

Thinking Clearly about Markets and Mandates

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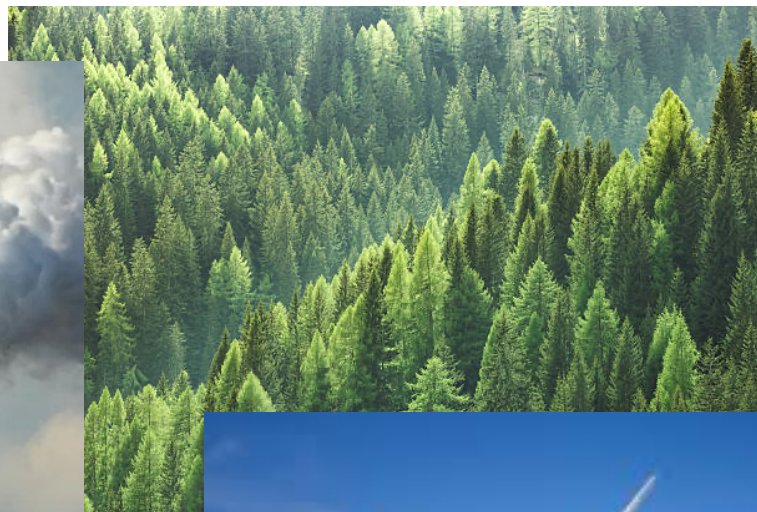
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MARKETS VS. MANDATES

PROMOTING ENVIRONMENTAL QUALITY AND ECONOMIC PROSPERITY

January 30, 2023 | Stanford, CA

Scarcity means Tradeoffs



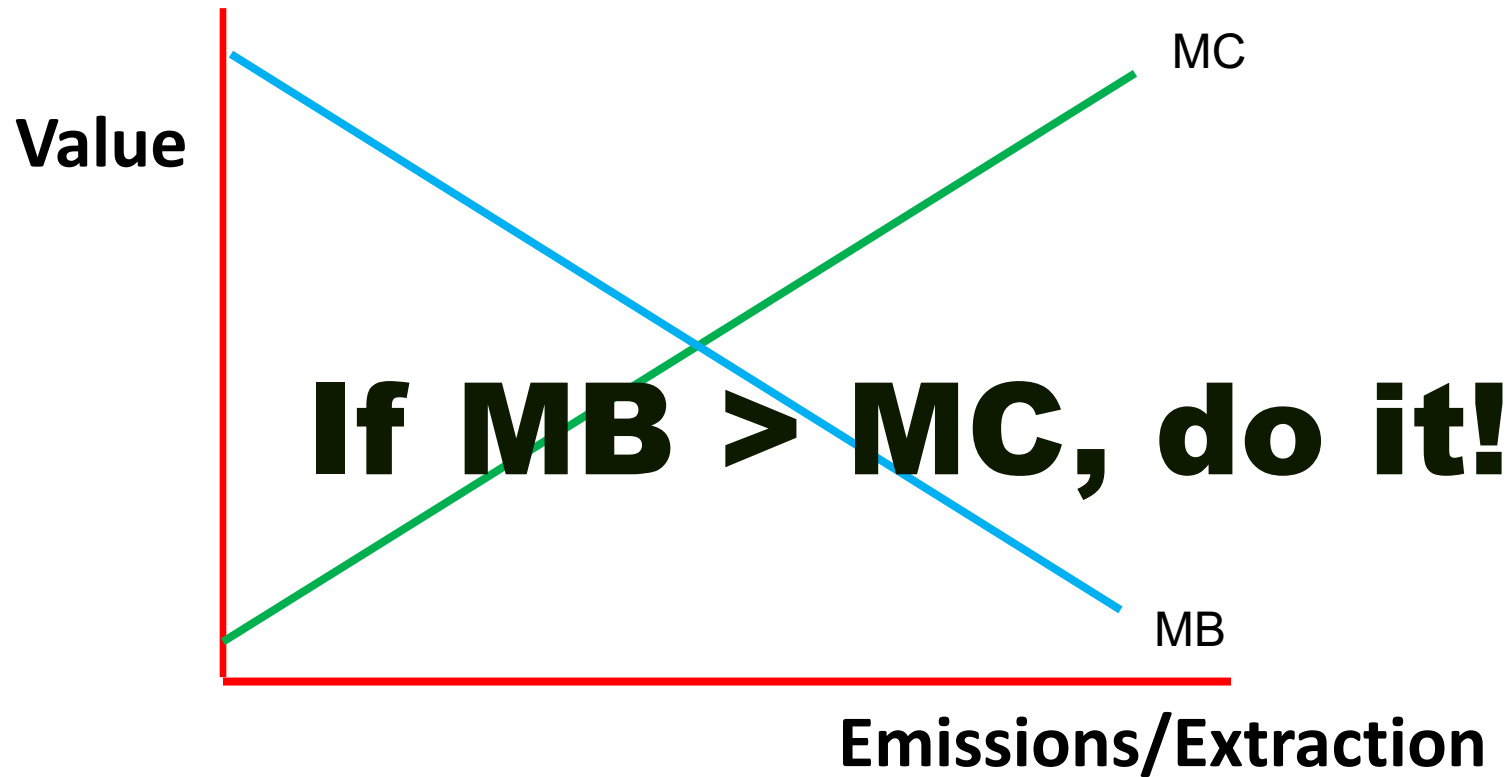
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Environmental Tradeoffs



