Submission on the Draft National Risk Assessment 2019

The Draft Overview is clear and informative. We welcome the Department's willingness to seek out external opinions on risk in Ireland.

We believe that there are several serious omissions in the Draft Overview, and that some sections of it need to be recalibrated.

Summary of our response

- Environmental risks are increasingly elevated and their existential aspect should be clearly acknowledged.

- Easy access to oil is diminishing steadily, and renewables simply cannot do all the tasks that oil can do. Transportation will be particularly strongly affected. It is essential to keep this in mind while planning the energy transition.

- The global financial system is highly volatile and unstable, and overly dependent on access to cheap (fossil fuel) energy. Financial risk can be mitigated by top-down monetary reform to decouple the financial system from energy dependency, and Irish negotiators can and should lobby for this.

- Ireland is particularly vulnerable to global financial system instability at present, and it needs to diversify and democratise its banking sector in order to increase its robustness.

- The risk of economic overheating can be mitigated by a range of policy tools in addition to fiscal measures, and it also needs to be carefully weighed against a risk of economic 'underheating'.

The two questions raised in the consultation call are listed below, with our responses:

Q. Have the correct strategic risks been identified or are there other significant risks that should be included?

1. We believe several other risks to be highly significant. As the Draft Overview points out, all of the risks are interconnected - in some cases, extremely tightly - and the following are no exception:

1.1 Diminishing accessibility of oil

The Draft Overview identifies energy security as a risk (p16), focussing particularly on Ireland's high dependency on the UK as an energy source, and correctly emphasising the need to develop local renewable alternatives to help address this.

However, there is a far deeper problem at stake than the threat to Ireland's energy supply that is posed by Brexit.

While global oil reserves remain relatively high in absolute terms, these reserves are becoming harder and harder to access; the amount of energy required to extract oil is steadily increasing (which means that the energy return on energy investment - EROI - of oil is steadily decreasing)[1].

We cannot rely on dependable access to oil going forward. The ramifications for global economic growth and therefore for the global financial system (see section 1.3 below) are immense. As alternative energy consultant Tim Clarke observes:

"Oil is the flexible high net energy foundation of the global industrial world. It powers >95% of all transport, and powers the world's industrial food production system. Economic growth is intimately and proportionally linked to its use. Oil comprises over 35% of global primary energy use, and production of virtually all commodities and other energy sources (coal, natural gas, renewable energy systems including nuclear power and hydro) are also dependent on oil in their production chain. No other energy source comes anywhere close in its ability to provide these services to humanity. The global industrial economy needs oil like humans need food." [2]

Given the strong historical correlation between economic growth and oil consumption[3] and the difficulty[4] that is being experienced (despite widespread claims to the contrary) in trying to decouple

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[1] https://surplusenergyeconomics.wordpress.com/2018/12/01/139-the-surplus-energy-economy/

[2] http://www.feasta.org/2018/09/20/end-of-the-oilocene-the-roar-of-the-oil-fizzle-dragon-king/

[3] see for example https://link.springer.com/article/10.1007/s40953-018-0147-2

[4] see for example https://www.sciencedirect.com/science/article/pii/S030626191830045X , https://www.resilience.org/stories/2015-10-13/the-decoupling-debate-can-economic-growth-really-continue-without-emission-increases/ and https://www.tandfonline.com/doi/full/10.1080/13563467.2019.1598964

growth from energy use in absolute terms, it seems likely that the slowdown in global growth described in the Draft Overview and attributed by the IMF to 'trade tensions and tariff escalation, financial tightening, uncertainty surrounding Brexit and an accelerated Chinese slowdown' is in fact strongly underpinned by the decreasing EROI of oil (which is not to downplay the importance of the challenges described by the IMF; indeed, increased geopolitical tensions, particularly in the Middle East, can also be at least partially attributed to increased difficulties in energy access[5]. Such tensions could then also contribute themselves to higher oil prices and trigger an economic collapse[6]).

Paradoxically, the necessary transition to a renewables-based economy is also rendered more complex by this difficulty in accessing oil. Renewable energy installations require a certain amount of oil consumption upfront; for example, fossil fuel is needed for the production and transportation of wind turbines.

