

# Economics and Markets for Animal Welfare

Chapter by Jayson Lusk & Nicole Widmar

# ‘Economics Meats Animal Welfare’

- Economic theory asserts that competitive markets efficiently allocate resources to their most valued uses.
- Prices (P) and quantities (Q) produced by a competitive market generate the highest level of aggregate human well-being in the utilitarian sense.

# Animal Welfare Fallacy

- Animal welfare and production, and thus profitability, go hand in hand
  - Argument being that doing the ‘right thing’ for welfare will enhance profitability (because production is an indicator of welfare)
- Admittedly, they could be correlated
- Economically – the level of input that maximizes production is *not* the same as the level of input that maximizes profit.

# Theoretically Simple 😊

- People demand stuff and pay for it; people produce stuff and get paid for it
- But ... the actual costs of production vary across producers.
- But ... the actual willingness to pay for things varies across consumers.
- And – not everyone wants the same stuff (or wants to make the same stuff).
- So it isn't a market – it's millions of competitive markets interacting with one another.



# Diversity of Views, Tastes, and Preferences

- The heterogeneous tastes and preferences of the public, distinct from those of consumers, complicate the markets for animal welfare – and associated conversations.
- Caution on measuring tastes/preferences
  - ‘Just asking’ does not generally work ... humans from an early age are skilled game theorists
  - Poorly framed
  - Sensational rather than informative
  - Representative of what?
  - Social science methodologies - studying people and their systems

# So, if you want to improve welfare ...

- Trade it
  - Have a market for animal welfare itself
- Regulate it
- Incentivize it
  - Label products
  - What is the profit potential to convince producers to do it?
  - (OR backwards, could they afford not to do it?)
- Tax the 'bad'
  - Pigovian taxes

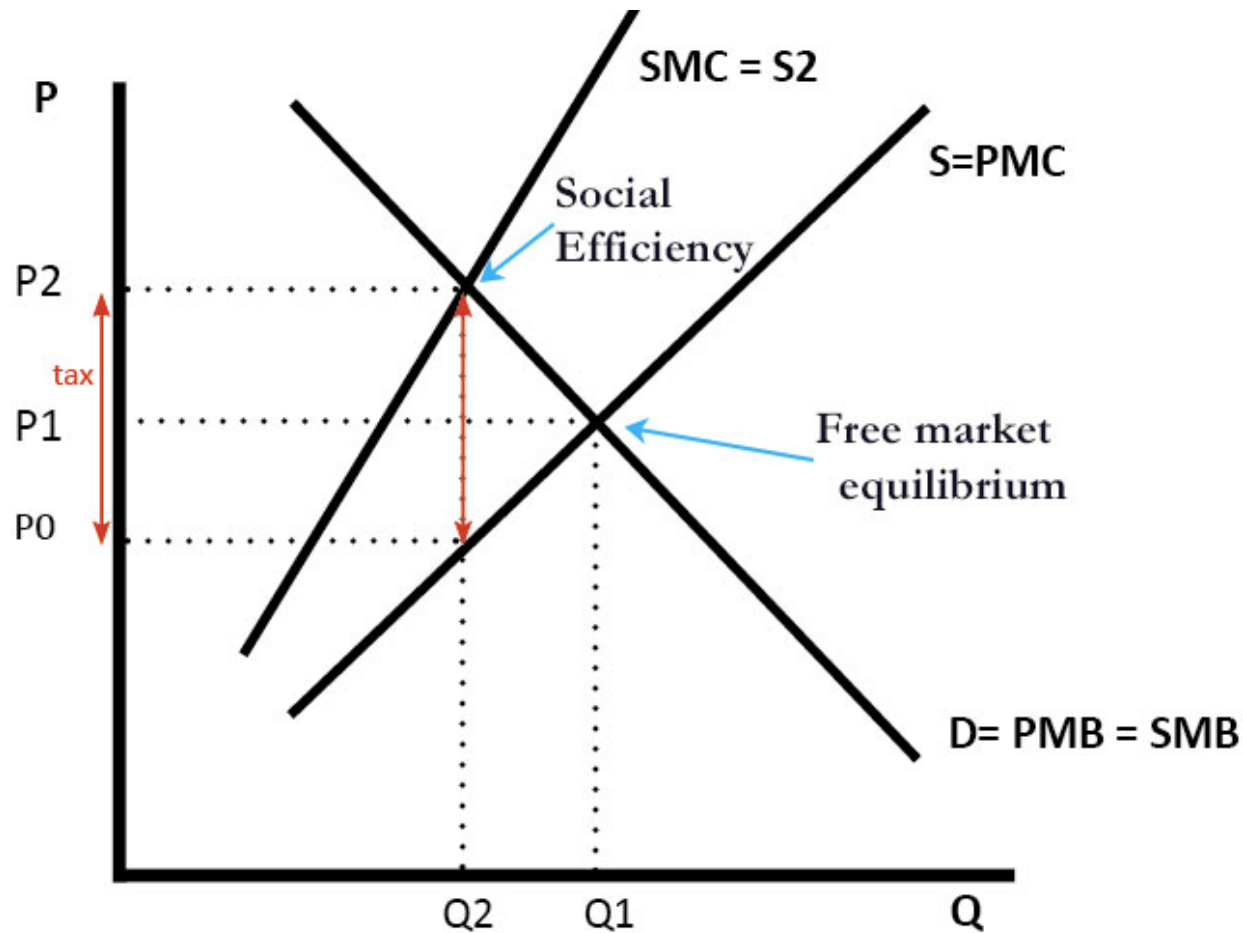
# Fundamental Challenge

- Consumers versus citizens
    - Labels serve those who buy the product; they may not be the ones who want to change practices
  - A market for animal welfare itself is a theoretically interesting idea ... selling Animal Well-Being Units would allow selling welfare without meat
- “A market for AWBUs imposes the costs on the people who want them and could potentially allow companies to engage in CSR objectives in a clear and transparent manner (i.e., by buying AWBUs).” **Voluntary Markets ...**

# Could you tax livestock products?

- A Pigovian tax is a tax placed on any good which creates negative externalities.
- The aim of a Pigovian tax is to make the price of the good equal to the social marginal cost and create a more socially efficient allocation of resources.





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## Pigovian Tax

# Problems

- You have to know the size of the externality to get it 'right'
- Taxes are politically unattractive
- Demand for meat is relatively insensitive to price change
- Would change quantity; not quality (in the welfare)
- Administrative costs
- Evasion

# Arguments Around Min Standards

- Not administratively costless
- Altering cost of production
  - Economics of that change?
- Often directed at specific practices
  - Theoretically could alter quality rather than numbers of lives impacted
- In reality → Changes where they're raised but not necessarily how
  - California, anyone?

# Takeaways

- Nothing is free
- Economics is about tradeoffs
  - Money for goods
  - Time for goods
  - Time for money
  - Goods for other goods
  - Attributes (or levels of attributes) for other attributes (or levels of attributes)

The ‘idealized’ level of animal welfare may not be the ‘ideal’ once you have to pay for it (or cannot afford to pay for it).