Good Economics for warmer times

Esther Duflo
US 'under no circumstances' will pay climate reparations, Kerry says

Reuters
July 13, 2023 1:15 PM EDT · Updated 4 months ago
1. It is not about past responsibility only. The emissions responsible for climate change are mainly due to **the current behavior** of rich citizen, most of which are in rich countries.
China and India are net CO2 exporter, USA huge importer
Chancel: The 10-50 rule: 10% of the highest polluters worldwide are responsible for almost 50% of global emission.
Bruckner find similar results: High polluters mainly live in rich countries
Eradicating extreme poverty would increase emissions by only 2%
2. The Costs of Climate change are going to be felt in the poorer part of the world
Poorer countries tend to be in warmer places
By, 2050 most of the places that get many hot days are in poor countries.
Damages of a given hot day depend on income and history.
Mortality costs by 2100
3. This makes for thorny political issue: first order, in the next many years, the problems are going to be in the South but the principal margins of action are in the North. Have we displayed a great capacity to deal with this.
COVID experience suggests that we are not good at sharing problems
A somewhat unfair characterization of where we are after many COP....

- Not enough money flowing towards LMIC
  - Commitments are too weak
  - Are not even carried out ... or renewed
  - The 100 billion pledge was never fulfilled.
  - Much too little of the money is spent on adaptation
  - COP27 and reparation funds, comes without financing
    - On November 6, 2023, basic agreement for a fund hosted by the World Bank (as “interim trustee”). The agreement encourage but does not oblige all countries to contribute to the fund.

- Reliance on technological solutions to continue with an intact lifestyle, but fueled in a carbon-neutral way.

- Reliance on private commitments (ESG investment to fund).
Des engagements qui n’ont jamais atteints
We cannot tackle climate change without tackling redistribution across countries
No adaptation funds means less mitigation

- In the absence of funds for adaptation, becoming richer as fast as possible is the only path many countries see to protect themselves.

- Energy needs are enormous to face hotter temperatures, so developing the energy that is the cheapest today will remain a priority.

- It has been the official position of India, a key player.
• From now until 20100, it is estimated that the middle income countries will need LOTS of energy to adapt to climate change.

• It will be vital to access energy has quickly and cheaply as possible.

Countries will need (cheap) energy to adapt to climate change
For emerging markets, a clear dilemma

Ecuador Tried to Curb Drilling and Protect the Amazon. The Opposite Happened.
A novel idea to leave the country’s vast oil reserves in the ground fizzled for lack of international support. Now, struggling under painful debt, the government wants to expand drilling in the rainforest.

India criticised over coal at Cop26 - but real villain was climate injustice

Hannah Ellis-Petersen
in Delhi

Experts say country’s watering down of fossil fuel pledge reflected its lack of choices
We cannot tackle climate change without tackling redistribution within countries.
L’ARGENT DE L’ECOLOGIE EST DANS LES PARADIS FISCAUX PAS DANS LA POCHE DES PROLOS!
CITOYEN EN COLÈRE CITOYEN SOLIDAIRE

Credit: Guillaume Clement, l’Humanité
Punjab govt’s move to stop free power to farmers ‘midsummer madness’: Sukhbir

Shiromani Akali Dal core committee to meet in Chandigarh on May 30 to consider party’s strategy on Congress govt’s decision to replace it with direct benefit transfer of subsidy
The world need to commit now to a mechanism to raise money for a fund (like the I&d fund), exclusively destined to low income countries.

1. Fair (nationally and internationally)
2. Permanent
3. And ideally provide some incentives along the way.
Taking the Carlton et al. estimate of $37 dollars of damage per ton from loss of life (most or all of which will be in poor countries)

Adding up the consumption emissions from consumption in US and Europe, we get a total of about 14 billion tons per year, which amounts to imposing an annual mortality cost of 518 billion dollars on poor countries.

(US foreign aid is 56 milliards de dollars).

Step 1: how much money is needed.
• Scenarios to consider:
  – 500 billions dollars a year (CO2 damages due to extra death)
  – 100 billions dollars a year (previous commitments).
A number of options have been discussed:

- Fossil fuel extraction levy
- Air passenger/ticket levy
- IMO carbon levy (international shipping)
- Tax on windfall fossil fuel levy
- Other tax instruments not directly related to GHC emissions.
  - Financial transaction tax
  - Tax on stock buyback.
  - Wealth tax or income tax on richest individuals.

