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by Jon Naimon



Is the marketplace hostile to environmental protection? Is environmental protection at odds with the marketplace? If the dramatic rise in popularity of organic food and eco-friendly coffee is any indication, the answer to both questions is a resounding no.

The handful of conventional economists who study environmental issues tend to see environmental protection and the free market operating in opposition to each other, a view put forth decades ago by Garrett Hardin in his famous essay [Tragedy of the Commons](#). Several environmental groups share this viewpoint, and they neglect or eschew market-based activities. Certainly a great many economists are hostile to public environmental protection efforts and believe that corporate environmental programs must always result in a net economic cost to consumers as well as companies.

But in many cases, environmental progress yields economic benefits for corporations as well as for society. We founded Light Green Advisors, an environmentally responsible investment advisor, based on research that demonstrated the economic benefits of pollution prevention and other environmental improvements. Today we serve many investors who share our philosophy and believe that conscious investing, selective procurement (e.g., buying hybrid cars), and other market-based mechanisms can be critical arrows in the proverbial quiver of environmental organizations seeking to encourage widespread environmental progress and enhance the effectiveness of conservation efforts.

This "third way" of viewing market activity is based on the idea that markets are neither intrinsically good nor bad for the environment. Since markets embody all of our individual and collective economic decisions, they reflect what we value better than policies and laws intended to influence behavior. With this understanding in mind, environmentalists can use the market as a lever to stimulate environmental progress.



Do you drink shade-grown, songbird-friendly, fair-trade coffee with organic, rBGH-free milk? Starbucks, Safeway,

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Procter & Gamble, and scores of other companies throughout the world pay close attention to consumer decisions like these and base their business plans on them, without prodding by any court or legislature. These companies may not share your environmental motivations, but they respond to your economic signals. By changing what we value, and integrating those values into decisions about what we purchase and how we invest, we are beginning to change corporate behavior, public infrastructure, and society's collective environmental impact.

I believe that environmentalists should allocate more resources to trying to change the market directly. In the 21st century, activists will be able to make a greater, more direct impact through economic change than through legislative and legal action. The market is especially important for efforts to encourage activities that are environmentally preferable (e.g., driving more fuel-efficient cars) but not legally required -- of companies and of individuals. The key to achieving high impact, interestingly enough, is our own ability to integrate environmental priorities and values into our economic decisions as organizations as well as individuals.

Take the example of organic agriculture and the push to curb use of harmful pesticides.

Back in the 1980s, I spent some time evaluating studies on environmental and human health effects of pesticides. The negative impacts are many: serious health threats like cancer, harm to wildlife and other non-target species, homogenization of the gene pool, and the development of pesticide resistance in crops. To reduce these negative effects, many environmental groups have pushed legislation and lawsuits to require the disclosure of "inert" ingredients in pesticide formulations that are now secret. The underlying assumption has been that farmers would use that information on toxicity and non-target impacts to inform their choice of pesticides.

Meanwhile, absent any legal or legislative imperative, organic farmers set about expanding their niche market for foods grown without any pesticides or chemical fertilizers at all. At first, they sold exclusively to health food stores and religious communities that did not believe in the chemical agribusiness model. Both farmers and health-conscious consumers came to recognize that growing and purchasing organic products enhanced the quality of the soil, made the work environment safer for farm laborers, and kept water supplies free of chemical contaminants. Many consumers also discovered that organic produce tasted better even if it did not look better. The organic market expanded even as many economists continued to tell food companies that consumers would always seek lower priced goods and that it was irrational for consumers to select produce because it was grown in a way that benefited third parties, like communities downstream from agricultural areas.

In the 1990s, an increasing number of companies began using organic ingredients to produce a wide array of products and expanded the organic market into the mainstream -- not following any government mandates but simply the call of market opportunity. New specialty chains like Whole Foods and Wild Oats sprang up to serve a burgeoning market of intelligent, well-informed, environmentally concerned consumers. Now I can even go into a conventional supermarket or a Fred Meyer to get organic vegetables, unlike days past when I could only buy them at health food stores.

The acreage of organic planting has grown exponentially as more farmers have realized the profitability of becoming part of this virtuous circle, and the trend has reached far beyond U.S. borders. Mexico, for example, has an increasing number of farmers who meet California's organic standards, showing that the environmental market "carrot" can be very effective in instigating environmental change even



where there is little government regulation or local market support.

Individual entrepreneurs, multinational companies, and even the stock market have played important roles in the expansion of sustainable agriculture. Consider some of the pioneers who started natural foods companies, like Gene Kahn, founder of Cascadian Farm. Along with consumer support, Kahn has benefited from investor backing through the U.S. capital markets to finance the development and growth of organic agriculture in the Northwest, and he now spreads knowledge of organic farming internationally through General Mills. In addition, the capital markets have played a role in shifting agriculture toward sustainability through the capitalization of outlets for organic products such as Whole Foods. And on a smaller scale, those of us who shop at consumer-owned food co-ops, like PCC in the Seattle area, have financed their expansion.

What can we learn from this example in a single industry? The top lesson is that consumers, and by extension investors, wield considerable power even though our decisions rarely make front-page news in the way that court cases and political battles do. (Can you imagine this headline: "Organic Pasta Sauce Flying Off Shelves at \$2.75"?) The very economics of farming have changed as consumers have begun to carry their environmental values with them to the grocery store. The fact that drinkers of soy milk are willing to pay more for soybeans that have not been genetically engineered is very much part of the rationale for why farmers around the globe should plant environmentally preferable, organic crops.

The environmental "bottom line" is that the economic expansion of the organic food market has contributed to tremendous progress in reducing a variety of significant environmental problems posed by pesticides, including threats to the health of farm workers, damage to the cognitive capacities of babies, and harm to riverside ecosystems that drain farmland. And all of this progress during the 1990s happened at a much faster rate than it would have if all environmental group resources had been focused on suing the government to better enforce pesticide laws and regulations.

During the last 30 years, environmental organizations have demonstrated that they can make a strong showing in the courtroom, as well as the court of public opinion. By encouraging consumers and investors to use their economic leverage, environmentalists in the 21st century can catalyze even faster progress in addressing a wide variety of environmental threats such as global warming and habitat fragmentation. There's much to be gained by using the economic carrot in addition to the legislative stick. One of the keys will be integrating environmental values into economic decision-making -- deciding that an organic carrot is worth more than a pesticide-laden one, and then buying it.

*Jon Naimon is president of [Light Green Advisors](#), a Seattle-based registered investment advisor that manages money for nonprofit and educational organizations with an interest in supporting environmental responsibility. LGA has developed several investment products including the Eco*Index, Eco Performance Portfolio, and Global Eco Index series. Prior to cofounding LGA, Jon was a visiting professor at the Norwegian School of Management and the architect of the Investor Responsibility Research Center's environmental program. Jon can be reached at 206-547-8645 or jnaimon@lightgreen.com.*