



News From

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Senator Bayh Raises Concerns With Sovereign Wealth Funds

WASHINGTON —Senator Evan Bayh (D-IN) today chaired a hearing of the Senate Committee on Banking, Housing and Urban Affairs on sovereign wealth funds and the economic and national security implications raised by state-owned investment funds that invest their foreign exchange reserves in U.S. companies. A full transcript of his opening statement:

“The issue of Sovereign Wealth Funds is a significant one. The number of these funds is growing. Of the 20 largest, 13 started since 1990. With foreign currency reserves of 140 percent over just the last five years, this trend is likely to continue.

“The size of these funds is also growing; there are now seven with over \$100 billion in assets, including Abu Dhabi, \$625 billion; Singapore (GIC), \$215 billion; Norway, \$322 billion; Kuwait, \$213 billion; and China, \$200 billion; Singapore (Temasek), \$180 billion; and Russia now at \$127 billion. These now dwarf in size the multilateral organizations designed to be the governing architecture of the global financial system. For perspective, the International Monetary Fund now holds assets at the market value of just \$76.9 billion; the World Bank has just \$40 billion on its balance sheet.

“The number and size of these funds is likely to continue to grow. This is being driven by the increasing price of commodities—principally oil—and trade imbalances and currency practices by countries that have the effect of increasing their foreign currency reserves. These situations show no sign of abating.

“Sovereign wealth funds present the United States with both opportunities and challenges. It is better for the United States to have capital invested here, which produces good jobs, improved productivity growth, lower interest rates, and a higher standard of living. But sovereign wealth funds are inherently different than private investments. As the Chairman of the SEC, Christopher Cox, recently observed, ‘Government ownership of companies and investment funds poses a fundamental challenge to the market premise upon which the SEC operates.’

“A lack of transparency that characterizes many sovereign wealth funds undermines the theory of efficient markets at the heart of our economic system. In addition, unlike private investors, pension funds and mutual funds, government owned-entities may have interests that will take precedence over profit maximization. Just as the United States has geopolitical interests in addition to financial ones, so do other countries. Just as we value some things more than money, so do they. Why should we assume that other nations are driven purely by financial interests when we are not?

“The issue before us and the subject of this hearing is how to strike the right balance of interests. How do we attract capital from abroad and pursue our financial goals while reconciling this with other vital national concerns?”