*Just Who Gets Paid-Off in a "Just" Transition? Some Difficult Lessons from Blackrock and French Populists*

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Discussions of decarbonization often invoke the image of a 'just' transition. That is, some version of the future where those most effected by the crisis emerge, if not better off, then at least no worse off, than when they started. This imaginary is ingrained into most versions of a Green New Deal (GND) where a diverse coalition of urban dwellers and unionized workers are enabled by an activist state to construct a green future.[1] In such a vision, transition compensation bails out workers. It transforms employment and housing and transport. In doing so the carbon-saturated neoliberal world of inequality, racism and hierarchy is swept away with the construction of a new green economy. 'Just' in this instance, means redistributive justice for the majority of citizens.

Although it is seldom said out loud, this version of the transition is not only a revolution in the production of energy, but also a revolution in the distribution of assets, wealth and power. Carbon assets may only constitute around 0.5% of the total financial assets of the planet, but their destruction promises to impact certain geographies much more than others. The core states of the US Republican Party's coalition, and other oil and gas producers such as Saudi Arabia and Russia and Australia, will need to find a whole new business model post transition.[2] This creates a rather acute distributional problem.

[1] See, for example, https://www.congress.gov/bill/117th-congress/house-resolution/332?r=50

[2] See https://foreignpolicy.com/2021/02/12/carbon-coalition-median-voter-us-politics/

While in theory a GND can provide the funding to transition carbon-heavy areas to new growth models *within states*, doing so *between states* is another matter entirely. West Palm Beach may be willing to bail out West Virginia, but there is no way that Switzerland will offer to bail out Saudi Arabia. Given this lack of inclusion in what is considered 'just' we can expect carbon producers at all levels to treat GND ideas as an existential threat and resist. Moreover, GND thinking tends to elide some other important sources of resistance, even within states. Specifically, from asset holders.[3][4] Recent pronouncements by the CEO of the global asset manager Blackrock puts these sources of resistance into bright relief.

Throughout 2020 and 2021 Blackrock made the positive case for the CEOs of the companies in which they invest to ready themselves for the green transition.[5] As the world's largest asset manager this matters. By embracing TCFD and SASB disclosure standards, providing ESG-linked ETF and index funds, and by pushing firms to commit to such standards, Blackrock is, along with other parts of finance, putting carbon assets on warning, to the point that legal authorities and regulators in carbon-heavy states are pushing back against such pressures.[6]

But there is also something else going on at Blackrock. As was widely reported, Blackrock's CEO Larry Fink has recently embraced a particular version of the green transition where the state's balance sheet needs to be activated to the fullest extent. Firms can do a lot on

[3] Braun, Benjamin. 2021. "Asset Manager Capitalism as a Corporate Governance Regime." Pp. 270–94 in *The American Political Economy: Politics, Markets, and Power*, edited by J. S. Hacker, A. Hertel-Fernandez, P. Pierson, and K. Thelen. Cambridge University Press.

[4] Gabor, Daniela. 2020. "Critical Macro-Finance: A Theoretical Lens." *Finance and Society* 6(1):45–55. doi: 10.2218/finsoc.v6i1.4408.

[5] See for example, https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter

[6] For example, https://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2021/03/16/oil-friendly-states-fight-back-against-sustainable-investment-trend

their own, so the argument goes, but collectively their actions are insufficient. Only the balance sheet of the state is large enough to make the transition possible.[7]

So is Blackrock embracing a vision where the state builds post-carbon assets, as the GND crowd imagines? Not at all. What Blackrock imagines the state doing instead is to act as the 'insurer of last resort' so that current asset holders can take the upside of the investment risk of the transition while the state acts as insurance against losses on current assets and future bets.[8]

Blackrock calls this 'de-risking' the transition, and it is. But the risk being insured here is quite different from that in the original GND model. Rather than the income and employment of workers being insured, here we have existing asset holders being insured so that they do not book any losses during the transition and get the upside of new investments on the way there. Here the question of justice is subtly reframed from one where the vision shifts from 'redistribution by transition' to one of a 'short squeeze' by asset holders on everyone else.

