

**INTERNATIONAL NETWORK FOR ECONOMIC RESEARCH**

# What's behind the Political Support for Green Welfare State Institutions?

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*In a context of rising inequalities and environmental challenges, there is an urgent need to disentangle the socioeconomic and political factors fostering the emergence of Green Welfare State institutions such as laws effectively improving redistribution and favouring the ecological transition. Arrangements over these two dimensions are entangled thus yielding rise to political coalitions. Our analysis shows that people's green coalitions (i.e. red-green alliances) improve redistributive and environmental choices in line with the Green Welfare State challenges ahead. However, the greening of the financial elite ultimately leads to de facto alliances with the educated bourgeoisie (i.e. Jamaica coalitions) thus isolating working classes on the political chessboard: the subsequent decline of the socioeconomic consensus behind the redistributive Welfare State calls for urgent solutions to be found in both the political and policy spheres.*

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Environmental shocks lead to the progressive depletion of natural resources. The source of shocks is identified at the level of human economic activities (production, over-urbanisation, transport, over-exploitation etc.). Damages to the environment yield deteriorations of people living as well as working conditions. These transformations exacerbate inequalities across socioeconomic groups and ultimately impact on social cohesion.

Legislation can protect the environment and thus reduce the impact of shocks. Companies are confronted with taxes and other constraints which are imposed to them in order to fight against environmental deteriorations. Laws can also enforce redistribution financed, for instance, through profits' taxation in order to fight against rising inequalities across individuals.

In our analysis, actors belonging to different socioeconomic groups are placed at heart of the process leading to the transformation of

laws, which are seen as the "rules of the game" that individuals strive to shape in relation to their political strategies and their economic interests.

On the basis of their socioeconomic profile, we distinguish three classes of actors/citizens: the educated bourgeoisie; the working class; and the financial elite. We adopt quite a common distinction between these groups on the basis of the following criteria: the main source of income (labour vs. capital); the level of education and consumption; the transport and mobility patterns capturing the distinction between people living in large urban areas and those localized in peripheral suburbs, small cities or rural regions. We consider that a clustering occurs around each core class during elections process, yielding a balanced tripolar political space (see, for instance, on this issue the paper by Oesch and Rennwald 2018).

Given the institutional and sociological conditions in advanced countries, we start by assuming that the financial elites invest heavily in polluting firms. On this ground, our starting assumption is that the proportion of polluting companies in the total assets held by the financial elite is higher than their share in total firms' population.

The educated bourgeoisie lives in urban areas, more or less close to job locations; they can limit their costs by using environmentally friendly means of transport: bicycles, walking, electric cars, public transport. Environmental legislation makes these alternative means of transport more accessible; subsidies can even be offered (e.g. free public transport). As a result, transport costs for the educated bourgeoisie are decreasing thanks to environmental legislation.

The net incomes of the working classes are particularly affected by transport costs because this segment of the population often lives far from its jobs locations: environmental protection pushes up the costs of car transport (increase in petrol prices, road fares, car fares, etc.). Therefore, overall, transport costs for the working class increase following the introduction of environmental protection legislation. The incomes of the working classes are also affected by the consequences of capital protection. Proportional profits taxes are levied to finance the redistribution in favour of low income people; the amount of such redistribution is therefore equal to a fraction  $(1-\lambda)$  of the profits stemming from both polluting and non-polluting activities.

In a balanced tripolar political space, a simple disjoint majority voting over environmental and social legislation do not allow any institutional form of Welfare State to emerge. As a reaction to that, political parties representing the interests of the educated bourgeoisie and the working classes have a bargaining stance because they can trade less capital protection (and thus more redistribution) in exchange for more environmental protection and therefore give rise to a "people's green coalition". We consider that the establishment of a common political platform within the coalition is based on a Nash bargaining process between the two potentially allied parties.

This alliance allows for the establishment of an institutional framework that responds to the need of protecting both natural and social resources. This implies the implementation of a legislation that effectively protects the environment coupled with a redistributive effort in favour of the low-income population: given the selected values of the coefficient  $\lambda$

measuring capital protection legislation, we can see that the coalition sustains investments taxation in order to finance redistribution.

The solutions that we have just analysed improve the welfare of the educated bourgeoisie and of the working classes in relation to their respective levels of utility associated with the outcome of the disjoint majority vote. On the other hand, the welfare level of the financial elite is undermined. Therefore, the financial elite is subject to two kinds of pressures. First, the people's green coalitions lead to institutional frameworks featuring capital taxation and redistribution as well as environmental protection. These institutional arrangements are not favourable to the financial elite. Secondly, this group is exposed to the pressure exerted by the ecological transition of firms' economic activities.

The changes taking place at the companies' level have an impact on the portfolio choices made by the financial elite. Hence, the financial elite undergoes a process of greening and partly becomes a "green financial elite": the share devoted to polluting companies, within the financial elite portfolio, decreases while the non-polluting companies' share increases.

As a consequence of this process, the two groups of the educated bourgeoisie and the financial elites become de facto allies: their political preferences have the same sign although their utility functions remain different. An "extended bourgeois bloc" becomes dominant and advocates for institutional arrangements that protect capital and the environment in a complementary way thus giving rise to new political solutions such as Jamaica coalitions.

Although Jamaica alliances can be seen as possibly able to provide solutions to environmental compelling challenges, concerns can be raised on their effectively tackling the social aspects. These concerns are doubled by the fears that isolation can lead the working classes to switch to more radical forms of political struggles. An example of such a trajectory, in Western Europe, is given by the "Gilets jaunes" protest movement - which is active in France since 2018. The process can thus lead to the undermining of the very foundations of the redistributive Welfare State.

On the ground of this analysis, the following suggestions made in the literature can indeed help tackling the issue: on the one hand, financing redistribution out of the ecological taxes (such as profits based carbon taxes) and on the other hand, increasing the well-being of the low-income households by fostering their renewable energy transition. The former would bring about more positive feelings, among the working classes, with respect to environmental taxation - hence providing a larger spectrum for Jamaica coalitions. The latter seemingly allows to promote a more effective connection between redistribution and ecological transition, and appear to be particularly suitable to face recurrent energy crisis (such as the recent one): an example is provided by measures currently supported by EDF in France, to sustain households transition to autonomous renewable energy production.

# Implications

Political coalitions are the driving forces fostering the social and political responses to the entangled and urgent issues of rising inequalities and environmental degradation. Our theoretical analysis unveils the crucial role of people's green coalitions in the process of building new Green Welfare State institutions; but it also underlines the weaknesses of those coalitions following transformation processes brought about by the ecological transition, such as the greening of the financial elites. Following such processes, new de facto alliances emerge between the financial elite and the educated bourgeoisie (such as Jamaica coalitions) which might actually end up dissociating social and environmental issues in a way that undermines the very foundations of the redistributive Welfare States.

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