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Time To Foster Green Markets

Recently many environmental, religious and consumer action groups have encouraged individuals to buy less environmentally harmful products and to support environmentally sensitive businesses. One effect of these activities has been to stimulate product marketing campaigns based upon the premise that consumers want to buy "green products."

Groups are attempting to create standards and begin a certification process that would award an environmental "seal of approval" to selected products. For example, some people suggest that the government should develop a system of labels to inform consumers about the environmental "status" of products.

Importance of Information

These proposals imply that somehow a small, well intentioned group of people can discern what is good for the environment, how consumers value those amenities, and that providing information to consumers is the central challenge. The problem with all this is that product-environmental cause and effects are difficult to understand and deciphering the appropriate values to place on these amenities is not an insignificant task.

Biodegradable trash bags, for instance, are not an answer to solid waste except for lawn clippings that are composted, since there is very little biodegradation in a modern sanitary landfill.

More efficient automobile engines may reduce per mile emissions, but may promote greater miles traveled—which, in turn means more congestion and thus increased air pollution. Thus, there is a great need for research and for the information it may provide.

Importance of Markets

How can consumers decide whether one product is more environmentally benign than another? How can we, as a society, organize to develop reliable information and to provide this information on the environmental effects of products and services and the actions of companies? For most goods and services, we allow markets to operate and provide signals to consumers about products they desire and ultimately purchase.

Markets are very efficient processors of information; the price of a product reflects a wealth of information. While any functioning automobile can transport you from point A to point B,

wide differences in car prices are due to other attributes such as reliability, safety, design, accessories, and prestige.

If consumers think safety is important, they demand cars with airbags, anti-lock brakes and so on, providing manufacturers the incentive to produce automobiles with those features. But keep in mind that "information" and perceptions about the effects of these products on safety are extremely important.

How can the environmental effects of products be built into a market so that market prices reflect environmental costs and benefits as well as other attributes? What we want is a mechanism where the price of environmentally degrading products would account for the environmental costs of their production and use. These costs can only be determined by estimating the value of these environmental amenities to society.

A common suggestion is to tax those products whose production and use damage the environment. For instance, a tax could be placed on paper produced from virgin pulp, thereby increasing the attractiveness of recycled paper. Bottle bills are a good example of creating incentives to protect the environment. Perhaps the local fast food restaurant should pay a tax for each styrofoam container it uses, thereby increasing its incentive to use paper products.

Buyers of products should pay the total costs of the product, including the costs of environmental damage. We need incentives so that businesses and consumers can go ahead with buying and selling with the knowledge that they are impacting the environment as little as possible or to the extent that increased product costs equal their valuation of the conserved environmental amenities. However, we need to keep in mind that markets do a better job of providing information, especially valuation decisions, between buyers and sellers than do bureaucracies or small groups of well intentioned people. In addition, the freedom of choice embodied in markets is a valuable commodity to be protected.

Merging Markets and Information

Changes are needed in the type of information and incentives provided to both consumers and businesses. We need to begin looking at how to restructure markets so that businesses have the incentive to provide the information, the products and the environment that the consumer wants.

While definitive answers are elusive, we need to begin looking at how markets can be restructured so that consumers can choose among products and services attuned to their environmental concerns and desires. We need markets where businesses and consumers do good environmentally while doing well financially.

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