

CONTENTS

PREFACE ix

1 FOUR ECONOMIC QUESTIONS ABOUT CLIMATE CHANGE 1

- 1.1 Introduction 1
- 1.2 Four Questions 2
- 1.3 How Much Pollution Is Too Much? 5
- 1.4 Is Government Up to the Job? 9
- 1.5 How Can We Do Better? 9
- 1.6 Can We Resolve Global Issues? 12
- 1.7 Summary 13

PART I HOW MUCH POLLUTION IS TOO MUCH?

2 ETHICS AND ECONOMICS 19

- 2.1 Introduction 19
- 2.2 Utility and Utilitarianism 20
- 2.3 Social Welfare 22
- 2.4 Summary 24

3 POLLUTION AND RESOURCE DEGRADATION AS EXTERNALITIES 27

- 3.1 Introduction 27
- 3.2 The Open-Access Problem 29
- 3.3 The Public Goods Problem 32
- 3.4 Is Sustainable Business a Solution? 35
- 3.5 Summary 36

4 THE EFFICIENCY STANDARD 40

- 4.1 Introduction 40
- 4.2 Efficiency Defined 40
- 4.3 Efficient Pollution Levels 43
- 4.4 Marginals and Totals 46
- 4.5 The Coase Theorem Introduced 47
- 4.6 Air Pollution Control in Baltimore: Calculating the Efficient Standard 48
- 4.7 The Ethical Basis of the Efficiency Standard 50
- 4.8 Real-World Benefit–Cost Analysis 51
- 4.9 Summary 54

5 MEASURING THE BENEFITS OF ENVIRONMENTAL PROTECTION 63

- 5.1 Introduction 63
- 5.2 Use, Option, and Existence Value: Types of Nonmarket Benefits 64
- 5.3 Consumer Surplus, WTP, and WTA: Measuring Benefits 65
- 5.4 Risk and the Value of Statistical Life 67
- 5.5 Revealed Preference I: Hedonic Regression 72
- 5.6 Revealed Preference II: Travel Cost 73
- 5.7 Revealed Preference III: Defensive Expenditures 75
- 5.8 Stated Preference: Contingent Valuation 76
- 5.9 Summary 81
- Appendix 5A:** WTA and WTP Redux 86
 - 5A.1 An Indifference Curve Analysis 86
 - 5A.2 The Endowment Effect or Substitutability? 88

6 MEASURING THE COSTS OF ENVIRONMENTAL PROTECTION 90

- 6.1 Introduction 90
- 6.2 Direct Costs of Environmental Regulation 91
- 6.3 Opportunity Costs of Environmental Regulation: Productivity 93
- 6.4 Opportunity Costs of Environmental Regulation: Employment 95
- 6.5 General Equilibrium Effects and the Double Dividend 101
- 6.6 A Final Look at Benefit–Cost Analysis 102
- 6.7 Summary 105

7 THE SAFETY STANDARD 109

- 7.1 Introduction 109
- 7.2 Defining the Right to Safety 110
- 7.3 The Safety Standard: Inefficient 112
- 7.4 The Safety Standard: Not Cost-Effective 113
- 7.5 The Safety Standard: Environmental Justice or Regressive Impact? 114
- 7.6 Siting Hazardous Waste Facilities: Safety versus Efficiency 116
- 7.7 Summary 119

8 THE SUSTAINABILITY STANDARD 123

- 8.1 Introduction 123
- 8.2 Sustainability: Neoclassical and Ecological Approaches 124
- 8.3 Future Benefits, Costs, and Discounting 127
- 8.4 An Example of Discounting: Light Bulbs 129
- 8.5 Savings, Investment, and Market Interest Rates 130
- 8.6 The Social Discount Rate and Dynamic Efficiency 131
- 8.7 Discounting Climate Change 134
- 8.8 Ecological Economics, Strong Sustainability, and the Precautionary Principle 136
- 8.9 Strong Sustainability in Practice: Endangered Species, EIS, and Reach 137
- 8.10 Summary 139

9 MEASURING SUSTAINABILITY 143

- 9.1 Introduction 143
- 9.2 Malthus and Ecological Economics 144
- 9.3 Modern Debates: Limits to Growth and Planetary Boundaries 146
- 9.4 Measuring Strong Sustainability: Impacts and Footprints 148
- 9.5 Measuring Weak Sustainability: Net National Welfare and Inclusive Wealth 152
- 9.6 Natural Capital Depreciation 156
- 9.7 Are We Achieving Sustainability? 158
- 9.8 Discounting, Sustainability, and Investing for the Future 162
- 9.9 The Ecological–Neoclassical Debate in Context 164
- 9.10 Summary 165

10 NATURAL RESOURCES AND ECOSYSTEM SERVICES 171

- 10.1 Introduction 171
- 10.2 Nonrenewable Resources and the Hotelling Model 172
- 10.3 Testing the Nonrenewable Resource Model 178
- 10.4 The Roller Coaster Ride of Oil Prices 179
- 10.5 Peak Oil? 180
- 10.6 Renewable Resources 182
- 10.7 Renewable Resource Policy: Fisheries and Endangered Species 186
- 10.8 Ecosystem Services and Natural Capital 189
- 10.9 Summary 192

11 IS MORE REALLY BETTER? CONSUMPTION, WELFARE, AND BEHAVIOR 197

- 11.1 Introduction 197
- 11.2 Money and Happiness 198
- 11.3 Social Norms and the Rat Race 199
- 11.4 Positional Goods and Consumption Externalities 202
- 11.5 Welfare with Social Consumption 203
- 11.6 Overconsumption Policy Solutions 205
- 11.7 Behavioral Economics and Behavior Change 208
- 11.8 Summary 209

PART II IS GOVERNMENT UP TO THE JOB?

