III. All the Money in the World, And Who Has It

The US$194-236 trillion of capital needed for global security and the SDGs over the remainder of the current decade represents an almost insurmountable challenge to fund. However, with c.US$450 trillion in gross liquid assets and US$95 trillion in annual economic output, there should be sufficient wealth, and wealth creation, in the world to fund these amounts. However, unlocking these amounts for secure sustainable development is about mindset as much as it is about money. It requires the alignment of capital owners, managers, rule makers, and the hubs through which capital flows, as well as the other stakeholders that have a role to play in the system of capitalism. Rather than being in issue for the world's financial institutions to solve, this will be a multi-stakeholder effort that impacts the core building blocks of the prevailing model of global consumer capitalism.

1. The map of global capital stocks and flows

During 2021, total global wealth increased by 13% to reach US$809 trillion in global assets, both liquid and illiquid. This increase was driven by a macro-economic recovery fueled by the unprecedented liquidity injected into markets around the world and recovery from the coronavirus pandemic. Real global GDP expanded by 6.1% during 2021, following a contraction of 4.9% in 2020.[i] Global debt hit a high of US$303 trillion, jumping by a record US$77 trillion helped by persistently low interest rates,[ii] while global equities returned 18.5% in 2021, adding a further US$14.3 trillion in global wealth.[iii] These increases in liquid asset prices were mirrored by illiquid asset price growth, albeit in a more moderate fashion, with global house prices rising by 10.3% on average during the year.[iv]

In terms of global capital flows, the world's 6.1% GDP growth translated into US$95 trillion of economic output. This includes US$5 trillion of incremental household consumption over the previous year. The key pools and allocators of the world's wealth include:

- **US$809 trillion of gross assets** (including debt), comprising c.US$450 trillion in gross liquid assets (55%) and US$365 trillion of gross illiquid assets (45%).
- **Deducting debt, US$659 trillion of total net assets** are estimated to be in the global financial system in the year 2021, comprising US$369 trillion in net liquid assets and US$290 trillion of net illiquid assets, 70% and 80% of which, respectively, are held by individual households.
- Taking the **c.US$450 trillion in gross liquid assets only**, US$274 trillion or 62% are owned by individuals, 38% are owned by governments (through their central banks, sovereign wealth funds and public finance institutions) with less than 1% coming from endowments and foundations.
- **66% of these gross liquid assets (US$295 trillion), are allocated by asset owners** to 'asset gatherer-allocators', although the degree of control that asset gatherer-allocators have over the assets they administer varies significantly.
- **US$104 trillion in assets are controlled by direct investors**, or third-party asset managers, who receive funds from both asset gatherer-allocators and directly from ultimate asset owners.
- **The finance industry as a whole therefore administers a total of c.US$399 trillion in gross liquid assets**, or 90% of the world's total, recognizing that there will be some double counting in the US$399 trillion of assets due to direct investors receiving funds from asset allocators
- **Additionally, US$60 trillion in gross liquid assets, are held by non-financial corporations**, who while not the ultimate owners of their assets (belonging to their shareholders), have a significant impact through their decisions about how they do business.
- **56% of the world's liquid capital is held as debt,** although public equities represent the world's largest single asset class, worth US$92 trillion. Other liquid asset classes include (by order of size) government debt, corporate debt, financial institution debt,

cash and deposits, private equity, and consumer debt. These numbers have some double counting between them.

- **In terms of illiquid assets, US$256 trillion, 70% of the US$365 trillion in gross illiquid assets, are owned and managed by individuals,** while 30% are owned and managed by governments (through direct investment and public sector undertakings).
- **Only c.1% of the world's liquid wealth has currently been allocated to sustainable assets and strategies**, led by sustainable debt 0.2% and sustainable equity 1.1%.

