as stressed by Krugman (1988) among others. In this case, however, not only substantial static output and welfare gains in individual member countries are to be expected, including a gradual 4.5 percent increase in aggregate EC output and a 6 percent decline in consumer prices on average, as outlined in the Cecchini Report (1988), but also potentially huge dynamic growth effects, as suggested by Baldwin (1989). The costs of membership, on the other hand, would involve reduced, or rather shared, national sovereignty in economic and social affairs. Having weighed the benefits and costs, Austria applied for membership in 1989.

By contrast, the Swedish government until recently kept to the view that EC membership is incompatible with the neutrality of its foreign policy. Recently, however, the government has acknowledged that the import of its policy of neutrality is not what it used to be in view of easing tensions in Europe, thus paving the way for Sweden's entry into the Community in the mid-1990s. After all, Austria is also neutral, and Ireland has combined membership with a comparable neutrality in foreign affairs for many years. If the conflicts of interest of the NATO nations and the Warsaw Pact governments in which Austria, Ireland, and Sweden have chosen

not to take sides subside and eventually disappear, the neutrality of the foreign policies of these nations in present form becomes devoid of reason.

If Sweden joins the EC, Norway will in all probability also apply for EC membership, the remnants of the bitter divisions created by the popular referendum on the question of membership in 1972 notwithstanding. As a founding member of NATO, unlike Sweden, Norway has had no difficulty with the foreign policy stance of the Community. If Norway also joins the EC, only Finland, Iceland, and Switzerland will remain in EFTA. In this event, Finland may also decide to join despite the possible complications raised by its special relationship with the Soviet Union. Why not? After all, influential members of the new governments of Czechoslovakia, Hungary, and Poland have publicly indicated an interest in applying for EC membership before the turn of the century.

In that case, Iceland and Switzerland will be the only remaining outsiders in Western Europe, *de jure* at least. Perhaps then they, too, will feel compelled to reconsider--or perhaps even earlier. But Switzerland, of course, will not be an outsider *de facto* in view of its wide-ranging agreements with the EC in a number of areas. Iceland, on the other hand, runs the risk of becoming isolated from the rest of Europe.

This conceivable scenario is reviewed here to set the stage for a discussion of the difficulties confronted by Iceland at the prospect of becoming the odd man out in Europe before long. In Iceland, however, serious public debate of the pros and cons of potential membership in the EC has hardly begun. No political party favors membership. Thus far, hardly any politician has declared support for a membership application from Iceland (there are one or two very recent exceptions), but several, including the present Prime Minister, have voiced strong opposition to membership.

The attitude of the opponents to membership is to a large extent shaped by a problem which the government of Iceland has always viewed as a predominant obstacle to Icelandic entry into the Community, namely, the EC requirement of free or at least negotiable access of other member countries to Iceland's limited fish

resources. The same applies to Norway to some extent. It is no coincidence that fishermen and farmers were the backbone of the coalition of voters that rejected Norwegian membership in the EC in 1972, and many of them remain strongly opposed to entry, although opposition to membership in the Norwegian fishing industry seems to have mellowed recently. In Iceland, however, the fishing problem is widely regarded as being so important and so insurmountable an obstacle that full EC membership is considered to be virtually out of the question in the foreseeable future by all political parties. At the same time, there seems to be gradually increasing awareness in political circles of the potentially detrimental economic consequences of standing aloof from the Community if most or all of the other EFTA nations join.

How can this deadlock be broken? Before proposing an answer to this question, it may be useful to review the role of the fishing industry in the Icelandic economy very briefly in the next section. In section 3, it will then be suggested how a simple structural reform of the fishing industry that, in the view of most Icelandic economists, is necessary for other reasons anyway could automatically remove the fisheries obstacle to Icelandic EC membership, thus paving the way for Iceland's entry into the Community, if desired. Many of the arguments presented there also apply to Norway, *pari passu*. Finally, a similar solution to problems related to oil extraction, forestry, environmental pollution, and traffic congestion in the process of economic integration will be discussed briefly in section 4.

## **2. Free trade in fishing permits**

Owing to their uneven regional distribution and impact, fishing and fish processing are actually more important to the economies of Iceland and Norway than their gradually declining share in exports, gross domestic product (GDP), and manpower might indicate, but their importance should nevertheless not be overestimated. Fisheries are the mainstay of many communities along the coasts of both countries. In Iceland, fish products presently comprise roughly one half of total



export earnings and about one sixth of GDP--and a bit more if related industries such as shipbuilding and fishing gear manufacturing are taken into account. By comparison, fish products account for about 5 percent of Norwegian exports of goods and services and about 2 percent of GDP. About 13 percent of the Icelandic labor force are employed in the fishing industry, while 2 percent of the Norwegian work force are similarly employed. However, fisheries economists have argued convincingly that the fishing fleet and hence also the number of fishermen in Iceland could be reduced by up to 40% or more, and in Norway by up to two-thirds, without reducing output (see Árnason 1984 and Hannesson 1990).

