Defining Wealth
(Reading)

The Basics: What is Wealth?

Before we examine how ownership of stocks and financial assets is contributing to wealth inequality, let's first define some terms. Let's start with the basics: "income" and "wealth." The words are sometimes used interchangeably, but they mean different things.

Income is the money that flows into you; it is what you earn. Examples of income include your wages or salary, rent payments, and for those who own stock, interest, and dividends on stock.

By contrast, **wealth** is the sum total of one's assets. It is a total accumulation over time. Wealth is your savings or an investment. It is the accumulation, the store, of resources of value.

You can think of the difference between income and wealth a bit like the difference between a stream and a pond. Income flows in like a stream. Wealth pools like a pond.

The two, income and wealth, can be related. For example:

- Part of one's income can be set aside or invested, and become wealth. (It can be "pooled in the pond.")
- Some forms of wealth generate income. Stocks for example may generate dividends and bonds may generate interest income. Income that comes from wealth is called **capital income.**

Wealth ownership can be measured at different levels, for example, as the total value of assets owned by an individual person, or a household, or a community, or a business, or a country. While wealth can be measured in individual terms (as the total value of one's individual asset holdings), wealth can also be measured collectively, as the value of resources owned by a collective entity or group.

One's wealth is made up of **assets**, meaning items of value that one owns. The precise definition of an "asset" is **an item of value that is expected to provide its holder some future benefit**.

Wealth falls into two broad categories: "**financial assets**" and "**nonfinancial assets**."

Examples of financial assets include savings, stocks, certificates of deposit, bonds, mutual fund investments, and retirement funds.

Examples of nonfinancial assets include real estate, vehicles, and objects of value. Many assets grow in value over time, or **appreciate**, as their market value rises. For example, if you own a home, you may hope that it will increase in value over time. If you have a retirement plan invested in stocks, you hope to see its value grow year after year.

A business is an asset to its owners, therefore, because it produces goods or services that provide income, and because it may increase in value over time. Company stock is an asset to the shareholder because it has value, and it can provide income, for example by earning interest.

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Your **“net wealth”** or **"net worth"** is the **sum of the value of your assets minus your debts.** (Accountants might say net worth is the residual of Total Assets minus Total Liabilities.) In other words, the wealth you have at your disposal, your "net wealth," can be described as "what you own minus what you owe." For example, if you own a home but borrowed a loan, called a mortgage, on the home, the net wealth held in your home is the value of the home minus the loan.

Another word that you may hear in conversations about business ownership is **"equity."** The word is closely tied to the idea of wealth. Equity is a measure of a company’s total assets minus total liabilities. A shareholder's equity is their stake in the company. Equity refers to the amount of money returned to shareholders if the company was liquidated after all the assets are sold and all the debts are paid off.

We hear a lot about income inequality…but "wealth" is owned much more unequally than income.