

Research shows profit, not politics, drives sovereign wealth fund

February 1 2010

Investment funds owned by national governments -- known as "sovereign wealth funds" - now wield trillions of dollars in investment power globally, raising concerns that the funds could be used for political purposes and leading to calls for limits on where these funds can invest. But new research from North Carolina State University indicates that such concerns may not be warranted, and that one of the largest sovereign wealth funds has been driven by profit, rather than political considerations.

"Many people have raised concerns about politically-driven [investment](#) decisions by sovereign wealth funds, and have urged that these funds be barred from investing in the United States," says Thomas Grennes, a professor of economics at NC State and co-author of the new research. "So we evaluated the Norway Fund to see whether such concerns were borne out." The Norway Fund is internationally recognized as the most transparent sovereign wealth fund, and has the most publicly available data. It is also one of the largest investors in European stock, with total assets of approximately \$500 billion.

"We found that the Norway Fund operates like a profit-driven mutual fund, rather than making politically driven investments," says Dr. Mehmet Caner, professor of economics at NC State and co-author of the paper.

"So," Grennes adds, "if this is representative of other sovereign wealth funds, it shows that profit motive outweighs political considerations.

Therefore, these funds do not pose a greater risk to markets than traditional, private investors."

However, other sovereign wealth funds are far more secretive, making it impossible to assess their investments. For example, some Middle Eastern funds provide so little information that it is not even entirely clear who owns them.

But Grennes and Caner are hopeful that additional information will soon be available on other funds, as a result of a recent agreement between the International Monetary Fund and all of the major sovereign wealth funds to become more transparent. "As other funds make data available, we hope to determine whether these funds are similarly profit-driven," Caner says.

More information: The Norway Fund research, "Sovereign Wealth Funds: the Norwegian Experience," was published online Jan. 22 by the journal *The World Economy*.

Provided by North Carolina State University

Citation: Research shows profit, not politics, drives sovereign wealth fund (2010, February 1) retrieved 21 May 2024 from <https://phys.org/news/2010-02-profit-politics-sovereign-wealth-fund.html>

<p>This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.</p>
--