feasta

The Foundation for the Economics of Sustainability

Submission on the National Risk Assessment's Draft List of Strategic Risks 2023

17 February 2023

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1. Some general observations

We welcome the opportunity to contribute to this consultation, particularly since it arises from the Department's recognition of the need to safeguard against 'group think' in identifying strategic risks to the country.

The Draft List refers to many important risks, and provides useful and clear information. We would share its emphasis on 'the cross cutting and integrated nature of risks' (p2).

The word 'risk' is sometimes taken to refer to a loss or injury that may potentially happen, but which (thus far) has not happened. However, we believe it is important to acknowledge that a number of the risks mentioned in the Draft List are actually already occurring - or have recently occurred, and seem likely to occur again - and are causing loss and injury in real time.

The Draft List also does not include much discussion of potential ways to alleviate the risks it outlines. While we recognise a need for brevity, it would be reassuring to be given an outline of any strategies that are being put in place in response to risks such as the highly import-dependent food and energy sectors, and the dependence of State revenue on FDI contributions.

Compilers of the List may also find useful insights in the European Commission's Resilience Dashboards[1] and the newly-launched Resilience Index from the Zoe Institute[2], both of which include resilience analyses for Ireland.

2. Risks which we recommend including in the Draft List

2.1 Economic growth dependency

2.1.1 Economic growth dependency's role in exacerbating environmental risk

The Draft List, in common with many other State policy documents, assumes that economic growth is inherently desirable (particularly when it is inclusive) and that a slowdown in the rate of economic growth in Ireland - or worse yet, a recession - will inevitably be harmful.

On the face of it, these assumptions may seem both obvious and natural. One might expect that any government would seek to maintain economic growth, as countries with 'strong' growth have historically been more likely to enjoy good credit ratings and to attract high levels of investment, which in turn (through borrowing and taxation) makes funds available for public spending programmes. Growth is also often assumed to be necessary to achieving

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1 https://commission.europa.eu/strategy-and-policy/strategic-planning/strategic-foresight/2020-strategic-foresight-report/resilience-dashboards_en

2 https://zoe-institut.de/en/publication/economic-resilience-index/

healthy employment rates[3]. Moreover - and crucially - the income generated by economic growth helps governments, firms and individuals to effectively manage debt.

This emphasis on growth as a goal also appears - at least superficially - to correspond well with the goals of the wider international community. Economic growth is included as an objective in the Treaty of the European Union[4], and the European Green Deal describes itself as a 'growth strategy'. On the UN level, SDG8 famously includes economic growth.

However, a more detailed examination of recent EU and UN-level policy on economic growth reveals increasing ambivalence. High-level policy is now communicating noticeably mixed signals on economic growth as a goal.

For example, the European Commission has a "Beyond GDP" initiative, and the European Parliament is hosting a major conference called "Beyond Growth" in May of this year which is intended to "challenge conventional policy-making in the European Union and to redefine societal goals across the board"[5]. In October 2022, the European Research Council awarded multimillion euro funding to a team of researchers who will be developing a proposal for a "Post-Growth Deal"[6].

The accounting conventions that are used internationally to calculate GDP are in the process of being revised by the UN[7]. The UN's Secretary-General Antonio Guterres stated in a speech on August 22 2022 that "we must transform the accounting systems that reward pollution and waste. We must place true value on the environment and go beyond Gross Domestic Product as a measure of human progress and well-being. Let us not forget that when we destroy a forest, we are creating GDP. When we overfish, we are creating GDP. GDP is not a way to measure richness in the present situation in the world. Instead, we must shift to a circular and regenerative economy."[8]

The European Environmental Agency stated in 2021 - on the basis of wide-ranging evidence - that "it is unlikely that a long-lasting, absolute decoupling of economic growth from environmental pressures and impacts can be achieved at the global scale; therefore, societies need to rethink what is meant by growth and progress and their meaning for global sustainability."[9]

