



Mercator Research Institute on
Global Commons and Climate Change gGmbH



Rising energy prices and social balance

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Overview

Motivation

- Depending on the progress of the war, an embargo could become necessary
- Germany should be "embargo-ready" in order to be able to act geopolitically

Our analysis:

- Possible price increases due to embargo
- How to ensure social balance?
- Energy/climate money - more important than ever to create wide transfer channel!



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Effects of the energy price crisis on households in Germany

Socio-political challenges
and policy options

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Possible price increases in the event of an embargo?

Natural Gas

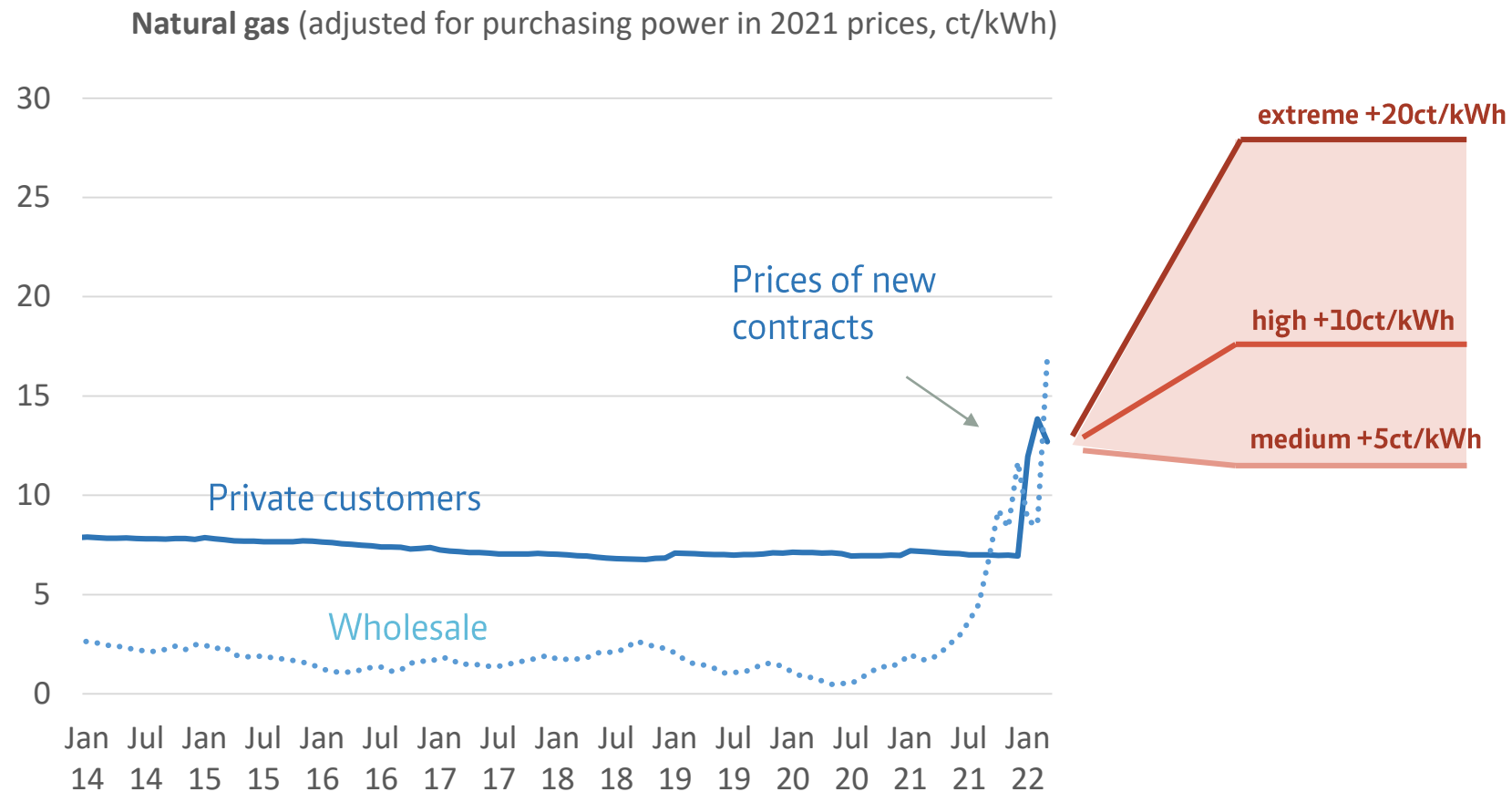
- 10-15% gap in EU
- 5-20 ct/kWh price increase

