INSIGHT

THE SAMUEL DUBOIS COOK CENTER ON SOCIAL EQUITY AT DUKE UNIVERSITY

Baby Bonds: A Universal Path to Ensure the Next Generation Has the Capital to Thrive

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INTRODUCTION: AMERICA'S WIDENING WEALTH INEQUALITY

No ethos is more foundational to national reverence than "the American dream." The deeply embedded "pick yourself up by your own bootstraps" narrative has fundamentally shaped perception, policy, and politics since the founding of the nation. This fabricated tale fuels the myth of meritocracy, suggesting that rewards directly follow achievement: individuals succeed through grit, perseverance and self-determination, or fail by not capitalizing on opportunities available to everyone equally. Thus, one of the most dangerous outcomes of the overemphasis on the individual is that it enables countless interlocking systems of inequality to grow and persist, obfuscating the deeper truth that opportunity is and has been hoarded by a select few for generations, and that it has been systematically constrained politically, legally, culturally, and socially based on race, gender, physical ability, class, and more.

This individualistic myth is finally being interrogated, however, as the weakening societal fabric of our nation and its accompanied symptoms of breakdown signal cause for alarm. The burden on the individual to "make it" in America is increasingly strained in the face of America's ascension to the most unequal developed nation in the world (Collins and Hoxie, 2018). The issues of today have brought sharp focus to the fact that success largely hinges on whether your family is able to transmit wealth and privilege across generations, not on false notions of individual "merit," which have trapped a growing proportion of our population in debt and locked them out of opportunities for financial stability, let alone upward mobility. As the billionaire class skyrockets toward unfathomable levels of wealth, the rest of the population's wealth is plummeting. For example, median household wealth has stagnated at just over $100,000, while the richest person in the United States (and the world), Jeff Bezos, has accumulated a fortune nearly 2 million times that amount (Collins and Hoxie, 2018).

This disparity is heightened along racial lines—the median income for white households is $171,000 compared to $17,600 for Black households (Survey Consumer Finances, 2016). In a harrowing report entitled *The Road to Zero Wealth: How the Racial Wealth Divide is Hollowing Out America's Middle Class* by the Institute for Policy Studies, their key findings indicate that median Black household wealth will fall to zero by 2053 (Asante-Muhammad et al, 2017). In sharp contrast, median white household wealth is expected to climb to $137,000 by 2053. If current trends continue, by 2020 median Black households stand to lose nearly 18 percent of the wealth they held in 2013, and the median white household will own 86 times more wealth than its Black counterpart.

These numbers are not fabricated. They are outcomes of centuries of government-sponsored activities that structured American policy, political economy, and society to create and expand white wealth-building opportunities at the expense of others. Because racial wealth inequality in large part is a crisis of the government's making, it is imperative that the solution is of the government's creation, too. One such policy initiative has emerged which offers the universal approach needed to address issues of chronically low, zero, or negative wealth through race-conscious policy: Baby Bonds. This paper focuses specifically on Cory Booker's Opportunity Accounts policy, also known as Baby Bonds, which stands out for its aims and projected ability to address intergenerational wealth disparities and their ripple effects. It carries a critical secondary benefit of mitigating pervasive and mounting racial wealth differences, which is adding necessary pressure on presidential candidates and other elected officials to address, in a targeted fashion, specific commitments to the interests and needs of African Americans (Darity, 2019). This paper explores the roots of racial wealth inequality, probes the evolution of the Baby Bonds policy broadly, discusses the strengths and challenges of Booker's proposal, and demonstrates the expected impact of Baby Bonds on overall wealth inequality while also acknowledging that addressing racial wealth inequality requires more than one policy.

It is important to note that wealth inequality is at the focus of this brief (as opposed to income)[1] for a range of reasons. Most importantly, it is more insidious: intergenerational wealth transfers are a significant driver of growing overall

1 Income is the amount of money someone receives on a regular basis, such as through a paycheck. Wealth is someone's net worth: the value of all their assets minus all their liabilities, which includes income but also real estate, stocks, personal property. Access to wealth means having a sufficient income stream to purchase assets or inheriting such assets from prior generations. Wealth is the essential buffer to economic catastrophe, such as a recession, or worse, a depression.

inequality (Perez-Arce, et al, 2016). Intergenerational wealth inequality and racial wealth inequality are separate yet intimately intertwined given the demographics of Americans with little or no wealth. Addressing both is vital to America's future, as elucidated below.

What is unique about the present moment is that the idea of reparations is now prominent in the public sphere. As recently as June 2019, a slavery reparations bill was debated in a historic hearing in the U.S. House of Representatives. There is valid concern that because universal (i.e., race-neutral/race-conscious) programs disproportionately (and critically) benefit Black households due to their means-tested structure, which graduates based on financial status, they will be viewed as rendering a specific reparations program unnecessary, which would be a devastating failure. Baby Bonds is one of many necessary tools. Thus, the paper closes with a deeper analysis of the need for the moral, political, and financial reckoning necessary to bridge the distance between Black and white wealth, and a call to action for policymakers looking to shift the trajectory of this critical conversation.