There is a simple reason for this state of affairs. In both countries, overfishing has been a serious concern for many years, a problem inherent in the uncontrolled exploitation of common property resources everywhere. In Iceland, for example, while the value of the fish catch has increased a bit more than fourfold in real terms since the mid-1940s, the fishing fleet has been expanded by a factor of seventeen at constant prices (see Figure 1). This implies that the average real value of the catch per unit of capital has shrunk by three-fourths during this period. The financial consequences of this massive overinvestment in the fishing fleet are especially acute in times of high oil prices in world markets because the fleet accounts for about one half of the country's total oil use. Meanwhile, fish stocks around the country appear to have declined by about a third to one half, mainly because of overfishing. The once bountiful Atlanto-Scandinavian herring, for example, has virtually disappeared from Icelandic waters. Some other species are endangered. Fish stocks within the jurisdiction of other North Atlantic nations have declined even more, and some have vanished, perhaps because among those nations less is at stake from a macroeconomic point of view.

This depletion of fish stocks around Iceland imposes a heavy burden on the human population in terms of foregone future income--a burden which, incidentally, is not reflected in national income accounts because, according to current international practice, they make no allowance for the depletion of natural resources,

including environmental pollution. This, together with the gradual accumulation of foreign debt which amounts now to more than one half of annual GDP, implies that the fairly impressive growth record of the Icelandic economy showing that GDP *per capita* has grown by almost 3 percent per year on average since 1945 is exaggerated in official statistics. The same applies, on a smaller scale, to Norway. Presently, however, the treatment of natural resources in national income accounts is under review at the United Nations.

Icelandic fisheries economists and natural scientists have demonstrated beyond reasonable doubt that the current fish catch could be drawn from the sea by a fishing fleet up to 40 percent smaller than at present (see Árnason 1984 and Helgason and Ólafsson 1988). The cost reduction and the resulting efficiency gains involved are estimated to create conditions for raising gross national product (GNP) permanently by up to 4 percent a year. This amount is equivalent to almost 4,000 US dollars per year for each family of four in Iceland. The present value of the gains to be made from reducing the fleet and the commitment of other resources to the fishing industry is accordingly estimated at about 40 percent of current annual GNP at least, assuming a discount rate of 10 percent. A similar story can be told about Norway, although there the numbers are less dramatic: reducing the fleet and the commitment of other resources to the fishing industry in Norway by two-thirds would raise Norwegian GNP by roughly 1 percent a year.

For purposes of conservation, Icelandic and Norwegian fisheries are presently managed through a quota system which has been in force for a few years. Based on catches in earlier years, 1981-83, fishing permits in Icelandic waters have been allocated to individual ships by the government free of charge since the inception of the quota system in 1984. In Iceland, as in New Zealand, but not yet in Norway, the quotas can be traded domestically under close government supervision and subject to various restrictions that have been gradually relaxed. The Icelandic market for quotas has developed slowly, however, with correspondingly limited efficiency gains in the fishing industry thus far.

The quota system has actually been quite successful in reducing fish catches to the permissible maximum determined by the government exclusively on biological and political grounds. On the other hand, the system has not been primarily intended to enhance the economic efficiency of the fishing industry--at least not until the system was revamped in early 1990 by extending the duration of fishing permits and by relaxing restrictions on the transferability of quotas, *inter alia*. Until then, the legal and institutional framework of the quota system provided insufficient incentives for efficient fishing firms to buy quotas from inefficient firms, as required for substantial rationalization in the industry. Indeed, the Icelandic fishing fleet continued to expand: since the quota system was introduced in 1984, the fleet has grown by 30 percent (see Figure 1). Yet, scientists had issued warnings as early as 1975 that the capacity of the fleet already exceeded the maximum sustainable catch.

This is the main reason why economists in both Iceland and Norway (as well as in Scotland, Newfoundland, and elsewhere) have proposed that the quotas or other forms of long-term fishing permits be sold off in auction markets *ex ante* or taxed *ex post* rather than given away for free, and traded freely thereafter. Such an arrangement has been tried out in New Zealand, for example, and in the Falkland Islands in recent years with good results.

