

Cross-Hauling of Polluting Factors: Extended Abstract

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Abstract: A two stage game is analyzed in which citizens who own mobile factors of production also vote for domestic environmental policies. It is shown that individuals have an incentive to cross-haul polluting factors across jurisdictions when direct controls are used to regulate emissions, that this cross-hauling can induce a ratcheting up of environmental policy in both jurisdictions, and can occur even when jurisdictions are identical and offer the same direct rates of return on installed capacity. The importance of the order in which capacity export decisions and voting occur are also analyzed, and it is found that factor mobility may induce ratcheting up of environmental policy even in a jurisdiction that acts as a host to all polluting activity.

References:

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