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# Looking Beyond the Surface: Integrating Sovereign Wealth Funds into the National Economic Strategy

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In their op-ed published in September, David Williams and Jock Finlayson (2023) highlighted that Canada's current economic strategy is not working and that a revision of the economic agenda is needed. Their op-ed spurred additional discussions about the future of the national economic strategy and what element needs to be a part of it; unfortunately, these discussions omitted a crucial economic mechanism of Sovereign Wealth Funds (SWF). This omission may prove costly as the government's fiscal room reduces, given the expectation that government debt will continue to rise rapidly as the impacts of the monetary and fiscal decisions made during the pandemic years start to hit home. A report published by Prequin and Baker McKenzie (2021) illustrates that SWFs have become reconstruction tools in the post-pandemic world by encouraging the development of key or emerging sectors, aiding large-scale infrastructure developments domestically through revenues generated. Therefore, this opinion piece calls for establishing a

strategic development sovereign wealth fund and a national reserve investment fund to increase capital maximization while spurring long-term economic development in Canada. This op-ed will examine why modelling its oversight measures through the Norwegian regulatory model will help to reduce risks associated with the wealth fund.

Future economic strategies should include the creation of a Strategic Development Wealth Fund (SDSWF), principally centred around maximizing investments in global securities and non-domestic assets, to help the Canadian economy address vital challenges it faces over time. The revenue generated from this SDSWF should be redirected towards funding housing construction nationwide, which would help establish a sustainable but effective way to significantly meet the supply needed to keep up with and eventually outstrip the demand for housing across the country. It will also be tasked with supplementing Infrastructure Canada's efforts by providing investments to

provinces and territories to enhance the development of new infrastructure from coast to coast to coast. This redirected investment would provide a quasi-private means of capital injection to municipalities to build more houses at a fast and reliable pace to supplement the provinces' efforts. A good illustration of this redistribution model in practice lies in Ireland, where the Irish government moved €8bn from its SWF to fund a push to increase the supply of homes in the country (Beesley, 2023).

Secondly, future strategies should include the formation of a national Reserve Investment Fund (RIF) with the mandate of assisting Finance Canada in managing a portion of the excess federal foreign reserve via investments into high-yield foreign assets. This fund would act as the de facto secondary future liabilities fund, where a portion of its revenue would be used to reduce the national debt and help provinces service their debts. Thus, it will help stabilize the national fiscal outlook in the long haul by reducing the national net external liability and providing the provincial and territorial governments with a path toward long-term fiscal sustainability. Ergo, a sizable percentage of returns from these funds should be used as an additional funding means to support economic development in Canada's North. This strategic usage would help increase the region's participation in the

country's economic story while increasing its capacity to overcome critical barriers in these areas by introducing a quasi-private institutional investor with significant firepower.

However, implementing such a drastic economic policy also requires oversight to match it, where Canada can take a page or two from the Norwegian playbook. Norway's success with the SWF comes from the fact that it uses a fiscal rule amongst the management of its sovereign fund where gains made through oil and gas are split between domestic spending and general reinvestment into the SWF (Arezki et al., 2011, pp. 107-115; Ormiston, 2015). As a country with a vibrant oil and gas sector, Canada should invest a portion of its oil and gas revenue into the SDSWF until the economy can build up another equally profitable sector where the gains could finance the SDSWF continually. Moreover, Canada should simultaneously prevent the SDSWF and the RIF from unilaterally investing in the domestic markets. In essence, any domestic investment beyond the fund's mandate should get parliamentary approval before the fund can undertake it. Imposing this measure would help retain the quality of overall investments while retaining stability in the domestic macroeconomic landscape's structure, performance and behaviour.

In essence, these solutions will allow the government to invest in future generations by building the fiscal groundwork now before oil and natural gas revenues substantially decrease. This strategic shift would help increase the government's fiscal capacity and allow the country to use portions of the revenue it currently generates from oil and gas to invest in present and future generations by generating more fiscal room to address upcoming challenges in decades ahead. Moreover, the presence of a strategic development wealth fund injecting Canadian capital into the global markets only strengthens Canada's long-term competitive advantage and financial resilience.

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