A short squeeze in finance comes in two forms. The first was seen in 2020 with the US retailer Game Stop. A large hedge fund had taken a short position in the stock, basically, borrowing shares in the company in the hope that they could buy them back cheaper and pocket the difference. Small investors united via a Reddit board called 'Wall Street Bets' to buy the stock and push up the price, making the short position of the hedge fund so expensive that they had to abandon it.[9] The second type of short squeeze is more generic and occurs when a fund needs a particular stock in its portfolio (Apple or Tesla for growth or for an ESG rating) but the fund can only buy them

[7] See https://www.bloomberg.com/news/articles/2021-07-11/blackrock-s-fink-urges-world-bank-imf-overhaul-for-green-era

[8] Gabor, Daniela. 2021. "The Wall Street Consensus." *Development and Change*. doi: https://doi.org/10.1111/dech.12645.

[9] See https://www.theverge.com/22251427/reddit-gamestop-stock-short-wallstreetbets-robinhood-wall-street

from a seller who has taken a large position in the available stock. You can get the stock, but at a price you really don't want to pay. You get squeezed.

Blackrock exemplifies both strategies. On the one hand its explicit marketing of its own ESG friendly products while placing pressure on other asset managers to buy them is the one type of squeeze. Telling states everywhere that Blackrock is willing to play ball on the transition, so long as the balance sheet of the state is used to absorb losses, and they get the investment upside, is the second type of squeeze.

In short, if you pardon the pun, Blackrock is saying "you can't transition without our investment, and we are not going to invest unless you (the state, and ultimately the taxpayer) take the losses." In other words, current asset holders are short-squeezing the entire global economy, effectively saying 'you can have a transition, but not a 'just' one' - unless justice is defined as existing asset holders suffering no losses while getting all the gains.[10] You can see how this leads to two quite irreconcilable views of what the transition is and how to get there.

In the middle of these two positions lies governments, who seem to be mainly concerned with another form of justice. That is, avoiding moral hazard in order to safeguard their balance sheets, thereby demonstrating their fiscal probity to their taxpaying populations. States in this world, particularly in Europe, have only been partially freed from the fiscal binds of perma-austerity by the pandemic. As the new German government exemplifies, such states want to use their balance sheet to effect the transition but are terrified of piling 'debt' onto the balance sheet to do so - even if those debts have a zero-interest rate and are used to build new assets. As such, a variety of off-balance sheet vehicles are being used to disguise the nature of investment, while to justify this move states fret quite obsessively and publicly about the moral hazard problems of the

[10] If you don't like the short squeeze analogy, a Kaleckian Capital Strike is the other obvious model. See Kalecki, M. "Political Problems of Full Employment," The Political Quarterly (1943).

transition. That is, worrying about such things as hedge funds buying coal mines to fuel power stations to mine bitcoins.[11]

While laudable, the actual macroeconomic effects of such diversions are minimal and constitute a diversion from the main task of the transition – weaning the economy off carbon while building substitute infrastructure. As a conception of justice, this also misses the mark. The French experience with decarbonization is particularly salient when thinking through possible pathways to a post-carbon future and exemplifies the trade-offs involved in maximizing any criterion of justice. France collects more carbon tax revenue than any country on earth, serving as an experiment for comparatively aggressive decarbonization.

In order to enact their carbon tax, after over a decade of failed attempts at more equitable designs, the French state resigned itself to a policy that provided abundant exemptions for industry (including those regulated under the EU ETS) with much of the revenue earmarked for a corporate tax credit.[12][13] Five years later, when the carbon tax rate took a scheduled increase, the Yellow Vest movement exploded onto the streets of France. Initially, the movement was labelled as anti-climate and anti-carbon tax. However, new research reveals that while the Yellow Vests uniformly support climate action, they simply disagree with a carbon tax that burdens households at the expense of businesses. And not unreasonably, being the folks paying the tax, they want participation in the climate policymaking process.[14]

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[11] That actually happened. See https://arstechnica.com/tech-policy/2021/05/private-equity-firm-revives-zombie-fossil-fuel-power-plant-to-mine-bitcoin/

[12] Rocamora, Alexis. 2017. The Rise of Carbon Taxation in France: From Environmental Protection to Low-Carbon Transition. Institute for Global Environmental Strategies.

