Concept note

“Social cohesion and sustainable development. Five case studies for an EU perspective”

First Latin American Social Cohesion Conference.
A strategic priority in the European Union-Latin American partnership

IDDRI
Lucien Chabason, Lucas Chancel, Damien Demailly, Carole-Anne Sénit, Mathieu Saujot and Sebastien Treyer
Concept note
“Social cohesion and sustainable development. Five case studies for an EU perspective”
Santiago, Chile, 22\textsuperscript{nd} and 23\textsuperscript{rd} January 2015

IDDRI
Lucien Chabason, Lucas Chancel, Damien Demailly, Carole-Anne Sénit, Mathieu Saujot and Sebastien Treyer
Index

Introduction. ....................................................................................................................................... 5

Case study 1. Energy poverty, energy transition policies and social objectives ................................. 7
  The issue of energy poverty in the EU .............................................................................................. 7
  Policies to tackle energy poverty in France ...................................................................................... 7
  The emergence of energy poverty in mobility .................................................................................. 8

Case study 2. How can green taxation be socially acceptable? ............................................................ 9
  Why should we tax carbon, why it is politically difficult? .............................................................. 9
  Policy options for implementing carbon taxation .......................................................................... 9

Case study 3. Equity in landscape and nature conservation policies .................................................. 11

Case study 4. Better data for better policy-making ............................................................................. 13

Case study 5. The Juncker Plan and the challenges for green investment ............................................. 15
  Closing the green investment gap .................................................................................................... 15
  Why the Juncker Plan may not deliver a green investment boost .................................................. 15
**Introduction**

Ensuring social cohesion and switching to more environmentally-friendly development models are two objectives the European Union and its Member states have officially adopted in their 2020 strategy. These objectives are deeply interconnected and, on initial examination, they reinforce one another. Indeed, from a macroeconomic perspective, it is clear that “greening” the economy requires massive investment, for example in sustainable transport infrastructure, and many economists point out that such investment would have a very positive effect on job creation and would boost the sluggish economic activity in Europe.

From a more micro perspective, environmental policies may also promote social cohesion and reduce inequalities, as less wealthy households tend to be worse hit by environmental degradation. Looking for the lowest real estate prices, they find themselves close to factories with high industrial risks and local pollution and, in the context of rising energy prices, they become even more dependent on their cars, or live in poorly insulated houses. Although such situations were not uncommon in Europe due to unsustainable development patterns in various regions, the European crisis has dramatically increased the number of vulnerable European households living in such situations. Environmental policies such as renovation programmes, collective transport infrastructure or industrial regulation can help these households to exit a socially vicious circle. They can for instance in the longer run reorient the very structures of urban systems or land use patterns, in which the economic and ecological vulnerability of poor households is rooted.

It would be over simplistic, however, to present these two objectives – social cohesion and environmental protection – as being in perfect synergy. Since poor households spend a higher proportion of their budget on energy expenditure, for example, carbon taxation may have a regressive effect if no complementary measures are taken. Biodiversity protection policies may also primarily benefit the wealthiest people who own properties close to protected areas. It is clear that tension exists between social cohesion and environmental protection; there are potential contradictions that require shrewd policy-making if they are to be resolved. However, it is possible to reconcile social cohesion and environmental protection, provided the social context and the impacts of sustainable development policies are fully understood.

The first three “case studies” below – on energy poverty, green taxation and biodiversity protection – highlight the opportunities and challenges of environmental policies for social cohesion. Whereas policy makers may have a tendency to address energy poverty by trying to keep energy prices as low as possible, locking them into unsustainable situations, the first case study shows how countries like France are now changing their strategy and implementing energy renovation programmes or “smart” compensation schemes for poorer households. The second case study shows that green taxation is confronted in the EU with strong political resistance in the name of social cohesion, but that if coupled with a reduction in other fiscal measures or with appropriate compensation schemes, it can be progressive and politically acceptable. Similarly, maintaining biodiversity conservation policies while taking into account their redistributive impacts has become a major issue in industrialised and developing countries, and has led to policy innovation and experimentation.

