Confronting inequality in a finite world

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- Shared and common interest in combatting climate change. Yet, inequalities render any transition path difficult.

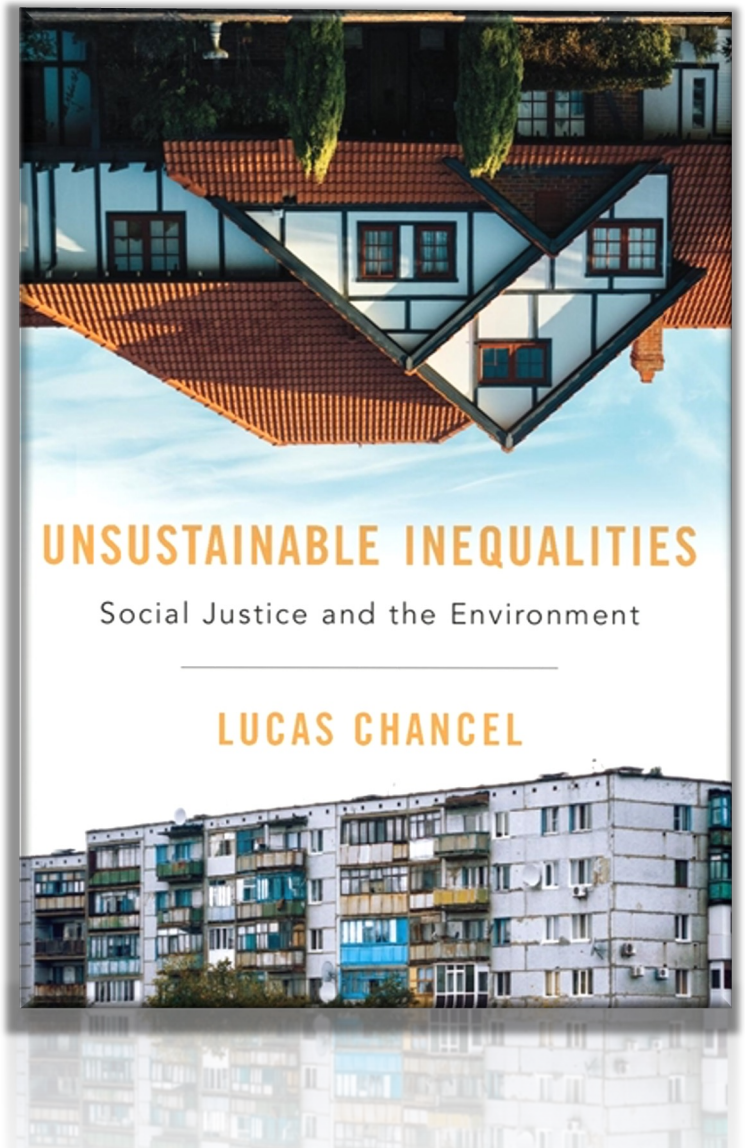
- The intersection of climate and inequality crises represent a challenge, and an opportunity.

- How to think about these problems *and* act upon them at the same time?

Presentation background

Unsustainable inequalities, Harvard University Press, 2020

- Vicious circle of high inequality and low environmental protection
- Need for a shift in the design of social policies: social-ecological welfare state



Presentation background

World Inequality Report 2022

Climate inequality Report 2023

- Inequality data as a global public good
- Collective enterprise based on the work of **over 100 scholars** across the world
- All the data is available online, open source.

This presentation

- Global economic inequality: the landscape
- Global climate inequality: the trend accelerator
- How to reconcile economic and climate justice?

The triple climate inequality crisis

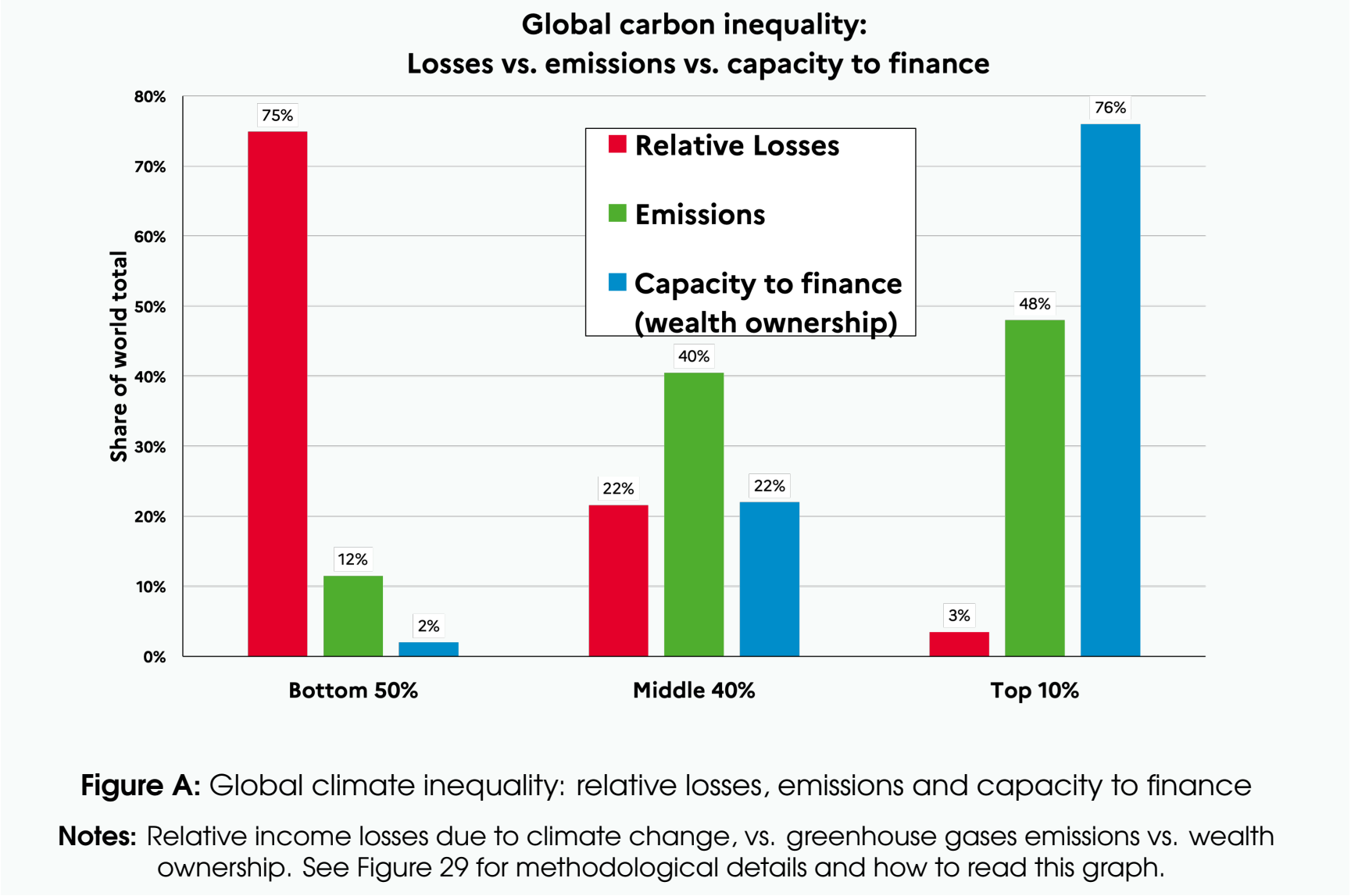


Figure A: Global climate inequality: relative losses, emissions and capacity to finance

Notes: Relative income losses due to climate change, vs. greenhouse gases emissions vs. wealth ownership. See Figure 29 for methodological details and how to read this graph.

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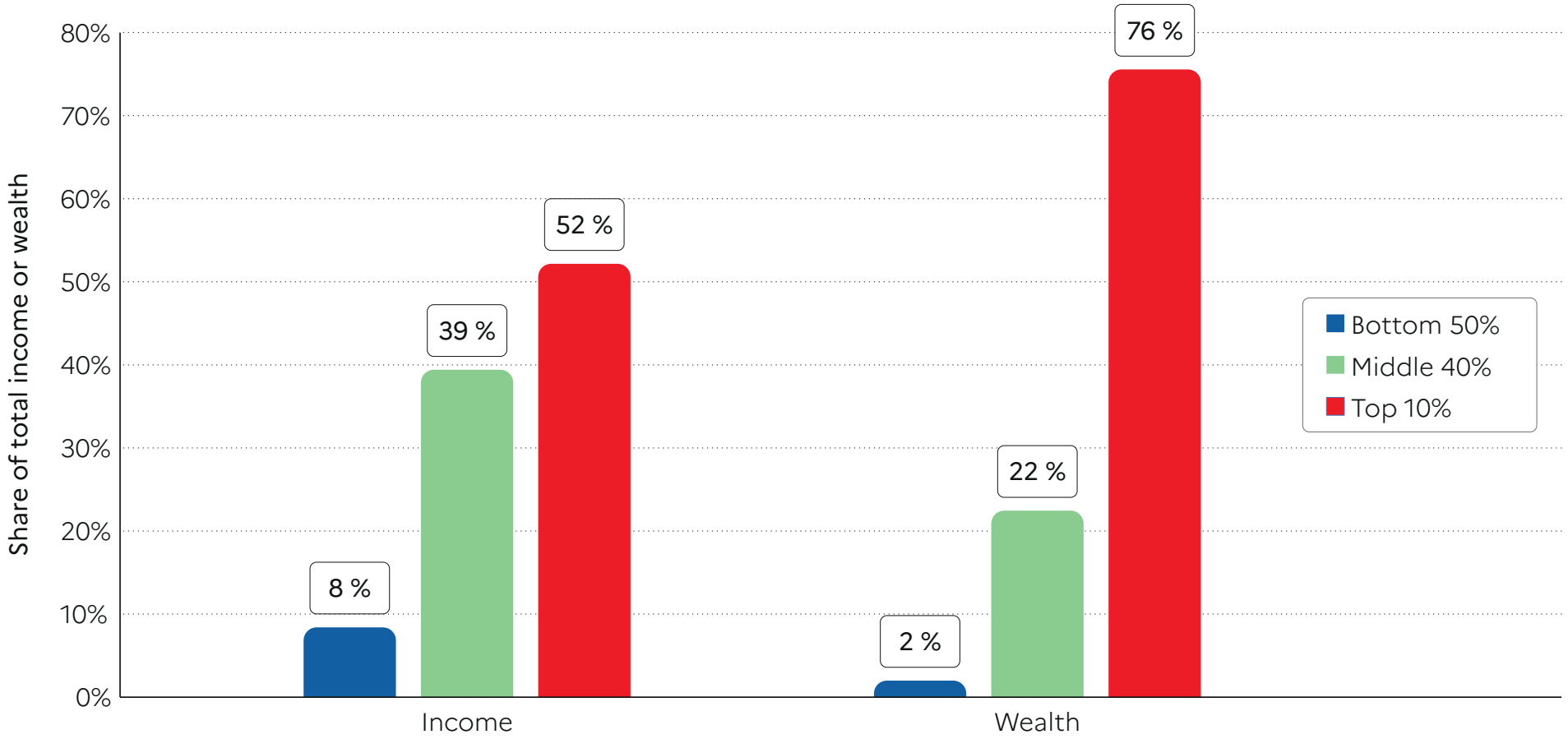
Global income and wealth inequality today

