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Herman Schwartz
Politics Department
PO Box 400787
Charlottesville VA 22904-4787
Schwartz@virginia.edu
<http://www.people.virginia.edu/~hms2f>

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For the Bastiaan van Apeldoorn, Naná de Graaff and Henk Overbeek, eds., Special Issue ***Globalizations*** (12, 4) **The Rebound of the Capitalist State** *The re-articulation of state-capital relations in the global crisis*

Author Bio:

Herman Schwartz (schwartz@virginia.edu) is Professor in the Politics Department at the University of Virginia, USA. He is author of *In the Dominions of Debt, States versus Markets*, and most recently *Subprime Nation: American Power, Global Capital and the Housing Bubble*, as well as three co-edited books. Website: <http://www.people.virginia.edu/~hms2f>.

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Political Capitalism and the rise of Sovereign Wealth Funds

Introduction

Does the sudden and spectacular increase in the size and number of Sovereign Wealth Funds (SWFs) in the late 2000s presage a shift away from the neo-liberalism of the last two decades and towards state capitalism? Bremmer (2010) sees states and firms as resolutely opposed. For him, SWFs present merely one facet of a world economy rapidly shifting away from markets and towards state control. I argue here that SWFs neither are novel nor constitute any *decisive* shift towards state control. States and markets are co-constitutive, but states have power precisely because of their ability to define property rights and thus draw the boundary between public and private activity. The way they draw that boundary determines the nature of capitalism in any specific market.

'Sovereign Wealth Fund' is a nominal label covering three distinct types of organization. This nominal label lumps apples (Norway's Government Pension Fund – Global, or GPF-G), lobsters (Singapore's Temasek) and bliss potatoes (the Gulf SWFs) together on the grounds that they are all colored red. But these organizations have different essential political and economic logics and should not be lumped together. SWFs like GFP-G are intended to buffer resource economies against price volatility and prevent dutch disease. These are often structured as public pension plans to inhibit politicians and voters from nullifying the buffer by raiding the fund for current consumption. A second set of SWFs are largely an instance of Weber's political

capitalism, in which actors make profits on the basis of special deals with political authorities (Love, 1986). More specifically, these SWFs are a recurrent but not exclusive feature of developmental states, although earlier versions had different organizational structures. To the extent that these SWFs succeed in their developmental mission, they tend to be self-extinguishing because they create private social actors that replace or counter these SWFs. The third and final group encompasses personal investment vehicles for politically powerful actors in patrimonial regimes. Their 'sovereign' status is a convenient legal fiction. While some real world SWFs blend all three roles, this does not nullify the analytic distinctions. Making and maintaining these analytic distinctions helps us to get past the moral panic that erupted around SWFs in 2007.

Simultaneously, disaggregating SWFs by their essential functions shows that they are neither a novel nor a uniform threat to the current liberal global order. First, the liberal global order is an ideological fiction. State owned or sponsored firms like the giant US Government Sponsored Enterprises, Fannie Mae and Freddie Mac were deeply entangled in global capital markets well before the mid-2000s SWF eruption, as were giant public pension plans like CalPERS (Gotham, 2006; Helleiner and Lundblad, 2008). Second, most SWFs are not buying controlling interest in firms in order to make them into public sector firms. Quite the opposite: Singapore's SWFs own or control a wide range of corporatized infrastructure firms. Other SWFs provide the capital for privatization of public assets. Third, global financial firms are quite happy to work with the new SWFs. Those global financial firms, like SWFs, are manifestations of political capitalism. The core issue is thus where political power lies, not some contest of ideas about how 'free' markets are.

Just the facts ma'am

As the noted social scientist Thomas Pynchon (1973, p. 251) said, "If they can get you asking the wrong questions, they don't have to worry about the answers." Conventional analyses of SWFs ask the wrong questions because they define SWFs using nominal rather than essential characteristics. Conventional analyses define SWFs as state owned financial institutions that invest the state's own savings. But this definition obscures more than it illuminates. Similarly, the discourse on SWFs only arose with the blossoming of large and opaque funds owned by authoritarian states with policy agendas that possibly might run counter to those of the United States (Truman, 2008). This orientation also distorts analysis of SWFs.

