

Article presentation :

Chancel L., Rehm Y., The Carbon Footprint of Capital:
Evidence from France, Germany and the US based on
Distributional Environmental Accounts

COMPERAT Étienne

GUGELMO CAVALHEIRO DIAS Paulo

ORTIZ Marie Ange

December 3, 2024

Sciences Po

1. Introduction
2. Related Literature
3. Data Sources and Methodology
4. Carbon Footprint of the Capital
5. The Distribution of Carbon Footprints
6. Discussion
7. Conclusion

Introduction

1. Introduction

1.1 Carbon Footprint

1.2 Carbon Footprint of Capital : Chancel and Rehm (2024)

1.3 Key findings

"The Carbon Footprint of Capital: *Evidence from France, Germany and the US based on Distributional Environmental Accounts*"

Motivations: *Individuals are not only responsible for their consumption, but also for the assets they own.*

1. Linking carbon emissions to asset ownership to construct a new framework for individual carbon footprint (3 Approaches: Consumption, Ownership and Mixed).
2. Applying this framework to France, Germany and the US.
3. Deriving new stylized facts about emissions inequality in the context of environmental and tax policy.

Key findings

1. Carbon inequalities are notable in every approach.
2. In the ownership approach, the majority of emissions for the wealthiest 10% originates from the assets they own.
3. Emissions from capital ownership appear to be even more concentrated than capital itself.

Figure 1. Distribution of emissions and wealth by wealth group



Related Literature

2. Related Literature

2.1 Measuring the Carbon Footprint

2.2 Consumption-based Approaches

2.3 Production-centered Approaches and Methods of Shared Attribution

2.4 From the Carbon Footprint of individual investment portfolios to the DINA

Measuring the Carbon Footprint

What makes a good Carbon Footprint estimate?

The 2 fundamentals of carbon accounting:

1. **Comprehensiveness:** measuring both direct and indirect emissions associated with the economic activity.
2. **Exclusivity:** no double-counting.

Together, these conditions guarantee the **macro-consistency** of the measures.

So far, the two common ways to measure the carbon footprint have been to focus on **countries and firms** or **individuals** (as final consumers).

Consumption-based Approaches

Individuals' consumption guide the resource allocation in the economy.

- Underlying assumption: *"Individuals express their preferences through consumption, which sends a signal to producers about what to manufacture and in what quantity."*
- The **"consumer-pays"** principle

Advantage: Particularly relevant at the country level (accounts for outsourced emissions).

Drawback: Puts the entire responsibility for all emissions on final consumers (despite market failures: lack of information, agency or alternatives).

Production-centered Approaches and Methods of Shared Attribution

Contrasting consumption footprints with the production footprints of firms.

Production-centered approaches: Focusing on the firm level

Critique: Firms operate through human intervention and individuals are behind their behaviors. → **Ownership-based approach**

Methods of shared attribution: Split emissions between consumers and firm owners

Critique: Hard to implement at the individual level. → **Mixed-based approach**

Income-based carbon accounting: An alternative at the individual level?

From the Carbon Footprint of individual investment portfolios to the DINA

There already were some attempts at measuring the carbon emissions of individual portfolios (GHG, PCAF). But there exists no consensus regarding these methods and their estimates were not always consistent with aggregate estimates.

Their answer: **the Distributional National and Environmental Accounts (DINA)**

- Goal of the DINA framework: *Reconciling macroeconomic studies (e.g., production, income, wealth) with microeconomic distributional analysis by integrating the study of inequality into the system of national accounts.*

Data Sources and Methodology

3. Data Sources and Methodology

3.1 Conceptual Framework

3.2 Data Sources

3.3 Methodology Overview

3.4 Conclusion of Section 3

Three Approaches to Carbon Footprints:

- **Ownership Approach:** Attributes all direct emissions of firms to their owners.
- **Mixed Approach:** Attributes emissions linked to investment to owners and all others to consumers.
- **Consumption Approach:** Allocates all direct and indirect emissions to consumers.

