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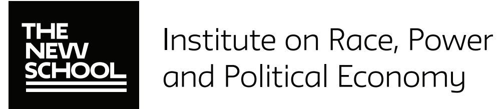
A BRIGHTER FUTURE WITH BABY BONDS

How States and Cities Should Invest in Our Kids



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A BRIGHTER FUTURE WITH BABY BONDS

How States and Cities Should Invest in Our Kids

BY SHIRA MARKOFF, JOANNA AIN, GRIEVE CHELWA AND DARRICK HAMILTON

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Wealth inequality by race in the United States has always been dramatic. The racial wealth gap stems from a long history of economic and political exploitation of Black, Indigenous and other people of color. This history includes both direct government policies and government-sanctioned private-sector practices that have benefited White households, often at the expense of non-White households. The racial wealth divide is perpetuated across generations, with the historical advantages accrued by White households transferred and compounded through financial support and seed capital passed to the next generation. Moreover, policies such as the reductions in capital gains and corporate tax rates that have been pervasive over the past few decades—for example, in the 2017 tax cuts—have caused wealth disparities to widen, both between racial groups and among White households as well.

To address wealth inequality and provide more just and egalitarian pathways for wealth building, this paper's co-author, economist Darrick Hamilton, proposed creating publicly-funded child trust accounts. Commonly known as "Baby Bonds," these accounts would provide every child, starting at birth, with a capital nest egg to attain financial security by having wealth when they reach adulthood. The point is to provide every child the economic resources they need to build long-term economic security and generational wealth, regardless of their race, gender and the economic circumstance in which they are born.

Baby Bonds were first introduced at the federal level by Sen. Cory Booker (D-NJ) and Rep. Ayanna Pressley (D-MA-7) in the American Opportunity Accounts Act. More recently, policymakers in states and local jurisdictions have introduced and, in some cases, passed their own proposals inspired by the federal legislation and scholarship around Baby Bonds. This paper provides guidance and context for elected officials, policymakers and advocates to help them craft effective state- and local-level Baby Bonds proposals.

Specifically, this paper:

- **Discusses the racial wealth divide in the US to provide context on why Baby Bonds are needed.**
- **Describes the purpose behind Baby Bonds and their potential impact.**
- **Lays out the essential elements to include in state- and local-level Baby Bonds legislation.**
- **Discusses how to align state and local proposals with a potential national Baby Bonds program.**

Background – the Racial Wealth Divide in the US

Wealth distribution in the US is unequal and unjust. As of the end of 2020, the wealthiest 10% of households possessed just under 70% of the country's total wealth (approximately $85.6 trillion), with the top one percent alone having more than 31% of total wealth (approximately $38.61 trillion). In contrast, the bottom 50% of households owns just $2.49 trillion or two percent of the country's total wealth.[1] This inequitable distribution of wealth has increased sharply over the past several decades. By comparison, the top 10% of households had just under 61% of total wealth in 1989.[2]

The inequitable distribution of wealth is even worse when we consider race and ethnicity. At the median, the typical Black and Latinx household has 10 and 12 cents respectively in wealth for every dollar owned by the typical White household.[3, 4] The COVID-19 pandemic has likely worsened racial and ethnic inequality, given the pandemic's disparate impact on poorer Americans and people of color.[5] Given the intergenerational nature of wealth, this gap stems from a long history of economic exploitation and oppression of Black, Indigenous, Latinx and other non-White people in the US. This history includes the enslavement of Black people, when they served as literal capital assets for

a White, landowning plantation class, the theft of land from Indigenous peoples such as in “The Trail of Tears”,[6] and government and private-sector wealth-building policies and practices that have benefited White households over households of color, such as the Indian Removal Act,[7] the Homestead Act, the Social Security Act and redlining.[8]

Current policies, particularly the federal tax code, continue to exacerbate this wealth divide. The tax code gives preferential tax treatment to earnings from investments and capital gains compared to earnings from labor, an upside-down policy that only increased after the 2017 Tax Cuts and Jobs Act went into effect. The act doubled the amount of assets inherited tax-free (e.g., real estate, corporate stocks, etc.), expanded 529s to cover tuition of private K-12 education and created a 20% deduction for pass-through businesses. White households, especially those with existing wealth, disproportionately benefited from these tax breaks, with 80% of the $275 billion in cuts ($218 billion) flowing to White households, and 40% going to White households in the top five percent of earners (with incomes of $243,000 or more).[9, 10] This disparate treatment benefits households with existing wealth to a much larger extent than it does those trying to create wealth, and thus exacerbates the racial wealth gap and the wealth divide more generally.

The tax code is a critical fiscal tool used by the federal government to help households build assets and wealth, but these benefits are not equitably distributed.[11] In 2019, the federal government spent an estimated $634 billion to support wealth building through tax subsidies and tax breaks around homeownership, higher education, retirement and investments.[12] These benefits disproportionately went to wealthier households, with millionaires receiving an average tax benefit of around $160,000—more than 700 times larger than households earning around $50,000, which received around $220 in tax benefits.[13]

All of these factors driving the racial wealth divide have been facilitated by government action or inaction and are systemic, so individual actions will not fundamentally change wealth distribution. For example, though education and the proverbial notion of “hard work” are often described as great equalizers, research indicates that even after accounting for education, employment and income, substantial racial wealth inequality remains. In fact, Black college graduates and full-time employed workers often have less wealth than White high school dropouts and unemployed workers; indeed, the racial wealth divide is the widest amongst those with a college degree.[14] Other demographic and socioeconomic characteristics, such as age, number of children and having a two-parent household, have little to no contribution to the racial wealth divide. Instead, economists have found that inheritance, bequests and other monetary gifts and transfers explain more of the racial wealth gap than do demographic and other socioeconomic indicators combined.[15]