If we consider any state institution with large financial holdings as a SWF, then the world's largest SWFs are not the stereotypical, secretive oil exporter SWF. Instead, the four largest SWFs are Fannie Mae (the US mortgage giant, with \$3.2 trillion in assets as of December 2010), the Peoples Bank of China (the central bank, with just over \$3 trillion in assets as of March 2011), the US Social Security Administration (i.e. public old age pension, with just over \$2.6 trillion in US Treasury bonds as of December 2010), and Freddie Mac (a slightly smaller US mortgage giant with \$2.3 trillion in assets as of December 2010). Collectively these four hold assets well in excess of all other non-central bank SWFs put together. Secrecy, particularly on the part of the Gulf state SWFs, combines with stock market volatility to make a precise accounting of SWFs' holdings impossible. But pre-2008 crisis estimates ranged from \$1.5 trillion to \$3 trillion. This made SWFs as large as the contemporaneous global hedge fund industry, but considerably smaller than the \$16 trillion global pension industry, assuming a precise boundary

could be drawn (Johnson, 2007; US Treasury, 2007). Yet there is no obvious, a priori place to draw a line between central banks, pension funds, and SWFs (Helleiner and Lundblad, 2008). What does make the former unlike, for example, the Kuwait Investment Authority?

One obvious difference is that the four giants above do not have large *net* holdings. All have large present or future liabilities offsetting their assets. The PBoC accumulated its foreign exchange reserves by issuing renminbi denominated bonds into the domestic market. The SSA is obligated to fund pension payments 75 years forward. The Frannies borrow in capital markets to fund their mortgage holdings. KIA by contrast has no offsetting liabilities. The absence of offsetting liabilities gives some SWFs a different kind of power in the economy as compared to central banks, pension funds, and housing banks. Here the nature of intent obviously matters. SWFs trouble those concerned about maintaining US global economic power, because they reverse the neo-liberal policy advice of the Washington Consensus and create a potential for states to use their SWFs to exercise control in global and local markets (Truman, 2008). The ends to which control is directed obviously matters also.

No one frets about Norway's GPF-G, despite its large net holdings. GPF-G publishes detailed quarterly reports and abstains from accumulating holdings of more than 5 percent in any given firm. It thus abjures controlling positions and has only macro-economic rather than micro-economic weight in Norway's economy (or indeed other economies). Singapore's Central Provident Fund is similarly invisible. CPF is Singapore's public pension fund, and captures about 32 percent of wages annually. With and through Temasek, a true Singaporean SWF, it controls much of Singapore's housing and infrastructural firms, and has an active overseas investment arm that, unlike GPF-G, creates majority controlled subsidiaries. On the other side are the highly secretive Persian Gulf state SWFs. They publish no accounts, provide inconsistent aggregate asset figures to the media, and say nothing about their investment strategies. Their very public contribution to propping up ailing US banks during the acute phase of the 2008 global financial crisis earned them little love and rather much skepticism about their motives.

The conceptual homogenization of all contemporary state investment funds under the 'SWF' label also obscures continuity with earlier organizations that also accumulated export revenues and fiscal surpluses. The conventional definition points to Kuwait's Investment Authority, started in 1953, as the first SWF. But the marketing boards European imperial powers in Australia, Africa and elsewhere deployed to capture export revenues performed the same revenue capture functions as some modern SWFs, and indeed they persisted well past decolonization. Equally so, lumping passively invested public pension funds together with developing SWFs used as development agents obscures continuities with earlier state development banks and organizations.

The rest of this section thus elaborates essential rather than nominal definitions for developmental SWFs, focusing on two economic and one political characteristics. From a functionalist economic point of view, SWFs in principle can (and should) perform three natural and benign functions for economies that are highly dependent on raw materials exports. They could buffer economies from the high price and volume volatility (beta) characterizing those exports. They could help diversify the economy. They could help prevent dutch disease by sterilizing sudden increases in export revenues. From a developmental or Gerschenkronian

(1966) point of view, developmental SWFs could accelerate capital investment by concentrating capital for lumpy and risky investment that individual private actors are unlikely to undertake.

But these buffering and investment functions are public goods, and as such neither come into existence without political will and a legitimating ideology, nor persist without the support of organized social groups. SWFs, marketing boards and development banks are inherently political creatures. Politics is about power, and different SWFs are manifestations of efforts to create or maintain different forms of power. The state's power comes from its ability to define and redefine property rights, and thus set the boundary between public and private arenas. Markets are systems of power because the constitution and regulation of property rights determines the profitability of enterprises. In turn, differing degrees of profitability mean that firms will have different abilities to buy up other firms and thus take control of production chains.

SWFs are organizational vehicles for changing the distribution of value in production chains towards local firms and elites. Most goods today are complex bundles of intermediate goods. At each step in the process of designing, producing, shipping and selling the good, a firm faces 'make or buy' decisions. Each step thus represents a potential site of conflict as firms struggle to secure the best possible price. Nearly a century ago, Max Weber pointed out that "the price system [is] an expression of the struggle of man against man [or firms against firms]," and not simply a neutral consequence of the impersonal forces of supply and demand. In this struggle,

"capitalist interests are interested in the continuous extension of the free market up and until some of them succeed, either through the purchase of privileges from the political authority [politischen Gewalt] or exclusively through the power exerted by their capital [kraft ihrer Kapitalmacht], in obtaining a monopoly for the sale of their products or the acquisition of their means of production, and in this way close the market for themselves alone" (Weber 1978, pp. 93, 108, 638.)

