

Note by Coen Teulings on the recent phenomenon of Sovereign Wealth Funds,
29 April 2008

The current crisis in the financial world may invite sweeping statements and entice people to be jumping to conclusions. Yet there is very little new. We have seen such crises before, and I am sure there will be another crisis in a different way in some 10 years' time. Bankers do not learn, and the next generation will be eager again to show how "smart" they are.

It remains amazing though how leading financial institutions currently have managed to seriously upset the entire financial system. Part of the problem is that a "marked to market" rule has forced the situation to look far worse than it needs to be in a real economy. Disasters do happen also in a market economy and recent events have demonstrated once more that a free-market system needs checks and balances and sometimes unfortunately produces "the unacceptable face of capitalism". Under such circumstances regulators step in and scramble to sort out the mess and try to bring the system back on a even keel.

The current financial crisis interestingly has contributed to a further globalisation of the economy. Sovereign wealth funds in Asia and the Middle East have got a golden opportunity to acquire a significant position in large Western businesses and they have not hesitated to do so. This has resulted in a balance of power more widely spread around the globe in those businesses. It is what I would think globalisation is all about.

It may politically however become more sensitive if those sovereign parties would substantially invest in what are considered businesses of national interest (f.i. providing vital supplies to a population) and start using those positions with a political agenda. This has generally not happened. On the contrary sovereign wealth funds deliberately want to act merely as financial investors. This should be normal in a market economy but it can only work properly when the rule of reciprocity applies. This is not always the case. Regulators and citizens therefore should remain wide awake in order to contain any political challenges and this is also why a World Trade Organisation is so important.

But trying to figure out how the world might look like by 2020 may be interesting for academics but otherwise seems a pointless exercise. We will see another crisis before then anyway.