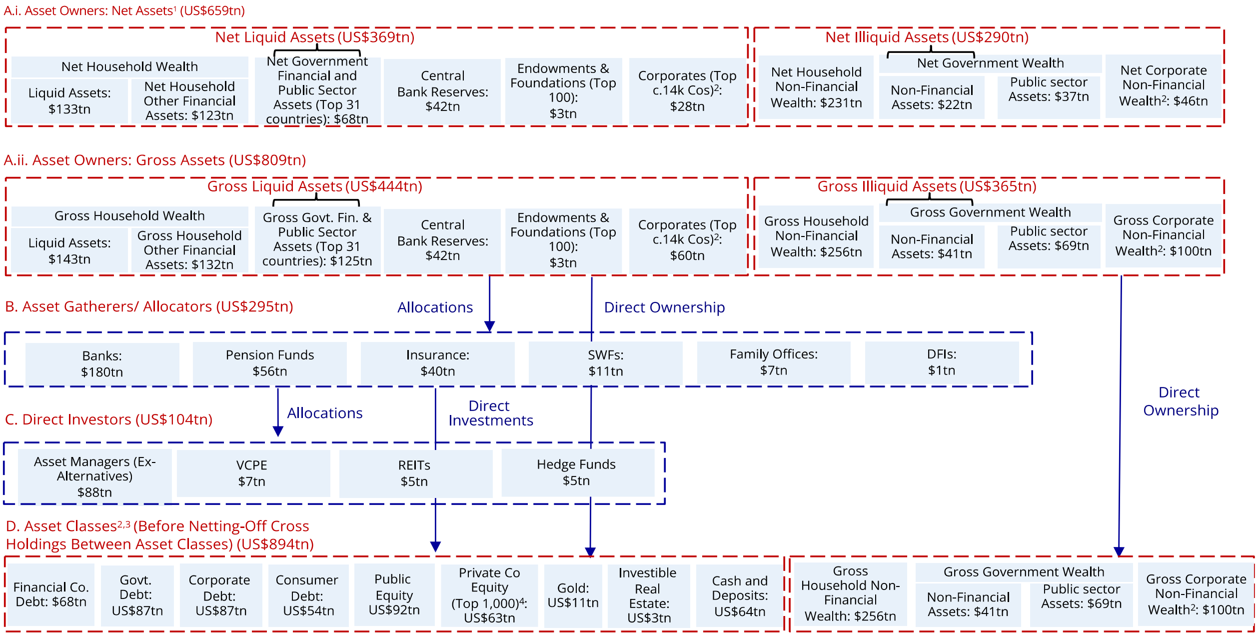
In addition, some key observations that arise from examining the "global flow of capital" (see Figure 6 below):

- **US$95 trillion of global GDP represents the total economic output of the world's economy generated annually,** reflected in the production and consumption of goods and services (73% of the total) and in capital formation or investment (27% of the total).
- **Households represent 78% of total global consumption,** and their US$54 trillion of annual spending accounts for over half of global GDP.

The table outlines the global stock and flow of financial assets as of year-end 2021.

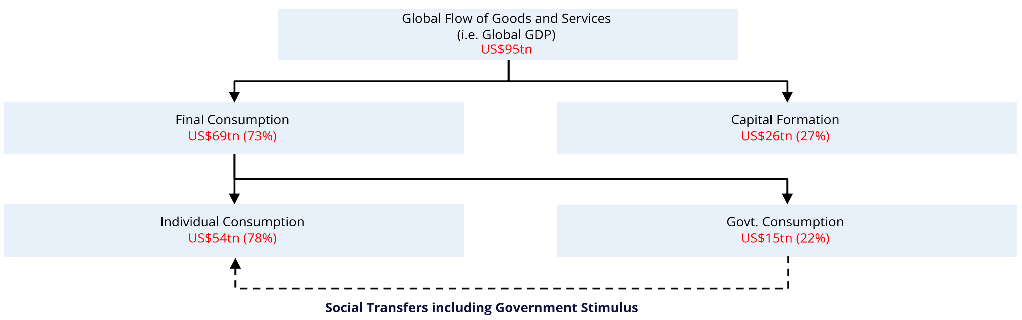
Figure 1: The Global Stock and Flow of Capital

The global stock of capital



Notes: 1) Sources of wealth have been adjusted to the extent the gross assets (i.e., Asset Classes) have been funded by debt; 2) Net assets of corporates are double counted since the equity value of corporates is owned by the individuals and accounted as part of individual wealth 3) Only corporates with above US$500m considered; 4) Arrived at by applying the revenue multiple of top 1,000 listed companies to the revenue of the top 1,000 unlisted companies

The global flow of capital



Source: Capital as a Force for Good Initiative

This analysis provides a snapshot representation of the global financial flows through the system. Stepping back, the breakdown of the world's wealth offers several key take-aways for the funding of global security and sustainable development:

- The world has never had more capital at its disposal than it does today, at c.US$450 trillion in gross financial assets. Total global wealth is at its highest point in human history, with global financial assets up 11% against the previous year. Conversely, the capital needed for funding secure sustainable development has also increased by c.30-40% due to events, inflation, and the cost of inadequate action.
- Effective control of the world's capital is vested across four key stakeholders, whose collaboration will be required to deploy it effectively:

- **Households own US$275 trillion in gross liquid assets** (62% of the total), although their level of control over asset allocation varies (from very high with direct investments to lower for their pension fund assets)
- **Governments own US$167 trillion in gross liquid assets** (38% of the total), but are individually the world's largest allocators of capital given their scale and public spending roles
- **The finance industry administers US$399 trillion in gross liquid assets** (equal to 90% of the total) of households and governments, acting in a variety of roles ranging from custodian to direct investor to effective asset owners
- **The non-financial corporate sector directly controls US$60 trillion** in gross liquid assets but are accountable to their shareholders as the ultimate owners of these assets.

▪ While recognizing that ultimate asset ownership and control often diverge (and lead to some double counting of assets), these numbers provide an indication of the stakeholders that need to work together to mobilize capital at scale.

▪ **Global GDP is expected to reach nearly US$100 trillion in 2022,** 3.2% higher over the previous year, and growth continues to be a yardstick by which the world measures progress and development.

▪ **The individual is also a power player in consumption, representing US$54 trillion** or c. 78% of total consumption of US$69 trillion in the past year. Their collective decision to choose to buy differently has a material impact on the value generated by corporations that hold their stock.

Effective control of the world's capital is vested across four key stakeholders – the individual, governments, financial institutions, and corporations – whose collaboration will be required to deploy capital effectively

▪ **Just over 1%, US$6.4 trillion, of the world's gross liquid assets are held as sustainable investments.** A small but increasing portion of global wealth is already being allocated to sustainable assets. However, the estimated spending requirement of US$195-236 trillion for security and the SDGs overall implies the need for a near fifty-fold increase in these assets within the current decade.

▪ **The stock of net illiquid assets of US$290 trillion has an important long-term role to play.** The world has a large stock of largely physical assets in the hands of stakeholders, of which households are the most powerful owning 80% (mainly in the form of home ownership) and the government owning the balance. This includes property, which as it is maintained and replaced, will have an important role to play in sustainability.

- Corporations with direct control over US$60 trillion of gross liquid assets have an impact through the capital they allocate to activities and actors around the world. While this sum is significant, corporations are often constrained in terms of their investing flexibility due to their mandates and need to fund the cost of their own business activities with working capital and investments, with only a small portion of their total liquid financial assets 'invested' in the traditional sense.

  Note: The overlap between stakeholders is clear given the amounts add up to far more than the c.US$450 trillion of gross liquid assets.

Clearly, without alignment of goals, interests and actions, the world's biggest issues cannot be funded.

