Building a Savings Culture to Generate Wealth

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A recent YouTube video called “Wealth Inequality in America” has received millions of views and a number of responses from across the ideological spectrum. Created by "Politizane," this video was inspired by a study by economists Dan Ariely at Duke University and Michael L. Norton at Harvard University. Spotlight asked two commentators to weigh in on the viral video. Following is Stuart Butler’s response.

Eye-popping charts highlighting wealth differences get our attention, but they can lead us to overlook our real economic opportunity problems. Even if we were to aggressively redistribute wealth in America, before long, the gap would start widening again. Rich people keep saving and reinvesting, and get wealthier as a result. But, unlike previous generations or their peers in other countries, low-income Americans don’t save, causing them to become relatively poorer.

Some would say it’s simply because they don’t have any money—but it is not that simple. The savings habit remains very strong among certain groups, such as Asian Americans, but it has virtually vanished among others. And while the most poor have nothing left after paying for basic necessities, it’s not true that saving is less possible today for low-income households than it was in the past.

Consider this—a 2008 study by the Commission on Thrift found that American households with incomes below $12,400 actually put aside an average of $645 each year for the future, but they do it in the form of lottery tickets. Saving that money, rather than throwing it away on Powerball, means a family could accumulate almost $90,000 over a working life. If that were the common pattern, it would have a big impact on wealth inequality.

The collapse of the savings culture in low-income communities is corrosive. It undermines wealth accumulation and economic mobility.

Saving has been replaced, unfortunately, by the culture of the lottery ticket and the payday lender. There are now more payday lenders than McDonald’s franchises in four of our five most populous states.

There are a number of things we can do to fix this.

First, we need to recognize that building a ladder of upward mobility involves a number of building blocks, including strengthening family and other social institutions, structurally reforming our K-12 system, and fostering savings. As New York Times columnist David Brooks has explained, the opportunity and wealth gap has many cultural causes.

Fortunately, several groups and initiatives are charting out ways to increase wealth accumulation in poorer neighborhoods. For instance, the Family Independence Initiative innovatively uses data sharing to spur the inclination to save. EARN in San Francisco combines teaching financial literacy and matched savings approaches to boost saving.

Second, we need to employ creative solutions. For example, other effective strategies have involved turning the lottery player's gambling instinct into a wealth-creation instinct through "prize-linked savings." Save to Win pools the interest that would be paid through credit union accounts and offers it instead as prizes to account holders. The result: big increases in savings by low-income households and other previous non-savers. The innovative social entrepreneurs at SaveUp use a sweepstake model to strengthen the desire to save and reduce debt.

Rebuilding the fundamental process of wealth accumulation in low-income neighborhoods will be a long process, but that is the way to decisively change the long-term pattern of wealth in America. Making Warren Buffet a bit less rich is not going to do so.

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