Policy Backgrounder

Is a US Sovereign Wealth Fund an Appropriate Use of Surpluses?

The President has proposed establishing a US sovereign wealth fund (SWF), directing his Administration via Executive Order to develop a plan by early May. The details of this plan will be crucial to assess whether the US can emulate the success of other SWFs in promoting growth, advancing geopolitical priorities, and directing domestic investments or it could run the risk of poor investment decisions and weak governance, and whether Congress will likely approve the establishment of a US SWF.

Key Insights

- The President issued an Executive Order on February 3 requiring his Administration develop a plan within 90 days for establishing a US sovereign wealth fund.
- SWFs typically use revenues from natural resources, budget surpluses, and/or foreign exchange reserves from trade surpluses to invest in financial markets and infrastructure projects – the US, in contrast, has a large budget deficit but assets that can potentially be sold to provide revenue for the SWF.
- SWFs are common globally, with over 90 countries establishing at least one and more than $12 trillion in assets managed by these funds. Norway, Saudi Arabia, China, and Singapore operate some of the most prominent SWFs in the world.
- Key questions remain for the US proposal, including how the US SWF will be financed, what investments it will make, and its governance structure.

Plan for Establishing a US Sovereign Wealth Fund

On February 3, the President issued an Executive Order calling for a plan for the Federal government to establish an SWF. The goals of the SWF would be to "promote fiscal sustainability, lessen the burden of taxes on American families and small businesses, establish economic security for future generations, and promote United States economic and strategic leadership internationally." The Executive Order requires the Secretary of the Treasury and the Secretary of Commerce to develop a plan for establishing a US SWF within 90 days, including recommendations for funding mechanisms, investment strategies, fund structure, a governance model, and an evaluation of the relevant legal considerations.

In an accompanying fact sheet, the Administration provided additional context on its rationale for the Executive Order. The Administration sees an SWF as a means to amplify the financial return of a nation's assets and leverage those returns for strategic benefits and goals. The fact sheet mentions that the Federal government holds $5.7 trillion in assets and indirectly holds an even greater total value of assets once natural resource reserves are considered. The Administration believes its economic policies will result in greater wealth and revenue streams that can be used for the SWF, citing the United Kingdom and the experience of 23 US states as examples of potential or existing SWFs without giving further details on the proposed structure.

Examples of Other Sovereign Wealth Funds

SWFs are common worldwide, with over 90 countries having established at least one. Globally, the estimated total combined assets of all of SWFs is over $12 trillion. SWFs are typically state-owned investment entities that allocate national assets into financial markets to generate returns, often for the purposes of economic stabilization, savings for future generations, economic diversification, and strategic investments in infrastructure and technology. Governments often fund them through revenues from natural resources, budget surpluses, and/or foreign exchange reserves from large trade surpluses.

Two of the most famous SWFs are those managed by Norway and Saudi Arabia, which use oil and gas revenues to make investments. Norway's Government Pension Fund Global manages over $1.7 trillion in diversified assets, including equities, fixed income, real estate, and infrastructure. Norway's SWF only invests abroad to avoid overheating the Norwegian economy and focuses on long-term value creation. Saudi Arabia's Public Investment Fund manages approximately $925 billion in assets and has dual goals of investing globally and promoting local economic development and diversification to align with the country's Vision 2030.

Another major SWF is China's Chinese Investment Corporation, which managed over $1.2 trillion as of 2022. The Chinese government uses its large foreign currency reserves from the country's trade surplus to invest in foreign equities and projects and improve its domestic state-owned financial institutions. China has used its SWF to invest in global energy markets, the urbanization of sub-Saharan Africa, and the country's Belt and Road Initiative of major global infrastructure projects.

Singapore has two SWFs, GIC Private Limited and Temasek Holdings. GIC manages the country's large foreign reserves as a long-term investor in 40 countries worldwide. GIC does not disclose the size of its holdings as a means to protect the value of the Singapore dollar from speculators, but it has been estimated to be over $700 billion. Temasek, in contrast, invests primarily in equities, a major difference from most SWFs. It had a net portfolio value of S$369 billion (US$294 billion) in 2024. Both funds are conservatively managed and have strong governance and auditing structures.

