

Distributional Effects of Climate Policies along the Liquid Wealth Distribution*

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Abstract

Climate policies, such as carbon taxes and subsidies for housing renovations, have been shown to have sizeable implications on house prices (Schlattmann, 2024). Well-insulated houses with heat pumps increase in value, while poorly-insulated houses heated with fossil fuels decrease in value. In this project, I empirically show, that 24 percent of homeowners in the bottom quintile of the liquid wealth distribution own a house that was built before 1949, while only 13 percent of those in the top quintile of the distribution do. Thus, when introducing carbon taxes, there are two margins of redistribution from households with low- to those with high liquid wealth. First, an extensive margin, as households at the high end are able to switch their heating technology to carbon-neutral heat pumps. Second, an intensive margin, as households at the high end own more modern and thus better insulated houses. This paper studies the distributional consequences of these two channels in a rich quantitative life-cycle model.

Keywords: Climate change, Inequality, Tax and Transfer policies, Wealth distribution

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