TAX JUSTICE FOCUS

The newsletter of the tax justice network

WHO STANDS IN THE WAY OF CLIMATE JUSTICE?

CLIMATE JUSTICE AND ECONOMIC JUSTICE ARE THE SAME FIGHT

editorial by
Nicholas Shaxson

The environmental movement urgently needs to make common cause with those whose lives have become increasingly precarious over the last forty years. All of our lives depend on it.

The world is divided between those who worry about the end of the world and those who worry about the end of the month, a French "Yellow Vest" protester said in 2018.[1] That is a starting point for trying to understand how to pay for two emergencies: the huge costs of the unfolding economic shock of the Covid-19 lockdowns, and the even bigger long term costs of re-engineering our economies and our lives to prevent potentially catastrophic global heating.

According to the International Energy Agency, the world needs $3.5 trillion in global energy-sector investments *every year until 2050*, if we are to limit global temperature rises to 2.0 degrees centigrade.[2]

Many people think that the fight to protect the world's climate is separate from the struggles to tackle inequality, oligarchy, or racial and gender injustices. For example, climate activists may favour carbon taxes even if such taxes may hit the poor hard and have regressive economic effects, while campaigners for economic justice may oppose carbon taxes for the same reason. This is a dangerous delusion, for – as this edition of *Tax Justice Focus* shows – the two struggles are inseparable, and each will fail without the other. This is for several reasons.

1 https://www.lemonde.fr/politique/article/2018/11/24/gilets-jaunes-les-elites-parlent-de-fin-du-monde-quand-nous-on-parle-de-fin-du-mois_5387968_823448.html

2 https://www.iea.org/news/deep-energy-transformation-needed-by-2050-to-limit-rise-in-global-temperature

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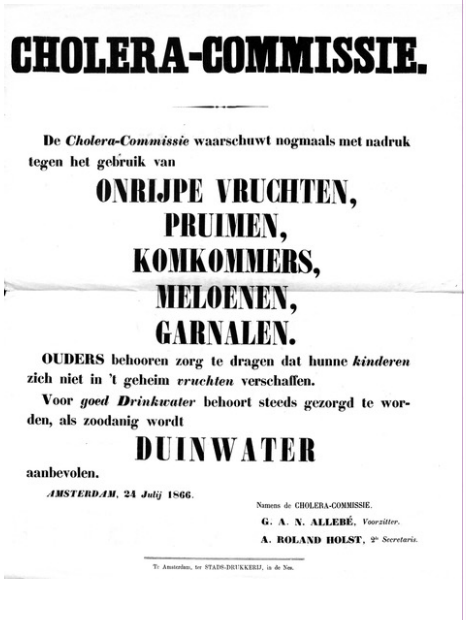

CHOLERA-COMMISSIE.

De *Cholera-Commissie* waarschuwt nogmaals met nadruk tegen het gebruik van

ONRIJPE VRUCHTEN,
PRUIMEN,
KOMKOMMERS,
MELOENEN,
GARNALEN.

OUDERS behooren zorg te dragen dat hunne *kinderen* zich niet in 't geheim *vruchten* verschaffen.

Voor *goed Drinkwater* behoort steeds gezorgd te worden, als zoodanig wordt

DUINWATER

aanbevolen.

AMSTERDAM, 24 *Julij* 1866.

Namens de CHOLERA-COMMISSIE.
G. A. N. ALLEBÉ, *Voorzitter.*
A. ROLAND HOLST, 2e *Secretaris.*

Te Amsterdam, ter STADS-DRUKKERIJ, in de Nes.

Epidemics in the 19th century compelled the state to change in profound ways as citizens insisted that the safety of the people was the highest law. We have yet to see what tranformations the current pandemic will impose. Much depends on how we respond in the months ahead.

> *"The world is divided between those who worry about the end of the world and those who worry about the end of the month."*

First, we face many of the same enemies, such as Charles Koch, Rupert Murdoch and other powerful interests who have financed both climate denialism *and* campaigns to persuade voters to cut taxes and deregulate our economies – with the Trumpian aim to override democracy and build oligarchic power at all costs. It is hardly surprising that their campaigns go together: according to the French economist Thomas Piketty, the richest 1% of the planet emit more carbon than the poorest 50%. Meanwhile tax havens reduce states' ability to address environmental threats, while also providing safe havens for fossil fuel wealth looted from the environment.[3]

A second reason was articulated by the Yellow Vest protesters in France, furious that ordinary folk are asked to pay new carbon taxes while unaccountable elites engorge themselves on state largesse. If the gigantic costs of the carbon transition are shouldered by lower-income groups, their rage at being shafted – again – will create fertile ground for demagogues and conspiracy theorists to recruit them in their millions and overturn the climate movement. This is already happening in the United States, Brazil, and elsewhere, and it is also a reason why the climate movement is struggling to emerge from what one of its leaders has called its "white, middle class ghetto."[4]

Taiwanese academic and author CHIEN-YI LU outlines a third reason why the two struggles are inseparable, in her article for this edition of *Tax Justice Focus*.

3 https://www.lemonde.fr/blog/piketty/2019/06/11/the-illusion-of-centrist-ecology/

4 https://www.independent.co.uk/environment/green-movement-must-escape-its-white-middle-class-ghetto-says-friends-of-the-earth-chief-craig-10366564.html

Neoliberalism, an organised programme to usurp democracy by replacing political decision-making with economic calculations, is the bedrock of the climate crisis, she explains. Neoliberalism was always a strategy that used deceit to undermine progressive Keynesian economic ideas, just as climate denialists have undermined climate science. The trick has been to give people the *appearance* of empowerment through individual choice and freedom – but in the process atomising and dividing them and thus dismantling and discrediting the idea of society, government and the common good. That common good includes the climate, of course: any approach to tackle global heating based on individual empowerment and freedom will fail.

So economic justice is not just a nice add-on to climate justice: we must join forces. This must not be a story of environmentalists against workers, or of poor nations against rich ones. It is a battle to organise to rebuild the common good, against the tax haven-using carbon elites and economic elitists. There is no other way to proceed.

So: how can we pay for the climate transition in a progressive way?

Part One of our edition on tax justice and the climate, published last month, provided some answers: removing $400 billion in annual fossil fuel subsidies; transparency through new climate-friendly accounting standards; activism from groups like Extinction Rebellion; and a scheme to auction carbon permits and redistribute the proceeds equally to all citizens.[5]

This edition, Part Two, considers the obstacles to rapid change, and how to overcome them.