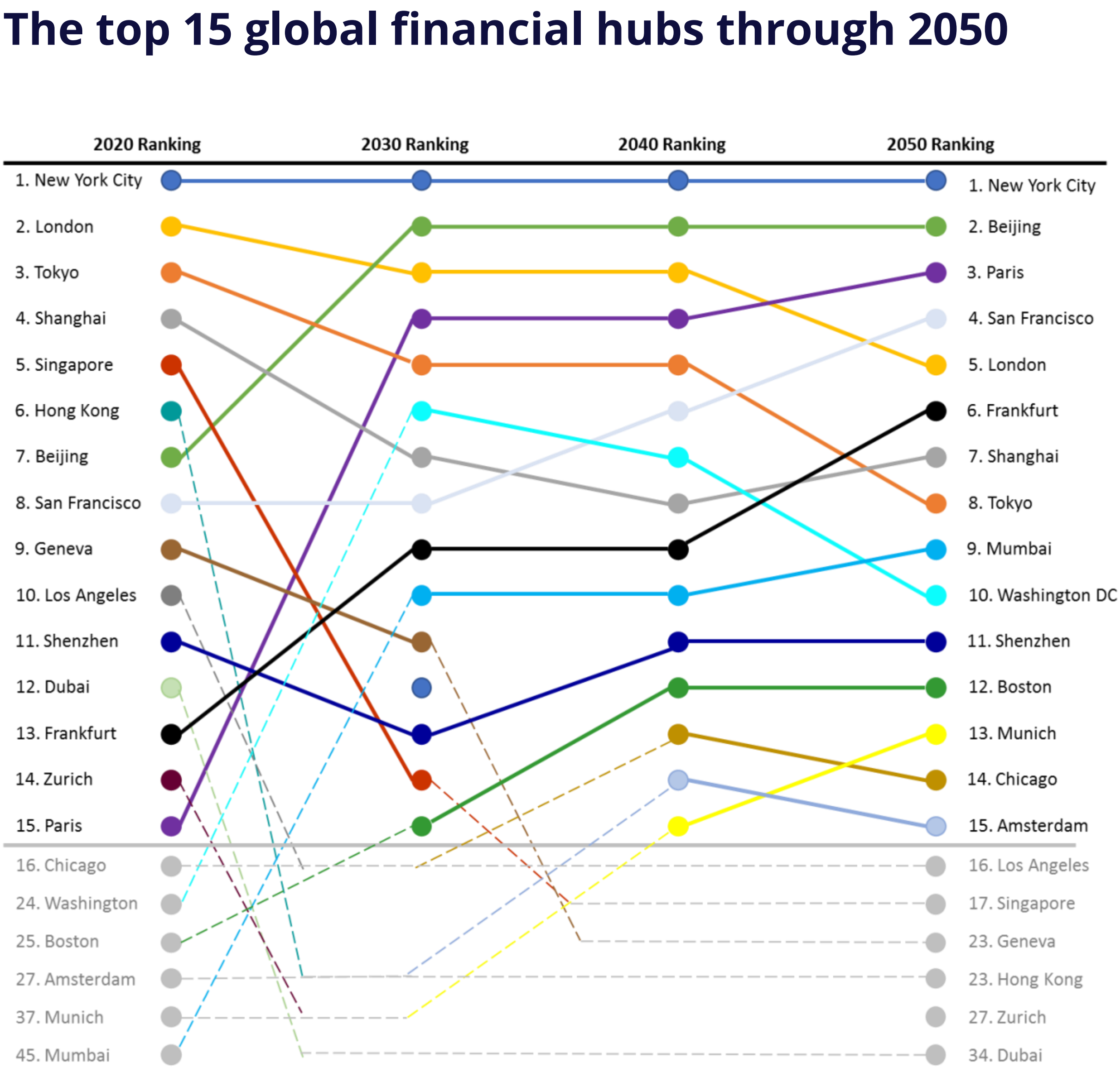
This understanding of the origins, flow and destinations of capital and the various roles of the participants, demonstrates the pivotal role that various stakeholders will need to play in determining where capital should flow to.

2. The role of financial hubs in directing capital flows

Global finance is dominated by a few key financial hubs. New York, London, Hong Kong, and very few others, and these have concentrated much of the world's financial activity across banking, asset management, insurance, and capital markets, and have therefore served as nerve centers for the global economy, in some cases since the beginning of the 20th Century.

However, the shift to a sustainable, digital era and the rise of major trading blocs that capture the value created by these changes is set to upend the hubs of the industrial era. This will have a significant impact on the global flow of funds, which will shift to and through new financial hubs in innovative ways across the world. The resulting flows of capital favor four major economic and trading blocs that are set to be the future superpowers - the US, EU, China and, over time, India - and their major hubs will be increasingly critical for funding not only the SDGs and security in the near term, but also the longer-term shifts to a secure sustainable future as part of the information age.

Figure 2: The Top 15 Global Financial Hubs by Decade



Source: Capital as a Force for Good Initiative

Discontinuity from Sustainability, Digital and the Rise of Four Superpower Blocs by 2050. Three major global discontinuities impacting financial hubs and their relative position are the shift to the information age, the sustainability transition (including the accompanying energy transition), and the emergence of a multi-polar world consisting of four superpower blocs: the US, the EU, China, and India, which have the largest economies, populations, and resources.

These Changes Have Far Reaching Consequences for the World, and Certainly for How Money Will Flow. These discontinuities have already been fundamentally changing the way businesses across all sectors need to operate, and finance is a major force that will be required to underpin these changes.

Financial Hubs are Critical Points or Conduits of the World's Trade, and Will be Impacted by Changing Flows. As key centers of global wealth creation, financial hubs have a critical role to play in the coming transitions, and the hubs that can reinvent themselves will increasingly monopolize the flow of capital, which will lead to other hubs losing relevance and their leadership positions.

Future Leading Hubs Will be Conduits of the Finance of these Superpower Blocs and for Accessing the World Population. Future leading hubs will require more than a scaled asset base and accompanying scale in business activity and volume, they will also need to finance solutions to global issues, requiring scale and innovation in applying finance.

Figure 3: Combined Scale of Four Power Blocs Determines the Future World Order

The US, EU, China and, over time, India are power blocs that already effectively control the world in terms of the key economic, demographic, security and political parameters.