Key Principles:

- **Consistency:** Aligns with national accounts.
- **Exclusivity:** Ensures no double counting of emissions.

Main Data Sources:

- **Wealth Data:** HFCS for France and Germany, DINA micro-files for the U.S.
- **Capital Stock:** National accounts data from Eurostat and OECD.
- **Emissions:** Air emission accounts (Eurostat, OECD).
- **Input-Output Tables:** EU-FIGARO dataset for indirect emissions.
- **Cross-Border Investment:** EU-Finflows database and EU-EDGAR.

Challenges:

- Surveys underrepresent ultra-wealthy households.
- Need for alignment between financial and environmental datasets.

Two Key Steps:

1. **Extended Aggregate Environmental Accounts:** Relates emissions to industries, asset classes, and institutional sectors.
2. **Distributional Environmental Accounts:** Allocates emissions from institutional sectors to individuals.

Key Metrics:

- Emissions per industry.
- Emissions per asset class.
- Emissions per wealth group.

Extended Aggregate Environmental Accounts

Purpose:

- Calculate total emissions by industry and institutional sector.
- Link emissions to the value of the capital stock.

Example Table: Industry Emissions

Industry	France (MtCO ₂)	Germany	U.S.
Agriculture/Mining	95	212	1637
Manufacturing	95	212	431
Energy	151	289	431
Services	20	35	48

Distributional Environmental Accounts

Purpose:

- Distribute total emissions from sectors to individuals.
- Attribute emissions based on asset ownership and consumption patterns.

Methodology:

- **Ownership Approach:** Allocates emissions directly linked to owned assets.
- **Mixed Approach:** Allocates investment-related emissions to owners, all others to consumers.
- **Consumption Approach:** Allocates all emissions to consumers.

Challenges:

- Accurate attribution of emissions for cross-border investments.
- Limited data granularity for certain asset classes.

Key Takeaways:

- Emission allocation methods depend on robust data and models.
- Ownership and mixed approaches provide nuanced insights into emissions inequality.
- Data quality and granularity remain critical for future research.

Carbon Footprint of the Capital

4. Carbon Footprint of the Capital

4.1 Capital emissions by industry and institutional sector

4.2 Capital emissions by asset class

4.3 The role of foreign capital in national emissions

Capital emissions by industry and institutional sector

Industries :

- Agriculture and mining
- Energy, water and waste
- Manufacturing
- Transport
- Real estate and construction
- Health and education
- Public administration
- Services

Results :

- Manufacturing as the largest emitting sector in FR and DE
- Agriculture and mining as the largest emitting sector in the US
- Agriculture and mining as the most carbon-intensive sector
- Similar carbon intensity for the manufacturing sector
- Difference in definition for the Real Estate and Construction sector

Following : Table 1, Emission intensities by industry groups

Capital emissions by industry and institutional sector

Industry	Mixed			Ownership		
	tCO2e/ m euros capital	tCO2e/ m euros value-added	million tCO2e	tCO2e/ m euros capital	tCO2e/ m euros value-added	million tCO2e
Panel A. France (2017)						
Agriculture and mining	65.5	291.9	10.9	528.4	2,354.9	87.8
Energy, water and waste	85.8	562.0	27.1	150.6	987.0	47.6
Manufacturing	120.0	212.9	49.6	230.2	408.4	95.1
Transport	38.3	103.1	9.8	163.5	440.5	41.7
Real estate and construction	0.8	20.4	7.7	1.0	24.7	9.3
Health and education	0.3	0.6	0.2	19.0	34.5	10.3
Public administration	0.1	1.1	0.2	3.2	30.6	4.9
Services	6.7	9.7	7.7	30.2	44.0	35.0
Panel B. Germany (2017)						
Agriculture and mining	84.0	568.3	18.2	335.3	2,269.7	72.8
Energy, water and waste	113.5	912.2	81.0	289.4	2,326.2	206.6
Manufacturing	96.6	131.9	87.9	232.6	317.8	211.7
Transport	24.0	116.0	14.9	161.9	783.5	100.5
Real estate and construction	0.8	15.5	7.0	1.2	23.2	10.5
Health and education	0.3	0.9	0.3	8.7	28.7	10.2
Public administration	0.3	1.8	0.3	4.9	30.7	5.5
Services	4.0	6.6	6.9	22.2	36.5	38.1
Panel C. United States (2019)						
Agriculture and mining	97.3	641.7	297.9	534.9	3,526.6	1,637.3
Energy, water and waste	146.7	1,262.1	455.3	431.4	3,710.8	1,338.6
Manufacturing	117.7	214.7	508.1	205.7	375.2	887.7
Transport	105.7	254.8	179.1	359.1	865.8	608.6
Construction	158.4	69.7	62.9	212.5	93.6	84.4
Services and other industries	0.9	4.1	65.5	6.6	30.2	477.5