In our lead article *Black Zero against the Climate* PETER BOFINGER, arguably Germany's best known economist, kicks back against a deadly German consensus known as Black Zero: the idea that governments must always match spending with tax revenues and not borrow or run budget deficits. His article, written for us just before the Covid-19 crisis erupted in Europe, unpacks the "corn economy" fallacies and misunderstandings that underpin Black Zero and shows why states can and must now borrow (and use central bank intervention) to pay for the transition.[6] But German thinking has infected the European Union through mechanisms such as the Stability and Growth Pact, and now risks sabotaging the possibility of climate funding.[7]

5 https://www.taxjustice.net/tax-justice-focus/

6 https://www.ineteconomics.org/perspectives/blog/modeling-the-financial-system-with-a-corn-economy-misleading-and-disastrous

7 https://emmaclancy.com/2020/02/17/discipline-and-punish-end-of-the-road-for-the-eus-stability-and-growth-pact/

"Neoliberalism was always a strategy that used deceit to undermine progressive Keynesian economic ideas, just as climate denialists have undermined climate science."

If states cannot finance the climate transition, then the financial sector will do it.

This would pose immense dangers, not just because states can borrow to spend far more cheaply than private actors can, and because states are accountable to citizens whereas financiers are not.

Financial sector players will also use an array of tried and tested mechanisms to shift the risks of investment onto the public, and shift the rewards to themselves. They specialise in creating and occupying economic choke points through which vast sums must pass, from which they can milk great wealth that would otherwise be spent on the climate, or on softening the economic blow of the transition (or of the Covid-19 crisis). As former Bank of England Governor Mark Carney crowed earlier this year, the immense sums required to finance the climate transition "could turn an existential risk into the greatest commercial opportunity of our time."[8]

This is an existential danger to us all. It is the climate version of the *Finance Curse*,[9] and the subject of our next article, *The Wall Street Climate Consensus* by DANIELA GABOR, a world expert on finance and shadow banking. The transition can be financed in two ways, she writes. The first would follow a Green New Deal logic, with state-led green industrial policies and monetary policies, and strong penalties for polluters.[10] The other, status quo route, sees private actors providing the financing: they will harvest the rewards while states and taxpayers take on the risks, in a dangerous game of "subsidised greenwashing." She outlines just how to confront the Wall Street Climate Consensus.

In the final article JACQUELINE COTTRELL explains how fossil fuel lobbying has undermined the push for a regime of carbon taxes and explores how this rearguard action by the worst people in the world can be defeated.

Economic crisis is an opportunity for deep-seated change. The Covid-19 crisis seems unlikely to melt away with a V-shaped recovery, and a return to the status quo.[11] The time to push new ideas is NOW.

The 18th Century political philosopher Edmund Burke summed up how to proceed:

> *"When bad men combine the good must associate; else they will fall, one by one, an unpitied sacrifice in a contemptible struggle."*

If we do not unite climate justice with economic justice, tax justice, racial justice and gender justice, those worried about the end of the month will become the enemies of those worried about the end of the world. The result will be an environmental, economic and political catastrophe.

8 https://www.bankofengland.co.uk/-/media/boe/files/speech/2020/the-road-to-glasgow-speech-by-mark-carney.pdf?la=en&hash=DCA8689207770DCBBB179CBADBE3296F7982FDF5

9 https://financecurse.net

10 https://diem25.org/category/green-new-deal-for-europe/

11 https://www.theguardian.com/business/2020/apr/29/ten-reasons-why-greater-depression-for-the-2020s-is-inevitable-covid

BLACK ZERO AGAINST THE CLIMATE

feature

Peter Bofinger

The climate emergency requires massive public investments if we are to avoid catastrophic, civilisational, collapse. The irresistible logic of the Green New Deal is starting to collide with the adamantine obstinacy of the economic establishment. Peter Bofinger argues that one of them will have to give.

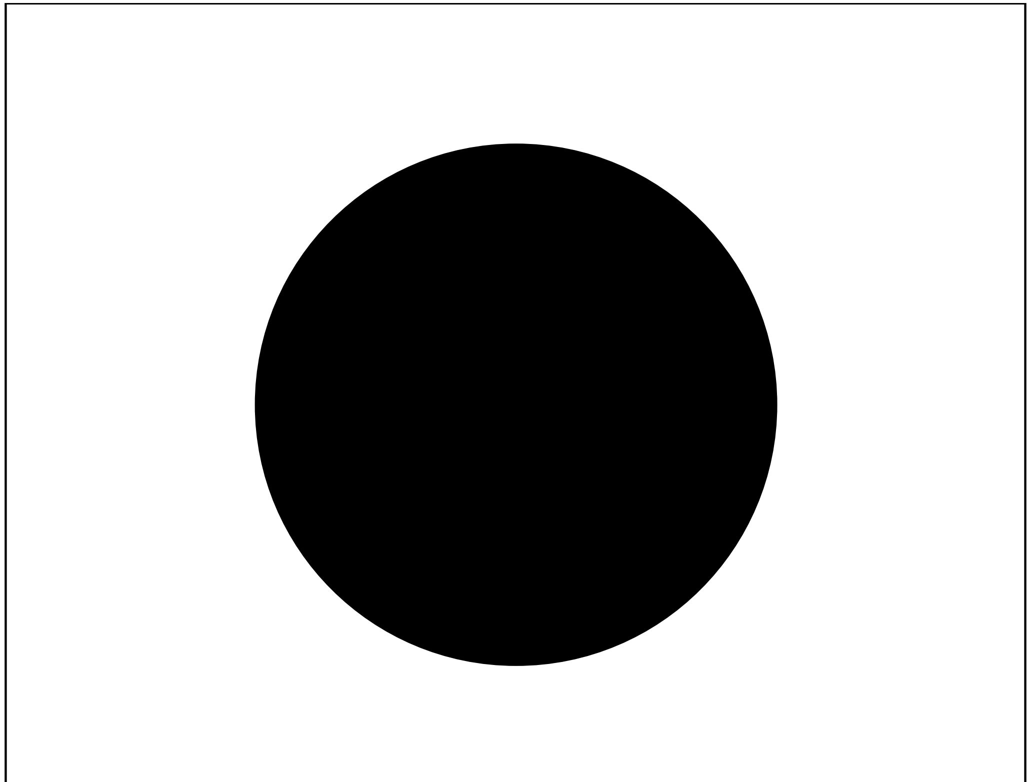
To take climate change seriously, we must completely transform how we generate, transmit and store energy. We need to change the ways in which people and things move around. We must retrofit and refurbish our homes and offices and public buildings, to make them friendlier to the climate. As Jeremy Rifkin has rightly said, we need a Third Industrial Revolution.[1]

This raises a big question. How can we pay for it?

To raise finance on the enormous scale required, only a few options are possible.

The first could be to tax carbon. But the big problem here is that this will tend to make fuel more expensive, which will in turn tend to hurt poorer sections of society the most. When French President Emmanuel Macron tried to impose new fuel taxes in 2018, protests by the *Gilets Jaunes* (or Yellow Vests) erupted on French streets, eventually forcing him to reverse course. The way around these potentially insurmountable political difficulties is to return the proceeds of carbon taxes (or the revenues from carbon trading schemes, as Prof. Jim Boyce argues in the previous edition of *Tax Justice Focus*) directly and equally to each citizen, as 'carbon dividends'. So if such schemes are put in place, the revenues will likely have to flow back to the population, instead of being invested in green projects. Wealth taxes and higher corporate taxes can contribute, but it is unrealistic to rely on them to raise funds at the vast scales required.

