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. 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.

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