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Do Green Markets Actually Lead To Improvements In Environmental Quality?

ScienceDaily (Sep. 12, 2006) — Goods and services with environmental benefits are a growing part of many sectors of the economy, and a timely new paper from the current issue of the Journal of Political Economy analyzes how our willingness to pay more for environmentally friendly products actually influences environmental quality and social welfare. Surprisingly, the study finds that under certain reasonable conditions, green markets can actually discourage private support of public environmental entities.

Using a model of impure public goods, Matthew J. Kotchen (University of California, Santa Barbara) analyzes goods that have both private and public components, each of which is available individually. For example, shade-grown coffee is grown not on deforested plantations, but under the canopy of tropical forests. Thus, consumers are not only buying coffee, which is a traditional private good, but also biodiversity conservation. However, consumers also have the option to buy conventional coffee and donate directly to tropical conservation.

"Although green markets are promoted to improve environmental quality and promote social welfare, their actual effects may be detrimental to both," writes Kotchen. "These results, along with the conditions sufficient to rule them out, provide new insight into the potential advantages and disadvantages of green markets as a decentralized mechanism of environmental policy."

Many governments, nongovernmental organizations, and industries promote green markets as ways to encourage private giving to environmental causes. Kotchen finds that in a sufficiently large economy, where giving is not motivated by unconditional altruism, introducing or improving a green technology will increase the level of giving but crowd out private voluntary donations.

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Matthew J. Kotchen. "Green Markets and Private Provision of Public Goods" Journal of Political Economy, 114:4.

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