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Researchers Find When Pollution Taxes Balance Tariffs, Small Developing Nations Can Protect Environment

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NEWS RELEASE

RESEARCHERS FIND WHEN POLLUTION TAXES BALANCE TARRIFS, SMALL DEVELOPING NATIONS CAN PROTECT ENVIRONMENT

DAYTON, Ohio — In general, an active environmental policy will benefit both the environment and the welfare of citizens in small developing countries that have trading capacities, according to a new study that refutes the conventional wisdom that developing countries must choose between industrial profits and protecting the environment.

“A Dynamic Analysis of Protection and Environmental Policy in a Small Trading Developing Country” will be presented Sunday, Jan. 7, at the Allied Social Sciences Associations national meeting in New Orleans. Researchers Hamid Beladi, professor of economics and finance who holds the Niehaus Chair in business administration at the University of Dayton, and Amitrajeet Batabyal, the Arthur J. Gosnell professor of economics at the Rochester Institute of Technology co-wrote the study that will be presented at 10:15 a.m. at the Hilton New Orleans Riverside in the Norwich Room.

The pair used a mathematical model to account for likely variables, such as tariffs to protect industry that competes with imports but also pollutes the environment and controlling pollution by taxing the production of the goods manufactured during the polluting process. The researchers also considered the practical length of time a government is able to commit to environmental regulations; the fact that workers, to earn higher wages, will abandon traditional, nonpolluting economic pursuits to seek work in the modern polluting industry; and effects on the general welfare of the people of the nation.

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"The time inconsistency of certain optimal programs may prevent the government from attaining its environmental and employment objectives," Beladi said. "And when the import-competing industry is protected by a tariff, the government cannot use environmental policy to unambiguously raise welfare."

When the pollution tax hinders overproduction that could otherwise be encouraged by the tariff, worker migration to the polluting industry is controlled and the economy is steady. The lack of overproduction and continuation of the traditional industry protects the environment. The government must continuously evaluate and adjust the pollution tax to keep it credible, the researchers found.

It's evident from the model that countries must be active with their policies, Beladi said.

"Our analysis shows that doing nothing, or setting a zero pollution tax, is not an optimal course of action," he said. "In every case that we analyzed and no matter what the developing country's government's period of commitment, we showed that the optimal pollution tax is positive."

But the model doesn't predict a solution that's easy to carry out, the researchers found.

The policy that leads to the greatest environmental protection is the one that provides the least payoff for the government, Beladi said. And, conversely, the policy that gives the government the most payoff provides the least protection for the environment.

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