



The Growth of Finance

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Abstract

The US financial services industry grew from 4.9 percent of GDP in 1980 to 7.9 percent of GDP in 2007. A sizeable portion of the growth can be explained by rising asset management fees, which in turn were driven by increases in the valuation of tradable assets, particularly equity. Another important factor was growth in fees associated with an expansion in household credit, particularly fees associated with residential mortgages. This expansion was fueled by the development of nonbank credit intermediation (or "shadow banking"). We offer a preliminary assessment of whether the growth of active asset management, household credit, and shadow banking – the main areas of growth in the financial sector – has been socially beneficial.

Citation

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Additional Materials

[Online Appendix \(111.58 KB\)](#)

[Author Disclosure Statement\(s\) \(52.22 KB\)](#)

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