Could we finance a third industrial revolution through public-private partnerships, where financial institutions raise the funds to finance green projects?



Black Zero: a fiscal orthodoxy from which nothing can escape.

"In Germany there is a broad consensus that, while climate change is important, Black Zero is much more important."

1 Jeremy Rifkin, *The Third Industrial Revolution: How Lateral Power is Transforming Energy, the Economy, and the World* (New York, 2011).

"There is an obstacle. That obstacle is a mindset, which says that governments must not borrow, they must not add to the national debt, and they must not spend more than they receive in revenue."

This may help in some situations, but governments can generally borrow so much more cheaply than private sector actors can, so this is an extremely expensive option. *(Elsewhere in this edition, Prof. Daniela Gabor raises additional warnings about relying heavily on private finance.)*

The only other solution that is big enough to address the challenge is for governments to borrow to pay for the green transformation. Interest rates are at historically low rates – bonds issued by some governments currently enjoy negative yields.[2] There is no sign of inflation, and ample room for borrowing. So in this environment, government borrowing is by far the best way to pay for the green transformation.

But there is an obstacle. That obstacle is a mindset, which says that governments must not borrow, they must not add to the national debt, and they must not spend more than they receive in revenue. Budget deficits must be zero. We Germans call this Schwarze Null, or Black Zero.

2 'German Rates and Bonds, Bloomberg, Accessed 3 March, 2020, https://www.bloomberg.com/markets/rates-bonds/government-bonds/germany

And here is the crux of the current problem facing Europe. If Black Zero says you cannot borrow to invest, then we cannot pay for a credible green transformation, at least without savage, economy-damaging cuts elsewhere.

Yet in Germany there is a broad consensus that, while climate change is important, Black Zero is much more important. We need Black Zero, the thinking goes, to protect our children and our grandchildren from large public debts. Black Zero first, climate second. And Germany is the most powerful country in Europe – so this way of thinking suffuses European policy-making.

Where does this bias against deficits come from? In Germany there are historical reasons for its existence: old memories of hyper-inflation, and more. But in fact, it is taught in standard economics textbooks around the world, and a generation or more of economists has fallen under its spell.

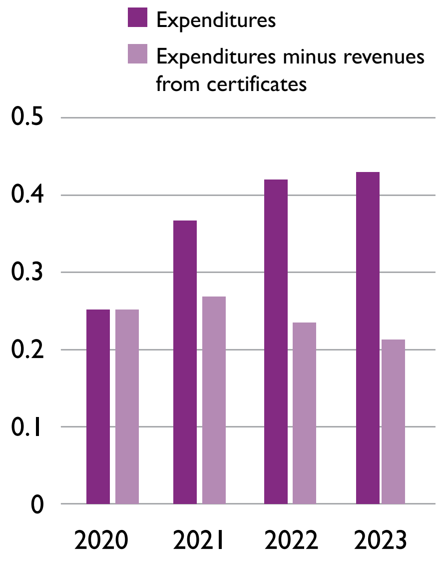
For instance, in his popular book *The Principles of Economics*, Greg Mankiw says that public debt 'crowds out' private debt. That is in the main introductory text that millions of students have read, and it's presented as a fact of life: whenever a government increases its debt and runs a deficit, this reduces private savings and private investment. The author does not qualify this in any way in this core text book.

But this argument is completely wrong. It rests on the outdated classical logic of a corn economy. The idea is that if a household saves corn, and the government grabs some of that corn, then there is less corn to plant or to eat. That may be true for a household that saves corn. But it is untrue if there is a financial system. The government does not absorb someone else's money when it borrows and spends. As John Maynard Keynes explained, you don't have to consume less to get financing: it comes from banks or from capital markets. The financial system creates money. And when the government borrows it spends the money into the economy immediately. (This idea is also embedded in Modern Monetary Theory, by the way.)

Another related theory, known as Ricardian Equivalence, says that the government is like a household, and if it borrows today it must repay it eventually through higher taxes in future years. So, this theory goes, it is kindest to our children to reduce government debt eventually to zero.

But again, this makes no sense. If you can borrow money at a one percent annual interest rate, for example, and invest the proceeds in a project that will yield four percent returns, your economy – and likely your children – will be better off. The ensuing growth of your economy means that this productive borrowing could also *reduce*

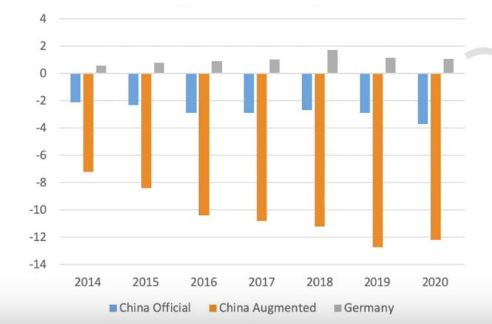
Expenditures for the climate programme



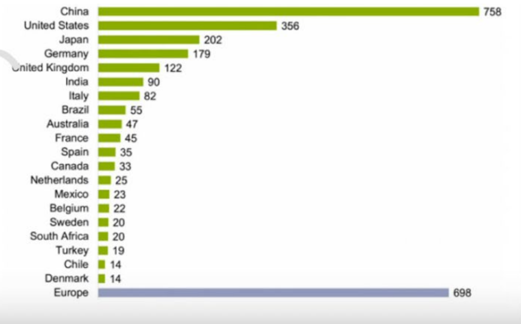
your debt as a share of your economy. And if you can borrow at negative interest rates – as you can now – this equation becomes even more attractive. Not only that, government bonds are safe assets: people in the financial sector right now are worrying that there are not enough safe assets. To cap it all, there is high demand for green bonds.

The money for a green transformation is there for the taking. Yet this anti-borrowing obsession has been embedded into German and European institutions for decades. For example, in the 1992 Maastricht Treaty that established the European Union it was decided that governments should bring their debts down to or below 60 percent of GDP. But 60 percent is a totally arbitrary number! A doctor who tried to treat a patient on

Fiscal balances: Germany and China (% of GDP)



Renewable energy capacity investment (2010-1/2019) US$bn



"We could finance the European GND, with plenty left over for other spending priorities, and without even increasing European debt levels."

such a basis would be sued. It inflicts pain. If a debt limit means you spend less on the things that matter, then it is almost criminal.

Germany's climate package approved last December is another case in point.[3] It says that we do not want to tax carbon immediately: we can wait until 2021. If you subtract revenues from trading carbon certificates, Germany envisages spending just 0.2 to 0.3 percent of GDP. This is peanuts. It will not tackle the climate crisis effectively.

