



The social economics of ethical consumption: Theoretical considerations and empirical evidence

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ABSTRACT

Recent years have seen rising discussion of ethical consumption as a means of stemming global warming, challenging unsavory business practices, and promoting other pro-social goals. This paper first lays out a conceptual framework for understanding the spread of ethical consumption, in which heterogeneous preferences and sensitivity to social norms feature centrally. It then presents empirical evidence from a well-known nationally representative survey on factors associated with tendencies to 'buy ethically'. It is found that, *ceteris paribus*, people are more likely to buy ethically when others around them do too, consistent with a role of social norms in promoting ethical-consumption behaviors.

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1. Introduction

Recent years have seen rising discussion of 'ethical consumption' – generally taken to refer to people purchasing and using products and resources according not only to the personal pleasures and values they provide, but also to ideas of what is right and good, versus wrong and bad, in a moral sense. Table 1 shows the primary areas of concern. In brief, the key issues are: buying foods produced under environmentally sustainable methods (organic and local produce); buying coffee and other goods procured via fair-trade arrangements; boycotting companies that use sweatshop labor; favoring products with low carbon emissions (hybrid vehicles, Energy Star appliances); recycling diligently; shunning products with wasteful attributes (bottled water); buying animal products only from suppliers that use humane husbandry methods (cage-free eggs), etc. Broadly, practices singled out as 'wrong' inflict some type of significant harm on people, animals or nature, and/or raise the risks of such harm – where harm may relate to health, odds of survival, basic material comfort, and other basic elements

of a satisfying and dignified life. While data suggest that shares of consumers in North America and Europe who presently make some concerted effort to 'consume ethically' – for example, trying conscientiously to buy organic products, reduce their carbon footprint, and/or eat only meat from humanely raised animals – are relatively small (in the 5–10% range), they have been advancing steadily.¹ Moreover, sales of ethical products have been booming, registering rates of growth of 30–200% per year.²

Some previous economic research has investigated ethical consumption from theoretical and empirical angles, but with many important questions about it still quite unresolved. On the theoretical side, the fact that ethical consumption is a minority behavior

¹ According to the annual Roper 'Green Gauge' survey, 11% of U.S. households had notable 'green' tendencies in their buying patterns in 2005 (CSRwire, 2007). In the U.K., the Co-operative Bank (2007) estimated that, in 2006, 5% of the population could be described as 'committed consumers of ethical products', meaning that they 'shop ethically' on a weekly basis.

² For data on the rise in ethical consumption, see Speer (1997); Worcester and Dawkins (2005); FINE (2006); Rigby (2006); TransFair USA (2006); Hanas (2007); Co-operative Bank (2007); CSRwire (2007); Stevens-Garmon et al. (2007); Electric Drive Transportation Association (2008); and Makower (2008). The Co-operative Bank (2007) estimates that the total value of ethical goods and services sold in the U.K. in 2007 exceeded £32 billion.

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Table 1
Primary issues in ethical consumption.

