

Potential financial losses from a renewable energy transition are concentrated among the wealthy, study finds

June 22 2023



Credit: Pixabay/CC0 Public Domain

One common rationale against climate action is that the resulting fossil fuel investment losses could impact people's retirement or long-term

savings. However, researchers report in the journal *Joule* on June 22 that the loss of fossil fuel assets would have a minimal impact on the general populace. In high-income countries, most financial losses would be borne by the most affluent individuals for whom the loss makes up a small percentage of their total wealth. In contrast, the financial loss of lower-income individuals would be minimal and feasible for governments to compensate.

"There's this big question of who's winning and who is losing from the transition and from [climate change](#) in general," says co-first author Lucas Chancel, an Economics professor at Sciences Po in Paris. "Even though our results are simple, they were not present in research or public debates before. This work is one step forward in understanding the winners and losers from the point of view of the assets that might be at risk in this transition."

This project started when Chancel read a paper from Gregor Semieniuk, an Economics professor from the University of Massachusetts Amherst, that estimated the total amount of assets that would be lost, or "stranded," if ambitious climate policies caused fossil fuel production to quickly decline. After Chancel reached out, the two economists joined forces to estimate the wealth distribution of people who own these assets.

Their results found that, in the United States, two-thirds of the [financial losses](#) from lost fossil fuel assets would affect the top 10% of wealth holders, with half of that affecting the top 1%. Because the top 1% tend to have a diverse portfolio of investments, any losses from fossil fuel assets would make up less than 1% of this group's net wealth. When the researchers repeated this analysis for the United Kingdom and continental European countries, they found similar results.

"Investing in a stranded asset is like buying a rotten apple," says Chancel.

"In this case, the apple is rotten because of climate change. Who owns these rotten apples? We find that the richest 10% of the population owns the vast majority of these assets."

In contrast, 3.5% of financial losses would affect the poorest half of Americans. Asset losses make up a larger proportion of wealth for this group. However, because their overall net wealth (assets minus liabilities) is significantly lower, researchers estimate that these losses could be compensated for \$9 billion in Europe and \$12 billion in the United States.

Chancel and Semieniuk detail three different potential ways governments could raise this amount of money. For example, governments could impose a carbon emissions tax. In addition, they could renegotiate their current liabilities to [energy companies](#) and use the amount that they save. A modest tax on the wealthiest individuals could also raise enough money to compensate for these groups' losses.

"There's this idea that it's the general populace that should be opposed to [climate policy](#) that creates stranded assets because their pensions are at risk or their retirement savings or just their savings," says Semieniuk. "It's not untrue that some [wealth](#) is at risk, but in affluent countries, it's not a reason for government inaction because it would be so cheap for governments to compensate that."

More information: Gregor Semieniuk, Potential pension fund losses should not deter high-income countries from bold climate action, *Joule* (2023). [DOI: 10.1016/j.joule.2023.05.023](https://doi.org/10.1016/j.joule.2023.05.023).
[www.cell.com/joule/fulltext/S2542-4351\(23\)00220-9](https://www.cell.com/joule/fulltext/S2542-4351(23)00220-9)

Provided by Cell Press

Citation: Potential financial losses from a renewable energy transition are concentrated among the wealthy, study finds (2023, June 22) retrieved 29 April 2024 from <https://phys.org/news/2023-06-potential-financial-losses-renewable-energy.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.