Figure 1 ***Global income and wealth inequality, 2021***



Interpretation: *The global 50% captures 8% of total income measured at Purchasing Power Parity (PPP). The global bottom 50% owns 2% of wealth (at Purchasing Power Parity). The global top 10% owns 76% of total Household wealth and captures 52% of total income in 2021. Note that top wealth holders are not necessarily top income holders. Incomes are measured after the operation of pension and unemployment systems and before taxes and transfers.* ***Sources and series:*** *wir2022.wid.world/methodology.*

Income and wealth gaps, in practice

- The world's top 10% **earn** about 30x more than the poorest half of the world

- The world's top 10% **own** about 190x more than the poorest half of the world

Question

Income and wealth gaps, in practice

- The world's top 10% **earn** about 30x more than the poorest half of the world (~ 6x in Austria)

- The world's top 10% **own** about 190x more than the poorest half of the world (~ 100x in Austria)

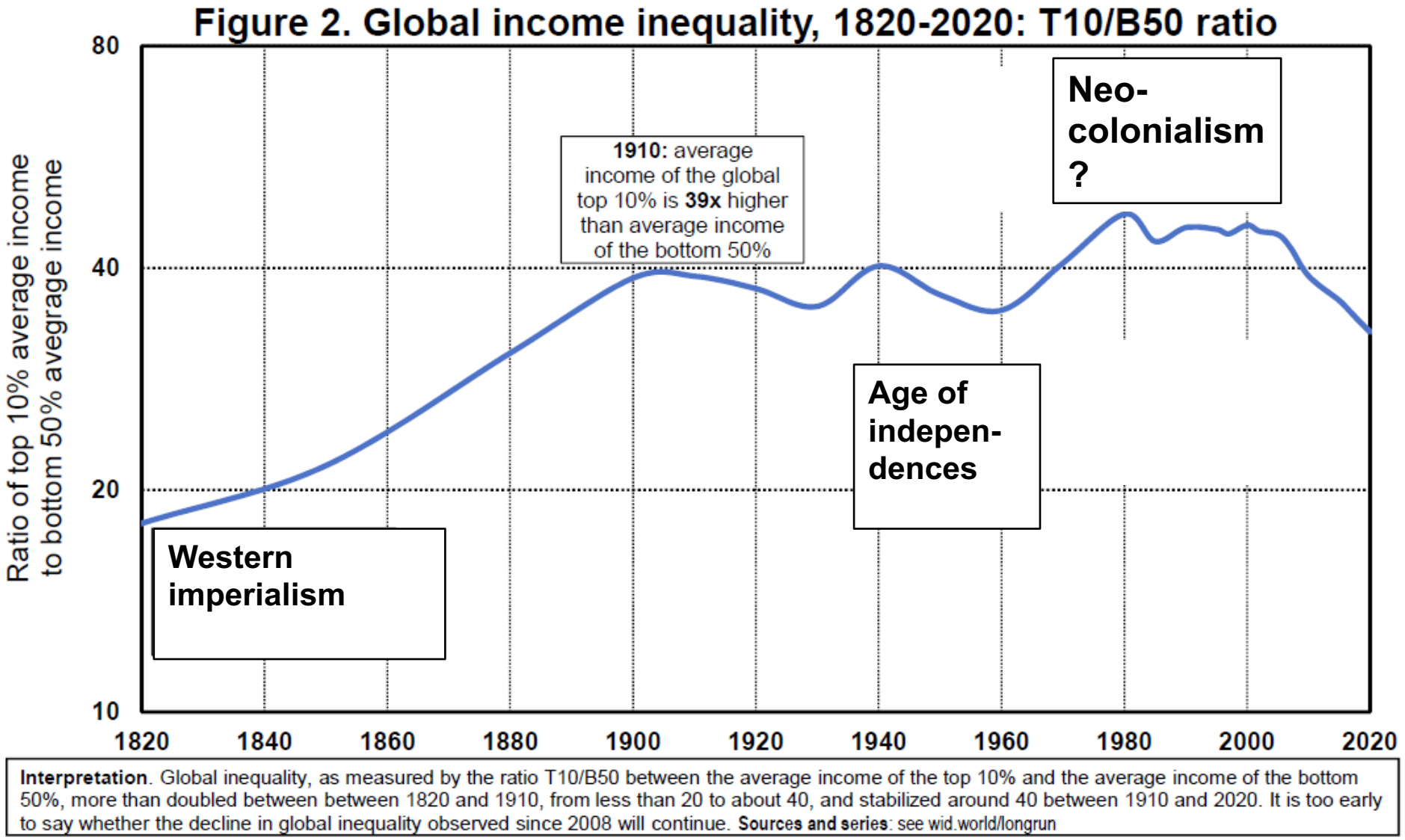
What are inequalities the product of?

- Standard economic theory: these huge gaps reflect differences in productivity, and ability to save & accumulate capital. Not the end of the story.
- Contemporary economic world order largely results from the « Great Divergence » between global North & South in the 19c.
- The Great Divergence (Pomeranz, 2000) was not the product of pure and perfect market and technological forces: role of slavery, war, colonialism.

No Western industrialization without extreme inequality & coal

- 1830 : Britain would have needed 1.5-2x its own size to produce its imports, reliance on colonies.
- 1860: 75% of cotton in Europe comes from US slave plantations.
- Western development highly dependent on resource extraction + colonies, but human development could have happened without these two factors : role of education and democratization (Piketty's « Brief History of Equality »)

Contemporary economic world order hasn't fully exited its colonial roots



Haitian slave trade and modern financial debt

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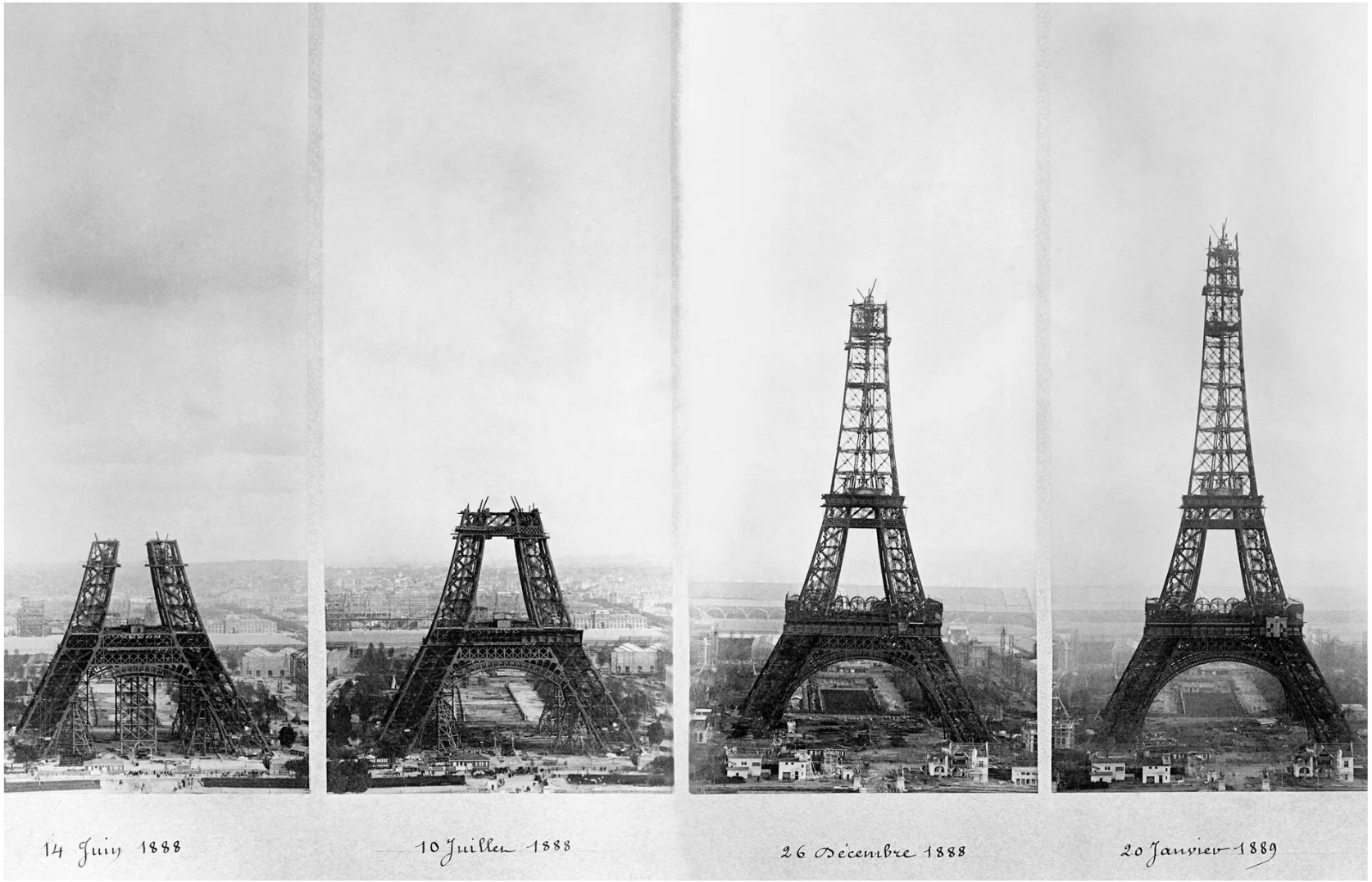
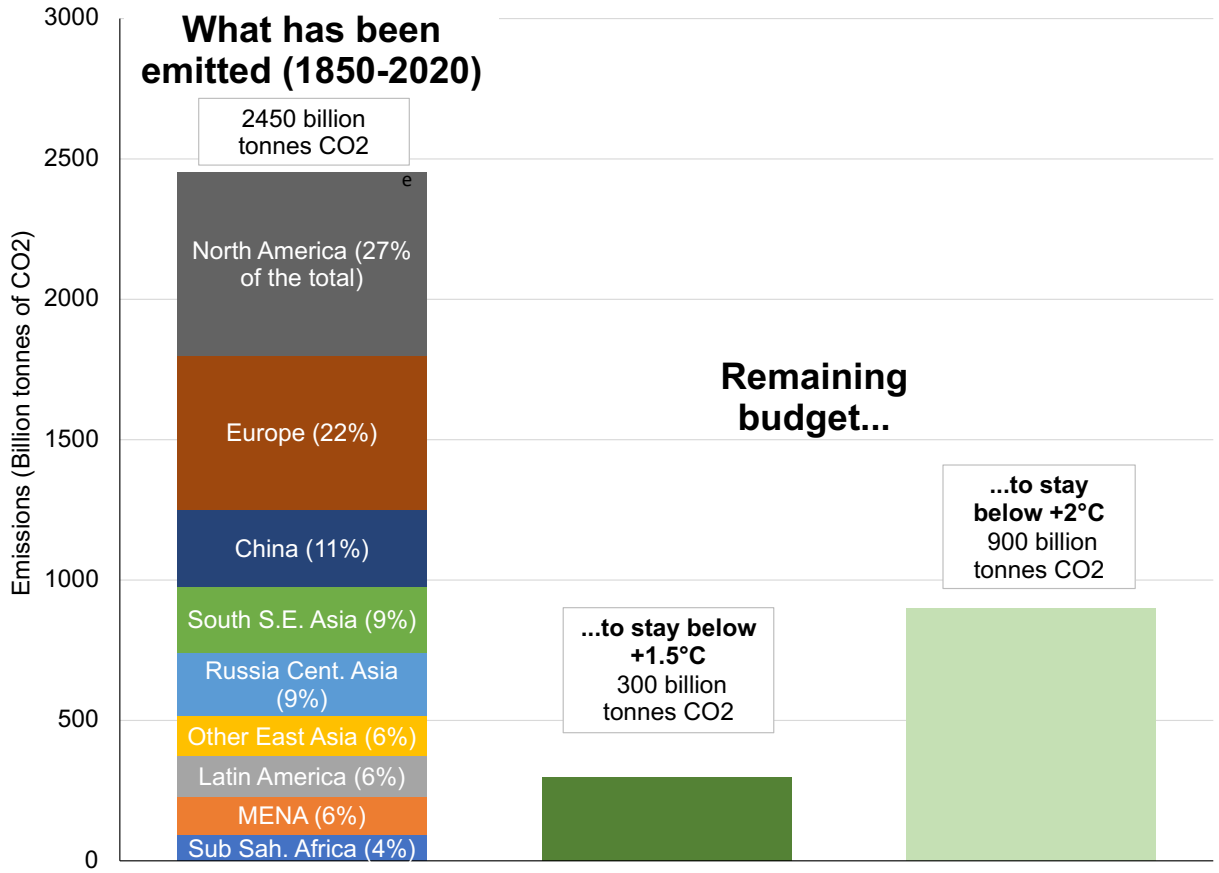