Capital emissions by asset class

Assets :

- Housing assets
- Business assets
- Equities
- Pension assets
- Fixed income assets

Results :

- Equity is the most polluting asset class.
- Pension assets are the second most polluting asset class.
- Business assets are the third most polluting asset class.
- Housing has an important market valuation, but emits little.
- Important intensity of pension assets for Germany.

In clear, there exist important differences between types of assets.

Capital emissions by asset class

Table 2. Asset classes and emission intensity per million \$/EUR owned (ownership-based approach)

Asset class	France (2017)			Germany (2017)			USA (2019)		
	b euros owned	million tCO ₂ e	tCO ₂ e/m euros owned	b euros owned	million tCO ₂ e	tCO ₂ e/m euros owned	b dollars owned	million tCO ₂ e	tCO ₂ e/m dollars owned
Housing assets	6,808.5	0.3	0.1	6,901.2	0.5	0.1	36,475.5	260.8	7.2
Business assets	727.9	38.3	52.6	1,036.7	90.4	87.2	6,748.4	966.5	143.2
Equities	1,528.7	123.2	80.6	1,332.7	203.7	152.9	17,553.6	1,314.4	74.9
<i>Domestic</i>	<i>1,183.9</i>	<i>83.1</i>	<i>70.2</i>	<i>808.2</i>	<i>117.5</i>	<i>145.4</i>	<i>13,965.3</i>	<i>1,118.4</i>	<i>80.1</i>
<i>Abroad</i>	<i>344.8</i>	<i>40.1</i>	<i>116.4</i>	<i>524.6</i>	<i>86.2</i>	<i>164.4</i>	<i>3,588.3</i>	<i>196.0</i>	<i>54.6</i>
Pension assets	2,026.9	75.4	37.2	1,351.5	197.6	146.2	31,564.2	1,015.9	32.2
Fixed-income assets	1,552.8	0.0	0.0	2,579.9	0.0	0.0	17,363.7	0.0	0.0

Note: Emissions correspond to the average emissions of an individual who owns the asset for one year. The table presents household sector ownership-based emissions and does not include government-owned assets. Emissions attributed to assets based on the approach explained in the paper (ownership-based approach). The value of total assets owned is sourced from Eurostat national balance sheets (France and Germany) and from distributional national accounts released by Piketty et al. (2018) for the United States. Pension assets include life insurance assets.

The role of foreign capital in national emissions

- In France and in the US, equity held abroad represents about 20-25% of owned equities.
- In Germany, equity held abroad represents about 40% of owned equities.
- Foreign equity held by French and German citizens are more carbon intensive than those owned by the US citizens.

The Distribution of Carbon Footprints

The Distribution of Carbon Footprints

5. The Distribution of Carbon Footprints

5.1 Emissions rise with income and wealth

5.2 Emissions intensity rises with wealth

5.3 The weight of capital emissions among top groups

Emissions rise with income and wealth

Generally :

- Emissions are positively correlated with wealth.
- Consumption approach : carbon inequalities are less concentrated than income.
- Mixed-based approach : carbon inequalities are as concentrated as income.
- Ownership approach : carbon inequalities are more concentrated than wealth.