In both Iceland and Norway, however, the official sale or taxation of fully transferable fishing permits has been vehemently opposed by representatives of the fishing industry as well as by rural interests in general despite the substantial macroeconomic gains to be derived from such a change. Their opposition is understandable: they do not like the idea of fishing firms being charged for rights that many of them have hitherto been granted for free. Nevertheless, the potential macroeconomic benefits from changing the system are such that it should not be difficult to work out a reasonable scheme for compensating fishermen for their relocation expenses and other losses. Also, the theory of tax incidence suggests that the burden of the tax would be shared by others (see Heaps and Helliwell 1985). Moreover, potential entrants into the fishing industry are beginning to realize that

they now have to pay their competitors in the industry large sums of money for quotas that the latter have received from the government free of charge. This realization is bound to result in a serious conflict of interest between insiders and outsiders in the fishing industry.

There are other important arguments for selling or taxing quotas rather than giving them away besides the economic efficiency argument outlined above. One is the public finance argument. The persistent inflation problem in Iceland over the last 20 years has been caused to a considerable extent by deficits in the consolidated public sector and their financial consequences. The government would be in a much better position to eliminate or at least reduce these deficits and the attendant monetary expansion, and hence also the inflation problem, if it sold or taxed fishing quotas; it plays no substantial role in this context whether this would be done through the government budget or not. Alternatively, the proceeds of the sale or taxation of quotas would suffice to finance the abolition of both personal and corporate income taxes, which amount to about 4 percent of GNP. Also, it is interesting to note that the period of high double-digit inflation in Iceland coincides with the divergence of the fleet curve and catch curve in Figure 1, indicating that the government-induced investment boom in the fishing sector in the first half of the 1970s may have ignited or at least aggravated the inflation problem that has usually been ascribed to lax financial and fiscal policies as well as to the quadrupling of oil prices in world markets during 1973-74 and a subsequent wage explosion in 1977.

And then, of course, there is the question of social justice which is outside the purview of purely economic analysis: does a government have an unqualified right to discriminate among citizens by giving a relatively small group of individuals free and marketable access to a valuable natural resource which is, by law, the common property of a nation?

### 3. Access to markets versus resources

There is yet another important reason for selling or taxing fishing permits rather than giving them away, which is why this issue is brought up on this occasion. Selling permits in one way or another could possibly remove the main obstacle on the road to Icelandic membership of the EC. The rules and regulations of the EC require that all members have equal access to each others' *markets*, not *resources*. French firms were, of course, never granted the right by the EC to dig coal from German ground free of charge, but only to purchase and operate coal mines in Germany on par with German enterprises, and *vice versa*. This was the fundamental insight of Jean Monnet, and it was the basis of the distinction that was at the heart of the establishment of the Coal and Steel Community, the immediate predecessor of the EC. As intended, this simple idea has been an important cornerstone of peace, freedom, and prosperity in Western Europe since the Second World War.

It is important to realize that the same argument applies to other natural resources, including fish. If permits to fish in Icelandic and Norwegian waters were traded freely in open and unobstructed markets, the membership of Iceland and Norway in the EC would grant other member countries the right to compete in those markets. Provided satisfactory safeguards against unfair trading practices (including producer subsidies and deficiency payments to inefficient fishing industries intended to grant them an unfair competitive advantage), presumably only mutually beneficial exchanges would be carried out. Specifically, if a foreign fishing firm could offer a higher price for Icelandic fishing permits than domestic firms could in a fair and free market, then it could be beneficial for Iceland to sell to the foreign firm provided that the benefit-cost calculation properly reflected the external effects of the transaction on other industries (fish processing, for example) as well as on regional balance and national culture. Fishing, like farming, is an integral part of the cultural heritage of the Icelandic people.

What is primarily at issue here is simply the exploitation of comparative advantage and increased competition in international trade under conditions where

the distributional consequences of the outcome are especially sensitive politically for cultural and geographical reasons. The case for free trade in fishing permits in Icelandic waters or elsewhere is essentially analogous to the case for free trade in agricultural products world-wide--and it is also fraught with similar difficulties involving externalities and deep-felt emotions.

