

Means-Tested Subsidies and Market Power: Evidence from a French Heat Pump Program

Paul Dutronc-Postel*

Etienne Fize[†]

Aurel Mélard[‡]

Preliminary draft – Do not circulate

Abstract

We investigate the effects of introducing a means-test to a large, multi-billion environmental subsidy to housing retrofits. We first build a theoretical framework highlighting the role of providing information to firms on the income categories to which households belong. Using rich administrative data, we find reduced form evidence of price discrimination across income categories; we also show that the level of pass-through depends on local supply's concentration level. Leveraging detailed information on the local structure of renovation markets, we estimate a structural demand model to assess the efficiency and distributional impacts of this subsidy. First, price discrimination boosts progressivity because low-income demand is more elastic, and firms exploits this discrepancy. A steep demand-curve drives up the level of pass-through, by working against the rationing effect of imperfect competition. Altogether, price discrimination amplifies the redistributive effect of means-testing by 31% at no efficiency cost.

*Institut des politiques publiques (PSE-Ecole d'Économie de Paris)

[†]Institut des politiques publiques (PSE-Ecole d'Économie de Paris)

[‡]CREST, École Polytechnique, Institut des politiques publiques

[§]The authors gratefully acknowledge financial support from the EDF-funded Chaire Développement Durable. The authors thank the French National Housing Agency for their help in accessing crucial data. We thank Will Rafey, Mathias Reynaert, Hugo Molina, Xavier d'Haultfoeuille, Florian Grosset-Touba, Louis-Gaëtan Giraudet, seminar participants at CREST and PSE, conference participants at EPP, EAERE, MWEET, MCEE, ZEW Public Finance, AFSE for their helpful comments and suggestions.