

Cleaner Nudges? Policy Labels and Investment Decision-making

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Executive summary

To combat winter mortality and morbidity in the United Kingdom (UK), the UK government developed the Winter Fuel Payment (WFP), which provides a lump sum payment to households whose oldest member is aged 60 or older. The WFP is an unconditional cash transfer, meaning it is given to all qualifying households regardless of income level and it is not mandated that WFP funds are to be spent on fuel. Essentially, the WFP raises household income for those qualifying households. All else equal, a slight increase in annual household income should make a household more likely to invest in solar panels or other renewable energy technologies. However, the authors show that the WFP has a distortionary impact on the market for renewable energy technologies.

In recent years, economists have begun incorporating insights from the field of psychology, finding that people can be “nudged” to make economic decisions even when there is no direct economic incentive. For example, the layout of marketing material may impact the uptake and the outcomes of a government program. It is also possible that psychological nudges may have unintended consequences. The authors suggest that since the program is named the “Winter Fuel Payment”, WFP recipients are more likely to spend WFP funds on “fuel” and are less likely to invest in renewable energy, even though renewable energy would reduce the household’s overall energy need.

To test the impact of the WFP on renewable energy investment, the authors develop a statistical model using the WFP eligibility criteria (i.e., households with people under the age of 59 do not receive the WFP, and households with people age 60 and above receive the WFP). The authors find that WFP households are 1.5% less likely to install renewable energy technologies. This implies that 30% of WFP households would have invested in renewable energy but they refrain from doing so after receiving the WFP. Using data on individual and household-level information, the authors estimate the impact of the WFP on other household investment decisions and show that the WFP has an increased or no effect on a household’s decision to invest in kitchen remodelling or consumer durables like a new car.

This analysis suggests that product labeling (or the naming of a government program) can “nudge” related products and markets. In this case, the WFP nudges households to use too much energy from sources that generate pollution and too little from cleaner technologies. This issue

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may be straightforward to remedy by renaming the WFP to something that primes households to think about energy efficiency or renewables, such as the Winter Renewable Energy Payment.

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