---

From the case studies below, it becomes clear that there is room for a “social ecology” strategy, in order to achieve both social and environmental objectives, if policy makers appropriately combine:

- Environmental policies such as green taxation or regulatory measures for energy renovation in housing that put the EU economy on a long-term transition pathway;
- Social policies such as compensation schemes that deal with the short-term social impacts of environmental policies;
- Policies that combine environmental and social concerns such as housing programmes directed towards the most vulnerable households.

But implementing such a strategy implies a better knowledge of individual lifestyles and consumption patterns, how these are distributed among income and social groups, what are their specific environmental impacts and the extent to which they imply a form of dependency to scarce resources for vulnerable households; it is also important, for a better design of environmental and social policies, to acquire information on the likely evolutions of these lifestyles and consumption patterns with and without sustainable development policies. Today, although we are gaining more insights into these issues, several questions regarding the distribution and dynamics of carbon emissions, for example, still remain unanswered, and a better understanding of these dynamics is key to design the relevant policy mix (case study 4).

Finally, let us conclude by returning to the macroeconomic perspective mentioned above. Social cohesion and sustainable development objectives can be mutually supportive for a continent that is struggling to put an end to the economic and social crisis: investing in “green” sectors may indeed boost the European economy and create jobs. The challenge here, as shown by the “Juncker Plan” currently under discussion at the European level (case study 5), is that policy makers in this context tend to reduce their time horizon and to forget about longer term issues such as environmental protection or energy scarcity and, on the other hand, tend to reduce public investment as much as possible. Relying predominantly on private investment is not only challenging for the European social model, it also pre-empts the political debate on what the sustainable economy we want to build collectively looks like.
Case study 1. Energy poverty, energy transition policies and social objectives

The issue of energy poverty in the EU

Conventionally defined as the situation of a household “which cannot afford to heat adequately”, energy poverty is not only an economic problem (low income), but also a technical problem (poor energy efficiency in homes) and a social problem (the “adequate” level of heating is a social norm). The European Parliament estimates that 50 to 125 million EU citizens out of a total 500 million are in a situation of energy poverty (EPEE, 2009).3

Energy poverty has several negative consequences, including impacts on individuals’ health – as shown in the UK (Liddell, 2009)4 and in France (FAP, 2013)5 – and potential wider macroeconomic repercussions: in the USA prior to the financial crisis, certain households that were obliged to spend very high amounts on energy stopped repaying their mortgages, contributing to the financial collapse (Chancel and Spencer, 2013)6.

Policies to tackle energy poverty in France

The public authorities have different options for tackling energy poverty in the context of energy transition policies. Reducing energy prices is far from being a silver bullet, as suggested in Figure 1, and risks locking households in unsustainable houses and lifestyles into a context of a structural rise in energy prices (Chancel and Saujot, 2013)7.

Structural solutions to energy poverty rely on retrofitting poorly insulated homes: in France, energy renovation programmes targeted specifically at low-income households have been developed over the last five years. However, the implementation of such programmes, which require considerable social and community work, takes time. In the context of rising energy prices, short- to medium-term compensation measures for energy-poor households may be deemed necessary.

One option is to help energy-poor households with lump sum cash transfers, such as a “cheque”. This cheque can be used to pay energy bills, but also to purchase more energy efficient equipment. This solution is currently being considered by the French government as part of the 2014 energy law. The difficulty is then to identify which households are energy-poor – as energy poverty is not only related to income levels – and should benefit from the cheque: the public authorities do not generally have access to databases that combine household income with energy consumption and building insulation data (Erard et al. 2015)8. It is also difficult to ensure the cheque is used for retrofitting or the purchase of new efficient equipment. There are,

---

3. EPEE (European Fuel Poverty and Energy Efficiency Project) 2009 www.fuel-poverty.org
however, some interesting examples (in the UK, for instance) of information exchange between energy providers and the public authorities to overcome current data shortcomings.

