Topic-pollution control

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Command-and-control

- A policy that involves the government imposing quantitative limits on the amount of pollution firms are allowed to emit, or requiring firms to install specific pollution control devices.

Cap-and-trade

- The government establishes an allowable amount of emissions.
- Emissions permits are distributed.
- Firms can trade emissions permits.
    - Firms with high costs of reducing pollution will buy permits form firms with low costs of reducing pollution, ensuring that pollution is reduced at the lowest possible cost.
- Hence the market is used to achieve efficient pollution reduction.

The sulfur dioxide cap-and-trade system

In 1990, Congress enacted a cap-and-trade system for sulfur dioxide emissions.

- Improvements in pollution reduction technology resulted, with the cost of compliance ending up almost 90 percent less than firm initially estimated.
- This program was very effective, with benefits at least 25 times the cost of implementing the program

The end of the sulfur dioxide cap-and-trade system

By 2013, the program had effectively ended. Why?

- Further emissions reductions were needed. President Bush attempted to lower the cap, but Congress resisted.

- As a result, the EPA decided to return to a command-to-control approach in order to achieve the reduction.

While cap-and-trade appears to be very effective, any policy needs political backing to have a chance at success.

Criticisms of cap-and-trade

Environmentalists object to cap-and-trade as it gives firms “licenses to pollute".

- But pollution has a benefit: it allows cheap production.
- Every production decision uses up some scare resource: time, natural resources, clean air, etc.
- In this sense, paying for using the clean air seems appropriate.

Criticisms of cap-and-trade

Another serious concern is that cap-and-trade may produce hot-spots, locations where a lot of pollution takes place.

- This would be the case if the firms with high costs of pollution reduction were geographically close.

Why has cap-and-trade lost its popularity?

Cap-and-trade alters who pays for pollution:

- When pollution is unregulated, all consumers bear the consequences of pollution.
- When cap-and-trade is enacted, the cost of pollution is borne directly by firms.

Why has cap-and-trade lost its popularity?

Polluting firms tend to be able to organize better lobbying efforts, because consumers feel the cost of pollution diffusely.

- This illustrates the classic special-interest problem in politics: small groups are better able to organize than large groups, even when the large groups might benefit a lot from organizing.