In the struggle over price, firms that can use their ability to withhold production from the market (as in Veblen's 'restriction' or Williamson's 'hold-up' power) are able to push prices upward and extract more profit from a given chain of exchanges (Veblen, 1904/1975; Williamson, 1985; Fligstein, 2001; White, 2001). Controlling the architecture of a commodity or value chain conveys the ability to determine the distribution of profit within that chain. Weber's kraft ihrer Kapitalmacht encompasses publicly traded firms' vulnerability to buy-out by firms with larger capitalizations. As Jonathan Nitzan (1998) has brilliantly argued, vulnerability to buy-out explains why firms always seek to do better than the average rate of profit in their economy, rather than simply seeking profitability. Profitability *per se* does not assure continued control; rather, control assures above average profitability and thus continued control.

States create SWFs and created development banks in order to shift value towards their economy and prevent buy out of nascent local firms. By taking large positions in local banks, China's SWF, the China Investment Corporation (CIC) reduces the influence of foreign banks that are part owners of those Chinese banks. Given that financial firms have captured a growing and sizeable share of profit, developmental states necessarily lean towards creating SWFs in order to control the financial parts of a production chain.

Furthermore, the absence of a bourgeoisie characterizes most developing economies (Chaudhry, 1993). Developmental SWFs can also create an industrial bourgeoisie up and downstream of the SWF's specific investments. The process of economy building is thus also a process of state building.

Yet intent does not guarantee results. Corruption in and around SWFs can also create a more parasitic bourgeoisie whose 'capital' arises from connections rather than investment. SWFs can end up as vehicles for what Weber (1978) called political rather than rational capitalism. In rational capitalism, businesses are oriented toward routine trade and production and seek profit through exchange – though also making strenuous efforts at the creation of monopoly in the struggle over prices. In political capitalism, “continuous business activity generating profit through unusual deals with political authorities” characterizes firms (Weber 1978, pp. 164-166).

Three different processes of on-going state formation thus are inadvertently homogenized under the label of “SWF.” One set of SWFs is mainly about efforts at governmentality, in which a population – including politicians – constrains itself from individually rational behaviors that are collectively irrational, and from their own internal time inconsistency. A second set of SWFs mainly re-packages the classic developmental state fusion of public and private interest in accumulation and industrialization. Here, the state's interest in creating an (industrial) bourgeoisie is paramount, as a vibrant civil society makes for a strong state and a strong economy. In the last set of SWFs, social actors are colonizing the state and using the state as a vehicle for their particular, rather than collective, interests. This group exhibits pure political capitalism. The following sections present examples of each type, although no pure, unmixed forms exist.

SWFs and rational capitalism: Buffering against volatility

Raw materials exports face two distinct challenges. First, raw materials exports face very high price and volume volatility; they have high 'beta.' Developing country agricultural export prices changed about 7 percent annually, 1955-81 (Talbot, 1995). Oil is even more volatile, with an annual average price change of 35 percent from 1994-2009, and copper only slightly less so at 28 percent (Lipsky, 2009). The macro-economic risks for raw materials exporters are obvious. Theoretically, state-run marketing boards could buffer raw materials exporters against volatility by withholding surpluses from world markets and releasing them during periods of low supply, and by confronting the big buyers of raw materials outputs with an oligopsonist.

These kinds of state organizations started a century ago. They mostly arose out of colonial or wartime marketing arrangements in which states enjoyed a higher than normal autonomy from social groups and could compel sales by producers to marketing boards, and dictate prices to producers. In the São Paulo and later Brazilian coffee valorization schemes of the early 1900s, the state borrowed abroad to buy up surplus coffee, and then repaid the loans by releasing coffee into world markets in lean years. The Australian Wool Realisation Commission and the New Zealand Dairy Board (and their predecessors) similarly bought up entire crops and resold in world markets. With global market shares ranging from 15 to 80 percent, these organizations potentially could stabilize volumes and prices. Imperial marketing boards in Africa were more predatory, maximizing the colonial state's income.