The bank that benefited most from an 1875 loan to Haiti was Crédit Industriel et Commercial, a French institution that helped finance the Eiffel Tower. Agence France-Presse — Getty Images

The global North emitted half of all emissions since 1850: ecological debt

Figure 2. Historical emissions vs. remaining carbon budget



Interpretation: The graph shows historical emissions by region (left bar) and the remaining global carbon budget (center and right bars) to have 83% chances to stay under 1.5°C and 2°C, according to IPCC AR6 (2021). Regional emissions are net of carbon embedded in imports of goods and services from other regions. **Source and series:** Chancel (2021). Historical data from the PRIMAP-hist dataset.

The 20th century and the « Great Redistribution »

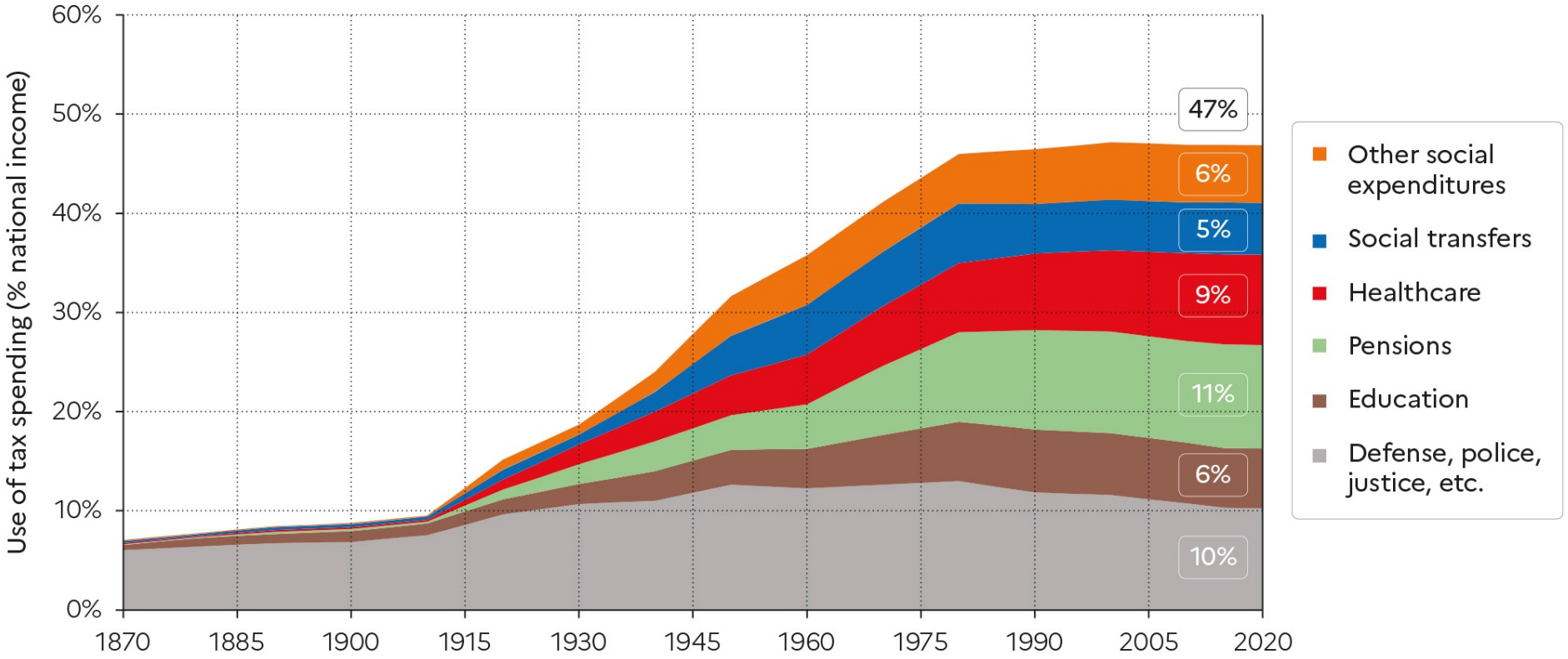
- 20th century is the age of political power redistribution at the global level: independences
- 20th century is also the age of economic redistribution within countries: social policies

The 20th century and the « Great Redistribution »

- Consequence of large-scale political mobilization and institutional change: not just wars and economic shocks.
- Sweden: electoral system over 1865-1910 extremely unequal (« 1 Krona = 1 vote »). See « Reforming to survive » (Knutsen 2022)
- In about 30 years (1914-1945), the balance of power between capital and labor was transformed, thanks to worker mobilization, as well to economic and military shocks.

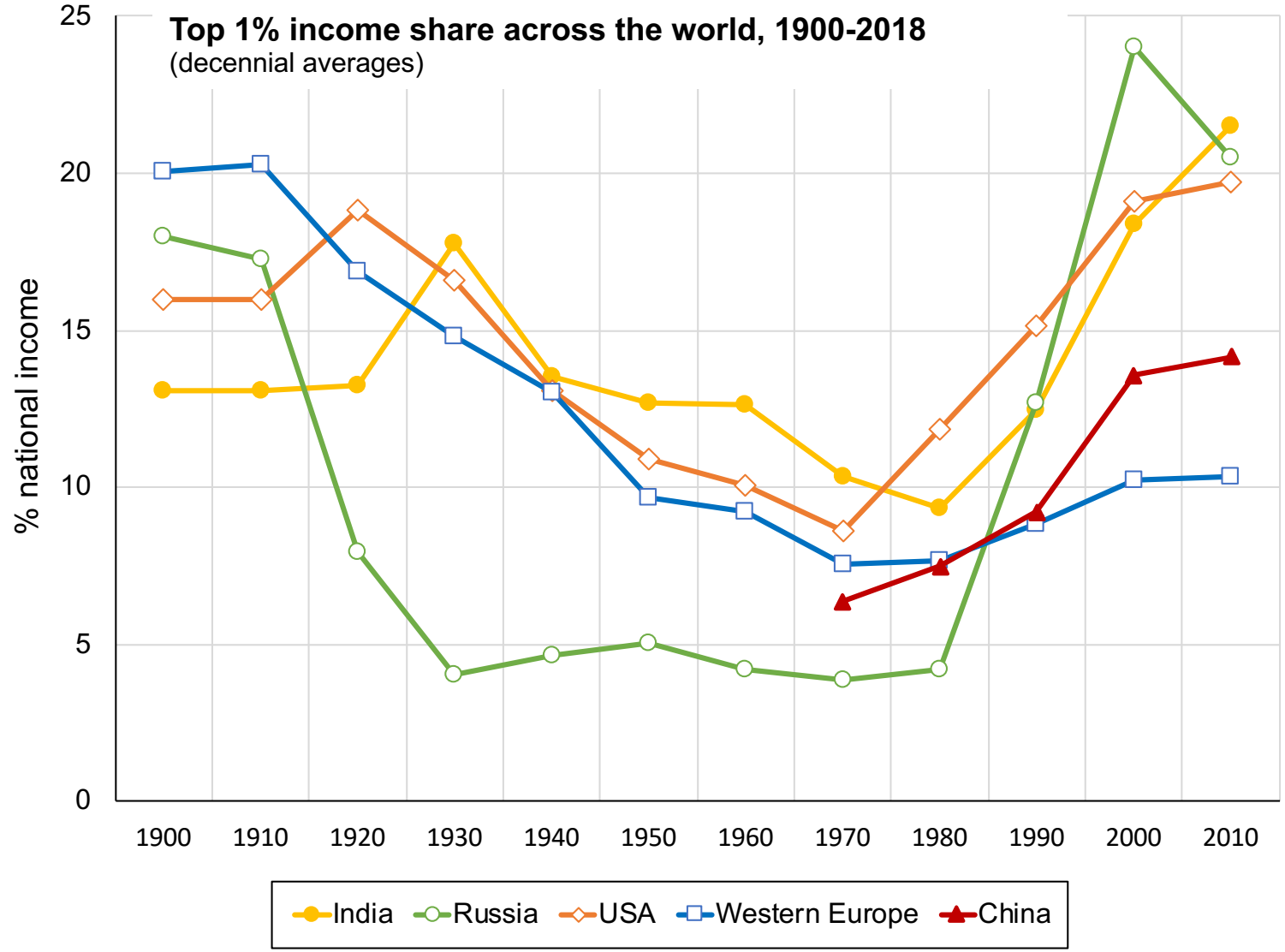
The « Great Redistribution »: rise of the Social state