WEALTH ACCUMULATION IS INTERGENERATIONAL AS WEALTH BEGETS MORE WEALTH[2]

Wealth inequality is more extreme than income inequality. Excessive concentration of wealth slows economic progress, tears at our social fabric, and undermines our democracy due to how it functions differently than income. For example, wealth is cumulative. It provides people with the necessary capital to secure financing and purchase an appreciating asset, which, in turn, will generate more wealth. Wealth also enables critical life choices. Families with wealth can reap the benefits of living in better neighborhoods, afford their children's education throughout life, pay for healthcare, and access capital to start a business. Wealth can also protect against hardship, such as the ability to hire successful lawyers in the event of legal issues, or cushion financial shocks such as job loss or serious illness. Moreover, household wealth can be passed down through generations not only through inheritance, but through wealth transfers at critical points, such as familial support through an education investment account or as capital for a down payment on a house. Such transfers mean that those children can develop more assets that outweigh their debts, which is of particular importance for Black families who disproportionately lack these opportunities.

The structural failures of our economy have set up an entire generation to build less wealth than the previous one for the first time in American history. Recent research by the Urban Institute shows that wealth inequality will persist or worsen as the growing wealth gap fuels an education and upward mobility gap (Braga, 2017). Only 29 percent of youth from the lowest quartile of the family wealth distribution complete two or more years of college education, and only 26 percent are upwardly mobile. In a labor market increasingly threatened by automation, focused on information sector jobs, and confronting a steady decline in wages, a college degree could mean the difference between joblessness or very-low income work versus middle-to-high income living, although this raises other discussions around college debt. The St. Louis Federal Reserve finds that "young people in their 20s and 30s have taken a greater hit from the recession than any other age group, bringing into question whether the American dream of upward mobility is obtainable for them" (Phillips, 2014). According to a recent study, Baby Boomers as young adults had twice the wealth of young adults today (Allison, 2017). Asset ownership has been shown to enable social mobility and educational attainment by providing a foundation from which to assume the risks of investment and growth (Zewde, 2018). With millennial homeownership rates declining, already-growing inequalities among millennials may be exacerbated without support to access this important pathway to building long-term wealth (Choi et al, 2018). The implications of chronically low, zero, or negative wealth will affect an entire generation's decisions involving education, marriage, homebuying, child-rearing, and retirement, and at a societal level, is spurring worrisome political and social polarization.

2 A phrase coined by William Darity, Jr. in his seminal 2005 piece, Racial Wealth Inequality and the Black Family, published in the book, *African American Family Life: Ecological and Cultural Diversity.*

BLACK PEOPLE HAVE LARGELY BEEN LOCKED OUT OF WEALTH BUILDING OPPORTUNITIES

Throughout history, federal and state governments have provided "wealth starter kits" for some Americans, giving gifts of land, education, government-backed mortgages and farm loans, a social safety net, and business subsidies, sometimes exclusively and usually disproportionately, to white families. The mechanisms through which Black people have been held back from building wealth are vast. Historical discrimination and subjugation intentionally limited or prevented wealth accumulation among Black people while encouraging and facilitating that of white people. To illustrate the point, white households are more likely to receive an inheritance and that inheritance is higher on average than that of their Black counterparts (Dettling et al, 2017). According to the Federal Reserve, 22.9 percent of white households (with a head of household age 30 to 59) received an inheritance in 2015 averaging $236,495 (2018). Only 10.6 percent of Black heads of household in the same age range in 2015 received an inheritance, and the average inheritance was $55,207 (Gustavo and Suarez, 2015). The ramifications are significant. According to research conducted by the Urban Institute, nearly 12 percent of the racial wealth gap between 1997 and 2007 could be attributed to the cumulative effect of large gifts and inheritances (McKernan et al, 2011).

For Black Americans, historical disadvantage is baked into the economy. As author and journalist Ta-Nehisi Coates proclaims, "Perhaps no statistic better illustrates the enduring legacy of our country's shameful history of treating Black people as sub-citizens, sub-Americans and sub-humans than the racial wealth gap." Coates argues:

> American institutions, businesses, associations, and governments—federal, state, and local—repeatedly plundered Black communities. Their methods included everything from land-theft, to redlining, to disenfranchisement, to convict-lease labor, to lynching, to enslavement, to the vending of children. So large was this plunder that America, as we know it today, is simply unimaginable without it (2014).

The 13th Amendment, while granting slaves their freedom, gave rise to the insidious practice of mass incarceration, which continues to jail Black men at rates five times that of white men (NAACP, n.d.). At the time of Jim Crow, the prison industrial complex ensured that incarceration rates among Black people remained high and gave rise to the private prison practice, which today is a multi-billion-dollar industry. If Black people were incarcerated at the same rate as white people, prison populations would decline by 40 percent (NAACP, n.d.), posing a major threat to the industry's bottom line.

Wealth has its roots in exploitation and theft. It has permeated throughout the country and found further leverage through equity gained in homeownership, an opportunity that historically was explicitly available only to white individuals and families and subsidized by substantial government intervention through the GI Bill, Home Owners' Loan Corporation, and, later, the Federal Housing Administration. The American tax code has buttressed this opportunity through policies like the mortgage interest tax deduction, a $71B annual subsidy given to homeowners, more than twice the $29.9B on the Section 8 Subsidized Rental Voucher Program in 2015 (Tinoco, 2017). Meanwhile, policies like redlining locked Black households out of homeownership opportunities in the 1930s and 40s, preventing Black families from the primary wealth-building tool for which white families were subsidized. Further, what's known as "the Black tax" places excess burden on younger generations of Black professionals. The "tax" is the income Black professionals give to family members or friends to support them, meaning that their paycheck is often not available for saving or building wealth, but for mitigating the impacts of discriminatory systemic injustice for those in their network (Oliver, 2019). Finally, macroeconomic crises have widened the wealth gap over time, as Black communities consistently face the brunt of economic hits.

