

The Porter Hypothesis at 20

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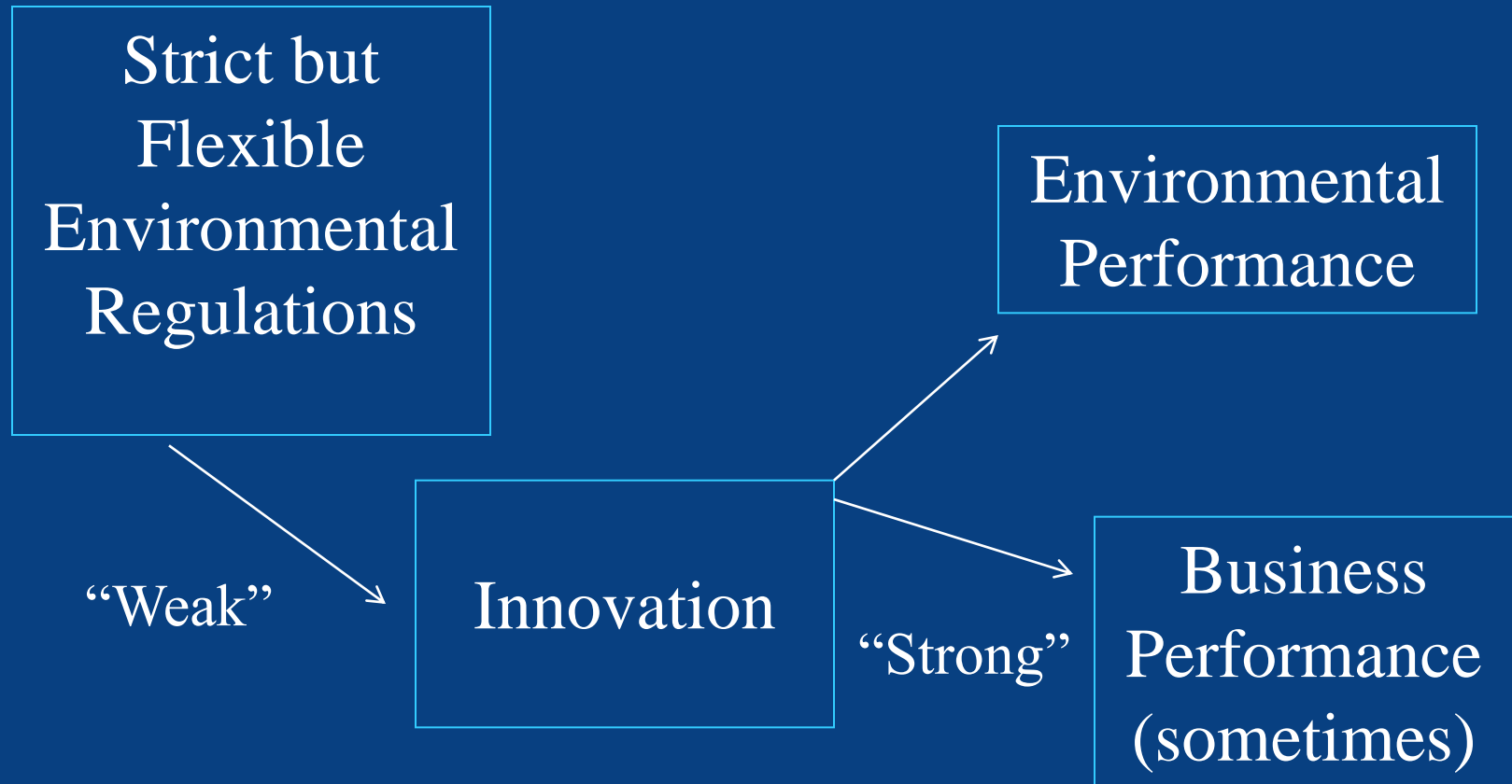
Sustainable Prosperity & Univ. of Ottawa

Traditional View of Environmental Regulation...Costly!

- 100 billion + annually to comply
- 2% of GNP
- Lost jobs overseas

1991 article by Professor Michael Porter in *Scientific American* questioned conventional wisdom ...“America’s Green Strategy”

What is the Porter Hypothesis?



Initial Response to Porter Hypothesis...

Traditional Economic Response:

- If there is low hanging fruit, why don't firms know about it?
- What is the empirical evidence?

However, note that PH does NOT Say...

“All regulation leads to innovation...”

- Only that “well designed regulation does...”

“Innovation **always** offsets cost of regulation”

- Instead, it “often does...”

Impact of Porter Hypothesis...

Economics & Management Literature:

- Hundreds of studies testing & explaining PH

Management Education

- Thousands of MBA students taught PH & potential value of sustainable enterprise

Public Policy (Dan Esty)

Business Practice (Chad Holliday)

Why “properly crafted” regulation might lead to positive outcomes...

- Firm Managers might not act in best interest of shareholders (regulation might force them to do so)
 - Examples: Short-term focus, risk aversion, shirking
- Reduce uncertainty of investments in environmental protection
- Raise corporate awareness & external pressure on topic that might otherwise be ‘lost’ in shuffle

What is the Empirical Evidence?

Weak Version...

Regulation → Innovation → Patents

YES

What is the Empirical Evidence?

Strong Version...

Regulation → Business Performance
(Productivity)

MIXED but Growing Evidence

Earlier studies → Negative

More recent data

& dynamic studies → Positive

What is the Empirical Evidence?

Strong Version...

Regulation → Enhances nation's
Competitiveness
=> Some evidence, but
not fully resolved

- No evidence that countries w/strict environmental regulations lose competitiveness...

Policy Implications of Porter Hypothesis

1. Environmental Policies

- Performance & market-based

2. Industrial & Patent Policies

- Patent policy might enhance R&D

3. Organizational & Governance Conditions

- Transparency, Makeup & Role of Board of Directors to reduce Inertia

Introduction of Professor Michael Porter