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# Taking the Measure Of the World's Cash Hoard

By **GREG IP** Staff Reporter of **THE WALL STREET JOURNAL** *November 3, 2005; Page A6*

Just how much money is there floating around in the world? No single figure captures all the cash available to invest.

Global insurance, pension and mutual funds held \$45.9 trillion at the end of last year, according to International Financial Services, London, or IFSL, a group that promotes the British financial industry. That's up 29% from \$35.5 trillion in 2000. The total reflects both fund inflows and changes in prices of assets and the U.S. dollar. These funds hold a wide variety of assets, from real estate to Treasury bills.

Hedge funds -- investment pools for the rich and institutions -- have a growing impact on asset prices. Their assets have more than doubled since 2000 to \$934 billion as of last year, according to IFSL. That understates their influence because they often use leverage -- that is, borrow to buy additional assets.

Not all indicators suggest a cash surplus. World money supply -- broadly defined cash in the banking system loosely influenced by central banks -- is growing only about 6% a year, in line with the past 10 years.



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In any case, it's not just that the supply of cash is high but that demand for it from certain areas is low, freeing it up for financial investment. Jan Loeys, global head of market strategy at J.P. Morgan Chase, says

that in 2000, corporations in the major economies, on net, needed \$524 billion of capital from outside sources for their business-investment needs. They raised it mainly through loans or by selling stock, bonds or short-term paper. But after the tech and telecom investment bubble burst, they found they had too much capacity and slashed expansion plans. Profits have since rebounded, but capital spending hasn't. Last year, companies generated \$566 billion of cash over and above their capital spending needs.

They have used it to boost dividends, pay down debt, buy back stock and buy other companies. Some is parked on their balance sheets. U.S. companies alone have about \$1.3 trillion in liquid assets now.

Unlike in the U.S., many people abroad consume far less than they produce. And high oil prices generate windfalls for some countries. Both factors produce large trade surpluses, and much of the foreign currency those surpluses earn ends up in central-bank reserves. Such reserves, excluding gold, doubled between 2000 and the end of June to \$4 trillion, according to the International Monetary Fund. They're mostly invested in financial assets such as U.S. Treasury bonds.

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