Land use codes, like zoning regulations, have contributed to issues of social exclusion and opportunity hoarding. These land use and housing policies have cascading impacts on education. Public schools are funded largely through property taxes, creating deep divides in school funding. Educational attainment between high-income and low-income neighborhoods has been siloed through archaic land use practices further driving divides in educational attainment

and subsequent upward mobility potential as a function of zip code (Chetty et al, 2018).[3] That said, education is still insufficient to be considered "the great equalizer." Indeed, in the face of the numerous intersecting dynamics discussed thus far, it is increasingly clear that even holding a college degree no longer ensures a middle-class life (Levy and Temin, 2007). On this note, upon synthesizing numerous empirical studies done by leading economists, Paul Krugman (2011) concluded that it is "wishful thinking" to believe that education can single handedly "restore the middle-class society we used to have." In fact, it is "no longer true that having a college degree guarantees . . . a good job" and it is "becoming less true with each passing decade." The percentage of college graduates holding good jobs has fallen since 1979, for example (Meyerson, 2012). Krugman's conclusion contains a crucial implication: "So if we want a society of broadly shared prosperity, education isn't the answer—we'll have to go about building that society directly."

The culmination of and interplay between these de jure policies has created the uneven landscape of opportunity we see today: the wealth that white people own is vast and growing, particularly for older generations, while the wealth of Black Americans and younger generations is collapsing to zero or negative. The most significant predictor of the future financial success of a child is the wealth level of their parents. In fact, intergenerational transfer of wealth is one of the reasons why racial wealth inequality has become so entrenched. Because Black Americans lack wealth and often face mounting debt, they must rely solely on income to manage expenses or advance their opportunities—which is a tremendous disadvantage in today's increasingly unequal world. Despite the numerous structural issues at play, in their 2004 study, Gittleman and Wolff found that once income is controlled, Black families have a slightly higher savings rate than their white counterparts, dispelling many commonly held stereotypes and further dismantling the "bootstraps" myth of individual failure. The wealth issues facing Black Americans are not issues of individualism, but of intentional decisions baked into American governmental structure, fueled by the myth of meritocracy, combined with the veneer of living in a non-classist society. Successful rich Americans have convinced themselves that they are entitled to the tax deductions that only further build their wealth, while insisting that they receive no government subsidization nor support. Because wealth and power are intimately intertwined, opportunities to develop progressive policies are thus increasingly difficult to institute.

THE POTENTIAL FOR DEMOCRATIC UPHEAVAL

As described above, navigating the wealth divide necessitates a lens toward the myriad impacts of racism on our society at large. It is expected that households of color will become the population majority by 2044 (U.S. Census, 2018). These projections should be considered through the critical lens of racial self-identification which shows an increasing preference for whiteness, particularly considering more mixed-race marriages. Indeed, in the 2010 census, the majority of Hispanic respondents (53 percent) selected "white" as their racial identity, challenging the notion that there will be a minority-majority in the near future (Darity, 2016). However, there remains a perception that whites will be outnumbered soon. "For white nationalists, it [the Census projection] signifies a kind of doomsday clock counting down to the end of racial and cultural dominance" (Tavernise, 2018). While that is not unambiguously true, perception alone may be sufficient. As part of this conversation, it is crucial to recognize that "the closer you get to social power, the closer you get to whiteness," as noted by Charles King, a political science professor at Georgetown University, and acknowledge the "one group that was never allowed to cross the line into whiteness—African Americans" (Tavernise, 2018).

The power that is held in white supremacy systems has given rise to the immense racial wealth gap that benefits whites and burdens Blacks. Undoubtedly this drives the impulse among white supremacists to protect "what's theirs," but also the desires of those of mixed-races to self-identify as white, as well. Many whites may not feel that they are benefitting in our current economic system—as detailed above, a middle-class income no longer guarantees middle-class economic security. But when considering the stark comparison between Blacks and whites, the benefits of our economic system come into sharp focus. White households in the middle-income quintile—those earning $37,201-61,328 annually—own nearly eight times as much wealth ($86,100) as Black middle-income earners ($11,000) (Asante-Muhammad et al, 2017).

3 Note that Chetty's work is limited by not reckoning with nor properly addressing racist municipal policies that institutionalize subordinate positions of neighborhood quality, as elucidated here: http://www.cedargroveinst.org/Urban_Geography.pdf

The discriminatory and exclusionary underpinnings of much of our nation's policy and planning approaches have created a reality of devastating, systematic, racialized inequality in the United States. We have reached a point where racism and inequality are not only stifling economic growth, creating tremendous distress in communities, and exacerbating growing affordability crises, but fundamentally compromising our democracy. "Large accumulations of financial or business assets can confer special privileges in the political arena or in a local social context. The ongoing concentration of this power in the hands of a few Americans can thus undermine the democratic process" (Zewde, 2018). It is imperative that innovative wealth-building policies are implemented for the financial solvency of our nation, and for the democratic viability of our future.

