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RESOURCE

Regulator Reputation, Enforcement, and Environmental Compliance

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Author(s)
Shimshack, Jay Ward, Michael

Description / Abstract

This paper explores empirically the impact of enforcement efforts on environmental compliance, focusing on the role of regulator reputation spillover effects. We find that, on the margin, the impact of a fine for water pollutant violations is about a two-thirds reduction in the statewide violation rate in the year following a fine. This large result obtains through the regulator's enhanced reputation; the deterrence impact on other plants in a state is almost as strong as the impact on the sanctioned plant. Focusing only on the response of the sanctioned plant, as in previous studies, may therefore seriously underestimate the efficacy of fines and other sanctions. This paper also examines the relative effectiveness of monitoring and enforcement instruments. Non-monetary sanctions contribute no detected impact on compliance, and the marginal fine induces substantially greater compliance than the marginal inspection.

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