

## Understanding the Costs of Environmental Regulation in Europe

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Dominic Moran (ed). 2009: Edward Elgar

Year 2009; 251pp  
ISBN 978-1-84720-492-9

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International Journal of Regulation and Governance 9(2): 157-158

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The UK Department of Food and Rural Affairs (DEFRA) and the Environment Directorate of EU recently commissioned reports and case studies of a number of major pollutants (air, water, accidents, and so on), the regulatory constraints, and the cost of enforcing those regulations. The cost of enforcing would be some thing like a transaction cost so that to this reviewer, it would seem to lead towards the application of Coase's work and the like. However, right at the start, in the introduction it is stated that in the USA and Netherlands, this cost stands at 10% of GDP. There is a serious confusion here because that huge figure emerges only after the loss of output of the regulated firms or industries is included.

But that would still be very partial because those regulations are in place because of the very serious negative externality caused by the pollutants so that the reduction of output is offset by the enhancement of welfare for a very large number of people both at home and abroad. If water pollution abatement reduces ill health then medical expenses go down and the productivity of the healthier population in fact can go up in future. The future can never be kept out of any impact assessment (benefit-cost) analysis of environmental regulation, and that is why studies based solely on current data become suspect.

Chapter 2 on the origins and appraisals of regulation begins with a succinct summary of the problems that necessitate regulations, that is, externalities caused by pollutants and lack of information.

Low profit public health measures like vaccination against small pox or polio tend to be underprovided by the market but activities like improving health are more in the nature of public goods that tend to be undersupplied rather than pollutants that tend to be over supplied. Thus, there is an analytical confusion here. Similarly, market imperfections that might require intervention are different from pollution too.

Tables 2.1 and 2.2 are interesting summaries of various kinds of environmental problems and government responses in UK. Later in the chapter OECD responses are discussed in Chapter 3 *ex ante* and ex post cost differences are calculated using data from Netherlands. The reasons for the differences, as tabulated in Table 3.2, show no systematic pattern. Same is the case for the taxonomy of costs in Table 3.5. In addition there is a semantic red herring, wherein, reference to a base year in data analysis is called a counterfactual. In that sense all forecasts can be called astrological.

Chapters 4 to 14 are specific case studies of different pollutants and regulatory costs and practices across Europe. These will be important and useful to researchers. Chapter 15 on innovation is controversial but interesting. In the long-term innovations to move away from pollution is the only lasting solution.

The book is very repetitive. The same conclusion – like the extent of *ex ante* and *ex post* cost difference – is stated in the same language half a dozen times. If these were weeded out then a major irritant would be eliminated. Hence, although there is a lot of useful information about the extent of various kinds of pollution in many sectors and countries and about the efforts to control them, no serious conclusion or recommendation emerges in the end.