China, by contrast, has been running double digit deficits for years (if you include national and provincial government budgets). It has borrowed enormous sums, and spent more on renewable energy in the past decade than the United States, Japan and Germany combined, while enjoying large economic growth at the same time. Especially for large economies, there are almost no limits to the deficits that countries can run.

3 'Federal Climate Change Act', Federal Ministry for the Environment, Nature Conservation and Nuclear Safety, 13 December, 2019, https://www.bmu.de/en/law/federal-climate-change-act/

Public debt is a bit like drinking. Excessive drinking is obviously bad. So what is the right amount?

A good way to decide is to avoid textbook theories and to follow the 'Golden Rule' for fiscal policy. If governments make investments from which future generations benefit – as with green investments – why should it pay for those from current revenues? And green investments can be highly productive: if we retrofit the whole housing stock for energy efficiency, for instance, there can be major energy savings, potentially making these investments very profitable in economic terms.

There is more good news here. The Euro area could stabilise its current debt to GDP ratio at around 90 percent, while running a 2.7 percent fiscal deficit, assuming a reasonable nominal GDP growth rate of three percent per year. People are talking about a Green New Deal (GND) requiring €150-200 billion per year, which is just 1.3–1.7 percent of GDP. So we could finance the European GND, with plenty left over for other spending priorities, and without even increasing European debt levels. (And even if we did increase the debt, it would likely harm neither us nor future generations anyway.)

We could increase borrowing in several ways. One would be to exclude green investments from the European Stability and Growth Pact, which forces European governments to curb deficits and borrowing. Another way is to issue Euro-bonds with joint liability, justified by the fact that the climate isn't a national issue but a European (and global) one. A third way, suggested by Paul de Grauwe, is for the European Investment Bank to issue bonds to finance green investments, and for the European Central Bank to then purchase these bonds as part of its long-term asset-buying programme.[4]

I only see two potential constraints here. One is labour: massive green infrastructure investment requires a lot of labour that cannot be done by robots. But with widespread automation and digitalisation threatening many jobs, job creation is likely to be highly positive for Europe.

4 Paul de Grauwe, 'Green Money without Inflation', *Social Europe*, 19 March, 2019, https://www.socialeurope.eu/green-money-without-inflation

The second obstacle is Germany. The mindset on debt in Germany is rigid, even if some economists are at last starting to think differently. This is the real constraint on financing the Green New Deal.

The money is there. The Golden Rule has never been more appropriate than today, when we have such low interest rates, and even negative rates. Almost nothing can go wrong if we borrow more to finance this productive investment.

If not now, when?

Peter Bofinger is a Professor of Monetary and International Economics at the University of Würzburg, and was a member of Germany's five-strong Council of Economic Experts from 2004-2019. This article was adapted from a talk by Professor Bofinger at the University of Texas in Austin's LBJ School of Public Affairs. The full talk is available on YouTube.[5]

Peter Bofinger approved this draft before the COVID-19 outbreak.

5 Peter Bofinger, 'What are the Constraints for a Green New Deal? Keynote, The LBJ School of Public Affairs, University of Texas at Austin, https://www.youtube.com/watch?v=iaEPj8W1n2k

THE WALL STREET CLIMATE CONSENSUS

feature

Daniela Gabor

Wall Street and the City of London are finally starting to take climate change seriously, as a profit centre at least. The talk is of leveraging private sector investment to fund a green transition. But the reality is a plan to extract yet more wealth from the rest of society while delaying real change.

The transition to a low carbon economy can be organised in two distinctive ways. The first way, widely known as the Green New Deal, outlines a radical program of ecological and economic transformation led by the state. This involves massive investments in low-carbon activities – green industrial policies backed by green fiscal and monetary policies - while ensuring that decarbonisation happens in a just manner.

Critically, this calls for demolishing the political order of financial capitalism: undoing its ideological aversion to fiscal activism and state intervention, its commitment to the 'independence' of central banks, and to the political power of carbon financiers.

In response, a second, status-quo option is rapidly emerging from the financial sector. Let's call it the Wall Street Climate Consensus. It promises that, with the right nudging, financial capitalism can deliver a low-carbon transition without radical political or institutional changes.

The WSCC grows out of recent changes in international development discourse, as for instance promoted by the World Bank in its "Maximising Finance for Development" agenda, whose mantra is "leveraging private capital for development". It promises institutional investors $12 trillion in "market opportunities" in transport, infrastructure, health, welfare, and education, to create new investable assets via public-private partnerships in these sectors and deeper local capital markets (or, as the World Bank puts it in a slick video, "to help private finance tap into developing markets.") They are pushing risky and expensive 'shadow banking' practices onto poorer countries, likely to encourage privatisation and usher in long-term austerity, ultimately threatening progress on the SDGs. Under this consensus, nation states are supposed to protect the financial sector from the risks of investing in developing markets. This would privatise gains for finance and push losses onto low-income governments and the poor.

Now, along similar lines, carbon financiers are increasingly seeing the climate crisis not as a threat, but as an opportunity to make high profits, via "subsidised greenwashing." The idea is that states will subsidise and protect finance from climate risks. This is a great opportunity for finance – and poses great dangers to the wider public and to the environment.

> *"The Wall Street Financial Consensus promises that, with the right nudging, financial capitalism can deliver a low-carbon transition without radical political or institutional changes."*

Source: World Bank video

The Wall Street Climate Consensus involves a two-step strategy to promote the creation of apparently 'green' asset classes, while also preventing the state from getting too heavily involved in reducing carbon-intensive activities.

Step 1: Promote metrics and "taxonomies" to enable greenwashing

The Wall Street Climate Consensus sees it as essential to define metrics and standards that assess the environmental performance of economic activities and companies – and thus of the "green-ness" of loans and securities that finance them. Strategically, they are pushing for public and private taxonomies (classification systems) to allow a broad interpretations of what 'green' means.