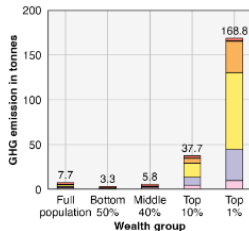
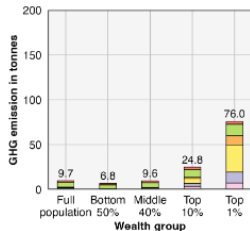
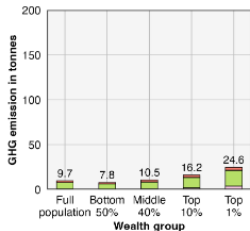
International comparison :

- The US are more carbon inequal than Germany, which is more carbon inequal than France.
- The majority of the US emit as much as the top of the distribution of France and Germany in the two first approaches.
- The top French group emits less despite owning more of the national equity than their German counterpart.

Emissions rise with income and wealth

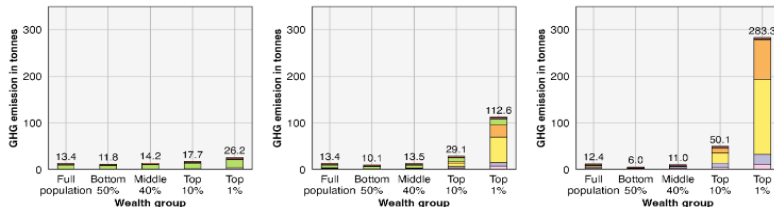
Figure 5. Per capita emissions by wealth group

Panel A. France

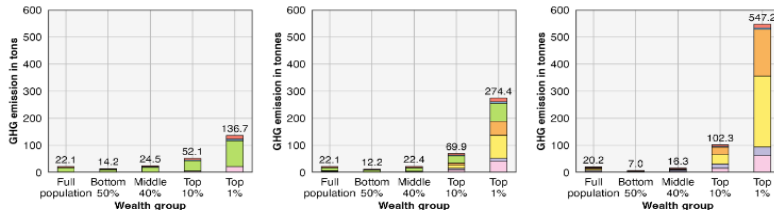


Emissions rise with income and wealth

Panel B. Germany



Panel C. United States



(a) consumption-based approach

(b) mixed-based approach

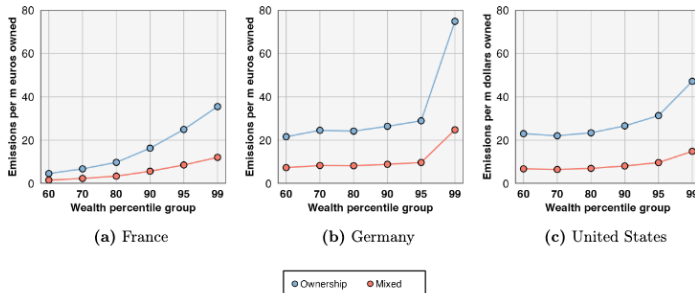
(c) ownership-based approach



Emissions intensity rises with wealth

Average emission intensity tends to increase alongside with wealth at the very top of the distribution. This explains the greater concentration of carbon emissions compared to wealth.

Figure 6. Average annual emissions in tonnes per million dollars or euros owned



The weight of capital emissions among top groups

- Importance of the emissions of top groups.
- Emissions of the top 1% (p.36) :

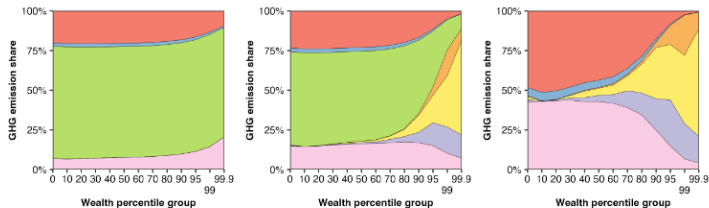
Countries	Consumption	Ownership	Multiplication in tCO ₂ e
France	2.5%	21.5%	6
Germany	2%	22.3%	11
US	6.2%	26.9%	16

- Key role of Capital ownership in the determinant of the top of the distribution.
- Structure of the emissions alongside the wealth distribution.

