

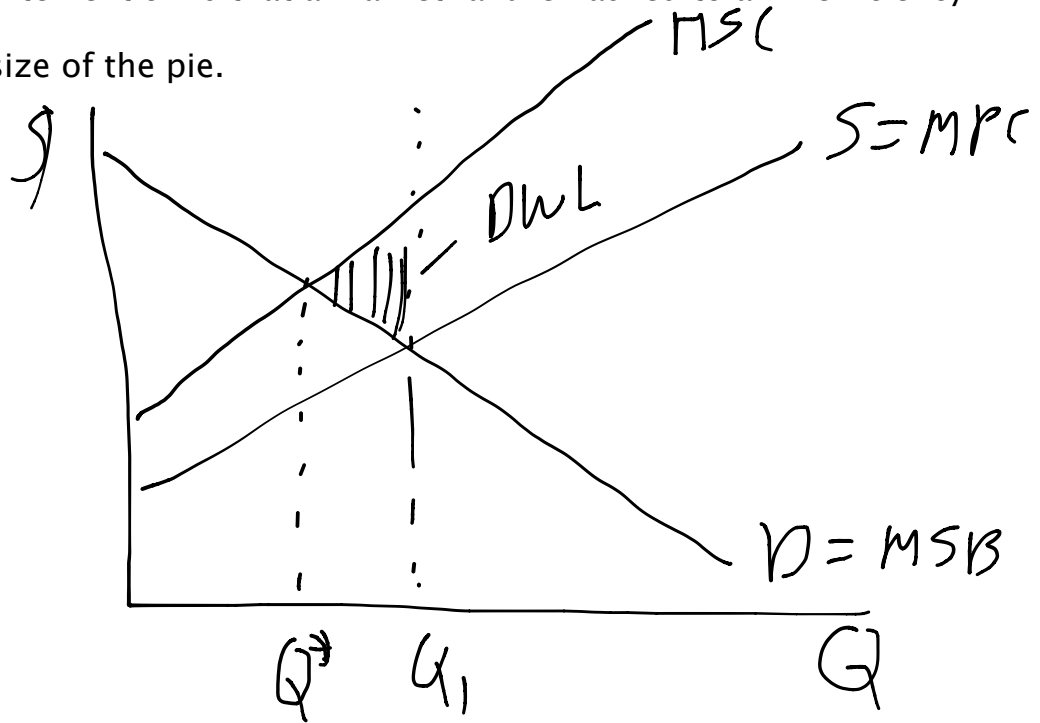
# ECON 136: Week 13, Monday

## Policy Intervention and the Precautionary Principle

### I. Fixing Market Failures

The economic case for policy intervention is that a market failure has led to an inefficiency.

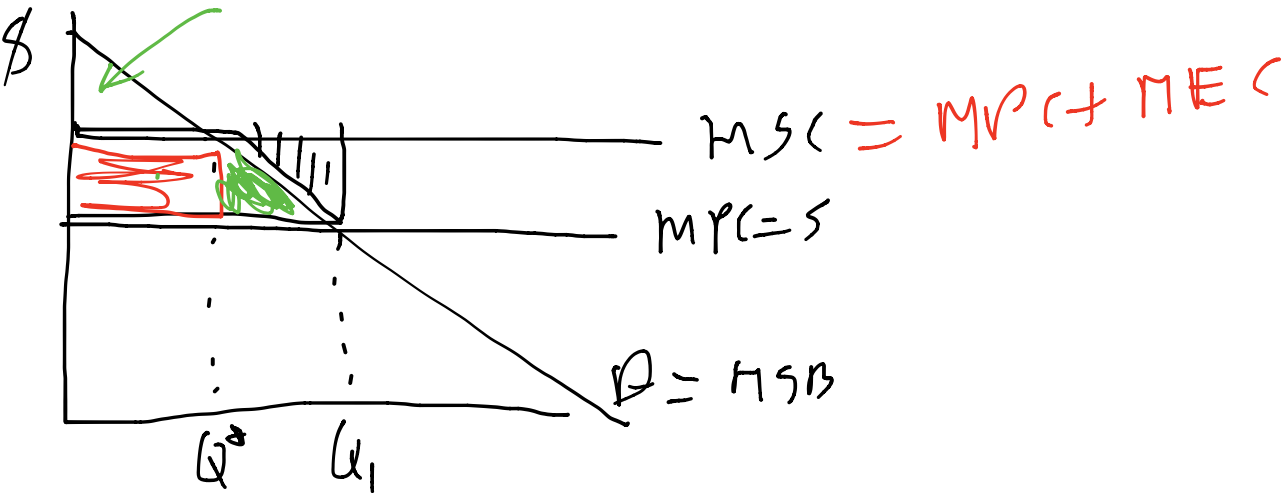
Intervention can increase the size of the pie.



But, eliminating market failures is not Pareto improving – there are winners and losers.

Potential losers often are politically more powerful than the winners.

The efficiency gain creates the potential to fully compensate the losers while leaving a gain for the winners. But, even here, the efficiency gain creates a target for rent seekers.



Hence the process of fixing market failures bogs down in politics and lobbying.

## II. Preparing for Climate Change Conversation

On Wednesday, I want to have a conversation about the difficulty of addressing the market failure that is leading to climate change with policies designed to reduce greenhouse gas emissions.

Please do the background reading on the general question of winners and losers from climate change and from policies to address it. Then, pick someone from the list below with whom you would not normally think your interests coincide and do sufficient on-line research to come up with plausible answers to the following questions:

- A. What are the likely consequences of climate change for this person?
- B. What would be the likely impact of additional restrictions (e.g., carbon tax or emissions caps) on greenhouse gas emissions?

- Resident of island nation of Tuvalu
- Coal miner in West Virginia
- Dock worker in Iceland
- Recent hire at Foxconn in China
- California freeway commuter
- Southern California farmer
- Family with a summer home damaged by Hurricane Sandy
- Scientist who studies the Great Barrier Reef eco-system
- Resident of Camden
- Clive Palmer (owner of Australia's Queensland Nickel mining company)

### III. Precautionary Principle

Where ignorance of future costs and benefits is high, give greater weight to irreversible outcomes.

Many climate change policy documents contain a version of this:

Where the state of our planet is at stake, the risks can be so high, and the costs of corrective action so great, that prevention is better and cheaper than cure. Where there are significant risks of damage to the environment, the government will be prepared to take precautionary action to limit the use of potentially dangerous pollutants, even where scientific knowledge is not conclusive, if the balance of likely costs and benefits justifies it.

#### IV. Reminders

Cost benefit papers due tonight

No class on Friday

Sign up for a meeting to discuss how to address any missing work or work that would benefit from revision before the end of the semester.

## V. Midterms

	Second	First
Median	3—Adequate	4—High Quality
High	4.75	5—Exemplary
Low	2—Needs Improvement	3