Preface

In the aftermath of the global financial crisis, sluggish growth characterized the economies of the US and other industrial countries. This has led to calls from the business sector and some politicians to dismantle regulatory measures to revive the economy. The widespread belief that environmental regulation has an adverse effect on the economy can be traced back to the 1970s when a significant slowing down of growth was attributed to the advent of environmental regulation. In China, on the other hand, rapid economic growth has brought about serious environmental degradation, with widespread air and water pollution, causing premature deaths, illness and health problems. As a result, China has recently taken a decision to allocate massive resources for the purpose of environmental clean-up. The dilemma for policy makers is the choice between environmental degradation and economic growth, as environmental regulation hurts growth but sustains the environment and saves lives. This is the commonly held view, but there are those who believe that growth and environmental quality are not necessarily mutually exclusive and that the choice between environmental and economic goals is not necessarily governed by a trade-off of some sort.

In this book we explore the effects of environmental regulation on the economy and businesses (hence, whether the costs of environmental regulation outweigh its benefits). We investigate the economic and financial effects of regulation by classifying them into microeconomic effects (costs of production, plant location and productivity), financial effects (stock prices, profitability, market value and risk) and macroeconomic effects (employment, international trade, competitiveness and the growth of aggregate output and productivity). Based on theory, intuition and empirical evidence, we reach the conclusion that the adverse effects of environmental regulation are grossly exaggerated. As an example of how intuition and casual empiricism can be used in the analysis we observe that firms often decide to go green of their own accord, which does not make sense if environmental regulation has an adverse effect on the profitability of profit-maximizing firms. We will argue that the decision to go green is not only motivated by corporate social responsibility – it may even be good for profitability, which is the essence of the Porter hypothesis.

The book falls into 13 chapters. The first six chapters deal with the essentials of regulation in general and environmental regulation in particular. We examine the pros and cons of regulation and discuss the issue in the light of the free market debate as regulation is viewed by free marketeers as unnecessary interference with the working of the free market system. The discussion involves moral judgement and some ethical issues, and this is why we find it compelling to express strong opinions about some of the arguments put forward by free marketeers. Two of the six chapters are devoted to cost–benefit analysis, which we will find to be some sort of a double-edged sword and a technique that can be easily abused to obtain the desired results.

Four chapters (7–10) are devoted to the economic and financial effects of environmental regulation, as we examine the microeconomic effects in Chapter 7, the financial effects in Chapter 8 and the macroeconomic effects in Chapters 9 and 10. This is where we find that most of the evidence indicates that environmental regulation has either neutral or even positive economic and financial effects. In Chapters 11 and 12, we study environmental regulation in Australia and China as case studies. Chapter 13 contains a summary and concluding remarks, as well as the justification for choosing Australia and China as case studies.

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