

Regulating Pollution

Kolstad - Chapter 8

Introduction

- Two basic theories of regulation:
 - ① Public Interest Theory
 - ② Interest Group Theory
- Traditional normative Justification for government regulation
 - ① Imperfect Competition
 - ② Imperfect Information
 - ③ Provision of -+

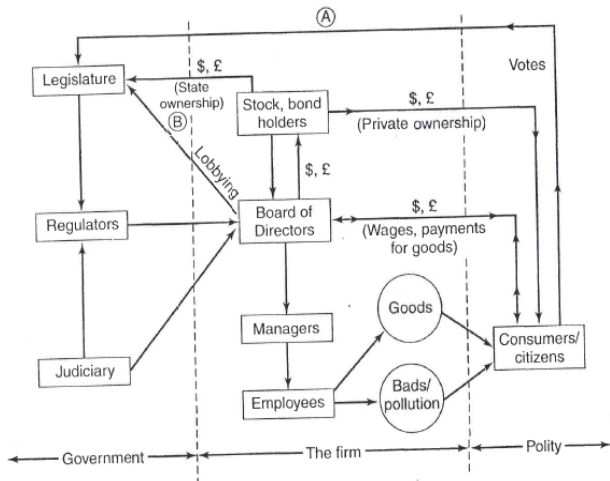
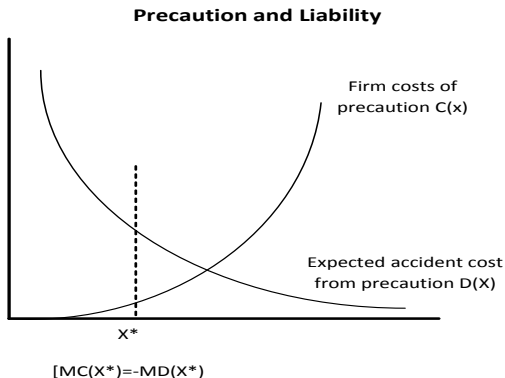


Figure 8.1 Schematic of interactions among government, polluting firms, and consumer citizens.

- The key features:
 - Restricted choice for the polluters as to what means will be used to achieve an appropriate environment target
 - A lack of mechanisms for equalizing marginal control cost among several different polluters
- Advantages:
 - More flexibility in regulating complex environmental process
 - Certainty in how much pollution will result from regulation
 - Simplifying monitoring of compliance with a regulation
- Disadvantages:
 - Informational costs are high
 - Polluter has incentives to distort information provided to the regulator
 - Is difficult to satisfy the equimarginal principle

- **Pollution Fees:** the payment of a charge per unit of pollution emitted
- **Marketable permit:** allows polluters to buy and sell the right to pollute
- **Liability:** If you harm someone, you must compensate that person for damage



- Advantage: Equimarginal Principle
- Disadvantage:
 - Developing Economic Incentives that take into account the complexities is difficult
 - There is a great deal of uncertainty associated with the environmental problem being controlled.

- **How best can regulations be structured for the case in which we cannot observe emissions?**
- **How best can regulations be structured to give polluters incentives to act efficiently and truthfully divulge information necessary for regulation?**
- **How can enforcement policies be designed to give polluters incentives to obey regulations?**