

Svein Gjedrem: Ethics and the Government Pension Fund – global

Dinner speech by Mr Svein Gjedrem, Governor of Norges Bank (Central Bank of Norway), at the conference “Investing for the future”, Oslo, 16 January 2008.

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Minister, ladies and gentlemen,

We are gathered here for a conference – and a dinner – centred on ethics. At this venue, it is obvious that no one will be cheated, and each will get his or her due. Clearly, no one should need to leave this place hungry, or unfairly treated.

For that we are truly grateful.

Norges Bank is proud, and fortunate, to be the manager of the global part of the Government Pension Fund. And we are proud that Norway has been one of the frontrunners in promoting the idea of ethical investment.

Although the debate has broadened over the past few years, some criteria for the management of the Fund have been in place since the beginning: We must have leaders and employees who do their job in a morally impeccable way. We must also make sure that environmental sustainability and social issues are factored in, since they are crucial to future returns, and to the Fund’s legitimacy. And there should indeed be barriers against certain acts and investments, no matter how profitable, basically because ethical behaviour is a goal in itself.

In addition to our job of managing the investments, we have been given the task of being active and engaged owners of our global stock portfolio. Being engaged internationally is, fortunately, a trait by which Norwegians are known. Maybe we do not always succeed in our endeavours. But the idea of not being engaged, of not using our influence, of not taking the long-term perspective, and instead just standing on the sidelines, is foreign to us. This Fund is global in the truest sense of the word, and it does have a say through its equity holdings, even if this influence is subject to clear limits. The authority to do so is laid down in the mandate and guidelines. It is a task that we have taken on with great commitment and a strong sense of purpose.

The management of the Fund is of course subject to certain requirements. But when considering what these requirements should or should not comprise, it is important to tread carefully. Even though globalisation has reduced the emphasis on national borders, we must show caution when we invest in foreign markets – because when we do so, we are entering our neighbour’s house.

For one thing, the distinction between ethics and politics may be different in other countries.

For another, when we say that a company’s activities are in conflict with the ethical guidelines, we are not only pointing a finger at the company. We are also pointing a finger, albeit indirectly, at the laws and regulations in the country that permits those activities to continue – and we are pointing that finger as a representative of another state.

Consequently, the guidelines for the exercise of ownership rights must be based, not on a specifically Norwegian world view, but on internationally recognised norms. And we are open about our principles and practices without losing sight of the limits of transparency. Declarations and resolutions may have their place, but in our day-to-day work we aim for real dialogue and results.

The list of global issues that require urgent attention seems never-ending, and there have been calls for the Fund to address many of these. But priorities always have to be made to avoid the risk of spreading resources too thinly. Norway has chosen its goals for the Pension

Fund based on a long-term perspective, and we do not want to be ruled by the tyranny of the impulsive and changing priorities that beleaguer many public programmes and sectors.

There is another important ethical principle behind the Fund, which should not be forgotten: namely, our obligation to future generations. For the prosperity we are enjoying now, incurs obligations. Our oil and gas reserves are limited. Justice would not be served if all our petroleum wealth was allocated only to the generation lucky enough to experience our “oil age”. We perceive it as an ethical obligation to invest our wealth also for the benefit of future generations. International capital markets play a crucial role in allowing us to fulfil this obligation.

Allow me the pleasure for a moment to look back on our less illustrious history as a borrower. Twice in the past 40 years we have succumbed to the temptation of living above our means. The first time was in the late 1970s, when the Norwegian state borrowed substantial amounts abroad. Our current account deficit in 1977, at 15 per cent of GDP, set an OECD record and we were probably on the brink of having to ask for an IMF program. We were investing heavily in the welfare state and in North Sea projects at the same time, and these investments could not be fully financed on the basis of economic growth.

The second time was during the years of economic crisis before and around 1990, when levels of domestic spending, private and public, far exceeded our economic limits.

It was not until 30 years after oil had been discovered off our shores that Norway was in a position to put some money aside. We are nonetheless frequently reminded that petroleum production has reached a plateau and will begin to decline in a few years' time. Our welfare system, including old-age pensions, is basically financed by current income. It is not fund-based, as pensions are in a number of other countries. Even though it is likely that the Pension Fund will grow considerably in the years ahead, estimates show that the capital in the Fund will only cover some 60 per cent of public pension expenditure in the future. It cannot therefore be argued that the government's savings are large relative to its obligations.

The Fund and its investments in international capital markets greatly enhance our welfare and they do it in two ways: First, they give us the freedom to consume and invest oil revenues independently of the actual time profile of oil production. Second, they give us the freedom to diversify by converting oil in the ground into ownership stakes in businesses around the world, increasing expected returns and reducing risk.

I hope those of us gathered here tonight – guests from far away and close by, and many who work with this Fund every day – will see a growing consensus around standards and norms for ethical investment. As a representative of Norges Bank, I am happy that you wish to be part of the process. As I'm confident our owner the Ministry of Finance, and our colleagues at the Council on Ethics would agree, we welcome input, ideas, and challenges.

I wish you every success with your discussions.

Thank you for your attention.