[13] See https://www.lemonde.fr/les-decodeurs/article/2018/12/07/comprendre-la-taxe-carbone-en-huit-questions_5394292_4355770.html

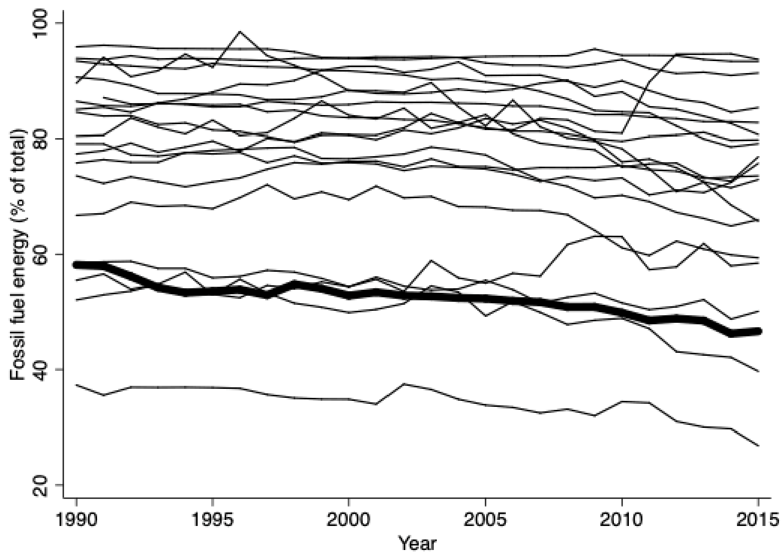
[14] Driscoll, Daniel. 2021. "Populism and Carbon Tax Justice: The Yellow Vest Movement in France." Social Problems (spab036). doi: 10.1093/socpro/spab036.

In terms of the vision of justice being promoted in the French case, we see a short squeeze in action. Repeated attempts by the state to tax business failed. The French state needs the assets of business to make the transition happen, and business was not willing to pay the price that the state was offering for joining in – the carbon tax. As a result, the state effectively did what Blackrock wanted before they even asked. They put the cost of the transition onto consumers and workers, even pouring the revenue earned into a subsidy for business. The French carbon tax advantaged 'business-elites' and asset holders, which, while instrumental for the policy's implementation, strongly violated equity concerns, eventually triggering a revolt as the tax rate increased. The result was a backlash that is both predictable and yet entirely missing from the transition vision of Blackrock.

What makes the French example particularly instructive is that the French economy is comparatively less carbon-intensive than other states facing the same problems. Less than half of French electricity is sourced from fossil fuels, whereas over eighty percent of global energy is sourced from fossil fuels (see Figure 1). Given this, to paraphrase Sinatra: *if you can't make it* [carbon taxes] *there, you can't make it anywhere*. Meanwhile, a new European study has found that individuals living in rural, fossil-fuel dependent, and poor communities are more likely to deny the reality of climate change,[15] which suggests that, like states with heavily carbon dependent growth models, there may be many 'pro-carbon' versions of the Yellow Vests who will vehemently oppose aggressive decarbonization in countries (and sub-national areas) with higher carbon dependencies.

[15] Lübke, Christiane. 2021. "Socioeconomic Roots of Climate Change Denial and Uncertainty among the European Population." European Sociological Review (jcab035). doi: 10.1093/esr/jcab035.