The most popular approach, pioneered by the private sector, relies on private **Environment, Social and Governance (ESG)** ratings, to evaluate companies and governments. Private ESG ratings are expanding fast, and are expected to apply to half of some $69 trillion assets managed in the US by 2025.[1]

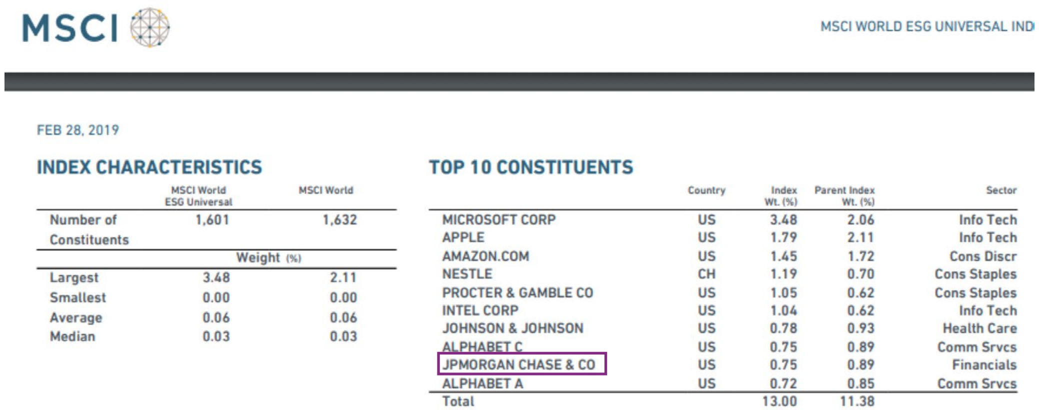
Private ESG frameworks are fertile terrain for greenwashing. For one thing, the various different frameworks offer confusing[2] and conflicting assessments of environmental performance, making it easier for borrowers to mislead investors about the greenness of the assets they purchase. For example, in February 2019 the ESG index run by MSCI, a big ratings agency, contained JP Morgan Chase in its top 10 constituents – in the same year that the bank was ranked (by the Rainforest Action Network) as the biggest financier of fossil fuels.

The multiplicity of private ESG frameworks also allows investors to shop around for the ESG ratings most favourable to themselves – and there is a wide divergence, allowing plenty of choice. (At one point, for instance, the FTSE's ESG scored the car company Tesla at the bottom of its global auto ESG ratings, while MSCI ranked it as the best.)[3] Making matters worse, ESG rating companies face perverse incentives to award high ratings to firms.

For these reasons *public ratings*, by contrast, are potentially more effective than private ratings. However, carbon financiers have been successfully lobbying to water down one of the main public classification systems, the European Commission's Sustainable Finance taxonomy. Originally, it identified "sustainable" economic activities as those that make a

2 Moret, J. (2017). '*An integrated approach to managing ESG risks and opportunities*', Franklin Templeton, 1 April 2017.

3 *Financial Times* (2018). 'Lies, damned lies and ESG rating methodologies', 6 December 2018.


MSCI

MSCI WORLD ESG UNIVERSAL IND

FEB 28, 2019

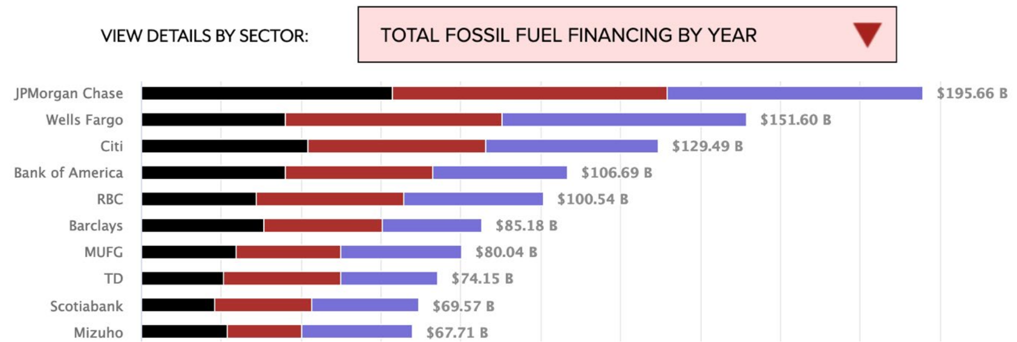
INDEX CHARACTERISTICS

	MSCI World ESG Universal	MSCI World
Number of Constituents	1,601	1,632
	Weight (%)	
Largest	3.48	2.11
Smallest	0.00	0.00
Average	0.06	0.06
Median	0.03	0.03

TOP 10 CONSTITUENTS

	Country	Index Wt. (%)	Parent Index Wt. (%)	Sector
MICROSOFT CORP	US	3.48	2.06	Info Tech
APPLE	US	1.79	2.11	Info Tech
AMAZON.COM	US	1.45	1.72	Cons Discr
NESTLE	CH	1.19	0.70	Cons Staples
PROCTER & GAMBLE CO	US	1.05	0.62	Cons Staples
INTEL CORP	US	1.04	0.62	Info Tech
JOHNSON & JOHNSON	US	0.78	0.93	Health Care
ALPHABET C	US	0.75	0.89	Comm Srvcs
JPMORGAN CHASE & CO	US	0.75	0.89	Financials
ALPHABET A	US	0.72	0.85	Comm Srvcs
Total		13.00	11.38	

Source: MSCI



Source: Rainforest Action Network, Fossil Fuel Finance Report card, 2019

substantial contribution to at least one of six environmental objectives, and which cause no significant harm to the others,[4] using quantitative thresholds.[5] But after

4 These are: Climate Change Mitigation; Climate Change Adaptation; Sustainable Use and Protection of Water and Marine Resources; Transition to a Circular Economy; Pollution Prevention and Control; Protection and Restoration of Biodiversity and Ecosystems. See more https://ec.europa.eu/commission/presscorner/detail/en/ip_19_6793

5 The Technical Expert Group is in the process of identifying the list of activities and the attending quantitative standards across the six objectives.

ELSEWHERE IN THIS EDITION,

Peter Bofinger outlines how necessary public borrowing is for tackling the challenges on the scale that is required.

1 https://www.ft.com/content/cad307d6-583a-11ea-a528-dd0f971febbc

heavy lobbying, the EU taxonomy has now expanded this to three separate categories: sustainable, "enabling"[6] and "transition"[7] activities. The two extra categories are supposed to encourage high-emitting companies to shift from 'brown' (polluting) activities to 'green' ones, by ensuring that enough financing is available. But in reality they open the door to greenwashing by introducing new complexities in setting and monitoring the quantitative thresholds, and also by restricting the scope for identifying "brown" (or polluting) activities.

Step 2: Subsidies for "green" products without penalties for brown

The financiers' push to shape public and private classifications systems is not only about greenwashing. It is also about boosting profits, by channelling the growing political will to address the climate crisis into subsidies for green assets. For example, the European Commission is considering relaxing capital requirements for financial institutions holding green assets. Central banks, which are pioneers in the policy world in the climate change fight because of the financial-stability implications of extreme climate events, are also considering preferential treatment of green securities in their monetary policy operations (in their so-called "collateral frameworks"). These may turn out to be very expensive for states and the wider public.

This nudging for green finance also seems to be accompanied by a low appetite for targeting "brown" finance, even though penalties (via tougher regulatory requirements or via certain central bank operations) could rapidly accelerate the decarbonisation of the financial system, and shift capital flows away from polluting activities towards greener ones.