As amplified in a recent interview, Major Coleman, Chair of the Black Studies Department at SUNY New Paltz, makes clear how reparations are essential to securing our democracy: "We never planned for the possibility of a group that has historically been enslaved for hundreds of years, oppressed for another hundred years under Jim Crow — that they and their allies would actually become the voting majority and that they're still being educated in segregated, poverty-stricken schools must be considered an insane approach for America's future" (Coleman, PBS NewsHour Interview, August 9, 2019). While racial self-identification adds nuance to the notion of a soon arriving "majority-minority population," the reality is that white supremacist violence is on the rise, as are racially-motivated hate crimes. We are teetering on the edge of a precipice as a nation—whether the wedge between races is driven deeper or whether we rise to the occasion and claim this unique opportunity to right the wrongs of our past and make amends through truth and reconciliation will likely be revealed in the intensity of this era. There is growing momentum in the public discourse around reparations as the body politic becomes increasingly more diverse on the Democratic side and as political power shifts in Congress. This is demonstrated in the previously mentioned historic hearing on reparations debated in the House of Representatives. This moment cannot be usurped by policies that lack a race-specific or, at the very least, race-conscious lens.

BABY BONDS: A BRIEF HISTORY

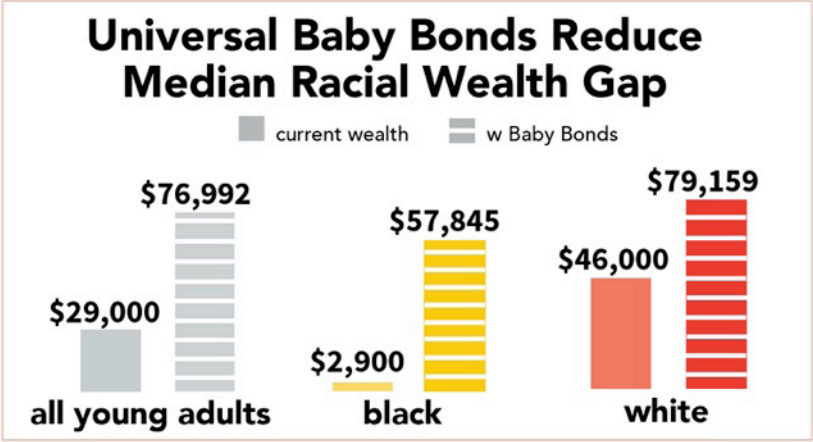
In light of the complex and intersecting dynamics above, this section explores Baby Bonds as a means of offering a path forward. Fundamentally, Baby Bonds are trust accounts funded by the federal government and provided to every newborn infant. At their most basic level, Baby Bonds can provide substantial assets to young adults who would otherwise not have the financial means to pursue education or home ownership without going into or exacerbating substantial debt. Baby Bonds provide a vehicle for investment to those who have weaker ties to the financial system, especially those who grew up without assets.

One iteration of Baby Bonds emerged in the early 2000s, when Former U.K. Prime Minister and then Chancellor Gordon Brown implemented a Child Trust Fund program that provided a £250 endowment to every baby born in September 2002 onwards, and up to £500 for children from low-income families who also qualified for a full child tax credit (Jones, 2003). The program allowed for unmatched private contributions to the account of £1,200 annually and placed no restrictions on use of funds upon withdrawal at age 18. The program was dismantled in 2010 by Conservative Chancellor George Osborne (Curtis, 2010).

In the United States, the idea of Baby Bonds has captured the interest of scholars and politicians for many years. In fall 2007 as part of her 2008 presidential bid, Hillary Clinton proposed a $5,000-at-birth baby bond, which she mentioned again on the presidential campaign trail in the fall of 2016 (Matthews, 2019). The concept was revived in the public sphere in recent years by scholars William Darity and Darrick Hamilton. Darity and Hamilton initially pursued their Baby Bonds modeling upon concluding that direct reparations to African Americans were politically infeasible. They reinvigorated the discussion on Baby Bonds during Obama's presidency to find a universal program that could make headway toward reducing the racial wealth gap in a climate where race-specific policies were not on the horizon (Darity

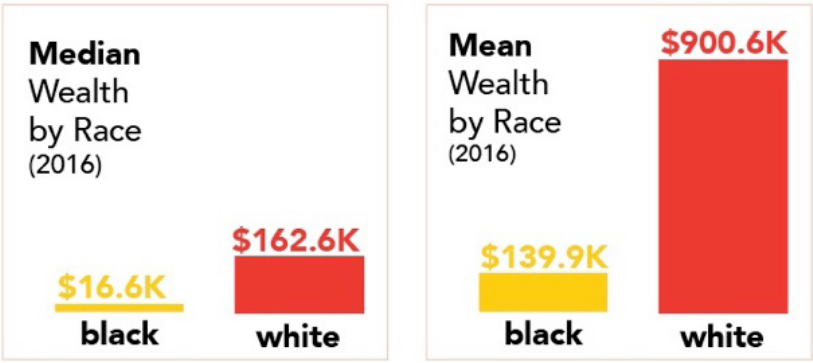
and Hamilton, 2010). Last fall, 2020 presidential candidate Cory Booker leveraged Darity and Hamilton's research to announce his new Baby Bond bill, American Opportunity Accounts (Kliff, 2018).