The Economic Way of Thinking

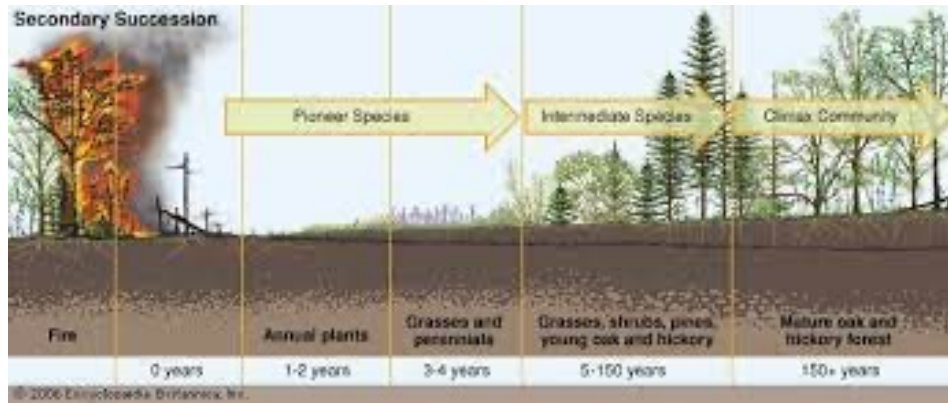


Blackboard Economics

Markets vs. Mandates

Processes

Resource owners respond to changing values.
Gains from trade result in cooperation, not conflict.



Moving Picture

Rules

Politics & administrators assign environmental goals.
Command-and-control dictates how to achieve them.



Kodachrome Moment

Why do Markets Fail?



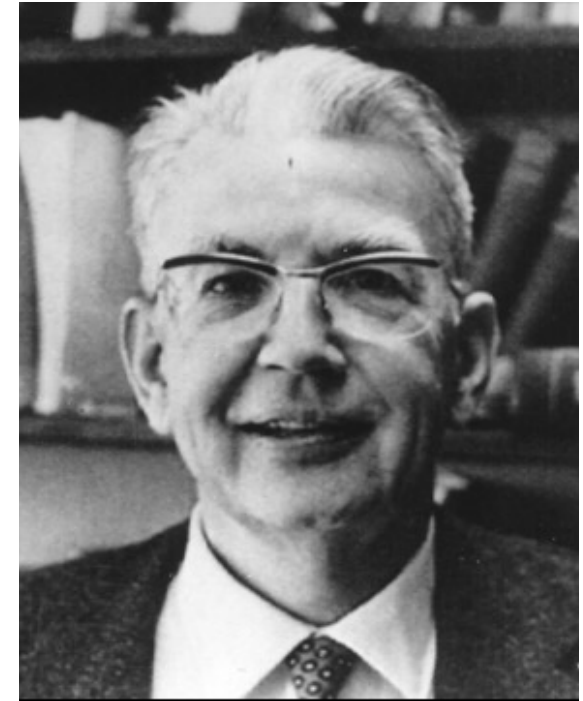
Arthur Pigou

- **The divergence in costs occurs “owing to the technical difficulty of enforcing compensation for incidental disservices.”**
- **The divergence in benefits occurs “because incidental services are performed to third parties from whom it is technically difficult to exact payment.”**

