A Labour View on a National Wealth Fund for Ireland

Overview

In May 2023, the Department of Finance published *Future-proofing the public finances – the next steps*,[1] which sets out some arguments for the establishment of a new national wealth fund, using what are perceived as temporary windfall tax receipts associated with multinational corporations operating in Ireland.

The Department of Finance paper concentrates on arguments defining the present tax position as a windfall and in favour of putting aside this extra funding into a saving fund. This position is framed negatively and passively, presenting the arguments against spending these resources rather than having any proposals on how to spend it.

Labour's view is that we need to make the positive case for how a national wealth fund would benefit the people.

We want to be part of a national debate—involving all stakeholders—about the potential for such a fund to address some of the major issues facing the country, including housing, climate action, our ageing population demographics, the digital transition, public health, indigenous industrial development and regional imbalances.

Labour is ambitious for the opportunity that a national wealth fund offers to make sustainable progress towards a fairer, more prosperous Ireland.

Principles for Investment

Investment by the national wealth fund should follow five principles:

1. Take a long-term view of return on investment
2. Build on existing expertise rather than displace it
3. Fund social and environmental outcomes
4. Fund balanced regional development
5. Fund realistic transition phases towards a sustainable and just economy

Take a long-term view of return on investment

The fund should be based on taking at least a medium if not long-term view in relation to the return on investment. In 2023, the fund should at least set targets of what it might achieve by 2030 and by 2050. These dates coincide with major commitments under Ireland's climate goals, but it is also likely that other major transitions (digital, demographic) will have advanced significantly at each of these junctures.

[1] https://assets.gov.ie/256707/ae2b2fc8-1411-4a64-9425-b3a42e1b6423.pdf

Build on existing expertise rather than displace it

Ireland has already national expertise in fund and debt management, in the National Treasury Management Agency (NTMA), the Ireland Strategic Investment Fund (ISIF), and the New Economy and Recovery Authority (NewERA). The Department of Finance paper does not explicitly suggest a role for ISIF as part of the national wealth fund, which risks duplication of effort in areas where ISIF has developed relevant expertise.

ISIF has four themes for its investments: Climate; Housing and Enabling Investments; Indigenous Businesses; Food and Agriculture. The government should clarify how it sees the future role of ISIF alongside the wealth fund.

It would be appropriate that funds could be transferred to ISIF and possibly NewERA from the wealth fund, specifying investment in particular areas, such as housing or climate. The fund might also directly fund other state enterprises.

As a principle, the fund should build on existing expertise within state agencies—possibly leading to an expansion of their remits—rather than creating a large new public agency to manage the wealth fund.

Fund social and environmental outcomes

A ‘triple bottom line’ approach should be taken to the assessment of return on investment, with the use of the funds judged by their environmental and social impact alongside their financial performance. In assessing where to invest, a return of 4% or more is probably not a tenable option in the longer-term without taking excessive risks. As such, seeking to maximise social and environmental outcomes should be a priority of fund investments, not merely maximising return. We need to reframe the measurements currently used to map Ireland’s progress.

An immediate concern is Ireland’s housing supply and affordability crisis, and an obvious use for the fund would be to increase the supply of public housing with a focus on innovative and sustainable methods of construction and delivery at scale.

In the context of Ireland’s binding obligations to reduce carbon emissions, the European Commission may impose annual fines of hundreds of millions of euro if Ireland fails to reach climate targets. As such, investment in environmental outcomes should take account of these potential fines in its cost-benefit analysis.

The fund management should adhere to high ethical values, which should be enforced, and it must be explicitly banned from investing in fossil fuels, the arms industry, occupied territories or other unethical activities.

On the issue of paying off the national debt in lieu of saving money in a national fund, this option can be considered but should not exclude the potential for social and environmental gains through the wealth fund option.

Specifically, while a purely financial analysis might suggest paying off national debt is cheaper than investing money for a financial return of less than the interest rate payable on national debt, consideration should also be taken of the social and environmental return (and the opportunity cost of paying debt and losing other beneficial outcomes).

As climate change is a global issue, increasing Irish State climate investment in emerging countries should be examined as one role for the wealth fund, consistent with Ireland's overseas aid commitments and the Sustainable Development Goals.

Fund balanced regional development

A Regional Development Commission should be established with a clear, focused and time-limited mandate to identify recommendations for sustainable regional development across different local authority areas, informed by the challenges and opportunities unique to each region. Local authorities should be grouped together for the purpose of this exercise, with regional development investment being delivered via one authority in every three or four using the shared services approach.