CAN BABY BONDS CLOSE THE RACIAL WEALTH GAP?



A program like Baby Bonds has yet to be attempted at the national scale in America, though it appears to be gaining traction in the current political environment as a result of Cory Booker's spotlight. A federal-level Baby Bonds program may sound radical to the more fiscally-conservative, but in the context of the cost of childhood poverty, which in the United States alone was estimated to cost $1 trillion in 2015, or 5.4 percent of GDP (McLaughlin & Rank, 2018), it's merely a drop in the bucket. A federal-level Baby Bonds program would signal to the country that economic stability is a birthright for U.S. citizens and would provide an important social safety net.

While the concept of Baby Bonds is not new, there has been limited research conducted on the impact they could have at a national level. Last year, a study led by Naomi Zewde, a postdoctoral research scientist at Columbia's Center on Poverty and Social Policy, considered the impacts of a hypothetical national Baby Bond program using household wealth and demographics data from the Panel Study of Income Dynamics (PSID). The study looked specifically at young adults ages 18-25 in 2015 and matched them to their PSID data to understand their respective households' net worth at the time of their birth. Their goal was to determine how a Baby Bond program would have impacted their overall wealth accumulation by 2015.



The hypothetical program is very similar to Booker's proposal but bases the means-testing for the annual contribution on household wealth, rather than household income—an important distinction. Overall, the study finds that the policy would considerably narrow wealth inequalities by race and that every racial group would be better off at the median with such a program. With Baby Bonds, the overall median for this age group comes to nearly $77,000 (from $29,000) (Zewde, 2018). While racial differences would still exist, the program would reduce Black-white wealth disparity from a factor of 15.9 to 1.4 at the median (Zwede, 2018). The study shows that Baby Bonds would not only improve the net-asset position of all young adults, but also improve the distribution of wealth. Some analysts have pushed back on Zewde's notion that Baby Bonds would close the wealth gap to the extent noted above. Since the study limits the focus to families in the middle, it ignores 97 percent of the wealth that is held by the upper 50 percent of white people. Baby Bonds have been brought into the conversation around the racial wealth gap, but the reality is that they are wildly insufficient, and a specific reparations program is also essential to bridge the stark differences in wealth by race. Given the tremendous scale of the racial wealth gap, if Baby Bonds are a stepping stone to truly repairing multigenerational harms borne of white supremacy, the policy must be race-specific, not merely race-neutral or race-conscious, to address the gap directly and build wealth for Black communities.

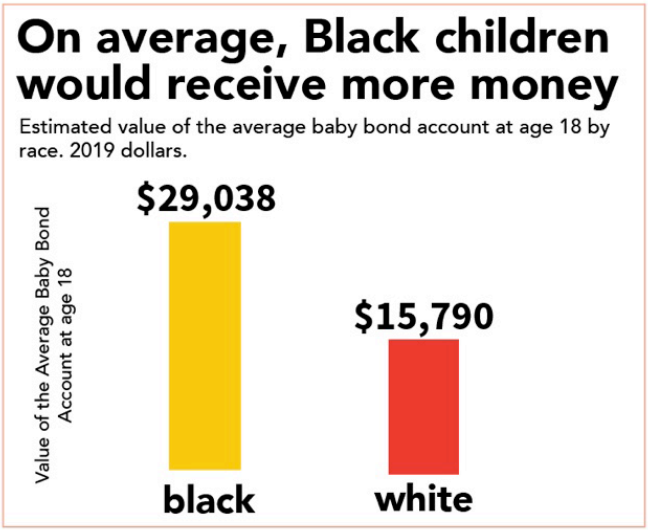
For Senator Cory Booker's Opportunity Accounts to achieve their full effect of raising Black household wealth to the national median without markedly raising the white median, then Black households would possess closer to 60 cents on the dollar of white wealth rather than 10 cents at the median. However, if the additional $82,400 needed to get Black wealth to the national median is considered in the context of relative mean wealth, and the full amount simply is added to the current Black mean, the eventual effect of Opportunity Accounts would give Black people 23 cents to each dollar of white wealth, rather than the current 9 cents. That is a 150 percent increase in the proportion, but it would leave 77 cents per dollar untouched. While the Baby Bonds proposal is a dramatic change from the status quo, it would not dramatically overturn the wealth distribution, but rather create a different floor of resources among young adults.

In response to this critique, Zewde contends that the median is more reflective of the average person's experience because it does not include the top 0.1 percent of income earners. In addition, she claims that basing the targets off the mean perpetuates the notion that the concentration of wealth should persist (Zewde, personal communication, April 23, 2019). Zewde has described her approach as "meant to even out the experience of most young adults" and to address the kind of inequality "lived by most people, not to address the vast wealth held by white billionaires" (Viebeck, 2019). According to Hamilton, "the source of inequality is, especially at the median, determined by the fact that some Americans have access to some seed capital to put into an asset that will passively appreciate over their life. They have some capital with which they can take part in the financial markets" (Boesler, 2019). Nonetheless, since 97 percent of white wealth is held by white households with a net worth greater than the white median ($171,000), arguably, consideration of mean levels of wealth does not lead to an exclusive focus on "white billionaires."