Second, raw materials exports create a situation that reverses the usual beckerian hypothesis with respect to life time income. In Becker's model, households smooth lifetime consumption by borrowing against expected future income, on the assumption that income rises with age. Exporters of exhaustible raw materials face exactly the opposite problem. Non-renewable raw materials are in principle an illiquid asset (figuratively for oil, literally for most of the rest). Once harvested, they no longer provide income, so future income is likely to be lower than current income. Ideally, marketing boards or SWFs could transform receipts from illiquid assets into liquid and hopefully higher yielding assets. This would smooth national and individual consumption into the future, if actors could commit themselves to draw only on the permanent income stream the asset generated and not the asset itself. But capturing and banking the income from raw materials sales requires individuals and their state to exhibit extremely high levels of discipline. Historically the waning of wartime exigency and state autonomy exposed marketing boards to the time inconsistency of producers, voters and politicians. Thus royalty payments tend to be diverted directly into state budgets (or politicians' pockets).

Finally, a third objective consideration apparently motivates the choice for holding assets *offshore* rather than simply holding assets. Most of the countries with SWFs are relatively small and reliant on a relatively narrow range of exports. Coal and iron ore account for nearly two-fifths of Australia's exports; oil for three-fifths of Norway's exports; dairy and meat for one-third of New Zealand's exports. While Singapore – two-fifths electronics – has a much more diversified export base, it is essentially a city state. In these circumstances investing locally appears to put too many eggs in one basket.

Finally, buffering income and holding it offshore via a SWF allows countries to overcome 'dutch disease.' In dutch disease high volumes of raw material exports can drive up the exchange rate and price local manufacturing out of world markets. This hollowing out the economy raises the political and economic salience of the raw materials sector, aggravating the problems described above. The Norwegian GPF-G is designed to prevent dutch disease. By 2009 the fund owned roughly 1 percent of global equities by value. The major parties and the finance ministry agreed that the fund's income could be used to supplement the government budget, but only up to a cyclically adjusted deficit equal to 4 percent of the fund's assets. This allows Norwegian manufacturing to compete in high tech, high quality goods by limiting local inflation.

Collective investment SWFs appear to resolve all four objective problems at once. They diversify a country's income sources outside of that country and away from concentrated local risks, they disconnect personal income streams from peak prices, they potentially reduce political and social pressure to 'un-smooth' consumption by bringing too much consumption into the present, and they can mitigate dutch disease. Yet this kind of disciplined behavior is rare. The other two situations, developmentalism and political capitalism, are more common.

Developmental States, SWFs and the missing bourgeoisie

"I am by no means an admirer of the bourgeoisie; its crudeness, its prosaic vulgarity offend me as much as anyone else; but for me it is facts that count . . . my sympathy is undoubtedly on the side of the workers as the downtrodden class. And yet I cannot help adding –

God grant us such a bourgeoisie!”

V. I. Botkin, 1839 (Quoted in Kingston-Mann 2003, p. 93)

Botkin’s lament reflects an enduring problem in economic development, namely that states in backward economies need to intervene to provide the pre-requisites for industrialization. From Alexander Gerschenkron (1966) to Alice Amsden (1989, 2001) analysts of development have focused on the absence of adequate capital, capitalists, managers, workers with the appropriate skills, and a domestic market to validate investment. They argue that greater economic backwardness requires greater state intervention to create the preconditions for industrialization. Just as the need to reduce volatility and smooth consumption appears to call our first type of SWF into being, the functional need to concentrate and allocate capital in the absence of a bourgeoisie apparently calls our second type of SWF into being. But this functional or rational need conceals a specific process of state building tightly linking state and society. States create SWFs to create a civil society, which implies that SWFs do not constitute some permanent shift in the balance of power between states and private actors. The process of creating a bourgeoisie is a process of on-going state formation. States cannot function efficiently through direct control of the economy.

Civil society does not exist in the absence of the state, nor is it automatically or authentically in opposition to the state, except in Randian fantasies. As Mann (1985) has argued, state power operates most efficaciously through civil society. Yet developing economies generally lack a civil society whose identity and interests are caught up with that of the state. Very few late developing societies actually lack a mercantile class with capital or experience in managing manufacturing. What they lack is a mercantile class that is ethnically isomorphic with state elites. Existing state elites aim their SWFs at both problems. SWFs are a mechanism for indirect control through which state elites can nurture a local and ‘correct’ bourgeoisie. Developmentalist SWFs are the latest manifestation of state efforts to construct a counterpart bourgeoisie – a civil society – that is intertwined with the state, complicit in nation building efforts (and not just economy building), and relatively immobile geographically.

Economic development in the world economy is neither automatic nor unproblematic (Schwartz, 2007). The continual expansion of demand in the most advanced parts of the world economy creates an opportunity for new or expanded economic activity in relatively backward parts. Yet areas that lack social institutions appropriate for the production of the commodity in demand, or that possess relatively less effective institutions than their competitors, can take only limited advantage of those opportunities. Most of these institutions provide public goods that enable production and enhance both profits rates and volumes. Moreover, even areas with the appropriate institutions find themselves constrained by world market pressures. In the absence of state efforts to shape development outcomes, world market signals will sort production zones into areas of lower and higher value added production, and thus also consign populations to lower and higher levels of per capita income. Participation in world markets guarantees neither development nor long term growth.