68% of the world's market capitalisation across their major stock exchanges.

67% of global defence spending, with the cumulative budgets of the five largest countries outside of the four blocs (Russia, Saudi Arabia, Brazil, Japan and South Korea together representing less than 13% of global spend.

63% of global GDP currently generated by the four blocs a share of global output.

45% of the world's population, expected to decline slightly to 40% by 2050, with India overtaking China as the world's most populous country.

39% of the world's arable land, and 31% of the land in current agricultural use globally.

37% of global trade, with over US$2 trillion in trade between the four power blocs pointing to significant economic integration across the group.

Source, American Power Series, The Quadrilateral Power Blocs Shaping the World: Will Democracy Prevail? Greater Pacific Capital, December 2020

The Shake-out Will Lead to a Small Group of Hubs Being Strategic and The Rest Being Distribution Hubs for Them. Two different models for future financial hubs are set to emerge, one strategic, focusing on strategic decision making in the global allocation of capital, and the other, more tactical and execution oriented, serving as a base for asset gathering and the distribution of financial services. This distinction will become clearer over time as the world's superpower blocs increasingly collaborate and compete for position.

Geopolitical Power, Sustainability and Technology Favor America, the EU, China, and Over Time, India too. Recognizing the on-going power of the US, New York, and San Francisco, can be expected to take pre-eminent positions reflecting the importance of finance and information age technology, respectively. Beijing rises to reflect the rising economic and broader power of China, and both Paris and Frankfurt are beneficiaries of the leading scaled position of the EU, while Mumbai rises over the coming decades to become a top ten hub.

London, Hong Kong, and Singapore Will Need to Rethink Their Strategic Relevance to the Superpower Blocs, in Particular. Many current global financial hubs, like Hong Kong and Singapore, are set to see their positions erode in the coming decades despite their strengths and history. London is also set to decline given its increasing alienation from the EU, (which also makes it less important to the US, China, and India.

Population and Financial Inclusion Matter, with Digital Allowing These to Be Accessed Across the World, Beyond the Top Hubs Too. There are several strategies that today's hubs can employ to defend or even improve their relative positions, including aligning with the leading superpower blocs, allocating capital for financial and broader inclusion in developing powers and countries using digital strategies to overcome the limitations of their physical location.

The US, EU, China, and over time India, will have the economic and trading might to determine the flow of capitals through their hubs and are the critical players in funding secure sustainability in the future

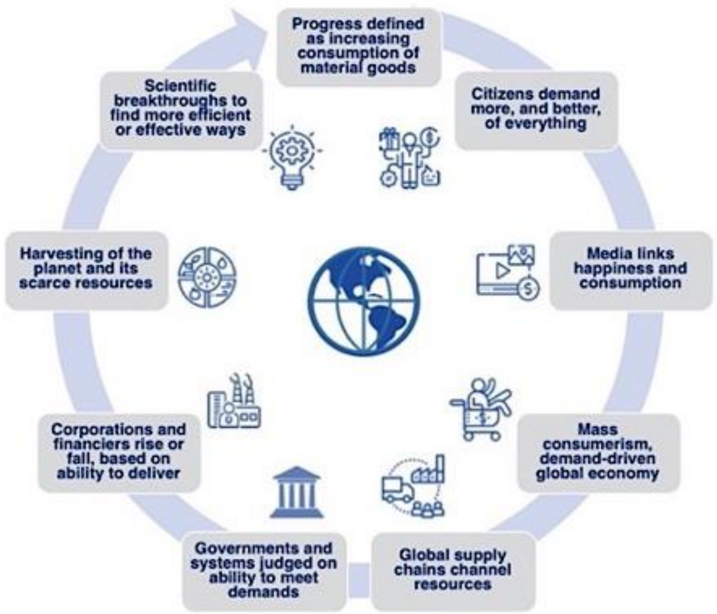
Ultimately, finance will flow through digital hubs and innovators from across the world will be participants. However, the transition will see those with economic, trading, and political power supersede those that lie at the periphery of the superpowers.

3. Multi-stakeholder capitalism and its flows to fund secure sustainability

Given there appears to be enough capital in the world, and it has grown even as the world faced extreme crises, many leaders call for the SDGs to be funded. However, they have not been funded, and the gap continues to widen. So, what does it take for capital to flow to the SDGs?