As this research demonstrates, the intergenerational racial wealth gap is structurally created and has virtually nothing to do with individual or racialized choices or behavior. Instead, wealth transfers within families position some young adults with capital to purchase a wealth-generating asset like a home, a new business or a debt-free college education that will passively appreciate over a lifetime. Whether a young adult has access to this seed money is not based on individual action or inaction but rather on the economic position in which an individual is born, which is driven by structural racism. Young adults from households without wealth or with very limited wealth, who are disproportionately people of color, generally do not receive capital from their families. And without initial seed capital to begin their adult lives, young adults of color are starting far behind their White counterparts in building wealth over their lifetimes. Providing Baby Bonds could go a long way towards eliminating the transmission of economic advantage or disadvantage across generations and establishing a more moral and decent economy that facilitates assets, economic security and social mobility for all its people, regardless of their race or ethnicity and the family economic position in which they are born.

Overview of Baby Bonds

Baby Bonds, which were conceptualized by the paper's co-author Darrick Hamilton, are a policy in which money is set aside by the government, shortly after a child's birth, in an account, trust or bond and invested for their future.[16] When they become adults, recipients use the funds toward obtaining assets that are wealth-generating, such as a home. Baby Bonds are specifically intended to meaningfully close the racial wealth divide by providing the most public resources to children whose households have the lowest amount of wealth. Here is how they work:

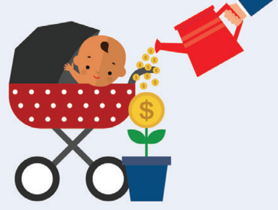
- A substantial initial deposit is seeded on each child's behalf and potentially additional deposits are made by the government throughout childhood; endowments are progressively seeded, with children from households with the lowest amount of wealth receiving larger endowments.
- Funds are invested by the government (public trusts) on behalf of children in order to appreciably grow in value over time—with the intention that the funds will grow enough to meet or exceed the inflation rate and be sufficient for the recipient to purchase a substantive asset when they reach adulthood.
- Upon reaching adulthood, recipients can use the funds to generate wealth and economic security (e.g., to purchase a home, for postsecondary education without incurring large student loans, for small business start-up or for resources toward retirement.)

BABY BONDS NARROW THE RACIAL WEALTH DIVIDE

HOW BABY BONDS WORK:

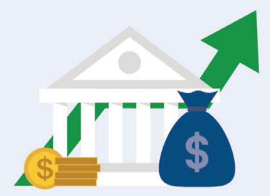
INVEST

The government makes a substantial deposit for each child, with the largest endowments for children from households with the lowest wealth.



GROW

Funds are invested by the government on children's behalf in order to grow appreciably.



GENERATE WEALTH

At adulthood, recipients use funds to acquire assets that generate wealth and economic security.

By investing in generations of children—with the largest investments provided for children from households with the least wealth, which are disproportionately Black, Latinx and Indigenous—over time, Baby Bonds will help narrow the racial wealth divide.

Baby Bonds is an “antiracist policy.”[17] Given the pronounced racial differences in wealth distributions, by providing the largest amount of funding to children from households with the least wealth, Baby Bonds would disproportionately benefit Black, Latinx and Indigenous children by design. Over time, Baby Bonds would increase wealth equity across racial and ethnic groups. It follows then that policy proposals that provide the same amount of funds to all children—regardless of household wealth, income or racial/ethnic identity—are not antiracist and do not meet the definition of Baby Bonds. In fact, they could potentially exacerbate the racial wealth gap. Putting into place a Baby Bonds proposal based on antiracist principles could help fundamentally shift the dynamics of wealth building in the US, which has long favored White households, and instead also provide children of color with the resources needed to begin building wealth as young adults.

Having defined what Baby Bonds are, it is important to be clear about what Baby Bonds are not. Baby Bonds are not intended as reparations or as a substitute for comprehensive reparations. Reparations are a way for the US to acknowledge and redress the enslavement of Black people and the long history of state-sanctioned exploitation and extrapolation of the labor, assets and personhood of Black people and communities. Reparations take a retrospective approach to addressing the racial wealth gap, providing restitution for past injustices.[18] Baby Bonds are prospective and intended to ensure that Black children, and children from low-wealth households, have the resources they need to take advantage of their efforts and ingenuities and create long-term prosperity. Baby Bonds and reparations should be viewed as both separate and complementary policies.

Potential Impact of Baby Bonds

Baby Bonds could make a significant difference in closing the racial wealth gap at the median. A 2019 study by Naomi Zewde, a professor at the City University of New York (CUNY) and a Roosevelt Institute fellow, looked at what the impact on the racial wealth divide would have been if a national Baby Bonds program had been put in place during the mid-1990s (benefiting people 18-25 years-old in 2015). In this scenario, children from households with wealth among the bottom 20% would have accumulated, on average, about $45,000 in their Baby Bond accounts, while those in the top 20% would have accumulated just under $10,000. **For participating households, the wealth gap would have decreased from White households having about 15.9 times the wealth of Black households to having only 1.4 times the wealth of Black households.**[19]

Racial disparities have been created through generations of racist policies and practices, so we would not expect one policy to achieve racial justice or to entirely close the racial wealth divide. For example, while Baby Bonds would provide funding for a down payment on a home, they would not address discrimination in housing and lending and the devaluation of homes in communities of color. Baby Bonds also would not address disparities in educational quality without equitable investments in early childhood, K-12 and postsecondary education. This paper does not assert that Baby Bonds are the solution to all the economic challenges we face. Rather, Baby Bonds are specifically a tool to address wealth disparities primarily resulting from a lack of capital over generations and should be part of a suite of policies, including others addressing the financial needs of households of color, making larger investments in communities of color, protecting the assets of individuals and communities of color, and enacting and enforcing anti-discrimination policies that address individual and systemic racism.