Gerschenkron (1966) noted the relative and sometimes absolute lack of the public goods that are prerequisites for growth, particularly capital and capitalists. Gerschenkron’s states generated novel institutional solutions like universal banks and state owned banks to overcome

the problem of concentrating and allocating capital into industry. SWFs are an updated version of these institutions. While a well-to-do family or an existing but pre-industrial textiles producer might be able to capitalize mechanization of textiles production, capitalizing railroads and metals production was out of their reach. Moreover, rail and metals production required long term investments at a time when most savings were in short term deposits. Gerschenkron's successful late industrializers confronted this problem with a range of increasingly larger and more comprehensive efforts at mobilizing and intermediating capital. Thus the French state (unsuccessfully) supported the Péreire brothers' *Crédit Mobilier*, the Prussian imperial state supported the emergence of the four big *D-banken*, and the Russian state used state owned banks to back new industry. Gerschenkron did not consider the Brazilian or Korean experiences, but there too state owned banks provided the lion's share of long term capital to industry.

On this view, SWFs are the old development banks sailing under new colors. Like the old banks, they step out into the larger world to facilitate penetration of foreign markets, to transfer technology through the acquisition of foreign firms or espionage, and to gain political access to protected markets. Consider Singapore's Temasek. Domestically it has capitalized Singapore's major infrastructure industries, holding dominant or full ownership of Singapore's airline, power generation and gas systems, telecommunications system, shipping, and heavy engineering firms. But it also has considerable stakes in Indonesian, Korean, Chinese and Indian financial firms. This facilitates Singapore's economic role as the regional headquarters for global electronics firms, and the expansion of Singaporean and MNC firms' activities and sales into those other economies. Its dependent foreign firms can influence borrowers to buy from Singaporean sources.

Temasek thus looks like an updated version of the old Prussian *Seehandlungsgesellschaft* (Overseas Trading Company), which Frederick the Great founded as a state bank and trading company. The *Seehandlung's* remit was to maximize Prussian exports, provide finance for new firms, modernize those firms, and acquire – by any means – the technologies behind the British industrial revolution. By the 1840s the *Seehandlung's* active funding and management of linen and woolen mills and what passed for heavy engineering at that time made it the largest industrial entrepreneur in Prussia. The *Seehandlung* also monopolized Prussian grain exports to Britain and promoted Prussian manufactured exports in continental Europe; alert readers will immediately recall the discussion of marketing boards above, while those with knowledge of Korea will recognize the *chaebol* trading companies of the Park Chung Hee era. The *Seehandlung's* importance receded as a new local industrial bourgeoisie emerged.

While this view of SWFs as developmental agonists is in many ways accurate, it also obscures the state and civil society building phenomena noted above. As Kiren Aziz Chaudhry (1993) argues, the high level of state economic involvement in developing economies reveals state weakness rather than state strength. The fact that the state cannot delegate direct management of economic activity not only shows the absence of an industrial (or modern) bourgeoisie, but also that the state has no ability to mobilize economic information and bodies. Developing economies often lack a well functioning civil society that serves as a counterpart to the state, and on whose behalf the state resolves collective action problems. But this lack does not always arise from the absolute absence of a bourgeoisie. As Chaudhry points out, many late developers have an extant and competent bourgeoisie, but one which is not from the dominant

ethnic or religious group. This division makes it difficult for the state to monitor those groups and assure their compliance with development projects that run against market signals in the short run.

This division also creates a related political problem. States' ability to provide public goods is a function of their ability to mobilize social groups behind simultaneous state, economy and nation building projects. Those projects require a moral justification of short term sacrifices in the name of long term benefits, what Friedrich List called the 'price of the industrial training of the country.' These sacrifices are easier to accept when one is part of the nation that is being built, as with the ethnically Japanese merchant houses that formed the nascent *zaibatsu* after the Meiji restoration. They can plausibly be understood as the price of social and political acceptance, as with the German Jewish merchants that formed the core of three of the four big *D-Banken* (Stern, 1977). They are harder to accept when the nation being built explicitly excludes that bourgeoisie, as with Greeks and Armenians in the late Ottoman Empire and then post-1919 Turkey, or the Chinese in most Southeast Asian polities.

In this light, developmentalist SWFs serve at least three purposes. They can help create firms that can later be privatized to ethnically/nationally correct groups, thus providing the state with a base. They also serve as a counterweight to local bourgeoisies that are ethnically or religiously indigestible from the point of view of the majoritarian state. And SWFs can help states take control over the levers of power in a modern society. Singapore provides examples of each process.