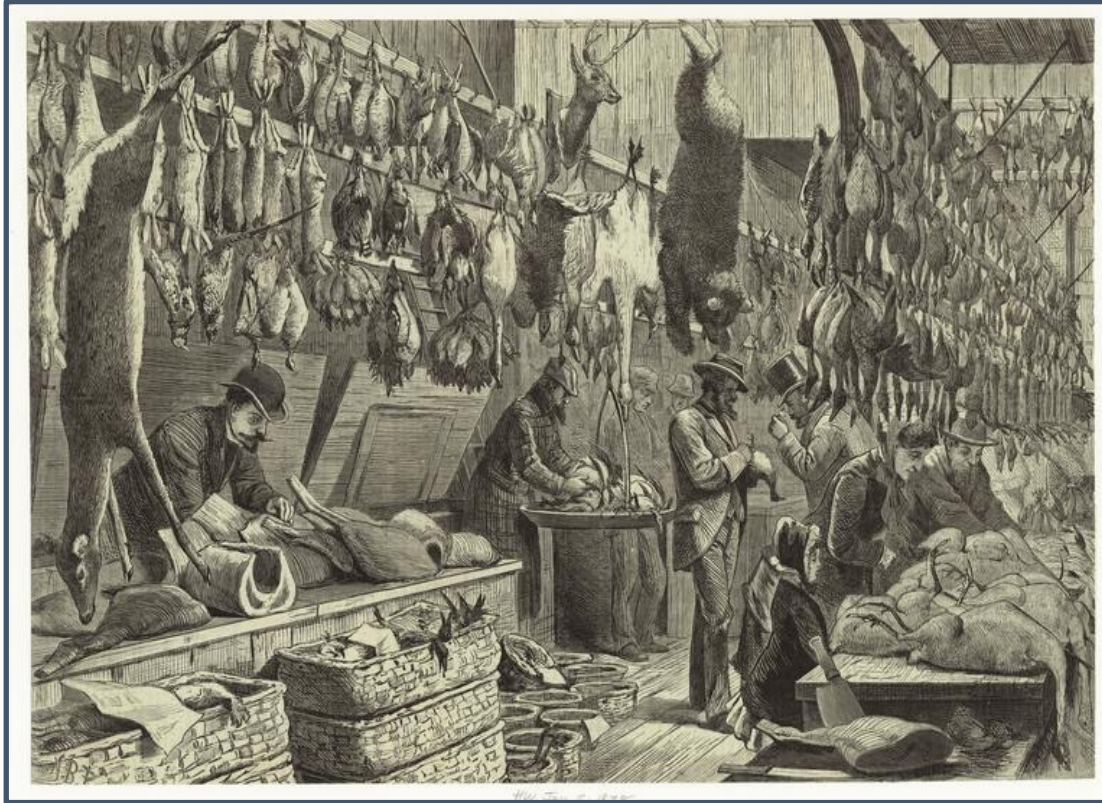
Even Coase recognized the Case for Mandates

“... on occasion, governmental administrative regulation (could) lead to an improvement in economic efficiency. This would seem particularly likely when, as is normally the case with the smoke nuisance, a large number of people is involved and when therefore the costs of handling the problem through the market ... may be high.

