

We Now Have a Wealth Servicing Economy in the United States: How it Happened and Why it Matters

William L. Scott *

Department of Business Management, Illinois State University, Illinois, United States

ABSTRACT

Given that economies are characterized by their principal output, the U.S. now shows up to be a wealth servicing economy. In contrast to the previous industrial economy which produced tangible goods for general consumption, the wealth servicing economy offers services that cater to individuals and families with substantial wealth to invest and manage.

Keywords: Consumption; Wealth servicing economy; Industrial economy; Output

INTRODUCTION

The wealth servicing economy is defined as the combination of Bureau of Economic Analysis (BEA) industry classifications in finance, insurance, real estate and business and professional services. Services include the principal financial industry outputs, such as securities trading, portfolio management, risk management, real estate investments and life insurance contracts with investment features [1]. Moreover, complementary professional services are included, such as accounting, tax planning, legal advice and those needed to insure and maintain real estate investments.

Note that the wealth servicing economy corresponds to what has been referred to as a financialized economy, wherein the financial sector gains importance relative to the production sector [2]. We can now see that a financialized economy evolves in response to a growing need for wealth management services.

DESCRIPTION

The wealth servicing economy emerged after 1980, when manufacturing had the largest share of national output at 37% but dropped to only 17% in 2020. Meanwhile, wealth management industries increased their share from 18% to a commanding 36%. Figure 1 below illustrates that manufacturing's loss was almost equal to wealth-servicing's gain.

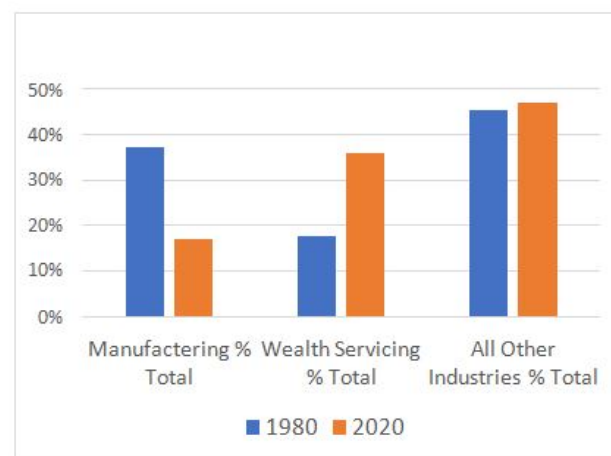


Figure 1: Composition of U.S. output.

Increasing financial wealth

The wealth servicing economy evolved coincident with a substantial increase in financial wealth held by the private sector in the United States. Financial wealth is "paper wealth" in the form of financial assets, namely common stocks, bonds, bank CDs and indirect real estate investments.

The level of financial wealth held by households and nonprofit entities remained less than three times GDP during the 48 years between 1947 and 1995. However, it sharply increased after 1996

Correspondence to: William L. Scott, Department of Business Management, Illinois State University, Illinois, United States; E-mail: wlmscott@gmail.com

Received: 02-May-2024, Manuscript No. JHBM-24-31037; **Editor assigned:** 07-May-2024, PreQC No. JHBM-24-31037 (PQ); **Reviewed:** 21-May-2024, QC No. JHBM-24-31037; **Revised:** 06-Feb-2025, Manuscript No. JHBM-24-31037 (R); **Published:** 13-Feb-2025, DOI: 10.35248/2169-0286.25.14.128

Citation: Scott WL (2025) We Now Have a Wealth Servicing Economy in the United States: How it Happened and Why it Matters. J Hotel Bus Manag. 14:128.

Copyright: © 2025 Scott WL. This is an open-access article distributed under the terms of the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original author and source are credited.

and almost reached five times GDP in 2021. This is shown in Figure 2.

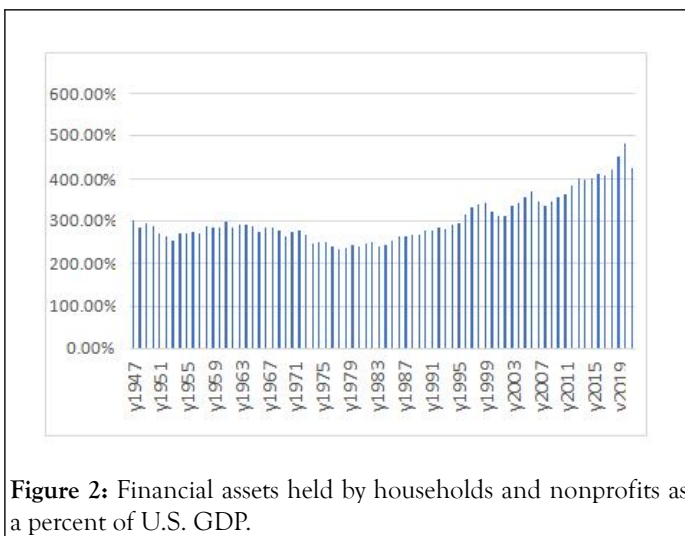


Figure 2: Financial assets held by households and nonprofits as a percent of U.S. GDP.