Electricity, district heating

- Coupled to gas, but less strongly
- 4-10 ct/kWh price increase

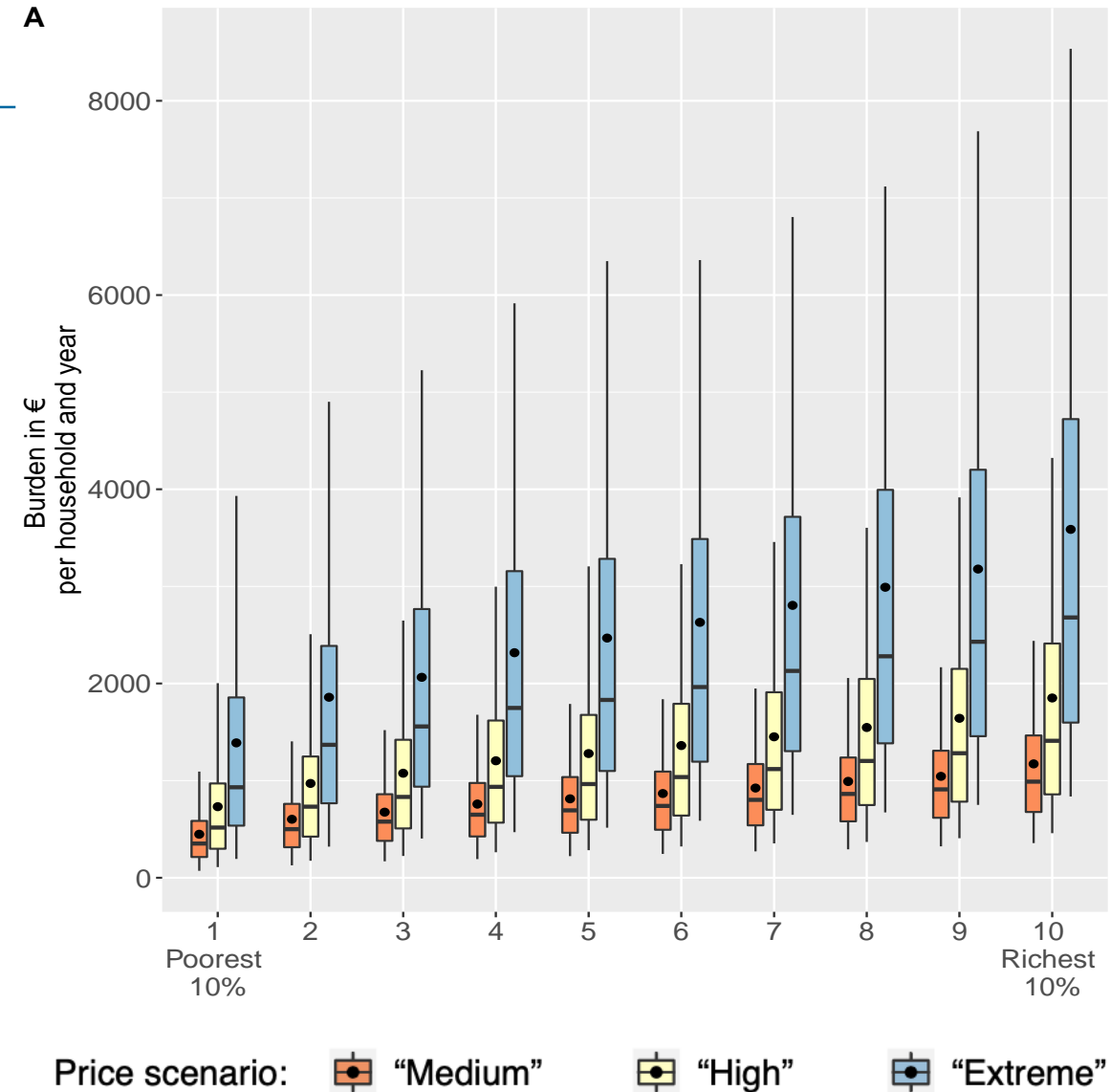
Crude Oil

- 8% absence global
- 20-40 ct/l price increase for fuels & heating oil



Burdens for households

- Average burden per household is
 - 800 €/year (with medium price increases)
 - approx. 3.5% of the consumption expenditure of the poorest households
 - 2500 €/year (in case of extreme price increases)
 - approx. 11% of the consumption expenditure of the poorest households
- Poorer households tend to be burdened more heavily
- Large heterogeneity within income groups (type of heating, insulation, etc.)