The success of carbon financiers in opposing "brown penalties" is partly a result of a long-running de-facto alliance between private financial sector players and central banks. The latter invoke "transitions risks" to justify an incremental, green-subsidising approach, in line with what the Wall Street Climate Consensus wants. When they say "transition risks", what they mean is that strictly regulating and curbing brown finance might result in stranded carbon assets which pose risks to financial stability. Although central banks do not have the conceptual tools to adequately capture the mechanisms through which transitions risks may morph into financial stability risks, their emphasis on transition risks renders them critical allies for carbon financiers in the construction of the Wall Street Climate Consensus.

> *"Rapid decarbonisation can only happen if central banks and regulators convert to penalising brown rather than subsidising green, and use a credible definition of brown that minimises greenwashing."*

For instance, Mark Carney's speech for the COP26 hosted by the UK, and the COP26 private finance strategy, framed in the key of the Wall Street Climate Consensus, envisages a "3 R" approach to leverage private finance for the climate fight: mandatory Reporting of climate risks, nudge private finance to improve climate Risk management via stress tests, and provide a better picture of Return opportunities from the transition to net zero, by moving from problematic ESG approaches to encourage investments in 50 shades of green.[8]

While the nods to mandatory reporting and ESG weaknesses are commendable steps forward, the COP26 private finance strategy falls short on the truly transformative measures such as brown penalties or greening the operations of central banks.

Make no mistake: the Wall Street Climate Consensus will not turbocharge the climate agenda. It is designed to protect the *status quo* of financial globalisation.

Rapid decarbonisation can only happen if central banks and regulators convert to penalising brown rather than subsidising green, and use a credible definition of brown that minimises greenwashing. And states everywhere must take seriously the transformative power of green macroeconomic policies. This involves massive public investments in green sectors financed via 'green' coordination between fiscal and monetary policies. It should also include green safety nets to ensure a just transition, one that does not put the burden of decarbonisation on poor people.

Furthermore, should governments fail to secure the cooperation of central banks for green macroeconomic policies, they could introduce a Green Financial Transaction Tax on brown assets. This would be calibrated to (a) target brown assets and (b) remain in place until an adequately brown-penalising framework is wired into the operations of central banks and broader regulatory frameworks. Together with a carbon tax, this would ensure adequate financing for green public investments while simultaneously re-orienting private capital towards private green investments.

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This article was written before the COVID-19 outbreak.

6 Enabling activities are defined as those activities that enable other activities to make a substantial contribution to one or more of the objectives, and where that activity: i) does not lead to a lock-in of assets that undermine long-term environmental goals, considering the economic lifetime of those assets; and ii) has a substantial positive environmental impact based on life-cycle considerations.

7 Transition activities are defined as those 'activities for which there are no technologically and economically feasible low-carbon alternatives, but that support the transition to a climate-neutral economy in a manner that is consistent with a pathway to limit the temperature increase to 1.5 degrees Celsius above pre-industrial levels, for example by phasing out greenhouse gas emissions.' See https://ec.europa.eu/commission/presscorner/detail/en/QANDA_19_6804

8 https://www.bankofengland.co.uk/-/media/boe/files/speech/2020/the-road-to-glasgow-speech-by-mark-carney.pdf?la=en&hash=DCA8689207770DCBBB179CBADBE3296F7982FDF5

SURVIVING DEMOCRACY – MITIGATING CLIMATE CHANGE IN A NEOLIBERALISED WORLD

feature

Chien-Yi Lu

Neoliberalism insists that only individuals in free markets can be trusted to make wise decisions. It is a rejection of politics that continues to entrance the political class. If we do not break its grip soon it will be the death of us all.

In their book, *Merchants of Doubt—How A Handful of Scientists Obscured the Truth on Issues from Tobacco Smoke to Global Warming*, Naomi Oreskes and Erik Conway laid bare the "Tobacco Strategy" to undermine a scientific consensus by creating doubt and controversy. This strategy has been copied and successfully applied in an array of industries, from asbestos to fossil fuels, especially in the climate denial enterprise which has ridiculed, distorted, and undermined honest climate science.

Readers familiar with the rise of neoliberalism might be struck by a feeling of *déjà vu*. An army of what the neoliberal theorist Friedrich Hayek called "second-hand dealers in ideas" – corporate funders, exclusive clubs like the Mont Pelerin Society, research institutes, and think tanks – worked together to undermine and eventually replace Keynesian economic ideas with newly-invented theories. And, having transformed the way economics was studied and taught, neoliberals then moved to colonise neighbouring disciplines.

However, this is not just a case of different "tobacco strategies" being deployed in different areas. It is doubtful that climate denialism could have happened had the economic counter-revolution against Keynesianism never taken place to shape the collective consciousness in a way that was extremely susceptible to denialism. And the problem neoliberalism poses to the climate is broader than this.

To understand how neoliberalism has damaged the fight against climate change, it is necessary to understand what it is. In my book I define neoliberalism as the art (as in "con artist") of *exclusion through inclusion, with the upward redistribution of power and wealth as its goal*. The "inclusion" part is all about prioritising the individual,

> *"The great 'debate' between Hayek and Keynes was not a clash in the free competition of ideas, but instead akin to the 'debate' between climate deniers and genuine climate scientists."*

and freedom of choice. The "public choice" revolution led by neoliberal economists took "methodological individualism" as the dominant approach — even the implicit assumption — for understanding politics. This approach took the "rational" (utilitarian, calculating, self-interest maximising) individual — as opposed to the community, society, or the commons — as the starting point of inquiry.

This shift in thinking came at the expense of meaningful participation at abstract and higher levels, where decisions about distribution and wider society are concerned. That is the exclusion part: neoliberalism represents an organised but

Where all the trouble started: Trygve Hoff and Ludwig von Mises at the first meeting of the Mont Pelerin Society in Switzerland in 1947.

stealthy effort to undercut, bypass and override democracy, under the appearance of benefiting all individuals. It is, at heart, a deceit. The great "debate" between Hayek and Keynes was not a clash in the free competition of ideas, but instead akin to the "debate" between climate deniers and genuine climate scientists.

Neoliberals needed the myth that the market was self-regulating in fair and

"The EU Emissions Trading System (ETS), a system weak on cutting emissions but strong on transferring wealth upward toward big polluters, emerged as the EU's flagship climate policy after elites steeped in the neoliberal world view successfully sabotaged a legislative proposal for a Union-wide carbon tax."

impartial ways, in order to be able to conceal the reality that large corporations were rising not only above the market, but also above democracy, with the state playing an active enabling role. (I call this SCAMD – States and Corporations sitting above Markets and Democracy.) If corporate activity is placed above and beyond democracy, then citizens and leaders who want to tackle the climate crisis do not have the power to do so.

