We Need to Focus on Strategies for Building Generational Wealth

African-American families can begin to build wealth by focusing on saving and homeownership.

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uring a recent Monopoly night with my husband, I was ahead, with lots of cash and some properties. But a few bad rolls of the die later, I found myself mortgaging my properties. I lost more equity at every turn despite the $200 in play money I had amassed. And then, to make matters worse, I made a bad deal with my husband that put me in a cycle of debt.

I’m lucky; for me, it was just a game. But the Monopoly spiral mimics a devastating reality for far too many Americans—particularly black Americans. African Americans, and most people of color, have only a fraction of the wealth of their white counterparts. According to a new analysis just out of the Federal Reserve Consumer Finances Survey (pdf), the median white family in 2013 had a net worth of $134,000. The median net worth of Latino families was $14,000, and that of African-American families was just $11,000. For every $1 of wealth for white families, black families had just 12 cents.

It brings to mind a classic 2008 Chris Rock comedy bit, in which he spells out the difference between “rich and wealthy.” Rich is temporary; wealth is enduring and is passed on to generations.

And comedian Louis C.K., who’s white, does a pretty good job of expanding on Rock’s riff in one of his own stand-ups. It’s a funny line that’s sort of depressing at the same time: “When white people are just rich, they’re just rich forever and ever. Even their kids are rich. But when a black guy gets rich, it’s countdown to when he’s poor again.”

Clearly it’s an oversimplification, but you get the picture.

In a study (pdf) of why this racial wealth gap has widened, the Institute on Assets and Social Policy found that length of homeownership accounted for the majority of the gap. Household income, unemployment and college education were also strong factors, which give black folks a clear blueprint for steps we need to take.

Homeownership remains an important part of building assets and wealth, despite the recent foreclosure crisis. As foreclosures reportedly slow (pdf) in some parts of the country, we should champion efforts to make homeownership more affordable and sustainable while also creating opportunities for renters to have some of the same advantages for building wealth as homeowners.

Only 44 percent of black families (pdf) own a home—down from 46 percent in 2010. So how do we extend the savings and credit-building mechanisms that are inherent in homeownership to black families who are currently renting?

Programs like rent reporting and family self-sufficiency get renters on a path to a wide range of more affordable, entry-level financing products, like car loans.

And, of course, the jobs picture is a key factor, to provide families not only with sustaining wages but also benefits and a mechanism for saving. I grew up in a solidly middle-class family in the suburbs of Cleveland. My father had a job working for Ford Motor Co. for 30 years that provided benefits and allowed us to live comfortably and save for my education and my parents’ retirement, and also enabled my parents to own a home.

So with the important gains recently in various states on minimum wage increases—which allow individuals and families to earn more—it is essential to build on that by fostering mechanisms to encourage workers to save more of their pay.
Right now, though, 2 in 3 families of color don’t have the three months’ worth of savings needed to live above the poverty line should they have a disruption in income. This—in addition to the pain and hurt of generations of American families, particularly black families, who work, earn and even own and then lose it all—is real.

Hearing “countdown till you’re poor” in the back of your mind can cloud your every life decision. It can make you averse to or ill-prepared for the financial risks that are necessary for growing ownership, building wealth and really participating in the economy. But we have a fighting chance at ending the countdown and that cycle—leveling opportunity for economic mobility—and, I suspect, even improving our economy, if we focus on strategies to end the racial wealth gap.

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I disagree with this article.  Home ownership does not create wealth.  A home is not an asset it is a liability.  An asset is something that generate positive cash flow. The home that I’ve owned for more than a decade has not put one penny into my back account. A home never truly “increases in value”. What most believe as an increase in value is a product of inflation.

Next let’s talk about the savings myth. The wealthy don’t have a traditional savings like the common man. They have vehicles that they hold their wealth in, real estate they rent, businesses they own. This is how they manage their wealth, not in a savings account at some bank. These vehicles create that positive cash flow. More importantly, these are the assets that can be handed down to children creating that generational wealth the author speaks of. How many of us will give our children the houses we own? Better yet, how many of our children want the houses we may or may not have a mortgage on?

To create wealth we need to think outside the box. We can become rich, but not amass any wealth working for a corporation. We need to position ourselves in situations where we can take advantage of residual income that creates positive cash flow. This is what the wealthy do.

A few terms to help one think outside the box.

Quantitative Easing
Bail In
Fractional Reserve Lending

One of the reason Black folks were so severely impacted in the great recession/depression is because most of our wealth was tied up in our homes. We worked towards paying off our homes, using the equity to finance college for our children and our own retirement. And when the housing values declined so severely, we lost a great deal of "wealth".

We need to save more and invest wisely.