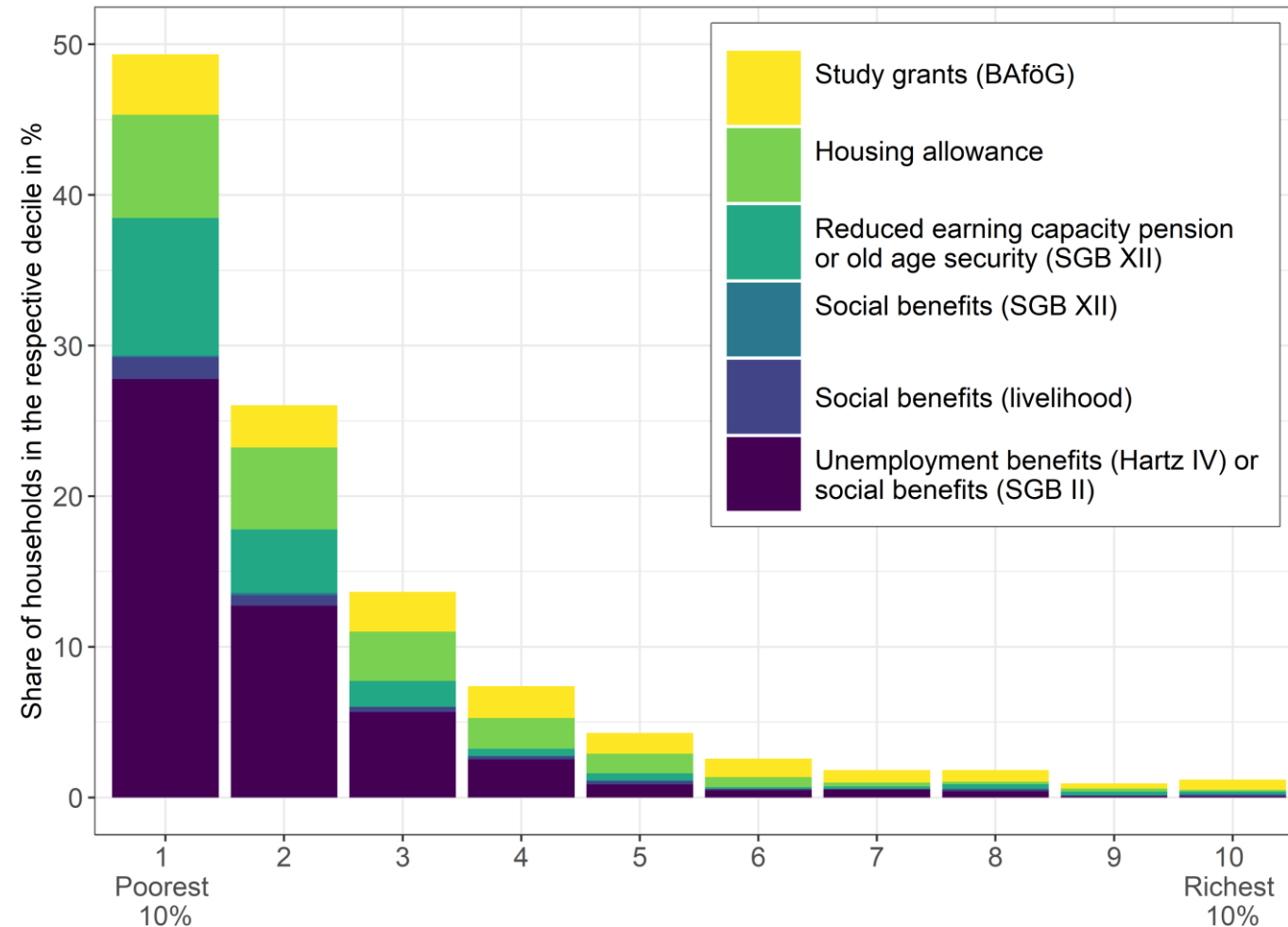
Central Results

Basic package: Can be implemented immediately

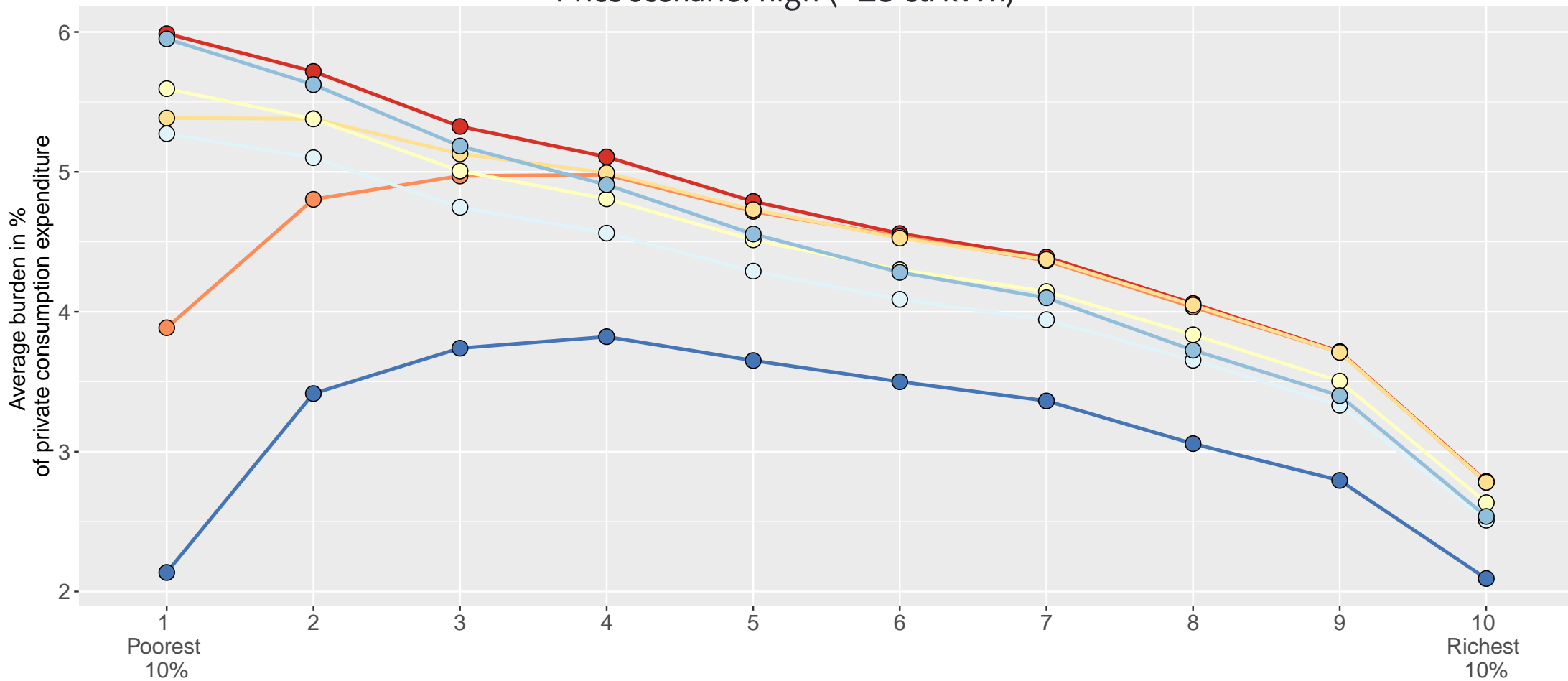
- Energy subsidy for welfare & housing benefit recipients
- Removal of electricity tax & EEG levy
- Adjustment of commuter allowance / mobility allowance