Singapore's core political problem since independence has been to maximize employment in a resource-less speck of land, peopled by a heterogeneous (though majority Chinese) population, with a largely expatriate bourgeoisie that ranged from large scale British firms through highly mobile and medium scale Chinese family firms, down to a variety of small firms owned by Muslim, Hindu, and Baghdadi Jewish Indians. In short, a typical developing country mixture. Unemployment was very high immediately post-independence, as an entrepôt economy confronted other regional states bent on national development strategies. A series of political conflicts left the People's Action Party (nominally social-democratic ideologically but in practice Leninist) and what would evolve into the Lee Dynasty with tenuous control over the state. PAP immediately sought to lower unemployment by attracting foreign capital, and by maximizing local savings and directing that cash into immobile investment. This strategy generated average annual growth rates of around 8 percent for 40 years.

PAP used a plethora of government owned firms to manage Singapore's politics and economy. Among them, the Central Provident Fund (founded 1955) which handles retirement, medical savings accounts and housing related savings, is notable for capturing about 35 percent of local wages. The much later Government Investment Corporation (founded 1981) invested the fiscal surplus in a range of state-owned firms in ship and aircraft building, harbor services, and telecommunications. PAP created Temasek in 1974 to gather ownership control over these firms under one roof and supervise their future expansion.

Temasek exemplifies our state and economy building themes. Temasek nurtured a class of domestic managers/entrepreneurs in a wide range of sectors, although the pervasive use of five years plans suggests the emphasis should be on managers more than entrepreneurs. This

nascent bourgeoisie provided an economic counterweight to the otherwise overwhelming presence of multinational manufacturing firms generating the bulk of Singapore's industrial employment and exports for Singapore. While these MNCs are not the classic ethnic or religious 'minority' entrepreneurs found in late developers, their attachment to the Singaporean project cannot be taken for granted. Only constant upgrading of Singapore's workforce and infrastructure made Singapore a continuously attractive location for both high value added production and regional headquarters, validating PAP rule through continued employment and rising wages. Temasek directly controlled the production of attractive infrastructure, while also providing a domestic counterweight to the foreign firms.

Yet Temasek was also a powerful vehicle for political and social control. Through Temasek, the state – understood abstractly and also as an entity dominated by the Lee dynasty via the PAP – controlled all the major and minor modes of telecommunication and media. The chair of Temasek's board and its CEO are both former PAP ministers. Temasek owns both the infrastructural backbones for information dissemination in Singapore through its control over the fibre-optic and broadcasting systems. Its wholly owned subsidiary MediaCorp controls a comprehensive array of TV and radio channels, including all free over the air broadcasting, as well as Singapore's major newspapers and journals. MediaCorp also produces feature length content for its distribution channels. Temasek's majority owned subsidiary SingTel operates the land and mobile phone system as well as the internet. In short, the state controls much of the information circulating in Singapore and thus can exert considerable influence over elections. Through its ability to control domestic political debates and outcomes, Temasek is a powerful tool for social control and state building. It is capable of molding compliant citizens whose well being is tied to a wide range of government owned firms.

Even in more ethnically homogenous China, the SWF CIC functions as an internal development bank and as a tool of state control more than as an adventurous external investor (see Overbeek, this issue). The bulk of CIC's \$200 billion holdings are channeled through its predecessor Central Huijin, which in turn is the majority shareholder in the big four state-owned banks. In turn, these banks largely lend to state owned enterprises. The big four banks all have some foreign private ownership stakes. Central Huijin's shareholding position thus neutralizes these stakes. To the extent that CIC has gone overseas, its main investments appear to be in private equity firms like Blackstone – the very essence of political capitalism – and in raw materials and agricultural production. The latter are essential for Chinese development.

Developmental SWFs are a vehicle through which the state can create a parallel civil society by fusing state interests with select segments of society. Developmental SWFs thus are not evidence of some novel shift of power towards states. They are perfectly consistent with Weber's 'rational capitalism,' where enterprises continuously produce goods to exchange them in free markets in an effort to obtain continuous and rising profits (Weber 1978:913-921). Although these markets are marked by a struggle over price, actors have power by virtue of their capital rather than interference by political actors. Developmental SWFs should be understood as an effort to maximize state power relative to other states through the pursuit of relative economic gain and the creation of infrastructural power in Mann's (1985) sense. But the state's long run goal here is to create firms capable of surviving on their own in global markets and managing their own affairs. This is the sense in which SWFs are self-extinguishing.

