

Trade and the governance of ecosystem services

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Abstract

We work with a basic general equilibrium model of an economy with an industrial good and a rural good. Industrial good production results in pollution that affects the provision of ecosystem services and thereby the production of the rural good. The assignment of ecosystem rights to the industrial polluters or to the rural pollutees results in differential transaction costs that affect production possibilities between the two goods. Ecosystem rights are assigned to maximize social welfare. Over time, technological change and differences in income superiority affect the choice of the assignment of rights. Opening to trade affects the choice of the assignment of ecosystem rights depending on the nature of technological change, but the relative income superiority of goods no longer affects the assignment of ecosystem rights in a small economy. Thus, among other findings, we demonstrate that the phenomena known as the environmental Kuznets curve does not hold for the protection of ecosystem services in production, or production externalities generally, because trade separates consumption from production.

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1. Relation of our analysis to the literature

2. A general equilibrium model with transaction costs of ecosystem governance

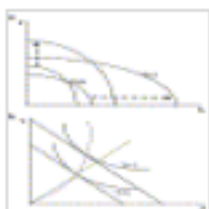
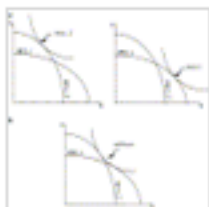
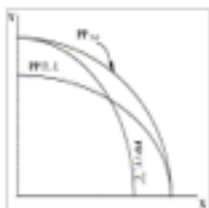


 Table 1

3. Trade and ecosystem governance for a small country

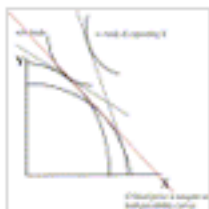


 Table 2

4. Trade and ecosystem governance for a large country