Two people can earn the same salary and live in very different financial circumstances. One may have savings, an inherited home, and investments. The other may have education loans, no family property, and relatives who depend on part of each paycheck. Their salaries tell us what their work pays. Their wealth tells us what resources they have accumulated after subtracting their debts. This distinction is essential to understanding money in America. Income is money earned or received over a period; wealth is what we hold at a particular point in time. A higher income can help build wealth, but income does not automatically become wealth (Investopedia investopedia.com).

To understand wealth, we need to recognize an asset, something we own that has economic value. Cash, a home, investments, and an ownership interest in a business are assets (Investopedia investopedia.com). A liability is a financial obligation we owe, such as a mortgage, vehicle loan, or credit-card balance. Net worth is the value of our assets minus our liabilities. If our assets total $40,000 and our liabilities total $15,000, our net worth is $25,000. Net worth measures the financial position behind the possessions we can see. Someone can own expensive things while owing almost as much as those things are worth (Investopedia investopedia.com).

Property makes this distinction easier to understand. A homeowner may own a house while still repaying the loan used to purchase it. That loan is a mortgage, borrowing secured by the property. Home equity is the home's current value minus the outstanding debt secured against it. As the mortgage balance falls, home equity increases if the property's value stays unchanged. Home equity can also increase if the property becomes more valuable, or decrease if its value falls. The entire value of a financed home therefore cannot be counted as the owner's wealth without subtracting the mortgage debt (Investopedia investopedia.com).

This is where financial definitions connect directly to Black American history. Redlining is the denial of access to credit based on where someone lives, even when that person may otherwise qualify. Federal Reserve History documents how the Federal Housing Administration helped institutionalize racially discriminatory redlining beginning in the 1930s. Its lending policies favored certain suburban developments while excluding many neighborhoods with Black residents. The FHA's 1938 underwriting manual even recommended restrictions on occupancy by race (Federal Reserve History Federal Reserve History). The financial consequence extended beyond where a family could live. Restricting access to mortgages also restricted opportunities to acquire home equity through repayment and rising property values. A household could work, earn income, and pay for housing while being denied access to a major route through which other households accumulated wealth.

The increase in an asset's value over time is called appreciation. A decline in value is depreciation. Neither is the same as receiving a paycheck, and appreciation does not automatically produce spendable cash (Investopedia investopedia.com). Imagine two families living in the same area for several decades. One owns a home that appreciates;

the other rents. Both have paid for shelter, but only the homeowner participates directly in that property's appreciation. The renter may build wealth through other assets, and the homeowner must cover ownership expenses and bear the risk of declining values. Still, this example explains why access to ownership can influence financial outcomes even when two families work equally hard. Earnings and asset ownership operate through different mechanisms.

The next generation can inherit the results. An inheritance is money or property received after someone dies. Generational wealth refers to assets passed between generations, including transfers made while family members are alive. Federal Reserve researchers analyzing the 2019 Survey of Consumer Finances found that nearly three in ten White families reported receiving an inheritance or gift, compared with about one in ten Black families (Federal Reserve federalreserve.gov). That difference can change how a young adult begins. Help with a home purchase may reduce the years needed to save for it. Money for education may reduce borrowing. Family resources can also provide room to recover from a setback without selling possessions or taking on expensive debt. These advantages do not appear on a salary statement, but they influence how much of that salary remains available to build wealth.

The consequences persist beyond the date a discriminatory policy ends. The Fair Housing Act of 1968 prohibited racially motivated redlining, but changing the law did not retroactively give excluded families the homes, home equity, or appreciation they had missed (Federal Reserve History Federal Reserve History). That is one reason the racial wealth gap cannot be explained simply by comparing present-day spending habits. In the Federal Reserve's 2022 survey, median wealth for White families was approximately six times that of Black families. Median means the middle value when families are arranged from least to most wealth; it helps describe the center of the distribution without letting a few enormous fortunes determine the figure (Federal Reserve federalreserve.gov). The statistic measures an accumulated difference, built through many years of earnings, ownership, debt, transfers, and unequal opportunities.

For finances, this understanding changes what we measure. Alongside income, we need a record of assets and liabilities—a personal balance sheet. It shows whether we are accumulating resources, reducing what we owe, or making purchases that leave our net worth largely unchanged. It also reveals why a larger bank deposit is not always financial progress: a loan can increase cash and debt by the same amount. Likewise, appreciation can increase net worth without increasing the cash available to pay bills. These distinctions help us evaluate progress accurately. Building something that can support another generation requires more than money passing through our hands. It requires understanding what remains, who owns it, what obligations are attached to it, and how it can continue serving the family.