The weight of capital emissions among top groups

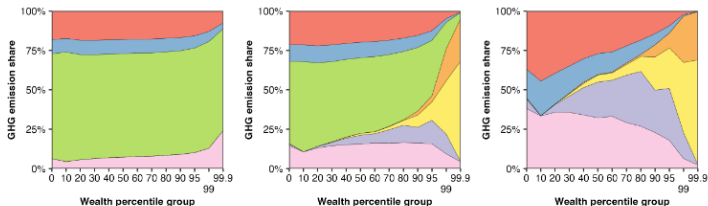
Figure 7. Breakdown of emissions according to the three approaches

Panel A. France

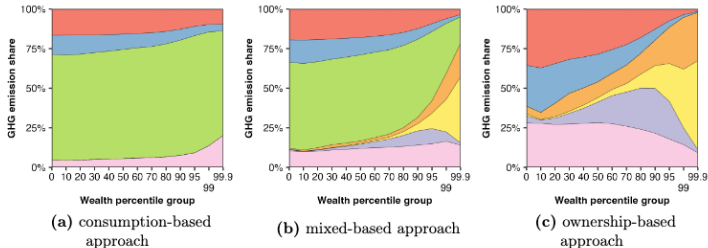


The weight of capital emissions among top groups

Panel B. Germany



Panel C. United States



Discussion

6. Discussion

6.1 Robustness of the results

6.2 Scopes and limitations

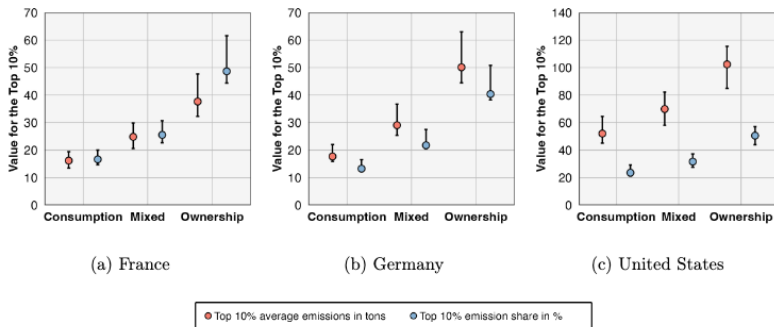
6.3 Stylized facts on inequality and emissions

6.4 Distributional properties and revenue estimates for a carbon wealth tax

Robustness of the results

Robustness checks *Even under extreme combinations of assumptions, the general patterns observed hold, in particular that accounting for ownership-based emission footprints increases emission inequality considerably.*

Figure 8. Upper and lower bound of Top 10% average emissions and emission shares



Note: The graph presents the range of the share of emissions and average emissions attributed to the top 10% net wealth holders under different assumptions. The dot represents the benchmark strategy explained in the paper. The bands correspond to the lowest and highest value obtained when calculating all potential combinations of alternative scenarios (216 scenarios per country). Alternative assumptions concern the attribution of government emissions, non-ownership-based emissions or housing-related emissions. Tables with average emissions and emission

Scopes and limitations - Limitations due to the data

Incomplete Data for High-Wealth Individuals

Issue :

- Surveys like HFCS and DINA underrepresent the top 1% of wealth holders.
- This underestimates emissions linked to equity and business assets.

Discussion :

- Integrate alternative data sources (e.g., tax records, billionaire lists).
- Refine attribution of emissions to high-net-worth individuals.

Impact:

- Potential bias in emissions share attributed to the wealthiest.

