

## **Why political regulation is sometimes necessary**

A free market economy can work wonders with the living standard of people. This is because egotistical motives to earn money (profit), motivates people and groups to work to supply the demand of services and goods of people, all according to prices regulated by supply competition (buyers market) or demand willing to pay for the service or goods alone (sellers market). The profit motive causes motives to produce these services and goods at lower and lower cost, and with time the market economy evolves into really good value for money, bang for the buck.

However a free market is unstable; boom prosperity can be changed to recessions or depressions. Without political measures to stabilize the economy and provide welfare, a large proportion of people can actually starve in the depressions.

Imagine a community living by a lake. People dump human waste into the lake. This makes people sick. A few people recognize this, and invest in waste disposal solutions. However a few don't care and out of laziness they continue to dump the waste into the lake making all people around the lake sick often. The free market cannot alone solve this problem; according to free unregulated market people have the right to dump waste into the lake, and some will always do this.

The solution is a community regulation forbidding the dumping of human waste into the lake. This is a restriction of the freedom of action of the people, but it is to the much betterment of health for all people around the lake. Thus this restriction is profitable; you pay with losing comfort and easy of just dumping the waste, but earn in a much greater degree with better health.

The prohibition in itself does not specify how to solve the issue; this the free market can adapt around and solve; some will allow for sewage pipes and a central sewage plant, some will allow for services to collect the waste and bring it to a central waste disposal station.

However the solutions that the free market provide are dependent on the regulation in the first place. Without the regulation there is simply no demand, and the problem remains, since there is no point in investing in a solution if you still get sick because some still dump their waste.

The same "community around the lake" problem can be paralleled to the global warming problem. What is the point for a coal burning power station to invest in alternatives to emitting carbon dioxide, when everyone else can sell cheaper electricity by not investing. It simply makes no sense to invest, just like for the individuals around the lake.

With fossil carbon emissions, there is a large future cost incurred if the south pole ice melts and sea levels rise. Cities around the coast have to be protected just like in Holland. This is a large cost. The question remains, why should these future generations pay huge sums just for the our convenience in the short term cheap but unsustainable energy.

If international regulation tax fossil carbon emissions, the free market will find solutions to adapt to this new situation. If the cost of polluting is high, then it will become profitable to invest in environmentally friendly less polluting solutions, all by itself without detailed political regulation; if the [Motivational\\_structures](#) are right things work for the better automatically with time..The politicians can just sit back and relax, once the initial right regulation is in place.

By relative tax rate exchange, some taxes go up while some go down, so that the total tax burden remains the same, there is no harm to the economy. By lowering the tax rate on work, as a result of raising carbon emission tax, people are more motivated to work, and employers are more motivated to hire since the price of employment goes down.

The only objection one can have is if the price of the alternatives is higher than the gain for future generations, thus lowering the material living standard in such a way that people get discontent. This can be avoided by raising emission tax from a very low level and measure the effects; if the measurements say it is a bad idea; then we always can reverse the tax and put it to zero. So there is really no risk if politicians handle the situation wisely.