Figure 10.1 *The rise of the Welfare State in European countries, 1870-2020*



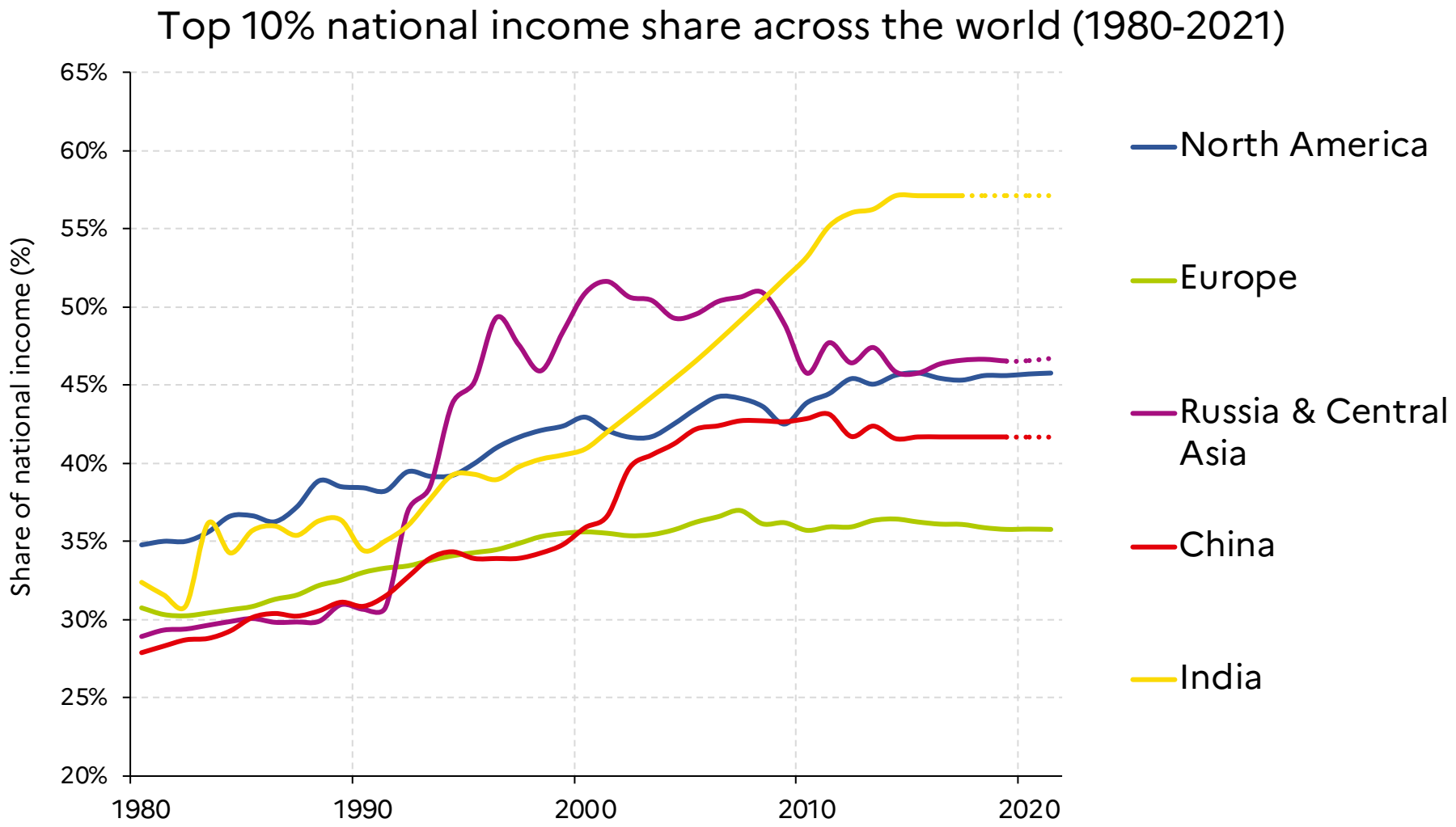
Interpretation: *In 2020, tax revenue represented 47% of national income in Western Europe, on average. 10% of resources were spent on defense, police & justice, 6% on education, 11% on pensions, 9% on healthcare, 5% on social transfers and 6% on other social spending (housing, etc.). Before 1914, defense, police and justice represented the vast majority of government spending.* ***Sources and series:*** *wir2022.wid.world/methodology and Piketty (2021).*

The « Great Redistribution » (1920-1980): declining inequality



Source: Author based on WID.world (2019)

1980-2020s: The « Great Deregulation »



Interpretation: The top 10% share rose from around 28% in China in 1980 to 42% in 2021**. Sources and series:** wid.world/wir2022

Climate warnings became clear during the « Great Deregulation »: bad timing

"All the News That's Fit to Print"

The New York Times

Late Edition

VOL. CXXXVII . . . No. 47,346 NEW YORK, FRIDAY, JUNE 24, 1988 30 CENTS

Global Warming Has Begun, Expert Tells Senate

Sharp Cut in Burning of Fossil Fuels Is Urged to Battle Shift in Climate

By PHILIP SHABECOFF

Global Warming: Greenhouse Effect?

Drought Raising Food Prices; Inflation Effect Seems Minor

By ROBERT D. HERSHEY Jr.

IMMIGRATION LAW IS FAILING TO CUT FLOW FROM MEXICO

ECONOMIC FACTORS CITED

Illegal Entries Are on the Rise as More Come From Large Cities and Stay Longer

By LARRY ROHTER

Cañon Zapata in Tijuana, Mexico, the busiest illegal crossing point.

High Court Getting Unusual Plea Not to Reverse Key Rights Ruling

By STUART TAYLOR Jr.

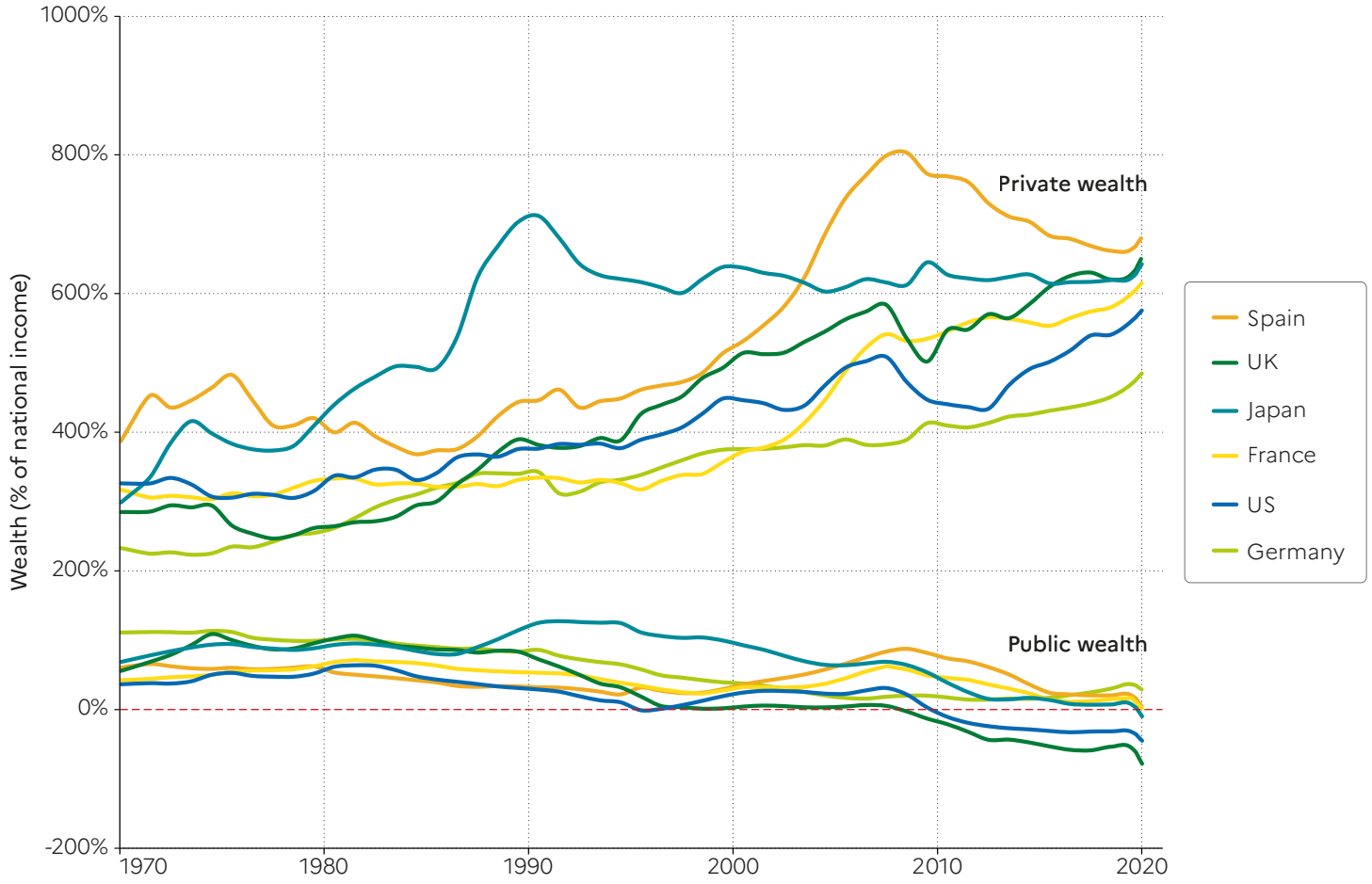
New York Times 1988: Global Warming Has Begun

Climate warnings became clear during the « Great Deregulation »: bad timing

- Financial and fiscal deregulation promoted as the economic playbook.
- General idea that freer markets would do the job. Planification, regulation, taxation appeared as outdated instruments (fears of inflation, job losses, low competitivity).
- Attempts to curb global emissions, via a global treaty between Europe, US, Russia (75% emissions at the time): also failed.

During the « Great Deregulation », nations have become richer but governments have become poor

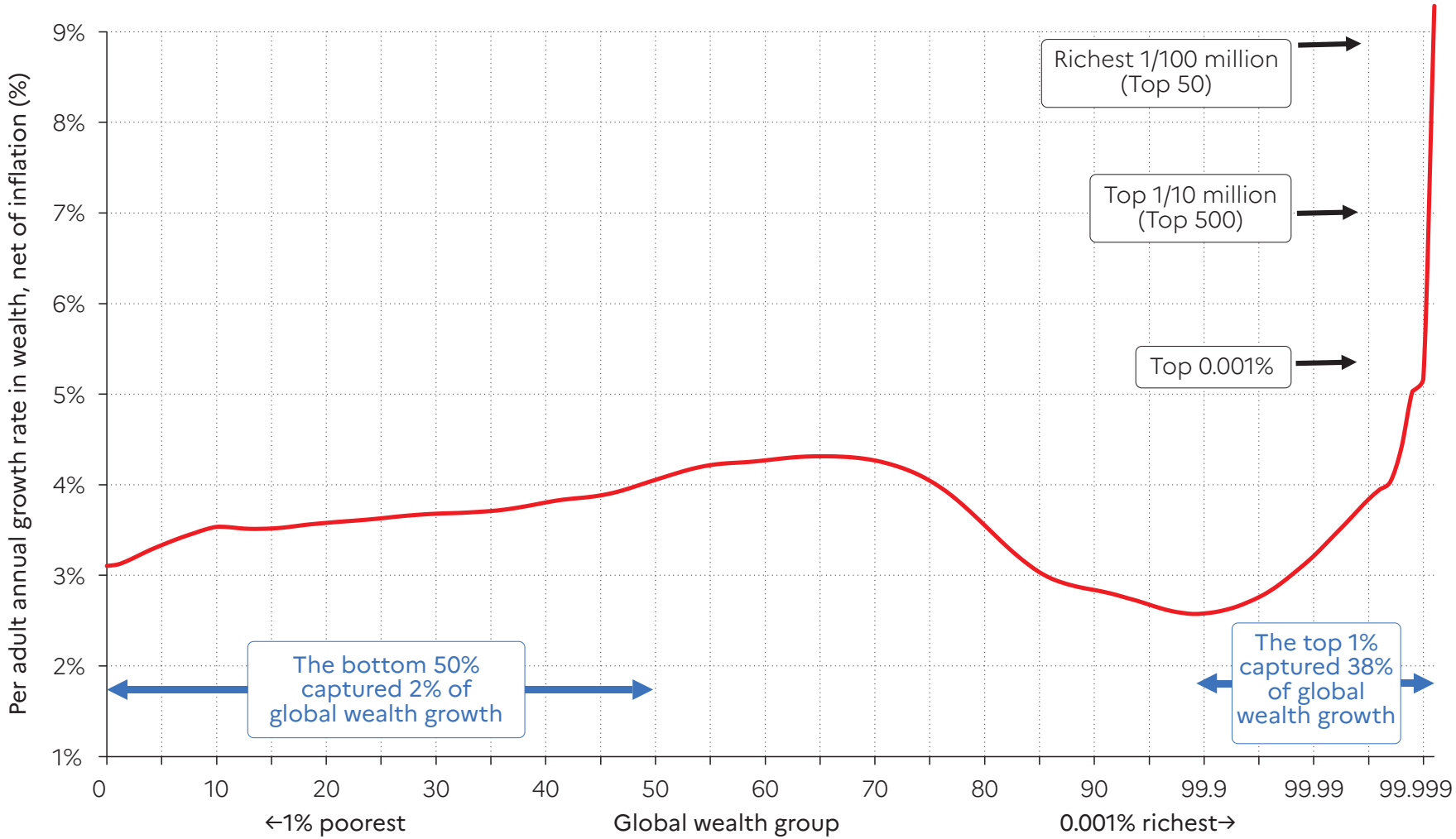
Figure 3.2 *The rise of private wealth and the decline of public wealth in rich countries, 1970-2020*



Interpretation: *In UK, public wealth dropped from 60% of national income in 1970 to -106% in 2020. Public wealth is the sum of all financial and non-financial assets, net of debts, held by governments.* ***Sources and series:*** *wir2022.wid.world/methodology, Bauluz et al. (2021) and updates.*

Since the mid 1990sthe top 1% captured 38% of total wealth growth, the bottom 50% got 2%.