Aggregate productivity of labor and capital in the Icelandic fishing industry (i.e., catch per fisherman or per unit of effort at sea or per unit of capital) has consistently been much higher than elsewhere in Europe over the years--with the possible exception of Spain in recent years. The same applies, though to a lesser extent, to the Norwegian fishing industry which is also quite efficient by international standards. For example, while the volume of the Icelandic fish catch was about one fourth of the total catch of the EC in 1987, the tonnage of the Icelandic fleet was only about 4 percent of the tonnage of the EC fleet. This implies that the catch/fleet ratio in Iceland was about six times as high as in the EC as a whole. For comparison, the catch/fleet ratio in Iceland is presently more than two times as high as in Norway. Moreover, the catch per fisherman per year in Iceland exceeds that of Norway by a factor of three. To some extent, the superior productivity of the Icelandic fishing industry can be traced to the high density of fish around Iceland, but the local fishermen's knowledge of and proximity to their own fishing grounds has almost surely been a contributing factor as well. Like agriculture, fishing is heavily subsidized in the EC and in Norway, but not in Iceland. For this reason, and also because of extensive overfishing in EC waters in recent years (the North Sea, for example), it seems clear that the common fisheries policy of the EC needs an overhaul to promote efficiency and preserve fish stocks, independently of whether Iceland and Norway apply for EC membership in the near future or not.

In view of the comparative advantage of the Icelandic fishing industry, it does not seem likely that other member countries of the EC would be able to compete successfully in a free market for fishing permits in Iceland if the market were opened to foreign competition, provided that satisfactory side measures were taken to ensure

fair trade in full recognition of the Icelandic economy's unique dependence on fishing. Consequently, the exploitation of Iceland's limited fish resources would most likely remain primarily in Icelandic hands despite EC membership, as is so strongly desired by the Icelanders, and so the main current hindrance on their way to membership could be removed without cost. The same seems to apply to Norway.

The Icelandic government has repeatedly asserted that free access of foreign fleets to Icelandic fisheries inside the 200-mile exclusive economic zone in exchange for free access of Icelandic fish products to the EC market is out of the question. However, this position should not be construed as necessarily precluding the possibility of *selling* foreign vessels temporary access to Icelandic fisheries in some way as part of an agreement in connection with Iceland's entry into the Community as a full member some time in the future or as part of a trade arrangement with the Community with comprehensive reciprocal rights and obligations.

In this context, it is interesting to note that public opinion surveys conducted by the Social Science Institute at the University of Iceland indicate that a majority of the electorate is in favor of Icelandic membership in the EC. Specifically, 60 percent of those who have made up their minds favor membership, and more than 80 percent favor membership provided that other Nordic countries become members (see Kristinsson 1990). When asked about their attitudes to the four freedoms, 78-80 percent of those who have made up their minds favor freer trade in goods and services and 62-64 percent favor increased mobility of capital and labor between Iceland and other countries in Western Europe. The internal consistency of the answers is quite striking.

Why do the political parties disagree so strongly with the public on the issue of potential Icelandic membership in the EC? The main reason seems to be that most or all of the political parties have traditionally been more responsive to the wishes of producers, especially in the fishing industry and in agriculture which employ less than 20 percent of the labor force combined, than to those of consumers. The producer associations are well organized and vocal pressure groups, and they wield

considerable influence in politics. The interests of consumers, on the other hand, are scattered and, therefore, tend to be neglected in the political process. This problem is exacerbated by an electoral system which guarantees rural constituencies, where fishing and agriculture are more important than in the country at large, widely disproportional representation in Parliament.

The relative strength of producer organizations is not, of course, a problem that is specific to Iceland; Japan is another extreme case. However, the overbearing influence of producer organizations on government policy is somewhat puzzling in societies where trade unions have generally had the upper hand in wage negotiations with employer associations over the years, as has been the case in Iceland.

#### **4. Oil extraction, pollution, and traffic congestion**

The common access problem resulting from the absence of private property rights matters not only for Iceland and Norway, but also for several other European countries with an interest in fisheries or in other industries that exploit common property resources involving substantial externalities--including, for example, a clean environment and uncongested roads. Thus, the preceding analysis can be applied to the potential problems involving oil extraction, forestry, environmental pollution, and traffic congestion in the process of further economic integration in Europe.

Norway's oil resources are a case in point. Presently, drilling licences are granted by the Norwegian government to domestic and, on a smaller scale, to foreign firms free of charge, and their oil revenues are then taxed *ex post*. If Norway applies for EC membership, the Community might insist on access to Norway's limited oil reserves as a condition for Norwegian membership. This problem, should it arise, could be solved in the same way as the common access problem in fisheries: by auctioning the licences off *ex ante* rather than giving them away and taxing them *ex post*. Thus, other member countries could gain access to the Norwegian market for drilling licences temporarily without being granted free access to the resource



itself. A similar principle could be applied to Finnish forestry on publicly owned land in connection with the conceivable entry of Finland into the EC.

