

‘Regulatory Competition’ and Environmental Policy: A Race to the Bottom?

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Factors Determining Pollution Level

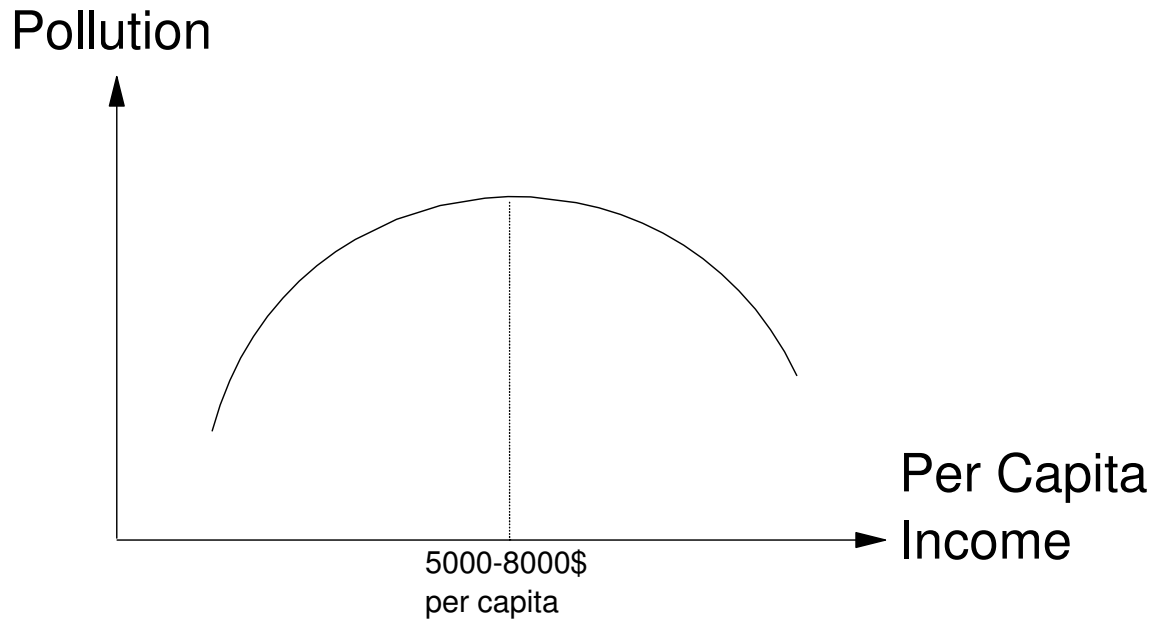
i.e.

Nitrogen Oxygen (NO_x)

Sulfur Dioxide (SO₂)

Suspended Particles

The Environmental Kuznets Kurve



Starting from low income levels, an increase in GDPC is associated with an increase in pollution, starting from higher income levels, an increase in wealth is associated with a decline in pollution.

Reasons for the Kuznets Curve:

- voters in richer countries are environmentally more conscious
- richer countries have much larger service sectors
- else?

What about:

Dirty industries 'migrate' to poor countries with low environmental standards?

Do they?

Grether/ de Melo

“First, aggregate comparisons of output and trade trends based on a classification of pollution industries based on US emissions revealed very marginal delocalization to the South.

