Market-Based Incentives for Air Pollution Control: Efficiency, Equity, and Effectiveness of the Acid Rain Program

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Abstract

In order to control air pollution, the United States Environmental Protection Agency has typically employed a command-and-control approach, in which the agency sets strict air quality standards, mandates specific control technologies, and enforces these standards by issuing fines for noncompliance. Over the years, many critics have suggested that command and control methods are rigid, costly, and ineffective. In response, the USEPA has begun to modify its programs to include market-based incentives to achieve environmental goals. Title IV of the 1990 Clean Air Act amendments represented the first national-scale experiment with a market-based system of pollution control aimed at reducing the impacts of acid rain.

The objective of this paper is to evaluate the use of market-based incentives as a method of regulatory control. It includes a brief discussion of the acid rain problem, history of regulatory efforts at the Federal level, and evaluation of the acid rain program with regard to its efficiency, effectiveness, and equity.