Examples of SCAMD abound. The extent of corporate monopoly in the United States is by now widely accepted. Across the Atlantic, the state-market-society relationship has been shaped to favour large corporations. The construction of the European Union, notwithstanding its founding principles to promote peace, was littered with special interests from the start. Many of the key players in the transatlantic elite network who played crucial roles in discrediting Keynes' inclusive economic theories were the same figures who initiated and designed the institutions and operating principles of the EU. These include the owners or top managers of Fiat, Volvo, Shell, Unilever and Phillips, and Viscount Etienne Davignon, a key figure in the establishment of the EU and a co-founder of the powerful European Roundtable of Industrialists, a permanent elite network representing large European multinationals which has played a formal role engaging with the European Commission since 1983.

The Treaty of Maastricht functions, in part, as a system of locks and bolts protecting the neoliberal order from democracy. Honest, timely, and effective climate mitigation profoundly contradicts this unstated purpose. For example, the EU Emissions Trading System (ETS), a system weak on cutting emissions but strong on transferring wealth upward toward big polluters, emerged as the EU's flagship climate policy after elites steeped in the neoliberal world view successfully sabotaged a legislative proposal for a Union-wide carbon tax.

The EU's role in protecting big polluters extends to its aggressive promotion of the investor arbitration system, which is detrimental to both democracy and the planet. The system, also known as "Investor-State Dispute Settlement" (ISDS), is an international arbitration regime that caters exclusively to the needs of transnational corporations, with the power to override national executive, legislative, and judicial decisions. It not only removes market risks for reckless anti-climate investments, punishes life- and planet-saving legislations, but also deters governments from contemplating necessary mitigating measures for fear of being sued by foreign investors at ISDS tribunals.

The root cause of the climate emergency is not the burning of fossil fuels but the success of global elites in undercutting democracy and building a global structure whose inner logic is the upward concentration of wealth.

The more widely this is recognised, the more chances we will have in tackling or surviving the climate emergency.

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"The root cause of the climate emergency is not the burning of fossil fuels but the success of global elites in undercutting democracy and building a global structure whose inner logic is the upward concentration of wealth."

CARBON TAXES CAN BE PROGRESSIVE:
MYTH-BUSTING AND MAINSTREAMING CARBON TAXES

feature

Jacqueline Cottrell

Carbon taxes were once at the centre of discussions about addressing the climate emergency. Fossil fuel lobbyists have fought hard against them, arguing that they are regressive and will hit the world's poorest hardest. Jacqueline Cottrell here calls for embedding them in a broader progressive agenda.

Myth-busting

It is an old story of neoclassical economics that policymakers must be prepared to trade off positive environmental outcomes and GDP growth. Today, in the European Union at least, this myth has been overcome; policymakers now refer to green taxes as "growth-friendly" and are supportive of a European green deal. Myth-busting has been relatively successful – and for good reason. None of the huge body of scientific research conducted to examine the impacts of carbon taxation have produced any evidence that it has a negative impact on GDP growth. Instead, research has indicated that a carbon price is the most efficient and effective instrument to reduce GHG emissions, whether implemented by means of taxes or trading.

When it comes to carbon taxation and social equity, however, many myths persist. It is received wisdom that carbon taxes are unfair and inequitable and have a disproportionately negative impact on lower income groups. The reality is more complex. To understand it, we need to take a closer look at the different dimensions of inequity relevant to climate policy and carbon taxation.

Let us look first at policy outcomes. Without additional welfare spending, carbon taxes may lead to price increases that have negative impacts on lower-income households. On the other hand, carbon taxes can raise really substantial amounts of revenue. A tax of US\$70/tCO_2 has the potential to raise revenues worth 1–3% of GDP in most countries, or 2–4% of GDP in major developing economies such as China or India. This implies that in low- and middle-income economies, with an average tax-to-GDP ratio of just 12%, carbon taxes can raise 25% more revenue. In most of these countries, the revenues a carbon tax of US\$70/ tCO_2 could raise dwarf current spending on health, education or welfare. Carbon taxes have the potential to act as a hugely powerful engine for change, reducing inequality and establishing targeted welfare programmes and free health and education systems, as well as funding the transformative changes necessary to tackle and adapt to the climate emergency.

A citizens' assembly preceded important changes to Ireland's constitution in 2018. Could a similar approach build a popular consensus in favour of carbon taxes and other measures to address the climate emergency? (Picture Credit: mtms via CC BY-NC-SA 2.0)

The second dimension pertains to inequity of contributions to the climate crisis. In 2015, Lucas Chancel and Thomas Piketty found that just 10% of the global population – amongst the world's wealthiest – emit 45% of global CO_2 emissions. The bottom 50% of emitters, almost exclusively from developing countries, are responsible for just 13% of global emissions. If we do not implement a carbon tax for social equity

> *"Carbon taxes have the potential to act as a hugely powerful engine for change."*

"Sweden has the mother of all carbon taxes."

reasons, we are letting these 10% of polluters get away without paying for the impact of their excesses on the global climate. Seen in these terms, and assuming that appropriate redistributive mechanisms are in place – free installation of small-scale renewable energy such as rooftop solar, solar water heating or biogas, distribution of clean energy-efficient stoves, cash transfers, or a carbon dividend as proposed by James Boyce in the last issue – a high carbon tax, of which 45% is paid by the top 10% of polluters, has an air of "Robin Hood" about it. The final dimension of inequity relates to climate change outcomes: the devastating impact of the crisis will be most felt by the poor and vulnerable groups, as they will be least able to adapt or respond.

So, why have we not reached agreement on a global carbon tax? The answer to this question is way beyond the scope of this article. But at least one of the reasons is also linked to inequity: in this case, inequity of representation in policymaking. Many industries and individuals have a strong financial interest in the status quo: oil and mining companies, energy-intensive industry, wealthy consumers (let me remind you: around 10% of the global population are responsible for 45% of GHG emissions), to name but a few. These groups exert a great deal of influence in global policy debate, while the voices of the world's poor and vulnerable are hardly represented. In contrast to big business, which spends billions lobbying governments every year, civil society is underfunded and poorly organised in comparison, and up until now, has tended not to focus on tax policy.

The joy of tax?

Some citizens are passionately interested in taxes and recognise their potential to shape our societies, looking to Scandinavian countries as an example. All Scandinavian countries have a carbon tax: Sweden has the mother of all carbon taxes, at a rate of US\$127/tCO_2. Nevertheless, life in Sweden is relatively normal: there are no blackouts, people still drive Volvos, dance to Abba and shop at IKEA, while Sweden moves towards decarbonising electricity, heating and transport.

On the whole, however, interest in tax policy is limited, including carbon taxes. Josephine Public does not know much about carbon tax, and certainly does not appreciate its potential to raise revenue worth between 1–4% of GDP. Neither does Josephine know that these revenues could be redistributed in whatever way governments see fit, or that they have the potential to transform our societies and economies through redistributive mechanisms, increasing investment in health, education, jobs, low-carbon industries, and access to sustainable energy for all. Josephine also doesn't know the best news of all: carbon taxes are fair, as the wealthiest and the biggest polluters pay the most.

