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ECONOMIC Synopses

The Recent Rise of U.S. National Wealth

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U.S. national wealth has grown significantly in the past decade: specifically, from $69 trillion to $153 trillion between 2012 and 2021, a 220% rate of increase. It has continued to rapidly increase even after controlling for inflation and economic growth. This essay documents and decomposes the changes in national wealth for the past two decades and discusses the potential implications of these changes for the U.S. economy.

We obtain U.S. wealth data from the Financial Accounts of the United States provided by the Federal Reserve System. Wealth is defined as the total nominal value of tangible assets controlled by various sectors in the U.S. economy.[1] Roughly, there are four main sectors:

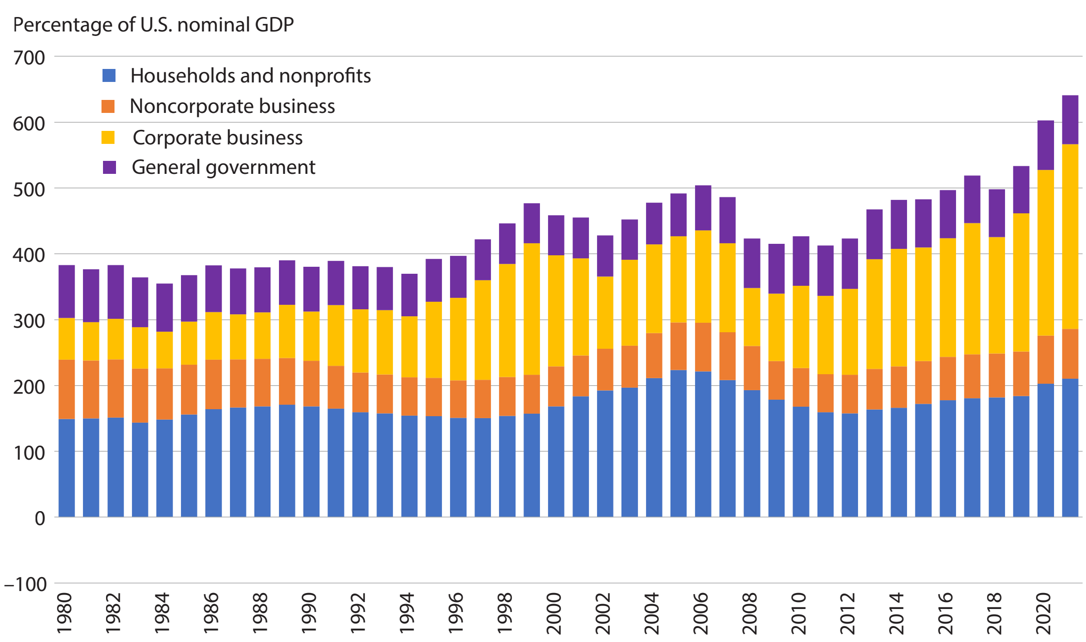
- Households and nonprofit organizations
- Noncorporate business
- Corporate business
- Federal, state, and local governments

Each sector has different types of tangible assets, such as real estate, durable goods, structure, and equipment. Most of these tangible assets are estimated at market value and thus could be influenced by changes in financial market conditions.

Macroeconomic theory generally predicts that, in a stable economy (i.e., without major shifts in economic conditions), wealth and GDP should comove tightly such that the wealth-to-GDP ratio converges to a roughly constant value. This prediction is quite useful since it implies that an observably large variation in the wealth-to-GDP ratio may be an indication of a fundamental or major shift in economic conditions.

The figure shows the decomposition of the U.S. wealth-to-GDP ratio among the four sectors mentioned above. Between 1950 and 1995, the wealth-to-GDP ratio remained roughly stable, varying only between 3.5 and 4. This trend is consistent with macroeconomic theory's predictions

U.S. National Wealth



NOTE: For readability, the figure does not show the period prior to 1980.
SOURCE: Board of Governors of the Federal Reserve System.

regarding stable economies. However, from the mid-1990s onward, the wealth-to-GDP ratio exhibited a clear cyclical pattern driven mostly by the value changes of assets controlled by corporate business and households.

The first noticeable cycle started around 1995, peaked in 1999, and then reached its trough in 2002; it was mainly driven by variation in the value of corporate business and is associated with the internet bubble. The second cycle, overlapping with the first cycle, was driven by the changes in the value of residential housing and reached its peak in 2006.

In the past decade, the large surge in the U.S. wealth-to-GDP ratio has dwarfed the peaks seen in those two previous cycles. This rapid rise has been mainly driven by the value increase in corporate business supplemented by the value increase in residential housing.

Several possible explanations could account for the rapid rise in the U.S. wealth-to-GDP ratio. For instance, De Loecker, Eeckhout, and Unger (2020) document that the average market power of firms in the U.S. economy has increased significantly in the past few decades. Higher market power means a larger gap between the production cost of a good or service and its selling price.

> The latest large surge in the U.S. wealth-to-GDP ratio has dwarfed the peaks seen in the past.

Consequently, higher market power increases the profits of firms, leading to a higher valuation of the U.S. business sector. Moreover, the increase in value of corporate business may result from the expectation of its fast-rising future profitability. Under this assumption, the rise of corporate-business wealth would reflect the future growth of GDP instead of current GDP and thus lead to a rise in the wealth-to-GDP ratio. This assumption is supported by the high price-to-earnings ratios among U.S. technology companies such as Meta, Amazon, and Google.

Also, many services provided by U.S. technology companies may not be well accounted for by GDP. A common example is the social networking services provided by companies such as Facebook, Instagram, and Twitter. These services are essentially free yet are still considered valuable by consumers. For this reason, current GDP might be underestimated, which could further explain the high wealth-to-GDP ratio in the past decade.

There are concerns about the recent surge in the U.S. wealth-to-GDP ratio. The significant rise in this ratio during previous wealth cycles led to the 2001 and 2008 recessions, and the recent increase in the wealth-to-GDP ratio has been larger and more rapid than ever before. If this rise is driven by another asset bubble instead of the reasons mentioned above, then this trend is likely to cause another recession. Unfortunately, it is difficult to identify an asset bubble until after it has burst. ■

Note

[1] This classification is defined as the *control* of these assets instead of *ownership*. For example, equipment controlled by business sectors could be owned by households.

Reference

De Loecker, Jan; Eeckhout, Jan and Unger, Gabriel. "The Rise of Market Power and the Macroeconomic Implications." *Quarterly Journal of Economics*, May 2020, *135*(2), pp. 561-644; https://doi.org/10.1093/qje/qjz041.

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