Sufficient for transfer recipients

1/4 to 1/3 of the additional costs for low-income earners



Price scenario: high (+10 ct/kWh)



- Without compensation
- Energy cost takeover of welfare recipients
Budget: €2.1 bn
- Adapting flat rate for heating costs of housing allowance und BAföG recipients
Budget: €1 bn
- Electricity tax reduction
Budget: €3.1 bn
- Feed-in-tariff (EEG levy) abolition
Budget: €5.7 bn
- Commuting allowance increase
Budget: €3.8 bn
- Basic package (i.e. all combined)
Budget: €15.7 bn

Central Results

In addition: one of four broad relief measures

- Increase in tax allowance / reduction in VAT
- Per capita payment (helicopter money/climate money)
- Targeted energy money:
 - a) Flat rate scaled according to household size
 - b) 75% of additional costs according to previous year's consumption (more targeted according to demand, but more effort)

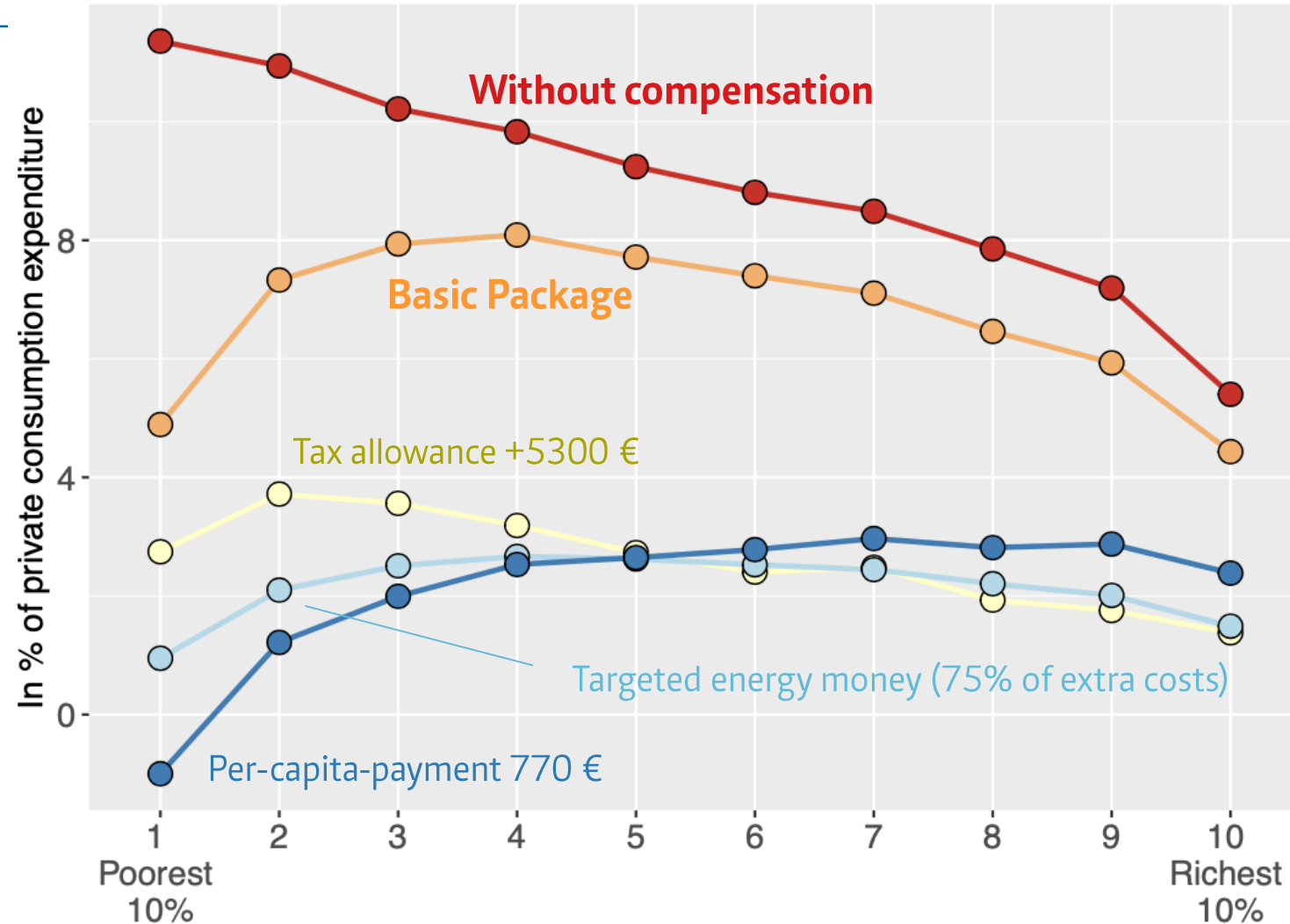
- Insufficient for low-income earners
- Build disbursement infrastructure
- Income cap → check retrospectively via tax return 2023
- Settlement with energy money maybe also possible via gas supplier