Unfortunately, in reality carbon taxes generally hit the headlines when they are perceived as being too high, unfair, or punitive. Articles in favour often cite policy wonks arguing about "externalities", "the social cost of carbon" and "market failures". Even if this jargon means something to tax justice campaigners and climate activists, it does not serve well as a call to arms for the typical wo/man on the street. How can we change this?

Mainstreaming

In the past, we did not take the climate crisis seriously enough. Initial responses to "global warming" were not proportionate to a threat to our continued existence on the planet. In the Northern hemisphere, many joked about warming sounding quite promising. In the global South, governments prioritised GDP growth, calling on high-income governments to tackle climate change given their historical responsibility. Climate scientists were rightly cautious about drawing a causal link between individual extreme weather events – hurricanes, typhoons, droughts, desertification, devastating floods – and the climate crisis, a reticence which has served as ammunition to climate deniers.

Today, our vocabulary and our understanding has changed. Where public discourse once referred to "climate change" or "global warming", we now talk about the "climate crisis" or the "climate emergency". The good news is that this reflects a growing shared understanding of the seriousness and immediacy of the problem. All over the world, street protests are putting climate action centre stage: schoolchildren and students are participating in "Fridays for Future" strikes, while citizens old and young are joining the Extinction Rebellion's calls for decarbonisation. In October 2019, 400 scientists joined protests on the streets of London, several of them contributors to IPCC reports on climate change.

Yet to go further and achieve decarbonisation, these movements need to identify and articulate specific policy demands. Policy wonks contend that the best carbon tax would be a global one – to prevent distortions between countries and keep decarbonisation as efficient as possible. The question is: How might a global carbon tax be achieved?

Extinction Rebellion in the UK is calling for a citizen's assembly. Taking a global approach and creating a number of citizen's assemblies, one for each continent, or part of a continent, would take the instrument debate out of clandestine meetings between big business and policymakers and move it into the public domain, to a place where evidence is public and subject to scrutiny. These assemblies would put the evidence in favour of carbon taxation, alongside other instruments, before a wide audience. It would give experts the opportunity to explain why carbon taxes are a good thing, that they can be effective, fair and equitable, and that their revenues can be used to reshape the societies and economies we live in. I believe that under such circumstances, the case for a carbon tax would win out.

"Carbon taxes are fair, as the wealthiest and the biggest polluters pay the most."

Mainstreaming climate policy discussions through citizen's assemblies would create a platform for the planet's inhabitants all to be vocal in our support of ambitious climate policy in general and carbon taxes in particular. The results could be fed into UNFCCC negotiations and drive the step change in climate policy which is both urgently necessary and sadly lacking.

Ultimately, we have to recognise that one way or another, we are all going to have to deal with the climate crisis. We can choose to address it now with a carbon tax, reducing GHG emissions and using revenues as an engine for enhancing social equity and transforming our economies and societies according to our democratic wishes. Alternatively, we can pass the problem on to future generations and leave them to look on, powerless, as the climate emergency transforms our societies and economies in ways that we cannot imagine. Putting this choice in the hands of global citizens now is the only equitable way forward.

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Her publications include a study on fiscal policies to address the health impacts of the transport sector in Jakarta, Indonesia (UNEP, forthcoming), A Climate of Fairness: Environmental Taxation and Tax Justice in Developing Countries *(VIDC 2018), and* Environmental Tax Reform in Developing, Emerging and Transition Economies *(German Development Institute, 2016).*

This article was written before the COVID-19 outbreak.

FUNDING A JUST TRANSITION

This special Climate Edition of *Tax Justice Focus* is the second in a series of outputs Tax Justice Network is developing as part of a new workstream focused on the linkages between tax justice and climate crisis issues. The first, *Tax Justice Focus: Funding a Just Transition* was published in April and examined how the money could be found to fund the transition away from fossil fuels.

It contains five articles: *Fossil Fuel Subsidies and Taxation: Two Sides of the Same Carbon Coin*, by **Laura Merrill**, *Still a Burning Question: Fossil Fuel Subsidies in Australia*, by **Rod Campbell**, *Carbon Dividends as Tax Justice*, by **James K. Boyce**; *Who are the Real Extremists Here?* by **Gail Bradbrook** (Extinction Rebellion,) and *What's Your Score? The Case for Sustainable Cost Reporting,* by **Richard Murphy.**

It can be found online at:
https://www.taxjustice.net/tax-justice-focus/

Over the months ahead TJN, in collaboration with our allies in the tax justice, sustainable de-velopment, human rights and environmental spheres, will deliver new research and comple-mentary audiovisual outputs bridging the divide that still exists between these two intimately enmeshed struggles.

To be kept informed about our work on climate and tax justice, please sign up for updates at:
https://www.subscribepage.com/climateandtax

news in brief…

"We are all embarking on the unthinkable"

Emanuel Macron: "We are all embarking on the unthinkable." (Picture credit: Remi Jouen via CC BY 4.0)

The French President Emmanuel Macron gave a wideranging interview in the *Financial Times* in April, in which he argued that the current pandemic highlights the need to move away from a "hyper-financialised" world order and to address the climate emergency.

Macron, whose election in 2017 was seen by some as a vindication of centrist liberalism, has struggled with massive civil disobedience sparked by attempts to raise "environmentally friendly" taxes. His commitment to a new approach to global governance is perhaps a sign Western leaders are feeling pressure to change course.

Offshore Entities and the Politics of Bailouts

Are the privileges enjoyed by tax havens about to be swept away?

So far the governments of France, Poland and Denmark have announced that they will refuse to give state aid to companies based in offshore tax havens. As ever the definition of a tax haven is a cause for concern; major "onshore" jurisdictions including the United Kingdom, the United States, the Republic of Ireland and the Netherlands all provide companies and individuals with the means to escape the intent of legislation elsewhere.

Time for an Excess Profits Tax?

The pandemic has brought sudden disaster to many economic sectors. But some companies have made massive profits from the dislocation, prompting some economists to wonder aloud whether it might be time to bring back an excess profits tax. Reuven S. Avi-Yonah of the University of Michigan argues along these lines in a draft article published at the end of March. Avi-Yonah points out that excess profits taxes were used extensively during World War Two and into the postwar era, and were vital in ensuring that the state was able to manage resources efficiently. His piece can be found online at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3560806

Bailout for the Fossil Fuel Sector?

In the week before the publication of this edition of the Focus, Global Witness reported that the Independent Petroleum Association of America (IPAA) had lobbied the Federal Reserve for chang-es to its bailout programme that would make several large fossil fuel companies eligible for bailout money. There has been much hopeful talk about how the COVID-19 outbreak will prompt a re-think in economic policy. But the old regime isn't giving up without a fight. Global Witness' article can be found online at https://www.globalwitness.org/en/campaigns/oil-gas-and-mining/occidental-lobbying-pays-off-stands-to-benefit-from-coronavirus-bailout/