Figure 9 *Average annual wealth growth rate, 1995-2021*



Interpretation: *Growth rates among the poorest half of the population were between 3% and 4% per year, between 1995 and 2021. Since this group started from very low wealth levels, its absolute levels of growth remained very low. The poorest half of the world population only captured 2.3% of overall wealth growth since 1995. The top 1% benefited from high growth rates (3% to 9% per year). This group captured 38% of total wealth growth between 1995 and 2021. Net household wealth is equal to the sum of financial assets (e.g. equity or bonds) and non-financial assets (e.g. housing or land) owned by individuals, net of their debts.* ***Sources and series:*** *wir2022.wid.world/methodology.*

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- **Global climate inequality: the trend accelerator**
- How to reconcile economic and climate justice?

The triple climate inequality crisis

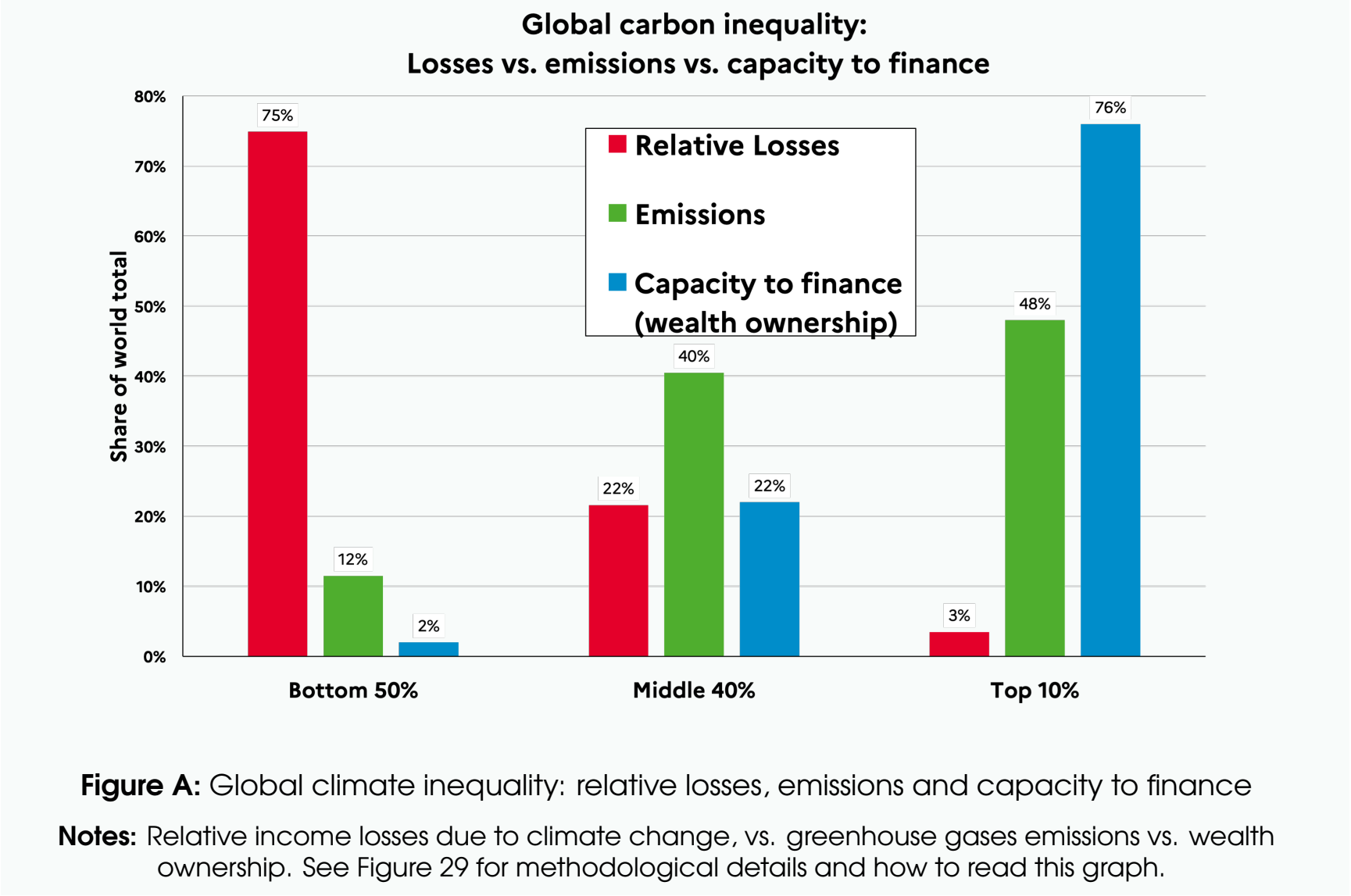


Figure A: Global climate inequality: relative losses, emissions and capacity to finance

Notes: Relative income losses due to climate change, vs. greenhouse gases emissions vs. wealth ownership. See Figure 29 for methodological details and how to read this graph.

Climate impacts are not uniform across the globe: some countries lose more than others