Price caps/subsidies: Little effective for acute bottlenecks

Central Results

Burden as % of consumer spending: gas price +20 ct/kWh, €102 billion in total.

	"Medium" price scenario	"High" price scenario	"Extreme" price scenario
Total household burden due to increased energy prices	33.7	53.3	102.8
Cost of basic package			
Heating cost takeover of welfare recipients	1.2	2.1	4.1
Adapting flat rate for heating cost of housing allowance and study grant (BAföG) recipients (covers about half of the cost increase for these households)	(2x planned rate) 0.5	(4x planned rate) 1.0	(8x planned rate) 2.0
Reduction of electricity tax to 0.1 ct/kWh (incl. VAT)	3.1 (households only) (together with relief for the economy: 8.0)		
Abolition of renewable energy feed-in-tariff (EEG levy) (incl. VAT)	5.7 (households only) (together with relief for the economy: 15.5)		
Increase in commuting allowance by 11 ct/km per 20 ct/l increase in transport fuel prices	3.8	3.8	7.7
Basic package: Total cost	14.3	15.7	22.7
Basic package: Coverage of additional burden on average of all private households (data in %).	42	29	22
Cost of additional relief options			
(A) Increasing income tax allowance	(around €1400) 15.1	(around €2600) 27.7	(around €5300) 54.3
(B) Targeted energy allowance for heating costs (75% of additional costs).	15.3	27.4	54
(C) Helicopter money (per capita payment, minors with half of the specified amount each).	(€220) 15.3	(€394) 27.4	(€774) 54
Basic package plus one of the three relief options: Total cost	29.6	43.1	76.7
Basic package plus relief option: coverage of the additional burden on all private households (data in %).	88	81	75



Concluding remarks

Russia's war of aggression has abruptly and permanently reduced our prosperity

- Through sanctions, arms spending, and reduction/renunciation of Russian energy imports.

Rising energy prices are part of a new transformation process

- Essential to achieve maximum savings and diversification – in record speed
- Price caps, subsidies, monetary policy **cannot** reduce shortages

Politics:

- Make preparations to compensate for imbalances (redistribution of real income)
- Fiscal costs: 30-77 billion euros
- Long-term: Improve conditions for faster transformation