**Figure 1. Comparing French fossil fuel electricity (bold line) with other wealthy democracies**



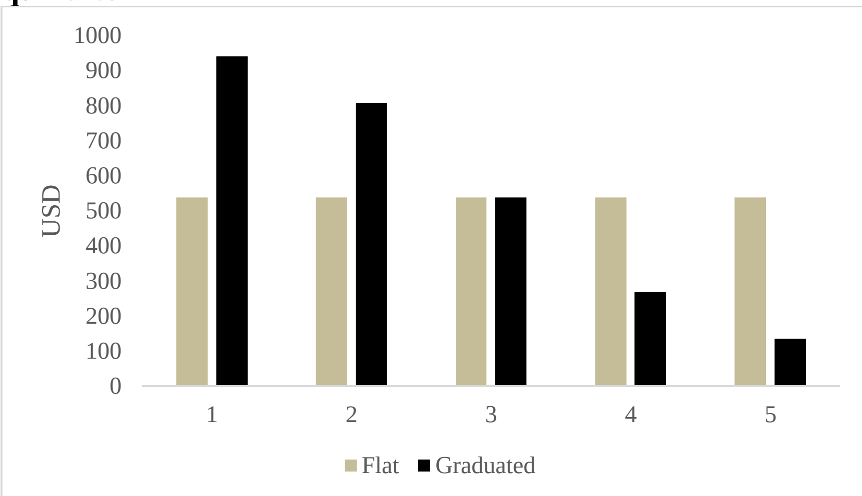

**Note:** Data is sourced from the World Bank. Countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, and the United States.

To counter this, a pragmatic, and difficult, strategy involves bribing both workers and business-elites. The problem we face is that we can't seem to be able bribe one without shorting the other. If we double down on the Blackrock strategy, we risk a generalized Yellow Vest response. If we double down on workers, asset holders can effectively go on an investment strike, derailing an already late transition. If states sit in the middle and fret about moral hazard, nothing actually happens. So how do we get out of this impasse?

Carbon taxes are naturally regressive. Therefore, if a carbon tax is utilized, a carbon tax-and-dividend method that rebates the income to workers seeks to offset this regressivity. Furthermore, carbon tax revenue can be graduated across income groups so that lower-income households receive more support (see Table 1). Canada and Switzerland successfully utilize the tax-and-dividend strategy and popular opposition to their carbon taxes is decreasing.[16]

[16] See https://www.ft.com/content/25f0d270-f528-4789-b390-37ad7f9d091b

**Table 1. Carbon tax-and-dividend revenue distribution (flat vs graduated) across income quintiles**




**Note:** Values are arbitrary

As Matto Mildenberger recently argued however, tax and dividend schemes risk creating a kind of 'pass the buck' logic that keeps carbon polluters in place.[17] Given this, *contingent* carbon taxes offer much more leverage on the problem. As Lonergan and Sawers argue, if a carbon tax can't raise revenue without each side passing the buck onto the other – from business to labor to the state and back again – then perhaps its best to give up on the idea that the function of a carbon tax is to raise revenue.[18] Instead, states should utilize exactly the types of data reporting frameworks favored by Blackrock (plus other metrics like the Scopes framework) and use the threat of carbon taxes as a contingent liability that can be imposed on a firm's balance sheet if they do not meet specific transition targets derived from these frameworks.

Contingent carbon taxes can create strong incentives for business to join in the transition without being able to 'pass the buck' onto either workers or the state. With asset holders deprived

[17] To exemplify, the price of gasoline goes up due to the tax. The revenue agent rebates the tax to the consumer as an offset. As such, the pressure to stop using gasoline, and thus disempower the producer, fades as the tax effectively becomes a subsidy. See Matto Mildenberger, *Carbon Captured*, pp. 238.
[18] Eric Lonergan and Corine Sawers, *Supercharge Me*, Agenda Books: London (2022)

of the ability to ‘short-squeeze’ everyone else, the state can stop worrying about moral hazard and get serious about leveraging its balance sheet to keep both sides happy. Workers don’t get taxes without benefits or representation, and asset holders get positive incentives to take on the risk (investment) needed to make the transition work without perverse subsidies. After all, we can worry about moral hazard all we like, but at the end of the day it’s easier to (partially) insure asset holders than it is to disempower them. While this may be discomfiting to those who see the transition as an opportunity to transform the asset structure of the economy, limited time means more limited goals and priorities. That is, if you want a green transition, it may be one where making asset holders ‘whole’ becomes the only justice frame that can decarbonize fast enough. But that does not mean that they get to short squeeze everyone else in the process.