Other analysts contend that the median versus mean debate obscures discussions about broader goals of addressing community and intergenerational wealth-building. Baby Bonds could potentially foster greater community wealth-building efforts, allowing family and community members to pool resources to acquire an asset (Price, 2019). Baby Bonds could stymie economic pulls of low-wealth family members. Research shows that poverty in the family is a drain on the ability of middle-class Black families to build and keep wealth (Chiteji and Hamilton, 2002). Finally, a Baby Bonds program could mitigate some of the impact of mass incarceration that disproportionately affects Black families. Mass incarceration and criminal fines and fees have multigenerational effects on wealth and long-lasting economic consequences. Incarceration and even an arrest can radically undermine a person's capacity to find and keep a job and to build wealth, and often strips them of the possibility of ever acquiring assets like a savings account, a home, or even a car.

ARE BABY BONDS POLITICALLY FEASIBLE?

The power in the Baby Bonds concept is in its widespread political viability through its universality: it provides benefits to all Americans and fits into the growing imperative to address overall wealth inequality. Racial wealth inequality is gaining renewed attention as calls to close the racial wealth gap have become a key issue for several progressive constituencies. These progressive proposals include initiatives like canceling student loans and offering debt-free college, boosting homeownership among Black households, spurring Black business ownership, and combating predatory lending and exploitative financial service fees. Each of these programs has merit and deserves investigation and pursuit, yet Baby Bonds independently have the single largest effect on racial wealth inequality (Darity, 2019; Weller et al, 2019). Though even then, they would only narrow the immense gulf up to 25 percent (Darity, 2019).



While the concept of reparations remains unpopular, with only 2 percent net approval among Americans under 45, universal basic wealth—akin to Baby Bonds—is more popular with 27 percent net approval (Data for Progress, n.d.). These results suggest that there is a growing recognition of wealth inequality in our country and its cascading social, economic, and political impacts, as well as an appetite to explore policy interventions to address this critical issue. Baby Bonds as a concept show potential for their ability to help level the playing field in an era of growing inequality. If tax deductions that favor those who need them least are replaced with universal policies that benefit everyone, perhaps with some targeting for the least advantaged, it might be possible to build the cross-class solidarity and coalitions necessary to sustain a tax and transfer system that effectively tackles poverty and inequality while promoting opportunity for all.

However, like any policy, it has its shortfalls. In particular, Black families experience more downward mobility when it comes to wealth over their lifespan, whereas white families are likelier to experience upward mobility. Indeed, the young adults in Zewde's Baby Bond simulation who have a brief convergence around the time they become adults will themselves end up diverging again with differential incomes, differential savings, differential rates of return (especially on real estate), and differential inheritances—none of which have significantly kicked in yet at that age but which are the drivers of the continuation of the racial wealth gap (Bruenig, 2019). Additionally, recognizing the difficulty in calculating the value of a household's assets as well as the stark differences in household wealth, Booker's Baby Bonds should consider household *wealth* instead of household *income* as the basis for the means test. If income is used for the means test, Black families may appear better off than they actually are, diminishing the impact this policy aims to have on low-income Black communities. As may be expected, this idea is not seemingly popular among conservatives, so one final challenge is the policy's likely lack of bipartisan support and the potential, if ever implemented, to be at the mercy of our country's political pendulum swings. On the flip side, the embedded restrictions on how the money can be used may help garner bipartisan support. Additionally, integrating Baby Bonds as part of a broad platform toward economic security for all could create a unifying opportunity across party lines.

HOW ARE BABY BONDS STRUCTURED?

There are several ways that Baby Bond financing could be structured. In most schemes Baby Bonds are not funded by the private market; instead, they are financed by the government and managed in low-risk accounts that will provide stable and consistent returns year after year. Booker's proposal envisions every child born receiving an account seeded with $1,000. Every year, through the tax code, children would receive up to an additional $2,000 deposit depending on household income. Funds would sit in an account managed by the U.S. Treasury with around 3 percent annual returns. Account holders would not be able to access those funds until turning 18. The money could then be spent on specified uses including education, homeownership, or retirement (Booker, 2018). These restricted uses are specific to Booker's plan—when Baby Bonds were first introduced as a policy by Darity and others, limitations were not placed on the funds. The proposal is expected to cost $82 billion per year—less than the tax expenditure on excluding pension contributions from taxable income, or the tax expenditure on the preferential tax rates given to income from capital gains and dividends. It would also cost less than 10 percent of the annual cost of social security (Zewde, 2018).

Other recent proposals for Baby Bonds advocate for a one-time lump sum to be placed in an account for each baby, ranging from $500-$50,000 depending on family wealth (Hamilton and Darity, 2010), rather than the annual contribution model. Booker's approach—contributions on an annual basis—is preferred, since it mitigates any gaming of the system. If a family's income changes over time, the annual contribution could be more responsive to the level of need rather than basing contributions on a household's income on a one-time basis at the time the child is born. However, the means-test based on income in Booker's proposal is problematic if the policy aim is to close the wealth gap.