The emergence of energy poverty in mobility

In Europe, awareness is growing about the cost of energy, not only for housing but also for mobility, and about the fact that it can have a real social impact. This phenomenon is not limited to low-income populations, but also impacts the middle class, in particular suburban households that rely heavily on cars. This issue progressively loops back to urban planning and mobility policies and stimulates more and more research. Surprisingly, tax exemptions exist for the use of cars for the daily commute to work in our outdated tax system, which mainly benefits wealthy households and is contrary to our environmental policies (Chancel and Saujot, 2013b). This example simply shows that reforming existing policies may have both a positive environmental and a positive social effect. As a result, reducing energy vulnerability in mobility calls for integrated approaches, combining social and fiscal policies for greater equity, along with sustainable urban policies in transport and urban planning.

Figure 1

---

Case study 2. How can green taxation be socially acceptable?

Why should we tax carbon, why it is politically difficult?

The literature has provided ample reasons to opt for a carbon tax from the perspective of an efficient policy in terms of both environmental and economic results (Goulder, 1995; Hourcade, 1996). However, this kind of instrument meets with strong political resistance, as it imposes significant and demonstrable losses, while its benefits may be diffuse and difficult to warrant. In France, three successive governments have attempted to pursue this agenda in the past 20 years, and have persistently failed. In December 2009, the ruling of the Constitutional Court resulted in the removal of carbon taxation from the mainstream political agenda. And yet, France’s nuclear-based energy mix, which leaves 68% of CO₂ emissions out of the European Union Emissions Trading Scheme, provides a strong rationale for implementing carbon taxation: diffuse sources of CO₂ emissions such as transport and housing have indeed risen by 9% and 2% respectively between 1990 and 2009.

In examining France’s most recent failed attempt to implement carbon taxation, new research has revealed substantial political barriers to the adoption of such a policy tool (for an extended review of such factors, see Sénit, 2012). It has in this way critically informed our understanding both of the existing gap between the academic ideal of carbon taxation and actual policy practice, and of the conditions under which carbon taxes are politically viable. After more than five years of the most serious financial and economic crisis Europe has seen in 80 years, the question of more efficient and fairer fiscal policy seems more relevant than ever before. How then can carbon taxation be socially acceptable and politically feasible? Which features could prevent governments from falling into the trap of never-ending debates on equity and fairness? In our view, three options are laid out before policy makers to deliver carbon taxation.

Policy options for implementing carbon taxation

First, carbon taxation could be embedded in a wider set of fiscal policies designed to increase the fairness of the tax system; such a package should include a reform of the income tax system (see in particular Spencer, Sénit & Drutschinin, 2012) and of environmentally harmful subsidies (see, for instance, Chancel & Saujot, 2012). The Swedish experience shows that the introduction of a carbon tax within a wider political project aimed at making the tax system fairer and more efficient has better ensured both the social acceptance and the political delivery and sustainability of the measure. Indeed, Sweden’s 1991 fiscal overhaul, which comprised – among other things – a reform of the income tax system, a 50% cut in general energy taxes and the introduction of a carbon tax to finance such a reform, resulted in a slight decrease in the overall tax burden, from 52.2% of GDP in 1990 to 45.8% of GDP in 2010, and smoothed out the transition (OECD,

---

13. Ibid. 9
Second, if contemplated outside of an overhaul of the tax system, the introduction of carbon taxation could be coupled with a reduction in other fiscal measures weighing on both firms and households, such as employee and employer social security contributions, the value-added tax, the domestic tax on the consumption of energy products (TICPE), or the tax on complementary health insurances\textsuperscript{15}, options that call for further prospective research. Third, the introduction of carbon taxation could be compensated with a lump sum to efficiently offset the regressive effects of the tax: such compensation should be redistributed according to several criteria, including household composition, access to public transport, and income. In particular, an income ceiling above which high-income deciles would not receive the compensation should be set, so as to target this revenue surplus to specific measures towards the most vulnerable households (i.e. tax credits for energy-efficient products, subsidised loans, etc.). Finally, and whichever the policy option, an intelligible marketing strategy must be developed to address the information asymmetries and lack of understanding among the general public and to build support for a carbon tax scheme.

