

# New policy experiments using nudges have the potential to make a significant contribution to energy conservation

**Adam Oliver** comments on the UK Government's recently published report on 'Behaviour Change and Energy Use', and finds that while some of the proposed interventions are not strictly 'behavioural economics', they may provide people with some incentives to reduce the amount of energy they use.

The Behavioural Insights Team in the UK Government's Cabinet Office recently published a report on '[Behaviour Change and Energy Use](#)'. According to the Ministerial Foreword, the stated intention of the report is to draw on insights from behavioural economics and psychology to inform policy interventions that will encourage people to reduce their energy consumption. The 'meat' of the report is the presentation of the following five policy interventions, which will all be applied in collaboration with private sector companies:

1. Upfront incentives to encourage the uptake of energy efficiency products, including a month's holiday from council tax payments.
2. Offering 'green' products at a discount for collective purchasing (i.e. the discount increases marginally the greater the number of households who collectively purchase the product), and the provision of a subsidised service to help people to clear their lofts prior to installing insulation.
3. Offering community rewards – for example, microgeneration technology for community buildings – for the take up of the '[Green Deal](#)' (i.e. the Government programme to help homeowners introduce energy efficiency measures).
4. The use of 'smart meters', so that people can compare their own energy consumption levels with households of similar type.
5. Making the information about the costs of heating a home and how much can be saved from energy efficiency measures much clearer on Energy Performance Certificates (that are meant to be presented when buying or renting a home).

All of the interventions appear logical, but we might reasonably ask ourselves, where is the behavioural economics? Proposals (1), (2) and (3) seem for the most part to be quite straightforward applications of financial incentives, informed by the relative price mechanism of standard economic theory. There is nothing intrinsically wrong in this of course, but those attempting to apply behavioural economic theory should be totally sound in their theoretical claims, otherwise the entire behavioural economic approach could become the subject of ridicule, and could run the risk of being further marginalised by the mainstream economics community.

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More generously, it is possible to interpret the loft clearing service in (2) as an attempt to address hyperbolic discounting, or in other words in this case, the substantial immediate displeasure that people feel in clearing out their loft now for the sake of some distant energy saving benefit. Moreover, identity economics (a branch of behavioural economics), recently most associated with the work of [George Akerlof and Rachel Kranton](#), could, at a stretch, be tied to (3) in that it is possible that individuals will want to identify more with the green movement if they observe others in their local community actively taking steps to be more energy efficient.



To me, though, interventions (4) and (5) relate more obviously to behavioural economics in that they both try to give people a strong reference point where none previously existed (in the case of (4)) or where it was previously weak (in the case of (5)). When people have a salient reference point they tend to anchor upon it; behaviour that does not then match up to the reference point is perceived as a loss, which, due to loss aversion, might motivate human action. For instance, for intervention (4) people might choose the average energy consumption level of similar households as their reference point, and if they were to exceed this level

in their own household they may perceive their 'excess' consumption as a 'loss'. This may in turn motivate them to be more careful about their use of energy in the future. Similarly for (5), people may anchor upon the clearer, more salient reference point given by the newly presented information, which might be an adequate incentive for at least some people to update their new homes with energy saving materials and devices.

Appropriately, despite the Ministerial Foreword claiming that some of the interventions are highly cost-effective (how would they know?), the Government will be trialling interventions (1) to (5) to assess their effectiveness before any are rolled out nationally. Along these lines, the report concludes with some wise words that ought to be applauded: "We need to approach the issue with a degree of humility and pragmatic experimentation". Moreover, the report emphasises that these behavioural interventions are not alternatives, but are rather supplements, to other forms of policy, including stricter regulatory measures, in this area.

No sensible behavioural economist would claim that behavioural economic-informed policy is a panacea, which is something that the critics of this general approach tend to overlook. Nonetheless, whether informed by standard economic theory or behavioural economics, the planned experimentation might provide evidence to support the assertion that, in the important area of energy conservation, these interventions can contribute significantly at the margin.