Renewables' EROI is approaching that of fossil fuels, which may seem encouraging at first as it gives the impression that they can easily take over the role played by oil. The problem is that renewables' EROI is still much higher than the EROI which oil had in the past, and it is unlikely that it can be ever be brought down to that of the 'golden age' of oil[7]. And renewables pose other challenges too: wind and solar are only intermittently available, and renewable energy storage (again, despite claims to the contrary) remains a serious challenge - particularly on a seasonal basis[8] - and highly dependent on increasingly scarce minerals[9].

This is not to say that we should give up in despair on the energy transition (or disregard climate science and its urgent message with regard to eliminating fossil fuel use), but rather that in the future, we simply cannot expect to continue the same level and type of economic activity as we have at present, and the idea of expanding it still more is profoundly unrealistic. For example, we cannot expect to be able to maintain the same levels and rates of transportation as we do now. Electrified vehicles cannot fill the energy gap, and attempting to make them do so is a dangerous red herring. Supply lines will need to be considerably shortened, particularly for essential goods, and just-in-time deliveries will, for the most part, no longer be viable.

Our future economic success will require a shift in focus away from growth as an end in itself and towards wellbeing, as was recently pointed out by a group of 238 academics in an open letter to

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5 See for example http://www.feasta.org/2013/09/06/syria-and-the-limits-to-growth/

6 See for example https://www.strategic-culture.org/news/2019/06/23/provoking-iran-could-start-a-war-and-crash-the-entire-world-economy/

7 https://surplusenergyeconomics.wordpress.com/2018/12/01/139-the-surplus-energy-economy/ .

8 http://www.feasta.org/2018/01/28/the-real-lesson-of-the-energiewende-is-that-the-german-economy-uses-too-much-energy-to-be-sustainable-and-needs-to-degrow/

9 https://www.minersoc.org/wp-content/uploads/2019/05/3ICM-Michaux.pdf

the EU[10]. If we are to avoid disaster, this reality needs to be faced head-on. As ecological economist Brian Davey wrote in a recent analysis of renewables' potential:

"There is a need for degrowth and an energy sufficiency agenda to complement the development of renewables. Renewables can power our economies but only if our economies are smaller." [11]

Additionally, it should be noted that because of the current tight interconnectedness of the energy supply with the financial system, a poorly-handled energy transition presents a highly elevated risk of triggering a financial collapse. This is discussed in section 1.2.

1.2 The close connection between the energy supply and the functionality of the financial system

The 2008 financial collapse derived partly from overly risky lending and borrowing, as is widely recognised, but also from the fundamental dependency of the global financial system on continual economic expansion order to be able to function - and therefore, on easy access to energy.

The 2005 peaking of global conventional fossil fuel supply triggered an increase in oil prices which has been linked by analysts to the 2008 collapse:

"Oil price increases are understood by economists as being inflationary – so [after 2005] the US Federal Reserve raised interest rates (against the long-term trend in their decline) and this led to the exposure of the mortgage-backed securities fraud which was endemic in the US banking system. It was primarily an energy-driven crisis…"[12]

A combination of short-term thinking and historical accident has led to the majority of our money (a majority of euros, in the case of Ireland) being introduced into circulation - i.e. created - on a basis of debt, by private banks.

In order for sufficient money to be circulating in the economy at any given time, there therefore needs to be a minimal and sustained level of credit demand. Continual economic growth is the sole credible guarantor of this demand, because it creates the psychological circumstances that make loaners willing to extend credit, and people and firms willing to take on new debts. As one study put it, "economies with stagnant real economy growth are likely to see continued depressed credit demand, regardless of improvements in the financial sector."[13]

It should be noted that, while the need to service interest payments undoubtedly places some pressure on the economy to expand, the problem runs deeper than that; at present, *most money's*

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[10] https://www.theguardian.com/politics/2018/sep/16/the-eu-needs-a-stability-and-wellbeing-pact-not-more-growth

[11] http://www.feasta.org/2019/06/08/propaganda-for-renewables-a-critique-of-a-report-by-oil-change-international/

[12] http://www.feasta.org/2018/09/20/end-of-the-oilocene-the-roar-of-the-oil-fizzle-dragon-king/

[13] https://voxeu.org/article/credit-demand-supply-and-conditions-tale-three-crises

very existence depends on the ability of the economy to expand. This is why, even in an era of unusually low or even zero interest rates, the global economy has remained lethargic[14].