Ronald Coase, The Problem of Social Cost, p. 18

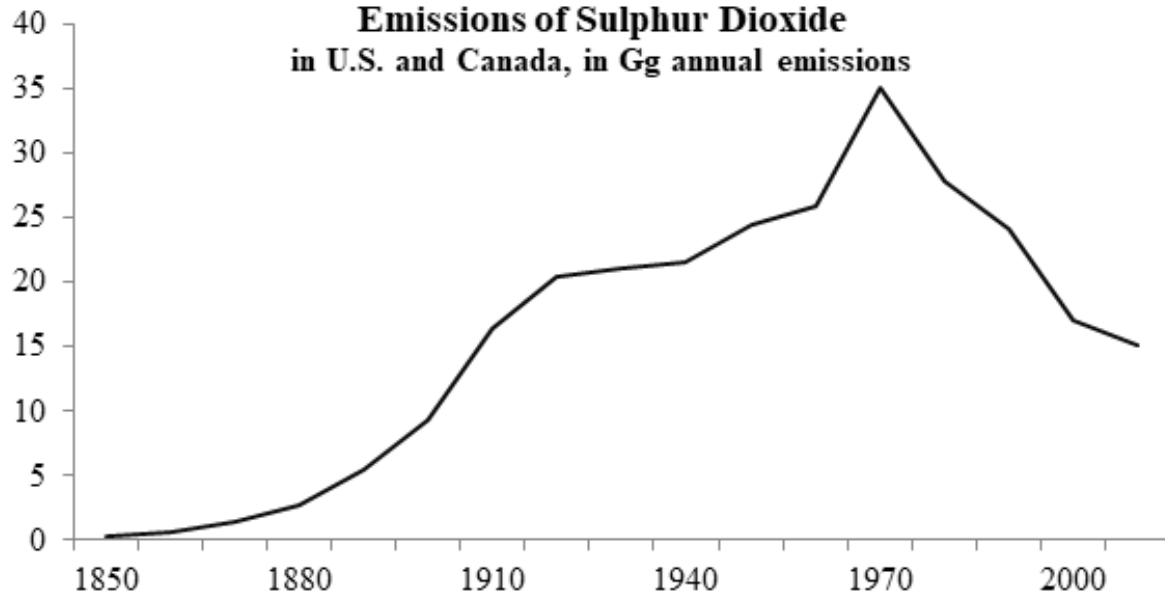


Incidental Services and Disservices ➔ Mandates

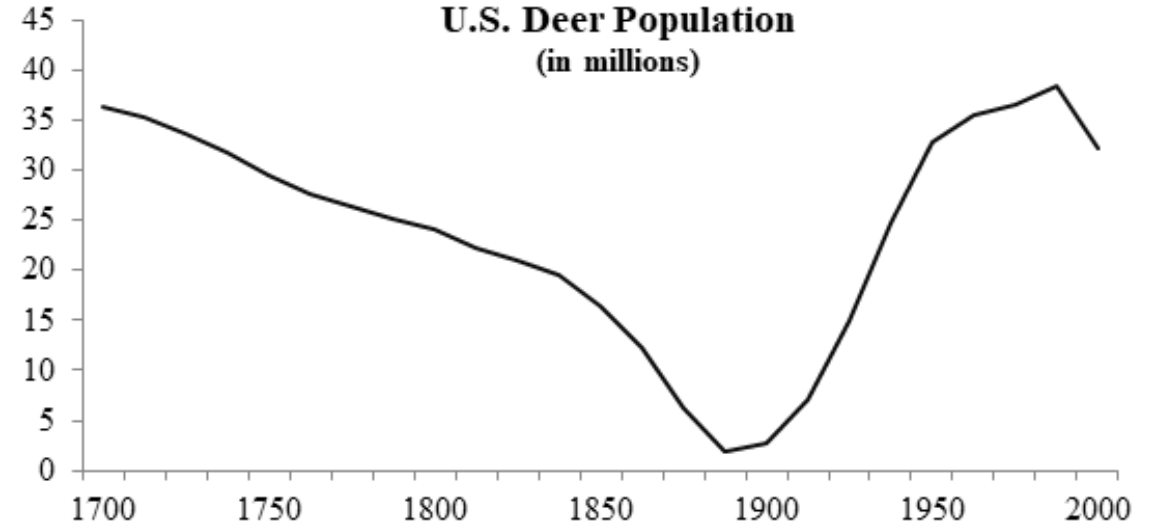


Mandates: Necessary and Successful?

**Emissions of Sulphur Dioxide
in U.S. and Canada, in Gg annual emissions**



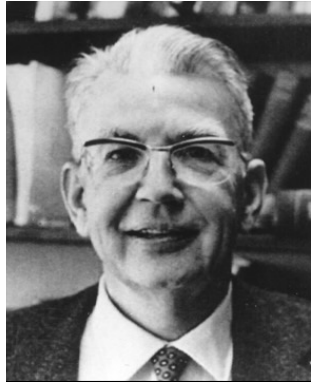
**U.S. Deer Population
(in millions)**



Too Successful?



Coase and Pigou not Sanguine on Politics



Coase expressed concern about what he called “**Blackboard Economics,**” saying “the governmental **administrative machine** is **not** itself **costless**. It can, in fact, be extremely costly.”



“It is not sufficient to **contrast imperfect adjustments** of unfettered private enterprise with the **best adjustment that economists** in their studies can **imagine**. We **cannot expect** that any public authority will attain, or will even wholeheartedly seek, that ideal.”

Mandates can Backfire, have Unwanted Effects

Plastic Bag Bans ↑ use of plastic

Fracking Bans ↓ local air quality

Endangered Species Act ↑ habitat destruction

Clean Air Act ↑ power plant vintage

Blood Mineral Embargo ↑ violence

Enviro Regulations on Hydropower ↑ pollution from coal

Economic Realism of Mandates

“Policies need to be analyzed in terms of the incentives they create, rather than the hopes that inspire them.”



Thomas Sowell

Alternative to “Mandate, Regulate, Litigate”

“Market forces could prove to be the environment’s best friend – if only greens could learn to love them”

April 2005



Markets, the Environmentalists' Friend



Finding the ways that work “by using a non-confrontational, collaborative approach.”



“We examine every environmental problem through an economic lens.”

Markets at Work

Crowdsourcing for Migratory Birds



TNC: “There's not a lot of opportunity to . . .forecast when the birds will arrive and rent the habitat instead.”

Fishing Rights in the Great Barrier



WWF: “It was a practical way to remove the threat of gill nets from a section of the reef... incredibly important for threatened species.”

Can markets help with the Mother of Them All?



CLIMATE CHANGE!

- ☐ **Climate change is about risks to people and property.**
- ☐ **Owners of at-risk property adapt.**
 - ☐ **Land, Water, Finance**
- ☐ **Markets also incentivize mitigation.**

Conclusion: Markets or Mandates?

- **Markets provide the incentive to accommodate environmental change.**
 - **Conservation & Mitigation**
 - **Adaptation**
- **Government accommodates markets by lowering transaction costs and removing barriers to trade.**
 - **Encourages environmental & energy entrepreneurship.**
- **Mandates may be a necessary substitute for markets.**
 - **BUT they can lead to political manipulation.**
- **If mandates create tradeable rights, they facilitate markets.**
 - **Cap-and-Trade**