

Ethics and political economy of government-owned financial funds

Project description

In recent years sovereign wealth funds financed by natural resource revenues have reached the public consciousness like never before. The number of countries (mostly poor but natural resource-rich) with sovereign wealth funds has proliferated, as setting up “savings funds” or “stabilisation funds” has become part of the standard package of international policy advice, including by the Norwegian development community. At the same time, these funds have ballooned to unexpected proportions with the recent boom in international commodity prices.

Sovereign funds raise questions of ethical obligations in at least two directions, both of which are discussed by the Graver Report and the other founding documents of the ethics policy in the Norwegian Fund (*Statens Pensjonsfond – Utland* or SPU). First, the financial wealth held by the government ought, as a matter of morality, to be appropriately managed in the interest of the people it represents. Second, ownership of financial wealth carries with it obligations to those affected by the companies in which the financial wealth is invested.

Both of these aspects have been the subject of recent academic research in moral and political philosophy, public policy, and political economy. Important questions, however, remain to be addressed. As to the first, while the SPU is widely recognised as a success, sovereign funds more generally have not always realised the promised benefits to the supposed beneficiaries—the people. Thus the first ethical obligation is often not discharged, and there is active research in political economy to investigate the political dynamics that may be causing this. As to the second ethical obligation, the nature of collective responsibility generally, and the dispersion of responsibility for the collective actions of people organised in corporate entities particularly, are live fields of enquiry in contemporary moral and political philosophy.

This project is an interdisciplinary research programme that contributes to both these two strands of the literature. It builds on Dr. Sandbu’s previous scholarly research and develops a series of papers around two sets of questions.

The first relates to the philosophical foundations for attributing moral responsibility to financial investors for the actions of the companies they invest in. At a general level, the project asks what conditions of collective agency must be fulfilled to attribute collective responsibility to investors in corporations. At a more specific level, it examines what moral difference there is (if any) between the responsibility stockholders and bondholders may have for the actions of the company they are invested in.

The second set of questions relates to the political economy setting in which sovereign wealth funds discharge their duties to their beneficiaries—the people whose wealth the funds hold in trust. The project develops formal political models of the incentives facing sovereign wealth funds and their consequent effects, paying particular attention to the effects of prospective political power changes over time on the management of large

financial holdings; and to how the presence of large financial holdings affects political incentives when individual citizens are subject to the decision-making biases well-documented in psychology and behavioural economics , such as loss aversion and reference-dependence.

About the author

Dr. Martin E. Sandbu is a Senior Fellow at the Zicklin Center for Business Ethics Research at the Wharton School of Business at the University of Pennsylvania. He received his Ph. D. in Political Economy and Government from Harvard University under the supervision of professor Amartya Sen in 2003. He has been a postdoctoral fellow in economic development at professor Jeffrey Sachs's Earth Institute at Columbia University, and has for the last three years taught the compulsory course in business ethics and the Wharton School.

He publishes in top academic journals across three disciplines: Philosophy, economics, and political science. Much of his work straddles these disciplines. His doctoral dissertation (Sandbu 2003) combined philosophical investigation with axiomatic derivation and experimental empirics to analyse the phenomenon of process-dependence in people's preferences. His dissertation has since been published as Sandbu (2007a, 2007b, 2008a). His later research has focused on two fields. One is economic development, in particular the political economy of natural resource-rich countries. He has written articles drawing on behavioural political psychology to suggest new institutions for managing natural resources in poor countries, and has used econometric methods to examine the effects of more deliberative decision-making processes in such countries. His second field of research is the intersection between ethics and economics, where he has published on types of ethical preferences and economic justice, and is currently writing a book on business ethics.

In addition to scholarly publications, he frequently presents his work and advises civil society groups such as the Publish What You Coalition or local developing country NGOs, for whom he has written several policy reports (in Bolivia and East Timor). He has also provided expert advice on anti-corruption legislation in developing countries to governmental and intergovernmental agencies on three continents. He frequently writes about his findings for the general public in commentary pieces.

Dr. Martin E. Sandbu, Zicklin Center Senior Research Fellow, is the recipient of a research grant from the Norwegian government's Financial Markets Fund (*Finansmarkedsfondet*) [this can be linked to the URL of the English home page of the fund, which is <http://www.forskningsradet.no/servlet/Satellite?cid=1103644953121&pagename=finansmarkedsfondet%2FPage%2FHovedSideEng>].

Through this research project, entitled "Ethics and political economy of government-owned financial funds," Dr. Sandbu is writing a series of articles in moral philosophy and formal political economy, focused the particular ethical and political economy challenges raised by sovereign wealth funds.