As described in section 1.1, the link between fossil fuel use and economic growth is extremely tight historically and is proving very hard, if not impossible, to sunder. A much more realistic approach to addressing the risk of financial system collapse (and helping to address ecological collapse) would be to instead decouple the financial system from economic growth by replacing private-bank-issued, debt-based currency with debt-free, publicly-issued currency (discussed further below). This would create the basis of a growth-neutral financial system. Needless to say, it would not be a panacea - particularly not for the environment - but we believe it would put the economy on a healthier and more balanced trajectory that is more compatible with the requirements of the biosphere.

1.3 High instability in the global financial system and high vulnerability to another financial system collapse

Even if we ignore the energy supply problem, the global financial system could well manage to pull off the feat of collapsing catastrophically all by itself, simply by dint of its being so top-heavy and unstable.
Many analysts from a wide spectrum of political opinion are warning that another global financial crisis is inevitable[15]. This risk of financial system collapse is entirely 'cultural' in origin; there is absolutely no need, in a physical sense, for the global money supply to be so heavily leveraged[16].

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[14] Technically there is no shortage of money at present, but much of it is tied up in speculation, and its supply is highly volatile. The issue is not how exactly much money exists at any given time but rather its stability and accessibility; in the current system, vast quantities of money can disappear overnight.

[15] Predictions that another global financial crisis is imminent:
Global Policy Watch: https://www.globalpolicywatch.org/blog/2018/06/14/warnings-global-financial-crisis/
Ann Pettifor: http://www.stuff.co.nz/business/money/102939290/ann-pettifor-predicted-the-global-financial-crisis--now-shes-predicting- the-sequel
IMF: https://www.zerohedge.com/news/2017-10-30/second-crash-warning-imf-%E2%80%93-time-its-about-vol
Ahmed Nafeez on China Risk: https://medium.com/insurge-intelligence/the-next-financial-crash-is-imminent-and- chinas-resource-crisis-could-be-the- trigger-be108b2731e9
Prof Robert Reich: https://www.newsweek.com/robert-reich-we-might-be-heading-crash-bad-1929- opinion-1101869
Gordon Brown – UK: https://www.theguardian.com/politics/2018/sep/12/we-are-in-danger-of-sleepwalking-into-a- crisis-gordon-brown
Prof Nouriel Roubini: https://www.theguardian.com/business/2018/sep/13/recession-2020-financial-crisis-nouriel- roubini
Bond Market: https://www.rt.com/business/410317-bond-market-crash-prediction/
Stock market: https://www.thestreet.com/opinion/why-a-global-stock-market-crash-is-coming-14566852
Banks: https://www.ineteconomics.org/perspectives/blog/how-the-largest-banks-are-leading-us-to-a-new- financial-crisis
David McWilliams - Ireland: http://www.davidmcwilliams.ie/we-may-be-on-verge-of-a-global-financial-crisis/
Niall Ferguson – S-China morning post: http://www.scmp.com/comment/insight-opinion/article/2120679/another- global-financial-crisis-imminent-and-here-are-four
Real News Network: https://therealnews.com/series/the-next-global-financial-crisis-is-inevitable

[16] The reasons our debt-based monetary system persists most likely derive from widespread and profound ignorance about the nature and history of money, anxiousness about the effects of reform on the part of powerful decision-makers, a lack of imagination, and a lack of recognition that viable alternatives exist.

It should be noted in this regard that an increasing number of central bankers in different jurisdictions have expressed concern about the extremely high leveraging of the monetary system (and also the possibility of payments systems being compromised by their increasing dependency on private banks)[17]. A 2012 IMF working group paper[18] and many independent analysts[19] have called for a switch to debt-free currency issuance by a publicly accountable authority, and the Swedish central bank (Riksbank) and the Bank of England are currently investigating the possibility of introducing a debt-free, central-bank-issued digital currency into their economies.

