<center>Pollution
Market Environmentalism, Coase, etc.
Economists vs. Environmentalists</center>

- Can we, should we, eliminate all pollution?
- Trade-offs, conflicting values, jobs vs. the environment.
- Means (vs. Ends):
  - Technology adoption, abatement quotas and targets.
  - Marketable permits.
- Can gov't say it wants 'optimum' pollution? Can it say you can buy a license to pollute?
- Cost of depolluting: opportunity costs, diminishing returns.

<center>Some issues and solutions we have covered</center>

- Subsidies and restrictions:
  - 'How much?' questions are ignored.
  - Hard to monitor subsidy recipients.
- Use the price system – make people pay the full cost of driving. Internalize costs.
- How much do you value clean air?
  - Can the market ask this question well?
  - Clean air as public good: tragedy of the commons.
  - We need – but can't easily create - property rights to the air.

<center>Diff possible Approaches</center>

- Direct Regulation
- Liability
- Environmental Taxes
- Tradeable emission permits

<center>Problems with regulation</center>

- Inflexible.
- Treats low- and high-cost pollution abaters the same.
- Too little incentive for innovation.
- Subject to government failure (micro-decoupling, protectionism).
- Influential businesses gain exemptions.

<center>Pigouvian taxes: Advantages</center>

- Set tax = to cost of externality.
- Targeted at social bads.
- Flexible and like the market:
  - polluters can decide between paying for abatement or paying the tax.
  - Induces firms to find cheapest/most innovative solution.

- – Best firms win.
- Avoids politics of regulations

What the Coasians say.

- Taxes are hard to administer, need fine-grained info.
  - – Externalities are locality- and time-specific
  - – Harm from gas emissions differ by type of car, weather, proximity to people, etc..
- Subsidies rarely work.
  - – Rewards existing firms, not new/future ones.

…More

- Pigouvian taxes and subsidy assumes polluter is bad, that all resources ideally should be conserved, kept pure.
- Rather externalities are bi-lateral.
  - – Pure air = Aesthetic or recreational use
  - – Smokestack = industrial use.
  - – Force the two uses to compete.
  - – All externalization suffered would be voluntary.

Preferred approaches of Coasians

- Air pollution: tradeable rights/permits. (acid rain reduction)
- Assign property rights: Cap and trade regimes.
- Charge for use of forests (timber vs. recreation).
  - – Gov't shouldn't protect either use.
- Mixed use may be most efficient.
  - – Only negotiations can decide.
  - – Humpty & Dumpty: can't drink from the river, but it won't smell either.

Remember the Coasian framework

- Wanting a MHVU result.
- Competing uses of land.

Costs of polluting
Vs.
Costs of not polluting

- Best role for govt: assign property rights, allow bargaining or auctions.
- Markets adjust for change (pollution may be efficient today, but not tom'w).

Advantages of Coasian 'market environmentalism'

- Doesn't require state to 'know' **how much bad to offset or deter** in each case.
  - – Only the goal.
- Sensitive to producer-specific differences:

– Induces 'right' industries to pollute more (or abate more). **Static efficiency**
– Rewards cleanest producers, encourages innovation. **Dynamic efficiency**

Some other features of market environmentalism

- Some environmental assets could be sold at auction by state (forests, water).
- Skeptical of central planning.
- Scarcity and depletion is priced into markets (hence, induces search for alternatives)
- Market encourages environmentalism (resource-light means lower cost).

Critics of 'market environmentalism'

- Incentives to manipulate emissions reporting.
- Inequalities: single investor could horde permits, manipulate market.
- Int'l trading helps nations with more mobile capital.
- Cap may be too high→ permits too cheap→ incentive to pollute

More from critics:

- If we don't 'pay' enough to keep wilderness pristine.
- If we are willing to work in unsafe conditions for only $2000 more.
- Does this give us an 'objective' measure of the value of pollution control?
- Market won't fund 'basic research' into eco-alternatives.
  – Need regulations to give incentive to innovate.