The recommendations of the commission must include how to develop indigenous medium size enterprises within the regions with quality jobs as a central focus (mindful of the productivity and innovation gaps that exist vis a vis comparable EU States - and how this gap can be bridged). This should be carried out as part of a move away from over-dependence on foreign direct investment (FDI) for good jobs and an unsustainably high proportion of business and income tax receipts. There are also potential benefits in this approach for the all-island economy.

The mandate of Enterprise Ireland should be examined and, if necessary, expanded to create a cascading structure for developing Irish companies. Enterprise Ireland should be involved at the start up and initial development phase, passing over to ISIF (the mandate for which may also have to be expanded) for investment in the growth phase, with the IDA continuing their mandate. Linkages should be made down to Local Enterprise Office (LEO) structures and to national skills and training agencies and initiatives.

Fund and plans for realistic transitions towards a sustainable and just economy

To date, the concept of a transition to a sustainable economy has been misunderstood. The transition is not just movement from one type of economy to another. Instead, it involves developing a temporary alternative economic and labour model—one that is attractive to investors and consumers—based on what works to enable people and businesses to let go of carbon-intensive practices and to embrace sustainable alternatives. The wealth fund should be explicitly tasked with investing in the creation of a transitional economy that provides decent, sustainable jobs throughout the regions. (This point is further developed below).

Labour is a party that uniquely believes in the function, capacity and democratic mandate of the State to do big things. Our State and commercial semi-state agencies have, since independence, served Ireland well. As we consider best to deploy Ireland's wealth, we should not rule out the creation of a new 'next generation' of commercial semi-state enterprises to harness the full capacity of the State, working with enterprise and our third and fourth level sectors, to help take our country to the next level.

The Three Horizons Model

The Three Horizons Model is a useful model for planning longer term change.[2] A common feature of a number of major 'transitions'—the green transition, the digital transition, the demographic transition—is that there is a large gap between our current situation and

[2] See, for example, https://www.internationalfuturesforum.com/three-horizons

where we want to be. This can be illustrated in the form of two curves (C and F), where C represents our current situation and F represents the desired future. For example, Ireland is currently highly fossil-fuel dependent, but we have committed to transitioning to a future where we will be largely self-sufficient, with net zero carbon emissions, using renewable wind, tidal and solar energy. The problem is the extent of the gap between the current and future.

There is a risk that we could move away the current situation (e.g. reduce fossil fuel energy production) before we have sufficient capacity to sustain the future situation (e.g. renewable energy). This is a recipe for inertia. Vested interests block any change to the present (C)because they can point to the lack of readiness of society or the economy to deliver on the planned future (F). The further we proceed down the curve of C, the stronger the resistance to change becomes.

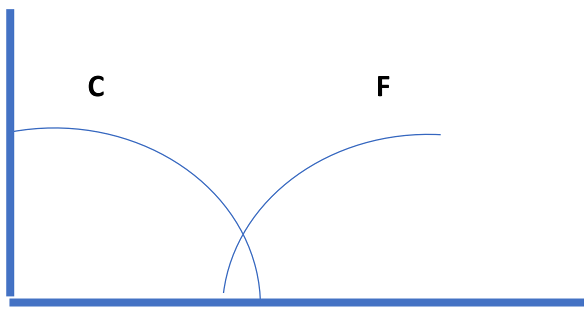

Figure 1. The gap between the current situation (C) and future situation (F) is large, requiring large-scale cessation of old activities before developing new ones.

The solution to this state of inertia is to introduce a third, intermediate state, which is the transition. This is the 'third horizon'. For too many, the concept of the 'just transition' amounts to nothing more than a slogan. Rather than seeing transition as simply the *movement* from C to F, transition should be understood to be a distinct phase, which can be added to the visualisation as an intermediary and time-limited curve (T).

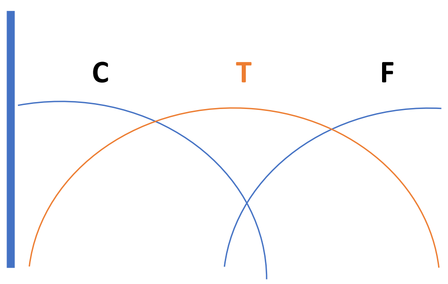

Figure 2. The gap between the current situation (C) and future situation (F) is filled by a transition state (T). Investment in transitional activities provides a rapid replacement for current activities, and provides the bridge towards the desired future state.