Federal Proposal

The first significant attempt to introduce legislation in support of Baby Bonds was made by Sen. Cory Booker (D-NJ) in 2018 with the introduction of the American Opportunity Accounts Act (AOAA).[20] Since then, Sen. Booker has worked with Rep. Ayanna Pressley (D-MA-7) to develop and promote the legislation. Most recently, Sen. Booker and Rep. Pressley reintroduced the bill in the 117th Congress in February 2021. As of December 2021, the bill has

15 Senate co-sponsors from across the Democratic spectrum, including Senate Majority Leader Chuck Schumer (D-NY) and Sens. Elizabeth Warren (D-MA), Bernie Sanders (I-VT), Amy Klobuchar (D-MN) and Tammy Baldwin (D-WI). Under the AOAA:[21]

- Each of the approximately four million children born in the US annually would receive an American Opportunity Account—an investment account managed by the Treasury Department—that would be seeded with $1,000.[22]
- Every year until children turn 18, they would receive automatic, progressively distributed annual deposits of up to $2,000, with children from the lowest-income households receiving the maximum amount.
- By the time they turn 18, young adults from the lowest-income households would have as much as $34,000 invested in their accounts. With the estimated returns on that investment, the balance could total more than $45,000.[23]
- Beginning at age 18, young adults could use these funds to invest in wealth-building assets, such as higher education, starting a small business or homeownership.

State and Local Baby Bonds Policies

Essential Elements of a State- or Local-Level Baby Bonds Proposal

After Baby Bonds came to national prominence during Sen. Booker's 2020 presidential bid, the idea gained traction at the state and local levels. Several policymakers have made their own proposals that are aligned with or draw upon the idea of Baby Bonds. Connecticut passed legislation in June 2021 creating the first state-level Baby Bonds program, followed shortly by Washington, DC, in October 2021. While it is encouraging to see the idea of Baby Bonds catching on, the proliferation of proposals also poses the risk that the concept could be diluted and that the programs that are eventually implemented could be less impactful. To achieve the goal of reducing racial wealth inequality and maximize impact, state and local Baby Bonds proposals should include these essential elements:

- **Children receive a substantial monetary endowment.** While there is not one definitive amount that meets the definition of "substantial" for all state programs, the amount must be large enough to allow the recipient to purchase an asset that will offer them the return of wealth over their lifetime. In determining this amount, policymakers should undertake a careful analysis of the future costs of key asset purchases in the state—such as purchasing a home or paying for postsecondary education—and determine the level of investment needed for children to have sufficient funds for a significant asset purchase (e.g., the down payment on a home) by the time they reach adulthood.
- **The timing of the funding of the Baby Bond accounts may vary.** Larger investments upfront when children are first enrolled provide a longer duration for initial investments to compound and grow. However, if needed, especially to manage state and local budget constraints, a portion of the total endowment could be deposited when the child is enrolled, and additional deposits, based on familial income/wealth, could be added annually or periodically. Regardless of the timing of the investments, children should have sizable nest eggs when they reach adulthood.
- **Children from lower-resourced households receive higher amounts**. Baby Bonds are intended to be fiscally progressive, and, as described earlier, an antiracist policy that addresses the racial wealth divide. To meet these objectives, children from households with lower resources, who are disproportionately Black, Latinx and Indigenous, should receive higher investments in their accounts. This could be accomplished by

designing a universal program that provides a baseline amount to all children but provides additional funding on a sliding scale based on household wealth or income, as the AOAA does. It could also be done through targeted eligibility that limits participation in the program to children from households under a certain threshold. For example, Connecticut's Baby Bonds program is only open to babies whose births are covered by the state's Medicaid program, HUSKY Health.[24] Whichever method states or localities use to determine who receives higher investments, an assessment should be conducted upfront to ensure that the design will reduce the racial wealth divide.[25]

Ideally, funding eligibility should be based on household wealth to determine which children receive higher amounts, especially since racial disparities and inequality by wealth is more pronounced than by income. However, measuring household wealth is novel, and data/metrics may not be widely and readily available. The authors recommend that state, local and the federal government capture household assets and debt going forward, because these are better measures of economic insecurity.

- **Children are automatically enrolled.** Automatic enrollment, also known as "opt-out," means that every eligible child is enrolled and money is invested for them without any action required by parents/guardians. This ensures that all children—regardless of any barriers their parents/guardians would have to signing up for a program (e.g., language barriers, lack of time or information, children in foster care)—have an account, unless their parent/guardian chooses to opt out. Research in the Children's Savings Account (CSA) field shows that programs requiring parents/guardians to enroll their children—also known as "opt-in"—disproportionately benefit more advantaged children, so automatic enrollment is essential to achieving the equity goals of Baby Bonds.[26]

- **Funds are restricted to wealth-generating assets.** To meaningfully provide access to wealth to children from low-resourced families, Baby Bonds should be used to acquire assets that will appreciate over time and generate wealth. These include, but may not be limited to, a home, postsecondary education, small business start-up and retirement. Rather than trying to predict every wealth-generating asset purchase that may be available to children 20 years in the future, the legislation can require the program administrator to periodically reassess the allowable uses.

