

Finance. A Misallocation of Resources?

Hard data is scarce and noisy but according to estimates by the World Bank and OECD, the financial sector accounts for 20-30% of GDP in developed countries. The IMF estimates that total global nominal GDP is some 77.6 trillion dollars of which financial services account for 13.1 trillion dollars or 16%.

What services does the financial sector provide? Mainly they provide banking services, insurance and wealth management. In some way, shape or form, the financial sector's function is to act as an intermediary between savings and investment. Seen this way, finance is an enabler, an infrastructure. One wonders if it is an efficient allocation of human and capital resources that 20% of global output is dedicated to finance.

How would you see it if the transaction costs of using your credit card was 20%?