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Green Markets and Private Provision of Public Goods

by

Matthew J. Kotchen*
University of Michigan[†]

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Abstract

Many governments, nongovernmental organizations, and industries promote green markets as a decentralized mechanism to encourage private provision of environmental public goods. Green markets give consumers a new choice: instead of simply consuming a private good and making a donation to an environmental public good, consumers can purchase an impure public good that bundles characteristics of both activities. This paper develops a general model of private provision of a public good that includes the option to consume an impure public good. I use the model to investigate positive and normative consequences of introducing a green market. Despite the intent of green markets, I show that under quite reasonable assumptions, introducing a green market can have detrimental effects on both environmental quality and social welfare. I then derive conditions that are sufficient to rule out such unintended consequences. In general, the analysis applies to any market setting with opportunities to consume a private good, contribute to a pure public good, and obtain the characteristics of both activities jointly through an impure public good.

JEL Classification Numbers: D6, H4, Q2.

Keywords: Impure public goods, pure public goods, private provision, green markets, environmental quality, social welfare.

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[†]Please address correspondence to the Department of Economics and School of Natural Resources & Environment, Dana Building 430 E. University, University of Michigan, Ann Arbor, MI 48109-1115. Email: mkotchen@umich.edu. Tel: (734) 669-0388. Fax: (734) 936-2195.