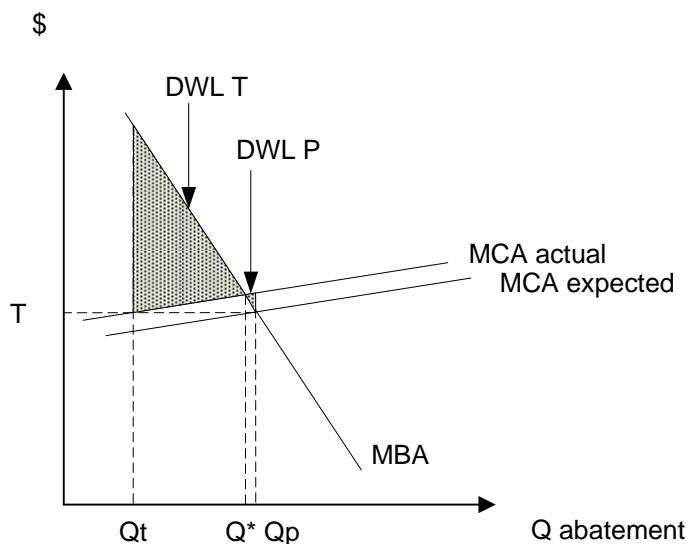# Permits versus Taxes Under Uncertainty

When costs are uncertain, neither a permit policy nor an emissions tax is guaranteed to be efficient. However, in some circumstances one will perform much better than the other. In the diagrams below, DWL P is the deadweight loss from a permit system that forces abatement to be Qp and DWL T is the deadweight loss from a emissions tax policy with the tax set to T. The efficient level of abatement given the actual MCA is Q*.

Case 1: Steep MBA, Flat MCA

Permits are preferable: abatement is too high (Qp>Q*) but DWL P is much smaller than DWL T

Case 2: Flat MBA, Steep MCA

Taxes are preferable: abatement is too low (Qt<Q*) but DWL T is much smaller than DWL P