Issue	Specific concerns	Ethical objections	Ethical practices
Environmental sustainability	Global warming, depletion of natural resource stocks, declining air quality, deteriorating access to safe water, accumulation of solid waste, declining agricultural productivity	Jeopardizes well-being of future generations of people and animals, undermines the beauty and integrity of the earth's scarce and irreplaceable natural resources	Buy organic and local produce; avoid meat; buy less; buy used goods; replace products less frequently; recycle diligently; avoid excess packaging; conserve energy; seek renewable/alternative energy; favor energy-efficient appliances; monitor carbon footprint; avoid driving and flying; take public transportation, walk, or bike; pay carbon offset tax; build 'green'; eco-tourism, etc. Boycott companies with irresponsible environmental records
Biodiversity, nature, endangered species	Over-harvested fish, rainforest development, pollution	Destabilizes ecosystems, ignores intrinsic worth of animals and nature, grossly prioritizes short-term human material wants, irrevocably alters nature's course	Boycotts against companies with problematic practices, no consumption of species-at-risk, political action
Genetically modified crops and animals	Disease-resistant crops that jeopardize local ecosystems, animals bioengineered to raise profits of meat production, low standards for establishing safety	Implies unknown risks to human health and the environment, oversteps bounds of human intervention in nature ('playing God')	Eat organic food, stop eating meat, boycott companies selling GM food or seeds, campaign for restrictions on sales and/or honest labeling
Free trade in tropical commodities	Implies low, insecure living standards for third-world farmers	Exploits poor producers' inability to reject low prices, unjust division of fruits of exchange	Buy certified fair-trade products, which pay decent, secure prices to poor farmers and artisans
Abusive labor practices	Sweatshops, child labor, slave labor	Exploits the economic desperation of the poor, treats them without dignity	Boycotts, preferential purchasing from sweat-free companies
Animal welfare	Inhumane husbandry, inhumane slaughter, animal testing	Inflicts pain and suffering on sentient creatures, imposes low quality of life	Vegetarian or vegan diet, preferential purchasing of personal-care products not tested on animals, protests against fur
Local economy	Destruction of local businesses by inflow of mass-produced goods and services	Destroys enriching social relationships and meaningful livelihoods	Use local currencies, favor local businesses over chains
Repressive regimes	Burma, Sudan, formerly South Africa; Israel	Gross violations of human rights	Boycott companies operating in such places or doing business with their governments
Consumerist lifestyles	Unthinking adoption of high-consumption, long work-hour lifestyles	Runs counter to fundamental values, like family and community; accepts dominance of values propagated by corporations through advertising, leaves human potential unrealized	Annual buy-nothing day, voluntary simplicity movement, take-back-your-time movement, modest holiday gift-giving, charitable donations in lieu of gifts, downshift, change jobs, start a social enterprise

Note: For popularly oriented discussion of ethical consumption, see Clark and Unterberger (2007) or Jones et al. (2007).

that is nonetheless spreading over time suggests that we need some variant of model that takes preferences with respect to a given social, ethical, or environmental issue to be heterogeneous within a population, while also allowing ethical consumption to spread over time via learning and/or changing norms (Sen et al., 2001; Janssen and Wander, 2002; Brekke et al., 2003; Eriksson, 2004). On the empirical side, there is a large but inconclusive literature on determinants of ethical consumption, where it has proven difficult to find systematic effects of socio-demographic characteristics, knowledge of the issues, or concern about them (see e.g. Diamantopoulos et al., 2003; Auger and Devinney, 2007, and references therein). This poor understanding hampers the formulation of public-policy programs that can effectively promote socially beneficial behaviors, such as recycling, energy conservation, and use of public transportation.

This paper aims to advance our understanding of ethical dimensions of consumption decisions by developing a conceptual framework in which heterogeneity in preferences and sensitivity to social norms feature centrally, and then testing the implications of the model using data from a well-known, nationally representative survey of the U.S. population. The next section of the paper develops the theoretical framework, which extends a model developed by Brekke et al. (2003) by allowing for additional sources of heterogeneity among consumers. The third section then uses the theoretical framework to derive predictions that could be tested using individual-level data. The fourth section describes the data to be used for this purpose, which come from questions on 'ethical

buying' asked in the 2004 General Social Survey of the University of Chicago's National Opinion Research Center – a longstanding, well-regarded survey where considerable efforts are made to ensure that the sample is representative, and where the considerable amount of information collected in the survey gives us a rich set of explanatory variables that can be used to understand determinants of population-wide patterns in ethical buying. The fifth section presents findings, while the sixth section concludes. Among the important results of the study are that: (a) education is a strong determinant of ethical buying, possibly due to the cognitive burden of making consumption decisions with extra considerations in mind; and (b) people are more likely to consume ethically when others around them do too, consistent with social norms heightening their attention to social implications of individual behavior.

2. Theoretical considerations

To explain differential patterns of involvement in ethical consumption and motivate our empirical work, this section outlines a model based on that of Brekke et al. (2003), with some extensions to allow for additional sources of heterogeneity. The model assumes there is a population of M individuals who vary in the benefits and costs they would experience if they decided to 'consume ethically' rather than 'consuming regularly'. Let α be the share of the population that consumes ethically. For a given individual i , variables relevant to the decision to consume ethically are as follows:

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