Optimal Green Retailing: Theory and Evidence*

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A draft of this paper is forthcoming and will appear here.

Abstract

We lay out a simple framework for optimal green retailing. We use it to evaluate a heavily publicized campaign in which a large German grocer added uninternalized environmental externality costs, which we estimated using "true cost accounting", to a selection of products and donated the proceeds to environmental conservation. The implied demand elasticity with respect to the campaign price increase was half of the elasticity with respect to standard short-term promotional price decreases, suggesting that demand may have shifted out significantly due to warm glow from the donations. We find that the campaign increased overall welfare. Surveys show that the campaign did not substantially affect beliefs about externality magnitudes, but consumers expressed concerns about greenwashing and viewed true cost pricing more sceptically after the campaign. Using a structural model and home scanner data, we evaluate alternatives such as a cross-subsidy from high- to low-externality foods and the first-best system of externality taxes.

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