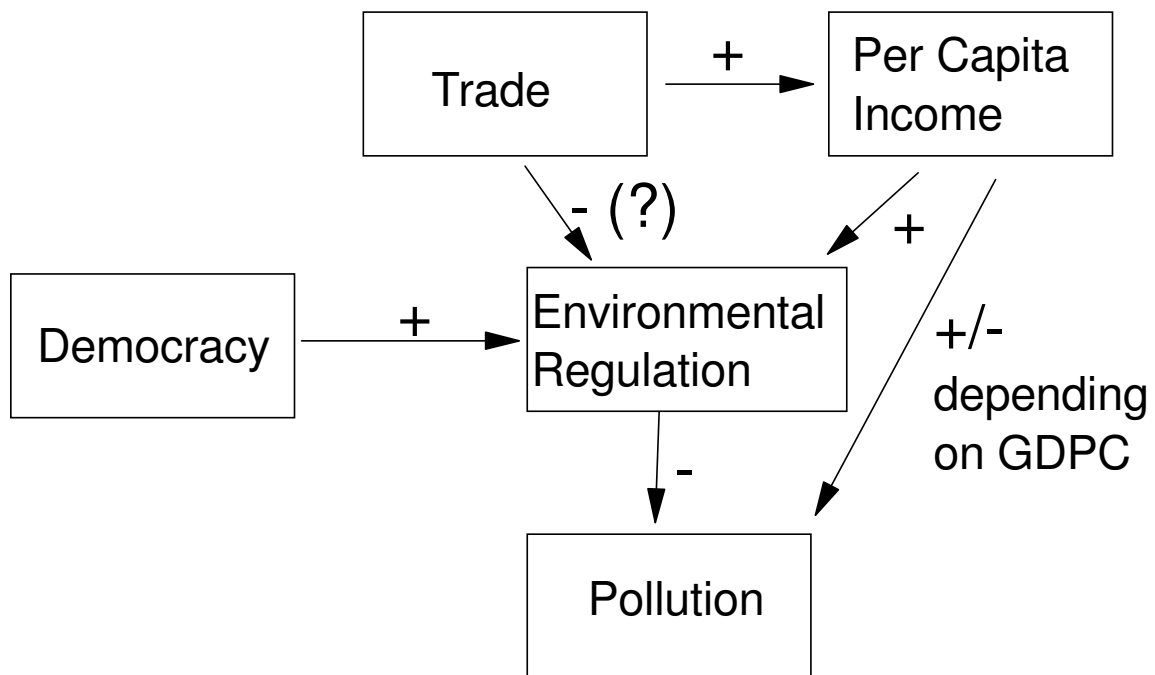
Second, firm-level estimates of FDI location choices by-and-large found at best marginal evidence either of location choice in the US in response to cross-State differences in environmental regulations, or of location choices by multinational firms across developing countries in response to differences in environmental regulations.”

In other words:

There is much evidence for the fact that industries in poorer countries are relatively dirty. Yet, there is remarkably little evidence for corporations ‘delocating’ to pollution havens.

Trade and the Environment

The Frankel/ Rose Model



Accordingly: the influence of trade on pollution is ambiguous and presumably conditional.

Why?

Findings:

“We confirmed the pattern of the environmental Kuznets curve, whereby growth eventually has a beneficial effect on pollution, after the initial adverse relationship at low levels of income. Trade accelerates the growth process. However the primary emphasis of the paper was on the effect of openness for a given level of income. Here we found little or no evidence of the *race to the bottom* hypothesis. To the contrary, a higher ratio of trade to income, for a given level of income, seems if anything to reduce air pollution.”

(Frankel/ Rose 2002: 26-27)

Product and Production Standards: Why are they differently affected by regulatory competition?

-- Product standards are (often) allowed by WTO

hence: countries can under certain conditions deny market access for certain products

i.e.: children's toys produced with poisonous colors

-- protection due to dirty production is not allowed by WTO

hence: countries may not deny market access

they do anyway:

example: hormone beef ban EU → USA

Race to the top

David Vogel; Genschel/ Plümper

International competition in product standards can at times push regulatory standards upwards, since economies of scale make it cheaper for corporations to produce only one standard of a certain good. If the jurisdiction with the highest level of regulation denies market access for low standard products, and if the highest regulated market is important enough, trade pushes global standards upwards. In this respect, governments can form a cartel, thus imposing higher standards on non-members.

Examples:

Vogel: California: catalytic converter

Plümper/ Genschel: BIS: banking regulation