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[3] Empirical research indicates that the link between growth and employment in industrialised countries in recent decades is actually questionable. See Laurent, Eloi. 'From Welfare to Farewell", ETUI (2021): https://www.etui.org/sites/default/files/2021-06/From%20welfare%20to%20farewell-%20the%20European%20social-ecological%20state%20beyond%20economic%20growth_2021.pdf

[4] Article 3.3

[5] https://www.beyond-growth-2023.eu/about-beyond-growth/

[6]https://www.uab.cat/web/sala-de-premsa-icta-uab/detall-noticia/european-project-to-explore-pathways-towards-post-growth-economics-1345819915004.html?detid=1345872411651

[7] https://unstats.un.org/unsd/nationalaccount/Towards2025.asp

[8]https://www.un.org/sg/en/content/sg/statement/2022-06-02/secretary-generals-remarks-stockholm50-international-meeting-delivered

[9] https://www.eea.europa.eu/publications/growth-without-economic-growth See also Parrique, Timothée et al. 'Decoupling Dubunked', EEB, 2019 https://eeb.org/library/decoupling-debunked/ and Rodriguez-Labajos, Beatriz. 'Biodiversity Policy Beyond Economic Growth', *Conservation Letters* (October 2019) https://www.academia.edu/57994952/Biodiversity_policy_beyond_economic_growth?email_work_card=view-paper

As the Secretary-General's and EEA's statements imply, the retention of GDP growth (or, in the case of Ireland, GNI* growth) as a core goal *severely exacerbates environmental risk*.

Moreover, as the Draft List correctly points out, "climate change and biodiversity loss represent the biggest challenges facing the world".

A study[10] published in the *Nature Communications* journal in 2021 investigated the potential effects on I.5 degree climate change scenarios if the perceived need for GDP growth is relaxed, by comparing standard IPCC scenarios (which always incorporate economic growth) with two 'degrowth scenarios'. It found that 'the degrowth scenarios minimize many key risks for feasibility and sustainability compared to technology-driven pathways, such as the reliance on high energy-GDP decoupling, large-scale carbon dioxide removal and large-scale and high-speed renewable energy transformation.'

2.1.2 Economic risks arising from economic growth dependency

The factors listed in section 2.1.1 that tend to encourage or pressure policymakers to emphasise growth - investment, sustainable public spending, employment, and debt management - are obviously all important. Given the need to move away from GDP growth as a goal, these factors' current dependency on growth - particularly in the cases of investment, public spending[11] and debt management - therefore represents a *significant economic risk.*

This risk is exacerbated by a number of factors specific to Ireland, in addition to the economic risks outlined in the Draft List (with which we would largely agree):

- The increasingly narrow range of choice in Irish retail banking, with the market now dominated by two large for-profit commercial banks, and a lack of mutual or public banking options[12]

- Ireland's lack of direct control over its monetary policy[13]

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[10]Keyßer L. and Lenzen M. '1.5 °C degrowth scenarios suggest the need for new mitigation pathways', *Nature Communications* (May 2021): https://www.nature.com/articles/s41467-021-22884-9

[11] Some argue that public debt is in fact in a different category from private debt, and in a certain sense, may not really be debt at all (see for example Kelton S. *The Deficit Myth*, Public Affairs, 2020). Moreover, historical evidence indicates that - despite what is often claimed - governments which directly issued their countries' currencies (as opposed to ceding this privilege to private banks) have, as a rule, used this power responsibly: https://www.imf.org/external/pubs/ft/wp/2012/wp12202.pdf Nevertheless, there is no doubt that in practice, some countries can get away with much more non-growth-funded State spending than others. For example, it is certainly handy - at present, anyway - to be the issuer of a currency which is used to price oil.

[12] The latter have a track record of greater resilience in times of economic turbulence: see for example Corbet S and Larkin C. 'The effects of German economic and political progress on the Sparkassen savings bank system', *Research in International Business and Finance,* (October 2022) https://www.sciencedirect.com/science/article/pii/S0275531922000186

[13] If Ireland is to stay in the Eurozone, it would be highly advisable for it to advocate for a growth-independent Euro supply and for strong Eurozone-wide - and indeed EU-wide - redistributive measures, in order to inhibit the development of asset bubbles and support financial stability. See for example https://sovereignmoney.site .