The answer lies partly in addressing a common false assumption. Namely, that individual actors in the system, particularly financial institutions, if they chose to, could divert capital to the SDGs without undermining the system, and for some reason they are choosing not to. This assumption is too simplistic and needs to be grounded in understanding that the flow of capital is determined by a system and each player is part of the system. Changing the system in a secure manner requires an understanding how the system works (i.e., its design principles), the role of the key players in the system and the determinants and levers that enable it to change.

Figure 4: Multistakeholder Consumer Capitalism



Source: Capital as a Force for Good Initiative

The design of the system is based on demand fueled by ever increasing consumerism which is met through an alignment of interests of all stakeholders to ensure supply is met at a profit adequate to pay for risk and investment.

Various stakeholders play a role in the system with varying positions and power, with each role moving the system along. Individuals drive household consumption representing the majority 57% of global economic output. The world's political and economic systems operate to meet these demands, often at the expense of other long-term priorities. Governments rise and fall based on their ability to provide prosperity to its citizens that funds their consumption. Corporations rise and fall based on their ability to deliver the goods and services desired, and financiers ultimately rise, and fall based on their ability to fund the companies that deliver. Other participants in the system, scientists, innovators, technology providers and media, for example, play their role in both the demand and supply side of the system, providing the means by which each operates more efficiently and effectively, but essentially helping consumption and production to grow.

The level of consumption and production in the current system has already resulted in vast consumption of the planet's resources. This has not been accounted for properly in the valuation of the impact of the activities, thereby treating natural resources, and often human resources, as a 'free' asset in the working of the system. This approach has distorted the calculation of financial and ethical value, promoted activities that are unsustainable and dangerous to the world's biosphere, often out of sync with the core values of stakeholders, leading to the consumption of the world's resources at an alarming rate.

Changing the system of capitalism such that a secure sustainable future is funded requires global stakeholders to agree on capital allocation; they need to align on what, how much and how they will consume, produce, innovate, regulate, and reward … this would redirect the flow of funds. The other way is through a shock that quickly and forcefully changes stability, security and power which can take time to reach a new equilibrium

However, capitalism has also lifted billions of people out of poverty delivered the innovation that has made the modern world possible and created the wealth and prosperity that an increasing part of the global population enjoys today. Accordingly, the goal for the world needs to be the evolution of capitalism such that it can deliver secure sustainability for all, rather than overthrowing the whole system.

The key levers for changing the system and its flow of funds include the values, culture and behaviors that confer personal and social value to activities, positions, and outcomes; accounting, legal and regulatory requirements that determine the valuation of activities and the rules of engagement; innovation that changes the value of assets, and economics that determine profit, scale, and growth. Building secure sustainability into the system itself will require adjusting these levers, beginning with the adoption of a more integrative approach to calculate profits, pricing both the positive and negative externalities of actions into corporation's profit and loss accounts.

Systemic change such that secure sustainability is funded requires changing the mindset of global stakeholders to align and coordinate on capital allocation, which cannot be accomplished without changes to demand, production, innovation, regulation, and rewards. Viable and sustainable change requires consumers to rethink their consumption and value of consuming, governments to change the rules of engagement, scientists, and innovators to deliver new products and ways of delivering these, and ultimately businesses to do business differently and financiers to fund those most likely to succeed in meeting demand.

Such a multi-stakeholder alignment would redirect the flow of funds. Clearly, this is not the only way systems of capitalism change, shocks can also change the system and history has many examples.

The case for change is clear. The challenge is to ensure that each participant understands what their role is, what the implications are for their lifestyles and operations, and to be accountable for making the change. This is far less clear than it needs to be.

In summary

- The world's c.US$450 trillion of liquid wealth appears to be sufficient to fund global security and the SDGs through 2030 and beyond.
- Deploying these assets at scale for secure sustainability however will require the alignment of the world's most important asset owners and allocators, namely the finance industry, individuals, governments, and non-financial corporations.
- Deploying the necessary vast sums will require the world's financial hubs that route global capital flows to also play a critical role and that power is set to be concentrated in the US, EU, China, and over time India.
- However, achieving the SDGs will require more than just money. They will require fundamental changes to the current consumption driven model of capitalism that runs the global economy.
- These changes require changing the mindsets of all the stakeholders of the system, aligning the goals, efforts, and behaviors, with stakeholder each playing unique and critical role in meeting the SDGs, delivering security, and funding the future,
- These are the building blocks for a multi-stakeholder engagement to align interests, create the blueprint, identify the solutions, and fund and implement the goals.

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i Source: IMF World Economic Outlook
ii Source: IMF Global Debt Database
iii Source: UBS
iv Source: Knight Frank