

Distributional Effects of the European Energy Crisis

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Abstract :

We estimate the distributional effects of the unprecedented rise in European energy prices over 2021-2023. Using bank account data for a sample of UK households we show that there were significant energy consumption falls, consistent with an average price elasticity of around -0.28, with larger responses for those with high pre-crisis energy spending. We also document evidence of a labelling effect associated energy bill rebates, part of the government's policy response. Using estimates of a flexible model of energy demand, we show that the introduction of a large energy price subsidy, along with labelled transfers, limited welfare losses by 75%. Price subsidies are particularly effective at mitigating large losses among those most exposed to price rises, but come at a significant efficiency cost.

The labelling effect also created an inefficiency that, if avoided, would have reduced the efficiency costs of intervention by 40%.