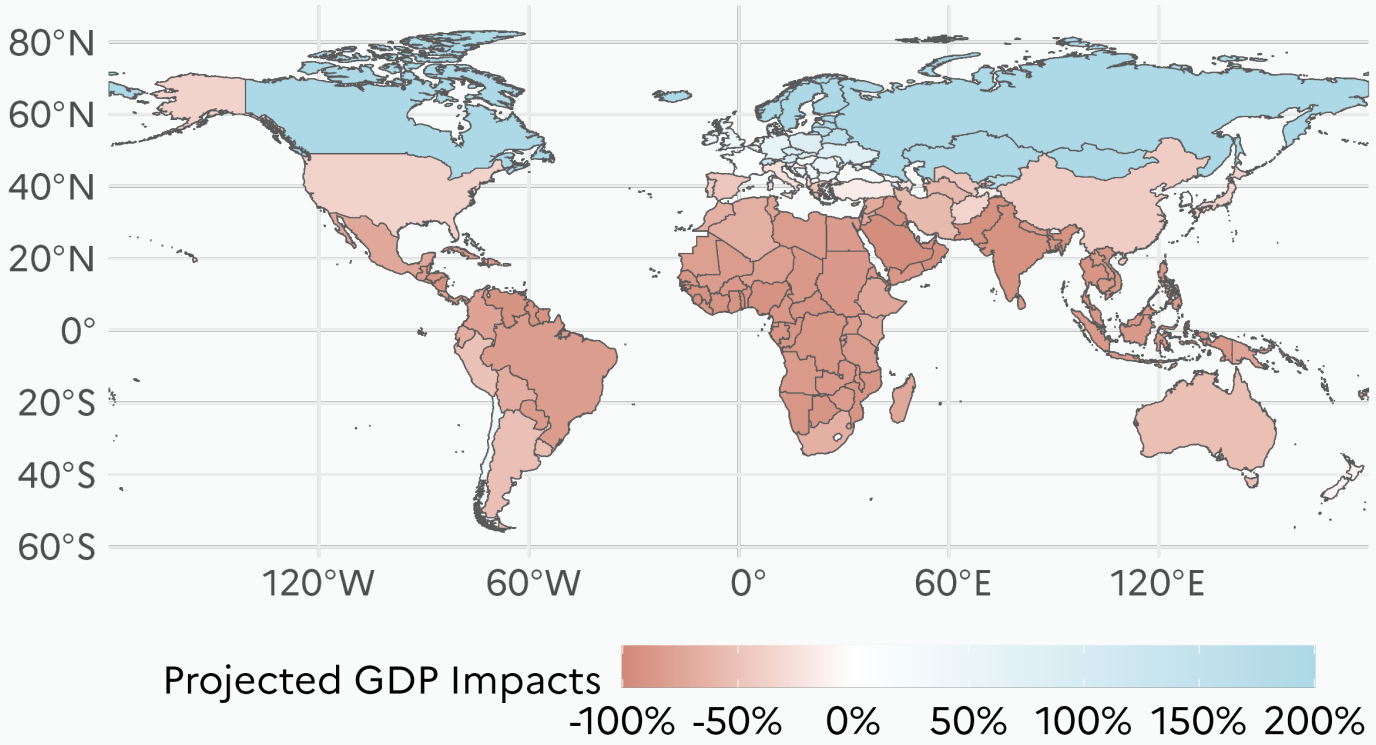


Figure B: Change in GDP per capita by 2100 attributable to climate change

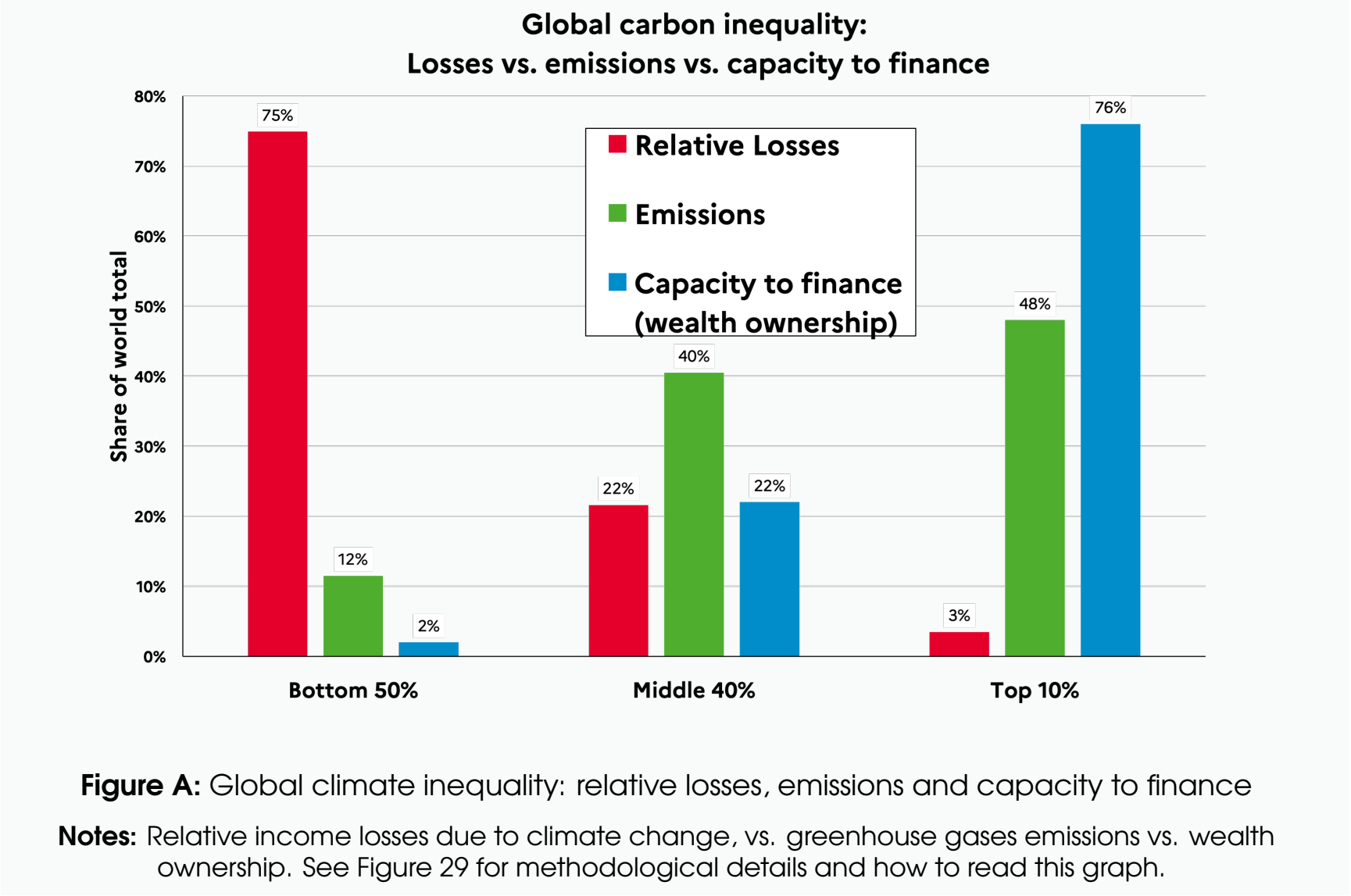
Notes: See Figure 23. **Sources:** Burke, Hsiang, and Miguel (2015).

Within poor countries, low income groups are hit harder

Within countries, low income groups are hit harder

- Poor people typically hit 70% more than the average during climate shocks in poor countries.
- Their livelihoods depend more directly on nature → environmental inequality vicious circle.
- Also evident in rich countries & not just an economic problem : women + minorities more impacted → exacerbation of multi-faceted social inequities.
- NB: everybody at risk, but the risks are not the same for all.

The triple climate inequality crisis



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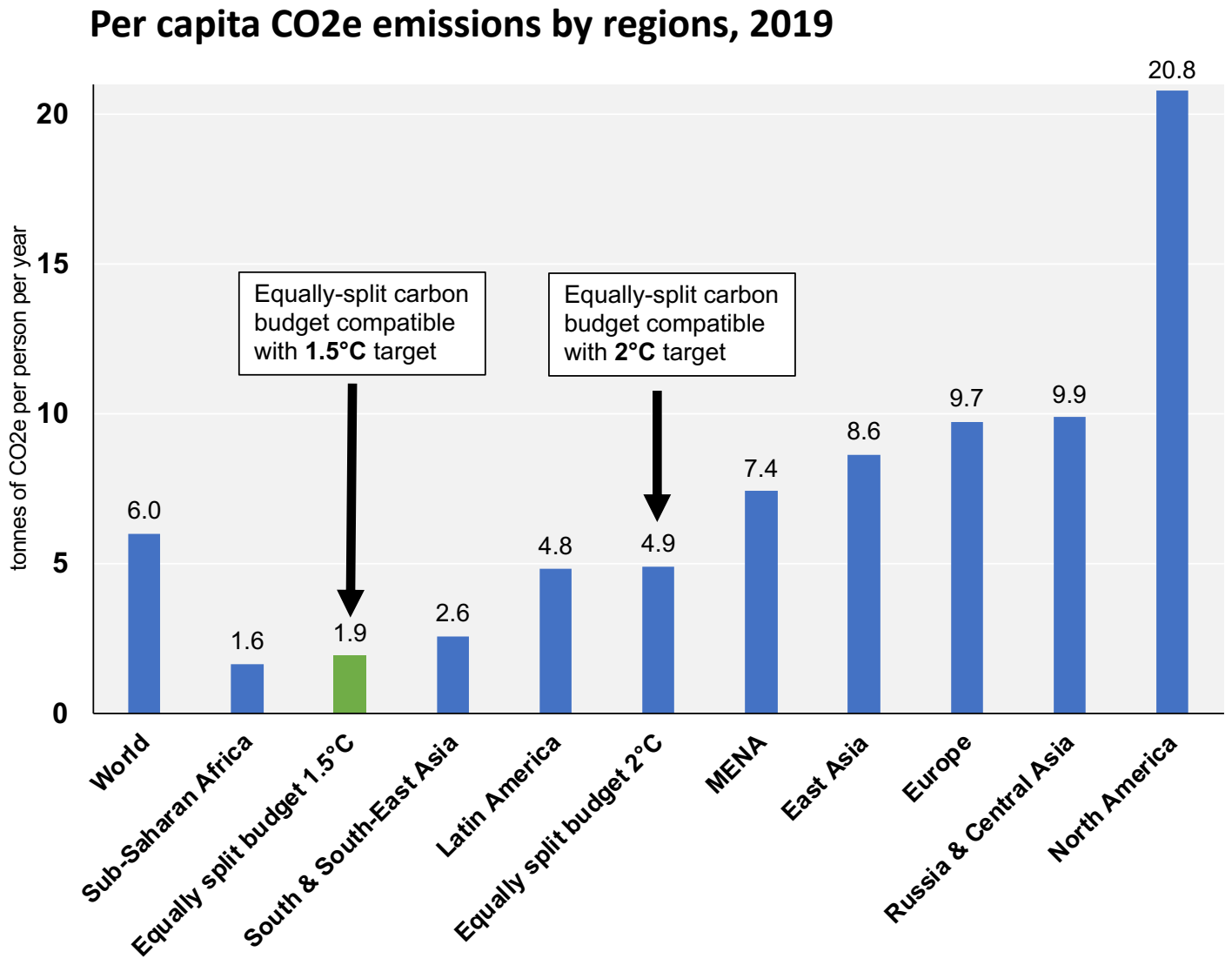
Questions

Large emission inequalities across regions



The per capita carbon footprint of a NYC-flight (return)?

Cntraveler.com

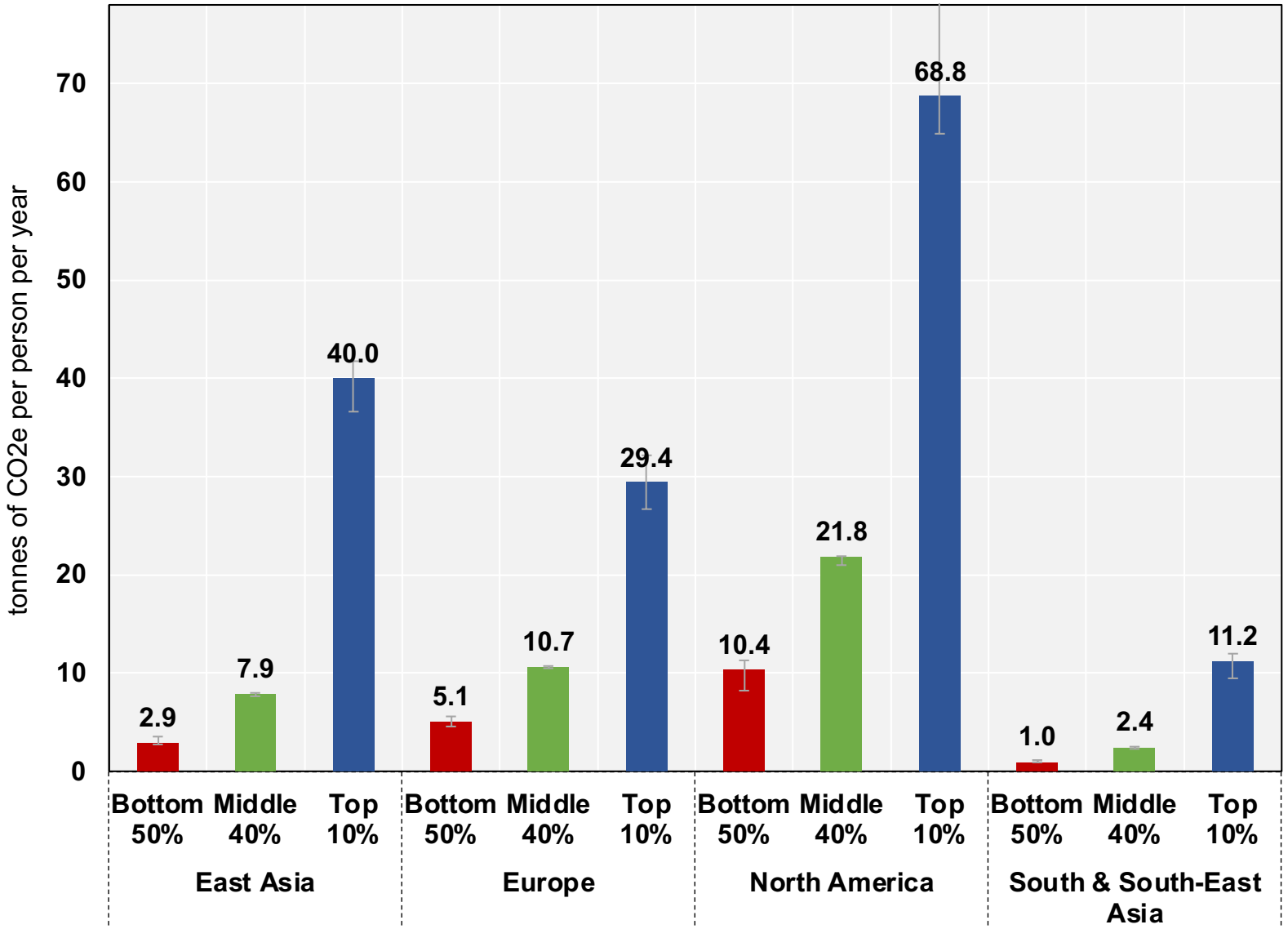
Per capita footprint of 10mn in space?

”Individuals with high socio-economic status contribute disproportionately to emissions and have the highest potential for emissions reductions, e.g., as citizens, investors, consumers, role models, and professionals.”