- Ineffective regulation of 'rent-seeking' activity such as property speculation and speculative financial transactions. This exacerbates inequality of access to housing and encourages financial speculation rather than investment in the real economy. The former creates growth dependency by pressuring workers to work longer hours in order to be able to pay the mortgage or rent, while the latter sucks money out of productive economic sectors, obliging them to ramp up their activity in order to cover costs. Both also exacerbate inequality, which, as the Draft List states, undermines social cohesion, and also adversely affects health (discussed further below).

We would argue that all of these risks can and should be addressed through policy measures which enable growth-independence[14].

2.3. Health risks arising from stress

The Draft List recognises that 'existential crises about the impacts of climate change and concern for the future' can present a risk for social cohesion (p12). We wish to emphasise that such crises can also present a risk to emotional and physical resilience.

Research indicates that there are links between stress (such as the types of crisis mentioned above), depression, anxiety, and addictive behaviour[15].

Ireland has a relatively high rate of obesity[16], which - like alcoholism and other forms of drug dependency - has many knock-on health effects, including a greater susceptibility to contagious diseases. Similarly, links have been found between stress, depression and anxiety levels, and increasingly prevalent chronic diseases such as diabetes, asthma and autoimmune disorders[17].

Clearly, all of these disorders, both mental and physical, compromise the ability of sufferers to engage in activity that is socially and economically beneficial, and they also impose a strain on the healthcare system.

2.4 Health and environmental risks arising from excessive inequality

The Draft List correctly notes the links between inequality and a breakdown of social cohesion. However, it is important to also note an apparent adverse relationship between

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[14] A list of possible measures to help achieve this, along with links to related resources and research from Feasta and other organisations, can be found here: https://www.feasta.org/wp-content/uploads/2022/09/Feasta-Submission-to-the-Citizens-Assembly-on-Biodiversity.pdf

[15] Sinha, Rajita. 'Chronic Stress, Drug Use, and Vulnerability to Addiction', *Annals of the New York Academy of Sciences* (2008) https://www.ncbi.nlm.nih.gov/pmc/articles/PMC2732004/
Mohamed, Ikran I et al. "Assessment of anxiety and depression among substance use disorder patients: a case-control study" *Middle East Current Psychiatry* (2020) https://mecp.springeropen.com/articles/10.1186/s43045-020-00029-w
The measures for enabling growth-independence which we recommend in footnote 14 are also likely to have the beneficial side-effect of reducing addiction levels: https://www.feasta.org/2011/07/16/is-over-consumption-hard-wired-into-our-genes/

[16]https://www.hse.ie/eng/about/who/cspd/ncps/obesity

[17] https://academic.oup.com/eurpub/article/24/1/57/490374

inequality and health. As the Equality Trust states, "research suggests that life expectancy is longer and rates of adult mortality, infant mortality, mental illness and obesity are lower in more equal societies."[18] Moreover, research indicates that economic inequality contributes to climate damage[19].

2.5. Corporate taxation policy

While the Draft List acknowledges the risk involved in Ireland's heavy dependence on tax revenues from a relatively small number of foreign-owned corporations, there are also a number of other risks arising from Ireland's current corporate taxation policy (despite the OECD-brokered reforms in October 2021 and other recently-introduced measures).

The European Commission observed in June 2022 that "Ireland's internationally-oriented economy faces anti-money laundering and aggressive tax planning challenges. Significant inflows of foreign direct investment require effective supervision and enforcement of the anti-money laundering framework, particularly for professionals providing trust and company services. At the same time, significant outbound royalty and dividend payments over recent years indicate that companies may use Ireland's tax rules for aggressive tax planning purposes."[20]

While it notes that some alleviating measures have been taken, it warns that these measures do not address "supervision of trust or company service providers for which supervision is delegated to self-regulatory bodies. For those service providers, further efforts seem necessary to prevent possible gaps or diverging supervision standards…."[21].