\textsuperscript{14} OECD Tax Statistics, available here: http://www.oecd.org/tax/taxpolicyanalysis/oecdtaxdatabase.htm#A_RevenueStatistics
\textsuperscript{15} By increasing the rates of complementary health care services, the tax on complementary health insurances deprives low-income households of full access to health care and is therefore highly inequitable.
Case study 3. Equity in landscape and nature conservation policies

Although the concept of environmental justice has insisted since the 1980s on the fact that the poorest populations are exposed to higher than average levels of pollution and noise – a phenomenon that has been thoroughly measured and analysed in official publications, among others –, it is only recently that the redistributive effect of environmental policies has received political and academic attention. In particular, as we will see, ensuring biodiversity conservation policies remain active while better controlling their redistributive effect has become a key issue for sustainable development, both in developing countries and in wealthier countries such as France.

The question of the inequities produced by landscape and nature protection policies has attracted the interest of numerous researchers. Anthropologists have undoubtedly conducted the most in-depth research by addressing the problems facing local populations in developing countries because of the transformation of hunting grounds in the colonial period into national parks, and the increase in the number of these parks primarily for the purposes of tourism. Indeed, many national parks were consolidated, extended or created by including land previously used by local people to graze their herds, land which subsequently became inaccessible.

Emblematic of this are the Maasai people in Kenya and Tanzania, a group of nomadic herders who were partially deprived in the past of their right to graze their animals in the national parks, and were sometimes even forced to settle with a view to encouraging the development of wild animal populations and of wildlife tourism for the wealthier social classes. The protection of large animals has also had negative impacts on some rural populations in countries such as India, Zimbabwe and now in Europe, with the return of wolves protected under the 1979 Bern Convention on the Conservation of European Wildlife. In France, sheep farmers, whose herds are the most severely affected by wolf attacks (6,195 animals killed in 2013, of which 95% were sheep), are also the category of farmers/livestock breeders with the lowest average annual income, at 17,000 €/year in 2013, compared to a national average of 29,000 €. It is thus the poorest farmers, whose activity has the lowest impact on the natural environment, who are the worst hit by the wolf protection policy.

Recently, major NGOs such as IUCN and WWF, as well as governments, have recognised the need to address these issues by more effectively associating rural populations with the creation and management of protected parks and areas. This is the idea behind the French law of 2006 on national parks, as well as of numerous projects implemented by FFEM, GEF and other international donors, such as the CAMPFIRE project in Zimbabwe. Similarly, the specific situation of the Maasai people has received greater recognition, and in the wealthy countries, governments do not hesitate to compensate for “damage” caused by wild animals. In France, the Ministry of Ecology allocated two million euros in 2013 to compensate for damage by wolves, a figure that has tripled in five years, but which fails to address the fundamental problem of the cohabitation of rural populations with wild animals. Likewise, in India, the authorities are planning once again to evict villagers living in the tiger reserves in the state of Odisha, in return for compensation.

Conservation policies can make matters worse for rural populations who are already poor, but conversely, they may provide considerable benefits for the wealthier social categories, by increasing property and land

---

values. This is the case in France with the very active coastal zone protection policy, under the coastal law of 1979-1986, applied by the Conservatoire du Littoral, the French state’s coastal protection agency that acquires land by the sea in order to ensure building is prohibited there. This can result in an increase in the value of buildings nearby, which benefit from a protected natural environment. In coastal regions, the shortage of land available faced with pressure to build, particularly for tourism, is “made worse” according to some mayors and real estate developers by conservation policies, which are accused of increasing land prices through two effects: the “scarcity” effect, and the “amenities” effect, since ensuring certain areas are kept in their natural state produces amenities that are integrated into prices\footnote{Cf. « L’impact de la littoralisation sur les marchés fonciers » - Revue Economie et Statistique n° 444, INSEE, 2011}. From the sociological viewpoint, Michel Pinçon and Monique Pinçon-Chalot, sociologists at CNRS, have highlighted the property and land strategies of the upper middle-class, including the mobilisation of protected area policies in order to protect the environment around family properties\footnote{Les Ghettos du Gotha. Comment la bourgeoisie défend ses espaces. Le Seuil. 2007}.