Realize that financial wealth was growing faster than GDP. Consequently, financial wealth increased owing to rising market values of financial securities, rather than a growing economy that added jobs and tangible wealth. This indicates what economists call asset price inflation.

Regardless, increasing financial wealth added to the net worth of investors who would need additional services to manage it. We can now understand why the wealth-servicing economy emerged.

Global excess saving

Increasing financial wealth is not unique to the United States. A study by McKinsey and Company found that on a global basis, financial assets held outside the financial sector grew from 4.2 times GDP in 2000 to 6.0 times in 2020 [3].

Increasing financial wealth can be traced to an excess of saving over new capital investment expenditures in the global economy. Put simply, more saving was currently being offered for investment than new securities were being issued to absorb it. This excess global saving thereby had to be invested in already-outstanding financial securities.

The U.S. was a preferred habitat to receive much of these excess funds, having politically safe and efficient financial markets, as well as profitable new businesses. In consequence, market values of U.S. securities significantly rose, thereby increasing U.S. financial wealth.

Figure 3 below illustrates that after 1994 saving began to exceed capital investment on a worldwide basis. Excess saving has been attributed to high savings rates in emerging economies, response to the uncertainty of a globalized economy and ageing of the world's population.

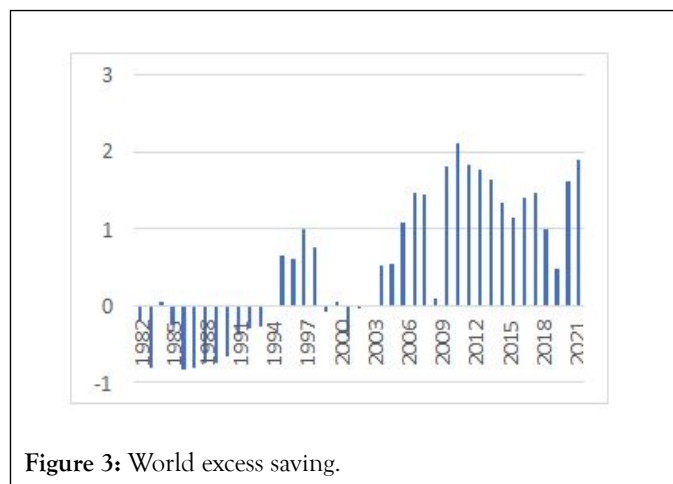


Figure 3: World excess saving.

Note that world excess saving as seen in Figure 3 corresponds time wise with the dramatic increase in U.S. financial wealth shown in the earlier Figure 2. We can therefore associate the wealth servicing economy with global excess saving.

The “savings glut of the rich”

In 2005 former Federal Reserve Chairman Ben Bernanke identified a global savings glut, wherein growth in investable saving outpaced growth in funds needed for capital investment. Important is that the savings glut has continued for seventeen years.

Interestingly, recent research reports a savings glut of the rich [4]. It notes the substantial rise in saving by the top 10% in global wealth. This is attributed to rising profits that produced substantial increases in corporate retained earnings, termed corporate saving. Realize that corporate saving accrued to the benefit of benefitting the top 10% of households who own most corporate equities.

Rising corporate profitability resulted from falling labor costs, as labor's share of value declined in the global economy. Consequently, corporate saving increased while household saving decreased. Today, saving by wealthy households supports borrowing by the government and by lower income households.

Why it matters

All in all, the wealth-servicing economy emerged in response to asset price inflation, not because of economic growth that would create additional output and new jobs. Wealthy investors benefited but not working families.

CONCLUSION

Clearly, this matters to private business entrepreneurs who create and promote products to satisfy the needs of wealthy Americans. Nevertheless, a broader public view focuses on the social inequities presented by this new economic environment. We can wonder if the wealth servicing economy helps explain polarization in U.S. politics.

REFERENCES

1. Bernanke BS. The global savings glut and the U.S. current account deficit. Federal Reserve Board. Virginia, 2005.
2. Krippner GR. The financialization of the American economy. *Socio Econ Rev.* 2005;3(2):173-208.
3. Woetzel L, Mischke J, Madgavkar A, Windhagen E, Smit S, Birshan M, et al. The rise and rise of the global balance sheet: How productively are we using our wealth? McKinsey Global Institute. 2021.
4. Mian AR, Straub L, Sufi A. The saving glut of the rich. National Bureau of Economic Research. 2020.