  Restrictions on allowable uses of funds are not intended to be paternalistic. Rather, they ensure that Baby Bonds achieve their objective of providing capital to build wealth, rather than being used for more immediate expenses. Young adults from low-wealth households would have many competing demands on these funds, and the restrictions ensure that the funds are used for asset purchases, which would set them up for a lifetime of wealth accumulation. As discussed earlier, Baby Bonds are not a panacea, and other policies should be enacted that complement this program, including those that support young adults and their families in meeting immediate needs (e.g., more robust safety net programs, guaranteed income, a federal jobs guarantee).[27]

- **Baby Bonds are structured with an emphasis on endowments.** As discussed earlier, Baby Bonds are intended to redress the different wealth positions in which children are born, so the focus is on providing a publicly-seeded endowment. Incentivizing individual or family savings is not the primary intent or feature of the program; rather the design emphasis is on ensuring a capital foundation or nest egg to ensure access to wealth accumulation. Indeed, allowing families to make deposits into Baby Bonds accounts may, in fact, enable families with more means to contribute more for their children, which would blunt the program's equity focus. Many other vehicles already exist for families to save for their children's futures, so it is both unnecessary and potentially undesirable to allow direct family deposits into Baby Bonds accounts.[28]

- **The program has a sustainable funding source.** Since Baby Bonds are a long-term investment in children, they should have a funding source that is sustainable over the long term. Relying on general, annual appropriations to pay for the program could diminish its success and make it vulnerable, as future legislators may cut the program during leaner budget periods or when legislative control changes from one political party

to another. Using a designated, renewable funding source will help keep Baby Bonds more insulated from economic downturns and changing political winds.

- **Baby Bond investments are excluded from state benefits' asset limits.** While Baby Bonds provide financial support for children's futures, it is essential to ensure that their household's current benefits are unaffected. Some states have limits on the amount of assets households can have to be eligible for state-administered benefits, such as Temporary Assistance for Needy Families (TANF) and the Supplemental Nutrition Assistance Program (SNAP).[29] If Baby Bonds funds are owned by the government on children's behalf, they should not be counted as household assets for benefits calculations. Nonetheless, to ensure that there is no confusion, legislation should specify that funds held in Baby Bonds do not count as household assets in calculating eligibility for state-administered benefits programs. This could also help ease families' concerns about any impact on benefits eligibility.

In addition to these essential elements, other considerations in developing strong state or local Baby Bonds policies include:

- **Creating additional touchpoints with participating children and families.** As best practices from the CSA field show, Baby Bonds will be most impactful if children and their families are aware of them from an early age, understand how they can be used at age 18 (e.g., through financial coaching), and are having early conversations about the child's future education or other account use. To build this early awareness, programs should engage families regularly by sending statements on the funds' value and growth and providing online access to view the balance. States and localities should also provide funding and support to local community partners (e.g., early childhood programs, college access programs and social service providers)—particularly in low-income communities and communities of color—to conduct outreach and engagement about Baby Bonds.
- **Using a flexible account structure.** In CSA programs, states typically use their 529 plan—tax-advantaged college savings accounts—to hold participants' funds. However, because Baby Bonds can be used for various wealth-generating assets, 529s—as currently structured—are not an appropriate vehicle. A better alternative is to use or create a pooled investment vehicle managed by the treasury department (or similar agency), which would account for each child's initial endowment and a pro rata share of the investment's growth. This setup is similar to the master (or omnibus) 529 account structure used by CSA programs, such as MyAlfondGrant in Maine.[30] The funds should be invested in vehicles that provide safe and steady returns, such as US Treasuries.
- **Ensuring representation from impacted communities in program administration.** To ensure that racial equity stays at the forefront of the program and that Baby Bonds are responsive to the needs of communities of color, representatives from communities of color and from low-income communities should have a meaningful role in the administration of the program. This could be accomplished through including community representatives on the program's board or creating a community advisory group, which would weigh in on key decisions, such as how to invest the funds in Baby Bonds accounts, allowable uses of funds, and how to reach out to and engage participating children and families.

State and Local Proposals

As of December 2021, legislative proposals inspired by Baby Bonds had passed or were pending in several state and localities, including:

- **Connecticut** – In June 2021, Connecticut became the first state to pass a Baby Bonds policy. Under H.B. 6690, the legislation establishing the Connecticut Baby Bonds Trust, babies born in the state after July 1, 2021, whose births are covered through HUSKY Health, the state's Medicaid program, will have $3,200 automatically invested on their behalf. The Connecticut Treasurer's Office will create a Baby Bonds Trust, in which funds will be collectively invested for enrolled children. Each child's share in the trust will include the initial $3,200 and a pro rata share of the trust's earnings. At age 18, funds can be used for postsecondary education, purchase of a home in Connecticut, investment in a small business in the state or "investment in other financial assets or personal capital that provide long-term gains to wages or wealth." To fund the program, the state will issue up to $50 million in bonds, to be approved annually.
- **District of Columbia** – DC Ward 5 Councilmember Kenyan McDuffie introduced DC B24-0439, the Child Wealth Building Act of 2021. The Council unanimously passed authorizing legislation in October 2021 after appropriating $32 million for the program in its fiscal year 2022 budget. Every baby born in DC into households eligible for Medicaid with income under 300% of the federal poverty level (FPL) will receive a government-owned trust at birth with an initial $500 deposit. They will receive additional deposits annually of up to $1,000 depending on household income. At age 18, funds can be used for postsecondary education, home or commercial property ownership, small business investments and retirement savings.
- **Iowa** – Iowa State Rep. Beth Wessel-Kroeschell (D-IA-45) introduced H.F. 544 in 2021, which would create a "Baby Bond program and fund." Each child born in the state would receive an initial $500 deposit into an account and an additional $500 deposit each year until age 18. After age 18, the funds could be used for educational expenses or the purchase of a first home. The program would be funded through sales and use taxes.
- **New Jersey** – Gov. Phil Murphy (D) proposed a statewide Baby Bonds program as part of his fiscal year 2021 budget. While Baby Bonds were not included in the legislature's final fiscal year 2021 budget, State Assembly members William Moen (D-NJ-5) and Benjie Wimberly (D-NJ-35) subsequently introduced A.B. 4638 to create the New Jersey Baby Bonds Account Program. The bill would automatically create accounts following the birth of a state resident child whose household's annual income is below 200% of the FPL. Each child would receive a one-time deposit of $2,000. Eligible uses of funds would include postsecondary education, homeownership, small business and other investments that provide long-term gains as determined by the program's board.
- **New York** – In May 2021, Sen. Jeremy Cooney (D-NY-56) proposed S. 6902, the Excelsior Opportunity Accounts Act, in which every child born into a New York resident household with income below 500% of the FPL would receive an account seeded with $1,000. An additional $500 would be added to the account each year the child is under age 18 in which a parent/guardian certifies that the household income is below 700% of the FPL. The account uses at age 18 are unrestricted.[31]
- **Wisconsin** – Sens. Melissa Agard (D-WI-16) and Kelda Roys (D-WI-26) introduced S.B. 497 in August 2021. The bill would create a Baby Bonds program that would invest $3,000 for babies whose mothers are income eligible for the state's Medical Assistance program. At age 18, the money can be used for postsecondary education, childcare or education of a minor dependent, home purchase, starting a business or retirement savings.