There is no such thing as a public policy that does not produce unintended, unwanted and even undesirable impacts. Environmental policy is no exception to this: it can create inequalities, which goes against the rationale of sustainable development and its three miraculously reconciled pillars. This is why it is essential to take into account and to mitigate the inequalities that may be created by nature and landscape protection policies. As indicated above, NGOs, governments and the major international organisations are implementing more and more experiments and demonstration projects. Research on payments for ecosystem services could contribute to these.

Furthermore, it is important to remember that these inequity effects may be offset by the overall positive social aspects of environmental policy, of which there are many: reducing noise from planes, trucks, cars and trains is beneficial to everyone; producing good quality urban water means there is no need to buy expensive bottled water; and treating wastewater before it is discharged into watercourses and the sea provides free amenities, such as public bathing areas. Protecting natural coastal zones maintains valuable public goods, such as areas of natural beauty for everyone to enjoy. In France, this is the case with the coastal path, a compulsory three metre wide right-of-way along the coast, through public or private properties, to enable the public to walk anywhere along the coast. Finally, controlling coastal urbanisation for tourism, as France has been doing for the last 30 years, prevents the creation of tourism real estate bubbles, whose devastating effects on the whole economy were seen in Spain in 2009/2010.
Case study 4. Better data for better policy-making

From the previous case studies, it is clear that there is room for building policies that achieve both social and environmental objectives, and overcome potential contradictions. In order to ensure that sustainable transition policies do not sacrifice equity concerns on the grounds of environmental efficiency, a proper knowledge of the distribution of environmental pollution among social groups is required. However, this knowledge is often missing. In particular, little is known on the distribution of indirect energy consumption.

Indeed, policy debates on the environmental impacts of individuals’ energy consumption often focus on the specific consumption component, i.e. the fuel required for driving or heating. However, a substantial proportion of individual energy footprints stems from indirect energy consumption, i.e. the energy embedded in the production of goods and services consumed by individuals. In developed economies, about half of the total energy consumption required to sustain households’ needs are indirect, and this figure is on the rise.

The share of indirect energy requirements is not stable across income groups: it rises with income levels. Herendeen and Tanaka (1976) were among the first to show this for the USA in the 1970s. Top income Americans consumed two thirds of their total energy requirements indirectly, while this share was only one third for low-income individuals. This is explained by the fact that direct energy (for driving or heating) is a “primary good” and its consumption does not rise as rapidly as income.

In France, recent research shows similar patterns to those seen in the USA (CLIP, 2013 - see Figure 1). The consumption categories that explain most of the differences between rich and poor indirect energy footprints are transport (the indirect energy embedded in cars), followed by entertainment and leisure activities. Interestingly, in the UK, over the past 25 years (Jackson and Papathanasopolou, 2009), it was shown that top quintile individuals increased their indirect energy consumption associated with the same categories (i.e. transport and leisure activities), while energy consumption in other income groups stabilised.

It is worth noting that better understanding the distribution of energy consumption is not only key to better designing “social ecology” policies. Knowing what the wealthiest individuals purchase today can also provide insights into the consumption patterns of the middle-income groups tomorrow – and the pollution associated with these. Moreover, this tends to confirm the idea that an Environmental Kuznets Curve (EKC) does not hold within rich societies. The EKC posits that individuals increase their pollution levels as they get richer, up to a certain level, after which the demand for environmental protection increases and leads to a reduction in ecological footprints. Looking at developed economies, this does not hold for either direct energy or for indirect energy consumption.

