



Workshop:

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ABSTRACT

On Pollution Standard Setting and Compliance Issues

Carmen Arguedas

Universidad Autónoma de Madrid

Most textbooks consider pollution standards as command-and-control instruments. Polluters are told what they have to do and it is generally assumed that they will. Emissions are not priced, as opposed to carbon taxes. No flexibility is allowed, as opposed to tradable permits markets. Hence, pollution standards are often regarded as inferior, at least to economists' taste. However, compliance issues are often neglected. In practice, firms may decide to exceed the standard. This may occur if firms' expected costs of violating pollution limits are smaller than firms' compliance costs, and regulators must account for this fact when choosing the appropriate level of the standards. The presentation reviews several recent studies on the interaction between pollution standards and compliance issues. Three main research topics have received increasing attention. The first has to do with the appropriate shape of the fines for non-compliance, and weather full compliance should be pursued as a desirable objective. The second is related to the interaction and different information levels of interested parties and several layers of government. The third comprises the analysis of standard setting and related enforcement issues in dynamic contexts, both in flow and stock pollution problems.

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