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Payment for Environmental Services and pollution tax
under imperfect competition

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ABSTRACT

In this paper, we analyse the second best Payment for Environmental Services (PES) design when it interacts with a Pigouvian tax under imperfect competition. We consider farmers who face a choice between producing a conventional or an organic agriculture good. The regulator sets a Pigouvian tax on conventional agriculture as it generates environmental damages, as well as a PES on uncultivated land as buffer strips favor biodiversity. The conventional agriculture sector is perfectly competitive whereas the organic good sector is an oligopoly. We show that the second best level of the Pigouvian tax is higher than the marginal damage whereas the PES is lower than the marginal benefit. We then introduce the marginal social cost of public funds (MCF) and show that the Pigouvian tax increases with the MCF while the PES decreases with the MCF provided that demand for the conventional agriculture good is inelastic.

Read the paper

Read the paper(https://cerdi.uca.fr/medias/fichier/krautkraemer-schwartz-pes_1620299911992-pdf?ID_FICHE=67509&INLINE=FALSE)
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