

The Interrelationship between Economics and Environmental Regulation: An analysis of the Kyoto Protocol

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INTRODUCTION

- **The Kyoto Protocol:** An international climate change agreement that would have had a trickle down affect into national environmental regulation. The cost estimates and calculations used by the US government to justify their withdrawal is a historical example illustrating the differing economic perspectives on environmental regulation
- The relationship between economics and environmental regulation can be analyzed from two different economic perspectives:
 - **The Traditional View:** Environmental regulation burdens economic growth and results in loss and restriction in business profit
 - **The Modern View:** Properly designed environmental regulation can lead to innovative development, potential economic benefits, and other ancillary benefits
 - Based off of the Porter Hypothesis by Michael Porter and other calculations found in secondary data sources
 - Academics have argued that there are ancillary benefits that can offset the costs of compliance

OBJECTIVES

- To explore the relationship between economics, national economic policy considerations, and environmental regulation
- To establish that the Modern view yields greater benefits compared to the Traditional view
- To demonstrate the inaccuracy of the traditional economic perspective and to endorse the modern view for the purposes of attaining sustainable development

FINDINGS

The Traditional View

The US government subscribed to the Traditional view in their evaluation of the Kyoto Protocol. They relied upon incomplete statistical analysis that projected tremendous economic costs and job loss, supporting their traditionalist mindset that environmental regulation is an economic burden. Despite proof of the inaccuracy of these calculations, they are still largely relied upon due to the pervasiveness of this viewpoint.

The Modern View

- Proponents of the Porter Hypothesis would likely suggest that US calculations were lacking because large GHG emitters would change their operations and produce innovative technologies that could potentially offset the costs of compliance
- Benefits such as reduced healthcare expenses should have been included in the Kyoto Protocol calculations

The Modern view should be endorsed because environmental regulation can lead to greater benefits overall and eventually, sustainable development

- Environmental regulation needs to be properly designed, using flexible market based mechanisms
- Researchers have found evidence of a causal link between environmental regulation and innovation



CONCLUSION

- Economic factors will always be fundamental considerations for governments and their legislatures when evaluating environmental regulation
- The Traditional view promotes inaccurate understandings of environmental regulation and allows for the evasion of environmental responsibility
- The Traditional view remains prevalent and there needs to be a shift in mindset favoring the Modern view for successful progress towards sustainable development
- Further research is required to establish whether the innovation promoted by environmental regulation can indeed improve business performance. This would help support the validity of the Modern View.

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METHOD

A combination of qualitative and quantitative researched was conducted. This research was completed through the use of qualitative data and secondary data sources.

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