Sensitivity to Assumptions

Issue :

- Allocation of government emissions varies (proportional to income vs. lump-sum distribution).
- Cross-border investments use average intensities, ignoring sector-specific differences.

Discussion :

- Tested alternative assumptions for government emissions:
 - Proportional to income: increases share of emissions for wealthy groups.
 - Lump sum: reduces their share.
- Importance of robust sensitivity analysis.

Scopes and limitations - Limitations due to the data

Lack of Granularity in Asset Data

Issue :

- No differentiation between carbon-intensive and low-carbon investments.
- Masks the role of sustainable finance in reducing emissions.

Discussion :

- Propose linking firm-level environmental data to financial datasets.
- Enables better identification of green vs. carbon-intensive portfolios.

Impact:

- Improved insights into the role of individual investment behavior.

Challenges with Cross-Border Investments

Issue :

- Relies on average carbon intensities by country.
- Ignores sector-specific variations in foreign economies.

Discussion :

- Highlighted uncertainty in emissions from foreign equity.
- Proposed improvements:
 - Granular international investment data.
 - Sector-specific emissions intensities for cross-border assets.

Scopes and limitations - Limitations due to the data

Dependence on Static Models

Issue :

- Relies on static multi-regional input-output models (MRIOs).
- Assumes linear relationships between inputs and emissions.

Discussion :

- Recommends dynamic or hybrid models.
- These models require richer datasets, currently unavailable.

Impact:

- Limits ability to capture feedback effects and technological change.

Scopes and limitations - Interpretative Limitations and Individual Responsibility

Carbon footprint and individual responsibility:

No broadly defined individual footprinting approach can fully capture the actual responsibility individual bears for emissions.

The three conditions for individual responsibility:

- Agency
- Intentionality
- Alternatives

In reality, these conditions are rarely met.

A potential way to account for individual responsibility:

- α : rate of control over indirect emissions embedded in individual consumption
- β : rate of agency and control over direct emissions embedded in direct consumption

The role of the government in decarbonization.

Stylized facts on inequality and emissions

1. **Challenging the Kuznets curve:** a pronounced economic gradient linked to emissions.

Emissions do not decline after a certain income level.

2. **Consumption-based emissions are less concentrated than income and wealth.**

Because wealthier individuals consume a smaller fraction (and wealth) than less well-off individuals.

3. **Wealth emissions are even more concentrated than wealth itself.**

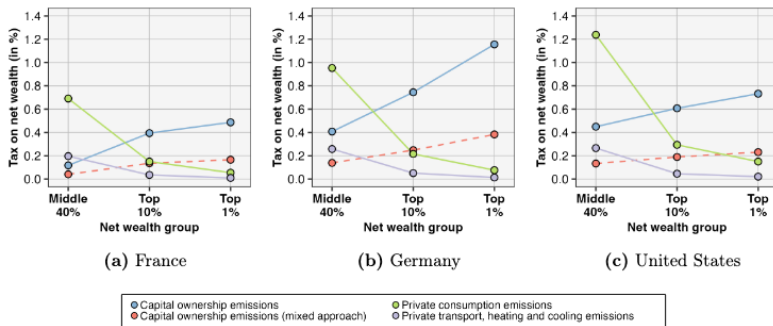
Because the type of assets owned by the bottom 90% (mostly housing and deposits) have low or zero carbon intensity.

Distributional properties and revenue estimates for a carbon wealth tax

So far, climate tax policy mirrors the approaches taken in the climate inequality literature, which have not considered the role of the individual.

A 150 euro/dollars "pet-tonne" tax on the carbon content of assets

Figure 9. Progressivity of a 150 euros/dollars per-tonne tax on different types of emissions



Note: The graphs present the static distributional impact of a tax levied annually per tonne of emissions on different types of emissions. For tax simulations, emissions are distributed to adult individuals instead of the

Conclusion

- Complementarity of the three approaches, way to analyse emissions inequality.
- Calling for a broader theory on optimal taxation based on capital carbon emissions.