CONCLUSION

Given the impact of intergenerational wealth transfer and past and present barriers that have kept marginalized families from building wealth, private action and market forces alone cannot be expected to address wide-scale racial wealth inequality. Public sector intervention is needed. It's been over 70 years since our government invested heavily in a

transformational policy that enabled millions of people to build wealth. It's time to do that again. Much like President Franklin Delano Roosevelt established numerous social programs through the New Deal in response to the Great Depression, the United States is again poised for a large infusion of funds to help level the playing field across the growing landscape of inequality. While these programs gave rise to the wealthiest generations in American history, it is important to recognize that they also discriminated against people of color who were excluded from the wealth-building opportunities created during this time. This period exacerbated racial wealth inequality but mitigated broad-reaching wealth inequality that plagued post-Depression America. What this period demonstrated was that government intervention is necessary to remedy issues of vast inequality and should have included Americans of all races, rather than placing the onus on individuals or waiting for the market to correct.

When considering the total $15 trillion wealth gap between Blacks and whites, a Baby Bonds approach alone cannot close racial wealth inequities, but it will provide substantial assets to young adults who would otherwise not have the financial means to pursue education or home ownership without going into or exacerbating substantial debt. The program could more realistically be considered as moving toward an "Economic Bill of Rights" for all Americans, a robust initiative on which Paul, Darity, and Hamilton (2018) have written, "The impetus is to embed this into a cultural understanding that this is our birth right. Every newborn infant in the United States should have a birthright to a trust account that would enable them to move toward economic security later in life."

RECOMMENDATIONS

The emphasis in this analysis has been on a dual purpose: to amplify the urgency to address the *intergenerational* wealth gap and to distinguish and acknowledge the *racial* wealth gap, with grave imperative to target both through race-conscious, universal policy like Baby Bonds. The powerful potential for Baby Bonds to address the massive and widening wealth inequality that is threatening our economic and democratic viability suggests there could soon be an opening for implementation, especially given growing momentum around a universal basic income and other progressive reforms. In an increasingly tense political environment where both conservatives and liberals have promoted tax breaks for the already wealthy, from the Mortgage Tax Deduction to Trump's Tax Cuts and Jobs Act, the moment is ripe for universal policies that benefit everyone while targeting the least advantaged. Baby Bonds hold the potential to build the solidarity around an economic foundation for all. Resolving the weaknesses outlined above would fill gaps in policy, strengthen its viability, and build political will for its adoption. Additional recommendations include:

- **Clarify goals:** Policymakers should consider the many dimensions of wealth inequality between Black and white people and determine where we, as a country, need to move the needle to achieve equitable outcomes for all. A Baby Bonds program will have different implications depending on whether it aims to address income versus wealth differentials and whether it targets mean or median wealth gaps or identifies a broader goal. Programs should be tailored to address the deeper underlying policy need.
- **Create a multi-pronged approach:** Baby Bonds should not be considered in a vacuum; they should be viewed as just one strategy among many to address economic mobility in low-income communities of color. Adoption of an Economic Bill of Rights for the 21st century could provide an umbrella for other supportive policies that address intergenerational wealth issues that have been disproportionately experienced by communities of color and perpetuated by past government policies and sponsorship.
- **Make the economic case:** Experts calculate that the American economy would gain $2.1 trillion in GDP every year, a 14 percent increase, specifically by addressing equity and closing racial gaps in income (PolicyLink, 2014). In her article, "Equity Is Not Optional," PolicyLink Founder and then-President Angela Glover Blackwell wrote, "If America is to have a bright future, the equity agenda must become the nation's agenda. Equity is inseparable from economic growth and competitiveness. Research shows that communities, cities, and [urban] regions that pay attention to equity grow stronger" (2011). In a national discourse increasingly polarized by social wedge issues, the health of the economy remains a place of common ground. An argument based in economic benefit for all could make the difference in pushing this policy forward successfully.

The state of our economic well-being, and future economic prosperity hinges on our ability to reverse the trends of growing racial economic inequality through targeted policy solutions that intentionally and proactively address the economic needs of Blacks and other communities of color. Tackling concentrated wealth should be a priority for all of us.

> **"But one hundred years later, the Negro still is not free. One hundred years later, the life of the Negro is still sadly crippled by the manacles of segregation and the chains of discrimination. One hundred years later, the Negro lives on a lonely island of poverty in the midst of a vast ocean of material prosperity. One hundred years later, the Negro is still languishing in the corners of American society and finds himself in exile in his own land."**
>
> - Martin Luther King Jr.

APPENDIX: CASE STUDIES OF RELATED PROGRAMS

There has been some false conflation of Baby Bonds with other smaller-scale, tangentially-related programs. This appendix aims to dispel notions that such efforts, like Children's Savings Accounts (CSA) or Child Development Accounts (CDA), should be equated with Baby Bonds. These programs provide on-ramps to building wealth, but they have vastly different spirits, approaches, and outcomes. At their essence, CSAs and CDAs are programs that continue to place the onus on the individual to save without accounting for structural influences. They are seeded by small amounts of funding, which, anecdotally, helps parents feel more in control of their child's future and well-being, but in reality, may not provide enough financial support to help students avoid going into debt as a result of going to college. In addition, CSAs and CDAs are prescriptive in their application as they are largely required to be used for tuition instead of the broader applications contemplated by Baby Bonds, like retirement, small business, or down payments for homes. Most importantly, they are not intended to address today's inequity—they are meant to inspire young people to pursue college by giving them a small starting point. For low-income Black students, that starting point will never be the same as their white counterparts, even with a CSA or CDA, given the systemic disadvantages they are up against.