To take another example, Swedish authorities have expressed concern about the allegedly less stringent standards of environmental protection in the EC countries than in Sweden. As far as air pollution is concerned, Sweden is clearly not in a position to stem acid rain originating on the continent of Europe, for instance. Only through EC membership could Sweden hope to be able to influence Community standards on toxic emissions into the atmosphere. On the other hand, Swedish concern about the consequences of EC membership for earth and fresh-water pollution in Sweden could be alleviated by the establishment of an active market for pollution permits or, equivalently, by the imposition of effluent fees along the lines advocated by economists ever since the days of Pigou at least (see, for example, Baumol and Oates 1989). Under such an arrangement, EC membership would not require Sweden to accept, or to negotiate a mutually acceptable change in, the fresh-water pollution standards of the Community, but only to accept equal access of other member countries to the Swedish market in fresh-water pollution permits. Through domestic government intervention in the market, the price of permits could be kept high by restricting the supply of permits in order to keep the pollution in check.

If French, German, or Italian firms were willing to pay the same price as their Swedish competitors for the right to pollute the environment in Sweden (or, rather, for access to a clean environment), then concerns about pollution caused by foreign firms in Sweden would no longer constitute a legitimate objection to Swedish membership in the EC. Pollution from local sources in Sweden could then be kept under control without discriminating among potential pollutants by nationality. As in the case of Icelandic and Norwegian fisheries, a simple market solution could thus, in principle at least, be relied on to remove a potentially important obstacle to Swedish entry into the EC, independently of whether other member countries chose to adopt the same solution to domestic pollution control or not. However, a satisfactory solution to the problem of air pollution across national boundaries within the

Community would require cooperation among EC members on the adoption of stricter emission standards or, preferably, of effluent fees or the establishment of an active market for pollution permits in the Community. After all, very substantial macroeconomic efficiency gains could be reaped by protecting the environment through the market mechanism rather than by direct quantitative controls.

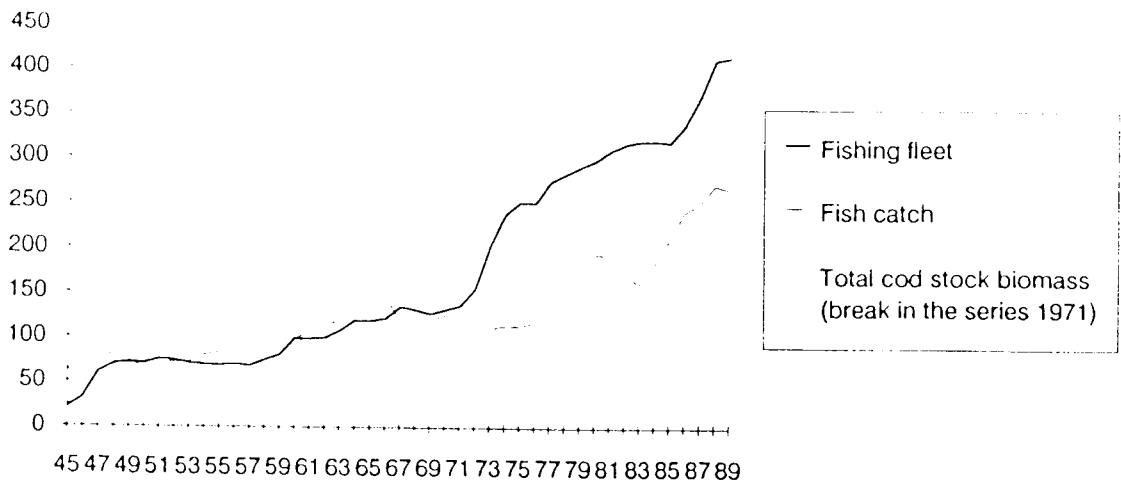
To take one more example, consider finally the case of Swiss highways. With unrestricted flow of European goods and services across Swiss borders, the highways would undoubtedly become more congested than they are now if Switzerland became a member of the EC. The problem could be solved in a similar way as the ones reviewed above, namely, by regulating road traffic through transferable permits issued by the Swiss government or, equivalently, by taxing traffic. In this way, discrimination by nationality could be avoided, and traffic through the beautiful Swiss countryside could be kept under control at the same time.

As the internal market of the EC approaches completion before the end of 1992 and the Community prepares for further expansion, possibly to incorporate some or all of the EFTA membership, it is important that economists and policy makers direct their attention to the substantial macroeconomic and social gains that can be reaped through microeconomic reforms of existing structures and institutions as well as through judicious monetary, financial, and fiscal management.

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Figure 1. Iceland: Fishing fleet and fish catch at constant prices and total cod stock biomass in tons 1945 - 1989 (1960 = 100)



Source: National Economic Institute and Marine Research Institute, Reykjavik.