Even in current conditions, we must invest to initiate the transition phase, which in turn allows us to de-couple from the current situation and move more securely towards achieving the planned future situation. The intermediate curve provides a stable 'bridge' from the present to the sought-after future, and it provides more certainty for investment.

Crucially, the transition phase is time-limited, and investments should be sufficient to fund the transition but not to make it permanent. The advantage of fully articulating the transition state is that it gives focus and clarity to investment, and it provides a much clearer pathway from the present to the future, without requiring any 'leaps', slogans or unrealistic step changes from one state to another.

Having explained the concept, the following are examples of how a national wealth fund could invest in the multiple transitions that Ireland is going through.

Energy Transition

In relation to the energy transition, the transition phase should articulate how energy will be provided for a 15-20 year period while the necessary infrastructure—such as upgrading the national grid, developing North-South energy links and building electricity storage facilities—is implemented to allow us to reach our commitment of a net zero energy generation capacity by 2050.

The transitional period might require new, efficient power stations to fill the gap between the closure of the old and building of the new, but all of this should be clearly timetabled with an end date as well as a start date for the transitional arrangements.

Taking equity investment, where appropriate, in companies active in developing offshore wind and in the development of the infrastructure, skills and research capacity to service and develop this potentially transformative economic activity also ought to be given active consideration.

There are areas for investment where Ireland can reduce carbon emissions faster, avoid climate fines, create jobs and improve quality of life, including solar roll out, climate change adaptation measures like flood defences, and advanced construction techniques for house building.

Digital Transition

In relation to the digital transition, at present there are 1.3 million adults in Ireland either not using the internet or using the internet with below basic digital skills, including 670,000 people under the age of 60 and 630,000 aged 60 or older.

For the next 15-20 years, there will be a significant cohort of people not able to safely and confidently transact with the state online (if at all). As such, alongside investing to achieve the future plan of 90% of public service transactions online (*Harnessing Digital: The Digital Ireland Framework*) there is a need to invest in the transition phase where online and offline transactions (including phone, post and in-person) must coexist, with everyone able to access goods and services, including public services, on an equitable basis.

To date, there is a lot of description of the planned future (F) but very little realistic depiction of how we get there in a way that is credible and fair.

Demographic Transition

In relation to the demographic transition, the Department Finance paper assumes that current costs for the state pension, healthcare, etc. will simply be multiplied by a growing number of older persons. It also relies on the outdated and ageist ‘dependency ratios’ to underpin its analysis, which are neither realistic nor justifiable.

This is a counter-productive and unambitious way to envisage the future.

Instead, the future state must be one where unit costs for the healthcare of older persons are reduced, which is why there should be a detailed model of the transition. For example, during the next 15-20 years, we must achieve fully interoperable electronic patient records across the healthcare system, free-of-charge primary care and a significant reduction in reliance on hospitals for injuries and ailments that are not life threatening, a comprehensive system of homecare provision so people can age in their communities, the building of appropriate ‘retirement village’ and supported housing stock within existing communities with older residents, and so on.

Measures to overcome the socio-economic determinants of poor health and health inequalities must be addressed (e.g. regulations and taxation of sugar) alongside individual behavioural interventions.

For example, the terms of reference of the forthcoming Commission on Care should include a role for investment and measures to develop the transitional phase towards the future vision of healthy ageing, the option of a longer working life and more equitable longevity.

Conclusion: Invest in the Transitions

Based on the above, it should be obvious how a national wealth fund could achieve significant social and environmental outcomes, alongside financial return, by investing in the transition states that must be developed and implemented between now and 2050. A national wealth fund can also be used to address market failure, such as in housing, by increasing the level of public housing.

The energy transition can only happen if there is sustained investment and subsidy from the state to encourage the development of wind, solar, energy storage and the other infrastructure for a low-carbon energy system, alongside structural changes to our transport system such as investment in railways and active travel.

The digital transition will be held back for years—or will deepen inequality—unless there is investment in the development of digital skills in the population—among consumers as well as workers—alongside improvements in access to broadband and the affordability of digital devices.

The demographic transition will require the development of new hospitals and other community-based health and care facilities, but even more it will require a national transformation in relation to health knowledge and healthy behaviours, which can only be achieved if the investment is in place to overcome structural and systemic factors that lead to poor health outcomes.

The national wealth fund represents an historic opportunity to transform Ireland and to improve the quality of life for everyone. A real national debate must take place how on how we use these resources and how we can deliver a better, fairer and more sustainable future.