Ireland, as part of the Eurozone, has little direct power to contribute to this movement at present, but we urge Irish negotiators who are involved in EU-level discussions concerning the Eurozone's monetary system to work to bring debt-free 'sovereign money' into the 'Overton window' of monetary policy discourse.

1.4 Ireland is particularly exposed to financial system collapse as it has high levels of both public and private debt

While the Draft Overview discusses the risk inherent in Ireland's high levels of public debt in some detail, and it mentions private debt several times, it does not contain much analysis of the latter.

Ireland's overall current financial situation is of grave concern to us. Financial analyst Tim Morgan, who has factored the spending of borrowed money and the production output that is required to fund the supply of energy into his GDP calculations - and who actually considers Ireland to be the most financially vulnerable country in the world - wrote in February 2019:

"...where Ireland is concerned....personal prosperity has declined by 7% since 2007, whilst debt per person has risen by 78%. The conclusion for Ireland is that debt now equates to 589% of prosperity (compared with 308% in 2007)."[20]

Given Ireland's extremely high ratio of aggregate public and private debt to GDP and its dependency on the EU, UK and US economies, we need to take rapid steps to stabilise our financial situation. Otherwise, if (or when) another global financial crash occurs, Ireland could very quickly end up in a far worse financial position than it was in after the crash of 2008.

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[17] https://www.feasta.org/2018/12/03/the-future-of-money-a-seminal-conference-in-frankfurt/

[18] https://www.imf.org/en/Publications/WP/Issues/2016/12/31/The-Chicago-Plan-Revisited-26178

[19] see for example https://www.ft.com/content/d27b000e-6810-11e8-8cf3-0c230fa67aec , https://sovereignmoney.eu , https://www.greattransition.org/publication/money-for-the-people , and https://www.opendemocracy.net/en/opendemocracyuk/just-money-introduction/

[20] https://surplusenergyeconomics.wordpress.com/2019/02/18/147-primed-to-detonate/

On the national level, increased government support for community or public banking[21], including for credit unions, would help to build up an economic buffer against global financial storms, as we can see from the resilience of the public banking sector in Germany during the last financial crash[22].

Additionally, we advise policymakers to reflect on possible emergency measures that might be helpful in the wake of a financial crash, such as the issuance of debt-free scrip or community currencies[23].

All of these actions would of course be reinforced by the Eurozone-level reforms described in section 1.3.

1.5 The risk of 'underheating': paradoxical risk stemming from overly risk-averse fiscal policy

Having emphasised the fragile state of Ireland's finances, we now wish to sound a note of caution with regard to certain changes and/or reductions in public spending that could be proposed in an attempt to address Ireland's financial difficulties.

We note the Draft Overview's discussion of the risk of economic overheating in Ireland, in particular this passage:

"The Irish Fiscal Advisory Council, along with other domestic and international commentators has warned that while significant overheating is not yet evident, it remains a realistic risk for the domestic economy, and significant overheating pressures could build up if a faster-than-expected pick-up in housing construction materialises. In addition to the general risk of overheating, more specific issues such as the economic impacts of construction cost inflation, including rising labour costs associated with a tightening labour market, and the consequent impact on value for money both for the State in terms of its capital programmes, as well as for the individual consumer, can be identified." (p24)

The Overview goes on to suggest that public spending needs to be "closely monitored and controlled" so as to avoid triggering overheating.