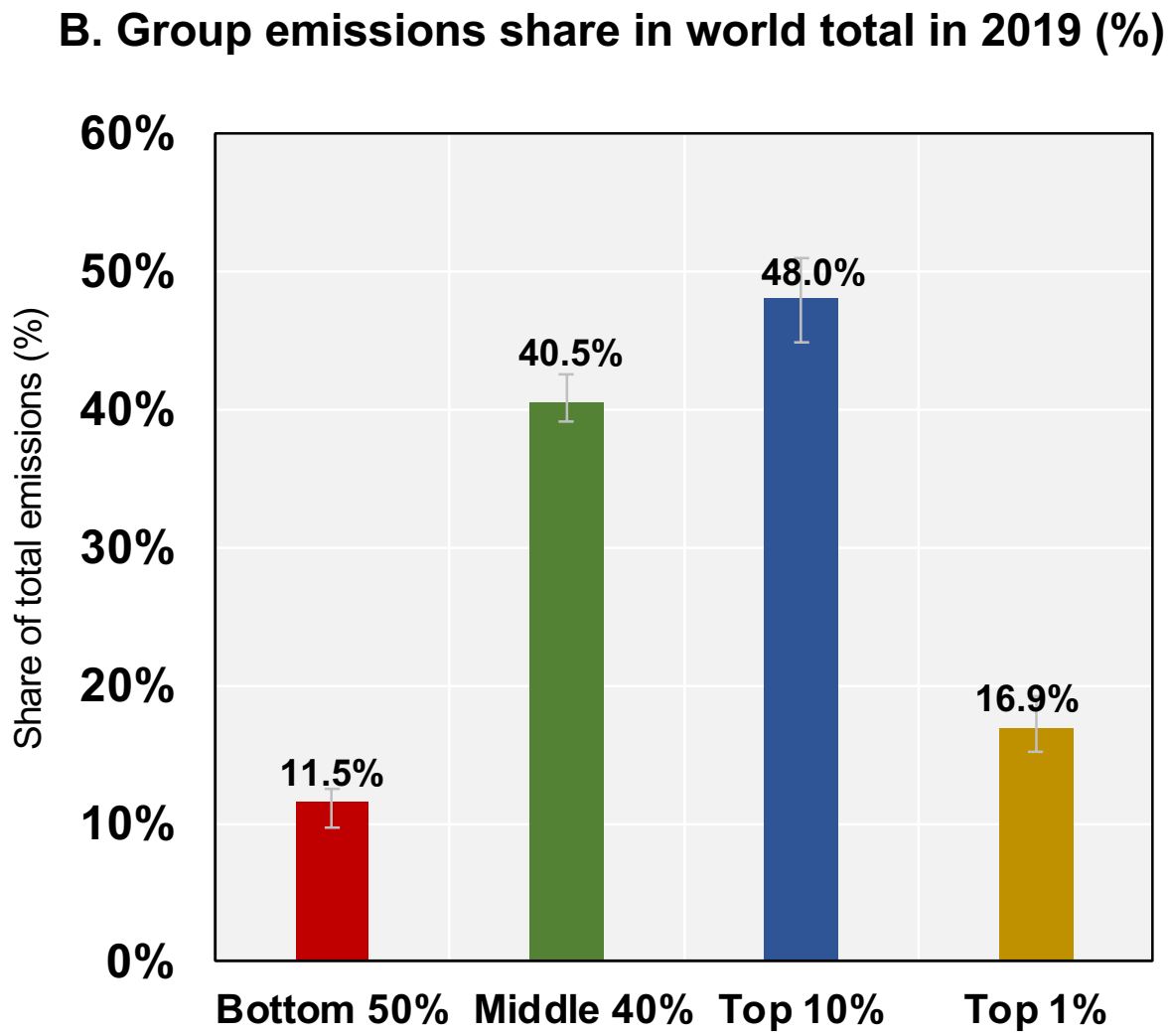
AR6, IPCC (2022)

High emitters are everywhere

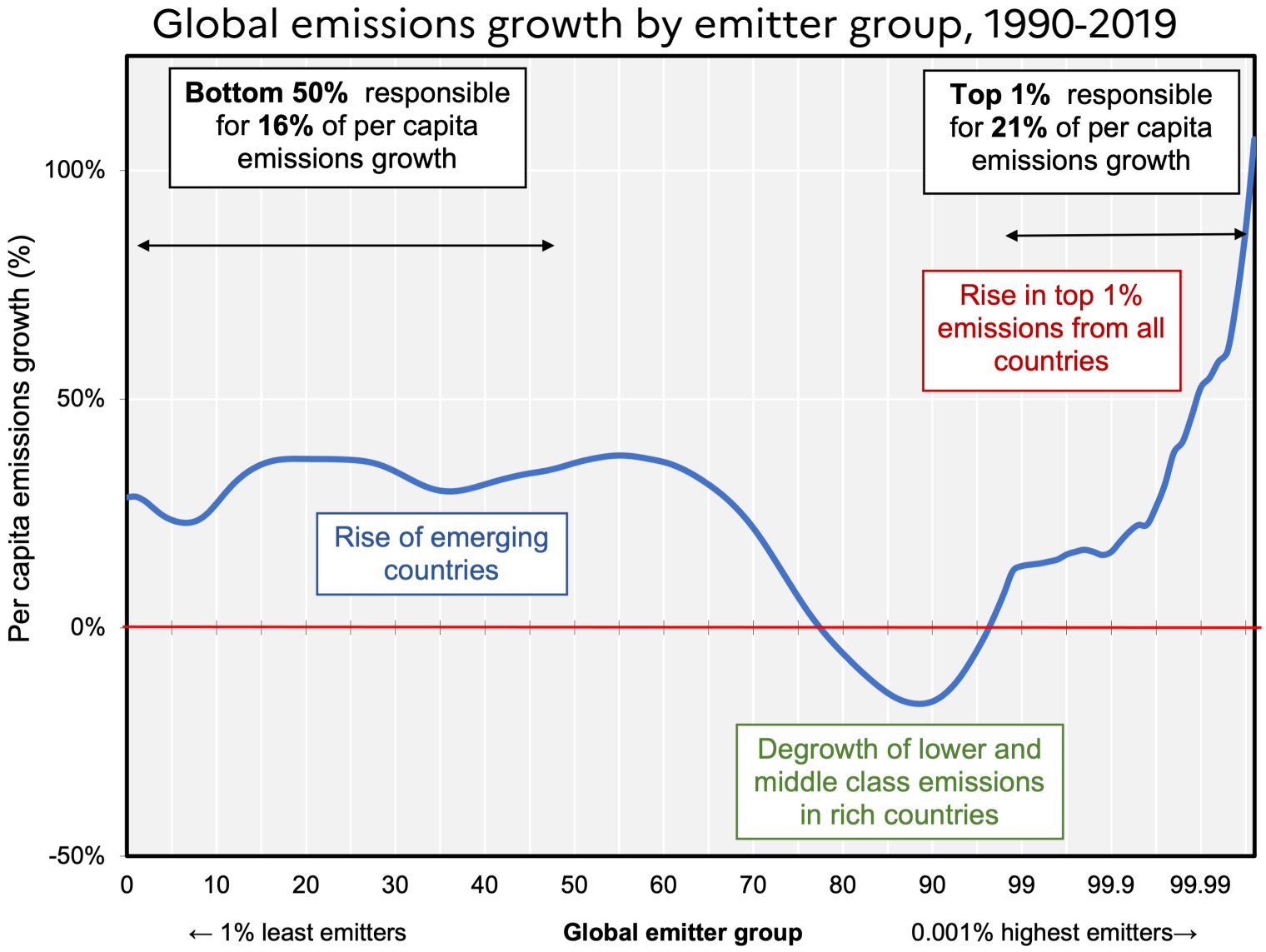
(NB: estimates take into account emissions from consumption & investments)



Top 10% of global emitters make about half of all emissions

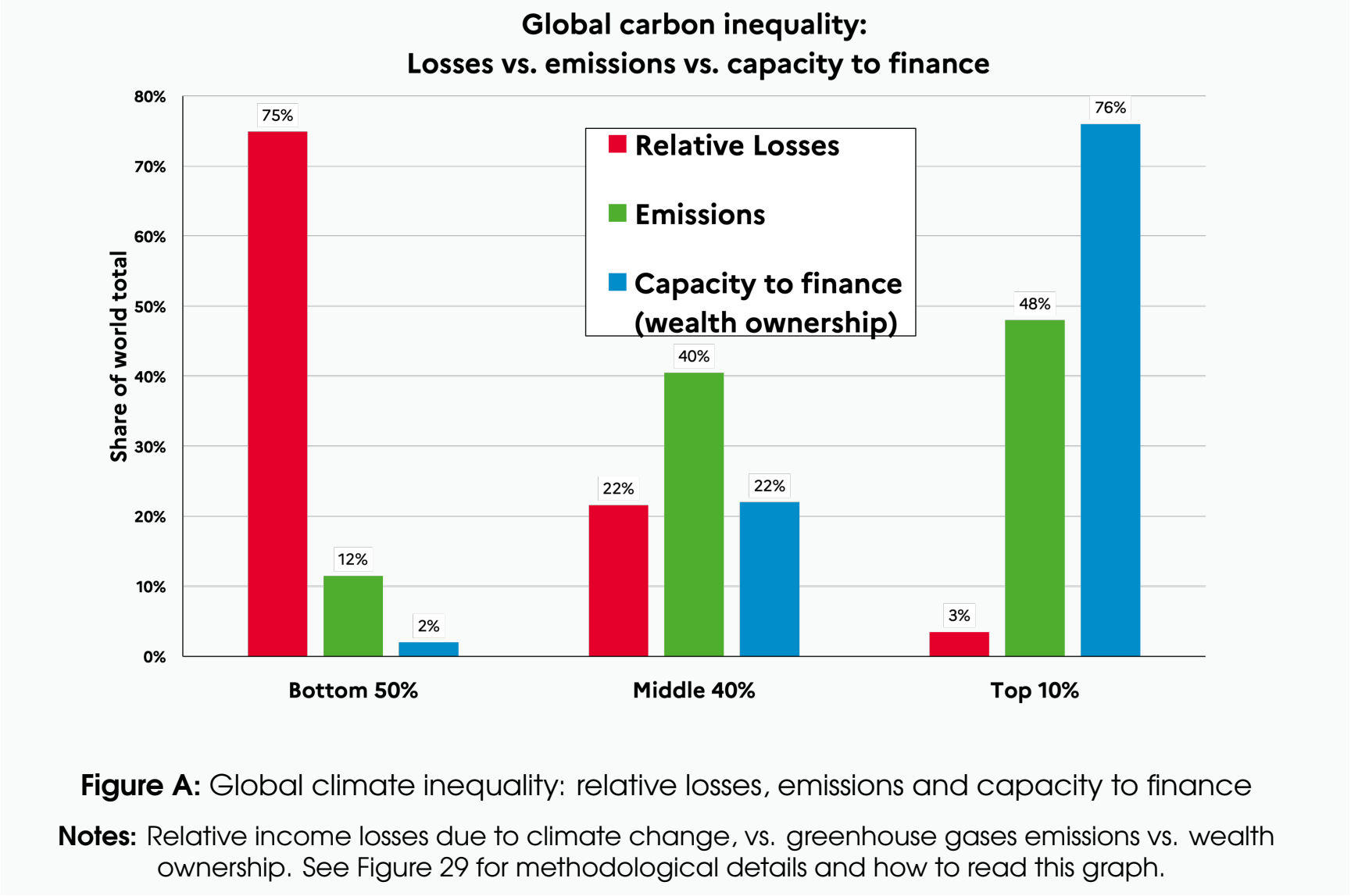


Unequal pollution dynamics between and within countries



Chancel 2022

The triple climate inequality crisis



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Survival condo project: Kansas desert, USA

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Confronting climate change: a capital challenge

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- The energy transition imples a radical transformation of the economy (broad consensus about this, but different paths possible).
- The energy transition is about replacing the capital stock (transport networks, energy systems, buildings, production chains…).
- Who will own zero carbon capital: public or private actors? For-profit or non-profit? Governments can contribute now to shape wealth inequalities of tomorrow.

