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## **PURC Awards Prize for Best Paper**

Sometimes regulations intended to reduce carbon emissions may actually increase emissions if policymakers fail to understand businesses and consumers. That is the conclusion of the paper “Fast and Furious (and Dirty): The Effects of Environmental Policy on the Swedish Car Market,” by Cristian Huse. This paper, which received the 2012 PURC prize for best paper in regulation at the 10th Annual International Industrial Organization Conference, examined the Swedish Green Car Rebate, which provides financial incentives to customers to buy new green cars, that is, cars that meet new mileage standards or use fuels other than gasoline or diesel.



PURC Director Mark Jamison, left, presents the PURC Prize for Best Paper in Regulation to Cristian Huse of the Stockholm School of Economics.

Intended to reduce vehicle carbon emissions and the use of imported oil, the program actually increased both. Consumers responded to the lower cost of purchasing new vehicles by buying larger ones, which were more affordable by the rebate. Auto manufacturers ensured that larger vehicles qualified for the rebates by designing the vehicles to use alternative fuels. However, the alternative fuels were more costly for consumers than gasoline or diesel, so auto manufacturers made the new vehicles as flexible-fuel vehicles. In a sense, customers were able to have their cake and eat it, too, in that they received rebates for buying the larger flexible-fuel vehicles, but continued to use lower-cost, traditional fuels. Emissions levels of regular cars went down, but this downward trend did not appear to be triggered by the introduction of the rebate.

What can policymakers take away from this research? Whenever policymakers want to change behavior, they should first ask: 1) Is the policy even needed? [If the trend is going in the desired direction, maybe a policy change isn't needed.] 2) Could the incentive system possibly result in the opposite of what was intended? 3) Is there a more direct way to achieve the objective, for example, subsidizing renewable energy or taxing fossil fuels?