Table 1 provides an overview of each state and local bill, with descriptions on how each addresses the essential elements of Baby Bonds described in the previous section. This overview shows that while all these proposals draw on the idea of Baby Bonds, they do not necessarily fully align with all the essential elements of Baby Bonds. For example, the total monetary endowment made on behalf of children varies widely across the proposals, from $2,000 in New Jersey to up to $17,500 in DC (exclusive of any returns on the investments). As discussed earlier, there is not one definitive amount that meets the definition of "significant monetary endowment." However, at age 18, the investment should be sufficient for purchasing a wealth-generating asset. Even with returns on an investment of $2,000, the initial investment may not appreciate in value enough to allow for the purchase of a wealth-generating asset.

All of the proposals, except for Iowa's, are targeted toward lower-resourced households through their eligibility criteria. This targeting ranges from specific (e.g., Connecticut limits eligibility to Medicaid participants) to much broader (e.g., New York would limit eligibility to households with incomes up to 500% of the federal poverty level). Some of the proposals further target contributions based on household resources. For example, while DC gives all eligible participants the same initial investment, annual contributions are graduated based on income.

Most of the programs restrict usage of Baby Bonds funds at age 18 to purchasing wealth-generating assets, such as a home purchase, small business capitalization or higher education. However, the New York proposal does not have restrictions on uses of funds, and the Wisconsin proposal includes education and childcare for the minor dependent of the Baby Bonds participant. The ways in which states would fund each of these programs also differ. Some rely on annual appropriations, which may not be sustainable in the long-term, while others have dedicated state sources (e.g., sales and use taxes on recreation in Iowa).

TABLE 1

Overview of Key Elements in Enacted and Proposed State and Local Baby Bonds Legislation

(as of December 2021)

	Connecticut (Enacted - H.B. 6690)	District of Columbia (Enacted – B24-439)	Iowa (Proposed - H.F. 544)	New Jersey (Proposed - A.B. 4638)	New York (Proposed - S. 6902)	Wisconsin (Proposed - S.B. 497)
Total Monetary Endowment	$3,200 investment plus earnings	$500 initially, up to $1,000 annual deposits plus earnings	$500 initially, $500 annual deposits plus earnings	$2,000 investment plus earnings	$1,000 initially, $500 annual deposits, plus earnings	$3,000 investment plus earnings
Endowment Amount by Household Wealth/ Income	Eligibility limited to children from Medicaid-eligible households; all eligible children receive the same amount	Eligibility limited to children in Medicaid-eligible households below 300% federal poverty level (FPL); all receive same initial deposit; yearly deposits vary by income	All children born in the state are eligible for the program and receive the same amount	Eligibility limited to children in households below 200% FPL; all eligible children receive the same amount	Eligibility limited to children in households below 500% FPL; all eligible children receive the same amount	Eligibility limited to children whose mothers are Medical Assistance eligible; all eligible children receive the same amount
Enrollment Method	Automatic enrollment from birth records	Automatic enrollment from birth records	Opt-in enrollment by parent/guardian	Automatic enrollment from birth records	Automatic enrollment from birth records	Automatic enrollment from birth records
Allowable Uses of Funds	• Education • Home purchase • Business investment • Other assets yielding long-term gains to wages or wealth	• Education • Home/ commercial property purchase • Business investment • Retirement investment	• Education • First home purchase	• Postsecondary education • Home purchase • Business • Other assets yielding long-term gains to wages or wealth	No restrictions on uses of funds	• Postsecondary education • Childcare/ education of minor dependent • Home purchase • Business investment • Retirement
Structured as an Endowment	Family contributions not accepted	Family contributions not accepted	Family contributions not accepted	Contributions allowed into accounts	Family contributions not accepted	Family contributions not accepted
Program Funding Source	Annual state-issued bond	Subject to annual appropriation	Funded through sales and use taxes	Subject to annual appropriation	Dedicated state funding source	Dedicated state funding source
State Benefit Asset Limit Exclusions	Excludes funds from asset limits	Excludes funds from asset limits	Not specified in legislation	Not specified in legislation	Excludes funds from asset limits	Excludes funds from asset limits

Cost Considerations

Since Baby Bonds require large investments to provide a meaningful endowment, the cost of implementing them at the state or local level could be substantial. In comparison to the federal government, most states and localities have limited budgets and requirements that their budgets balance, so funding a new, large program can be difficult. As discussed earlier, relying solely on annual appropriations for a long-term program meant to extend to children born in subsequent years is not recommended. States and localities may need to identify dedicated funding sources that continue to replenish year after year. These potential funding sources differ by location but could include:

- **Raising the estate tax** – Raising the estate tax (or implementing one if it does not currently exist) to pay for Baby Bonds increases equity by taxing inherited wealth and redirecting it toward children from low-wealth households.
- **Fees on the state's 529 managers** – Most states have an outside company managing their state's 529 college savings plan, and many are charged (or could be charged) fees for this role. For example, the Nevada Treasurer's Office uses fees from its 529 manager to fund its CSA program, College Kick Start. During the bidding process for its new 529 manager, Rhode Island stipulated that the manager provide funding for the $100 initial deposits in the state's CSA program, CollegeBoundbaby.
- **New revenue streams** – When states have new revenue streams coming online, such as after legalizing marijuana sales, these could be directed toward Baby Bonds.
- **Wealth tax and millionaires' tax** – Other sources of potential revenue to finance Baby Bonds are a wealth tax and a millionaire's tax. A wealth tax could be levied on those above a certain net worth while a millionaires' tax would be levied on those with an annual income more than $1 million. The Center on Budget and Policy Priorities estimates that these measures could raise revenue for equity initiatives at the state level, which could include Baby Bonds.[32]

Each of these potential funding sources may not be sufficient by itself to cover the costs of a robust Baby Bonds program, but by combining sources, enough funding may be raised. Additionally, states and localities could raise money from private philanthropy to supplement the public investments, though primarily for demonstrations or startup costs. Both public and private money could be invested into an income-generating fund, similar to an endowment, so that the earnings could help pay for future cohorts of participating children. At the same time, states and localities should keep in mind the vulnerabilities of depending on philanthropic sources for sustainability.

An important caveat is that the funding source should not rely on regressive measures—such as blanket sales or property tax increases. Raising revenue through regressive taxes or fees would be counterproductive, as it would harm the same children and families the program is serving and diminish the impact of Baby Bonds on closing the racial wealth divide.

Aligning State and Local Baby Bonds Policies with Federal Policy

Baby Bonds were originally discussed as a national program, and only the federal government has the resources and reach needed to create a program at a scale that can endow every child with the necessary resources to fully address the racial wealth divide. Still, state and local Baby Bonds programs can build awareness, provide proof of concept and trend us towards racial and economic justice.

Even once a federal program is passed, state programs can be complementary to a federal program by:

- **Accounting for regional differences in asset costs** – A national program would likely provide a uniform amount of funding to children from households with similar incomes across the country. However, the costs of assets that would be purchased with Baby Bonds, particularly for homeownership, differ significantly by region. States and cities with higher housing markets, for example, could have their own Baby Bonds programs, which would provide additional funding on top of the federal Baby Bonds money to help make higher down payments.
- **Working with local communities on outreach and engagement** – As discussed earlier, outreach and engagement around Baby Bonds is crucial to success. States and localities are better positioned than the federal government to identify which populations may need extra outreach and support, such as those with limited English proficiency, and then work with local community partners to reach out to those communities.

Conclusion

Wealth inequality in the US, especially by race, ethnicity and ancestral origin, is extensive and without government intervention, will increase. This inequality perpetuates itself across generations, because without capital, young adults from lower-wealth households—who are disproportionately people of color—lack the most critical ingredient in building wealth. Baby Bonds are intended to provide a capital endowment for all children, not just those fortunate enough to be born into wealth, to begin their adult lives with the economic resources they need to build long-term economic security and generational wealth.

Baby Bonds are ideally implemented at the federal level, since only the federal government has the resources and reach needed to create a program at the scale necessary to achieve these important goals. However, while a federal program is the ultimate goal, states and localities do not have to wait to begin to provide young adults with foundational capital to start building wealth. This momentum can build awareness, provide proof of concept and trend us towards a more fair and just distribution of wealth.

To maximize impact, state and local Baby Bonds policies need to include several essential elements. Most importantly, they need to provide a substantial monetary investment that will be sufficient to purchase an asset that will appreciate over time, such as a home or an investment in a small business. In addition, Baby Bonds policies should have automatic enrollment guidelines for all eligible children to ensure inclusivity, and they should provide the largest investments for children from the lowest-resourced households. States and localities should also ensure that funds in Baby Bonds accounts do not impact eligibility for other state-provided benefits.

The use of Baby Bonds funds by participating young adults should be restricted to investments in wealth-generating assets, such as a home purchase, small business investment or postsecondary education. These restrictions are not made to be paternalistic but rather to ensure that Baby Bonds achieve the specific goal of narrowing the racial wealth divide and providing the economic security of wealth for all children. It is important to be clear that this paper does not assert that Baby Bonds are a panacea for all our economic challenges. Instead, Baby Bonds should be part of a suite of policies that address the immediate financial needs of households (e.g., more robust safety net programs, including government assurance of adequate income and a job), more investments in distressed communities, protections from financial predation and proactive policies that address individual and systemic racism.

By aligning proposals with these essential elements, states and localities can create Baby Bonds programs that can have a meaningful impact on the lives of young adults, enabling them to begin building financial security and wealth over their lifetimes. And these programs can help move us toward having a more moral and decent economy that facilitates assets, economic security and social mobility for everyone, regardless of the race or ethnicity and family economic position in which they are born.

Additional Resources and Support

For more information on Baby Bonds, check out these resources:

- How “Baby Bonds” Could Help Close the Wealth Gap (TED talk)
- A Birthright to Capital: Equitably Designing Baby Bonds to Promote Economic and Racial Justice (report)
- Baby Bonds: Landmark Legislation to Address the Growing Racial Wealth Divide (brief)
- A Bright Future for Every Child: How Your State Can Narrow the Racial Wealth Divide with Baby Bonds (brief)
- Baby Bonds (video)

Additional resources are available on the Baby Bonds section of Prosperity Now’s website.

Prosperity Now can support legislators and advocates in designing Baby Bonds policies, including providing sample legislative language and reviewing legislation. Contact us at babybonds@prosperitynow.org.