SWFs, Patrimonial Authority and Political Capitalism

Rather than being carriers of state interests, SWFs can also be personal vehicles for capital accumulation through investment strategies marked by Weber's 'political capitalism.' On this reading, SWFs actually impede state building despite nominal state ownership. The oil exporter SWFs and in particular the Arabian oil exporter SWFs are based in states built on patrimonial rather than legal-rational lines. Patrimonial SWFs maximize particular economic gains using political capitalism. In political capitalism actors are oriented toward profit, but seek large and irregular profits through discontinuous political events and favors. These profits can arise from predation, from direct use of force and from special deals with political authorities. The last of these is more typical of the patrimonial SWF, while the former two are typical of the large joint stock enterprises that engineered European colonial empires in earlier centuries.

While patrimonial SWFs appear to be state owned, their links to their respective states are tenuous precisely because of the low level of institutionalization of those states. State ownership becomes a cloak for private activities and a lever of power for the private interests of notables who have captured state offices and those offices to generate deals in which they capture resource rents. Their ability to continue to capture those rents is a function of their political power relative to internal rivals, and thus also their ability to offer political goods to external actors. Unsurprisingly the investment strategies and internal organization of these SWFs are opaque, oversight is limited, and the purposes of investment remain murky. Dubai's *Istithmar*, for example, owns the ocean liner Queen Elizabeth II. Why?

While domestic patrimonial authority and political capitalism appear to go hand in hand here (as do legal-rational authority and rational capitalism), this is an elective affinity rather than a strict causal or mutually constituting relationship. Indeed, Diwan (2009) argues that some Saudi elites are trying to use their SWF to build something closer to a legal-rational, albeit corporatist state from the existing patrimonial state. Thus Saudi Arabia's SWF is not archetypical here, but has to serve as the best available case. There is not enough public information on SWFs marked by pure political capitalism – for example *Istithmar* or *Mubadala* – to write a coherent analysis.

The proposed Saudi SWF, *Sanabel*, and the Saudi Arabia Monetary Authority (SAMA – a proto-SWF) both deviate from the pure type of patrimonial SWF. But their proposed purposes helps us infer what the current status quo looks like in more patrimonial societies. The Saudi state seeks to use its SWF to construct modern social groups and organizations out of what would otherwise be tribally based affinity groups (Diwan, 2009). The Saudi SWFs are thus part of a strategy to transform patrimonial authority/legitimacy into rational legal authority. This strategy has an economic logic behind it. It might help avoid dutch disease and the other pathologies of the rentier state. But it also has a dual political logic – formal bureaucracy is impossible if ministries are considered the property of specific princes and tribes, and a modern economy cannot be built if commoners are debarred from both politics and significant roles in the state apparatus. In aspiration, these are embryonic developmentalist SWFs. But their efforts reveal in negative the contours of the phenomenon we are trying to observe here.

Up until the late 1990s, the Saudi state was an incoherent aggregate of ministries with overlapping functions and behaviors. Ministries were effectively the private property of individual princes in the al-Saud family, with occasional subcontracting to commoners acting as

agents for those princes (Hertog, 2007). Princes used their control over ministries to line their pockets and those of their clients. Bureaucratic appointment was not meritocratic, although what Geddes (1994) calls pockets of efficiency did emerge (Hertog 2007, pp. 544-5, 552). The state lacked any substantial counterpart in civil society (Hertog, 2004; 2007). Saudi elite politics instead operated through an institutionalized struggle over state revenue flows, while elite-mass politics operated through direct patronage and personal appeals to elites. This flowed over into Saudi holdings of foreign assets. Overall, about two-thirds of Saudi external assets are held by private entities rather than public ones, which is the reverse of the pattern for the other petro-states (Diwan 2009, p. 353). And as many as 50 different public agencies – each naturally linked to some ministry or individual power-holder – hold substantial foreign asset positions (Diwan 2009, p. 354). Elites used these ministerial holdings as vehicles for their own personal outward investment.

In this situation, SAMA operated as the only institutional arena in which collective interests could find expression. SAMA functioned as a quasi-central bank, as the locus of efforts to manage relations with the United States, and as an investment agent for some princely wealth. SAMA accumulated assets of nearly \$300 billion by 2009, and parked most of it in US Treasury bonds. This hoard is the physical manifestation of the political exchange of Saudi support for the US dollar and US military protection for the Saudi regime (Spiro, 1999). It also acts as a blanket concealing the personal off-shore investments of various princes. SAMA shields the princes from internal and external scrutiny of both domestic corruption and income inequalities. Only a few princes, like the \$19 billion man al-Waleed bin Talal, were visibly global investors. And even there, bin Talal's behavior looked like SAMA in miniature, with timely investment into a troubled Citibank in 1990 and accusations that he was a front man for other Saudi princes (*Economist*, 1999). Al-Waleed bin Talal and the Saudi state came to Citibank's rescue again in 2008, which surely buys them some access to Washington.

