

**Due:** April 26

Issue: Should Pollution Be Put to the Market Test?

*Briefly state the main idea that forms the basis of this argument:*

For many years, economists have argued that traditional regulatory instruments such as emission limits and performance standards are costly and inefficient. On the other hand, environmentalist and other critics often point out that markets are imperfect because of market failures such as externalities, monopolies, and public goods. The negative side effects that come with pollution are not priced into the market—the prices are too low! Even though the market (may) results in an efficient solution, the equilibrium is not socially optimal—the social costs exceed the market price. This fact causes tremendous discussion and entails issues about how to deal with pollution. While imposing regulations leads to inefficient outcomes, market-based approaches also have their own flaws.

*List 2 or 3 facts that the author uses to support the idea on the FOR or PRO side:*

Dissatisfaction with the cost-effectiveness of the command and control approach led economists and policy makers to design another way of enforcing the same environmental standard: through market based incentives. Command-and-control policies are inefficient and do not provide companies any incentives to reduce pollution if the costs to do so are higher than the imposed tax by regulators. On the other hand, emissions fees create financial incentives to lower pollution as long as the as the pollution-abatement costs are lower than the imposed tax per unit. In addition, under such a market-bases approach firms are looking for innovative ways to reduce pollution which leaves them with more money in their pockets. Furthermore, market-based approaches such as tradable permits allow no more pollution than is consistent with EPA standards but give firms the possibility to trade freely in open markets—without any regulators.

*List 2 or 3 facts that the author uses to challenge the idea on the AGAINST or NEGATIVE side:*

Even though some market-based approaches were successful, the fundamental theorems of welfare economics do not always lead to an efficient outcome. The underlying assumptions are questionable. Moreover, business often advocates market-based instruments as a welcome policy innovation in principle; this is not necessarily match by enthusiasm for specific measures. Debates on the distributional implications of instruments have eclipsed support for their economic efficiency. Especially, the resulting equilibrium of a market economy may not necessarily be the social desired outcome. In addition, no one can guarantee that the market equilibrium is stable and solves the problem of pollution in the long run

*List any propaganda, bias or faulty reasoning that you feel exists in either of the articles on this issue?*

Even though emission trading programs are seen to be cost effective as compared to the command and control methods, the implementation of these programs can lead to some costs, which are not accounted for in most models. If firms decide not to trade in these untested markets then the potential cost savings will not be realized for the economy. Furthermore, the Neo-classical model does not translate that easy into reality. According to the Edgeworth Box, the government just has to determine the desired, initial endowment—through redistribution of wealth or other measures—and the market guarantees an efficient outcome. However, to determine the optimal endowment is a guess at best. The government does not know the people's preferences. That's why government intervention sometimes may make things worse than they really are!

*Which side of the argument seems to make most sense to you and why?*

In many situations tradable permits, emissions fees, and other market-based instruments are the best and most efficient solution. Nevertheless, sometimes markets fail, and there's where government regulation is needed. The government has to set up a framework of rules and regulations within businesses can operate, maximize profits, and be creative and innovative at the same time. However, the imposed regulations should be kept at a minimum to let the forces of supply and demand determine the price for the specific good. Government intervention in turn is necessary when the problem of pollution has to do with one of the mentioned market failures in the opening paragraph.