Endnotes

1 "Distributional Financial Accounts – Distribution of Household Wealth in the U.S. since 1989" (Washington, DC: Board of Governors of the Federal Reserve System, 2021).

2 Ibid.

3 "2016 Survey of Consumer Finances," Excel Based on Public Data, Estimates Inflation-Adjusted to 2016 Dollars (Washington, DC: Board of Governors of the Federal Reserve System, 2017).

4 These national averages often mask even starker differences at the local level. For example, the "Color of Wealth in Boston," a study focused on analyzing racial and ethnic group wealth inequality in Boston, found that the typical Black household had zero dollars in wealth in 2015.

5 Darrick Hamilton, Ofronama Biu, Christopher Famighetti, et al., "Building an Equitable Recovery: The Role of Race, Labor Markets, and Education" (New York, NY: Institute on Race and Political Economy, The New School, 2021).

6 For more discussion on the Trail of Tears, see: Dwanna McKay, "Oklahoma is — and always has been — Native Land" (The Conversation, 2020).

7 For more on the impact of the Indian Removal Act, see: Meizhu Lui, Barbara Robles, Betsy Leondar-Wright, et al., *The Color of Wealth: The Story Behind the U.S. Racial Wealth Divide* (New York, NY: The New Press, 2006).

8 Emanuel Nieves, Vanna Cure and Cat Goughnour, "Exploring Racial Economic Equity in Policy Advocacy" (Washington, DC: Prosperity Now, 2020).

9 Emanuel Nieves, David Newville, Jeremie Greer and Meg Wiehe, "Race, Wealth and Taxes: How the Tax Cuts and Jobs Act Supercharges the Racial Wealth Divide" (Washington, DC: Prosperity Now, Institute on Taxation and Economic Policy, 2018).

10 For additional discussion, see: Dorothy A. Brown, *The Whiteness of Wealth: How the Tax System Impoverishes Black Americans — and How We Can Fix It* (New York, NY: Crown, 2021); Darrick Hamilton and Michael Linden, "Hidden Rules of Race are Embedded in the New Tax Law" (New York, NY: Roosevelt Institute, 2018).

11 For example, Naomi Zewde, Kyle Strickland, Kelly Capatosto, et al., "A Guaranteed Income for the 21st Century" (New York, NY: Institute on Race, Power and Political Economy, 2021) describes how, despite popular perception, the tax code is the nation's biggest fiscal tool and does a great deal more than revenue collection. It could foster economic inclusion, social equity and economic mobility. However, for instance, structuring lower rates of taxation for capital gains as opposed to income and promoting tax deductions and not refundable tax-credits are antithetical to economic inclusion and capital gains.

12 Emanuel Nieves, Joanna Ain and David Newville, "From Upside Down to Right-Side Up: Turning the Tax Code into an Engine for Economic and Racial Equality" (Washington, DC: Prosperity Now, 2020).

13 Ibid.

14 Darrick Hamilton, William Darity, Jr., Anne E. Price, et al., "Umbrellas Don't Make It Rain: Why Studying and Working Hard Isn't Enough for Black American" (New York, NY: The New School, et al, 2015); Darrick Hamilton and William A. Darity, Jr., "The Political Economy of Education, Financial Literacy, and the Racial Wealth Gap" in *Review* (St. Louis, MO: Federal Reserve Bank of St. Louis, 2017).

15 Darrick Hamilton and Ngina Chiteji, "Wealth," in Patrick Mason ed. *International Encyclopedia of Race and Racism,* 2013; Amy Traub, Laura Sullivan, Tatjana Meschede and Tom Shapiro, "The Asset Value of Whiteness: Understanding the Racial Wealth Gap" (New York, NY: Demos, 2017).

16 This would facilitate the creation of what Ackerman and Alstott have called a "stakeholder society." That is, a society that is more democratic, productive and free. Bruce Ackerman and Anne Alstott, *The Stakeholder Society* (New Haven, CT: Yale University Press, 2000).

17 According to Ibram X. Kendi, an antiracist policy is a "measure that produces or sustains racial equity between racial groups." Ibram X. Kendi. *How to Be an Antiracist* (New York, NY: One World, 2019).

18 For additional discussion, see: Darrick Hamilton, Emanuel Nieves, Shira Markoff and David Newville, "A Birthright to Capital: Equitably Designing Baby Bonds to Promote Economic and Racial Justice" (Washington, DC: Prosperity Now, 2020).

19 Naomi Zewde, "Universal Baby Bonds Reduce Black-White Wealth Inequality, Progressively Raise Net Worth of all Young Adults" (New York, NY: Center on Poverty and Social Policy at Columbia University, 2019).

20 Both Prosperity Now staff and Darrick Hamilton provided guidance to Sen. Booker's staff in developing the legislation. The full legislative proposal can be viewed here.

21 The AOAA can be further strengthened by providing larger endowments that provide sufficient funding for recipients to buy wealth-generating assets, such as a house. In addition, the amount of the endowments should be based on household wealth rather than income, since wealth is a better indicator of economic need. More on the ideal design of Baby Bonds can be found in Darrick Hamilton's TED Talk here.

22 As proposed in the American Opportunity Account Act, funds would be invested in U.S. securities.

23 These numbers are expressed in 2020 dollars and are meant to demonstrate that the future values of the endowment would be equivalent to the purchasing power of $45,000 in 2020.

24 For more on HUSKY Health, visit https://portal.ct.gov/HUSKY.

25 For example, the District of Columbia conducted a Racial Equity Impact Assessment (REIA) of the original version of DC's Child Wealth Building Act. The assessment can be found in the DC Council Office of Racial Equity's REIA database.

26 Margaret Clancy and Michael Sherraden, "Automatic Deposits for All at Birth: Maine's Harold Alfond College Challenge" (St. Louis, MO: Center for Social Development, 2014).

