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Discriminatory subsidies for energy-efficient technologies and the role of social preferences

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ABSTRACT

Discriminatory subsidies, i.e., incentives available only to a subset of the population, are widespread although theoretical research on social preferences suggest that they may trigger unintended effects on non-eligible households. Employing a discrete choice experiment with a demographically representative sample of the French adult population, we study how discriminatory subsidies affect households' propensity to adopt smart thermostats. Households are randomly assigned to either a control group with a uniform subsidy or to one of four treatment groups manipulating two independent factors: (1) positive discrimination (participants are eligible for the subsidy but some other households are not) versus negative discrimination (participants are not eligible for the subsidy but some other households are) and (2) eligibility criteria (based on municipality versus based on household characteristics). To analyze the moderating effect of social preferences on participants' response to the discriminatory subsidy, we also elicit envy via an incentivized task. Our results from estimating mixed logit models show that receiving a subsidy increases participants' propensity to adopt a smart thermostat, regardless of whether other households are also eligible for the subsidy. In contrast, negatively discriminated households are less likely to adopt a smart thermostat, especially when the eligibility criteria are based on household characteristics. However, we find no evidence for a moderating effect of envy. Our results provide guidance for the design of discriminatory subsidy policies.