To sum up, two messages should be stressed: i) the focus in Europe on households’ direct energy reductions is necessary but not sufficient: it is key to also look at the indirect component of energy consumption ii) better understanding how indirect energy is distributed among social groups and how it has evolved over time is key to envisage fair and sustainable energy transition policies.
Figure 2. Direct and indirect energy footprints for top and bottom quintiles in France
Case study 5. The Juncker Plan and the challenges for green investment

Closing the green investment gap

In order to achieve its 2020 strategic objective of becoming a sustainable economy, and more specifically to meet its various energy and climate targets, the European Union needs to increase its annual level of investment by hundreds of billions of euros, whether in renewable energy production, energy networks, the deep renovation of its existing building stock, or trans-European and urban sustainable transport infrastructure, such as rail. Investment requirements are high, and so is the risk of a wide financing gap in a sluggish macroeconomic context. For example, investment in new renewable energy production, after weathering the beginning of the economic crisis fairly well, declined for the second year in a row in 2013, suffering a precipitous drop of 41%. Investment in transport infrastructure of trans-European interest has declined by more than 20% compared to the figure for the period 2007-2013. Similar concerns regarding the “financing gap” exist for urban mobility projects, as the proportion of the European population living in cities is still growing whereas local budget are under tight constraints, and for European gas and electricity networks, where investment requirements have increased by 30 and 100% respectively compared to the last decade.

In order to close the financing gap and to meet the EU sustainability objective, the President of the Commission, Jean-Claude Juncker, has promised to place all of these green sectors at the core of the “Investment for Europe Plan” he launched at the end of November 2014. This announcement was much awaited in Europe, where the investment level still stands at 370 billion euros below its pre-crisis level, both a cause and a consequence of the continued sluggishness of economic activity. The ambition of this Plan is to increase investment by more than 300 billion euros over three years, with only 21 billion euros of EU public money to be used as a guarantee for leveraging mostly private finance. However, there are doubts as to the capacity of this “Investment for Europe Plan” to effectively trigger a massive rise in investment, and especially one that contributes to building a more sustainable economy.

Why the Juncker Plan may not deliver a green investment boost

First, it remains unclear to what extent the green sectors will benefit from this plan: all member states are currently writing their “wish list” of all the projects they want to be supported, and we can reasonably expect to see “green” and “brown” projects, energy efficient infrastructure in railways as well as inefficient ones in highways or airports, for example. The final decision on whether or not to support the investment projects will lie with an expert committee, and the weight the sustainability criteria will have is uncertain. Second, the financial instrument at the core of the plan – loan guarantee – may prove inappropriate for many green projects, a regrettable situation, as the EU already has at its disposal many instruments to support green investments that remain underfunded. Third, the ongoing budget crisis has led Jean-Claude Juncker to inject little EU public money, most of which is recycled and not fresh or additional, and to rely on a very optimistic if not illusory leveraging effect for private investment.

Apart from the realism of the proposal, the problem with relying so heavily on private investors is twofold.

On the one hand, it has implications for the green sectors that will be supported: the diffusion of electric vehicles, for example, can be financed by the private sector, the building of public transport systems much less. Consequently, the focus on private rather than public investment tends to pre-empt the political debate on what the sustainable economy we want to build collectively looks like. On the other hand, using public guarantees to leverage private investment results in the public sectors and taxpayers bearing all the risk and the private sector reaping all the benefits of successful projects. To rely on private rather than public finance may seem a matter of common sense when public budgets are so constrained, but this common sense has a cost: there is no free lunch.
Over 80 Operational Partners and Collaborating Entities from Europe and Latin America
EUROsociAL is a regional cooperation programme between the European Union and Latin America for the promotion of social cohesion through support for national public policies and the strengthening of the institutions that put them into practice. EUROsociAL aims to promote a European-Latin American dialogue about public policies surrounding social cohesion. Its aim is to contribute to reform and implementation processes in ten key areas of public policy in certain thematic areas selected for their potential impact on social cohesion. The instrument provided is that of institutional cooperation or peer-to-peer learning: the exchange of experiences and technical advising between European and Latin American public institutions.