Opening Statement

Financial Services Committee

Foreign Government Investment in the U.S. Economy and Financial Sector

March 5, 2008

Mr. Chairman, many Americans have expressed concern over the growing role played by sovereign wealth funds in the U.S. economy. Such fears are to a large extent misplaced, however, as we should be more concerned with the underlying causes that have allowed sovereign wealth funds to accumulate as much capital as they have.

The two major types of sovereign wealth funds are those which are funded by proceeds from natural resources sales, and those funded by accumulation of foreign exchange. The former category includes sovereign wealth funds in Saudi Arabia, Kuwait, and the UAE. Flush with dollars due to the high price of oil, they are looking for opportunities to make that money work for them. The high price of oil is due in large part to our inflationary monetary policy. We have literally exported inflation across the globe, spurring malinvestment and a subsequent commodities boom.

The second major category of sovereign wealth funds includes China's sovereign wealth fund, which has the potential to draw on China's more than $1 trillion in foreign exchange reserves. Because of China's current account surplus, it continues to accumulate foreign exchange. Much of this is due to the United States' persistent current account deficit. Inflationary monetary policy and a desire to stimulate the economy at all costs has led us to become the world's largest debtor, and this debt must eventually be repaid. The current account deficit has come about because our economy does not produce enough capital goods to satisfy the wants of our foreign creditors. Tired of holding increasingly worthless dollars, it is only natural that our creditors would want to purchase tangibles, which in the present case are stakes in American companies.

Rather than bemoaning the fact that foreign governments are using their dollars to purchase stakes in American companies, we should welcome the stability that such investment is bringing to our economy. While I am reluctant as anyone in this room to involve any government in any sort of intervention into the market, the fact remains that without injections of capital from foreign wealth funds the results of the subprime crisis would have been far worse for many financial firms. Even now we read that Citigroup, despite the massive funding it has received from sovereign wealth funds, is in danger of collapse unless it receives additional funding.

I have always been a staunch advocate of abandoning our loose monetary policy and facing the consequences now, rather than continuing easy money in the hopes of never having to face a recession. Now that it is clear that decades of Federal Reserve monetary manipulation have led to a severe recession, the thought of sovereign wealth funds investing in the financial sector holds far more appeal than that of a complete collapse of major industry players which would cause catastrophic effects throughout the economy.

Sovereign wealth funds are a necessary consequence of fiscal and monetary policies which have left us overextended. Actions to stifle the operations of sovereign wealth funds and corresponding retaliatory actions by foreign countries could have the same detrimental effects on the economy as the trade wars begun after passage of the Smoot-Hawley tariff. Rather than take actions to limit or prohibit the actions of sovereign wealth funds, I would urge my colleagues to take action to end our inflationary monetary policy.