Very recently, Indonesia launched SWF Danantara. While the project will begin by managing funds from "inefficient and poorly targeted spending programs," transferring them to downstream projects from mining industries and food production, it will grow, with eventual projected total assets of about $900 billion, making it the world's fourth largest SWF. (Former UK Prime Minister Tony Blair will serve on the supervisory board of the fund.) Danantara combines three state-owned banks, the oil and gas company Pertamina, and other state-owned enterprises including the mining holding company. The fund has a specific mandate to drive economic growth. The banks and other companies in the fund will presumably continue to have their own boards in a multi-layered supervision system and be audited by the State Audit Agency. But the fund will face challenges in avoiding crowding out private investment and in prioritizing long- and short-term growth.

The success of these funds and their ability to bring national prestige and international influence has prompted other countries to explore and establish their own. The UK's National Wealth Fund has approximately $35 billion in assets to invest in domestic private sector financing and local authority services. France's Bpifrance also has a domestic focus to promote economic growth and entrepreneurship in France. Germany established an SWF last year financed by public borrowing to invest in global equities, the proceeds of which would go towards bolstering the country's ailing pension system. In the US, many states have their own SWFs. Alaska, New Mexico, and Texas are three prominent examples of states using the proceeds of oil, gas, and mineral sales to fund programs like education and state government operations.

Rationale in the US Context

A number of key questions remain regarding how a US SWF established by the Federal government would operate. The first question is how the sovereign wealth fund will be financed. The Federal government currently runs a projected $1.9 trillion annual deficit, so budget surpluses are not an option. The US economy also had a trade deficit of more than $900 billion in 2024, making that option unlikely as well. The President has stated that the sovereign wealth fund could be funded by tariffs and Treasury Secretary Bessent has said, "We're going to monetize the asset side of the U.S. balance sheet for the American people. There'll be a combination of liquid assets, assets that we have in this country as we work to bring them out for the American people." But moving assets or the proceeds of asset sales (for example, sales of Federal land or electromagnetic spectrum) into the fund would surely require an Act of Congress. Congress may have other ways in which to spend the money – or might want to use it for deficit reduction. Additionally, would the SWF be permitted to borrow funds?

The second question is in what projects or ventures the sovereign wealth fund will invest its assets (and whether its investments would be limited by statute or otherwise). The President has discussed "great national endeavors" including domestic infrastructure projects. The President floated using the US sovereign wealth fund as a vehicle to acquire TikTok after Congress passed a law last year requiring its sale to American owners. Proponents of a US sovereign wealth fund argue it could be used for strategic infrastructure investments both in the US and in other countries and serve as a geopolitical counterbalance to other sovereign wealth funds. Domestically, these proponents believe that the fund could invest in technologies that the private sector has not addressed, such as biomanufacturing and the next generation of computing materials. The Federal government has some experience with these types of investments, primarily through the Development Finance Corporation that serves as the US bilateral development finance institution tasked with providing private sector financing in developing countries. The CHIPS and Science Act of 2022 also allocated $500 million for direct investment in US microelectronics innovation. But as the TikTok comment highlights, the fund could also invest in domestic corporations or possibly foreign corporations (as some sovereign wealth funds do). Another question is whether the SWF could purchase US debt.

The third question is how the sovereign wealth fund would invest its assets: the fund's governance structure. Critics of the proposal are concerned about the potential for politically driven investments and investments that skew the market. Who would serve on the Board? Just government officials, private sector? Would Board service require Senate confirmation? How would the Board make its investment decisions? Would it be limited to a certain percentage of revenues, permitted only to invest the positive returns, or permitted to make larger, riskier investments that could threaten the fund's principal?

Even proponents agree about the need for a sovereign wealth fund's independence from political considerations and the need for Congress to pass a law establishing the fund. For example, Norway's Government Pension Fund Global was established by the Norwegian Parliament, with the Ministry of Finance issuing guidelines for its management. However, an independent entity called Norges Bank Investment Management operates the fund and an independent Council on Ethics vets companies in which the fund invests.

Conclusion

A number of important questions remain to ensure that any US SWF replicates strong features of existing SWFs, including governance and audit structures, and avoids dangers ranging from investment allocation to crowding out private investment. The details and considerations to be outlined in the plan will be crucial to assess the Administration's proposal and its feasibility to implement – including the presumed requirement of a law to establish the fund, so that it is not solely under the control of the President. In the meantime, the House and the Senate also must agree on a concurrent budget resolution to unlock the budget reconciliation process that Congressional Republicans plan to use to pass the President's legislative agenda of tax cuts, border security, and national defense investments. Where a US SWF fits into these legislative priorities will reveal how far this proposal will ultimately advance later this year.

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