**Step 2: how to raise it.**
MINIMUM TAX ON CORPORATIONS

• In October 2021, 137 countries and jurisdictions agreed to implement a major reform of the international corporate tax system, i.e., a global minimum tax of 15% on the profits of large multinational companies.

• Pillar 2 Minimum 15% global tax on large corporation (>750 million in turnover). If a german company pays only 10% on its profits paid in Singapore, Germany collects the extra 5% on this profit

EU-TAX OBSERVATORY PROPOSAL OF 2% wealth tax of the 3,000 richest people worldwide

Two realistic proposal: add to the 15% minimum international income tax
How much would increase in corporate tax raise (first round estimates, from EU tax observatory)

Pillar 2, multilateral (no carve out)
Base: 205 billions euros
Add 3%: 318 billion euros
Add 5%: 431 billions euros

Pillar 2, EU only
Base 98 billion euros
Add 5%: 184 billion
An international wealth tax of 2% on the 3,000 richest people in the world would raise 214 extra billions (204 excluding Russia)

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**Table 5.3**

Revenue potential of a minimum tax of 2% on the wealth on billionaires in 2023 (billions of US$)

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of billionaires</th>
<th>Total wealth ($B)</th>
<th>Average wealth ($B)</th>
<th>Personal tax currently paid</th>
<th>Tax paid with 2% wealth tax ($B)</th>
<th>Revenue of 2% minimum wealth tax ($B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>499</td>
<td>2,418</td>
<td>4.8</td>
<td>6.0</td>
<td>48.4</td>
<td>42.3</td>
</tr>
<tr>
<td>North America</td>
<td>835</td>
<td>4,822</td>
<td>5.8</td>
<td>24.1</td>
<td>96.4</td>
<td>72.3</td>
</tr>
<tr>
<td>East Asia</td>
<td>838</td>
<td>3,446</td>
<td>4.1</td>
<td>8.6</td>
<td>68.9</td>
<td>60.3</td>
</tr>
<tr>
<td>South &amp; South-East Asia</td>
<td>260</td>
<td>991</td>
<td>3.8</td>
<td>2.5</td>
<td>19.8</td>
<td>17.3</td>
</tr>
<tr>
<td>Latin America</td>
<td>105</td>
<td>419</td>
<td>4.0</td>
<td>1.0</td>
<td>8.4</td>
<td>7.3</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>11</td>
<td>52</td>
<td>4.7</td>
<td>0.1</td>
<td>1.0</td>
<td>0.9</td>
</tr>
<tr>
<td>Middle-East &amp; North Africa</td>
<td>75</td>
<td>182</td>
<td>2.4</td>
<td>0.5</td>
<td>3.6</td>
<td>3.2</td>
</tr>
<tr>
<td>Russia &amp; Central Asia</td>
<td>133</td>
<td>586</td>
<td>4.4</td>
<td>1.5</td>
<td>11.7</td>
<td>10.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,756</strong></td>
<td><strong>12,916</strong></td>
<td><strong>4.7</strong></td>
<td><strong>44</strong></td>
<td><strong>258</strong></td>
<td><strong>214</strong></td>
</tr>
</tbody>
</table>

Source: EU tax observatory, report of 10-/23/2023
• The OECD itself may not pass. It requires congress approvals in all countries and there are some countries (which shall remained un-named...) where it is not likely to be feasible.
  – So far no countries has implemented it.

• In the original proposal, countries that enforce the tax keep it, which gives them an incentive to pass it/enforce it. Here it would be assigned to the fund. In effect each country would be collecting taxes on behalf of the common good.
  – What if a country is already above 18% or decides to go to 18% for themselves. Do they add 3% for the world?

• There is no explicit connection to GHG emissions.
Eu tax observatory shows that this can be done unilaterally by Europe (or really any country or group of countries), and to avoid giving an unfair advantage to the US (or Chinese) companies, their sales can be taxed in Europe.

- Obviously, that is a form of tariff, which many economists do not like.
- But so is the IRA in the US.
• This is already the cases with contributions to the IMF, etc which are not particularly elective either.