Despite SAMA, Saudi institutions remained fragmented well into the 1990s. The wake-up call for Saudi elites to build new, more stable institutions came at the end of the 1990s. While Saudi Arabia had accumulated a huge net international asset position in the 1970s and 1980s, rising consumption and domestic welfare commitments at a time of low oil prices steadily reduced this net position in the 1990s. In 1998 Abu Dhabi had to rescue the Saudi state with a loan, and after 2001-02 Saudi Arabia briefly became a net international debtor. It ran budget deficits until 2004 and came close in 2008, when oil price briefly dropped to around \$30 per barrel (Setser, 2008; Ziamba, 2008). The rising incidence of domestic terrorist events in this period signaled rising domestic discontent.

The princes needed some agency to impose collective discipline on themselves by channeling oil rents into sustainable development, and new forms for channeling domestic political claims into manageable venues. SAMA and the proposed formal Saudi SWF play a role in both areas. SAMA supported the Saudi Arabian General Investment Authority (SAGIA) and *Sanabel's* ventures in petrochemicals, on and offshore agricultural investment, and increased education. These new roles reflected King Abdullah's determination to centralize and rationalize economic decision-making (Diwan 2009, pp. 355-6). Yet this is a far cry from what Singapore's collection of SWFs and SOEs had been doing for the prior 40 years. The crucial difference appears to be that Singapore inherited a formal bureaucracy intact from the old colonial state, while Saudi

Arabia built one helter-skelter as oil revenues flowed in. The Saudi state remains relatively uninstitutionalized and fragmented. Its quasi-patrimonial SWFs reflect this fragmentation. The other oil SWFs undoubtedly exhibit even more fragmentation. The much smaller United Arab Emirates have at least six different SWFs, for example, reflecting the UAE's political fragmentation. Given this, it is hard to see how these particular SWFs can be read as some historically unprecedented shift towards greater state power.

Conclusions

SWFs have been heralded as a sign of the resurgence of state capitalism and a reversal of the general trend towards privatization that characterized the 1990s (Truman, 2008; Bremmer, 2009). Yet the analysis above shows that this is misleading for at least two reasons. First, SWFs are not a uniform phenomenon. Three different types of state formation and power motivate the behaviors hiding under the misleading collective label of 'SWF.' Each reflects a different kind of institutionalized power in different societies. In principle SWFs could be a tool for collective saving or balancing the economy over the business cycle or inter-generationally, as well as protection from dutch disease. In practice, this rarely happens, although Norway's GFP-G is the poster child for success here. Much more commonly, SWFs are a new version of the developmentalist banks of the last century and the state trading firms of the century before that. Developmental SWFs are vehicles through which the state seeks to create its counterpart bourgeoisie and civil society. Here success allows the state to subordinate other domestic rivals and bridge the developmental gap between itself and its external rivals. Finally patrimonial SWFs present an opposite path of state formation in which social interests colonize the state. They manifest political capitalism and the valorization of personal capital through association with political authority.

Second, as Hibou (2004) argues, and as I have argued with respect to welfare states (Schwartz, 1994), casting the dichotomy between public and private ownership as an issue of power between states and markets is arbitrary and misleading. Privatization or the delegation of tasks to the private sector is a way for the state to regain autonomy and create a social base of support for itself. By the same token, increased state control over investment – which anyway is occurring in locales different from those most affected by deregulation and privatization – does not necessarily represent an increase in state power or evidence of state power in general.

Even developmental SWFs do not manifest a uniform and generic trend towards greater or lesser state power. State capitalism of Bremmer's (2010) sort will face the same limitations and advantages it always has, as Helleiner and Lundblad (2008) note. State control over investment via developmental SWFs signals the absence of state infrastructural power. The state cannot rely on organized social groups and in particular a competent bourgeoisie to carry out management of the economy. Here the state is constructing its counterpart bourgeoisie. The limits of that phenomenon can be seen in the inability of Russian firms to craft durable deals with their foreign counterparts in joint ventures. Patrimonial SWFs, of course, exhibit behaviors at odds with any argument about rising state power (or indeed economic prowess, as Dubai World's disastrous Palm and World Islands projects show). And surely overt interference in

markets by developmental and patrimonial SWFs will provoke a similar response by currently more market oriented states.

SWFs thus neither are a totally new phenomenon nor clearly exhibit the same Weberian ethic. Instead they combine long standing modalities for governance and well known tropes from the repertoire of legitimations for a given distribution of income. Their recent reemergence and efflorescence shows that the state never lost its ability to define property rights and thus the distribution of activity between nominally public and private spheres. The neo-liberal period may have been ideologically or superficially anti-statist but state power did not somehow disappear in that period because privatization occurred. Equally so, the essential power of the state is not increasing because more activity occurs under 'public' ownership. Public and private power are co-constitutive.

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