



Dani Rodrik

A parable for the world economy

(This is the Afterword that appears in my book [The Globalization Paradox](#). It is an attempt to state the book's central argument in the form of a bedtime story.)

Once upon a time there was a little fishing village at the edge of a lake. The villagers were poor, living off the fish they caught and the clothing they sewed. They had no contact with the other inland villages, which were miles away and reached only after days of travel through a dense forest.

Life for the villagers took a turn for the worse when the stock of fish in the lake plummeted. Villagers responded by working harder, but they were caught in a vicious cycle. The scarcer the fish got the longer the hours that each fisherman spent on the lake, which in turn depleted the fish stock at an even faster rate.

The villagers went to the village shaman and asked for help. He shrugged and said, "What is our council of elders for? They sit around all day and do nothing but gossip. They should solve this problem." "How?" the villagers asked. "Simple," he said. "The council should set up a fishermen's cooperative that decides how much fish each man can catch in a month. The fish stock will be renewed and we will not run into this problem in the future."

The council of elders did as the shaman suggested. The villagers weren't happy that the elders told them how to run their business, but they understood the need for the restraint. In no time, the lake was overflowing with fish.

The villagers returned to the shaman. They bowed in front of him and thanked him for his wisdom. Just as they were leaving, the shaman said: "Since you seem to be interested in my help, would you like me to give you another idea?" "Of course," the villagers cried in unison.

"Well," the shaman said. "Isn't it crazy that you all have to spend so much of your time sewing your own clothes when you could buy much better and cheaper ones from the villages on the other side of the forest? They aren't easy to get to, but you would only have to make the trip once or twice a year."

"Oh, but what can we sell in return?" asked the villagers. "I hear the people inland love dried fish," said the shaman.

And that is what the villagers did. They dried some of their fish and started to trade with the villages on the other side of the forest. The fishermen got rich on the high prices they received while the price of garments in the village dropped sharply.

Not all villagers were happy. Those who did not own a boat and whose livelihood depended on the garments they sewed were caught in a squeeze. They had to compete with the cheaper and higher-quality garments brought in from the other villages and had a harder time getting their hands on cheap fish. They asked the shaman what they should do.

"Well, this is another problem for the council of elders to solve," said the shaman. "You know how every family has to make a contribution during our monthly feast?" "Yes,"

they replied. "Well since the fishermen are now so much richer, they should make a bigger contribution and you should make less."

The council of elders thought this was fair and they asked the fishermen to increase their monthly contribution. The fishermen weren't thrilled, but it seemed like a sensible thing to do to avoid discord in the village. Soon the rest of the village was happy too.

The shaman meanwhile had another idea. He said: "Imagine how much richer our village could be if our traders did not have to spend days traveling through the dense forest. Imagine how much more trade we could have if there was a regular road through the forest." "But how?" asked the villagers. "Simple," said the shaman. "The council of elders should organize work brigades to cut through the forest and lay down a road."

Before long, the village was connected to the other villages by a paved road that cut down on travel time and cost. Trade expanded and the fishermen got even richer, but they didn't neglect to share their riches with the other villagers at least time.

As time passed, however, things turned sour. The road gave villagers from beyond the forest easy access to the lake and allowed them to take up fishing, which they did in droves. Since neither the council nor the fisherman's cooperative could enforce the fishing restrictions on outsiders, the fish stock began to deplete rapidly again.

The new competition also cut into the earnings of the local fishermen. They began to complain about the feast tax being too onerous. "How can we compete effectively with the outsiders who are not subject to similar requirements?" they asked in desperation. Some local fishermen even made a habit of absenting themselves from the village on feast days—the road had made it easy to come and go—and evaded their obligations altogether. This made the rest of the villagers furious.

It was time for another trip to the shaman. The village held a long and boisterous meeting at which each side argued its case passionately. All agreed that the situation was unsustainable, but the proposed solutions varied. The fishermen wanted a change in the rules that would reduce their contributions to the monthly feasts. Others wanted an end to the fish trade with outsiders. Some even asked to blockade the road with boulders so that no-one could enter or leave the village.

The shaman listened to these arguments. "You have to be reasonable and compromise," he said after some thought. "Here is what I suggest. The council of elders should place a toll booth at the entrance to the access road, and everyone who comes in and out should pay a fee." "But this will make it more costly for us to trade," the fishermen objected. "Yes indeed," the shaman replied. "But it will also reduce over-fishing and make up for the loss in contributions at the feasts." "And it won't cut off trade altogether," he added, pointing with his head to the villagers who wanted to block the road.

The villagers agreed that this was a reasonable solution. They walked out of the meeting satisfied. Harmony was restored to the village.

And everyone lived happily ever after.