

EEPSEA IMPACT CONFERENCE 2010---Achieving Influence through Environmental Economics

Pollution Enforcement in China under the Spotlight by Liguo LIN

ABSTRACT

This study investigated how manufacturing plants reacted to inspections conducted by environmental authorities under pollution taxation regulations in China. We found that inspections significantly increased the level of verified pollution emissions. This finding has important policy implications in showing that inspections by environmental authorities in China are effective in verifying self-reported pollution levels in industries, but not on lowering such levels. In order to really control pollution, a reform of the existing law is necessary..

CONTACT

School of Economics,
Shanghai University of
Finance and Economics,
Shanghai, China. Email:
linliguo@gmail.com

INTRODUCTION

To reduce industrial pollution and improve environmental quality, governments of developed and developing countries have enacted a large number of environmental regulations since the beginning of the 1970s. However, imposing pollution regulations on manufacturing plants does not necessarily lead to a decrease in pollution or an improvement in environmental quality. In this study, we evaluate the impacts of inspections imposed on firms in China.

RESULTS

By using firms' level pollution data, we estimate the effect of inspections by environmental regulators in China. Our empirical results indicate that with pollution levies, inspections by environmental agencies were found to significantly and positively increase the level of verified pollution emissions by 8.26%. This also suggests that plants generally under-report their pollution emission levels in China. Verified pollution emission levels refer to the amounts of pollution for which the sampled firms actually paid levies on.

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CONCLUSIONS

Our results imply that China fails to provide plants with a strong incentive to report their emissions truthfully. Our study has key policy implications. In particular, the impact of enforcement actions on the environmental performance of polluters depends heavily on the environmental regulations themselves. China's regulations make environmental enforcement actions effective mainly in verifying pollution reports made by plants but not in reducing their actual levels of pollution. In order to effectively control and reduce pollution, a reform of the existing regulations is essential.