Globally, a few child and youth endowment plans have been implemented that provide some proof for what could be possible if the policy were fully actualized at the federal level in the United States. The following section focuses on case studies that illustrate existing CSA and CDA programs and initiatives, though none would be considered models for a national Baby Bonds policy platform in full, and none include the level of race-specificity needed to address racial wealth issues in the United States. Regardless, there are lessons to be gleaned from each in considering what a bigger impact program could accomplish.

OAKLAND PROMISE – BRILLIANT BABY

Oakland, California launched a CSA program in 2017. Oakland's Brilliant Baby Program is a multi-agency collaborative consisting of both public and private partners that provides $500 in a 529 account[4] for qualifying Oakland babies, as well as dedicated financial coaching for parents.

The City of Oakland manages the account until the child reaches 18 years of age, at which time they can use it for college. Households must live at 200 percent of the poverty level to be eligible for the program. Families are also eligible for a personal savings match program which includes financial coaching. So far, the program has enrolled over 300 babies with funding for 1,500 babies in total, with a program budget of $33M.

In an interview, Program Coordinator Dulce Torres-Petty highlighted how the one-on-one financial coaching is one of the most valued aspects of the program by participants. She described how poverty adds significant additional stress to low-income families when their new baby arrives and pointed to data that shows that college savings accounts reduce maternal depression rates and help parents feel that their child has a bright future ahead. The financial coaching element

4 A 529 plan is a tax-advantaged savings plan designed to encourage saving for future education costs. 529 plans, legally known as "qualified tuition plans," are sponsored by states, state agencies, or educational institutions and are authorized by Section 529 of the Internal Revenue Code.

helps families deal with the day-to-day stresses around money management to support broader emotional and social wellbeing.

While it is too soon to determine the long-term outcomes of this program for the enrolled babies, the other supportive elements that buttress the Brilliant Baby Program, like the financial coaching, provide critical benefits to low-income families enrolled in the program. As Dulce said, this program "reduces two generations of risk by building assets for families." Recognizing that Brilliant Baby does not, even at a small scale, address the systemic and structural inequalities omnipresent across America, the promotion of wealth-building opportunities like college attendance are in line with the desired outcomes of a Baby Bonds policy. However, CSA programs can perpetuate the notion that individual behavior must shift, rather than policies and systems, and the college debt burden has grown so substantially that these programs do not adequately provide even a portion of what is now needed.

SINGAPORE'S TRIO OF ASSET BUILDING PROGRAMS

There are three asset building programs in Singapore that are like CDAs: the Baby Bonus Scheme, the Edusave program, and the Post-Secondary Education program. The Baby Bonus Scheme was intended to increase fertility rates and provided cash gifts of S$4,000 for 1st and 2nd children and S$6,000 for 3rd and 4th children. The government matched co-savings for each child. The Edusave program provides S$170 annually for children ages 6-16 for educational and enrichment purposes. Edusave does not use CSAs to achieve its goals; instead, the program utilizes completely government-funded grants, scholarships, and awards to encourage education. Finally, the Post-Secondary Education program is the most similar to traditional CDAs. As part of this program, every eligible Singaporean will have an account opened for them at either the age of 7 or 13, and then closed when they reach the age of 31. Like traditional CDAs, parents will be able to contribute to Post-Secondary Education accounts, and the government can "top up" accounts if the account holder is eligible. The goal of Post-Secondary Education accounts is to help parents save for their children's post-secondary education, which closely mirrors the goal of traditional CDAs.

CANADA

Canada has an Education Savings Grant (CESG) and Canada Learning Bond (CLB) program. In the CESG, children are eligible for accounts between birth and the age of 17. To open an account, families must first open Registered Education Savings Plans (RESPs) and subsequently apply for a CESG account. As part of the CESG program, there is a savings match of 20% on the first $2,000 Canadian dollars (C$2,000) contributed to the RESP subject to an annual cap of C$500 and a lifetime cap of C$7,200. Funds saved in CESG accounts can be withdrawn for qualified post-secondary educational expenses or transferred to another child for the same purpose. Similarly, the goal of the Canada Learning Bond (CLB) is to kick-start savings for post-secondary education among low-to-modest-income families. As a matter of fact, CESG accounts and CLB accounts are quite similar, only differing in eligibility requirements and the economic mechanics of the account. For the CLB, people are eligible between birth and the age of 21, and there is an initial contribution of C$500 and an annual payment of C$100 for up to 15 years. Additionally, there is a lifetime limit of C$2,000 for eligible modest-income families.

SOUTH KOREA

The South Korean CDA program began its implementation in 2007. Its initial goal was to facilitate economic independence among lower-income families and long-term development of youth who were aging out of the welfare system. After the initial success of the program, many South Koreans, including former Minister of Health and Welfare Rhyu Si-min, the largest proponent for the program at its inception, thought that CDAs could be used to solve larger social and economic problems. The program targets children from lower-income families. Monthly deposits of 60,000 won (~$50) are made into KCDAs from the government and private sponsors, with an additional deposit match of up to 30,000 won (~$25) from the government. Withdrawal of funds is permitted only for education, housing, and enterprise when the account holder turns 18.

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