27 See, for example, Zwede et al., "A Guaranteed Income for the 21st Century"; Mark Paul, William Darity, Jr. and Darrick Hamilton, "The Federal Job Guarantee — A Policy to Achieve Permanent Full Employment" (Washington, DC: Center on Budget and Policy Priorities, 2018).

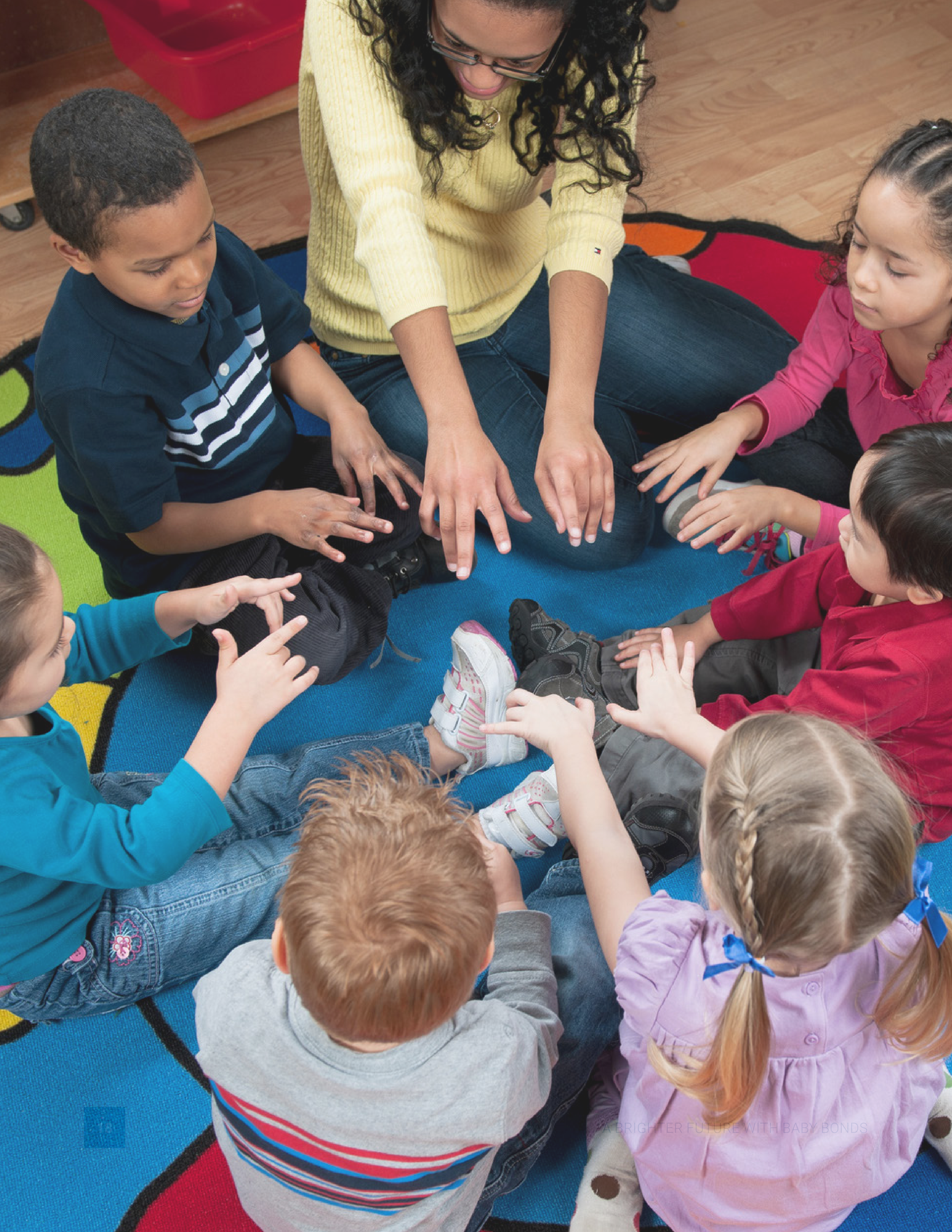
28 Although they are different, Baby Bonds share similarities to Children's Savings Accounts (CSAs) programs, which provide children with third-party contributions into long-term savings or investment accounts. However, many CSA programs include a family savings component, which Baby Bonds do not. Prosperity Now has been a longtime supporter of CSAs and draws many lessons on how to effectively design and implement Baby Bonds from experience supporting CSA program implementation.

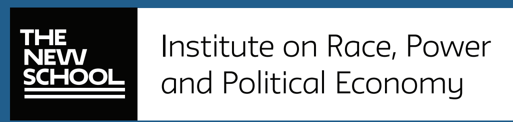
29 Prosperity Now supports lifting asset limits (also known as savings penalties) for all public benefits. Asset limits prevent families receiving support for their immediate needs from building the savings and assets they need for the future. For more information see: "Savings Penalties Push Families Deeper into Poverty."

30 MyAlfondGrant (formerly Harold Alfond College Challenge) is a CSA program in Maine, which automatically invests $500 into a 529 college savings account for every baby born as a Maine resident. More information can be found at https://www.myalfondgrant.org.

31 In addition to the state legislation proposed, it is noteworthy that 2021 New York City mayoral candidate Shaun Donovan proposed giving Equity Bonds to every child in the city up to age two, as well as children in public, private and parochial schools. Children would have received an initial $1,000 deposit and recurring annual contributions of up to $2,000, based on family income.

32 Samantha Waxman and Elizabeth McNichol, "Improved State Taxes on Wealth, High Incomes Can Help Fuel an Equitable Recovery" (Washington, DC: Center on Budget Policy and Priorities, 2020).





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