With regard to the OECD-brokered global reforms (which famously led to an agreement on a 15% corporate tax rate), an open letter from the Independent Commission for the Reform of International Corporate Taxation, sent to the G20, argues that "this reform process has been watered down in such a way that it will overwhelmingly benefit rich countries… proposals for a global effective minimum tax of 21% (or even better 25%, as we advocate) have been rejected in the pursuit of the lowest common denominator of 15%, a success for Ireland, a loss for the rest of the world."[22] The authors include economists Jayati Ghosh, Thomas Piketty and Joseph Stiglitz.

This 'success for Ireland' may prove to be short-lived, in part because of the reputational risk involved. A 2021 study estimating the health effects in Ghana of lost revenue arising from Irish taxation policy found that it is likely to be significantly impacting child health and

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[18] https://equalitytrust.org.uk/health See also Kazachi, I. and Kennedy, B.P. 'Health and social cohesion: why care about income inequality?', *BMJ*, (1997) https://www.ncbi.nlm.nih.gov/pmc/articles/PMC2126438/

[19] https://www.thersa.org/blog/2017/12/is-inequality-harming-the-environment

[20] European Commision. 'COMMISSION STAFF WORKING DOCUMENT 2022 Country Report - Ireland' https://commission.europa.eu/system/files/2022-06/2022-european-semester-country-report-ireland_en.pdf (p5)

[21] ibid (p12)

[22] https://www.icrict.com/press-release/2021/10/12/icrict-open-letter-to-g20-leaders-a-global-tax-deal-for-the-rich

education.[23] On 14 February 2023, the UN's Committee for the Rights of the Child recommended that Ireland "ensure that tax policies do not contribute to tax abuse by companies registered in [Ireland] but operating in other countries, leading to a negative impact on the availability of resources for the realization of children's rights in those countries."[24]

By contributing to the highly destabilising global dynamic of unequal exchange between wealthy and low-income countries - and, indeed, individuals - corporate taxation policy is also undermining multilateralism and heightening environmental risk. A 2022 study which estimated revenue drain from the Global South to the Global North concluded that unequal exchange "is a significant driver of global inequality, uneven development, and ecological breakdown."[25]

3. Final note

We hope that the comments outlined above, which are intended in a constructive spirit, will be taken seriously. As they imply, we believe that the Government will find itself unable to successfully alleviate many of the complex and deeply challenging risks that it is facing unless it questions a number of widely-held assumptions concerning the nature of economic success or failure. We would therefore argue that a change in mindset will be a prerequisite for finding a way forward.

[23] 'Addressing the implications of Ireland's tax policies on Determinants of Health and Mortality Rates', *University of St Andrews* (2021) https://med.st-andrews.ac.uk/grade/wp-content/uploads/sites/13/2021/04/Ireland-policy-brief.pdf

[24] Committee on the Rights of the Child. 'Concluding observations on the combined fifth and sixth periodic reports of Ireland' , UN, (2022) https://tbinternet.ohchr.org/_layouts/15/treatybodyexternal/Download.aspx?symbolno=CRC%2FC%2FIRL%2FCO%2F5-6&Lang=en p4

[25] 'Imperialist appropriation in the world economy: Drain from the global South through unequal exchange, 1990–2015', Hickel J, *Global Environmental Change*, March 2022: https://www.sciencedirect.com/science/article/pii/S095937802200005X

Feasta (the Foundation for the Economics of Sustainability) *is an ecological economics think tank, based in Ireland but with international membership. 'Feasta' is the Irish word for 'in the future'. Our 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. Feasta is a member of the Irish Environmental Network, the Environmental Pillar, Stop Climate Chaos, the European Environmental Bureau and the Wellbeing Economy Alliance, and a partner of the International Movement for Monetary Reform. Further information can be found at http://www.feasta.org .*

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