We are surprised by the narrowness both of the diagnosis of this risk and of the protective measures that are proposed to diminish it. For example, there is no mention of the role played in the fairly recent past in Ireland by social partnership in coordinated wage-setting[24]; this could potential-

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[21] See Feasta Submission on Evaluation of Community Banking and Local Provision of Banking and Financial Services in Ireland, April 15 2019: http://www.feasta.org/2019/04/17/submission-on-evaluation-of-community-banking-and-local-provision-of-banking-and-financial-services-in-ireland/

[22] https://economic-research.bnpparibas.com/html/en-US/German-Sparkassen-model-follow-4/29/2016,28761

[23] See for example the section on the 'harp' in http://fleeingvesuvius.org/2011/04/07/a-three-step-emergency-plan-for-ireland/

[24] http://www.irisheconomy.ie/index.php/2016/07/12/the-rise-and-fall-of-social-partnership-do-governments-need-trade-unions/

ly be revived in a modified form and would likely be more publicly acceptable than top-down decisions about spending cuts.

Another useful policy tool would be 'heat-reduction' taxation measures to help to ease inflationary pressure, such as the introduction of site value taxation to help offset property value inflation and prevent speculation on property values[25].

Additionally, while the Draft Overview does refer in positive terms to Ireland's relatively low levels of inequality and its well-developed social transfer system, it would be useful to keep in mind their relationship to public spending. Cutting back excessively on public spending ('underheating' the economy) can present its own serious risks, even during times of economic boom.

The editors of a book on Ireland's experience with austerity after the 2008 crash comment:

"…..the harm that resulted from austerity was…intense in particular domains because of the earlier withdrawal of the state from various activities. This 'roll-back neoliberalism' (Peck and Tickell 2002) is illustrated by Ronan Lyons….on the two-way links between austerity and dysfunctions in the housing market. He argues that even prior to the recession, the provision of social housing was effectively privatised through the 'Part V system', and the state has in fact removed itself from the direct provision of social housing. ….Similarly, Emma Heffernan…provides us with a striking illustration of the harm caused by the combination of cuts to social supports and recession for female sex workers in Dublin…. These cuts also had significant implications for those working within the social and community care sector, as illustrated by Mary Gilmartin…in her discussion of migration and austerity. Cuts to the size of the public sector workforce and public sector wages, along with worsening working conditions, were contributing factors to the rise in emigration, especially for health and teaching professionals. This in turn led to a significant 'brain-drain' with economic, social, cultural and spatial implications."[26]

Q2. Are any of the risks listed not significant enough to warrant inclusion?

We would not disregard any of the risks mentioned in the Overview. However, as mentioned in section 1, we argue that all the risks need to be placed in a broader context and, in some cases, carefully balanced against certain counter-risks.

It should be recognised that **environmental risk is existential in nature** and needs to be treated with extreme seriousness. From the wording of the document it is not apparent that the climate and biodiversity crises actually threaten humanity's capacity to survive; the risks these crises pose could go well beyond the risks of damage to health, infrastructure or finances that are discussed in the Overview, worrying as these are in themselves.

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[25] See for example http://fleeingvesuvius.org/2011/06/02/why-pittsburgh-real-estate-never-crashes-the-tax-reform-that-stabilised-a-city's-economy/

[26] *Debating Austerity in Ireland: Crisis, Experience and Recovery*, Eds Emma Heffernan, John McHale and Niamh Moore-Cherrym Royal Irish Academy 2017, p276-277 https://www.esri.ie/pubs/CB201718.pdf

Biodiversity is essential infrastructure for human life[27] (and for the life of other species). Healthy ecosystems underpin *all* successful human activity, whether it is considered 'economic' or not.

As discussed in section 1.1 above, we believe it to be extremely difficult if not impossible to decouple economic growth from environmental degradation in absolute terms. Therefore paragraphs 6 and 7 of section 5.1 (p49) appear unrealistic to us, and we once again urge the government (and the intergovernmental groups it participates in) to shift its priorities away from aggregate GDP growth as an end in itself and towards wellbeing.

Feasta (the Foundation for the Economics of Sustainability*) is an open-membership think tank, based in Ireland but with contributors in a number of countries. Its aims are to identify the characteristics (economic, cultural and environmental) of a truly sustainable society, articulate how the necessary transition can be effected and promote the implementation of the measures required for this purpose. It is a member of the Irish Environmental Network, the Environmental Pillar and Stop Climate Chaos Ireland.*

[27] https://www.dw.com/en/our-consumption-choices-are-driving-biodiversity-loss/a-46423178