12 THE POLITICAL ECONOMY OF ENVIRONMENTAL REGULATION 215

- 12.1 Introduction 215
- 12.2 The Process of Environmental Regulation 216
- 12.3 Regulation under Imperfect Information 218
- 12.4 Bureaucratic Discretion and Political Influence 219
- 12.5 The Influence Game: Pre-2016 221
- 12.6 The End of the Bipartisan Consensus 224
- 12.7 Better Information, More Democracy 229
- 12.8 Summary 231

13 AN OVERVIEW OF ENVIRONMENTAL LEGISLATION 235

- 13.1 Introduction 235
- 13.2 Cleaning the Air 236
- 13.3 The Clean Air Act and Climate Change 239
- 13.4 Fishable and Swimmable Waters 242
- 13.5 Hazardous Waste Disposal on Land 243
- 13.6 Chemicals and Pesticides 246
- 13.7 Endangered Species Protection 249
- 13.8 Summary 251

14 THE REGULATORY RECORD: ACHIEVEMENTS AND OBSTACLES 254

- 14.1 Introduction 254
- 14.2 Accomplishments of Environmental Regulation 254
- 14.3 Monitoring and Enforcement: Political Constraints 258
- 14.4 The Appeal of Incentive-Based Regulation 261
- 14.5 Beyond Regulation? Promoting Clean Technology 262
- 14.6 Summary 264

PART III HOW CAN WE DO BETTER?**15 INCENTIVE-BASED REGULATION: THEORY 271**

- 15.1 Introduction 271
- 15.2 The Cost-Effectiveness Rule 272
- 15.3 IB Regulation and Cost-Effectiveness 275
- 15.4 IB Regulation and Technological Progress 278
- 15.5 Potential Problems with IB Regulation 279
- 15.6 Summary 285
- Appendix 15A:** Imperfect Regulation in an Uncertain World 288
 - 15A.1 Minimizing the Costs of Being Wrong 289
 - 15A.2 An Application to Greenhouse Gas Emissions 291
 - 15A.3 Summary 292
- Appendix 15B:** Incentive-Compatible Regulation 293
 - 15B.1 Incentives to Lie 293
 - 15B.2 Incentives to Tell the Truth 295
 - 15B.3 Summary 297

16 INCENTIVE-BASED REGULATION: PRACTICE 298

- 16.1 Introduction 298
- 16.2 Lead and Chlorofluorocarbons 299
- 16.3 Trading Urban Air Pollutants 299
- 16.4 Marketable Permits and Acid Rain 303
- 16.5 Carbon Trading in the Northeast and California 306
- 16.6 Two Failed U.S. Efforts: Mercury and Carbon 309
- 16.7 The European Emissions Trading System 311
- 16.8 Pollution Taxes and Their Relatives 313
- 16.9 Summary 317

17 PROMOTING CLEAN TECHNOLOGY: THEORY 321

- 17.1 Introduction 321
- 17.2 Path Dependence and Clean Technology 322
- 17.3 Clean Technology Defined 323
- 17.4 If You're So Smart, Why Aren't You Rich? 326
- 17.5 Picking the Winning Path 329
- 17.6 Promoting Early-Stage Clean Technologies 331
- 17.7 Promoting Late-Stage Clean Technologies 333
- 17.8 Clean Technology: Two Case Studies 336
- 17.9 Summary 341

18 ENERGY POLICY AND THE FUTURE 347

- 18.1 Introduction 347
- 18.2 Technology Options: Electricity and Heat 348
- 18.3 Policy Options: Electricity and Heat 357
- 18.4 Technology Options: Transport 361
- 18.5 Policy Options: Transport 365
- 18.6 Summary 370

PART IV HOW CAN WE SOLVE GLOBAL CHALLENGES?

19 POVERTY, POPULATION, AND THE ENVIRONMENT 375

- 19.1 Introduction 375
- 19.2 Poverty and the Environment 377
- 19.3 The Population Picture in Perspective 380
- 19.4 An Economic Approach to Family Size 382
- 19.5 Controlling Population Growth 383
- 19.6 Consumption and the Global Environment 387
- 19.7 Envisioning a Sustainable Future 389
- 19.8 Summary 391

20 ENVIRONMENTAL POLICY IN LOW-INCOME COUNTRIES 394

- 20.1 Introduction 394
- 20.2 The Political Economy of Sustainable Development 394
- 20.3 Ending Environmentally Damaging Subsidies 397
- 20.4 Establishing and Enforcing Property Rights 398
- 20.5 Regulatory Approaches 401
- 20.6 Sustainable Technology: Development and Transfer 405
- 20.7 Resource Conservation and Debt Relief 407
- 20.8 Trade and the Environment 412
- 20.9 Summary 416

21 THE ECONOMICS OF GLOBAL AGREEMENTS 420

- 21.1 Introduction 420
- 21.2 Agreements as Public Goods 421
- 21.3 Monitoring and Enforcement 422
- 21.4 The Ozone Layer and Biodiversity 424
- 21.5 Stopping Global Warming: Theory 427
- 21.6 Stopping Global Warming: Reality 429
- 21.7 Summary 432

**SELECTED WEBSITES FOR ENVIRONMENTAL AND NATURAL
RESOURCE ECONOMISTS**

437

INDEX

I-1