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Accepting Market Failure: Cultural Worldviews and the Opposition to Corrective Environmental Policies

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Abstract

To explore whether and why people sometimes reject environmental policies that improve individual and collective outcomes, we create an experimental market in which transactions generate a negative externality. Market participants endogenously determine whether to implement corrective policies. We consider three policy instruments (Pigouvian taxes and subsidies, and quantity regulation) and two levels of policy efficiency (full and half). We then explore how individual cultural worldviews might contribute to the rejection of policies that correct the market failure. Our results indicate that people often oppose policies that improve their material outcomes, and we find that such opposition is significantly explained by cultural worldviews. Interesting connections emerge between individual worldviews and specific policy instruments.

Keywords: externality, Pigouvian tax, policy aversion, worldviews, experiments

JEL Code: C9, D62, H23, Q58

1. Introduction

Many environmental problems persist not because of a lack of promising policies, but because of an inability to implement the policies. The issue is illustrated by the many failed attempts to address negative externalities with policy instruments that have broad support among experts—e.g., the rejection of a cap-and-trade system in the U.S. in 2009, the 2014 repeal of a

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