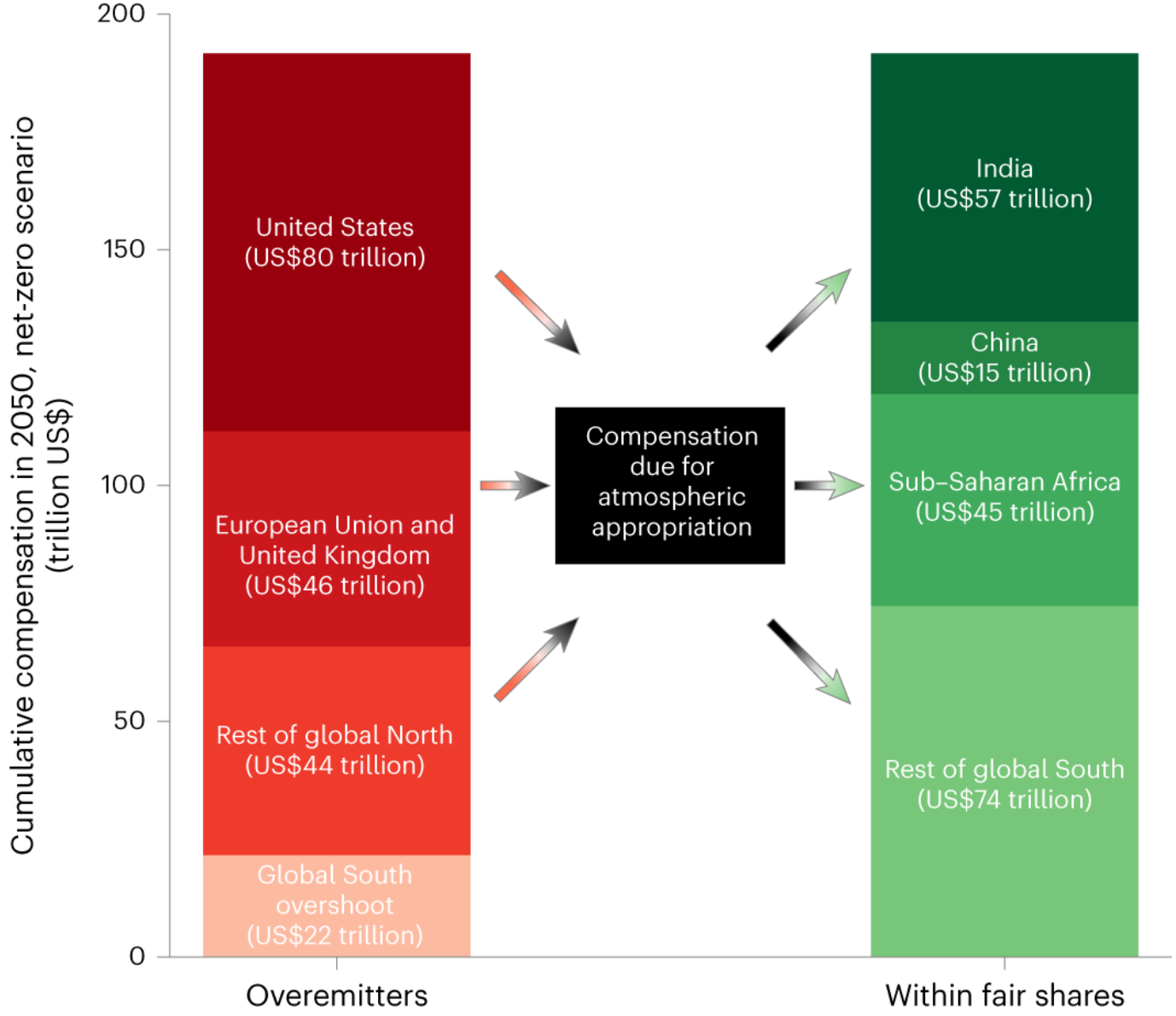
Confronting climate change: a capital challenge

- Additional 4% of global GDP invested per year in energy transition (i.e. $4200bn / year in 2022 in renewable energy and climate sectors, vs. $850bn actually invested).
- At the same time, the world continues to massively subsidize fossil fuels ($700bn / year over 2010-2020 in fossil fuel subsidies vs. $500bn/year in climate) (Sources: CPI).

Global level: poor countries need subtanstial financial resources to reduce/avoid pollution & to adapt

- About $2000bn/year (2 trillion) climate finance needed in the Global South.
- Current climate finance flows from North to South: $100bn/year (x20 less than required).
- At the same time: South pays $1000bn/year to North countries as interest on their debt (cf. earlier discussion): wrong direction!

Taking into account historical climate debt, the global North would owe at least $3tn per year over 2020-2050 to the global South.



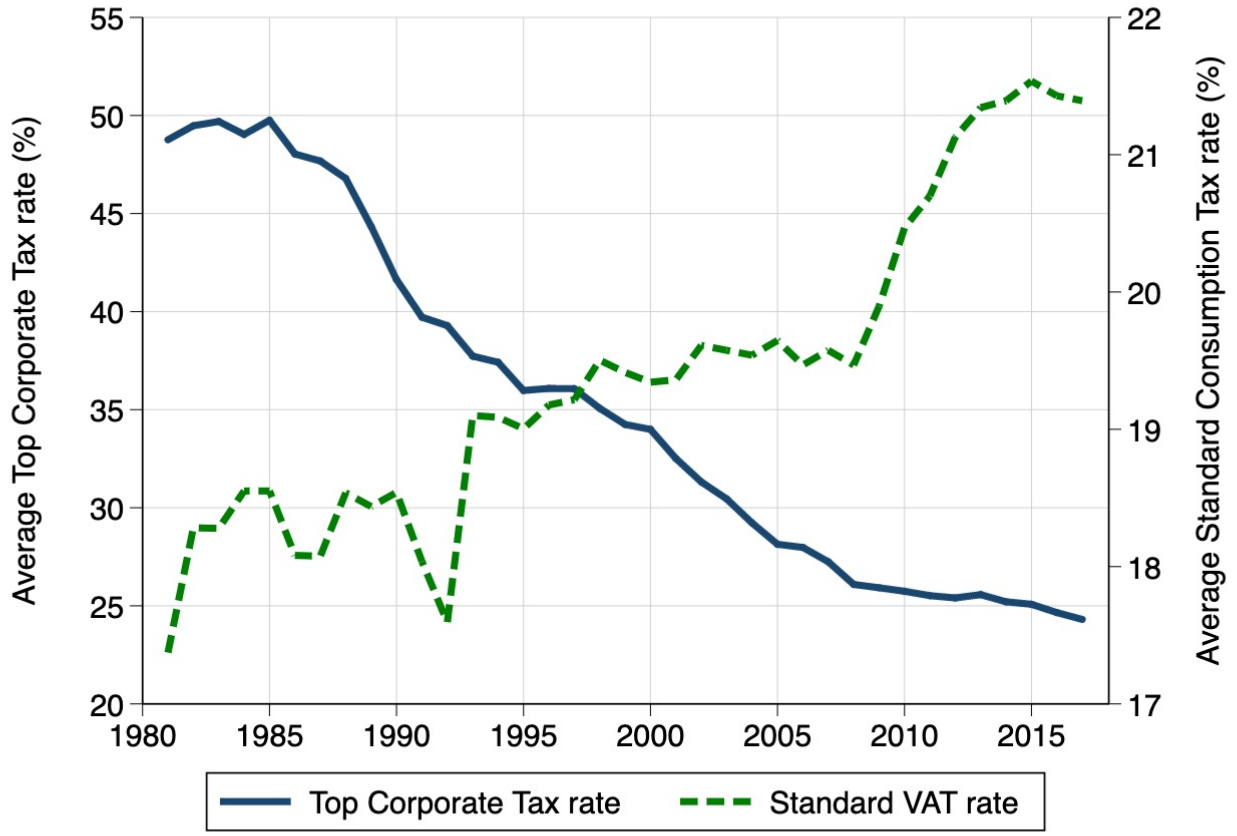
Debt calculated over 1960-2019. Fanning and Hickel 2023

Confronting climate change: an inequality challenge

- Key question: who should pay the bill?
- Working and middle class groups in rich countries typically pay 40-50% total income in taxes + contributions.
- Top groups are relatively undertaxed as compared to bottom and middle groups.

Corporate taxes have declined while consumption taxes have increased during the « Great Deregulation »

Figure 9. Evolution of corporate taxes and VAT in the EU, 1980-2017



Source: authors' computations on the basis of household surveys, fiscal data and national accounts. WID.world/europe2019. *Interpretation*: between 1981 and 2017, the average top corporate tax rate in the European Union fell from approximately 50% to 25%.

Very little taxes paid by large actors are both a challenge and an opportunity

- In the US, billionaires pay less than 8% income tax. In France, billionaires pay less than 2% income tax.
- What about Austria: Austrian tax on extreme wealth? None. Austrian inheritance tax? None. Wealth taxes just 1.5% GDP (4th lowest rank in OECD). → Room for manœuvre.

How much revenues from taxes on the rich? A lot.

- In unequal societies, relatively small tax rates at the top can yield substantial revenues.
- Ideas that economies collapse when the rich pay their fair share is a myth. Tax evasion is not a law of nature.
- Tax revenues from a moderate global wealth tax on top 0.1% could yield $1100bn/year (1.1% GDP). Revenues from tax evasion could add around 0.5% GDP in countries like France, Germany, Italy, Spain.

What about taxing carbon?

Climate policies blind to equity concerns are likely to fail: Indonesia

Indonesian fossil fuel subsidy reform, 2012

Climate policies blind to equity concerns are likely to fail: « yellow vests »

Yellow vests, 2018. Credit: lepharedunkerquois

Critical need to cushion small and middle size actors

- Carbon taxes can be useful, but need for large scale investments in alternatives (to watch: EU carbon price regulation on consumers 2027; Planned « social fund » only half what was initially proposed).
- US approach: subsidies instead of carbon tax. How to pay for subsidies? Biden : tax multinationals & households earning over $400k/year.

Climate change: a coordination challenge

Climate change: a coordination challenge

- Challenge is not just within countries. Green policies taken at home can have positive/negative consequences abroad.
- US Climate policy (massive subsidies) not globally coordinated → negatively affects EU firms, as well as low-income countries (dependency on US green technology).
- Low-income countries do not have access to intellectual property → need for a negociation on green intellectual property as well as on finance/taxes (cf. Paris Finance Summit).

Europe as a lock and a lever

Europe as a lock and a lever

- EU economic order 1990-2020: not so much about planification, taxes, strategic orientation. Yet, it is the right scale for action.
- Wealth tax debate picking-up: www.tax-the-rich.eu. European Citizen Initiative ahead of the EU elections to tax the rich.
- NB: Member States can coordinate without unanimous agreement with 27 countries (so far very unlikely) → enhanced cooperation mechanism or coalition of the willing (www.tdem.eu)

Summing up

- Contemporary economic world order is very far from being flat, both at the international and national level.
- Economic injustices are tightly connected with environmental and climate injustices. Environment as the new frontier of social injustices within and between countries.
- The climate transition = replacing capital on a global scale = unique opportunity to change its distribution (via planification, taxes, regulation, redistribution, intellectual property).

- Working and middle classes in the North have little to lose (and much to gain) from the transition… if wealthy groups are asked to redistribute wealth + knowledge (Intellectual Prop. rights).
- Many of the economic policy instruments that are required have been used in Western countries over 1950-1980. No « Great Decarbonization » without redistribution.