• There is tremendous amount of public support for a global wealth tax on millionaires (Fabre, Douenne, Mattauch, October 2023) [above 67% in all countries, out of which about a third should be pooled to go to poor countries)
Figure 4: Relative support for various global policies (percentage of *somewhat* or *strong support*, after excluding *indifferent* answers). (Questions 44 and 45; See Figure A25 for the absolute support.)

<table>
<thead>
<tr>
<th>Policy Description</th>
<th>United States</th>
<th>Europe</th>
<th>France</th>
<th>Germany</th>
<th>Spain</th>
<th>United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments from high-income countries to compensate low-income countries for climate damages</td>
<td>55</td>
<td>71</td>
<td>72</td>
<td>70</td>
<td>79</td>
<td>70</td>
</tr>
<tr>
<td>High-income countries funding renewable energy in low-income countries</td>
<td>68</td>
<td>82</td>
<td>82</td>
<td>82</td>
<td>85</td>
<td>81</td>
</tr>
<tr>
<td>High-income countries contributing $100 billion per year to help low-income countries adapt to climate change</td>
<td>60</td>
<td>76</td>
<td>77</td>
<td>79</td>
<td>79</td>
<td>71</td>
</tr>
<tr>
<td>Cancellation of low-income countries’ public debt</td>
<td>46</td>
<td>53</td>
<td>53</td>
<td>43</td>
<td>62</td>
<td>61</td>
</tr>
<tr>
<td>Democratise international institutions (UN, IMF) by making a country’s voting right proportional to its population</td>
<td>58</td>
<td>71</td>
<td>69</td>
<td>69</td>
<td>78</td>
<td>72</td>
</tr>
<tr>
<td>Removing tariffs on imports from low-income countries</td>
<td>62</td>
<td>73</td>
<td>58</td>
<td>73</td>
<td>80</td>
<td>83</td>
</tr>
<tr>
<td>A minimum wage in all countries at 50% of local median wage</td>
<td>63</td>
<td>80</td>
<td>80</td>
<td>78</td>
<td>81</td>
<td>83</td>
</tr>
<tr>
<td>Fight tax evasion by creating a global financial register to record ownership of all assets</td>
<td>62</td>
<td>87</td>
<td>90</td>
<td>86</td>
<td>91</td>
<td>87</td>
</tr>
<tr>
<td>A maximum wealth limit of $10 billion (US) / €100 million (EU) for each human</td>
<td>46</td>
<td>62</td>
<td>58</td>
<td>62</td>
<td>65</td>
<td>67</td>
</tr>
<tr>
<td>National tax on millionaires funding public services</td>
<td>73</td>
<td>85</td>
<td>81</td>
<td>87</td>
<td>89</td>
<td>88</td>
</tr>
<tr>
<td>Global tax on millionaires funding low-income countries</td>
<td>69</td>
<td>84</td>
<td>84</td>
<td>84</td>
<td>87</td>
<td>83</td>
</tr>
</tbody>
</table>
• Once we have better accounting of carbon footprint of companies, their tax rates can be adjusted to reflect it.
  – Large oil companies can be taxed more.
  – Companies that improve their carbon footprint would see their liability reduced.

**Issue 3: No connection to climate change**
• Piketty proposal: it goes to poor countries, as compensations, as a function of how much money they have, no question asked
  – Legitimate questions on whether that will help the poor citizens

• Other extreme: the World Bank (or the UN, or whoever), gets it and administers it at a fund. It starts making grants or loans
  – This is what is currently being proposed for the L&R funds, and it is not popular with poor countries.

**Step 3: how to spend it-Governance**
My proposal: 3 pillars

• Damages: Social protection & reconstruction
  – Automatic transfers to households triggered by climate events.
  – Dercon et al. Advanced funds seems to help a lot
  – Automatic block grants for repairs (national insurance style)

• Energy Access & leapfrogging
  – Grants not loans for clean energy projects

• DIV-style financing for climate related projects (adaptation and mitigation), from innovation to scale.
  – Open proposals for stage financing of innovations
  – Independent panels to judge proposals.
Conclusion: There may be a margin for action... Stay tuned.