Economic policy and the environment

Literature, Russian Literature

A Pigovian tax of the al Affiliation A Pigovian tax Economic production can result in negative externalities. These benefits accrued by the investor's results into negative impacts to the environment and the society as well. For instance, pollution arising from production affects the environment in a significant way. This has been the case especially in the developed countries whereby a trail of environment externality is left to the outside world. An example in point has been Katrina hurricane that resulted from pollution from these processing industries. The damages were much of the result of environmental pollution.

To curb, environmental externalities, many laws have been enacted to remedy or deter environmental pollution. One of these laws is the A Pigovian tax. This is a tax that is applied to someone who is causing negative externalities in the environment.

The tax law is intended to correct inefficiencies resulting from market activities. It operates by setting equal the social costs of the negative externalities resulting from economic production. In a normal economic production, the presence of negative externalities is not compensated for by the benefit accruing from the production processes (Burrows, 2009). This makes the market inefficient and may lead to overconsumption of the product. Besides, this may result in an equal distribution of resources in the society as the producer benefit to the detrimental of the environment. Through applying such taxes, negative externalities would be reduced to have an equal distribution of benefits resulting from the resources. This reduces cases of environmental pollution which has resulted in extreme catastrophic environmental destruction. This law was instituted by an

economist Arthur Pigou in collaboration of William Baumol. Since its inception, the tax law has proven efficient in reducing environmental externalities (Sandmo, 2005).

References

Burrows, P. (2009). Pigovian taxes, polluter subsidies, regulation, and the size of a polluting industry. Canadian Journal of Economics, 494-501.

Sandmo, A. (2005). Optimal taxation in the presence of externalities. The Swedish Journal of Economics, 86-98.